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2019E-22E guidelines unveiled

SG Company provides services such as events organization & management and solutions / support in terms of Live & Digital communication for B2B, B2C, BTL markets.

Fair Value (€) **2.50**
Market Price (€) **1.80**
Market Cap. (€m) **21.8**

Main goal: evolution to higher added value offer

SG Company reference market sees the "logistics" segment suffering a "price pressure driven" progressive margins erosion, while on the contrary "Digital" and "Tech" based services are growing soundly and "Live Communication" segment is showing a partially anti-cyclical trend.

In such a scenario, SG Company aims at repositioning itself in the highest added value segments thanks to: 1) Increasing attention to the product mix, with the exclusion of projects with lower margins; 2) Adoption of a consulting approach; 3) Strengthening of the commercial structure; 4) Leverage of the 50 plus specialists strategic-creative unit.

Cornerstone actions allowing the achievement of the above mentioned goals should be: 1) The introduction of more and more proprietary "concept formats" to be added to the already active ones and to be cloned even beyond domestic boundaries; 2) The push on cross selling and up selling of the various group "labels"; 3) Acquisition of small firms specialized in data analytics and in managing public - private relations.

Financials targets imply a rebound in 2020E-21E

2019 should be viewed as a transition year due to the business model fine tuning and to uncertainties of the reference market. SG Company estimates Gross Revenues at €41mn-€45mn, in line with 2018 consolidated pro-forma results, while so called Business margin (excluding the weight of the formats being developed) is already seen improving. As far as medium term is concerned, Gross Revenues are seen at ca. €61mn-€66mn in 2022E i.e. a 10%-15% CAGR19E-22E on a like-for-like basis. Business margin is expected to grow at a higher 15%-20% CAGR19E-22E thanks to operating leverage and to the merger of the various legal entities with the elimination of management, administrative and financial inefficiencies.

Fair value confirmed

The company has outlined a clear vision for its future and we believe the strategic guidelines set in place are positives even if they obviously imply a certain execution risk. 2019E financials targets are in the low end of our range while 2022E are in line. We confirm a €2.50 fair equity value per share to be adjusted depending on the number of bonus shares to be issued at the end of July.

KEY FINANCIALS (€m)	2018A	2019E	2020E
NET REVENUES	25.6	36.4	41.5
EBITDA ADJ.	1.1	1.5	2.8
EBIT	0.6	1.0	2.5
NET PROFIT	0.2	0.6	1.6
EQUITY	5.4	6.1	7.5
NET FIN. POS.	n.m.	n.m.	n.m.
EPS ADJ. (€)	0.04	0.05	0.14
DPS (€)	0.06	0.02	0.04

Source: SG Company (historical figures),
 Value Track (2019E-20E estimates)

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA ADJ.MARGIN (%)	4.3%	4.2%	6.7%
EBIT MARGIN (%)	2.5%	2.9%	6.0%
NET DEBT / EBITDA (x)	n.m.	n.m.	n.m.
NET CASH / EQUITY (x)	n.m.	n.m.	n.m.
EV/EBITDA (x)	n.m.	n.m.	6.4
EV/EBIT (x)	n.m.	n.m.	7.1
P/E ADJ. (x)	n.m.	n.m.	13.2
DIV YIELD (%)	3.2%	0.9%	2.3%

Source: SG Company (historical figures),
 Value Track (2019E-20E estimates)

STOCK DATA	
FAIR VALUE (€)	2.50
MARKET PRICE (€)	1.80
SHS. OUT. (m)	11.5
MARKET CAP. (€m)	21.8
FREE FLOAT (%)	13.04%
AVG. -20D VOL. (#)	2,800
RIC / BBG	SGC.MI / SGC IM
52 WK RANGE	1.70-2.70

Source: Stock Market Data

Business Description

SG Company operates mainly in Events and Communication sector with the mission of shepherding companies in events creations and live & Digital communication. The services are either addressed to B2B and B2C channel.

The Group also entered in 2016 the Below-the-Line (“BTL”) communications / marketing segment. The related division acts as the link between companies and its retail clients thanks to innovative projects that engage both clients and consumers.

