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Reti | *Italy* | *FTSE AIM Italia* | *IT*

Rating: BUY | Target Price: € 1,95 | Initiation of Coverage | Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	N/A	N/A	N/A	N/A
to FTSE AIM Italia	N/A	N/A	N/A	N/A
to FTSE STAR Italia	N/A	N/A	N/A	N/A
to FTSE All-Share	N/A	N/A	N/A	N/A
to EUROSTOXX	N/A	N/A	N/A	N/A
to MSCI World Index	N/A	N/A	N/A	N/A

Stock Data	
Price	€ 0,88
Target price	€ 1,95
Upside/(Downside) potential	121,6%
Bloomberg Code	RETI IM Equity
Market Cap (€m)	€ 11,33
EV (€m)	€ 14,54
Free Float	22,32%
Share Outstanding	12.874.000
52-week high	N/A
52-week low	N/A
Average daily volumes (3m)	N/A

Key Financials (*€m*)	FY19A	FY20E	FY21E	FY22E
Revenues	21,0	22,4	24,7	27,2
VoP	21,2	22,6	24,9	27,5
EBITDA	2,2	2,4	2,9	3,4
EBIT	1,2	1,2	1,6	2,2
Net Profit	0,6	0,6	1,1	1,5
EBITDA margin	10,3%	10,4%	11,4%	12,4%
EBIT margin	5,5%	5,1%	6,4%	8,0%
Net Profit margin	2,7%	2,9%	4,2%	5,5%

Main Ratios	FY19A	FY20E	FY21E	FY22E
EV/EBITDA (x)	6,7	6,2	5,1	4,3
EV/EBIT (x)	12,4	12,6	9,1	6,6
P/E (x)	19,8	17,4	10,8	7,6

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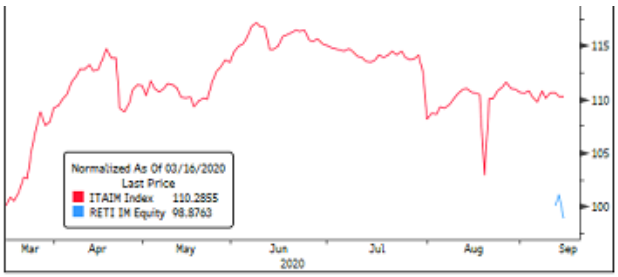
Stocks performance relative to FTSE AIM Italia



Company Overview

Reti, founded in 1994 from the idea of Bruno Paneghini, one of the main Italian players in the IT Consulting sector, is a company specialized in System Integration services that supports Medium & Large Corporates in digital transformation with the aim to compete in increasingly global scenarios. Reti operates through 3 Business Lines: IT Solutions, Business Consulting e Managed Service Provider. Regarding the business, the technological Campus represents for Reti an asset of fundamental strategic importance. In fact, the Campus is a real Innovation Centre where all the developed projects are born.

Market

Between 2018 and 2019, expenses in the digital sector grew by 2.1%, from € 70,473 Mln to € 71,932 Mln. This growth was supported by the increases in expenses incurred in the segments: digital content and marketing (8.4 % growth), ICT services (5.8 % growth), ICT software and solutions (7.8 % growth) and devices and systems (growth of 1.7 %). These increases more than offset the decrease in expenses observed in the TLC network services segment (equal to -4.8 %).

The expenses for business consulting services in Italy in 2019 increased compared to those of last year, passing from € 2.0 billion to € 2.2 billion.

Valuation Update

The Equity Value resulting from the DCF method is equal to € 27.4 Mln, while the Equity Value resulting from the multiples method is equal to € 22.8 Mln. The average equity value is equal to € 25.1 million. The target price is, therefore, € 1.95, rating BUY, risk MEDIUM.

In addition to this, the Equity Value of the real estate complex was estimated at €3.22 mln, while the ESG impact was estimated at €8.78 mln.

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1. Company Overview

1.1 Activity

Reti, founded in 1994 from the idea of Bruno Paneghini, one of the main Italian players in the IT Consulting sector, is a company specialized in System Integration services that supports Medium & Large Corporates in digital transformation with the aim to compete in increasingly global scenarios.

Reti operates through 3 Business Lines:

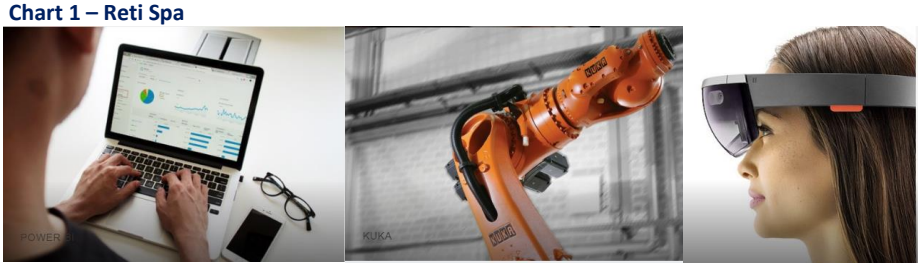
- IT Solutions: the Company creates application solutions for the management of business processes, the sharing of information and the facilitation of collaborative processes, combining business knowledge with the development of technological solutions. Furthermore, it is able to develop IT-platforms and infrastructures tailored to the needs of innovation, networking and digitization of its customers. The Business Line generated revenues equal to € 12.3 Mln in 2019 (58.7% of the total);

- Business Consulting: the Company helps its customers to implement business strategies through a team of specialists in Project, Program & Portfolio Management and Business Analysis. The consulting activity takes place through the understanding of the problems and opportunities within the customer's business context, recommending solutions that allow the organization to achieve its strategic objectives. The Business Line generated revenues of € 3.5 Mln in 2019 (16.8% of the total);

- Managed Service Provider: the Company offers to its customers infrastructures and applications management and assistance service. The service is provided through a constant and proactive monitoring of the customer's information systems, aimed at preventing any problems to occur. The activity is carried out through the expertise of professionals specialized in: IT-Consulting, Network & Infrastructure, Application Development and Management, Security Operations Center, Proactive Monitoring, Cloud Operation. The Business Line generated revenues of € 3.4 Mln in 2019 (16.3% of the total).

Among these 3 Business Lines, there is a high possibility of cross-selling, capable of increasing the ability to generate revenues and improve customer loyalty. In addition to these business lines, the Company generates ancillary activities revenues, equal to € 1.7 Mln (8.2 % of the total in 2019), through the resale of hardware and software produced by third parties and maintenance services, which the customer buys to access the support from the manufacturer or to install new versions of the product.

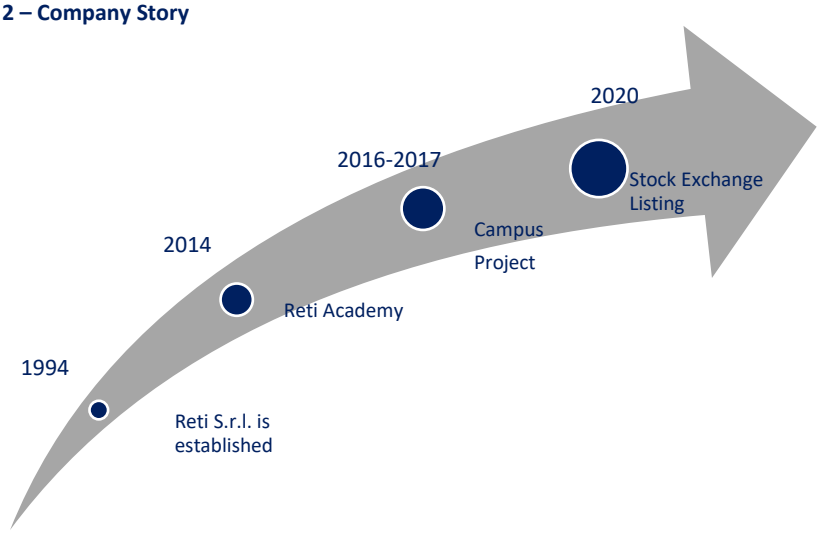
Chart 1 – Reti Spa



Source: Reti

1.2 Company Story

Chart 2 – Company Story



Source: Reti

- In 1994, from an idea by Bruno Paneghini, current President and CEO of the Company, Reti Srl was established in Busto Arsizio (Varese Province).

