

Italy – Digital Media

Rock-solid 2M-16 portfolio lends weight to 2016

31th March 2016

FY-15 RESULTS RELEASE

RIC: AXEL.MI
BBG: AXEL IM

A solid set of results, characterized by a significant top line growth, slightly weaker than CFO estimates at profitability level mainly due to higher personnel, services, writedowns and D&A. First 2M-16 concrete € 9.1m portfolio order, increases visibility on FY-16

Rating:

Buy

Price Target:

€ 6.20 (€ 6.25)

Upside/(Downside): 31.9%

Last Price: € 4.70

Market Cap.: € 63.9

1Y High/Low: € 5.67/€ 3.88

Free Float: 33.7%

Major shareholders:

Supernovae1	61.9%
Stefano Maria Cereseto	2.2%
Leonardo Cucchiarini	2.2%



Stock price performance

	1M	3M	1Y
Absolute	(6.0)	(3.5)	(16.1)
Rel.to Milan AIM	(6.7)	4.8	4.5
Rel.to EU Sector	(8.4)	(1.0)	(8.2)

Analyst:

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BUY confirmed, PT of €6.20 (€ 6.25), upside 31.9%

Following the publication of FY-15 results, we have fine-tuned our model, leaving basically unchanged our estimates and introducing 2018 projections. The result is a trimming of some 2% in net profit in 2016-17. We confirm our BUY recommendation, with a Target Price of € 6.20/s (€ 6.25/s), potential upside of 31.9%, determined with EV/EBITDA PER 2017e multiple comparison. We believe it is the most appropriate valuation approach, since it takes into consideration the company's massive growth of P&L metrics. In our opinion, additional key triggers to the equity story are: 1) move to the MTA, main market of the Italian Stock Exchange, and 2) speculative appeal, since the company once it has reached an adequate size, could represent an ideal target for a foreign player or for the domestic market leader.

Top line doubled, EBITDA +4.4%

Value of production totaled € 20.0m, more than doubled vs. € 9.9m in FY-14 thanks to the launch of new products and services in H2-15 and the significant enlargement of the agent network from 34 to 334. EBITDA reached € 5.2m, up 4.4% YoY, margin of 26.0% vs. 50.5% in FY-2014. In 2015 and to a lesser extent 2016, the significant increase in personnel costs due to the investments in human resources will be visible, in particular the enlargement of the management structure and the team for product and marketing developments.

EBIT at € 1.7m, net profit at € 1.2m vs. €1.9m and NFT positive for € 7.4m

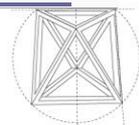
The increase in writedowns, linked to the remarkable progression in top line, and in D&A mainly stemming from additional € 0.3m of D&A related to IPO costs, prompted a decline of 48.6% of EBIT to € 1.7m, margin of 8.4% vs. 33.1% in 2015. Net profit reached € 1.2m, vs. € 1.9m in 2014. Net Cash was € 7.4m, vs. € 17.7m at Dec-14, and reflects capex and WC cash absorption. axélero adopts a 24-48 month financing plan for customers; however, agent fees and other commercial and industrial costs are paid upfront within 6 months, thus generating a financial misalignment. Solid portfolio orders at € 9.1m in the first two months of 2016 lend weight to FY-16 top line growth expectations.

Poised to consolidate as market-maker in the coming 3-5 years

The market is definitely growing and it is highly fragmented: the largest player SeatPG holds a 20% stake of the pie – including the printing business - axélero is the second player with some 1% and the remainder is represented by a plethora of some 4k small local web agencies, with no economies of scale, operating reach or large and effective sales force. In view of these factors, axélero has invested in resources, technology and the development of new solutions, which in the coming 3-5 years will enable to consolidate as market-maker through the gaining of further significant market share.

