PITECO

Sector: Application Software

Investing for growth

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Fair Value (€)	**4.85**
Market Price (€)	**4.27**
Market Cap. (€m)	**77.4**

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.

Running on the growth road

Ever since the successful IPO finalised a year ago, Piteco's top management has focused upon expanding its domestic business and starting some foreign ventures. Over the last few weeks, Piteco has signed its first agreement abroad i.e. a partnership with Pagaflex, Mexican company involved in the credit cards and payment systems business that from now on should start distributing Piteco's software in that country. On top of that, Piteco is evaluating target companies to be possibly acquired, in the US and in Italy and we calculate a maximum available war chest for acquisitions of €20mn-€25mn in order not to exceed a well sustainable 2.0x Net Debt / EBITDA ratio.

1H16: higher opex, lower taxes, higher cash generation

Piteco seems to be almost on track with respect to its ca. 30 annual new customers' acquisition pipeline with 21 new clients as of September.
That being said, Piteco's 1H16 results have been characterized by double-digit top-line growth, whose benefits, though, could not be translated into increased operating profitability due to much higher operating costs, most of whom associated with the business development activity and with on-going stock market listing fees. However Net Profit was up +39.0% YoY benefitting from a substantial reduction in taxes and net cash generation remained extremely healthy.

Marginal 2016E-17E estimates review

We have marginally changed our 2016E-17E estimates to take into account the increase in operating costs on one side and the reduced tax rate (steady 21% for the three years ahead) on the other one. Despite the recent business development activities implemented by Piteco's executives, we decided not to take into account these potential benefits in our estimates revision since there is not enough visibility to properly quantify them.

Fair value confirmed at €4.85 per share

Software sector multiples expansion on one side and reduced Piteco stock liquidity (and free float) on the other one do currently offset, in our view. That's why we confirm a €4.85 fair value that implies "fair" 14.5x EV/EBIT FY16 and 20.0x P/E FY16 multiples.

KEY FINANCIALS (€m)	2015A	2016E	2017E
REVENUES	13.4	15.0	16.0
EBITDA	5.7	6.2	6.9
EBIT	5.5	5.9	6.7
NET PROFIT	3.4	4.4	5.0
EQUITY	29.4	32.0	34.8
NET FIN. POS.	-0.3	2.2	5.0
EPS ADJ. (€)	0.20	0.24	0.28
DPS (€)	0.10	0.12	0.14

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

RATIOS & MULTIPLES	2015A	2016E	2017E
EBITDA MARGIN (%)	42.7	41.3	43.5
EBIT MARGIN (%)	40.8	39.5	41.7
NET DEBT / EBITDA (x)	0.06	nm	nm
NET DEBT / EQUITY (x)	0.01	nm	nm
EV/EBITDA (x)	11.3	12.1	10.4
EV/EBIT (x).	11.8	12.7	10.9
P/E ADJ. (x)	17.5	17.6	15.5
DIV YIELD (%)	2.8	2.8	3.2

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

STOCK DATA	
FAIR VALUE (€)	4.85
MARKET PRICE (€)	4.27
SHS. OUT. (m)	18.1
MARKET CAP. (€m)	77.4
FREE FLOAT (%)	ca. 10.0
AVG. -20D VOL. (#)	4,850
RIC / BBG	PITE.MI / PITE IM
52 WK RANGE	3.30-4.28

Source: Stock Market Data

Update on Piteco's growth road map

Banking on the funds raised with the IPO, Piteco's management has increased its efforts aimed at speeding up growth maintaining a balance between organic and exogenous one. Indeed, we estimate that out of the whole 2016E Revenues growth, ca. 50% will be driven by the acquisition of Centro Data's assets with the remaining 50% generated "organically".

Domestic organic growth at ca. 5% per annum

As of August 31th, 2016 Piteco's orders were up by 27% at €2mn with respect to the previous year figure while 21 new clients have been added in 2016 out of which some are definitively important new names such as: Arnoldo Mondadori Editore, Carrefour, Unieuro, Eataly.