- In 2014, the Reti Academy project was launched for the training of Company professionals, through a structured teaching program that alternates theoretical lessons with laboratory sessions, to maximize learning processes and the development of skills in the technical and managerial field. Furthermore, in 2014, the merger by incorporation of the company Comunicazione e Sicurezza S.r.l., which operated in IT-Consulting sector, takes place.

- Between 2016 and 2017, the Company continues to improve its competitive position. In fact, the Campus project is launched which, thanks to the development of technological laboratories, guarantees Reti a competitive time-to-market and a constantly cutting-edge advantage. In addition, the same year, the merger by incorporation of the company Strumenti e Finanza S.r.l., which operated in IT-Consulting sector, takes place. Then, in 2017, the Company embarks on the ELITE path of Borsa Italiana (Italian Stock Exchange).

- On 10/09/2020 the Company was listed on the AIM Italia market, in order to find resources aimed at accelerating its growth process. In addition, in the first months of 2020, the Company has finalized the request of the AgriTech (IoT) patent, an integrated system that automates and remotely controls, continuously (24/7), the cultivation of potted trees in partially-closed environments and has started the process aimed at obtaining the certification of B-Corp, issued by the international non-profit body B Lab, to companies for their achievements in the field of environmental and social performance. for the current year Reti plans to list on the AIM Italia market in order to find resources aimed at accelerating its growth process.

1.3 Group structure

Chart 3 – Group

Shareholders	Share
Paneghini Holding	77.68%
Market	22,32%

Source: Reti

To date, the Company is controlled for the 77.68% by Paneghini Holding S.r.l. (90% owned by Bruno Paneghini and 10% by Ilaria Carnio, Bruno Paneghini's wife) and for the remaining 22.32% by the market. Bruno Paneghini holds the roles of President and CEO of the Company. The above values have been calculated assuming the full exercise of the greenshoe.

1.4 Key People

Bruno Paneghini - President and CEO

He began his career in Olivetti, in Ivrea. With this experience, he had the opportunity to deal with a development model capable of combining: the industrial spirit, a strong vocation for innovation and an authentic and concrete attention to the development of the territory and its communities.
After the experience in Olivetti, Bruno Paneghini wanted and knew how to transfer the model described above to Busto Arsizio, the city where he was born and to which, since 1994, he has been linked by the 25-year business project of Reti SpA.

Federica Camagna – Director of Administration, Finance and Control

Graduated in Market and Corporate Finance, immediately after obtaining a master's degree for CFO at the Carlo Cattaneo University of Castellanza, she began her professional career as an auditor at KPMG S.p.A. During the first few years she carried out auditing assignments according to Italian and international civil law, group reporting assignments and quarterly checks on the regular keeping of accounts. In 2013 she joined Reti S.p.A. as Head of planning and management control department since 2017 she has held the role of Director of Finance and Control Administration.

Lorenzo Beliusse – Marketing Director

After graduating in Information Technology at the University of Milan, in the 2000s he began a path that led him to use, in the world of consultancy, Management techniques within numerous large digital transformation projects. Focused on the development of strategies and communication themes, and after finishing various training courses, he implemented communication and strategic marketing projects. He holds the role of Marketing Director since 2017.

Michele Lucioni – Technical & Sales Director

Graduated in Electronic Engineering, he holds an Executive MBA at the MIP. For over 15 years he has been dealing with consultancy for enterprise companies in various market sectors: banking, insurance, energy. Within Reti he holds the role of technical director with a focus on digital transformation processes. His goal is to support companies in the process of changing and making business models more efficient, through the use of technology. The areas of specialization and the projects in which he is engaged range from business intelligence to artificial intelligence, as well as IoT issues.

Andrea Bombelli – Commercial Director

Graduated in Economics and Business Management with specialization in the tertiary and commercial services at the Catholic University of Milan, he began his experience in Reti in 2007 in the Commercial area, following the drafting of all contractual agreements. In 2013, he took on a coordinating role in the same area, becoming the contact point between the productive and administrative parts of the company. In 2015 he concluded the Managerial Development Program at SDA Bocconi School of Management in Milan. From 2017 he has held the role of Commercial Director.

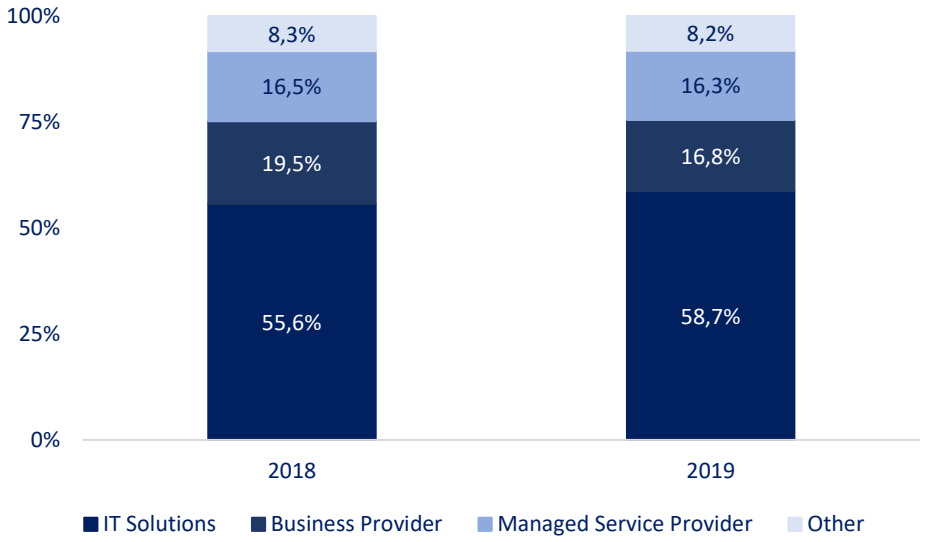
Carlo Toja – HR Director

Graduated in Electronic Engineering at the Politecnico di Milano, he began his career in the IT field in 1997 within the Eni Group. He later worked for EDS before joining Reti in 1999, initially as specialist and Project Management staff member, then, since 2006, as Director of the Infrastructure where he pursues growth objectives through technological innovation. In 2018 he obtained an MBA at the Politecnico di Milano and shifts his focus on human resource management, and in January 2020 he got the assignment of HR Director.

2. The Business Model

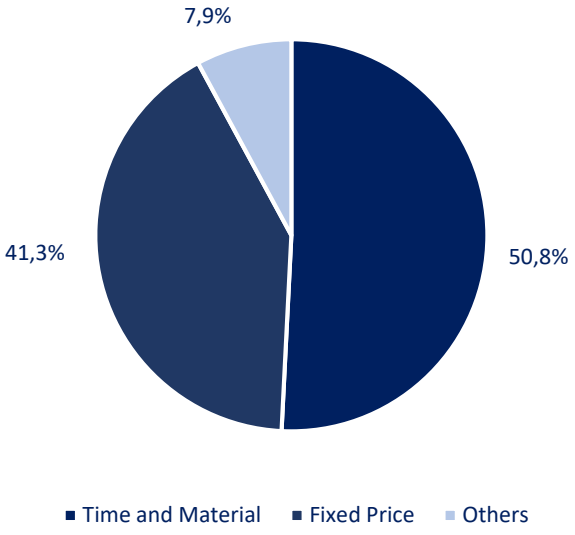
Reti operations are divided into three different Business Lines: IT Solutions, Business Consulting and Managed Service Provider. In addition to these three business lines, the Company generates revenues from ancillary activities such as: the resale of hardware and software produced by third parties and maintenance services purchased by customers, in order to have access to manufacturer's support or to the installation of new versions of the product.

