

Fos	Italy	Euronext Growth Milan	ICT
Rating: BUY (unch.)	Target Price: € 6,00 (prev. 6,50)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	-7,69%	-7,99%	-12,73%	-26,53%
to FTSE Italia Growth	-4,89%	-6,71%	2,47%	-8,61%
to Euronext STAR Milan	-3,83%	-1,96%	9,18%	1,71%
to FTSE All-Share	-6,75%	-10,35%	2,02%	-8,10%
to EUROSTOXX	-6,48%	-10,60%	-0,73%	-11,34%
to MSCI World Index	-4,42%	-6,33%	4,90%	-9,81%

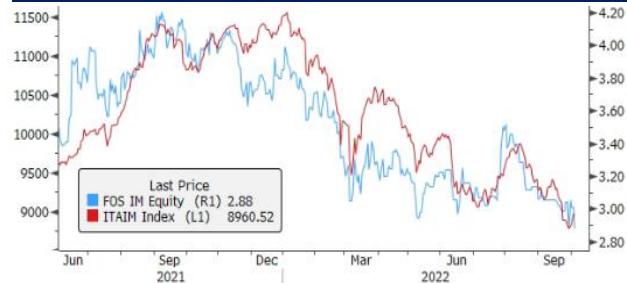
Stock Data	
Price	€ 2,88
Target price	€ 6,00
Upside/(Downside) potential	108,4%
Bloomberg Code	FOS IM EQUITY
Market Cap (€m)	€ 19,70
EV (€m)	€ 17,97
Free Float	38,14%
Share Outstanding	6.839.384
52-week high	€ 4,15
52-week low	€ 2,86
Average daily volumes (3m)	3.500

Key Financials (€m)	FY21A	FY22E	FY23E	FY24E
VoP	17,6	21,0	27,0	30,0
EBITDA	3,1	3,9	5,3	6,3
EBIT	1,6	2,2	3,4	4,4
Net Profit	1,1	1,5	2,4	3,1
EPS (€)	0,16	0,22	0,35	0,45
EBITDA margin	17,9%	18,6%	19,6%	21,0%
EBIT margin	9,1%	10,2%	12,6%	14,5%

Main Ratios	FY21A	FY22E	FY23E	FY24E
EV/EBITDA (x)	5,7	4,6	3,4	2,9
EV/EBIT (x)	11,2	8,4	5,3	4,1
P/E (x)	18,4	13,1	8,2	6,5

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Stocks performance vs FTSE Italia Growth



1H22A Results

The value of production at the end of the first half of 2022 amounted to € 9.45 million, an increase of 10.0% compared to 1H21A when it amounted to € 8.59 million. EBITDA on 30 June 2022 amounted to € 1.65 million, 7.5% up compared to 1H21A, where it stood at € 1.53 million. The EBITDA margin, in fact, slightly decreased from 17.9% in 1H21A to 17.4% in 1H22A. EBIT, after amortization and depreciation of € 0.60 million, amounted to € 1.05 million, 34.4% up compared to 1H21A, when it amounted to € 0.78 million. Net Income amounted to € 0.58 million, 9.9% up compared to 1H21A, equal to € 0.53 million.

Estimates Update

In light of the results published in the half-yearly report for 1H22A, we modify our previous estimates both for the current year and for the coming years. In particular, we estimate FY22E value of production equal to € 21.00 million and EBITDA of € 3.90 million, corresponding to a marginality of 18.6%. We expect the value of production to increase to € 30.00 million in FY24E, with EBITDA of € 6.30 million, up from € 3.14 million in FY21A. In terms of the Balance Sheet we estimate a cash positive NFP level for FY24E equal to € 0.80 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 € 49.7 million. The equity value of FOS using market multiples is € 32.4 million (including a discount of 25%). The result is an average equity value of approx. € 41.1 million. The target price is € 6.00, rating BUY and MEDIUM risk.

