

# Relatech

Sector: ICT



## Analysts

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## So far so good

Relatech is a digital company providing solutions and services for corporates' digitalization ranging from IoT modules, cybersecurity algorithms, and cloud services to digital marketing and e-commerce facilities. It works directly with clients or via larger system integrators, following a "vendor neutral" approach. IPO proceeds should allow the company to speed up its growth via internal path and M&A.

### 1H19 results matched our expectations

1H19 results just released provide evidence that the company keeps growing at double-digit pace (Value of Production at €9.7mn, +40% YoY, of which +17% organic), driven by in-house business development, integration of newly acquired business and strong cross-selling activity. While reported margins have been penalized (as expected) by non-recurring items, related to the acquisition finalized in Dec 2018, 1H19 EBIT and Net Profit were up 31% and 39% YoY respectively, if adjusted for one-off items.

Net Cash Position at €3.4mn at end of June, also benefitting from €4.1mn IPO proceeds, was supported by €0.4mn positive free cash flow.

### Time to speed up

Going forward, we expect management to keep pushing on business acceleration and diversification, with the aim of improving customer acquisition and cross selling activities, together with the widening of product portfolio and strategic business partnerships. Positive cash position and good FCF generation should support external growth, too.

For the time being we are not revising our 2019E onwards estimates, fully supported by interim results, but we are aware that if the current positive momentum continues, there is room for future upward revisions of our forecasts (3yr CAGR<sub>18-21E</sub> of 21% at the top-line and 16% at the bottom).

### Fair value revised upwards to €3.40 (from €2.80)

While leaving forecasts unchanged, we revise upwards our fair value to €3.4 per share, following a slight rerating of peers and the rollover to 2020YE of our investment horizon.

This value would imply 2020E multiples of 10.0x EV/EBIT Adj. and 17.0x P/E Adj. respectively. On a fully diluted basis (i.e. considering all warrants to be exercised in mid 2020E and no cash reinvestment) our fair value would imply a 2020E P/E of 21.1x.

<b>Fair Value (€)</b>	<b>3.40</b>
<b>Market Price (€)</b>	<b>2.38</b>
<b>Market Cap. (€m)</b>	<b>22.2</b>

KEY FINANCIALS (€m)	2018A	2019E	2020E
VALUE OF PRODUCTION	14.4	19.3	21.8
ADJ. EBITDA	2.0	2.5	3.0
ADJ. EBIT	1.9	2.3	2.7
ADJ. NET PROFIT	1.4	1.7	1.9
EQUITY	2.8	8.1	9.9
NET FIN. POS.	-1.1	3.3	5.2
EPS ADJ. (€)	nm	0.19	0.20
DPS (€)	0.10	0.00	0.00

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

RATIOS & MULTIPLES	2018A	2019E	2020E
ADJ. EBITDA MARGIN (%)	14.2%	13.2%	13.8%
ADJ EBIT MARGIN (%)	13.5%	12.1%	12.4%
NET DEBT / EBITDA (x)	0.5	nm	nm
NET DEBT / EQUITY (%)	40.0	<0	<0
EV/EBITDA ADJ. (x)	nm	7.5	5.7
EV/EBIT ADJ. (x).	nm	8.1	6.4
P/E ADJ. (x)	nm	12.8	11.9
DIV YIELD (%)	nm	00.0	00.0

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

### STOCK DATA

FAIR VALUE (€)	3.40
MARKET PRICE (€)	2.38
SHS. OUT. (m)	9.33
MARKET CAP. (€m)	22.2
FREE FLOAT (%)	20.2
AVG. -20D VOL. ('000)	101.4
RIC / BBG	RLT.MI / RLT IM
52 WK RANGE	1.68 - 2.76

Source: Stock Market Data

THIS EQUITY RESEARCH IS PRODUCED ON BEHALF OF BANCA FINNAT SPA THAT IS ACTING AS SPECIALIST ON RELATECH SHARES



## Business Description

Relatech operates in the Italian ICT market, namely focusing on providing solutions and services for companies' digital transformation.

