PITECO

Sector: Machinery

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Moving fast

Fair Value (€)	4.85
Market Price (€)	3.80
Market Cap. (€m)	68.9

Leader in the Treasury Management Software provisioning

Piteco SpA is a pure software house, leader in Italy for design, development and implementation of proprietary software / solutions aimed at managing corporates' treasury & cash flow activities and workflow towards national and international banks.

Business development never stopping

Back in July 2015 the company was listed on AIM Italia, the stock market for small-medium and fast growing companies.
We appreciate that the company has not viewed such a paramount event in its history as an ending point but rather as a starting one and has accelerated its development efforts on several subjects, respectively product range extension (+25% YoY modules offer), client base enlargement (+14% YoY), go to market approach (SaaS offering now in place).

Busy months ahead

Not all the targets announced at the IPO time have been already finalized, so we expect busy times ahead. In particular, we believe that during the next few months focus could be on achieving: new cross selling opportunities, a larger domestic reference market, international exposure (US and Mexico) and, eventually, the admission on the Italian MTA stock market.

A brilliant financial profile to leverage future growth

Piteco boasts a brilliant financial profile: a) ca. 50% of annual Group revenues already secured at the start of each year; b) high operating leverage driving constant margin expansion (EBITDA margin now in the 40% plus region); c) low capital intensity / high cash flow generation, (ca. 80% conversion of EBITDA into OpFCF post taxation in 2013-15FY).
As far as future financials are concerned, we expect 2015-18E CAGR in the region of +8.4% for Revenues, +9.7% for EBITDA, +15.4% for Net Profit that is expected to achieve €4.6mn, €5.0mn and €5.3mn in 2016E, 2017E and 2018E respectively. We also forecast an average €4.9mn OpFCF after tax per year to serve equity investors (assuming a 50% pay-out ratio) and to create buffer for future M&A driven cash out.

Multiple based fair value at €4.85 per share

Piteco would be an ideal stock to be evaluated through a DCF model. However we reckon that the company is currently cash neutral thanks to the proceeds of the July 2015 IPO and as such its WACC equals its Cost of Equity, thus not benefitting from the tax shield on cost of debt usually arising from the presence of leverage. A Peers analysis taking into account the current trading multiples of a group of comparable companies is, on the contrary, more appropriate in the current situation. Averaging EV/EBIT driven €4.64 fair value p.s. and P/E driven €5.05 one we get to an overall **€4.85 per share multiples based fair value**.

KEY FINANCIALS (€m)	2015A	2016E	2017E
REVENUES	13.4	15.0	16.0
EBITDA	5.7	6.5	7.0
EBIT	5.5	6.2	6.7
NET PROFIT	3.4	4.6	5.0
EQUITY	29.4	32.1	34.8
NET FIN. POS.	-0.3	1.9	4.6
EPS ADJ. (€)	0.20	0.25	0.27
DPS (€)	0.10	0.13	0.14

Source: Piteco (historical figures), Value Track (2016E-17E estimates)

RATIOS & MULTIPLES	2015A	2016E	2017E
EBITDA MARGIN (%)	42.7	43.3	43.8
EBIT MARGIN (%)	40.8	41.5	42.0
NET DEBT / EBITDA (x)	0.06	nm	nm
NET DEBT / EQUITY (x)	0.01	nm	nm
EV/EBITDA (x)	11.3	10.3	9.2
EV/EBIT (x).	11.8	10.8	9.6
P/E ADJ. (x)	17.5	15.0	13.8
DIV YIELD (%)	2.8	3.3	3.6

Source: Piteco (historical figures), Value Track (2016E-17E estimates)

STOCK DATA	
FAIR VALUE (€)	4.85
MARKET PRICE (€)	3.80
SHS. OUT. (m)	18.1
MARKET CAP. (€m)	68.9
FREE FLOAT (%)	13.8
AVG. -20D VOL. ('000)	5,375
RIC / BBG	PITE.MI / PITE IM
52 WK RANGE	3.15-4.07

Source: Stock Market Data

Executive Summary

Piteco: A leading domestic software house in a very promising market

Piteco SpA is the **leading domestic software house** active in design, development and implementation of proprietary software / solutions in the **Treasury (and Risk) Management Applications market (TMS)**, a very promising business segment with high potential value to unveil driven by the increasing need for specialised treasury management software replacing highly inefficient and time consuming spreadsheets or rigid and not customizable ERP modules.

On the national market, Piteco is the unrivalled leader in Treasury Management Solutions with a **highly fidelised client base** across a widely diversified variety of sectors.

Piteco currently offers **four families of software / solutions**: **EVO** (standing for "Evolution"); **CBC** (standing for "Corporate Banking Communication") whose purpose is, respectively, to help companies managing their Treasury / Cash Flow activities and their workflows towards national and international banks; **AT.pro** supporting Corporate Financial Risk Management processes in compliance with the international accounting codes and observing financial risk exposures; **MATCH.IT**, which provides solutions for analyses and matching of complex data.

A really fast moving company…

Back in **July 2015** the company was **listed on AIM Italia**, the stock market for small-medium and fast growing companies.

We appreciate that the company does not consider such a paramount event in its history as an ending point but rather as a starting one and has accelerated its development effort on several subjects, such as product range extension, client base enlargement and go-to-market approach.

- **Product range extension** - Four out of the twenty modules / solutions currently offered to clients, have been added to the catalogue in the latest twelve months. This means an impressive 25% product range extension, equally driven by organic development and by external one e.g. coming from the acquisition finalised in July 2015 of a business unit of a larger company (so called "Centro Data acquisition").
- **Client base enlargement** - Piteco's client base at 2015 year-end stood at ca. 600 groups i.e. a ca. 75 net clients addition (+14% YoY client base increase). Such an increase has been obtained both by organic growth (30 net adds in line with historical average) and through the already mentioned Centro Data's business acquisition (ca. 45 net adds).
- **Go to market approach** - Corporates are more and more interested in purchasing software on a **SaaS** (Software as a Service) basis, over the Internet. In order to remain platform neutral, Piteco has recently launched a cloud based SaaS offering, and this should be useful to target smaller firms that do not require high level of customisation.

…with busy months ahead

Not all the targets announced at the IPO time have been already finalized, so we expect busy times ahead. In particular we believe that next months focus could be on achieving: new cross selling opportunities, larger domestic reference market, international exposure, admission on the MTA stock market.

- **New cross selling opportunities** - Piteco's management has announced in the past their will to acquire additional companies on the domestic side, aiming at acquiring new customers and maybe also new distribution channels.
- **Larger domestic reference market, i.e. addressing "smaller clients"**- On top of further penetrating its reference mid-large segment, we expect Piteco to progress on its strategy that foresees the extension of the reference market to smaller clients (€50-100mn turnover size). Lower price more standardized SaaS offer should be the ideal way.

- **International exposure** - Piteco wishes to enter the US, motivated by both the dimension and expected growth (ca. 5.0% forecasted CAGR) of such a market through the acquisition of firms that possess good client bases. Last but not least, we hint that Piteco will actively try to enter the Mexican market where its parent company, Dedagroup, is active in the payment card/credit card market.
- **Admission on the MTA stock market** - Since the admission onto the AIM Italia stock market the company has stated its intention to move to the "official" MTA platform benefiting from the so-called "fast track" provided by Borsa Italiana after at least 18 months of presence on AIM Italia.

A brilliant financial profile to leverage future growth

We remind that Piteco boasts a **brilliant financial profile**, thanks to both its competitive strategy and its reference industry peculiarities, with its most interesting financial features being:

- **High visibility and stability of Group revenues** - Ca. 50% of total turnover is due to fees for recurring maintenance contracts;
- **Lean cost structure** that has determined EBITDA and EBIT to achieve 42.7% and 40.8% respective margin on sales in 2015FY;
- **High operating leverage turning into constant margin expansion** i.e. a close to 200bps EBITDA margin increase per annum in 2008-15 fiscal years (EBITDA margin on incremental Revenues in the period at ca. 63%);
- **Low capital intensity / high cash flow generation**, i.e. a ca. 80% EBITDA to Cash Conversion rate in 2013-15 fiscal years;
- **Healthy Balance Sheet.** Indeed, Net Financial Debt as of the end of 2015FY reached a level close to zero (also thanks to the proceeds coming from the IPO).

All the above mentioned features support our optimistic view on Piteco's future financial performance. Indeed, we expect Piteco's **Revenues** to grow significantly, posting a ca. **8.4% CAGR** for the 2015A-2018E period, landing at some €15.0mn in FY16E, €16.0mn in FY17E and €17.0mn in FY18E.

EBITDA is forecasted at €6.5mn in 2016E, €7.0mn in 2017E and €7.5mn in 2018E, i.e. a **ca. 9.7% CAGR** for the 2015A-2018E period, partially burdened by the consolidation of newly acquired assets whose marginality is below the group average. As an effect, EBITDA margin should grow "only" some 95bps in 2016E-2018E achieving a 44.3% level.

Net Profit is expected to grow by a ca. **+15.4% CAGR** in the 2015A-2018E period achieving a €4.6mn, €5.0mn and €5.3mn level in 2016E, 2017E and 2018E respectively, i.e. a ca. 30.9% Net Profit margin on Sales and a 14% ROE'18E, driven by: a) negligible depreciation charges, b) net financial charges massively decreasing, c) Taxation remaining broadly stable in the 25%-27% range.

This should result in ca. **€4.9mn after tax yearly OpFCF** to be devoted to serve equity investors (we forecast a **50% pay-out ratio**) and to foster growth, maintaining a **positive Net Cash position**.

Valuation

Given its high visibility on future financials, Piteco would be an ideal stock to be evaluated through a DCF model aimed at capturing the full medium / long term growth potential. However we reckon that the company is currently cash neutral thanks to the proceeds from the July 2015's IPO and as such its WACC equals its Cost of Equity, thus not benefitting from the tax shield on cost of debt usually arising from the presence of leverage. In this situation, and since we believe that the company will in the future carefully utilise its cash in order to finalize acquisitions, we view the "base case zero debt" €4.59 DCF value per share as a "floor" one.