As far as product development is concerned, Piteco is eventually engineering its "cloud" solutions offer with the aim to allow customers to choose between building their own cloud or using Piteco's server farm. More standardised (and cheaper) software version should be progressively introduced to capture mid small clients.

Commercial distribution agreement in Mexico recently signed

Piteco's growth process at global level has already started with a solid partnership in Mexico. Indeed, over the last few weeks, the company's top management has been working on a commercial distribution agreement with the Mexican operator Pagaflex, a credit cards provider that simultaneously offers integrated payment systems solutions for mid- and large-sized companies.

In particular, thanks to Piteco's in-house server farm, Pagaflex will distribute "cloud" version of Piteco's software and remote support will be provided when required, thus boosting potential synergies. Sunk development costs will be entirely charged in 2016FY (already in 1H for the most part) while from 2017 on the project will be substantially riskless as Pagaflex will just have a rebate on Revenues generated for Piteco. A pilot project with a primary Mexican company has been already launched while another one is in the pipeline.

Summing up, thanks to this partnership Piteco may reach the following upside:

- Access to a new customers' network, which perfectly fits Piteco's necessities in terms of client size and solutions requirements;
- Additional revenues to those earned in Italy, where competition on software provision and consulting has dramatically increased over the last two decades;
- Eased and direct access to executives of mid- and large-sized companies, upon whom the decision-making power relating treasury software selection relies.

M&A: Possible entrance in the US market but not forgetting to consolidate domestic leadership

With Piteco's deleveraging capability in mind we believe that a 2.0x Net Debt / EBITDA ratio would be absolutely sustainable and this would mean, in our calculations, a maximum available war chest of €20mn-€25mn to finance possible acquisitions in the USA and in Italy.

As far as the USA is concerned, entering this market has also been a core target of Piteco's management over the last few months and an advisory mandate had been signed with IDC back in 2015 to better understand the features of that market. On top of such a learning process we acknowledge that Piteco is also keen at receiving strategic industrial partnership proposals coming from unsolicited parties and that some promising candidates are currently under evaluation. Guidelines for any deal should be that Piteco aims at having the majority of the business and that there must be synergies in terms of commercial counterparties, i.e. addressing CFOs - Finance Directors directly.

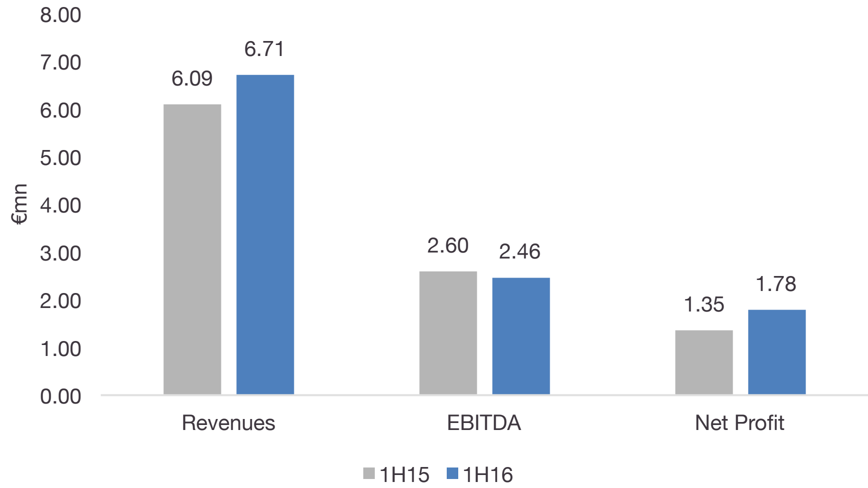
Last but not least Piteco is also evaluating possible Italian based M&A candidates among software houses active in the financial services segment currently on sale. Getting a value accretive acquisition multiple should be the threshold to trigger or not the deal.

1H16 Financial Results

Piteco's interim report at a glance

Piteco's interim results have been characterized by double-digit top-line growth, whose benefits, though, could not be translated into increased operating profitability due to much higher operating costs, most of whom associated with the business development activity and with on-going stock market listing fees. However, Piteco has reported an improved bottom-line profitability, benefitting from a substantial reduction in taxes and has maintained an extremely healthy net cash generation.