The array of products it offers ranges from IoT modules, cybersecurity algorithms, and cloud services to digital marketing and e-commerce facilities. These are offered either through business partnerships with key IT players (IBM, Microsoft, Oracle) developed over the years or via an internally developed platform – **RePlatform** – which enables even more customized solutions to its final customer.

## Key Financials

€mn (*)	2018A	2019E	2020E	2021E
<b>Net Revenues from Sales</b>	<b>13.2</b>	<b>18.5</b>	<b>20.8</b>	<b>23.3</b>
Chg. % YoY	19.5%	39.6%	12.6%	12.3%
<b>EBITDA</b>	<b>2.0</b>	<b>2.4</b>	<b>3.0</b>	<b>3.6</b>
EBITDA Margin (% of Net Revenues)	15.4%	13.0%	14.4%	15.4%
<b>EBIT</b>	<b>1.9</b>	<b>1.8</b>	<b>2.6</b>	<b>3.1</b>
EBIT Margin (% of Net Revenues)	14.7%	9.6%	12.3%	13.5%
<b>Net Profit</b>	<b>1.4</b>	<b>1.2</b>	<b>1.8</b>	<b>2.2</b>
Chg. % YoY	59.1%	-14.8%	42.9%	23.4%
<b>Adjusted Net Profit</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2.3</b>
Chg. % YoY	61.2%	18.6%	7.5%	22.1%
<b>Net Cash Position</b>	<b>-1.1</b>	<b>3.3</b>	<b>5.2</b>	<b>7.4</b>
Net Fin. Pos. / EBITDA (x)	0.5	nm	nm	nm
Capex	-0.2	-0.1	-0.1	-0.1
<b>OpFCF b.t.</b>	<b>0.1</b>	<b>1.9</b>	<b>2.7</b>	<b>3.2</b>
OpFCF b.t. as % of EBITDA	5.7%	78.4%	90.4%	88.6%

Source: Relatech SpA (historical figures), Value Track (estimates)

(\*) Newly acquired and renamed Relatech Consulting to be included in consolidation perimeter as of 2019FY

## Investment case

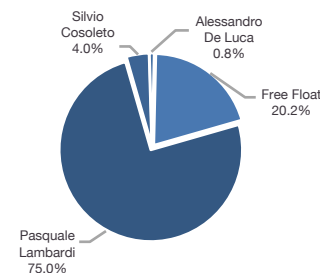
### Strengths / Opportunities

- ◆ Active in a steadily growing and resilient reference market, particularly in the domestic field;
- ◆ Long-lasting partnerships with universities and IT vendors;
- ◆ A flexible and “tailor made” approach to meet customers' needs.

### Weaknesses / Risks

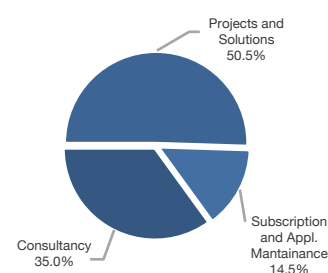
- ◆ High revenues concentration, with top ten and top three clients accounting for ca. two thirds and half sales respectively;
- ◆ Much lower size if compared to main European players.

## Shareholders Structure



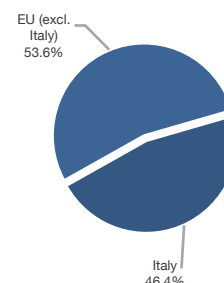
Source: Relatech SpA

## Sales breakdown by product in FY18



Source: Relatech SpA

## Sales breakdown by geography



Source: Relatech SpA

## Stock multiples @ €3.40 Fair Value

	2019E	2020E
EV / SALES (x)	1.5	1.3
EV / EBITDA Adj. (x)	11.2	8.9
EV / EBIT Adj. (x)	12.2	10.0
EV / CAP.EMP. (x)	5.9	5.7
OpFCF Yield (%)	6.8	10.4
P / E Adj. (x)	18.3	17.0
P / BV (x)	4.0	3.2
Div. Yield. (%)	0.0	0.0

Source: Value Track

## Interim results definitely fit our full year 2019 expectations

1H19 financial results came in essentially aligned to our full year expectations, highlighting double-digit growth rates across main key items, as a result of both organic business expansion and incorporation of the ex-Connexò business (now Relatech Consulting) in the consolidation perimeter.