Chart 4 – Revenues Weight



Source: Reti, elaboration Integrae SIM

Chart 5 – Revenues Breakdown by Contract



Source: Reti, elaboration Integrae SIM

Revenues are mainly generated through two different types of contracts:

- **Time & Material**: contracts involving the use of Reti's resources for the realization of the tailor-made solutions requested by the customer. The price is determined by the forecast of the days that Reti makes available for the client and with a daily rate for each professional figure employed. These contracts, in 2019, generated 50.8% of total revenues;

- **Fixed Price**: are valid for both projects and services. These contracts, in 2019, generated 41.3% of total revenues.
    - Projects: contracts involving the implementation of tailor-made projects by Reti with indication of the deliverables forecast by the project itself. The pricing for the implementation of the project is fixed and depends on the objectives to be achieved;
    - Services: contracts involving the provision of services by Reti over a defined period, with an indication of the scope of intervention and the levels of service to be guaranteed. The pricing for the implementation of the project is fixed and depends on the level of service and the period of execution;

The remaining part of revenues generated in 2019, which amounts to 7.9% of the total, is attributable to contracts at fixed pricing, which include the resale by Reti of hardware or software material produced by third parties, or the resale of standard services provided by third parties. This also includes the maintenance services purchased by the customer, to have access to the manufacturer's support or to install new versions of the product.

2.1 Business Process

All Business Lines carry out their activities through a process based on three steps: Presale & Assessment, Developing & Delivery and Maintenance & Evolution.

Chart 6 – Business model

Source: Reti, elaboration Integrae SIM

2.1.1 Presale & Assessment

The Presale & Assessment step begins with the search for new opportunities through marketing activities, such as:

- **Events and Experience**: participation in sector events and fairs and holding events or experiences at the Campus, organized in partnership with IT sector players;
- **Social Media**: realization of Digital Advertising campaigns to promote the solutions offered by Reti, participation in events, workshops or seminars and execution of a daily editorial plan on social media through contents related to the six competence centres promoted by Reti (Social Monitoring & benchmarking analysis);

- **Cross Selling**: execution of structured complementary sales campaigns, in synergy with the sales management and of an editorial plan for customers, in order to constantly strengthen the perception of the technological excellence of Reti (Direct e-mail Marketing);
- **Content Marketing**: initiatives to attract the prospects in the funnel, aimed at strengthening the relationship with the brand (Inbound Marketing and Seo Content techniques) and continuous dialogue with the potential customers, offering useful information that will guide them towards the services offered by Reti.

The leads produced, after being examined by the Marketing department, pass to the Sales structure, which carries out the pre-sale meetings through the presentation of DEMO, the creation of Proof of Concept or IT Assessment activities. At the end of this phase, the next step is to prepare the documentation which assess the estimate of the time necessary to complete the order and the related costs. Once the timing and costs are estimated, a quote is drawn up (also containing the technical annexes), which is delivered to the customer by the Sales Department. If the customer accepts the quote, the counterparties proceed with the signature of the contract.

2.1.2 Developing & Delivery

The first phase of the Developing & Delivery step consists in starting the Digital Transformation project through the establishment of a team of experts (from the 6 competence centres) for the implementation of the solution requested by the customer. In order to guarantee the required quality standards and compliance with timing and costs, the Developing phase is followed and coordinated by a Project Manager (in Agile PM mode). The outcome of this phase consists of a prototype of the solution for the customer. Once the prototype is finished, the test and inspection phase of the produced deliverables begins. In the event of a positive outcome of the test and inspection phase, training is provided for the customer's employees. The Developing & Delivery step ends with the delivery to the customer of the ready solution.

2.1.3 Maintenance & Evolution

Once the delivery phase is over, where provided, the implemented solutions are taken over by the Managed Service Provider business line, for routine maintenance and predictive analysis activities. Furthermore, the implemented projects may envisage the execution of following development phases and/or the development of evolutions, deriving from business needs or the need to comply with obligations.

2.2 Product and Services Portfolio

Reti operates through 3 different Business Lines: IT Solutions, Business Consulting and Managed Service Provider.

2.2.1 IT Solutions

The offer of the IT Solutions Business Line, which deals with technical consultancy and development, consists of:

- Artificial Intelligence: activities aimed at creating projects that allow the customer to adopt predictive models, to support strategic decision-making processes for their business with reduced time to market;
- Business Intelligence: implementation of projects that allow to draw value from data, structuring a system that returns, in an objective way, indicators capable of setting new strategies (data collection, analytics, insight, prediction);
- Cloud & infrastructure: projects for the adoption of Cloud services, maintaining an overview regarding the business processes;
- Desktop & device management: specific client projects such as massive "migrations" of customer workstations to new platforms;
- Security and Identity: implementation of projects in the security field, through security assessment, vulnerability assessment and identity management;
- Software Development: Digital Transformation projects based on Microsoft (.Net + SQL), IoT and Oracle (Java + Oracle) technologies;
- Arianna: end-to-end platform, made in Reti, which allows business users to be independent in the configuration and management of internal and regulatory requirements (plan, budget, financial forecasts, reporting, IFRS, solvency II) by automating and reducing manual activities.

2.2.2 Business Consulting

The offer of the Business Consulting Business Line, which deals with technical consultancy and development, consists of:

- Finance & Insurance: consultancy in the Finance & Insurance sector, support of the sector transformation, which requires a rethinking of a business model, aimed at: supporting the evolution of customers towards the "digital", launching new products and services enabled by technology and increasing data processing capacity;
- PM & BA: consultancy aimed at stimulating, analyzing, communicating, and validating the requirements for changes to company processes, policies, and information systems. The consulting requires the understanding of the problems and opportunities within the customer's business context, and recommendation of solutions that allow the entity to achieve its strategic objectives. The main activities include the adoption of the best international practices, problem solving techniques, methodological approach, collection and analysis of requirements, definition, and development of the business plan.

2.2.3 Managed Service Provider

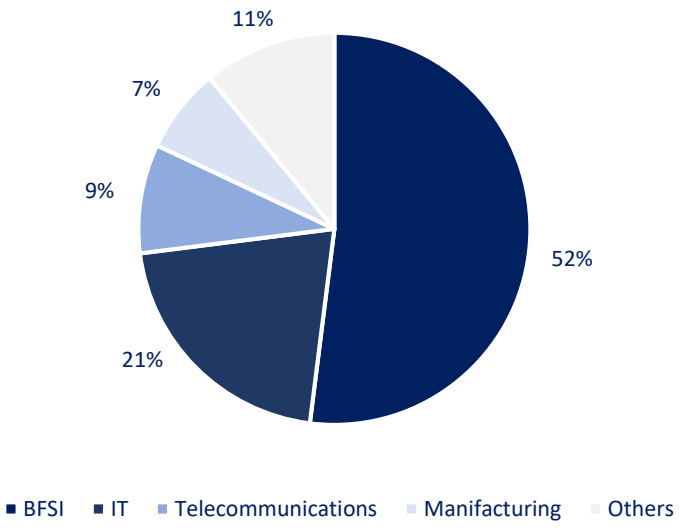
The offer of the Business Line Managed Service Provider, which deals with management and assistance services, consists of:

- Management and assistance service in infrastructures and applications: carried out with the help of the expertise of professionals specialized in: IT Consulting, Network & Infrastructure, Development and Management of Applications, Security and Protection, Proactive Monitoring and Cloud Operation;
- Security Operations Center (SOC): capable to detect, contain and respond to cyber threats through active monitoring. The Company provides specialist skills and cutting-edge tools to manage and monitor processes, in order to highlight potential IT breaches and to coordinate the necessary responses. The activities carried out concern periodic Asset discovery, scheduled vulnerability assessment and penetration tests, intrusion detection, behavioral monitoring and siem & log management activities.