Piteco: Key Profit and Loss account figures 1H15-1H16 evolution



Source: Value Track analysis on Company figures

1H15-1H16 Profit and Loss figures: investing for 2017E growth

Despite top line dynamics being not fully captured by half year figures, Piteco reported revenues at €6.7mn for the six months ended June 30th 2016, up by 10.2% YoY and driven by a sound +17.3% YoY increase in Maintenance Fees revenues (€3.4mn in 1H16 up from €2.9mn in 1H15).

Piteco: Business Lines' contribution to 1H15-1H16 Revenues growth (€mn)

Source: Value Track analysis on Company figures

Piteco: 1H15-1H16 Profit and Loss Statement (€mn)

Profit & Loss account (€mn, IAS)	1H15	1H16	YoY % Change
Revenues	**6.09**	**6.71**	**10.2%**
Operating Costs	-3.49	-4.25	
EBITDA	**2.60**	**2.46**	**-5.2%**
EBITDA Margin	42.6%	36.7%	
D&A	-0.06	-0.12	
EBIT	**2.54**	**2.34**	**-7.9%**
EBIT Margin	41.7%	34.8%	
Net Financial Charges	-0.30	-0.18	
Extraordinary Items	-0.32	0.10	
Pre-Tax Profit	**1.91**	**2.25**	**17.5%**
Taxes	-0.56	-0.46	
Tax Rate	-29.3%	-20.6%	
Net Profit	**1.35**	**1.78**	**31.9%**
Adjusted Net Profit	**1.58**	**1.72**	**8.5%**

Source: Value Track analysis on Company figures

Group Revenues increased but, on the other hand, Piteco has experienced a more than proportional operating costs expansion (+22 % YoY), mainly regarding Labour Costs (€2.98mn) and G&A costs (€1.22mn).

While the former reflects an increased average number of employees deriving from both organic growth and Centro Data's assets acquisition, the latter is at least partially affected by costs associated with both the business development activity costs and the recurring stock market listing expenditures.

Taken together, all these costs approximately sum up to ca. €0.3mn for FY2016 and they include:

- Costs associated with the Mexican market business development program. More precisely, such costs included expenses for brochures, contracts, translations, lawyers;
- Consulting services for US market analysis and competitive positioning (e.g. IDC Research Report);
- Costs associated with the new commercial agreement signed with Pagaflex, of whom training for sales managers and renewal of the Spanish software version are the most representative ones;
- Engineering costs for new cloud solutions development;
- Recurring charges associated with the stock market costs for being listed (ca. €0.11mn / semester).

As an effect, Piteco's 1H16 EBITDA was down ca. 5% YoY, reaching €2.46mn and EBIT was down as well by 7.9% on a YoY basis, at €2.34mn (€2.54mn in 1H15).

1H16 EBITDA Margin stood at 36.7%, i.e. -560bps YoY (1H15 EBITDA Margin at 42.6%), and EBIT Margin decreased by a similar amount (down to 34.8% in 1H16 from 1H15 41.7%).

Lower income taxes (tax rate at ca. 21%) resulted in a +32% YoY increase in Piteco's Net Profit (€1.78mn as of 1H 16). Indeed, over the last semester Piteco obtained important fiscal benefits deriving from:

- Jobs Act (i.e. Labour Market Reform);
- ACE / Super ACE;
- Patent Box Incentives.

1H15-1H16: Cash Generation and Balance Sheet Evolution

By having a look at Piteco's 1H16 figures it is straightforward to confirm that its business model does not require significant Tangible & Intangible Capital nor substantial Working Capital (€-1.17mn vs. €-0.19mn in 1H 15).

Indeed, as of June 30th 2016, Piteco's Total Capital Employed stands at €27.4mn, (mainly related to goodwill derived from the past MBO-LBO), matched by €29.3mn in Equity and €1.89mn of Net Financial Position.