In details, we highlight:

- ◆ **Revenues up by 41%**, as a result of the increasing number of clients, the consolidation of Relatech Consulting and the cross-selling activities exploited by the Group on both customer bases;
- ◆ **Recurring revenues jumped to 21% of total** revenues (vs 12% in 1H 18) or ca €1.9mn, with a +146% YoY performance;
- ◆ **Revenues of Relatech Group were up 17% YoY on organic basis**, i.e. excluding the acquisition of the ex-Connexò business;
- ◆ **Operating profitability burdened by one-off items**, i.e. €135K integration costs and 288K provisions for legal matter, both related to the ex-Connexò business line acquisition;
- ◆ **On adjusted basis EBITDA margin at 12.0% vs 11.8% in 1H18** and EBIT margin at 10.6%, 60bps below 1H18, mostly due to goodwill amortization charges;
- ◆ **Bottom line up 39% on adjusted basis**, with reported profit down 26% YoY due to extraordinary (albeit expected) costs, amortization of goodwill and provisions for potential legal risks.

### Relatech: 1H18 and 1H19 from Top line to EBITDA

(€'000)	1H18	1H19	Change YoY
<b>Total Revenues from Sales</b>	<b>6,369</b>	<b>9,010</b>	<b>41%</b>
o/w same perimeter	6,369	7,480	17%
o/w acquisition	-	1,530	n.m.
Other Revenues	534	719	35%
<b>Total Value of Production</b>	<b>6,973</b>	<b>9,729</b>	<b>40%</b>
COGS	-3,331	-3,457	4%
Labour costs	-2,819	-5,238	86%
<b>EBITDA</b>	<b>823</b>	<b>1,033</b>	<b>26%</b>

Source: Relatech, Value Track Analysis

**Relatech: 1H19 from EBITDA to Net Profit**

(€'000)	1H18	1H19	Change YoY
<b>EBITDA Reported</b>	<b>823</b>	<b>1,033</b>	<b>26%</b>
<i>Integration costs of acquisition</i>	0	+136	<i>nm</i>
<b>EBITDA Adjusted</b>	<b>823</b>	<b>1,169</b>	<b>42%</b>
D&A	-40	-140	
Provisions		-288	
<b>EBIT Reported</b>	<b>783</b>	<b>605</b>	<b>31%</b>
<i>Integration costs of acquisition</i>	0	+136	<i>nm</i>
<i>Provisions for legal matter rel. to acquisition</i>	0	+288	<i>nm</i>
<b>EBIT Adjusted</b>	<b>783</b>	<b>1,029</b>	<b>-23%</b>
Net financial income/expenditure	-8.7	-22.7	<i>nm</i>
Extraordinary/non. Op. Items	-41.4	0.0	<i>nm</i>
<b>Pre-Tax Profit</b>	<b>733</b>	<b>583</b>	<b>-21%</b>
Income Taxes	-214	-200	-7%
<b>Net Profit</b>	<b>519</b>	<b>383</b>	<b>-26%</b>
<b>Net Profit after minorities</b>	<b>519</b>	<b>334</b>	<b>-36%</b>
<b>Adj. Net Profit</b>	<b>519</b>	<b>721</b>	<b>39%</b>

Source: Relatech, Value Track Analysis

As for capital management and free cash flow generation, we briefly underline the followings:

- ◆ **Net Working Capital dynamics suggest a good capital management**, even if reported data could be misleading, as operating payables include also the IPO costs due to be paid (€770k out of total €922k costs). In fact, if we calculate Net Working Capital excluding this item, 1H absorption is in the range of €270k with NWC rising to €2.7mn from €2.5mn of December 2018. However, this figure still implies an **improved NWC/Sales ratio relative to 1H18 (ca 28% compared to 34%)**.
- ◆ **Net financial position clearly benefits from IPO proceeds** of €4.1mn (gross), with a **net cash position of €3.3mn** from the €1.1mn net debt of December 2018. Again, if we adjust this figure for IPO costs still due, the cash level is around €2.6mn. Excluding capital injections, the **cash generation in the first half of the year was of ca. €410k**, ca 40% of EBITDA.