A Peers analysis taking into account the current trading multiples of a group of comparable companies is, on the contrary, appropriate. Averaging EV/EBIT driven €4.64 fair value p.s. and P/E driven €5.05 we get to an overall **€4.85 per share multiples-based fair value**.

Peers Analysis

The Enterprise application software-provisioning sector is crowded with companies, each one having its own features in terms of business model. Out of this big space, we identify twelve potential comparables for Piteco, belonging to three different groups:

- World-wide providers of "horizontal" Enterprise application software (e.g. ERP): Oracle , SAP;
- Multinational providers of "vertical" Enterprise application software (e.g. Treasury Management software, CRM and similar): Bottomline Technologies, Sage, Salesforce.com, StatPro, Intuit;
- Italian "born" providers of "vertical" Enterprise application software: CAD IT, Exprivia, TXT, Reply;

Please refer to the Appendix for more details on the business profile of such potential comparables and on points of similarity / difference with Piteco.

While overall we would deem appropriate to compare Piteco with the above-mentioned companies, we have to reckon that there are grounded reasons to exclude some names from our definitive panel of comparables, either because there is substantially no analyst coverage to rely on or because multiples are inflated / deflated for some specific reason (speculative appeal and so on).

That said, our refined **panel of Piteco's comparables** is as follows:

- **Oracle Corp.**
- **SAP AG**
- **Sage Group Plc**
- **TXT e-solutions S.p.A.**
- **Intuit**
- **Stat Pro Group Plc**
- **Reply S.p.A.**

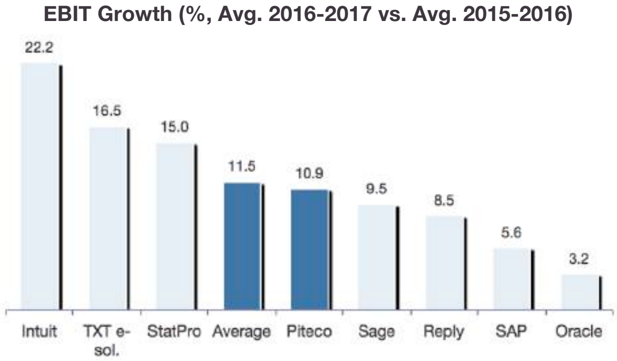
Enterprise Application Software Sector– Piteco positioning

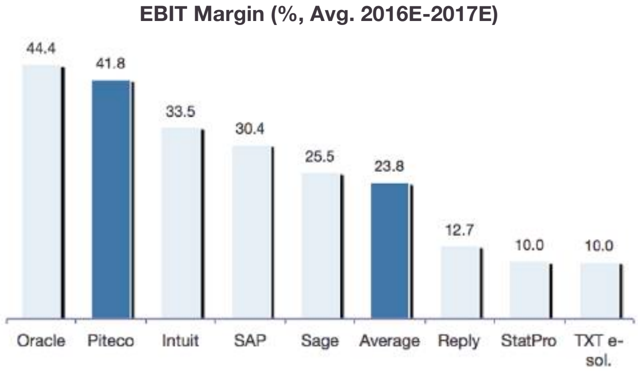
Compared to such identified peers, **Piteco stands out quite well in terms of financial performance** for the period 2016-2017. EBIT, Net Profit and Net Debt /EBITDA are, in our view, the main benchmark to be crosschecked.

As far as **EBIT** is concerned we notice that Piteco is in line with the average of its sector for what concerns EBIT Growth and is the player with the 2nd highest EBIT Margin among the sample.

Looking at **Net Profit CAGR**, the most striking feature of the figure is the performance if the dimension heterogeneity is considered. With Oracle and SAP noticeably outsizing the remaining players, it is worthy to be remarked that Piteco is the second player for Net Profit Growth, only outdone by Intuit. The management growth strategy seems to be consistent with this landscape, where the Company would likely benefit by trading-off some marginality for higher growth in order to increase its size.

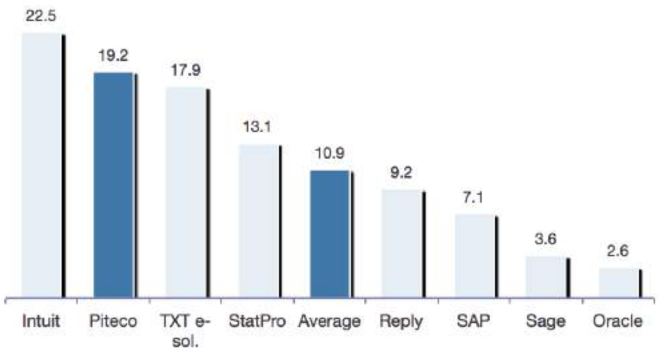
Enterprise Application Software Sector : EBIT Growth and EBIT Margin 2016E-2017E





Source: Consensus estimates, Value Track Analysis

Enterprise Application Software Sector : Net Profit CAGR 15A-17E, %

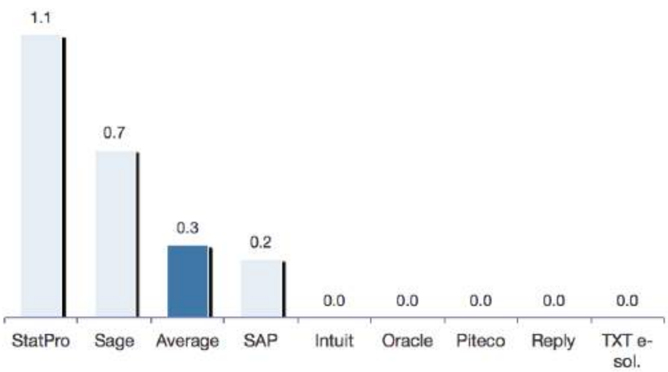


Source: Consensus estimates, Value Track Analysis

Last but not least, it's worth to have a look to Piteco's balance sheet structure compared to its peers, in terms of **Net Debt / EBITDA evolution**.

From the following chart, based on the average of 2016E-2017E figures, it could be noticed that Piteco is among the players without leverage, with its Net Debt converting to a positive Net Cash position, also thanks to the company's cash generation capability and to the recent IPO proceeds.

Enterprise Application Software Sector : Net Debt / EBITDA evolution (Avg. 2016E-2017E)



Source: Consensus estimates, Value Track Analysis

Enterprise Application Software Sector– Stock Market trading multiples

In our view Piteco's brilliant financial profile, if compared to peers, offsets the lower liquidity of its shares. As a consequence we believe that Piteco deserves to trade in line with its closest comparables' multiples (while Piteco is currently trading at ca. 30% discount) among which **EV/EBIT (13.2x median 2016E multiple)** and **P/E (20x median 2016E multiple)** seem to be the most appropriate measures. In particular, we notice that EV/EBIT allows comparing software houses with different policies in terms of R&D expenses capitalization.

Relying on 13.2x EV/EBIT '16 we obtain a fair value for Piteco shares equal to €4.64 whereas the 20x P/E '16 suggests a €5.05/share.

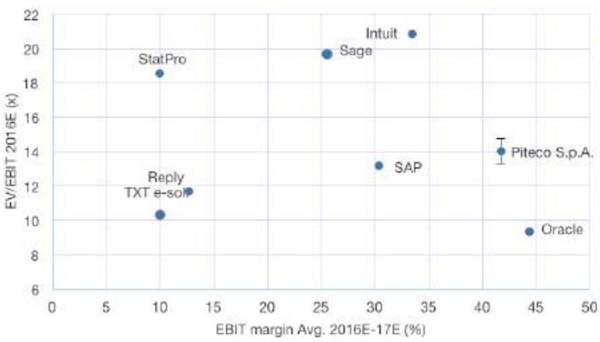
Enterprise Application Software Sector: Stock trading multiples

COMPANY	Listing		E.V. / EBIT (x)		P/E (x)	
			2016E	2017E	2016E	2017E
Intuit	US		20.8	17.1	33.0	27.0
SAP	DE		13.2	12.0	17.8	16.7
StatPro	GB		18.5	15.9	27.1	22.5
Reply	IT		11.7	10.5	19.7	18.2
Oracle	US		9.3	8.7	14.4	13.7
Sage	GB		19.7	16.6	23.9	22.1
TXT e-sol.	ITA		10.3	8.9	18.0	14.3
Average			**14.8**	**12.8**	**22.0**	**19.2**
Median			**13.2**	**12.0**	**20.0**	**18.2**
Piteco @ mkt price	**IT**		**10.9**	**9.7**	**15.2**	**14.0**

Source: Consensus estimates, Value Track Analysis

Piteco @ "fair" multiples vs. its comparables

EV/EBIT '16 vs. 2016E EBIT margin



P/E' 16 vs. Net Income CAGR 2015A-17E

Source: Consensus estimates, Value Track Analysis

Last but not least we underline that back in November 2015 one of the biggest player in the TMS sector, i.e. **Sungard, has been eventually acquired by FIS** (Fidelity National Information Services) with the 100% of Sungard's Enterprise Value being valued US$9.1bn i.e. **21.4x EV/EBIT**. Although we don't believe Piteco to be on sales (but never say never) we note that this multiple would imply ca. **€7.45 per Piteco shares**, i.e. 2x current market price.