1. Economics & Financials

Table 1 – Economics & Financials

CONSOLIDATED INCOME STATEMENT (€/mln)	FY20A*	FY21A	FY22E	FY23E	FY24E
Sales	13,00	14,84	18,20	23,50	26,20
Other Revenues	2,80	2,76	2,80	3,50	3,80
Value of Production	15,80	17,60	21,00	27,00	30,00
COGS	1,85	1,12	1,60	2,20	2,40
Use of Asset owned by Others	0,15	0,17	0,30	0,40	0,50
Services	3,75	4,90	5,70	7,20	7,90
Employees	7,00	8,12	9,30	11,70	12,60
Other Operating Expenses	0,25	0,14	0,20	0,20	0,30
EBITDA	2,80	3,14	3,90	5,30	6,30
<i>EBITDA Margin</i>	17,7%	17,9%	18,6%	19,6%	21,0%
D&A	1,28	1,54	1,75	1,90	1,95
EBIT	1,52	1,61	2,15	3,40	4,35
<i>EBIT Margin</i>	9,6%	9,1%	10,2%	12,6%	14,5%
Financial Management	(0,17)	(0,14)	(0,10)	(0,10)	(0,10)
EBT	1,35	1,47	2,05	3,30	4,25
Taxes	0,32	0,40	0,55	0,90	1,20
Net Income	1,04	1,07	1,50	2,40	3,05
Minorities	0,00	0,00	0,00	0,00	0,00
CONSOLIDATED BALANCE SHEET (€/mln)	FY20A*	FY21A	FY22E	FY23E	FY24E
Fixed Asset	6,09	6,25	9,15	9,25	9,30
Account receivable	5,99	6,97	9,45	12,10	13,60
Inventories	0,41	0,38	0,60	0,80	1,00
Account payable	2,61	2,86	2,90	3,80	4,00
Operating Working Capital	3,78	4,49	7,15	9,10	10,60
Other Receivable	2,61	2,79	3,20	3,70	4,30
Other Payable	4,14	4,32	4,40	4,80	5,00
Net Working Capital	2,26	2,96	5,95	8,00	9,90
Severance Indemnities & Provision	1,38	1,49	1,75	2,00	2,20
NET INVESTED CAPITAL	6,96	7,71	13,35	15,25	17,00
Share Capital	1,56	1,59	1,71	1,71	1,71
Reserves and Retained Profits	5,92	6,76	9,14	10,64	13,04
Net Profit	1,04	1,07	1,50	2,40	3,05
Equity	8,51	9,42	12,35	14,75	17,80
Minorities Equity	0,00	0,02	0,00	0,00	0,00
Cash and Cash Equivalent	7,21	8,16	7,50	7,50	8,50
Short-Term Financial debt	0,90	1,38	1,50	2,00	2,50
ML Term Financial Debt	4,77	5,05	7,00	6,00	5,20
Net Financial Position	(1,55)	(1,73)	1,00	0,50	(0,80)
TOTAL SOURCES	6,96	7,71	13,35	15,25	17,00
CONSOLIDATED CASH FLOW (€/mln)	FY21A	FY22E	FY23E	FY24E	
EBIT	1,61	2,15	3,40	4,35	
Taxes	0,40	0,55	0,90	1,20	
NOPAT	1,21	1,60	2,50	3,15	
D&A	1,54	1,75	1,90	1,95	
Change in receivable	(0,98)	(2,48)	(2,65)	(1,50)	
Change in inventories	0,03	(0,22)	(0,20)	(0,20)	
Change in payable	0,25	0,04	0,90	0,20	
Other Changes	0,00	(0,33)	(0,10)	(0,40)	
Change in NWC	(0,70)	(2,99)	(2,05)	(1,90)	
Change in Provision	0,10	0,26	0,25	0,20	
OPERATING CASH FLOW	2,15	0,62	2,60	3,40	
Investments	(1,69)	(4,65)	(2,00)	(2,00)	
FREE CASH FLOW	0,46	(4,04)	0,60	1,40	
Financial Management	(0,14)	(0,10)	(0,10)	(0,10)	
Change in Payable to Banks	0,76	2,07	(0,50)	(0,30)	
Change in Equity	(0,13)	1,43	0,00	0,00	
FREE CASH FLOW TO EQUITY (FCFE)	0,95	(0,64)	(0,00)	1,00	

Source: FOS and Integrale SIM estimates

1.1 1H22A Results

Table 2 – 1H22A vs 1H21A

€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H22A	9,45	1,65	17,4%	1,05	0,58	(1,47)
1H21A	8,59	1,53	17,9%	0,78	0,53	(1,73)*
<i>Change</i>	10,0%	7,5%	-0,4%	34,4%	9,9%	N.A

Source: Integrae SIM

*NFP as of 31/12/2021

Through a press release, the Group, commenting on the half-yearly results, declares: "We are very satisfied with the results of the first half of 2022 that highlight an innovative company projected into the future with a solid economic and financial basis in a period characterized by great uncertainties and turbulence in the world and in the markets. Our growth continues with the acquisition of NAEs which projects us on the Lombard market and the consolidation of InRebus on the territory of Piedmont. We managed to achieve good organic growth in a general context of significant criticality in the procurement of technical resources. The constant investments in the young people of the company Academy and in the activities of Research and Development allow us to face with force the present and look with optimism to the future".