2.3 Clients and Providers

2.3.1 Clients

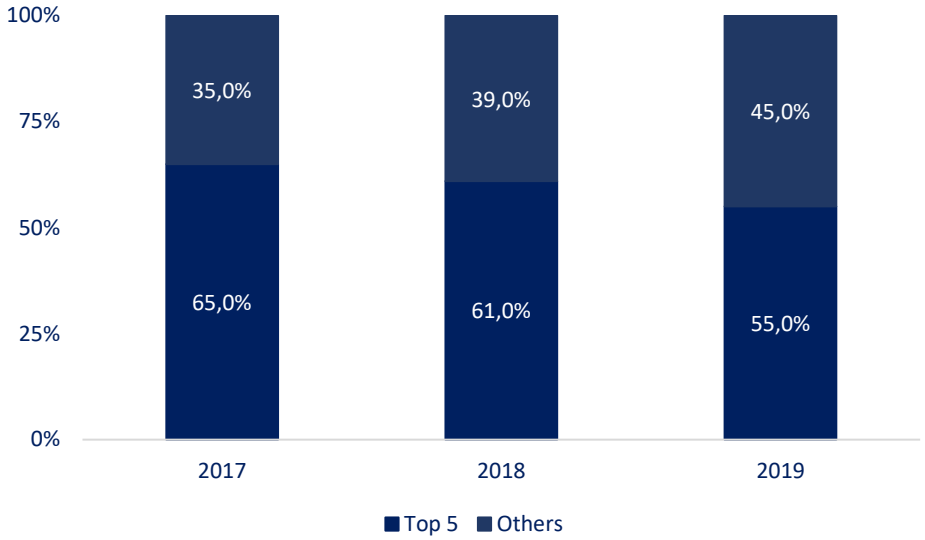
Chart 7 – Client Breakdown by Sectors



Source: Integrae SIM

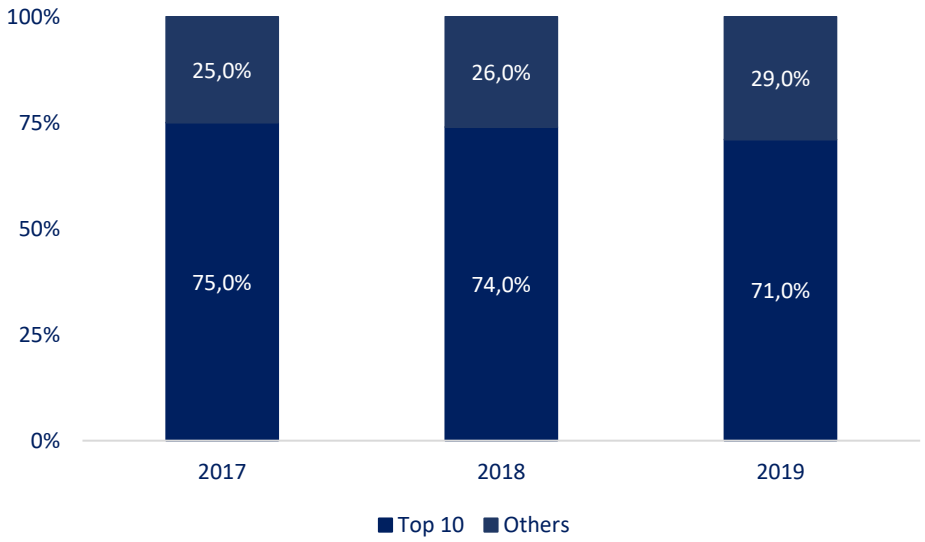
The Company's clients mainly belong to four different sectors which represent approximately 89% of the Value of Production. These sectors are: BFSI (Banking, Financial Service, Insurance), IT, Telecommunications and Manufacturing. The main sector in terms of incidence on revenues is the BFSI with 52% of the total, the second sector, in terms of incidence is IT with 21% of the total, followed by Telecommunications and Manufacturing which respectively represent 9% and 7% of the total. Such a distribution of revenues shows a good level of diversification in sectoral terms.

Chart 8 – Top 5 Client Weight



Source: Integrae SIM

Chart 9 – Top 10 Client Weight

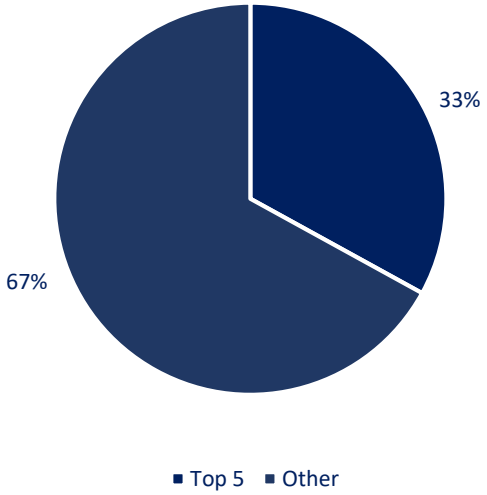


Source: Integrae SIM

The weight of the major clients on the total revenues generated is continuously decreasing from 2017 to date. In fact, the incidence of the top five clients decreased from 65% in 2017 to 55% in 2019 and in the same way the incidence of the top ten clients decreased from 75% to 71%. The positive decline points out to a growing diversification of the business to the benefit of the average risk rate of the business. Despite this, the level of concentration on the main clients is still quite high.

2.3.2 Providers

Chart 10 – Top 5 Provider Weight



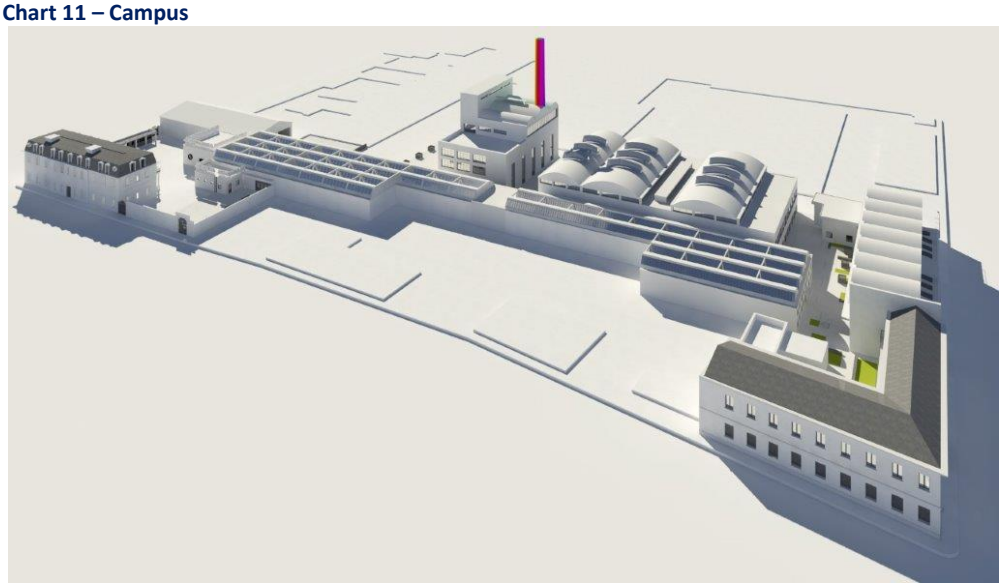
Source: Integrae SIM

Regarding the top 10 providers: 39% of them offer staff-related services such as meal vouchers, payroll consultancy and staff administration expenses, while 51% of them offer business-related goods and services such as equipment for work, licenses and professional services managed in outsourcing. Considering the impact on purchases from major providers in 2019, there are no cases of particular dependence from a strategic point of view.

Besides, the Company has several technological partnerships in place with important IT market players. These partnerships consist in the stipulation of agreements which involve for the promotion by Reti of the technologies offered by the partner and the technical certification of their professionals (every vendor creates a certification model that is developed through specific training courses and exams in telematic mode). Thanks to the partnerships, Reti has the opportunity to consolidate long-lasting relationships that allow, in the long run, to take advantage of opportunities generated by the partners and to reduce the activation costs of the platforms and development suites necessary to produce the application and / or infrastructure solution which it offers.

2.4 The Technological Campus

Chart 11 – Campus



Source: Reti

Regarding the conduct of the business, the technological Campus represents for Reti an asset of fundamental strategic importance. In fact, the Campus is a real Innovation Centre where all the developed projects are born, and it makes possible:

- The training and organization of seminars, courses, and conferences;
- The promotion of collaborations with ITS (Higher Technical Institutes);
- The constant activity of innovation and technological scouting;
- The consultancy and creation of collaborations with companies, technological partners, research centres and private and/or public bodies.

Chart 12 – Campus

Source: Reti

The Campus was built according to the most innovative building automation criteria. It is expanded over an area of approximately 20,000 square meters and is composed of: Villa, Building 1, Building 2, Building 3, Building 4, Building 5, Building 6, Building 6.1, Building 7, Building 7.1, Loggia and Guest House:

- Villa: historic building, registered office of the company and administrative offices;
- Building 1: building belonging to the former industrial complex, previously used as a warehouse;
- Building 2: building belonging to the former industrial complex, previously used as a warehouse, typologically identical to building 1.
- Building 3, Building 7, and Building 7.1: buildings belonging to the former industrial complex. In addition to the main building, there are two real estate portions called Building 7 and Building 7.1, adjacent to the main one, previously used as offices and warehouses;

- Building 4: building belonging to the former industrial complex, former thermal power plant, characterized by the presence of two large boilers and the chimney;
- Building 6 and Building 6.1: property belonging to the former industrial complex;
- Loggia: covered connecting space, between Building 1 and Building 2;
- Guest house: it is composed of a building complex which includes a "*casa di ringhiera*", made up of four cadastral subordinates, with common services located in an external volume and a respective court space.