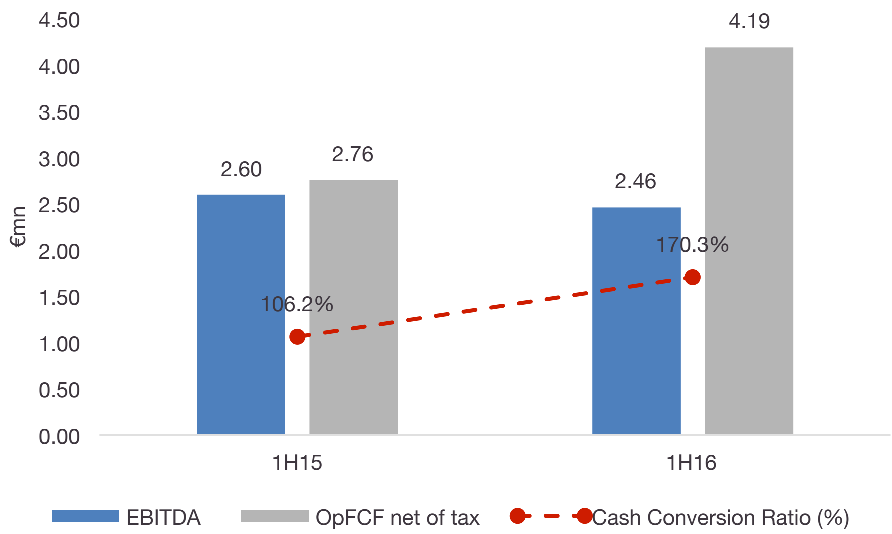
Piteco: Balance Sheet 1H15-1H16 evolution

Balance Sheet (€mn, IAS)	1H15	1H16
Net Working Capital	-0.19	-1.17
Net Fixed Assets	32.6	30.0
Long-Term non-Financial Liabilities	-1.04	-1.40
Capital Employed	**31.4**	**27.4**
Matched by		
Equity	22.7	29.3
Net Financial Position	**-8.7**	**1.9**

Source: Value Track analysis on Company figures

Overall Piteco has generated some €2.22mn Free Cash Flow in 1H16, after €1.81mn dividend payment. This is the result of an extremely brilliant Operating Free Cash Flow generation: €4.19mn (up +52.1% YoY with a 170% cash conversion ratio), mainly driven by a favourable evolution of working capital.

Piteco: EBITDA and OpFCF net of tax 1H15-1H16



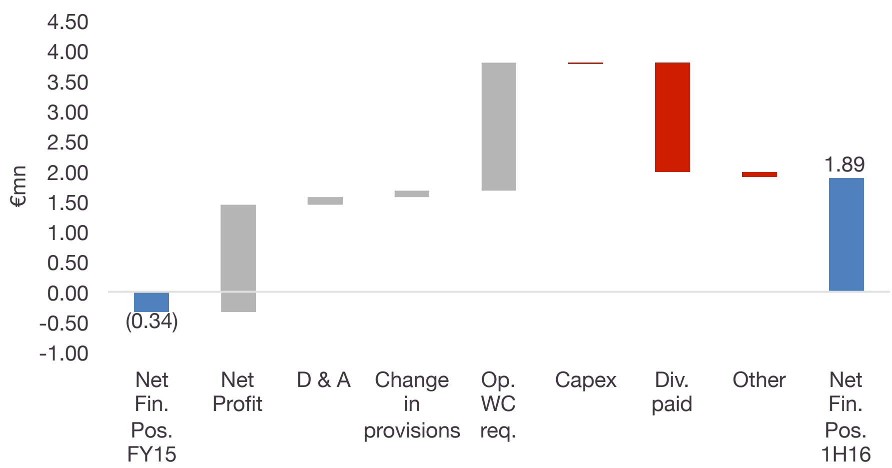
Source: Value Track analysis on Company figures