Discounted Cash Flow Model

Even if we don't consider the DCF as the most appropriate valuation methodology to be utilised on Piteco given its current cash neutral position, we believe it's interesting to provide a simulation on Piteco's DCF value based on different debt / equity situations, starting from the base case where debt is zero, as in the current situation. That said, we calculate a **€4.59 per share** "base case" DCF value for Piteco based on the following assumptions:

- 2015YE as historical reference point;
- Explicit period of at least seven fiscal years. As a consequence we discount company's estimated cash flow from 2016E until 2023E fiscal years;
- **9.5% Cost of Equity** as a result of:
    - **1.5% risk-free rate** (Italian 10y BTP yield);
    - Enterprise Application software sector **0.80x unlevered beta**;
    - **7.50% implied Equity Risk Premium**, obtained from the sum of a "benchmark country" implied 5.0% implied ERP (DDM applied to S&P500 market value) to an additional 2.5% Italian "country risk premium" reflecting the higher risk of the Italian equity market and mainly based on the spread between Credit Default Swaps on Italian sovereign debt vs. US one (see also http://pages.stern.nyu.edu/~adamodar/ for more details on this approach);
    - **2.0% Small-Size Risk Premium**, in line with the Expanded CAPM approach that we consider more appropriate when dealing with small sized companies. This add-up should also compensate, in our view, for the lower liquidity of AIM Italy Stock Exchange vs. the larger MTA of the Milan Stock Exchange and, in general, vs. other regulated markets around the world. Such a lower liquidity often leads to sluggish price adjustments, partially hindering the market efficiency;
- **3.35% pre-tax cost of debt** obtained as weighted average of the cost of Piteco's various financial sources (banking debt and convertible bond);
- **Terminal Value**, accounting for future cash flows beyond the explicit period, obtained applying a **2.0% FCFF perpetual growth rate** (in line with long-term expected average inflation);

It can be noticed that adding some leverage to the company's Balance Sheet (we can assume for theoretical purposes the distribution of a one-off dividend but obviously we prefer money to be reinvested in the business) the DCF per share value would change as follows:

Piteco: DCF value sensitivity to different degrees of leverage

D/(D+E)	0%	10%	20%	30%	40%	50%
Equity Value p.s. (€)	4.59	4.72	4.90	5.11	5.29	5.43

Source: Value Track analysis

Quick recap on Piteco's business profile

*Piteco SpA is the most important company in Italy for design, development and implementation of **proprietary software / solutions** for **Corporate Cash Management and Financial Planning**– in terms of number of resources, range of services offered and managed customers.*

*Piteco has a highly fidelised **client base of about 600 large and medium - sized groups** (for a total of about 2,500 companies) across a widely diversified variety of sectors.*

*An average of ca. **30 new clients** acquired every year, that is only a fraction of the potential addressable market.*

*Piteco's software offer **complete modularity**, integration with the most used ERPs systems, and **high customisation** for the client's needs allowing Piteco to maximise its customer base lifecycle value. **Low counterparty risk** and low churn rate add on top.*

Piteco SpA is a "thirty years plus" old software house, leader in Italy for design, development and implementation of proprietary software / solutions for **Corporate Cash Management and Financial Planning**. Here follows a quick recap on the company's business profile main features.

What kind of solutions does Piteco offer to its clients?

Piteco does not provide hardware services, **nor it acts as a system integrator**. Software provisioning and customisation is thus the only mission of the company. The company currently offers **four families of software** mainly provided through traditional **"on premise"** solutions:

- **EVO**(LUTION);
- **CBC** – Corporate Banking Communication;
- **AT.pro** – Financial Risk Management;
- **MATCH.IT** - Big Data analysis.

EVO

Piteco EVO (standing for "Evolution") is an integrated solution managing treasury and corporate finance needs that can be implemented through up to 17 modules (and integrated with the more commonly used ERP software types) covering four main areas:

1. **Cash management;**
2. **Sources and application of funds;**
3. **Financial control and risk management;**
4. **Economic and financial planning.**

The software families are completely modular, meaning that each customer has to purchase the base-cash management module, whereas all the additional ones are "on demand. Indeed, average clients currently use about six modules out of which the most "widespread" ones are: Home Banking, Financing & Deposits, Trade Payables.

CBC – Corporate Banking Communication

Corporate Banking Communication (CBC) is a product designed to help managing the relationship with national and international banks and to make the workflow management more efficient. CBC features can be summarised as follows:

1. **Complete automation of authorisation workflows;**
2. **Safe management of workflows;**
3. **Independence from remote banking.**

CBC solution was initially built to manage information flow coming from any kind of management information system thus being able to properly interface with an ERP system (e.g. SAP, Oracle, Microsoft, etc.) or with property solutions.

The decision to maintain CBC independent from EVO is aimed at achieving new market share and competing with generalist operators which don't have similar solutions. This choice also allows Piteco to cross sell EVO on new customers.

We note that CBC's clients are currently in excess of 70.

AT.pro

AT.pro is Piteco's Financial Risk Management module (FRM) addressing corporates willing to carry out an active tracking and management of financial risk exposures (currency exchange risks and interest rates).

AT.pro's integration with Piteco EVO suite ensures an up-to-date Cash Management situation in terms of balances, cash flow, reconciliation, credit lines, financial position and operation schedule.

MATCH.IT

MATCH.IT is the latest module / solution commercialised by Piteco, as it has been acquired back in 2015 (Centro Data assets acquisition).

Basically MATCH.IT provides solutions for the analysis and matching of complex data which require manual or semiautomatic identification and validation action. It can be utilised in a variety of sectors such as:

- **GDO** - Analysis and reconciliation of multiple payment disposal vs. invoices, clients credit notes, credits , discounts, identification of differences;
- **Insurance** - Analysis and validation of brokers' cash books and bank accounts vs. their internal policies;
- **Consumer Credit** - Analysis and reconciliation of data from collection channels vs. financing practices;
- **Utilities** - Analysis and reconciliation of Client billings with management of repayment plans;
- **e-Commerce** - Analysis and reconciliation of financial flows collected by Front/Back office and (on-line orders, credit card collections, carrier management and cash on delivery).

How is software originated and developed?

The development of the proprietary software and its different modules is mainly **client-driven**, rather than company-led.

Indeed, software origination begins with the work of Piteco's researchers, whose job is to understand the market needs and elaborate new ideas for the product advancement. At the same time, the effort to encompass new functionalities is often inspired by clients themselves. Namely, in most cases, existing customers prompt the development of new modules by asking Piteco to devise a solution for a specific need. This benefits the company in three ways:

- It ensures that most R&D expenses will translate into revenues within a foreseeable time frame;
- It lowers the required commercial effort to up-sell new modules, thereby contributing to a good marginality.
- Furthermore, since different customers may share the same necessities, modules that are created for one specific client often generate cross-selling opportunities.

Once a new idea is developed, the researchers extend guidelines and directions to the Development staff, where more than 30 programmers and software developers are in charge for the product realization.

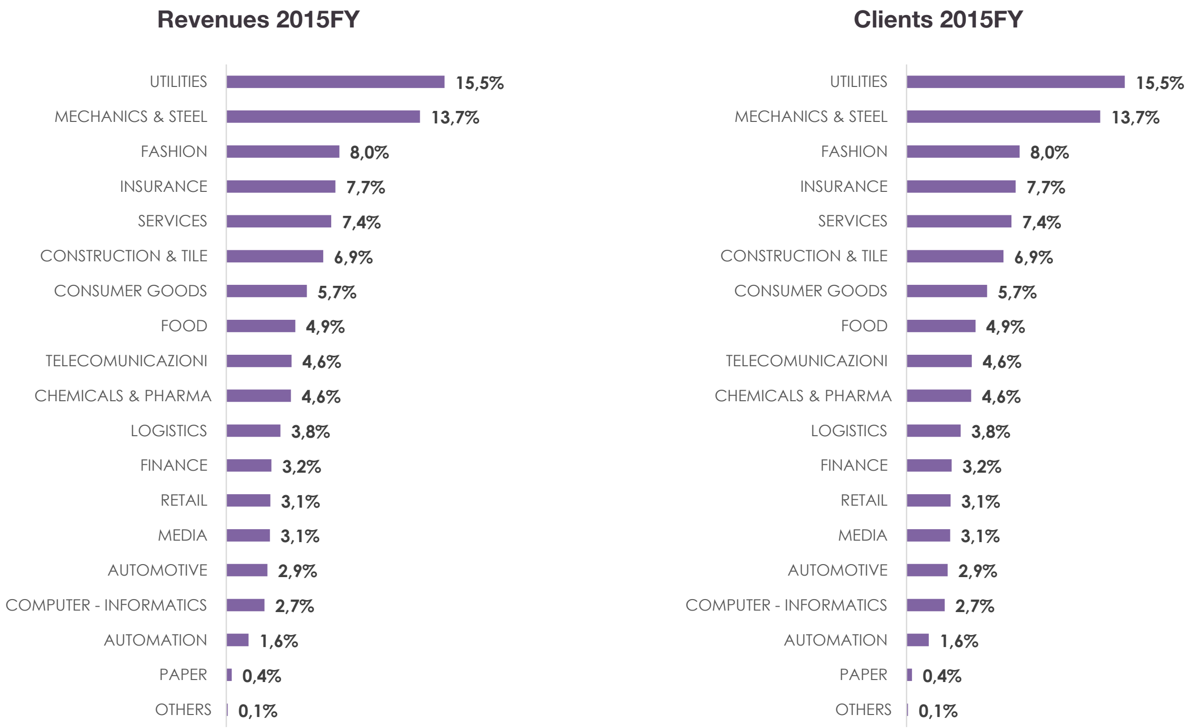
Who are Piteco's customers?

Piteco focuses on large and mid-size Italian firms, operating in Italy and internationally. As of today, out of the ca. **600 group customers served** (encompassing about 2,500 companies), more than 95% of total has a turnover in excess of €100mn, more than 50% in excess of €500mn and ca. 70 are companies listed on the domestic Stock Exchange.

Clients are spread across about **20 industries**, with Utilities ranking first in terms of revenue contribution. This type of customer base grants to the company some important benefits:

- High industry **diversification**;
- **Low counterparty risk**, as most clients are financially stable, and Piteco's product is relatively inexpensive with respect to their top line;

Piteco: Revenues and clients breakdown by industry



Source: Piteco

On average, **ca. 30 new clients are acquired every year**. New customers can be of three different types:

- **Spreadsheet-users:** companies that do not use any dedicated software for managing their Treasury operations, and often adopt spreadsheet-based accounting;
- **Upgraders:** companies that have a dedicated software, usually simpler and less elaborate than Piteco's one, and wish to upgrade for better performances;
- **Customization seekers**: new clients who hold contracts with larger players (for instance SAP or Oracle), and look for a more flexible and tailored solution to manage their Treasury needs.

Worth to notice, we estimate that in the latest years, less than 1% of Piteco's annual turnover has been lost to clients switching to other players.