axélero, key financials and ratios

€ m	2014	2015	2016e	2017e	2018e
Sales	9.86	20.00	45.94	69.76	93.00
EBITDA	4.98	5.20	15.08	24.55	35.51
EBIT	3.27	1.68	8.65	14.07	22.87
Net profit	1.91	1.23	5.44	8.55	13.90
Net profit adjusted	1.86	1.25	5.44	8.55	13.90
EPS adjusted	0.14	0.09	0.40	0.63	1.02
EPS adj. growth	32.4%	-32.5%	334.4%	57.0%	62.6%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
Dividend yield	-	-	-	-	-
NFP (cash)/debt	(17.73)	(7.41)	9.61	26.52	26.60
Free Cash Flow Yield	-2.0%	-16.2%	-27.2%	-26.8%	-0.4%
PER x	34.4	51.0	11.7	7.5	4.6
PCF x	65.8	(7.7)	(4.8)	(4.9)	17.2
EV/Sales x	4.7	2.8	1.6	1.3	1.0
EV/EBITDA x	9.3	10.9	4.9	3.7	2.5
EV/EBIT x	14.1	33.6	8.5	6.4	4.0



1. FY-15 results: solid growth, slightly weaker margins

axélero reported FY-15 numbers, preliminary results announced 22-Feb: a solid set of results, characterized by a significant growth of top line, slightly weaker than CFO estimates at profitability level due to higher personnel, services, D&A and writedowns.

Table 1 – axélero, FY-15 results summary

€ m	FY-15	FY-14	% YoY	FY-15e	% Diff.
Value of production	20.00	9.86	102.8	20.04	(0.2)
Services	(10.27)	(3.63)	182.8	(9.72)	5.7
Personnel expenses	(3.26)	(0.69)	370.6	(2.58)	26.2
Other operating (expenses)/income	(1.28)	(0.56)	127.4	(2.02)	(36.7)
EBITDA	5.20	4.98	4.4	5.72	(9.1)
% margin	26.0	50.5		28.5	
Writedowns	(2.62)	(1.31)	99.5	(2.31)	13.6
D&A	(0.90)	(0.40)	127.6	(0.83)	9.2
EBIT	1.68	3.27	(48.6)	2.59	(35.2)
% margin	8.4	33.1		12.9	
Financial (charges)/income	(0.15)	(0.03)	421.9	(0.06)	137.4
Other costs & extraordinary	0.02	(0.07)	(131.7)	0.00	n.m.
Pre-Tax profit	1.55	3.17	(51.1)	2.53	(38.7)
Income taxes	(0.32)	(1.26)	(75.0)	(0.73)	(57.0)
Tax rate	20.3%	39.7%	(48.8)	29.0%	(30.0)
Net Profit	1.23	1.91	(35.4)	1.79	(31.1)
% margin	6.2	19.4		8.9	

Source: Company data, CFO Sim

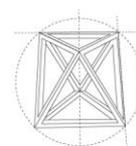
Value of production totaled € 20.0m, more than doubled vs. € 9.9m in FY-14 thanks to the launch of new products and services in H2-15 and the significant enlargement of the agents network from 34 to 334.

EBITDA reached € 5.2m, up 4.4% YoY, margin of 26.0% vs. 50.5% in FY-2014. In 2015 and to a lesser extent 2016, will be visible the significant increase in personnel costs due to the investments in human resources, in particular the enlargement of the management structure and the team for product and marketing developments. The company already significantly invested in a **talented top & middle management** aiming at supporting new product development, technology innovation, marketing and customer service. Excluding € 0.7m non-recurring costs (advertising, personnel search and legal expenses) EBITDA adjusted was € 5.9m, margin of 29.6%. EBITDA came slightly lower than CFO projection mainly due to higher services and personnel costs.

The YoY increase in writedowns (conservative, bad debts and risks) **from € 1.3m to € 2.6m, is linked to the remarkable progression in top line**. Despite the spraying of receivables, since clients are mostly SMEs, axélero allocated accruals for bad debts **an amount corresponding to 14.8%** of receivables in 2015. This, as well D&A rise mainly stemming from additional € 0.3m of D&A related to IPO costs, prompted to a **decline of 48.6% of EBIT to € 1.7m**, margin of 8.4% vs. 33.1% in 2015.

Net profit reached € 1.2m, vs. € 1.9m in 2014. **Net Cash was € 7.4m**, vs. € 17.7m at Dec-14, and reflects capex and WC cash absorption. **axélero adopts a 24-48 months financing plan for customers**; however, agents fees and other commercial and industrial costs are paid upfront within 6 months, thus generating a financial misalignment.