Piteco: Cash Flow Statement 1H15-1H16

Cash Flow Statement (€mn, IAS)	1H15	1H16
EBITDA	**2.60**	**2.46**
Op. WC requirements	0.94	2.12
Change in provisions	0.00	0.10
Capex (not incl. Acquisitions)	-0.03	-0.02
Cash Taxes	-0.76	-0.48
OpFCF net of tax	**2.76**	**4.19**
As a % of EBITDA	106%	170%
Other (incl. Acquisitions)	-1.15	0.03
Net Financial Charges	-0.30	-0.18
Dividend Paid	0.00	-1.81
Change in Net Debt position	**1.31**	**2.22**

Source: Value Track analysis on Company figures

Piteco: FY15-1H16 Net Financial Position Evolution



Source: Value Track analysis on Company figures

Forecasted Financials 2016E-2018E

Minor changes to our estimates

Piteco is investing for future growth. This means that 2016E figures are going to be burdened by some non-recurring costs while the positive effect on the top line should come only as of 2017E on. However, we are not including yet the benefit of such ventures as they're in a too early development stage or not finalized yet.

Therefore, please consider that all the forecasted figures of this section are:

- Not taking into account any further acquisition, neither in Italy nor in the US, even if reckon that Piteco is actively working on these external growth options;
- Not taking into account the revenue synergies deriving from the partnership with Pagaflex in Mexico.

Confirmed revenues evolution

We expect Piteco's revenues to grow significantly in the next few years, posting a **CAGR for the 2015A-2018E of ca. 8.2%**, landing at some €15.0mn in FY16E, €16.0mn in FY17E, and €17.0mn in FY2018E. We keep confirming that 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. €0.06mn revenues to Piteco in their first year of commercial relationship. By the way, in our forecasting we are assuming 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 Centro Data assets' that have been consolidated on a line-by-line basis as of July, 1st 2015.

Updated profitability evolution

EBITDA is slightly revised downwards at €6.2mn in 2016E, €6.9mn in 2017E and then remaining flat at €7.5mn in 2018E, i.e. a **ca. 9.3% 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 Centro Data 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 130bps in the 2015A-2018E period achieving a 44.0% level, with Personnel Costs still representing the main cost item (ca. €6.6mn 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 +171bps** up to ca. 42.3% 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 almost stable YoY depreciation charge related to the headquarter building and to other Fixed Assets;
- The addition of D&A related to Centro Data assets.

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**	**8.2%**
Raw Materials	-0.03	-0.03	-0.03	-0.03	0.0%
Personnel Costs	-5.43	-6.10	-6.28	-6.59	6.7%
Other Costs	-2.20	-2.67	-2.70	-2.88	9.4%
EBITDA	**5.72**	**6.20**	**6.93**	**7.46**	**9.3%**
EBITDA Margin (%)	**42.7%**	**41.3%**	**43.5%**	**44.0%**	
Depreciation & Amortization	-0.26	-0.28	-0.29	-0.29	3.7%
EBIT	**5.46**	**5.92**	**6.65**	**7.17**	**9.5%**
EBIT Margin (%)	**40.8%**	**39.5%**	**41.7%**	**42.3%**	

Source: Value Track analysis on Company figures

Below the EBIT line we reviewed our forecasts considering:

- Net financial charges substantially stable as a compound effect of the zeroed Net Financial Position and of €0.32mn "all in" interest expenses on convertible bonds;
- Tax rate down from ca. 25% to ca. 21% thanks to Patent box and other fiscal benefits.

As an effect, we raise our **Net Profit** growth estimates to ca. **+16.4% CAGR in the 2015-18E period** achieving a €4.4mn, €5.0mn and €5.4mn level in 2016E, 2017E and 2018E respectively, i.e. a ca. 31.9% Net Profit margin on Sales and a ca. **15% ROE for 2018E**.

Piteco: P&L from EBIT down to Net Profit

(IAS, €mn, Fiscal Years)	2015	2016E	2017E	2018E	15A-18E CAGR
EBIT	**5.46**	**5.92**	**6.65**	**7.17**	**9.5%**
Financial Income (Costs)	-0.58	-0.36	-0.33	-0.32	nm
Extraordinary Income (Costs)	-0.32	0.00	0.00	0.00	nm
Profit Before Taxes	**4.56**	**5.56**	**6.32**	**6.85**	**14.5%**
Taxation	-1.13	-1.17	-1.33	-1.44	nm
Tax Rate	24.8%	21.0%	21.0%	21.0%	
NET PROFIT (LOSS)	**3.43**	**4.39**	**4.99**	**5.41**	**16.4%**
Net Profit Margin (%)	***25.6%***	***29.3%***	***31.3%***	***31.9%***	

Source: Value Track analysis on Company figures

Cash Generation and Balance Sheet Evolution

In 2016E-2018E we keep expecting 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. €0.30mn-€0.35mn per annum and being related to proprietary software development capitalization.