These buildings make up the Campus of Reti and each of these has its own strategic functionality, in particular:

- Villa: headquarters (AFC, Commercial, HR, Marketing offices), where all administrative activities, recruiting, the development of Marketing strategies and activities relating to the stipulation of contracts are carried out.
- Building 1: LAB of the 6 competence centres, spaces for educational and training courses. The building represents the nerve centre of the activities carried out by Reti because inside there are the LABs belonging to the 6 competence centres within which the Reti experts design, build and test highly innovative solutions. Besides, inside the Building 1 there is the auditorium where the training and experiential events relating to the main KETs developed in Campus are held. These activities allow the production of leads that turn into business opportunities;
- Building 2: future LABs dedicated mainly to the competence centres dealing with Artificial Intelligence Business Intelligence;
- Building 3: Reti Academy, used for all training activities such as the training island for the disadvantaged categories (people with disabilities), ITS (Higher Technical Institutes) courses and courses for Reti staff;
- Building 4: future LABs;
- Building 5: Food & Relax area, space for representative events;
- Building 6: Reti Academy with "certification room" for externals;
- Building 7: LAB Campus Residence (to host talents from abroad).

The Campus activity is divided into six competence centres: Business & Artificial Intelligence, Cyber Security, Project Management and Business Analysis, ERP, IoT and Cloud. In particular:

- The **Business & Artificial Intelligence** centre deals with the development of solutions for the transformation to a data driven company;
- The **Cyber Security** centre deals with the protection of critical systems and processes of Reti clients, ensuring availability, integrity, and confidentiality;
- The **Project Management and Business Analysis** centre is responsible for supporting the governance structures of Reti clients;
- The **ERP** centre deals with the strategic and business consultancy and technical consultancy in the ERP area;
- The **IoT** centre is responsible for the implementation of integration and monitoring projects for "intelligent objects" that give rise to new forms of knowledge;
- The **Cloud** centre is responsible for the implementation of migration and development on the Cloud projects.

On the basis of the competence centres, the training of Reti professionals is organized at the Reti Academy, the internal learning provider that offers seminars, learning courses and training courses, also in collaboration with various training institutes. Reti Academy has the main objective, through a structured and continuous training process, to keep staff constantly updated on the most cutting-edge technologies, guaranteeing the recognized quality level, as a distinctive element of the market. In 2019, 92% of Reti's staff was involved in training

activities up to 4,200 hours of e-learning & play courses, 3,200 hours of professional courses, 1,000 hours of managerial courses and 2,850 hours of soft skills training. Thanks to the skills acquired, the Reti's experts are able to study, program and test the technological innovations designed internally and to create innovative prototypes instrumental to the subsequent implementation for clients.

2.5 ESG and Benefit Positioning

The Company has always been committed to guaranteeing a corporate system based on sustainability and on the creation of value for all stakeholders. For this reason, Reti has become a Benefit Company, a corporate form for profit, characterized by a statutory commitment for the responsible, sustainable and transparent management of the business.
To this end, in 2020, the Company prepared the first GRI Standard compliant sustainability report. Such a report is prepared according to the standards proposed by the Global Reporting Initiative, an organization created with the aim of helping both the public and the private businesses to understand, measure and communicate the impact that certain activity can have on the various dimensions of sustainability (economic, environmental and social). The sustainability report has been prepared on the basis of the methodologies and principles provided by the GRI Sustainability Reporting Standards. In particular, the GRI-Referenced option provided by the Global Reporting Initiative Sustainability Reporting Standards was adopted, using the reporting standards according to the Reporting Principles defined by the "GRI Standards: 101 Foundation ". In addition to this, the Company has started the process to obtain the B Corporation® certification, issued to companies that deserve it for their environmental and social performance by B Lab, an international non-profit body.

In particular, the Company's desire to develop its business in an economically, environmentally, and socially sustainable way translates into four fundamental values:

- **Interdependence**: close link with the territory and creation of training processes for new generations and disadvantaged categories, in order to facilitate their entry into the labour market;
- **People**: creation of a welfare system for its employees, in order to enhance and encourage the development of skills and the attraction of talents;
- **Transmission of value/ Business solutions**: creation of innovative and sustainable solutions and services, with positive social and environmental impacts;
- **Environment**: adoption of policies of responsible use of natural resources, aimed at reducing the environmental impact and initiatives aimed at raising awareness of its stakeholders, thanks also to the introduction of dissemination and engagement activities on environmental sustainability issues. The interest in the environment is expressed in the Campus structure. In fact, the Campus is equipped with systems that allow employees to supply water from the tap and all employees have received a steel bottle with the company's brand, so that everyone can make their own contribution to waste reduction, especially plastic. All indoor environments are configured with automated lighting systems to ensure well-being in the workplace in terms of brightness and climatic conditions and to avoid wasting electricity. In addition, a waste collection point was created for each office, so that each employee contributes to the differentiation of the waste, also facilitating the work of the cleaning companies.

The sustainability values promoted by Reti have been pursued with projects and partnerships:

- **Training Island Project**: Reti and Innovazione Apprendimento Lavoro Lombardia Srl have created the "Training Island" project, an agreement aimed at job integration for

disabled people. The project gave birth to the creation of an effective job placement model, aimed at unemployed disabled people. As far as this project concerns, as of December 31, 2019, Reti provided a total of 864 hours of training for this category.

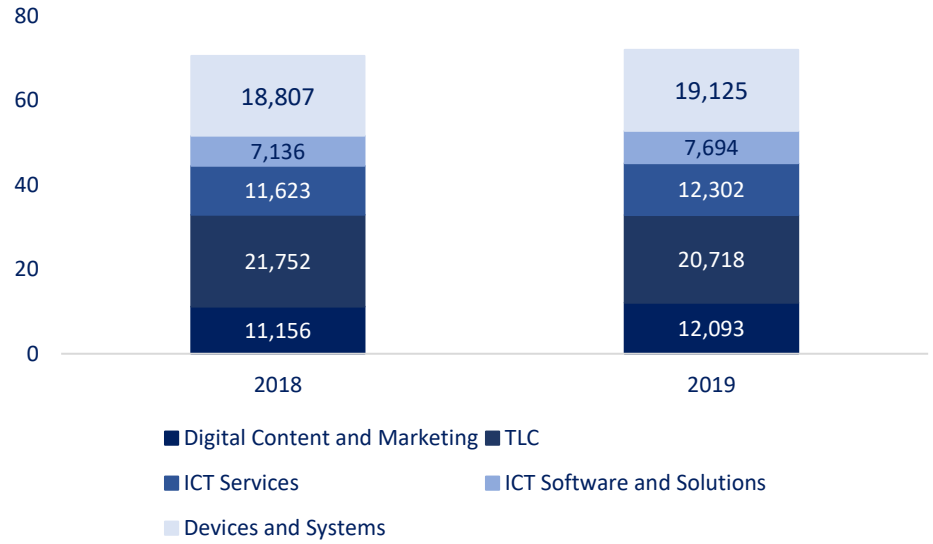
- **School-Work Alternation Project**: Reti is host of initiatives aimed at training and career orientation, aimed at facilitating professional choices, through a direct knowledge of the labour market in the transition phase, through the knowledge and experimentation of a professional environment.
- **ITSINCOM Foundation**: Reti is a founding partner of the ITSINCOM Foundation whose aim is to promote the meeting and exchange of ideas, methods, projects, skills between the various stakeholders of Vocational Education and Training on the one hand and of the productive field on the other, with the objective of realizing the joint elaboration of training projects that have, as a key point, the needs of each single company or cluster of companies, which express training needs aimed at finding skilled employees.
- **Tech Talent Factory Foundation**: Reti is a member of the TTF Foundation. The Foundation was established in 2016 to support the integration between education, training, and work systems. TTF operates in the "Communication and Information Technologies" sector to promote the development of specialist skills in technology for young high school graduates. The Foundation activates every year new biennial post-diploma courses to encourage the introduction of ICT professionalism into the labour market.
- **Bortolaso Foundation**: Reti in 2019 made a liberal payment in favour of the Bortolaso Totaro Sponga Foundation. The Foundation promotes the dissemination and enhancement of fiber art and, more generally, of contemporary art and culture, through exhibitions, publications, events that involve renowned national and international artists.