Portfolio orders reached € 9.1m in the first two months of 2016, a level comparable to the entire FY-14 turnover. This achievement lends weight to FY-16 top line growth expectations.



2. Estimates, valuation and risks

Following the publication of FY-15 results, we have fine-tuned our model, leaving basically unchanged our estimates and introducing 2018 projections. The result is a **trimming of some 2% in net profit in 2016-17**.

We confirm our positive stance on axélero, with a **BUY recommendation and a Target Price of € 6.20/s (€ 6.25/s), potential upside of 31.9%**, determined with EV/EBITDA & PER 2017e multiple comparison. We believe it is the most appropriate valuation approach, since it takes into consideration company's massive growth of P&L metrics. DCF is not the ideal methodology in this case, since the company, in this preliminary strong expansion phase of the business, is not generating free cash flow. In our opinion, additional key triggers to the equity story are:

- **Move to the MTA, main market of the Italian Stock Exchange**, CFO expects in the short term and depending on market conditions, to the benefits of an **enlarged free float, liquidity and visibility**;
- **Speculative appeal**, since the company once it has reached an adequate size, could represent **an ideal target** for a foreign player or for the domestic market leader.

2.1. Market multiples

We have included 5 peers in the sample, operating in the digital advertising, publishing and web sector. Our sample comprises: **Triboo Media**, Italian listed on the Milan AIM, comparable in terms of size and to a certain extent, of reference sector; **SoLocal**, French leader in on line directories; **Reach Local**, US, offers online marketing tools and solutions, dedicated to small/mid companies; **IAC Interactive**, US, internet and media, search and applications.

axélero offers 1) almost **the higher EBITDA margin** (32.8% vs. 17.1% the peers median) and 2) the **most relevant growth profile** (Sales, EBITDA, EBIT and EPS CAGR of 92%, 70.4%, 63.8% and 66.4% respectively, a multiple compared to peers median).

Table 2 - axélero, peers group summary table

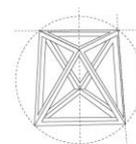
Local currency, m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₁₄₋₁₇	EBITDA CAGR ₁₄₋₁₇	EBIT CAGR ₁₄₋₁₇	EPS CAGR ₁₄₋₁₇	NFP	NFP/EBITDA
IAC Interactive	USA	3,853	3,250	485	14.9	5.7	17.1	40.8	11.9	(1.7)	(841)
Reach Local	USA	57	384	(32)	(8.4)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SoLocal Group	FR	176	893	261	29.3	(4.3)	(3.3)	(1.1)	(9.6)	4.2	1,091
Triboo Media	ITALY	40	31	6	19.4	8.2	11.3	17.9	17.6	(2.3)	(14)
Median					17.1	5.7	11.3	17.9	11.9	(1.7)	
axélero	ITALY	64	46	15	32.8	92.0	70.2	62.7	64.8	0.6	10

Source: Bloomberg, CFO Sim

Table 3 - axélero, peers group multiples table

Price & EV multiples x	PER FY1	PER FY2	PER FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
IAC Interactive	13.3	13.6	10.6	6.2	6.0	4.7	10.6	7.2	5.6
Reach Local	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SoLocal Group	2.3	2.7	2.8	4.8	4.8	4.7	6.5	6.2	6.0
Triboo Media	13.1	11.0	9.5	4.3	3.4	2.7	5.8	4.4	3.3
Median	13.1	11.0	9.5	4.8	4.8	4.7	6.5	6.2	5.6
Axélero	11.7	7.5	4.6	4.9	3.7	2.5	8.5	6.4	4.0
% premium/(discount)	-10.1%	-31.8%	-51.3%	0.6%	-23.0%	-45.2%	29.9%	4.4%	-29.2%

Source: Bloomberg, CFO Sim



We believe 2017 multiples best capture the strong growth profile of the company. Applying to axélero metrics 2017e peers median PER and EV/EBITDA multiples, we obtain an average **equity value for axélero to the tune of € 84.3m, € 6.20/s (€ 6.25), upside of 31.9%** at current price.