**Relatech: 1H19 Balance Sheet**

(€'000)	June 18	Dec 18	June 19
Net Fixed assets	675	2,053	2,876
Net Working Capital	2,371	2,473	1,975
Severance pay and funds	494	575	967
<b>Total Capital Employed</b>	<b>2,552</b>	<b>3,952</b>	<b>3,884</b>
<b>Group Net Equity</b>	<b>1,802</b>	<b>2,838</b>	<b>7,240</b>
<b>Net Fin. Position [Net debt (-) / Cash (+)]</b>	<b>-750</b>	<b>-1,114</b>	<b>3,356</b>

Source: Relatech, Value Track Analysis. Connexo business line was consolidated in Balance Sheet as of 31.12.2018

**Relatech: 1H19 Cash Flow Statement**

(€'000)	1H18	1H19
<b>EBITDA</b>	<b>823</b>	<b>1,033</b>
Op. WC requirements	-1,512	-498
Capex	-49	-39
Change in provisions / Other	42	265
<b>OpFCF b.t.</b>	<b>-696</b>	<b>1,817</b>
Cash Taxes	-214	-464
<b>OpFCF a.t.</b>	<b>-910</b>	<b>1,353</b>
As % of EBITDA	<i>nm</i>	131%
Other (incl. Fin. Inv. & IPO costs)	-573	-922
Capital Injection (gross)	0	4,059
Dividends paid	0	0
Net Financial Charges	-5	-21
<b>Change in Reported Net Fin Position</b>	<b>-1,488</b>	<b>4,470</b>

Source: Relatech, Value Track Analysis

Overall, results delivered in the first half are good and basically aligned to our 2019E full year forecasts – so we are leaving **unchanged our 2019E-21E estimates** (published in our Initiation of coverage report, released back as of August 1<sup>st</sup>).

We expect management to keep reporting double digit organic growth ahead, also thanks to the full integration of the last acquisition and further cross-selling. In addition, management should also start delivering on a few other steps, potentially also via further selective M&A:

- ◆ Widening of partnerships and hence product offer;
- ◆ Further diversification of clients.

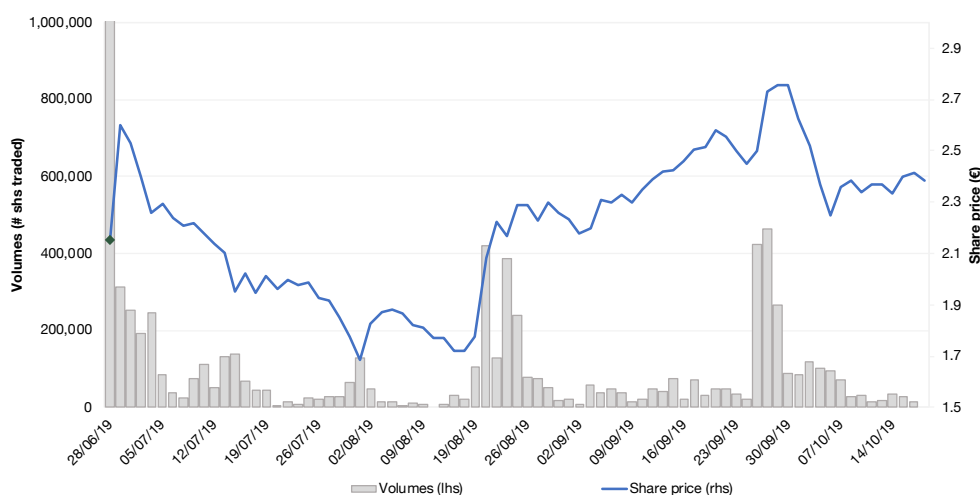
We believe that a successful implementation of these objectives will be crucial to drive the stock rating in the next quarters.