3 The market

Reti operates through 3 Business Lines in the Italian ICT market.

3.1 ICT Italy market

Chart 13 – Digital Expenses 2018-2019 *(Data in €Mln)*



Source: Anitec-Assinform, "The Digital in Italy 2020 – Markets, Dynamics and Policy", June 2020

Between 2018 and 2019, expenses in the digital sector grew by 2.1%, from € 70,473 Mln to € 71,932 Mln. This growth was supported by the increases in expenses incurred in the segments: digital content and marketing (8.4 % growth), ICT services (5.8 % growth), ICT software and solutions (7.8 % growth) and devices and systems (growth of 1.7 %). These increases more than offset the decrease in expenses observed in the TLC network services segment (equal to - 4.8 %).

The overall growth observed in 2019 is in line with the growth observed in previous years: 2.5% in 2018, 2.3% in 2017 and 2.0% in 2016.

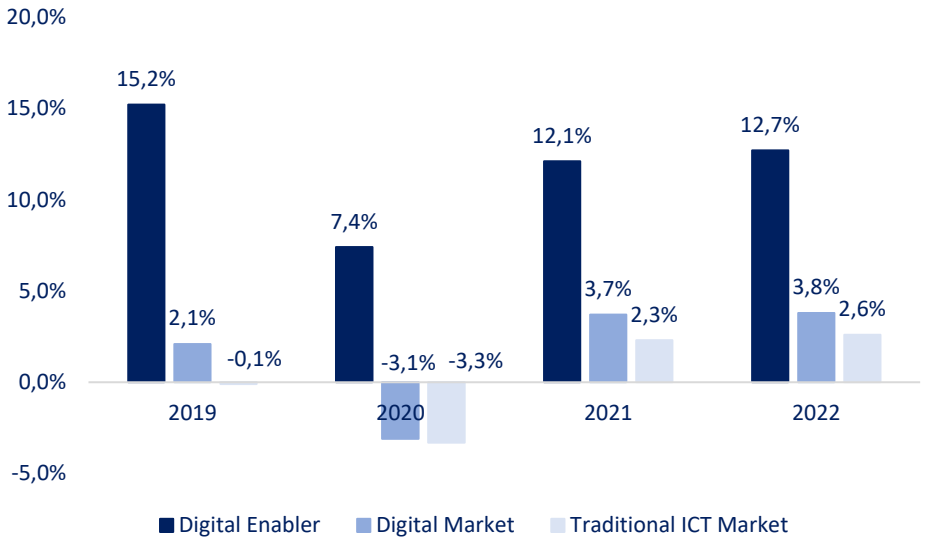
For the next few years, growth is expected to be driven primarily by:

- **Big Data and Analytics**: the understanding, management and handling of large amounts of data, in addition to the marketing and risk management divisions, also increasingly concern operations, focused on the need to address products and services to more specific targets. These strategic issues have assumed even greater importance in the emergency. The Big Data market, equal to € 1,060 Mln in 2019, is expected to grow at a 2019-2022 CAGR of 9%.
- **Artificial Intelligence**: in 2019, the AI market in Italy grew by 60% compared to 2018, reaching € 215 Mln. The use in Italian companies has increased, through the sophistication of the algorithms, for the improvement and optimization of every aspect of the business: from the relationship with clients, to the production processes up to the operations. Expenses on artificial intelligence are expected to grow to a CAGR 2019-2022 of 21%;
- **Cloud**: at the end of 2019, the Cloud market reached a value just below € 3,000 Mln, and growth of CAGR 2019-2022 equal to 18% is expected in the coming years. The growth trend and the presence in all technological areas of Cloud services show the

strategic importance of this technology. The availability of data in the Cloud concretizes the corporate digitalization, making it possible to achieve worker mobility, simulation, monitoring, protection, and enhancement of data.

- **IoT**: the adoption of IoT platforms in 2019 generated a market which exceeds € 3,500 Mln. Despite a possible slowdown in 2020, this market is expected to grow in the coming years with a CAGR 2019-2022 of 9%. The development of the market is driven, in particular by the demand in the industry for platforms to simulate processes, products and services (digital twin) and by the demand for systems to prevent critical issues and test future results.

Chart 14 – ICT YoY Growth by Segment 2019-2022

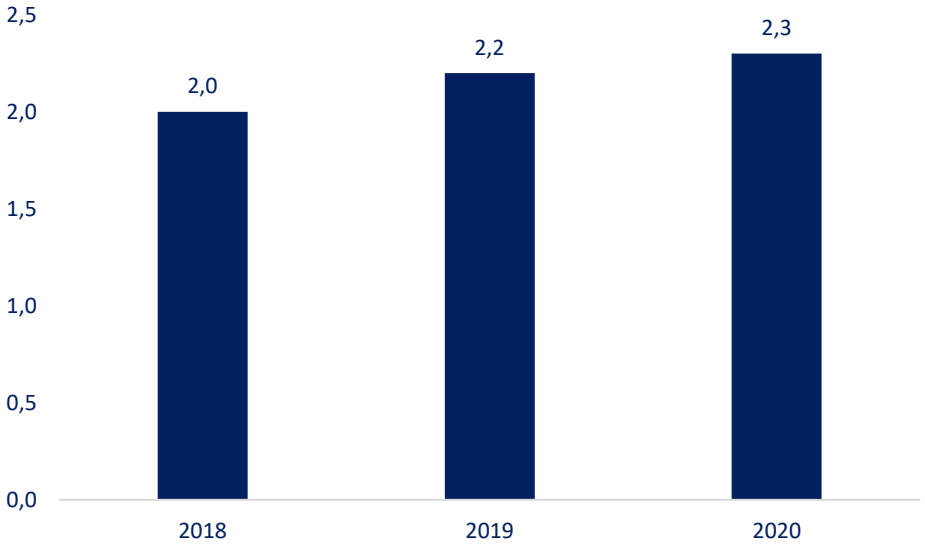


Source: Anitec-Assinform, "The Digital in Italy 2020 – Markets, Dynamics and Policy", June 2020

In the analysis of the ICT market, both for 2019 and for the estimates of the coming years, the gap between the traditional ICT market, the digital market and the Digital Enabler is evident. In fact, in the face of the substantial stagnation of the market relating to the more traditional components, the overall digital market shows good levels of growth. This gap is even more significant if the components of the digital market called Digital Enabler are considered. The Digital Enabler market includes: Artificial Intelligence, Blockchain, Web management platforms, Cybersecurity, Big Data, Wearable, Cloud, IoT and Mobile business. For the next few years, according to Anitec-Assinform, the growth of the digital market will be systematically greater than the growth of the traditional ICT market and, in turn, the growth of the overall digital market will be systematically lower than that of the Digital Enabler components market.

3.2 Business Consulting Market

Chart 15 – Business Consulting Expenses 2018-2020 *(data in € Bln)*



Source: Assintel 2020

The expenses for business consulting services in Italy in 2019 increased compared to those of last year, passing from € 2.0 billion to € 2.2 billion. Assintel estimates further growth for the year 2020, with an estimated total value of € 2.3 billion.

3.3 Covid-19 Epidemic Impact

The proliferation of the Covid-19 epidemic and the related situation of economic uncertainty, according to IDC, the world's leading company specialized in market research, consultancy services and event organization in the ICT and digital innovation sectors, could lead to a general decline in the global IT market and respective investments. However, although the forecasts for 2020 are lower than the pre-epidemic estimates, IDC expects an important recovery starting from 2021, with investments expected substantially in line with the pre-crisis ones. In addition, for the 2021-2023 three-year period, IDC estimates growth levels higher than those estimated pre-Covid-19.