10.3. Stock performance

axélero was listed on the **Milan AIM** (Alternative Investment Market) **on 11-Dec-14** at € 5.5/share, raising € 24.8m, corresponding to a market capitalization post money of € 74.8m. The stock now trades **below the IPO price**, and reached the maximum of € 5.67/s on 20-Feb-15 and the minimum of € 3.88 on 11-Feb-16. axélero outperformed consistently peers (underperformed in the last month) as well as reference indexes.

Table 4 - axélero, peers group absolute performance

	1D	1W	1M	3M	6M	1Y	YTD
IAC Interactive	1.3	1.8	4.6	(23.4)	(28.8)	(30.7)	(23.4)
Reach Local	6.5	3.7	0.5	14.6	(7.1)	(31.7)	14.6
SoLocal Group	1.2	(4.9)	22.0	(33.5)	(33.5)	(74.7)	(33.5)
Triboo Media	4.6	5.4	9.5	(3.2)	(26.3)	(38.0)	(3.2)
Median	2.9	2.8	7.1	(13.3)	(27.5)	(34.8)	(13.3)
axélero	4.4	2.2	(6.0)	(3.5)	(0.3)	(16.1)	(3.5)
axélero relative to peers	1.5	(0.6)	(13.0)	9.8	27.2	18.8	9.8

Source: Bloomberg

Table 5 - axélero, reference sector index and Italian Market performances

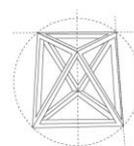
	1D	1W	1M	3M	6M	1Y	YTD
FTSE AIM All Share	0.6	0.1	0.7	(8.3)	(11.6)	(20.5)	(8.3)
Stoxx Europe 600 Media	0.9	0.9	2.5	(2.5)	0.5	(7.9)	(2.5)
axélero	4.4	2.2	(6.0)	(3.5)	(0.3)	(16.1)	(3.5)

Source: Bloomberg

10.3. Risks

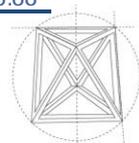
The principal investment **risks** in axélero may include:

- impacts on economics and balance sheet profile triggered by a **deep decline in local and global economic growth**,
- **Competition** from small dynamic startups in particular on vertical portal
- **Competition from the incumbent** once integrated with IOL and restructured