Last but not least, as far as the Italian market is concerned we believe that there is a high potential not exploited yet. According to data provided by Piteco's management, about one thousand "prospects" firms are thinking about implementing a TMS solution, while an additional amount of "suspects" could be in the position to adopt a TMS in the next few years.

Assuming, for simplicity, a price / revenues structure (upfront fee and maintenance) in line with Piteco's one, this would mean an additional "fresh" market worth about €150mn coming from one-off upfront fees and €26mn from recurring annual maintenance fees.

Why do clients choose Piteco?

As of 2016, Piteco is the **unrivalled leader** in Treasury Management solutions within the **domestic market**.

The Italian market is a peculiar one in terms of payments procedures and relationships with the banking system. Additionally, the market size is negligible if compared to the main international ones. For these reasons, foreign TMS players find it difficult to provide an offer that perfectly fits with Italian treasurers' needs and tend not to be aggressive. That's why Piteco faces a relatively low competition from SAP, Oracle and JD Edwards and even specialised TMS providers such as Kyriba and Sungard have an extremely small presence in Italy.

The two most important TMS players in the market are therefore domestic:

- Piteco, by far the market leader in Italy, especially in the large companies segment;
- Docfinance, which is currently targeting small-mid size companies (< €100mn).

They are not competitors at the moment, but they could be in the future if Piteco starts targeting the lower end of the market.

Customers acquisition

Piteco provides its clients with permanent licenses for its proprietary software, as well as one-year renewable maintenance contracts, necessary for a proper functioning.

Two parts compose a typical contract:

- A **one-time upfront fee**, which includes the sale of the software user license and the connected advisory activities. On average, licensing revenues amount to €35,000 per client, and the advisory service to about €30,000 – for a total average €65,000 upfront fee per client;
- A **stream of one-year maintenance contract fees**, which include software maintenance, bugs correction, and so forth. Although customers only commit from one year to the following one, maintenance contracts are usually renewed over time, as they are required for the software to work properly.

Maintenance contracts are invoiced on January each year. Furthermore, many of them **renew automatically**, and clients need to resign with a minimum forewarning of three months before the payment. Although the average maintenance contract is worth ca. €11,000 per year, the specific price for each customer depends upon the number of modules used.

Last but not least, since contract costs are generally small with respect to the customers' turnover, missed payments are limited to a very few cases of financially distressed customers.

Customer Value Enhancement

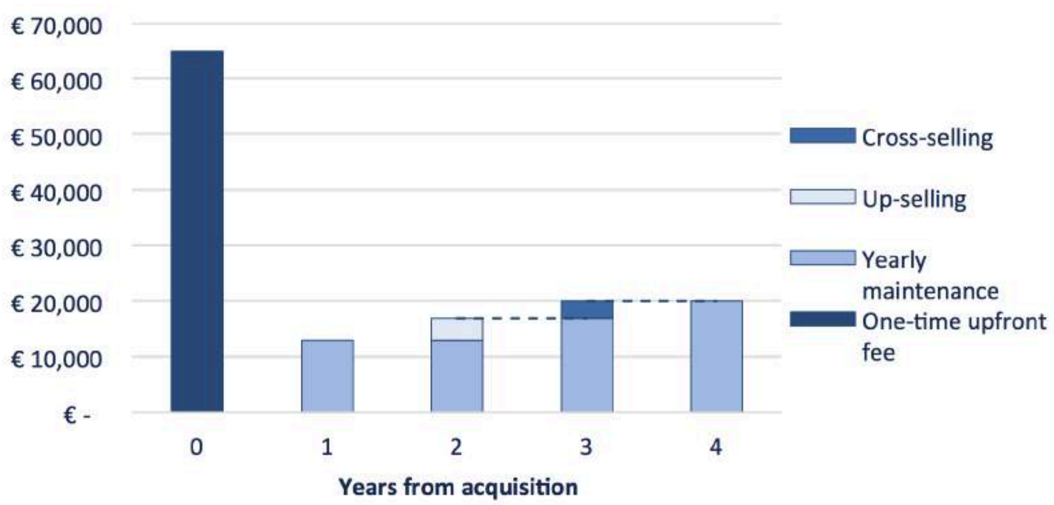
Once the acquisition process is completed, Piteco aims at enhancing and extracting most of the customer's value. The Delivery department is responsible for these activities, which include client consulting, as well as product up-selling and cross-selling.

When pursuing an up-selling strategy, the company works with the customer to discover further areas of uncovered needs. From there, it either sells additional existing modules, or develops ad hoc functions from scratch.

Cross-selling naturally stems from the up-selling practice. More precisely, when a new module is launched on the market, being initially developed on a customer demand, consultants get in contact with existing customers with the same needs, and advance the new solution to them.

Since the **value of maintenance contracts depends upon the number of modules** used by a client, revenues from up- and cross-selling materialize through **increased maintenance fees over time**.

Piteco : Estimated Customer Lifetime Value from Acquisition



Source: Value Track analysis on Piteco's figures

As an effect, Piteco's business model is characterised by a **high revenues predictability** and **stability**. In fact, when a customer is acquired, its lifetime value has little variability, as maintenance contracts are necessary for the software usage, and most of them renovate automatically. Even in a scenario of poor results in new customer acquisition, about 83% of previous year revenues will probably recur.

Piteco: Average Revenues Structure

Existing clients	MAINTENANCE FEES 50%	• Strong predictability • € 11,000 on average • Invoiced on January 1° • Renovate automatically and need 3 month notice before resignment • Inflation-linked
	ADDITIONAL SERVICES 35%	• Include advisory, up-selling and cross-selling to existing customers • Pricing stands between € 15,000 and € 150,000
New clients	SALES OF SOFTWARE 15%	• Software licences and customised projects for new clients (30 per year on average in the last 3 years) • Average 2014 pricing of € 65,000 per client

Source: Piteco

A fast moving company

During the last twelve months Piteco has kept moving fast finalizing many projects both on the business side (product range extension, client base enlargement, go to market approach) and on the corporate one (admission to listing on the AIM Italia stock market).

Back in July 2015 the company was listed on AIM Italia, the stock market for small-medium and fast-growing companies.

We appreciate that the company has not viewed such a paramount event in its history as an ending point but rather as a starting one and has accelerated its development effort on several subjects, respectively:

- Product range extension;
- Client base enlargement;
- Go to market approach.

Product range extension

Four out of the twenty modules / solutions currently offered to clients, have been added to the catalogue in the latest twelve months. This means an impressive **25% product range extension**. More precisely:

1. Global Financial Reporting;
2. Factoring;
3. Match.it;
4. AT.Pro.

While the first two modules have been developed internally and are now included in the EVO suite, the third and the fourth ones are offered to clients as stand alone solutions and are coming from the acquisition finalised in July 2015 of a business unit of a larger company (so called "Centro Data acquisition" adding to Piteco ca. €1.2mn turnover business unit generating a ca. 20% EBITDA margin, with Piteco's management deeming it could improve by 1,000 bps due to cost synergies).

This is a trend that we expect to continue in the foreseeable future, with the development of more new modules in the domain of Treasury and Cash Management Systems and in contiguous segments.

Client base enlargement

More products to a larger client base should be the rule that every company follows in order to maximise its sales growth. Piteco's client base at 2015 year-end stood at ca. 600 groups i.e. a ca. 75 net clients addition (**+14% YoY client base increase)**. Such an increase has been obtained both through organic growth (30 net adds) and the already mentioned Centro Data's business acquisition (ca. 45 net adds). Noteworthy, most of the new clients deriving from Centro Data's business acquisition were not yet clients of EVO or CBC suites and this poses extremely well for a successful cross selling activity.

Given the firm's business model, up- and cross-selling revenues will materialize through increased maintenance fees, thereby increasing the volume of recurring business revenue.

Go-to-market approach

Corporates are more and more interested in purchasing software on a **SaaS** (Software as a Service) basis, which consists in a new business model where the software house delivers to customers the existing modules offered making them available over the Internet.

There are many reasons behind the increasing demand for SaaS based solutions, such as:

1. **Lower cost of entry** as there's no need to install and run applications on clients' own computers or in their own data canters thus eliminating expenses for hardware acquisition, provisioning and maintenance;
2. **Flexible payments**: Generally, clients pay for this service on a pay-as-you-go model, having the option to access more, or fewer, services or features on-demand.
3. **No need for in-house IT staff**. It's the SaaS vendor to be responsible for upgrades, uptime and security;
4. **Work anywhere**. Users can access them from any Internet-enabled device and location.

And this despite the disadvantage in terms of:

- Service disruptions risks;
- Data loss and privacy risks;
- Unwanted changes to service offerings;
- Limited potential for customization.

Whatever the balance of pros and cons from the customers' point of view, the increasing demand for SaaS provisioning poses opportunities and threats to software providers. Indeed if on one side the higher scalability of the SaaS model makes the addressable market much larger, (especially for smaller prospect clients), on the other side we view risk of cannibalization for more profitable clients that could be lured to downscale from expensive "on premise" solutions to cheaper SaaS ones.

That's why we believe that the introduction of cloud based SaaS offering should be carefully evaluated, as Piteco has done in the latest few months. The **SaaS offer is now available**, also thanks to the parent company Dedagroup which owns two ISO-certified data centres, and this should be useful to target smaller firms that do not require high level of customisation.

What's ahead?

The company is actively seeking to achieve additional valuable goals: new cross selling opportunities, a larger domestic reference market, an international exposure and admission on the MTA stock market.

Not all the targets announced at the IPO time have been already finalized, so we expect busy times ahead. In particular we believe that next months focus could be on achieving:

- New cross selling opportunities;
- A larger domestic reference market, i.e. addressing "smaller clients";
- An international exposure;
- Admission on the MTA stock market.

New cross selling opportunities

Piteco's management has announced in the past they are willing to acquire additional companies on the domestic side. Whereas the possible deal size could be comparable to the Centro data assets acquisition, the focus has currently shifted to the acquisition of new customers, rather than the enlargement of the product portfolio. On top of that, Piteco has also expressed an intention at initiating a joint venture with a system integrator, thereby adding an indirect sales channel to the current direct salesforce.