The value of production at the end of the first half of 2022 amounted to € 9.45 million, an increase of 10.0% compared to 1H21A when it amounted to € 8.59 million. This result was made possible by the excellent competitive positioning of the Group and by the improvement of the service offer. Analyzing the various revenue lines in more detail, the main elements of growth are the expansion of the customers of the Information Technology line, the expansion of the offer of services provided in SaaS and IT outsourcing mode, the growth of revenues in the digital learning line and finally the acquisition of new R&D projects.

EBITDA on 30 June 2022 amounted to € 1.65 million, 7.5% up compared to 1H21A, where it stood at € 1.53 million. Despite the increase in operating costs incurred in the first half of 2021, the Group, thanks to the uniqueness of its offer, customer loyalty, and research and innovation capabilities, maintained marginality in line with the first half of 2021. The EBITDA margin, in fact, slightly decreased from 17.9% in 1H21A to 17.4% in 1H22A.

EBIT, after amortization and depreciation of € 0.60 million, amounted to € 1.05 million, 34.4% up compared to 1H21A, when it amounted to € 0.78 million.

Net Income amounted to € 0.58 million, 9.9% up compared to the result of the first half of 2021, amounting to € 0.53 million.

The NFP is cash positive for € 1.47 million compared to a value as of 31 December 2021 equal to € 1.73 million cash positive. This variation is explained by the buy-back program undertaken in the period under analysis and the costs of changing the Group's headquarters.

1.2 FY22E – FY24E Estimates

Table 3 – Estimates Updates FY22E-24E

€/mln	FY22E	FY23E	FY24E
VoP			
New	21,0	27,0	30,0
Old	19,5	21,5	23,5
<i>Change</i>	7,7%	25,6%	27,7%
EBITDA			
New	3,9	5,3	6,3
Old	4,2	4,6	5,1
<i>Change</i>	-6,0%	15,2%	24,8%
EBITDA %			
New	18,6%	19,6%	21,0%
Old	21,3%	21,4%	21,5%
<i>Change</i>	-2,7%	-1,8%	-0,5%
EBIT			
New	2,2	3,4	4,4
Old	2,6	3,0	3,4
<i>Change</i>	-15,7%	15,3%	29,9%
Net Income			
New	1,5	2,4	3,1
Old	1,9	2,1	2,4
<i>Change</i>	-18,9%	14,3%	27,1%
NFP			
New	1,0	0,5	(0,8)
Old	(2,1)	(3,7)	(5,4)
<i>Change</i>	N.A	N.A	N.A

Source: Integrae SIM

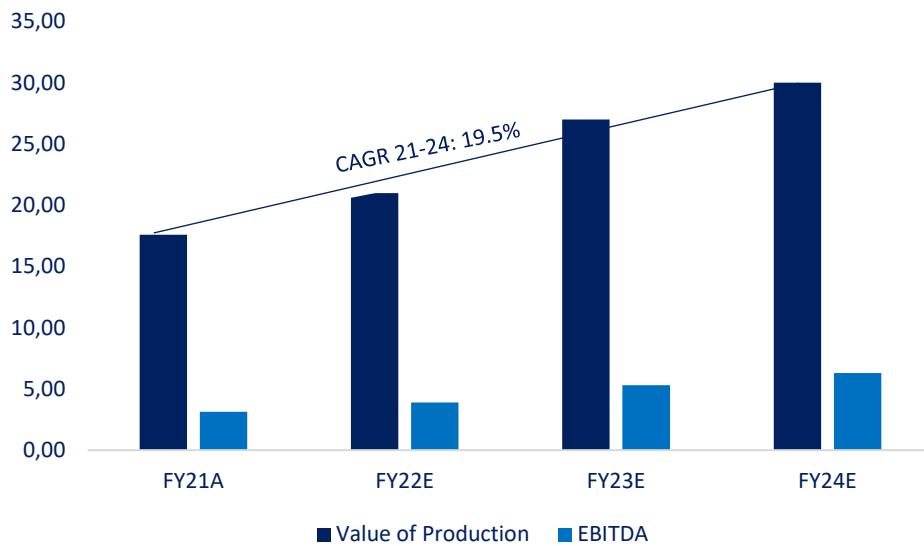
In light of the results published in the half-yearly report for 1H22A, we modify our previous estimates both for the current year and for the coming years.