The above mentioned drivers should allow Piteco to maintain a **cash conversion of EBITDA into Operating Free Cash Flow post taxation in the 75% region**, i.e. an average **€5.1mn 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 keep forecasting a ca. **50% pay-out ratio** going forward.

Piteco: Cash Flow Statement

(IAS, €mn)	2015	2016E	2017E	2018E
EBITDA	**5.72**	**6.20**	**6.93**	**7.46**
Op. WC requirements	-0.42	-0.14	-0.09	-0.23
Change in provisions	0.08	0.08	0.13	0.13
Capex (not incl. Acquisitions)	-0.31	-0.30	-0.30	-0.35
Cash Taxes	-1.15	-1.17	-1.33	-1.44
OpFCF net of tax	**3.92**	**4.67**	**5.34**	**5.58**
As a % of EBITDA	68.5%	75.4%	77.0%	74.8%
Other (incl. Acquisitions)	6.34	0.00	0.00	0.00
Net Financial Charges	-0.58	-0.36	-0.33	-0.32
Dividend paid	0.00	-1.81	-2.20	-2.50
Change in Net Debt position	**9.68**	**2.50**	**2.81**	**2.76**

Source: Value Track analysis on Company figures

As a result of the previously highlighted drivers, Net Financial Position is expected to be positive for ca. €2.2mn, €5.0mn and €7.7mn 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**	**1.4**
Net Fixed Assets	**30.1**	**30.1**	**30.1**	**30.2**
Severance pay and other funds	-1.3	-1.4	-1.5	-1.6
Net Capital Employed	**29.7**	**29.8**	**29.8**	**29.9**
matched by:				
Total Equity	**29.4**	**32.0**	**34.8**	**37.7**
Net Financial Position	**-0.3**	**2.2**	**5.0**	**7.7**

Source: Value Track analysis on Company figures

Final recap on our 2016E-2017E estimates revision

Piteco: New vs. Old Profit & Loss estimates

	OLD		NEW	
(IAS, €mn)	**2016E**	**2017E**	**2016E**	**2016E**
Revenues	15.0	16.0	15.0	15.9
Operating Costs	-8.5	-9.0	-8.8	-9.0
EBITDA	**6.5**	**7.0**	**6.2**	**6.9**
EBITDA Margin	43.3%	43.8%	41.3%	43.5%
D&A	-0.3	-0.3	-0.3	-0.3
EBIT	**6.2**	**6.7**	**5.9**	**6.7**
EBIT Margin	41.5%	42.0%	39.5%	41.7%
Net Fin. Charges & Extraordinary Items	-0.1	-0.1	-0.4	-0.3
Pre-Tax Profit	**6.1**	**6.6**	**5.6**	**6.3**
Taxes	-1.5	-1.7	-1.2	-1.3
Tax Rate	-25.0%	-25.0%	-21.0%	-21.0%
Net Profit	**4.6**	**5.0**	**4.4**	**5.0**
Adjusted Net Profit	**4.6**	**5.0**	**4.4**	**5.0**