Smaller clients strategy

Further penetrating its reference mid-large segment, where the company has identified ca. 1,100 prospect firms (some of which already in the negotiation phase) remains Piteco's main focus. In addition we expect Piteco to progress on its strategy that foresees the extension of the reference market to smaller clients. In particular, the management aims at acquiring new customers in the €50-100mn revenues range, a segment where Piteco has identified at least ca. 1,300 prospect companies. Lower price more standardized SaaS offer should be the ideal way.

International exposure

Piteco wishes to enter the **US**, motivated by both the dimension and expected growth (ca. 5.0% forecasted CAGR) of that market. In order to do so, the Company is planning to acquire a local firm and has hired IDC in order to select potential candidates. Although no target has been identified yet, the management is seeking for a firm that should possess a good client base rather than a complementary technology. For what concerns the go-to-market strategy, Piteco should move its offer towards customers with a comparable size than those it serves in Italy – aiming at replacing spreadsheet solutions, still widely used by American mid-caps (equivalent in size to Italian large-caps).

Since several customers already use Piteco for managing Treasury at their international branches, the firm has been able to adapt its offer to international accounting standards and regulations. Being already compliant with the Sarbanes-Oxley Act should also help. We note that entering the US market would mean facing direct competition with larger players such as Wallstreet, Reval, Kyriba, Sungard.

Last but not least, we hint that Piteco will actively try to enter the **Mexican market** where its parent company, Dedagroup, is active in the payment card/credit card market. Cross selling Piteco's modules to Mexican customer base could be a further growth lever.

Admission on the MTA stock market

Since the admission onto the AIM Italia stock market the company has stated its intention to move to the "official" MTA one benefitting of the so-called "fast track" provided by Borsa Italiana after at least 18 months of presence on AIM Italia.

Financial features

Piteco's revenue structure features stability and predictability, as close to 50% of total revenue is due to entirely recurring business, and boasts an average high single-digit annual growth rate (7.4% CAGR in the 2008-15 period).

On the cost side we underline the lean cost structure resulting in a high operating leverage that allows group EBITDA to grow more than proportionally, i.e. in the double-digit range (10% CAGR 2008-15).

Thanks to a business model which requires negligible amounts of Capex and Working Capital, EBITDA to Cash Conversion rate on average stands at ca. 80%, with ca. €4.1mn OpFCF per year to be devoted to serve debt / equity investors and, eventually, to deleveraging.

As a result and also thanks to IPO proceeds Piteco's financial structure is well under control.

Piteco's historical financials evolution emphasizes some very interesting **financial features**, such as:

- High percentage of recurring revenues driving **predictability and stability of the revenue structure**;
- Lean cost structure driving **high operating margins**;
- Low percentage of variable costs generating a **high operating leverage**;
- Negligible amounts of capex and working Capital allowing a **high cash conversion rate**.

Before elaborating on the above-mentioned points, we note that:

- From time to time we'll refer to IT GAAP figures and to IAS ones. Indeed, Piteco's historical financials older than 2013FY are available only in accordance to Italian accounting principles (IT GAAP). On the opposite, both IT GAAP and IAS financial figures are available for 2013-14 fiscal years with **full transition to IAS principles becoming effective only as of 2015FY**;
- **2015FY figures** take into account the effects of **Centro Data acquisition**, whose figures have been consolidated on a line-by-line basis starting as of 2H 15 adding slightly more than €0.5mn additional revenues.

Predictability and stability of the revenue structure

Group revenues increased from €8.1mn in 2008 (IT GAAP) to €13.4m in 2015 (IAS) i.e. at a 7.4% revenues CAGR with a **very low growth rates volatility** driven by the Group capability to both fidelise and retain existing clients (the latest years clients' churn rate is lower than 1% - corresponding to revenue losses lower than €100k per annum) and to progressively acquire a material flow of "new business".

It's interesting to underline that **on the 1st of January of each year Piteco has already secured close to 50% of annual turnover** and this grants to the revenues structure a **high predictability.**

Such a feature is mostly the result of fees coming from recurring maintenance contracts that are underwritten by the nearly entirety of Piteco's "senior" clients (i.e. those with a higher than one year contractual relationship with Piteco) with the contracts' average features being:

- ca. € 11,000 value per annum per client;
- Inflation link mechanism;
- Almost automatic renewal;
- Advanced invoicing.

On top of that, existing clients account for additional revenues usually worth an additional 35%-37% of total group's top line coming from Add-on services (standing in a wide € 15,000 - € 150,000 range per client), due to customisations for software implementation or sales of additional modules.

As an effect, existing clients on average account for ca. 87% of Piteco's top line, with the remaining 13% being mostly generated by "new clients" (on average ca. 30 new clients per annum) that pay:

- An upfront fee (worth on average ca. €35,000) for the licence software purchase;
- A further fee (worth on average ca. €30,000) for software customisation.

Piteco: Net Revenues evolution by Business Line

(€mn)	2013FY	2014FY	2015FY
Maintenance fees	**5.5**	**5.7**	**6.2**
Chge %	8.8%	4.1%	8.1%
As a % of Total Sales	49%	46.6%	46.3%
Additional services to existing clients	**3.6**	**4.3**	**4.9**
Chge %	1.1%	18.5%	14.4%
As a % of Total Sales	33%	35%	37%
Sale of software to new clients	**1.6**	**1.5**	**1.7**
Chge %	-4.2%	-8.4%	13.3%
As a % of Total Sales	15%	12%	13%
Other Revenues (incl. Work in Progress)	**0.4**	**0.8**	**0.5**
Chge %	29.0%	98.8%	-29.3%
As a % of Total Sales	3%	6%	4%
Total Turnover	**11.2**	**12.3**	**13.37**
Chge %	**4.7%**	**10.2%**	**8.7%**

Source: Company figures

Lean cost structure driving high operating margins

As we can see in the next table, total Operating Expenses (including D&A) stood at ca. €7.9mn in 2015FY (59.2% of Revenues) out of which Personnel Costs related to ca. 80 full-time-equivalent headcount represent the most relevant cost item for the group (weighting more than 40% of sales and more than 68% of total Operating Expenses).

Piteco : Operating Expenses structure

	(IAS, €mn)		(% of Group Revenues)		(% of Total Op. Exp.)	
	2014	2015	2014	2015	2014	2015
Raw Material	0.05	0.05	0.4%	0.3%	0.7%	0.6%
Personnel Costs	4.98	5.43	40.3%	40.6%	63.7%	68.6%
Other Costs	2.08	2.19	16.8%	16.3%	26.6%	27.6%
Depreciation & Amortization	0.70	0.26	5.7%	1.9%	9.0%	3.2%
Total Operating Expenses	**7.81**	**7.92**	**63.3%**	**59.2%**	**100.0%**	**100.0%**

Source: Value Track analysis on Company figures

Concerning the remaining 2015FY cost items it should be noticed that:

- Other costs at €2.2mn chiefly relates to Board fees, marketing costs, external consultants and travel expenses, i.e. the real G&A costs of the company;
- Depreciation and Amortization charges stand at ca. €0.26mn for the large majority related to Intangible Assets (i.e. proprietary software).

As a result of such a "light" cost structure, **EBITDA and EBIT margins currently stand in the 40% plus region**.

Piteco: Operating Profitability

P&L (IAS, €mn, Fiscal Years)	2014	2015	YoY Chg. %
EBITDA	5.23	5.72	9.4%
EBITDA Margin (%)	42.4%	42.7%	
EBIT	4.53	5.46	20.7%
EBIT Margin (%)	36.7%	40.8%	

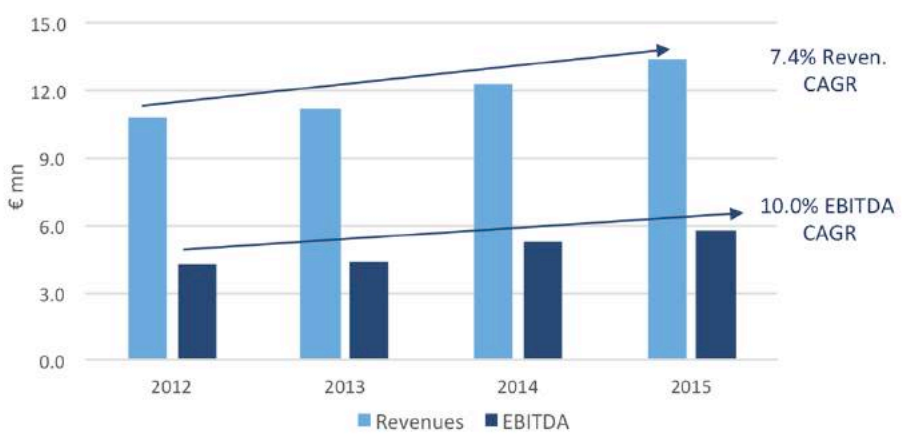
Source: Company figures

High operating leverage

Not only Piteco's operating expenses do not burden that much the profitability, but we also note that being such costs for a sizeable portion fixed, they allow a **high operating leverage**. Indeed:

- In the 2008-15 period, **EBITDA** experienced a positive ca. **10% CAGR** vs. the 7.4% CAGR of Revenues;
- The EBITDA margin had a boost in the period moving from 29.6% in 2008 to 42.7% in 2015, i.e. close to 200bps EBITDA margin increase per annum;
- The **EBITDA margin on incremental Revenues stood in the period at ca. 63%**.

Piteco: 2008-15 growth in Revenues and EBITDA (*)



Source: Value Track analysis on Company figures

(*) 2008 figures IT GAAP, 2015 ones IAS

High cash conversion driven by negligible capex and working capital need

Piteco boasts a **high cash generating potential / fast deleveraging capability**. Indeed:

- Piteco's business model requires limited investment expenses. Basically the only material "organic" investment cash out in the 2013-15 period was a few hundred thousands euro related to 3rd parties software and capitalized R&D costs;
- Operating Working Capital needs are limited as well. There are basically no inventories (but for work in progress projects) while the growth in Receivables is obviously directly proportional to revenues increase;

As an effect, we calculate that Piteco had an average ca. **80% cash conversion of EBITDA into Operating Free cash Flow** post taxation in 2013-15 fiscal years, i.e. ca. **€4.1m OpFCF per annum** to be devoted to serve debt / equity investors and to eventually deleverage the Balance Sheet.