This should also help reducing the dilutive impact from the potential conversion of outstanding 2019-2022 warrants (first exercise window in May 2020, exercise price €2.36).

## Valuation update

Following its recent volatile performance (see chart below), Relatech is now up ca. 10% vs. its €2.15 IPO price.

### Relatech: share price performance since IPO



Source: S&P Capital IQ

Our valuation approach on Relatech shares is based on the following points:

- ◆ Comparison with a group of selected comparables, i.e. Italian based mid and small size companies that are involved in the same business perimeter and that Relatech sometimes has as partner and sometimes as competitor in its day-by-day activities. We include in this panel companies such as Exprivia, Neosperience, Maps, Alkemy and Expert System;
- ◆ Six-twelve months investment horizon. As such is, we are now moving forward our reference year for multiples calculation to 2020E (from previous 2019E);
- ◆ EV/EBIT as best reference multiple in order to take into account the fact that Relatech doesn't capitalize R&D expenses, contrary to some of its peers.

Based on the above-mentioned assumptions and on the current market price, we calculate that Relatech shares are trading at a discount vs. its closest peers, that are positioned at ca. 10.0x EV/EBIT 2020E.

### Relatech Peers' stock trading multiples (\*)

Company	EV / EBIT (x)		EV / (EBITDA-Capex)		P / E (x)	
	2019E	2020E	2019E	2020E	2019E	2020E
Alkemy	12.4	10.1	12.2	9.8	20.3	13.4
Exprivia	12.8	10.1	12.8	9.3	n.m.	9.1
Maps Group	5.5	4.2	6.1	4.4	7.8	6.8
Neosperience	18.9	13.0	15.0	10.1	n.m.	21.2
<b>Median</b>	<b>12.6</b>	<b>10.1</b>	<b>12.5</b>	<b>9.6</b>	<b>14.0</b>	<b>11.3</b>
<b>Average</b>	<b>12.4</b>	<b>9.4</b>	<b>11.5</b>	<b>8.4</b>	<b>14.0</b>	<b>12.6</b>

Source: Consensus estimates, Value Track Analysis (\*) Expert System not included as EBIT and Net Profit are negative

On the contrary, we believe that the stock should trade at multiples broadly aligned to its domestic peers as, if on the one hand Relatech shows above average risk profile, due to its high client concentration, on the other side it also boasts above average profitability.

As an effect, we set **10.0x EV/EBIT Adj. 2020E** as “fair” multiple leading to **€3.40 the fair valuation of Relatech shares**, up from the previous €2.80.

Here below, we provide an analysis of possible stock trading multiples in a range of share prices between €2.40 and €3.40 (Enterprise Value based on our 2019E-20E financial forecasts).

**Relatech: Implicit stock trading multiples between market price and €3.40 fair value**

Share price	Equity Value (€mn)	EV / EBITDA Adj. (x)		EV / EBIT Adj. (x)		EV / OpFCF Adj (x) (*)		P / E Adj.		P / E Adj. fully dilut.	
		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
€2.40	€22.4	7.5	5.7	8.2	6.4	7.8	5.9	12.9	12.0	12.9	14.9
€2.60	€24.3	8.2	6.4	9.0	7.1	8.6	6.6	14.0	13.0	14.0	16.1
€2.80	€26.1	9.0	7.0	9.8	7.8	9.3	7.2	15.1	14.0	15.1	17.3
€3.00	€28.0	9.7	7.6	10.6	8.5	10.1	7.9	16.1	15.0	16.1	18.6
€3.20	€29.9	10.5	8.2	11.4	9.2	10.9	8.5	17.2	16.0	17.2	19.8
€3.40	€31.7	11.2	8.8	12.2	9.9	11.6	9.1	18.3	17.0	18.3	21.1