In particular, we estimate the FY22E value of production equal to € 21.00 million and EBITDA of € 3.90 million, corresponding to a marginality of 18.6%. For subsequent years, we expect the value of production to increase up to € 30.00 million (CAGR 21A-24E: 19.46%) in FY24E, with EBITDA of € 6.30 million (corresponding to an EBITDA margin of 21.0%), up from € 3.14 million in FY21A (corresponding to an EBITDA margin of 17.9%).

Regarding the Balance Sheet, we estimate a cash-positive NFP level for FY24E equal to € 0.80 million.

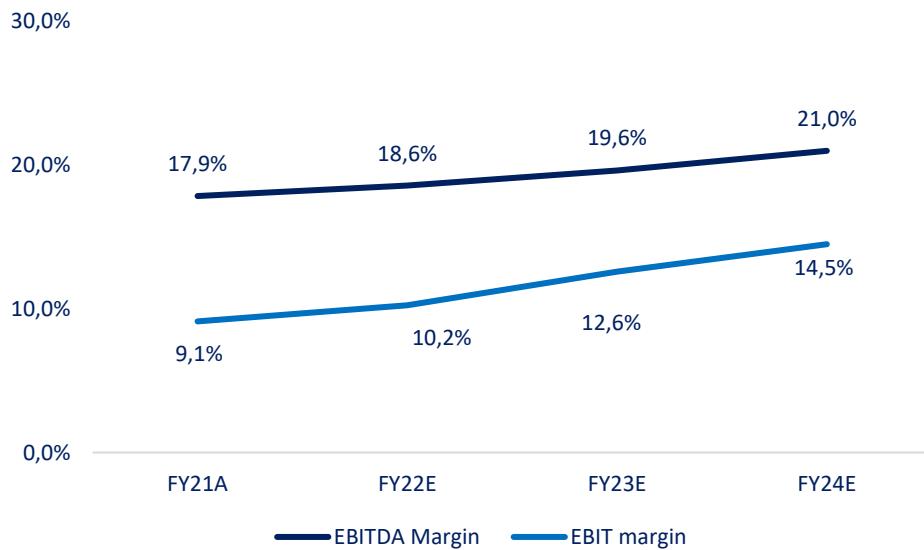
The update of the estimates considers the possible synergies deriving from the acquisition of 100% of NAeS Solutions Srl, finalized on 26 September 2022, as well as the exercise of no. 476,822 warrants on 30 September 2022, for a total value of approximately € 1.43 million.

Chart 1 – VoP and EBITDA FY21A-24E



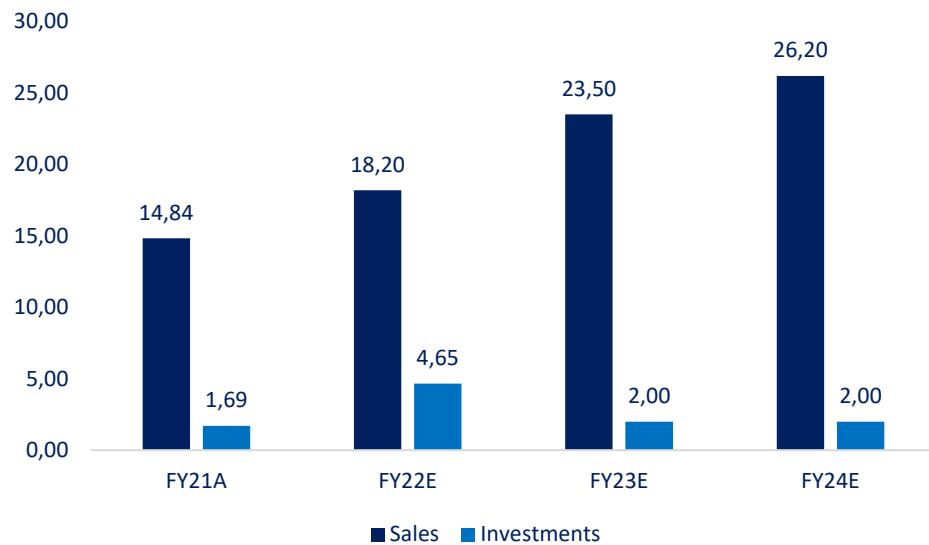
Source: Integrae SIM

Chart 2 – Margin FY21A-24E



Source: Integrae SIM

Chart 3 – Capex FY21A-24E



Source: Integrae SIM

Chart 4 – 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	6,91%	
Risk Free Rate	2,18% α (specific risk)	2,50%
Market Premium	9,08% Beta Adjusted	0,80
D/E (average)	81,82% Beta Relevered	1,28
Ke	11,97% Kd	1,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. This results in a WACC of 6.91%.