Income statement (€ m)	2014	2015	2016e	2017e	2018e
Value of production	9.86	20.00	45.94	69.76	93.00
Material expenses	(0.02)	(0.06)	(0.13)	(0.20)	(0.27)
Services	(3.63)	(10.27)	(19.78)	(30.08)	(38.25)
Personnel expenses	(0.69)	(3.26)	(6.23)	(7.30)	(8.23)
Other operating (expenses)/income	(0.55)	(1.22)	(4.71)	(7.64)	(10.74)
EBITDA	4.98	5.20	15.08	24.55	35.51
Writedowns	(1.31)	(2.62)	(5.24)	(8.70)	(10.60)
D&A	(0.40)	(0.90)	(1.20)	(1.79)	(2.04)
EBIT	3.27	1.68	8.65	14.07	22.87
Financial (charges)/income	(0.03)	(0.15)	(0.28)	(0.73)	(0.98)
Other costs & extraordinaries	(0.07)	0.02	0.00	0.00	0.00
Pre-Tax profit	3.17	1.55	8.37	13.34	21.90
Income taxes	(1.26)	(0.32)	(2.92)	(4.79)	(8.00)
Minorities	0.00	0.00	0.00	0.00	0.00
Net Profit	1.91	1.23	5.44	8.55	13.90
Net Profit Adjusted	1.86	1.25	5.44	8.55	13.90
Balance sheet (€ m)	2014	2015	2016e	2017e	2018e
Net Working Capital	4.34	11.93	36.47	61.32	74.45
Net Fixed Assets	3.11	4.11	6.92	9.09	11.05
Equity Investments	0.00	0.05	0.04	0.08	0.08
Other M/L Term A/L	(1.45)	1.37	(3.47)	(5.07)	(6.18)
Net Invested Capital	6.00	17.45	39.96	65.42	79.40
Net Financial Debt	(17.73)	(7.46)	9.61	26.52	26.60
Minorities	0.00	0.00	0.00	0.00	0.00
Group's Shareholders Equity	23.73	24.91	30.35	38.90	52.80
Financial Liabilities & Equity	6.00	17.45	39.96	65.42	79.40
Cash Flow statement (€ m)	2014	2015	2016e	2017e	2018e
Total net income	1.91	1.23	5.44	8.55	13.90
Depreciation	0.40	0.90	1.20	1.79	2.04
Other non-cash charges	0.82	(2.85)	4.51	1.40	0.91
Cash Flow from Oper. (CFO)	3.13	(0.72)	11.15	11.73	16.85
Change in NWC	(2.15)	(7.59)	(24.54)	(24.85)	(13.13)
FCF from Operations (FCFO)	0.97	(8.31)	(13.39)	(13.12)	3.72
Net Investments (CFI)	(2.26)	(2.05)	(4.00)	(4.00)	(4.00)
Free CF to the Firm (FCFF)	(1.29)	(10.35)	(17.39)	(17.12)	(0.28)
CF from financials (CFF)	19.70	1.40	8.80	16.70	9.23
Free Cash Flow to Equity (FCFE)	18.41	(8.95)	(8.59)	(0.41)	8.95
Financial ratios	2014	2015	2016e	2017e	2018e
EBITDA margin	50.5%	26.0%	32.8%	35.2%	38.2%
EBIT margin	33.1%	8.4%	18.8%	20.2%	24.6%
Net profit margin	19.4%	6.2%	11.9%	12.3%	14.9%
Tax rate	39.7%	20.3%	34.9%	35.9%	36.5%
Interest coverage x	0.01	0.09	0.03	0.05	0.04
Net Debt/Ebitda x	(3.56)	(1.43)	0.64	1.08	0.75
Debt-to-Equity x	(0.75)	(0.30)	0.32	0.68	0.50
ROIC	42.0%	10.5%	19.0%	16.2%	19.2%
ROCE	13.2%	6.0%	20.2%	20.4%	24.7%
ROACE	23.3%	6.4%	24.5%	25.2%	28.3%
ROE	14.4%	5.1%	19.7%	24.7%	30.3%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2014	2015	2016e	2017e	2018e
Final N. of shares # m	13.6	13.6	13.6	13.6	13.6
Final N. of shares (fully diluted) # m	13.6	13.6	13.6	13.6	13.6
Average N. of shares (fd)# m	13.6	13.6	13.6	13.6	13.6
EPS stated €	0.14	0.09	0.40	0.63	1.02
EPS adjusted €	0.14	0.09	0.40	0.63	1.02
EBITDA €	0.37	0.38	1.11	1.80	2.61
EBIT €	0.24	0.12	0.64	1.03	1.68
FCFO €	0.07	(0.61)	(0.98)	(0.96)	0.27
FCFF €	(0.09)	(0.76)	(1.28)	(1.26)	(0.02)
FCFE €	1.35	(0.66)	(0.63)	(0.03)	0.66
Dividend €	0.00	0.00	0.00	0.00	0.00



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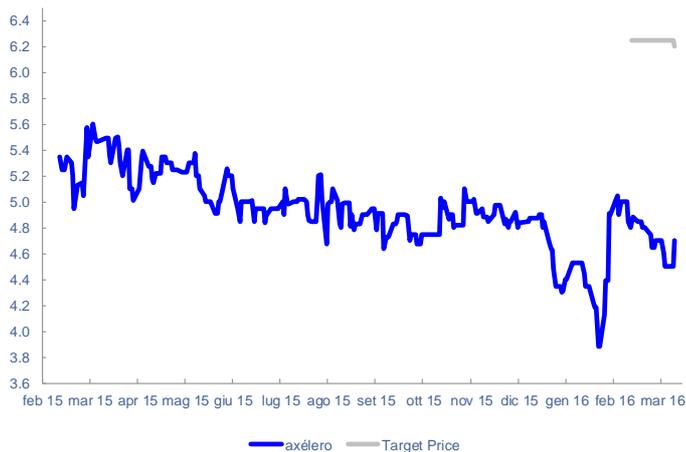
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DATE	TARGET PRICE	RATING
31/03/16	€ 6.20	BUY
10/03/16	€ 6.25	BUY

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/-15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