Piteco: Operating Cash Flow generation 2013-15

(IAS, €mn)	2013FY	2014FY	2015FY
EBITDA	**4.32**	**5.23**	**5.72**
WC requirements / Chg. Provisions	0.46	0.55	-0.34
Tang. +Intang. Investm. (excl. acquisitions)	-0.02	-0.27	-0.31
Cash Taxes	-0.82	-1.03	-1.15
OpFCF = CF available to debt / equity investors	**3.94**	**4.48**	**3.92**
As a % of EBITDA	**91.3%**	**85.6%**	**68.5%**

Source: Value Track analysis on Company figures

Focus on FY2015 figures

FY2015 results confirm Piteco's key financial features. Zero churn rate paired with the acquisition of 30 new clients, in line with the company's historical average, led to €13.4mn Revenues (+9% YoY), also marginally impacted by the consolidation of newly acquired Big Data business.

Operating profitability has remained on healthy levels thanks to the high operating leverage: EBITDA at €5.7mn (+9.4% YoY) implies an EBITDA Margin of 42.7%, while EBIT at €5.5mn (+20.7% YoY) means an EBIT Margin of 40.8%. Lower financial charges and lower tax rate drove Adjusted Net Profit to increase more than proportionally i.e. +50.1% YoY to €3.7mn.

Last but not least, the negligible amount of Capex required by Piteco's business model, paired with the proceeds coming from the IPO, led to a strong Free Cash Flow generation and to Net Debt reaching a level close to zero.

Piteco's FY2015 **Profit & Loss performance** can be summarized as follows:

- Revenues at €13.4mn (+8.5% YoY), with "Maintenance Fees" accounting for 46% of the total amount;
- EBITDA +9.4% YoY at €5.7mn;
- EBIT +20.7% YoY at €5.5mn;
- Adjusted Net Profit +50.1% YoY at €3.7mn.

Piteco: 2014-15 Profit & Loss Statement

(€mn, IAS)	2014FY	2015FY	YoY % Change
Revenues	**12.3**	**13.4**	**+8.5%**
Operating costs	-7.1	-7.7	+8.2%
EBITDA	**5.2**	**5.7**	**+9.4%**
EBITDA Margin	*42.4%*	*42.7%*	*nm*
D&A	-0.7	-0.3	-63.6%
EBIT	**4.5**	**5.5**	**+20.7%**
EBIT Margin	*36.7%*	*40.8%*	*nm*
Net Financial Charges & Extraord. Items	-1.0	-0.9	-8.7%
Pre-tax Profit	**3.5**	**4.6**	**+29.2%**
Taxes	-1.1	-1.1	+3.7%
Tax Rate	*30.9%*	*24.8%*	*-5.0%*
Net Profit	**2.4**	**3.4**	**+40.2%**
Adjusted Net Profit	**2.4**	**3.7**	**+50.1%**

Source: Value Track analysis on SITI B&T's data

Revenues slightly outperformed historical averages

FY2015 saw Group Revenues of ca. €13.4mn, with an increase of +8.5% vs FY2014 on a YoY basis. The growth rate slightly outperformed Piteco's historical average of ca. +7% observed in the FY2008-FY2014 period thanks to the acquisition of 30 new clients and also thanks to the consolidation of the new Big Data matching business line.

Healthy marginality remains the rule

Thanks to the high operating leverage enjoyed by the company FY2015 EBITDA stood at €5.7mn (+9.4% YoY), implying a healthy EBITDA Margin of 42.7% even if impacted by some one-off costs such as the IPO related fees. The negligible amount of Capex required by the business, and hence of D&A, led to an EBIT of €5.46mn (+20.7% YoY) and an EBIT Margin of 40.8%.

Higher Net Profit Margin

Below the EBIT line, lower interest expenses (-42% YoY) driven by the 2015 debt refinancing at a much lower rate (ca. Euribor + 2% spread) and a lower tax rate with respect to FY2014 (24.8% vs 30.8%) led Piteco to reach an Adjusted Net Profit of €3.67mn (+50.1% YoY).

Balance Sheet Analysis

Piteco's business model doesn't require huge capex nor working capital absorption. That's why out of the €30mn Total Capital Employed as of the end of 2015FY, more than 95% is represented by goodwill related to 2013 reverse merger.

Net of the goodwill, the only material tangible asset is the Milan Headquarter worth some €1.35mn, while in terms of Working Capital we note that the company usually records Receivables in the region of 120-130 DSO (Days Sales Outstanding).

We underline the almost **zeroed Net Debt position** (€0.3mn, from the €10mn of FY2014) driven by the usual strong OpFCF generation (even if in 2015FY Working Capital has generated a €0.4mn absorption) and by the cash in of IPO proceeds. This situation grants the potential to grow by external lines through acquisitions.

Piteco: 2014-15 Balance Sheet

(€mn, IAS)	2014FY	2015FY
Net Working Capital	0.36	0.96
Net Fixed Assets	29.3	30.1
Long-Term non Financial Liabilities	-0.9	-1.0
Capital Employed	**28.3**	**29.7**
Matched by		
Equity	**18.3**	**29.4**
Net Financial Position	**-10.0**	**-0.3**

Source: Company figures and Value Track analysis

Forecasted Financials 2016E-18E

Revenues, EBITDA and Net Profit are expected to grow respectively by 8.4%, 9.7% and 15.4% 2015A/2018E CAGR. In absolute terms, in 2018FY we expect EBITDA and Net Profit to land at ca. €7.6mn and €5.3mn respectively. This should result in ca. €4.9mn post tax OpFCF per year to be devoted to serve equity investors (we forecast a 50% pay-out) and to foster growth, maintaining a positive Net Cash position (ca. €7.2mn at the end of 2018FY).

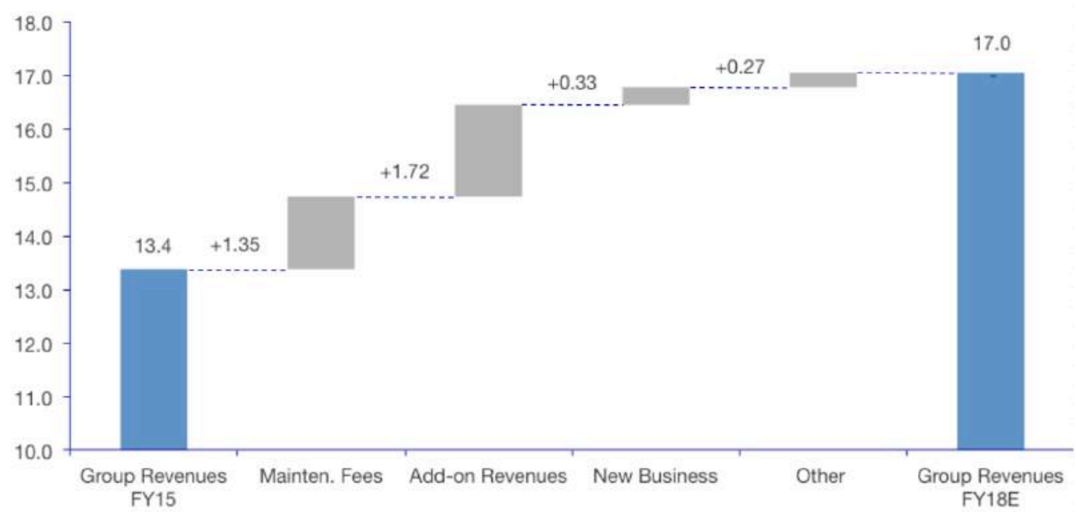
Please note that all the forecasted figures of this section are:

- Estimated in compliance with IAS-IFRS accounting principles;
- Taking into consideration the effect of the acquisition involved in the "big data matching" business;
- Not taking into account any further acquisition, neither in Italy nor in the US, even if we reckon that Piteco is actively working on these external growth options.

Revenues evolution

We expect Piteco's revenues to grow significantly in the next few years, posting a **CAGR for the 2015A-2018E period of ca. 8.4%**, landing at some €15.0mn in FY16E, €16.0mn in FY17E and €17.0mn in FY18E.

Piteco: Business Lines's contribution to 2015A-18E Revenues growth (€mn)



Source: Value Track analysis on Company figures

More in detail, the top line of the Group should benefit from:

- **New clients effect**. We estimate Piteco to be able to improve its 30 new clients per annum track record, partially thanks to a more pro-active marketing approach and partly thanks to cross selling with the ca. 40 clients deriving from Centro Data assets acquisition that are not Piteco's clients yet on TMS. All these new clients are assumed to generate ca. €0.06m revenues to Piteco in their first year of commercial relationship. By the way, in our assumptions we are forecasting a stable lower than 1% churn rate;

- **Existing client effect**. We estimate that both Maintenance fees and Upselling ones will remain substantially stable YoY in terms of "price effect" while growing in terms of "volume effect" in line with the client base growth;
- **Consolidation effect** related to the finalised acquisition. We remind that this brand new company has a ca. €1.2mn turnover and has been consolidated on a line-by-line basis as of July, 1st 2015. Piteco's group revenues will thus be impacted for the entire 12 months period from FY16 onwards.

Profitability evolution

EBITDA should experience a further lift in upcoming years, coming out €6.5mn in 2016E, €7.0mn in 2017E and €7.5mn in 2018E, i.e. a **ca. 10% CAGR for the 2015A-2018E period**, taking into account that:

- The "old" business perimeter should keep recording an extremely high EBITDA margin on incremental revenues thanks to the high proportion of fixed costs on total cost structure;
- The newly acquired assets, that currently are estimated to generate a lower than group average EBITDA margin should be progressively brought in line with Piteco's profitability level.