Source: Value Track analysis on Company figures

Piteco: New vs. Old Cash Flow estimates

Cash Flow Statement	OLD		NEW	
(IAS, €mn)	**2016E**	**2017E**	**2016E**	**2016E**
EBITDA	**6.5**	**7.0**	**6.2**	**6.9**
Op. WC requirements	-0.1	-0.1	-0.1	-0.1
Change in provisions	-0.2	0.1	0.1	0.1
Capex (not incl. Acquisitions)	-0.4	-0.4	-0.3	-0.3
Cash Taxes	-1.5	-1.7	-1.2	-1.3
OpFCF net of tax	**4.2**	**5.0**	**4.7**	**5.4**
As a % of EBITDA	64.8%	71.4%	75.4%	77.0%
Net Financial Charges	-0.1	-0.1	-0.4	-0.3
Dividend Paid	-1.8	-2.3	-1.8	-2.2
Change in Net Financial Position	**2.3**	**2.6**	**2.5**	**2.8**
Net Financial Position year-end	**1.9**	**4.6**	**2.2**	**5.0**

Source: Value Track analysis on Company figures

Investment Case

In our view Piteco's financials would be ideal for a DCF valuation if only the company had a balanced capital structure. On the contrary, being currently net cash positive makes a DCF valuation not meaningful.

That's why in our June 7th Initiation of coverage report we applied a Peers' analysis valuation criteria underlying that:

- EV/EBIT and P/E seemed to be the most appropriate measures. In particular, we noticed that EV/EBIT was a better proxy since it allowed for software companies comparison regardless different policies in terms of R&D expenses capitalization.
- Piteco's brilliant financial profile was a sufficient condition to compensate investors for its lower liquidity compared to that of its peers. Therefore, we believed that Piteco deserved to trade in line with its closest comparables' multiples.

€4.85/s was the fair value we came up with using the average between implied €5.05/s (using a 20.0x median P/E) and €4.64/s (using a 13.2x median EV/EBIT).

Enterprise Application Software Sector – What's new on the Stock Market?

Looking at multiples implied by current market prices, we can see that they are increased if compared to June 2016.

At the same time, the discount of Piteco's multiples compared to the median of its peers has dropped over the last few months. Indeed, if we look at the P/E 2016FY ratio we may notice that Piteco's discount has moved from 24% in June to 12.0% as of now. For the EV/EBIT multiple, instead, we note that Piteco is currently trading at ca. 14.2% discount to peers, vs. ca. 17.4% of our previous research.

Enterprise Application Software Sector: Stock trading multiples

COMPANY	Listing	E.V. / EBIT (x)		P/E (x)	
		2016E	2017E	2016E	2017E
Intuit	US	22.4	17.8	30.1	24.6
SAP	DE	14.8	13.5	20.0	18.7
StatPro	GB	21.9	18.7	32.5	26.9
Reply	IT	10.9	9.7	18.4	17.0
Oracle	US	9.4	8.8	14.5	13.8
Sage	GB	21.7	18.1	24.4	22.6
TXT e-sol.	ITA	9.7	8.4	17.0	13.5
Average		**15.8**	**13.6**	**22.4**	**19.6**
Median		**14.8**	**13.5**	**20.0**	**18.7**
Piteco @ mkt price	**IT**	**12.7**	**10.9**	**17.6**	**15.5**

Source: Consensus estimates, Value Track Analysis

But, on the other hand, Piteco's market liquidity (and that of the AIM market in general) has decreased, achieving a 20-day average of 4,850 traded shares per day (out of whom ca. one-fifth of trading days with no trades at all), down from a 20-day average of 5,375 (as of June 7th).

Moreover, Piteco's Free Float has dropped as well, reaching ca. 10.0%.

Thus, still maintaining our confidence on Piteco's upside potential, **we confirm our fair value at €4.85/s, which implies "fair" 14.5x FY16 EV/EBIT and a 20.0x FY16 P/E multiples**.

Appendix: Piteco's leverage capability

Growing by acquisition is one of the announced development strategy of Piteco. The question is how much aggressive can the company behave in its acquisition process without deteriorating its financial profile.

Debt deleveraging capability already proven in the past

Piteco group is the result of two Management LBOs in 2008 and 2012 followed by a reverse merger in 2013FY. As an effect of the LBOs, the company achieved a peak Net Financial Debt at ca. €13.3 as of 2012 year-end i.e. a ca. 3.1x Net Debt / EBITDA ratio.