Source: Value Track Analysis (\*) OpFCF calculated as EBITDA less Capex

## Appendix: 2017A-21E group financial figures

### Relatech: 2017A-21E P&L

(€'000)	2017FY	2018FY	2019E	2020E	2021E
<b>Total Value of Production</b>	<b>11,615</b>	<b>14,356</b>	<b>19,336</b>	<b>21,788</b>	<b>24,455</b>
COGS	-5,901	-6,303	-6,980	-7,865	-8,828
Labour costs	-4,348	-6,019	-9,962	-10,921	-12,041
<b>EBITDA (Reported)</b>	<b>1,366</b>	<b>2,034</b>	<b>2,394</b>	<b>3,002</b>	<b>3,586</b>
<b>EBITDA Adj.</b>	<b>1,366</b>	<b>2,034</b>	<b>2,544</b>	<b>3,002</b>	<b>3,586</b>
Depreciation and amortization	-132	-89	-623	-438	-445
<b>EBIT (Reported)</b>	<b>1,235</b>	<b>1,945</b>	<b>1,771</b>	<b>2,564</b>	<b>3,141</b>
<b>EBIT Adj.</b>	<b>1,235</b>	<b>1,945</b>	<b>2,339</b>	<b>2,694</b>	<b>3,271</b>
Net financial exp. & FX p&I	0	-10	-43	3	26
Extraordinary items	5	-22	0	0	0
<b>Pre-tax Profit</b>	<b>1,239</b>	<b>1,913</b>	<b>1,728</b>	<b>2,567</b>	<b>3,167</b>
Taxes & Minorities	-332	-444	-494	-809	-998
<b>Net Profit (Loss)</b>	<b>907</b>	<b>1,444</b>	<b>1,234</b>	<b>1,758</b>	<b>2,170</b>
<b>Adj. Net Profit</b>	<b>906</b>	<b>1,461</b>	<b>1,736</b>	<b>1,863</b>	<b>2,274</b>

Source: Relatech, Value Track Analysis

### Relatech: 2017A-21E Balance Sheet

(€'000)	2017FY	2018FY	2019E	2020E	2021E
Net Fixed Assets	388	2,053	2,818	2,480	2,135
Net Working Capital	859	2,503	2,957	3,199	3,567
Severance pay and other funds	452	605	930	985	1,045
<b>Total Capital Employed</b>	<b>795</b>	<b>3,951</b>	<b>4,845</b>	<b>4,694</b>	<b>4,657</b>
Group Net Equity	1,533	2,838	8,131	9,889	12,059
<b>Net Fin. Position [Net debt (-) / Cash (+)]</b>	<b>738</b>	<b>-1,114</b>	<b>3,286</b>	<b>5,195</b>	<b>7,402</b>

Source: Relatech, Value Track Analysis

### Relatech: 2017A-21E Cash Flow Statement

(€'000)	2017FY	2018FY	2019E	2020E	2021E
<b>EBITDA (Reported)</b>	<b>1,366</b>	<b>2,034</b>	<b>2,394</b>	<b>3,002</b>	<b>3,586</b>
Op. WC requirements	-204	-1,857	-454	-242	-368
Capex (not incl. Fin. Inv.)	-107	-163	-100	-100	-100
Change in provisions	125	153	38	55	60
Cash Taxes	-332	-180	-494	-809	-998
<b>OpFCF a.t.</b>	<b>848</b>	<b>-12</b>	<b>1,384</b>	<b>1,906</b>	<b>2,181</b>
As % of EBITDA	62%	-1%	58%	64%	61%
Capital Injections / Others	0	58	4,059	0	0
Other (incl. Fin. Inv.)	-293	-1,638	-1,000	0	0
Net Financial Charges	-10	-10	-43	3	26
Dividend paid	-100	-250 (*)	0	0	0
<b>Change in Net Fin Position</b>	<b>445</b>	<b>-1,852</b>	<b>4,400</b>	<b>1,909</b>	<b>2,207</b>

Source: Relatech, Value Track Analysis(\*) Ex €250k div. cashed out in January 2019 but included in financial debt to sh.holders



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