As an effect, EBITDA margin should grow some 150bps in the 2015A-2018E period achieving a 44.2% level, with Personnel Costs still representing the main cost item (ca. €6.7mn as of FY18E) also due to the impact of a dozen additional headcount brought by the acquired business.

At the same time, we expect **EBIT margin to increase +180bps** up to ca. 42.6% of revenues in FY18E as a consequence of **Depreciation charges remaining under control** due to:

- Ca. €0.2mn depreciation charge related to the recently capitalized R&D expenses;
- Ca. €0.08mn stable YoY depreciation charge related to the headquarter building and to other Fixed Assets;
- The addition of D&A related to the assets under acquisition.

Piteco: Revenues, Operating Costs, Operating Profitability

(IAS, €mn, Fiscal Years)	2015	2016E	2017E	2018E	15A-18E CAGR
Group Revenues	**13.4**	**15.0**	**16.0**	**17.0**	**8.4%**
Raw Materials	-0.05	-0.03	-0.03	-0.03	0.6%
Personnel Costs	-5.43	-6.10	-6.42	-6.74	7.4%
Other Costs	-2.29	-2.37	-2.55	-2.73	7.6%
EBITDA	**5.72**	**6.50**	**7.01**	**7.55**	**9.7%**
EBITDA Margin (%)	**42.7%**	**43.3%**	**43.8%**	**44.3%**	
Depreciation & Amortization	-0.26	-0.28	-0.29	-0.29	3.7%
EBIT	**5.46**	**6.22**	**6.73**	**7.26**	**9.9%**
EBIT Margin (%)	**40.8%**	**41.5%**	**42.0%**	**42.6%**	

Source: Company figures for 2015FY, Value Track forecasts on FY16E-FY18E

Below the EBIT line we forecast:

- Net financial charges massively decreasing as a compound effect of:
  - The zeroed Net Financial Position (organic deleverage being only partially offset in 2015FY by the acquisition cash out);
  - The 2015 banking credit line renegotiation. We note that 2015FY financial charges include 4 months of the "old" more expensive credit line and 8 months of the new "cheaper" one;

- Taxation broadly stable in the 25%-27% range thanks to Patent box and IPO fiscal benefits.

As an effect, we expect **Net Profit** to grow by a ca. **+15.4% CAGR in the 2015-18E period** achieving a €4.6mn, €5.0mn and €5.3mn level in 2016E, 2017E and 2018E respectively, i.e. a ca. **30.9% Net Profit margin on Sales** and a ca. **14% ROE for 18E**.

Piteco: P&L from EBIT down to Net Profit

(IAS, €mn, Fiscal Years)	2015	2016E	2017E	2018E	15A-18E CAGR
EBIT	**5.46**	**6.22**	**6.73**	**7.26**	**9.9%**
Financial Income (Costs)	-0.58	-0.12	-0.09	-0.04	nm
Extraordinary Income (Costs)	-0.32	0.00	0.00	0.00	nm
Profit Before Taxes	**4.56**	**6.11**	**6.64**	**7.22**	**16.6%**
Taxation	-1.13	-1.53	-1.66	-1.95	nm
Tax Rate	24.8%	25.0%	25.0%	27.0%	
NET PROFIT (LOSS)	**3.43**	**4.58**	**4.98**	**5.27**	**15.4%**
Net Profit Margin (%)	***25.6%***	***30.5%***	***31.1%***	***30.9%***	

Source: Company figures for 2015FY, Value Track forecasts on FY16E-FY18E

Cash Generation and Balance Sheet Evolution

In the 2016E-2018E years we expect Piteco to maintain a sound Operating Free Cash Flow generation capability as an effect of:

- Substantially stable Working Capital (as a percentage of Sales) as Trade Receivables policy should not change;
- Investment in tangible assets remaining extremely limited;
- Intangible assets investments pretty stable at ca. €0.25mn-€0.30mn per annum and being related to proprietary software development capitalization.

Piteco: Cash Flow Statement

(IAS, €mn)	2015	2016E	2017E	2018E
EBITDA	**5.72**	**6.50**	**7.01**	**7.54**
Op. WC requirements	-0.42	-0.15	-0.07	-0.08
Change in provisions	0.08	0.08	0.13	0.13
Capex (not incl. Acquisitions)	-0.31	-0.40	-0.40	-0.45
Cash Taxes	-1.15	-1.53	-1.66	-1.95
OpFCF net of tax	**3.92**	**4.50**	**5.01**	**5.20**
As a % of EBITDA	68.5%	69.3%	71.4%	69.0%
Other (incl. Acquisitions)	6.68	0.00	0.00	0.00
Net Financial Charges	-0.58	-0.12	-0.09	-0.04
Dividend paid	0.00	-1.81	-2.29	-2.49
Change in Net Debt position	**9.68**	**2.57**	**2.62**	**2.67**

Source: Company figures for 2015FY, Value Track forecasts on FY16E-FY18E

The above mentioned drivers should allow Piteco to maintain a **70% cash conversion of EBITDA into Operating Free cash Flow post taxation**, i.e. an average **€4.9mn OpFCF (post tax) per annum** to be devoted to serve equity investors and to foster growth.

As far as Piteco's dividend policy is concerned, we are forecasting a ca. **50% pay-out ratio** going forward.

As a result of the previously highlighted drivers, Net Financial Position is expected to be positive for ca. €2.0mn, €4.6mn and €7.2mn as of 2016YE, 2017YE and 2018YE respectively.

Piteco: Reclassified Balance Sheet

(IAS, €mn)	2015	2016E	2017E	2018E
Net Working Capital	**1.0**	**1.1**	**1.2**	**1.3**
Net Fixed Assets	**30.1**	**30.2**	**30.3**	**30.5**
Severance pay and other funds	-1.0	-1.1	-1.2	-1.4
Net Capital Employed	**29.7**	**30.2**	**30.3**	**30.4**
matched by:				
Total Equity	**29.4**	**32.2**	**34.8**	**37.6**
Total Net Fin. Position	**-0.3**	**2.0**	**4.6**	**7.2**

Source: Company figures for 2015FY, Value Track forecasts on FY16E-FY18E

Appendix 1: Details on Piteco's comparables

Sector Potential Comparables – Business Profiles

Bottomline Technologies

Provider of cloud-based payment, invoice, global cash management and digital banking software / solutions to corporations and financial institutions around the world. Headquartered in the USA, it also maintains offices in Europe and Asia-Pacific.

CAD IT

Italian company leader on the Italian market of financial software solutions and services to financial institutions and Public Administration.

Exprivia

Market leader in Italy in process consultancy, technology services and Information Technology solutions for credit risk management, trading room activities, clinical diagnostic process integration, internet/intranet, and data warehousing.

Oracle

Worldwide leading provider of application and infrastructure software used by over 400,000 organizations. It provides its applications and database software "on premise" or in a public cloud hosted by a 3rd party or through an Oracle-hosted cloud.

Sage

British company providing "on premise" and "on cloud" business management software (Accounting, Payroll, Enterprise Resource Planning, Customer Relationship Management etc…). The company focuses on Small-Medium Enterprises.

Salesforce.com

Leading provider of cloud applications with a focus on customer relationship management (#1 in the world), customer service and marketing automation. It also provides a platform for developing business applications that can be delivered in the cloud.

SAP

Worldwide vendor of "horizontal" Enterprise application software. Its product portfolio covers a wide spectrum of functionalities (HR management, ERP, CRM and SCM, Financial Management, Data Analytics etc..).

TXT e-solutions

Italian "born" provider of "vertical" strategic solutions and software for large-sized industrial enterprises ranging from business planning / sales budgeting / business plans implementation to Aerospace & Defence dedicated software.

Reply

The Company's services include consultancy, system integration, application management, and business process outsourcing. Reply provides services to business groups within Telco & Media, Industry & Services, and Banking & Insurance sectors.

Intuit

Intuit Inc. develops and markets business and financial management software solutions for small and medium sized businesses, financial institutions, consumers, and accounting professionals.

StatPro

The Company offers to the global asset management industry applications and reports based around a data hub as well as integrated reporting solutions to automate and improve portfolio report production.

Source: Company Reports, Value Track analysis

Similarities and differences between Piteco and its potential comparables

Company	Similarities vs. Piteco	Differences vs. Piteco
CAD IT	• Italian based with most of sales in Italy • Provider of "vertical" Enterprise application software and solutions	• Core business: financial software for banks and P.A.
Exprivia	• Italian based with most of sales in Italy • Provider of "vertical" Enterprise application software and solutions	• Wider range of products and services offered (consultancy, technology services, IT solutions) • Also reselling third party software
TXT e-solutions	• Italian based • Provider of "vertical" Enterprise application software and solutions	• Globally distributed sales • Wider range of solutions offered
Salesforce	• Provider of "vertical" Enterprise application software and solutions	• Globally distributed sales • Focus on CRM software and solutions mainly "on cloud"
Bottomline Tech.	• Provider of "vertical" Enterprise application software and solutions for Treasury Management	• Globally distributed sales • Wider range of solutions offered mainly "on cloud"
Oracle	• Provider of Treasury management system module	• Globally distributed sales • Provider of "Horizontal" Enterprise standardised application software and solutions
Sage	• Provider of "vertical" Enterprise application software and solution for Treasury Management • High weight of Revenues from recurring business	• Wider range of solutions offered (Accounting, Payrolls, ERP, CRM, Payments), both on premise and on cloud • Focused on SMEs
SAP	• Provider of Treasury management system module	• Globally distributed sales • Provider of "Horizontal" Enterprise standardised application software and solutions both on premise and on cloud
Intuit	• Provider of "vertical" Enterprise application software • High weight of Revenues from recurring business	• Particularly focused on taxes calculation business • Offering a complete "on cloud" set of products
StatPro	• Small size provider of "vertical" Enterprise application software • Evolving toward SaaS	• Different end market (Asset Management industry) • Shift to SaaS at a more advanced stage
Reply	• Has a business line of Big Data Matching • Italian provider of "vertical" Enterprise application software	• Extremely diversified business lines / client base • Consultancy/System Integration (ca. 50% of total revenues)

Source: Value Track Analysis

Appendix 2: The TMS market

A market worth >US$2bn, growing at a 5% CAGR

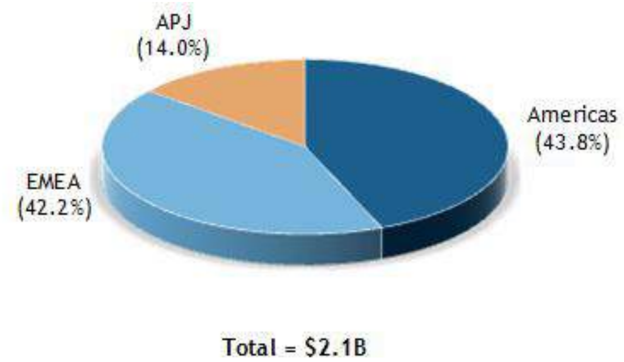
The **Software and ICT solutions** market can be broken down as follows:

- **System Software**: software which guarantees basic functions (operative systems);
- **Infrastructural Software**: set of programs that act as intermediaries between different applications and software components;
- **Application Software**: programs used for office automation (e.g. Word, Excel), dedicated professional needs (i.e. the treasury, warehouse management) and process optimisation. This sector includes fast growing segments such as Internet of Things (IoT), Web Management Platforms and more mature segments such as the ERP and extended-ERP applications.