Besides, according to data collected by IDC, the reduction in investments expected for IT services will not affect all the individual technologies in the same way. In particular, the expected reductions are significantly lower than the average for software and IT services, technologies considered strategic by companies even in this period of uncertainty.

4 Competitive positioning

Table 1 – Main Competitor 2017-2018 *(data in mln €)*

	VoP		EBITDA		EBITDA Margin		EBIT		EBIT Margin		Net Income		Net Income Margin		NFP*		NFP/EBITDA	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Reply	901,0	1.053,7	123,0	145,0	13,7%	13,8%	113,9	132,1	12,6%	12,5%	77,9	99,9	8,6%	9,5%	-57,0	-67,0	N/A	N/A
Sesa	1.271,0	1.363,0	57,9	63,1	4,6%	4,6%	44,8	46,3	3,5%	3,4%	26,1	28,6	2,1%	2,1%	-52,0	-55,0	N/A	N/A
Horsa Group	79,1	102,2	5,7	7,2	7,2%	7,0%	3,5	4,4	4,4%	4,3%	1,6	2,4	2,0%	2,4%	7,9	6,8	138,2%	93,8%
Sorint Lab	44,8	49,7	1,6	2,8	3,7%	5,7%	0,6	1,4	1,3%	2,7%	0,1	0,7	0,2%	1,4%	6,8	1,5	417,1%	54,1%
Blueit	18,0	19,0	1,5	1,3	8,2%	7,1%	1,1	1,0	6,0%	5,1%	0,7	0,6	3,8%	3,3%	0,1	1,6	6,3%	119,6%
Teorema	9,1	10,2	0,6	0,4	6,5%	4,0%	0,5	0,3	5,0%	2,5%	0,2	0,1	2,5%	0,7%	1,4	1,7	241,5%	431,3%
Beta 80 Grup	42,1	46,1	2,9	3,1	7,0%	6,6%	2,3	1,9	5,4%	4,2%	1,6	1,3	3,7%	2,8%	-1,2	-1,7	N/A	N/A
Porini	4,1	5,0	0,1	0,6	3,1%	12,2%	0,1	0,6	2,0%	11,3%	0,0	0,7	0,9%	14,5%	N/A	N/A	N/A	N/A
4Ward	7,0	9,2	0,9	1,5	12,7%	16,3%	0,7	1,1	9,8%	12,3%	0,6	0,8	8,5%	9,3%	N/A	N/A	N/A	N/A
Soft Jam	7,8	11,0	-0,2	1,2	-3,1%	10,7%	-0,4	0,9	-4,7%	8,3%	-0,3	0,5	-4,4%	4,8%	0,5	0,8	N/A	67,8%
MEDIAN	**30,1**	**32,6**	**1,6**	**2,2**	**6,8%**	**7,1%**	**0,9**	**1,2**	**4,7%**	**4,7%**	**0,6**	**0,8**	**2,3%**	**3,0%**	**0,3**	**1,2**	**189,8%**	**93,8%**
Reti	**17,7**	**19,3**	**2,5**	**2,3**	**14,0%**	**12,0%**	**1,7**	**1,4**	**9,8%**	**7,3%**	**1,0**	**0,8**	**5,9%**	**3,9%**	**0,9**	**2,2**	**37,8%**	**95,0%**

Source: Integrae SIM

* Reti NFP value refers only to Operating NFP

The Company, compared to the major Italian competitors, has been able to generate higher marginality levels than the median in the past years. This was possible, among other reasons, thanks also to one of the main strengths of Reti: the Technological Campus. Inside the Campus a virtuous circle is activated that starts with the scouting of the main existing technologies on the IT Market, passes through the training of talents on the KET (Key Enabling Technologies), develops them through the creation of innovative prototypes and following the stress tests, and makes them ready to be tested and tried by customers to assess their effectiveness. In addition, the Campus allows to create leads that can turn into deals and allows to continue employees' training, to ensure the quality level recognized by the market.

In the analysed competitor Companies' panel, Reply was able to generate higher margins than Reti. Reply, in addition to having important economies of scale related to the larger size, is able to generate higher marginality thanks to the use of Fixed Price contracts. Reti, however, to date, is more unbalanced on a Time & Material contractual mode, able to generate lower marginality levels. For this reason, one of the Company's objectives is to increase the activity component in Fixed Price mode.

Table 2 – Main Competitor Cost Incidence 2018

	%COGS	%Services	%Employees
Reply	2,0%	35,8%	45,6%
Sesa	82,5%	7,0%	5,9%
Beta 80 Grup	8,6%	43,3%	43,2%
4Ward	30,1%	14,9%	40,6%
Teorema	12,2%	25,1%	56,2%
Horsa Group	27,6%	29,0%	35,3%
Blueit	4,2%	34,8%	51,8%
Soft Jam	13,9%	37,5%	37,9%
Sorint Lab	3,7%	29,3%	60,9%
Porini	0,4%	67,2%	36,1%
MEDIAN	**10,4%**	**32,1%**	**41,9%**
Reti	4,5%	16,1%	67,6%

Source: Integrae SIM

By analysing the 2018 data, it is possible to observe different level of incidences of the main costs on the revenues of the competitor Companies. This analysis shows how Reti has:

- a higher incidence of Employees costs than the median (67.6% compared to 41.9%). This increased incidence is in line with the Company's desire to invest in human resources and their training;
- a lower incidence of costs for raw materials (4.5% compared to 10.4%) and costs for services (16.1% compared to 32.1%). Based on these values, it can be deduced that the competitors are more focused on the resale of services (through management of some activities in outsourcing and use of staff through external collaborations – VAT number contracts) and of hardware and software produced by third parts. This difference is able to justify higher marginality of Reti.

4.1 Swot

Strengths:

- Ability to ensure rapid responses to clients;
- Quality and great possibilities of projects customizing;
- High level of know-how in various sectors;
- High level of employees' skills thanks to a continuous training process;
- Presence of the Campus as an important strategic asset;
- Competences centres able to ensure full coverage of the activity's fields;
- Significant track records of the Company management;
- Important partnerships with leading global vendors;
- Loyalty of clients;
- Possibility of cross-selling between different Business Lines;
- Benefit Company based on sustainability and value creation for all stakeholders;
- High entry barriers.

Weaknesses:

- Limited commercial power;
- Limited brand awareness;
- Difficulty in finding human resources;
- Concentration of clients;
- Excessive dependence on the Italian market (over 90% of 2019 revenues).

Opportunities:

- Expansion of the IT market;
- Tax incentives for Industry 4.0;
- Expansion of the customer database, also in relation to the Covid-19 epidemic;
- Growth of ERP requests;
- Technological development need of the Italian IT market;
- Opportunities of M&A.

Threats:

- Excessive Employees turnover;
- Difficulties in maintaining current market shares;
- Possible difficulties in adapting to continuous technological development;
- Stagnation of the Italian economy.

5 Economics & Financials

Table 3 – Economics & Financials

INCOME STATEMENT (€/mln)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenues	19,11	21,01	22,40	24,70	27,20	30,00
Other Revenues	0,19	0,15	0,20	0,20	0,25	0,25
Value of Production	**19,30**	**21,17**	**22,60**	**24,90**	**27,45**	**30,25**
COGS	0,86	0,63	0,90	0,95	0,95	1,00
Services	3,07	3,57	3,40	4,00	4,30	4,70
Use of assets owned by others	0,14	0,24	0,30	0,35	0,40	0,45
Employees	12,91	14,56	15,65	16,75	18,40	20,00
EBITDA	**2,31**	**2,17**	**2,35**	**2,85**	**3,40**	**4,10**
EBITDA Margin	*12,0%*	*10,3%*	*10,4%*	*11,4%*	*12,4%*	*13,6%*
D&A	0,90	1,00	1,20	1,25	1,20	1,15
EBIT	**1,41**	**1,17**	**1,15**	**1,60**	**2,20**	**2,95**
EBIT Margin	*7,3%*	*5,5%*	*5,1%*	*6,4%*	*8,0%*	*9,8%*
Financial Management	(0,13)	(0,21)	(0,15)	(0,15)	(0,10)	(0,10)
Other Operating Income and Expenses	(0,09)	(0,03)	0,00	(0,05)	(0,05)	(0,05)
EBT	**1,19**	**0,93**	**1,00**	**1,40**	**2,05**	**2,80**
Taxes	0,44	0,36	0,35	0,35	0,55	0,75
Net Income	**0,75**	**0,57**	**0,65**	**1,05**	**1,50**	**2,05**