Table 5 – DCF Valuation

DCF Equity Value	49,7	
FCFO actualized	0,5	1%
TV actualized DCF	47,5	99%
Enterprise Value	47,9	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 € 49.7 million**.

Table 6 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		5,4%	5,9%	6,4%	6,9%	7,4%	7,9%	8,4%
Growth rate (g)	2,5%	103,3	87,1	75,1	65,8	58,5	52,5	47,5
	2,0%	88,4	76,3	66,8	59,3	53,2	48,2	43,9
	1,5%	77,4	67,9	60,3	54,1	48,9	44,6	40,9
	1,0%	68,9	61,2	54,9	49,7	45,3	41,5	38,3
	0,5%	62,1	55,7	50,4	46,0	42,2	38,9	36,0
	0,0%	56,6	51,2	46,7	42,8	39,5	36,5	34,0
	-0,5%	52,0	47,4	43,5	40,1	37,1	34,5	32,2

Source: Integrae SIM

2.2 Market multiples

Our panel is 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. Panels are composed of:

Table 7.1 – Market Multiples IT

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Bouvet ASA	11,7x	10,8x	10,1x	14,1x	12,8x	11,8x
Net One Systems Co., Ltd.	10,8x	9,3x	8,9x	12,1x	10,3x	9,5x
CGI, Inc.	10,6x	10,1x	9,6x	13,0x	12,3x	11,6x
Reply S.p.A.	12,6x	11,5x	10,5x	15,2x	13,8x	12,5x
Eurotech S.p.A.	12,8x	4,9x	4,6x	34,1x	6,6x	6,8x
Citrix Systems Inc.	16,5x	15,6x	13,8x	18,5x	17,0x	17,3x
Median	12,2x	10,4x	9,9x	14,7x	12,5x	11,7x

Source: Infinancials

Table 7.2 – Market Multiples TLC

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Juniper Networks Inc.	8,5x	7,8x	7,3x	11,1x	9,5x	8,5x
Accton Technology Corp.	15,0x	12,9x	11,0x	16,6x	14,3x	12,3x
Viavi Solutions Inc.	9,1x	8,9x	7,6x	10,7x	10,3x	8,5x
HMS Networks AB	20,6x	19,5x	17,8x	23,8x	21,9x	20,7x
Spirent Communications plc	12,2x	11,3x	10,5x	14,2x	13,0x	12,2x
Median	12,2x	11,3x	10,5x	14,2x	13,0x	12,2x

Source: Infinancials

Table 8 – Market Multiples Valuation

€/mln	2022E	2023E	2024E
Enterprise Value (EV)			
EV/EBITDA	38,3	42,3	54,0
EV/EBIT	31,0	43,4	51,9
Equity Value			
EV/EBITDA	37,3	41,8	54,8
EV/EBIT	30,0	42,9	52,7
Equity Value post 25% discount			
EV/EBITDA	28,0	31,4	41,1
EV/EBIT	22,5	32,2	39,5
Average	25,2	31,8	40,3

Source: Integrae SIM

The equity value of FOS using the weighted average of market multiples EV/EBITDA and EV/EBIT is equal to € 43.3 million. To this value, we have applied a 25% discount. **Therefore, as a result, the equity value is € 32.4 million.**

2.3 Equity Value

Table 9 – Equity Value

Average Equity Value (€/mln)	41,1
Equity Value DCF (€/mln)	49,7
Equity Value multiples (€/mln)	32,4
Target Price (€)	6,00

Source: Integrale SIM

The result is an average equity value of € 41.1 million. **The target price is, therefore, € 6.00 (prev. €6.50). We confirm BUY rating and MEDIUM risk.**

Table 10 – Target Price Implied Valuation Multiples

Multiples	FY21A	FY22E	FY23E	FY24E
EV/EBITDA	12,5x	10,1x	7,4x	6,2x
EV/EBIT	24,5x	18,3x	11,6x	9,0x

Source: Integrale SIM

Table 11 – Current Price Implied Valuation Multiples

Multiples	FY21A	FY22E	FY23E	FY24E
EV/EBITDA	5,7x	4,6x	3,4x	2,9x
EV/EBIT	11,2x	8,4x	5,3x	4,1x

Source: Integrale SIM

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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
01/04/2022	3,17	Buy	6,50	Medium	Update
21/06/2022	3,13	Buy	6,50	Medium	Flash Note
27/07/2022	3,24	Buy	6,50	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		

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- It plays, or has played in the last 12 months, role of specialist financial instruments issued by FOS SpA;
- It plays, or has played in the last 12 months, the role of broker in charge of the share buyback activity of FOS SpA;
- In the IPO phase, Integrae SIM played the role of global coordinator.