Piteco's reference market i.e. the corporate **Treasury and Risk Management applications** market (**TMS**) is a niche of the Application Software market or better a niche of the ERP segment characterised by higher than average growth rates. Indeed such a market was worth **$2.1bn in 2013**, and is forecasted to increase to a total of $2.7bn by 2018, representing an expected **4.8% CAGR** for the **2013–2018E period** (Source: IDC 2014).

In terms of **geographic breakdown**, the Americas, with 44% of world total, is the largest treasury and risk management applications market, EMEA (Europe, Middle East, and Africa) follows closely with revenues share at 42% while Asia Pacific (including Japan) accounts for the remaining 14.0% weight on world total but is the area that is forecasted to grow more in the next few years (7% vs. 5% for the Americas and 4% for EMEA).

Worldwide Treasury and Risk Management applications revenues breakdown by region, 2013



Source: IDC, July 2014

Worldwide Treasury and Risk Management Applications expected revenues growth by Region, 2013–2018E

(US$mn)	2013	2014	2015	2016	2017	2018	2013–18E CAGR (%)	2018 Share (%)
Americas	922	960	1,002	1,060	1,124	1,189	5.2	44.6
EMEA	887	901	949	969	1,004	1,061	3.6	39.8
APJ	294	309	317	352	384	413	7.0	15.5
Total	**2,103**	**2,170**	**2,268**	**2,381**	**2,512**	**2,663**	**4.8**	**100.0**
Growth (%)	**4.3**	**3.2**	**4.5**	**5.0**	**5.5**	**6.0**		

Source: IDC, July 2014

More and more sophisticated market needs

The high growth rates of the Treasury Management Systems business are expression of a market with increasingly sophisticated needs, such as:

- The need to have **timely and defensible data** for risk decision making in a highly mutable context;
- The need to **improve controls** and be **responsive to regulatory change** in volatile markets;
- The need to **optimise corporate and banking cash flows** for funding day-to-day operations and to support business expansion.

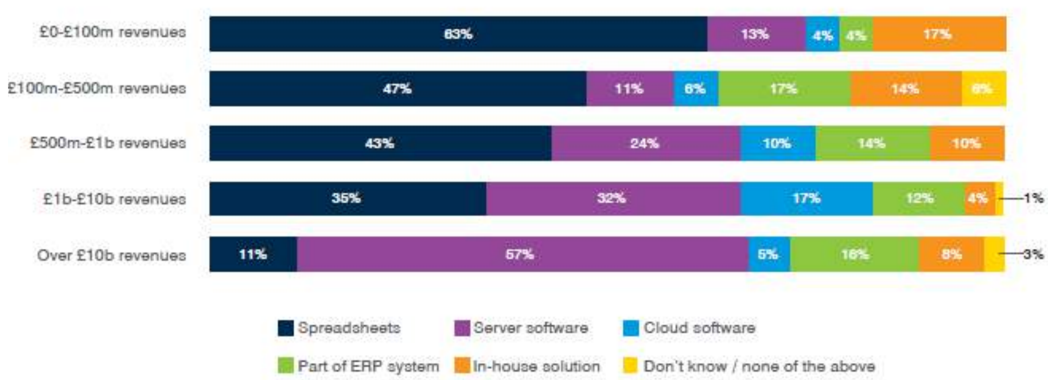
Spreadsheet and ERP modules are no longer the most valid option

Dedicated TMS software modules that better fit corporate treasury requirements are rapidly gaining market share vs. traditional spreadsheet solutions and vs. ERP treasury modules. However the **potential market to be conquered is still huge**. Indeed, a 2014 survey from Kyriba Corporation and Association of Corporate Treasurers reports that:

- More than 40% of UK companies still use spreadsheets as the primary tool for managing their treasury operations, despite their use is considered time-consuming and more prone to produce errors;
- Server-installed treasury workstations remain the second most used overall, at 26%;
- 12% use their company's ERP treasury module;
- **10% only use a Treasury Management System (TMS).**

Worthy of notice, there is a significant difference in usage patterns among companies of different size, as the following figure shows:

What type of tool do companies use to manage their treasury



Source: Kyriba Corporation and Association of Corporate Treasurers, 2014

Appendix 3: Piteco SWOT Analysis

Strengths

- Consolidated **first mover** and **leading position** in a relatively protected and complex market, i.e. the Italian Treasury and Risk Management Systems one. Indeed, such a market is a sub-segment of the broader ERP market where the need for flexibility and customisation are the key demand drivers and Piteco's key competitive advantages;
- **Client base positive features** such as: a) high customer loyalty / low churn; b) low counterpart risk as Piteco's client base is widely diversified across all sectors;
- **Outstanding financial metrics**, such as:
  - Half of Group revenues (i.e. maintenance fees) featuring high visibility and stability;
  - High operating leverage turning into constant margin expansion / cash flow generation;
  - Low capital intensity, as product development is partially inspired by Piteco's customers. Namely, it happens often that a customer requires the company to develop a new module or tailoring it for a specific need, making Piteco able to market such a new functionality to all its clients.

Weaknesses

- The company's **international growth strategy** is entirely to be executed yet:
  - At the moment Piteco has an almost totally domestic exposure, being active abroad only as a supplier of Italian multinationals;
  - Competition in international markets is fiercer than in Italy and Piteco is much smaller than international players and with limited execution experience abroad;
- **Offer on the cloud is to be scaled yet**. Being capable to properly offer Software as a Service (SaaS) solutions would allow Piteco to be "platform neutral" vs. its clients..

Opportunities

- The market for Treasury and Risk Management Systems has a lot of **growth potential** as the use of inefficient systems (spread sheets) is still very high;
- Piteco's software being **compliant with international standards** gives substance to the company's international growth strategy.

Threats

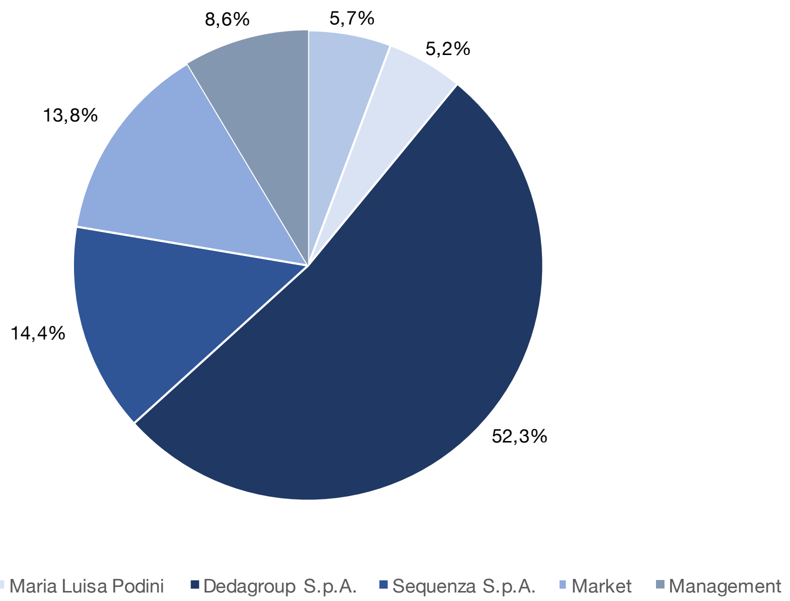
- Expansion and growth may be in **trade-off for marginality**;
- It is possible that targeting smaller firms will increase the **counterparty risk** and increase **customer acquisition costs**, as software expense will have a higher weight on customers' turnover. However, the decision of limiting portfolio expansion to € 50M+ turnover companies seems a convincing mitigating factor for such risk;
- The **US expansion** might force the company to lower margins in the region, due to higher competition in the market and likely higher customer acquisition costs.

Appendix 4: Piteco ownership structure

As a result of two consecutive Management LBOs in 2008 and 2012 (followed by a reverse merger in 2013FY), and of the IPO on AIM stock market back in July 2015, Piteco's share capital is currently structured as follows:

- 77.6% is controlled by Podini family: 52.3% directly via Dedagroup S.p.A. (a well established Italian leading provider of technology solutions for banking, government and corporates), 14.4% indirectly via Sequenza S.p.A. (a sub-holding company active in the field of integrated logistics and in the production of renewable energy), 5.7% by Marco Podini, Chairman of the Company, and 5.2% by Maria Luisa Podini, non-Executive Director of Piteco;
- 8.6% of the Capital is entitled to three top managers (2.9% each): Paolo Virenti (CEO), Riccardo Veneziani (CFO), Andrea Guido Guillermaz (Sales Director). Worthy to note, the three top managers have a put & call agreement in place, structured as follows: starting as of January 2017 they have a put option on their shares towards Sequenza S.p.A. while Sequenza S.p.A. itself has a call option on their shares;
- 13.8% is the stock market free float.

Piteco: Share capital structure



Source: Piteco, various

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