One year later, at the end of 2013, the situation was:

- Net Financial Debt at €11.3m (i.e. ca. 2.6x Net Debt / EBITDA) with a €2.0m YoY reduction;
- Interest Rate Coverage (i.e. EBIT / Net Financial Charges) calculated at 3.1x;

thus proving one of Piteco's key financial features, i.e. the high cash generating potential / fast deleveraging capability.

Piteco: Leverage and Coverage Ratios 2012-13

	2012FY	2013FY
Net Debt / EBITDA	3.1	2.6
Net Debt / Net Equity	n.a.	59%
Net Debt / Net Capital Employed	n.a.	37%
EBIT / Net Fin. Charges	n.a.	3.1

Source: Value Track analysis on Company figures

We estimate that without the July 2015 IPO the company would have achieved a break-even at the Net Financial Position level at the end of 2018 i.e. it would have totally reimbursed its debt obligations in ca. six years.

M&A scenario analysis

With Piteco's history of deleveraging in mind we believe that a 2.0x Net Debt / EBITDA ratio would be absolutely sustainable.

In order to determine the maximum possible cash out to be devoted to M&A without exceeding the 2.0x Net Debt /EBITDA threshold, we are taking some assumptions:

- M&A deals to be entirely financed with cash i.e. with no "paper" component;
- No revenues / costs synergies between Piteco and the acquired assets;
- No integration costs;
- 4.0% all-in interest rate on debt financing;
- Ca. 25% Tax Rate.

That said, we calculate that Piteco being able to pay no more than 5x EV/EBITDA for its acquisitions would imply a maximum available cash out of €25mn leading to a post acquisition company with pro-form 2016E €11.2mn EBITDA and €22.8mn Net Debt.

Should Piteco pay a higher 7x EV/EBITDA multiple for its acquisitions would imply a maximum available cash out of €20mn leading to a post acquisition company with pro-form 2016E €9.1mn EBITDA and €17.8mn Net Debt.

Piteco: Net Debt / EBITDA sensitivity to M&A cash out and to acquisition multiples

		Acquisition EV / EBITDA (x)				
		5	**6**	**7**	**8**	**9**
M&A cash out (€mn)	**10**	1.0	1.0	1.0	1.1	1.1
	15	1.4	1.5	1.5	1.6	1.6
	20	1.7	1.9	2.0	2.1	2.1
	25	2.0	2.2	2.3	2.4	2.5
	30	2.3	2.5	2.7	2.8	2.9
	35	2.5	2.7	2.9	3.1	3.3

Source: Consensus estimates, Value Track Analysis

In both cases we calculate the "new" Piteco's being able to revert back to cash neutrality in ca. six years.

Piteco: Years needed to reimburse debt depending on M&A cash out and acquisition multiples

		Acquisition EV / EBITDA (x)				
		5	**6**	**7**	**8**	**9**
M&A cash out (€mn)	**10**	2.8	2.9	3.0	3.1	3.2
	15	4.2	4.4	4.6	4.8	5.0
	20	5.3	5.7	6.0	6.3	6.6
	25	6.2	6.8	7.2	7.6	8.0
	30	7.0	7.7	8.3	8.8	9.3
	35	7.7	8.5	9.3	9.9	10.5

Source: Consensus estimates, Value Track Analysis

Last but not least, based on current €4.27 market price we hint that in the two scenarios here analysed the effect on Piteco's EV/EBITDA multiple would be counter dilutive. Indeed, from the current 12.1x 2016E EV/EBITDA multiple the "new" company would trade in the 8.9x or 10.4x EV / EBITDA region.

Piteco: EV / EBITDA sensitivity depending on M&A cash out and acquisition multiples

		Acquisition EV / EBITDA (x)				
		5	**6**	**7**	**8**	**9**
M&A cash out (€mn)	**10**	10.3	10.7	11.1	11.3	11.6
	15	9.7	10.3	10.7	11.1	11.4
	20	9.3	9.9	10.4	10.9	11.2
	25	8.9	9.6	10.2	10.7	11.1
	30	8.6	9.3	10.0	10.5	11.0
	35	8.3	9.1	9.8	10.4	10.9

Source: Consensus estimates, Value Track Analysis

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