Key Financials

€mn	2018A	2019E	2020E	2021E
Net Revenues	25.6	36.4	41.5	46.1
Chg. % YoY	1.6%	41.9%	13.9%	11.2%
EBITDA	0.8	1.3	2.8	4.2
EBITDA Adj.	1.1	1.5	2.8	4.2
EBITDA Adj. Margin (% of Net Revenues)	4.3%	4.2%	6.7%	9.1%
EBIT	0.7	1.0	2.5	3.8
EBIT Margin (% of Net Revenues)	2.0%	2.9%	6.0%	8.3%
Net Profit	0.2	0.6	1.6	2.5
Chg. % YoY	-82.2%	161.2%	166.0%	54.0%
Adjusted Net Profit	0.4	0.7	1.6	2.5
Chg. % YoY	-69.5%	95.6%	138.3%	54.0%
Capex	-0.6	-0.2	-0.3	-0.3
OpFCF b.t.	-2.8	3.2	2.3	3.7
OpFCF b.t. as % of EBITDA	-250.1%	210.4%	82.4%	88.0%

Source: SG Company SpA (historical figures), Value Track (estimates)

Investment case

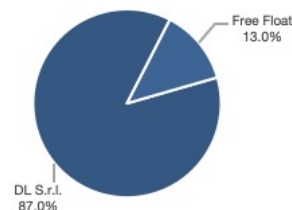
Strengths / Opportunities

- ◆ Though its reference market slowdown, it provided for consistent growth thanks to its industrial approach amid artisan players;
- ◆ M&A and expansion of client base to other verticals (automotive and luxury).

Weaknesses / Risks

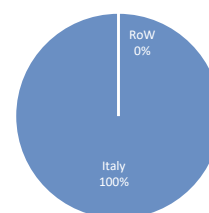
- ◆ Business model fine tuning implies some execution risks;
- ◆ Reliance on top five clients, mainly financial companies, and dependence on apical relationships.

Shareholders Structure



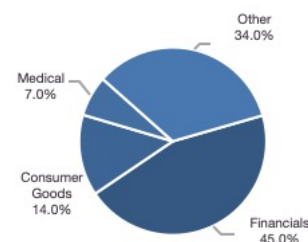
Source: SG Company SpA

Revenues breakdown by geography



Source: SG Company SpA

Sales breakdown 2018A



Source: SG Company SpA

Stock multiples @ €2.50 Fair Value

	2019E	2020E
EV / SALES (x)	0.8	0.6
EV / EBITDA (x)	nm	9.4
EV / EBIT (x)	nm	10.5
EV / CAP.EMP. (x)	8.6	7.5
OpFCF Yield (%)	11.5	8.4
P / E (x)	nm	18.4
P / BV (x)	5.4	4.3
Div. Yield. (%)	0.6	1.6

Source: Value Track

SG Company Group: Income Statement

€mn	2018A	2019E	2020E	2021E
Gross Revenues	33.5	45.5	51.0	56.5
Rebated Costs	-7.9	-9.1	-9.5	-10.4
Net Revenues	25.6	36.4	41.5	46.1
Direct Costs of Orders	-18.7	-24.5	-27.6	-30.4
First Margin	7.0	11.9	13.9	15.7
Labour Costs	-5.0	-7.7	-7.8	-7.9
SG&A & other	-1.2	-2.9	-3.3	-3.6
EBITDA	0.8	1.3	2.8	4.2
Depr. & Amort. & Provisions	-0.2	-0.3	-0.3	-0.3
EBIT	0.7	1.0	2.5	3.8
Interest expenses / income	0.0	0.0	0.0	0.1
Pre-Tax Profit	0.6	1.0	2.5	3.9
Taxes	-0.3	-0.4	-0.9	-1.4
Minorities	-0.1	-0.1	0.0	0.0
Net Profit	0.2	0.6	1.6	2.5
EBITDA Adj.	1.1	1.5	2.8	4.2
EBIT Adj.	0.9	1.2	2.5	3.8
Net Profit Adj.	0.4	0.7	1.6	2.5

Source: SG Company Group, Value Track estimates

SG Company Group: Statement of Financial Position

€mn	2018A	2019E	2020E	2021E
Fixed Assets	1.7	1.9	2.0	2.1
Net Working Capital	4.2	2.2	2.5	2.8
Provisions	0.8	0.9	1.0	1.1
Capital Employed	5.0	3.2	3.5	3.7
Net Equity	5.4	6.1	7.5	9.6
Net Financial Position	0.4	2.9	4.1	5.8

Source: SG Company Group, Value Track estimates

SG Company Group: Cash Flow Statement

€mn	2018A	2019E	2020E	2021E
EBITDA	0.8	1.3	2.8	4.2
Op. WC Requirements	-2.7	2.0	-0.3	-0.3
Capex	-0.6	-0.2	-0.3	-0.3
Cash Taxes	-0.3	-0.4	-0.9	-1.4
Net Financial Charges	0.0	0.0	0.0	0.1
Other Op. Items (incl. Fin. Inv.)	0.9	0.3	-0.1	-0.1
Capital Injection	2.6	0.0	0.0	0.0
Dividends paid	-1.8	-0.7	-0.2	-0.5
Change in Net Fin. Position	-1.4	2.5	1.2	1.7

Source: SG Company Group, Value Track Analysis

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