BALANCE SHEET (€/mln)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Fixed Assets	**19,63**	**20,40**	**21,00**	**20,70**	**20,40**	**20,20**
Account receivable	7,09	6,70	7,20	7,90	8,70	9,50
Inventories	0,00	0,00	0,00	0,00	0,00	0,00
Account payable	1,62	1,23	1,60	1,80	1,90	2,00
Operating Working Capital	**5,48**	**5,46**	**5,60**	**6,10**	**6,80**	**7,50**
Other receivable	0,61	0,35	0,20	0,20	0,20	0,20
Other payable	5,66	5,20	5,15	5,45	5,80	6,00
Net Working Capital	**0,42**	**0,61**	**0,65**	**0,85**	**1,20**	**1,70**
Severance Indemnities & Other Provisions	2,72	3,04	3,50	4,05	4,60	5,25
NET INVESTED CAPITAL	**17,34**	**17,98**	**18,15**	**17,50**	**17,00**	**16,65**
Share Capital	2,00	2,00	2,57	2,57	2,57	2,57
Reserves	1,65	1,85	4,18	4,83	5,88	7,38
Net Income	0,75	0,57	0,65	1,05	1,50	2,05
Equity	**4,40**	**4,43**	**7,40**	**8,45**	**9,95**	**12,00**
NFP - Operating	2,20	3,21	1,25	3,05	4,05	3,61
NFP - Non Operating	10,74	10,35	9,50	6,01	3,01	1,04
Net Financial Position	**12,93**	**13,56**	**10,75**	**9,05**	**7,05**	**4,65**
SOURCES	**17,34**	**17,98**	**18,15**	**17,50**	**17,00**	**16,65**

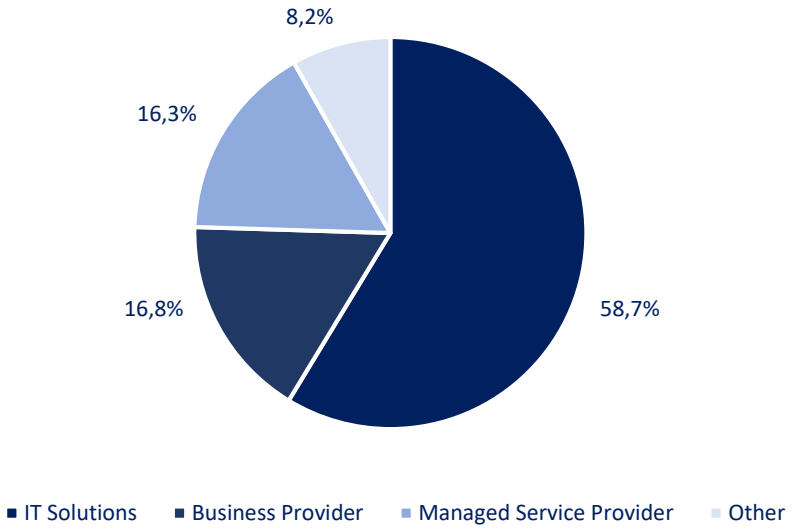
CASH FLOW (€/mln)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
EBIT	1,41	1,17	1,15	1,60	2,20	2,95
Taxes	0,44	0,36	0,35	0,35	0,55	0,75
NOPAT	**0,97**	**0,81**	**0,80**	**1,25**	**1,65**	**2,20**
D&A	0,90	1,00	1,20	1,25	1,20	1,15
Change in receivable	(2,06)	0,40	(0,51)	(0,70)	(0,80)	(0,80)
Change in payable	0,12	-0,38	0,37	0,20	0,10	0,10
Change in others	0,95	-0,20	0,10	0,30	0,35	0,20
Change in NWC	*-0,99*	*-0,19*	*-0,04*	*-0,20*	*-0,35*	*-0,50*
Change in provisions	0,41	0,32	0,46	0,55	0,55	0,65
OPERATING CASH FLOW	**1,29**	**1,94**	**2,43**	**2,85**	**3,05**	**3,50**
Capex	(3,4)	(1,8)	(1,8)	(0,9)	(0,9)	(1,0)
FREE CASH FLOW	**(2,12)**	**0,17**	**0,63**	**1,90**	**2,15**	**2,55**
Financial Management	(0,13)	(0,21)	(0,15)	(0,15)	(0,10)	(0,10)
Change in Debt to Bank	0,07	0,62	(2,80)	(1,70)	(2,00)	(2,41)
Change in Equity	(0,55)	(0,55)	2,32	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	**(2,73)**	**0,03**	**0,00**	**0,05**	**0,05**	**0,05**

Source: estimates Integrae SIM

5.1 FY19A Results

In 2019, YoY revenues increased by 10.0%: the value of production went up from € 19.3 Mln in 2018 to € 21.17 Mln.

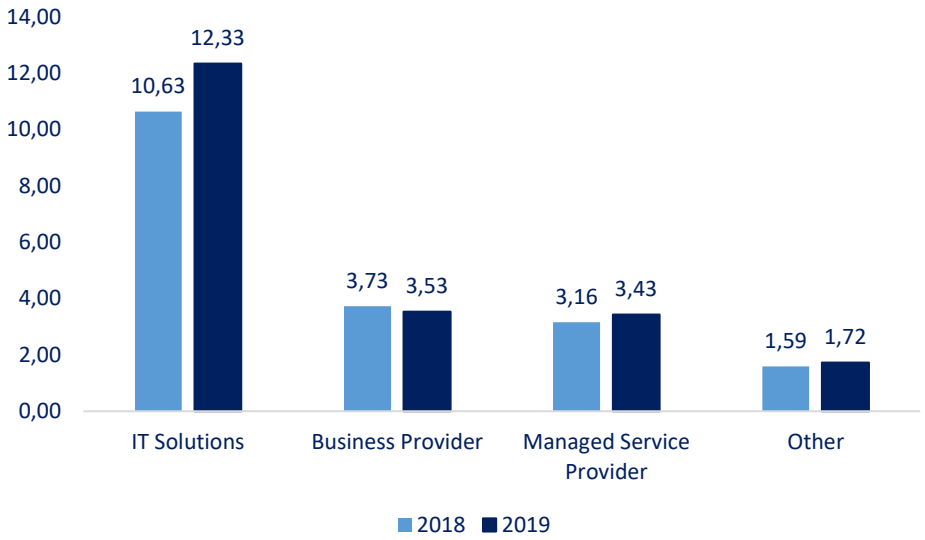
Chart 16 –Revenues Breakdown by Business Line



Source: Integrae SIM

In terms of revenues generated, the main business line is the IT Solutions line, with a share of 58.7% of the total. The business line Business Provider and Managed Service Provider, instead, have generated a respective share equal to 16.8% and 16.3%. The remaining 8.2% of the revenues were generated through the resale of hardware and software produced by third parties and maintenance services.

Chart 17 –Revenues by Business Line 2018-2019



Source: Integrae SIM

As for the revenues generated by the IT Solutions line, a growth from 2018A to 2019A of 15.9% can be observed, from € 10.63 Mln to € 12.33 Mln. Revenues generated through Managed Service Providers also increased from € 3.16 Mln to € 3.43 Mln (equal to 8.4%). The only

business line in slight decline is the Business Provider line that goes from € 3.73 Mln to € 3.53 Mln (-5.3%).

The value of EBITDA slightly decreased from € 2.31 Mln to € 2.17 Mln. This marks a decline of the marginality that, in terms of EBITDA Margin, goes from 12.1% to 10.3%, due to:

- higher incidence of Services costs. The increase in Services costs is mainly attributable to expenses incurred in the purchase of services for resale;
- higher incidence of Employees costs, due to the increase in the number of employees. Most of the new resources have been employed in the roles of systems engineer and developer.

EBIT also decreased from € 1.41 Mln in 2018 to € 1.17 Mln in 2019, resulting in a decrease of marginality from 7.3% to 5.5%. Finally, Net Income also decreased, from € 0.75 Mln to € 0.57 Mln.

The Working Capital is in line with the values of the last year, in fact, both accounts receivable and accounts payable decrease.

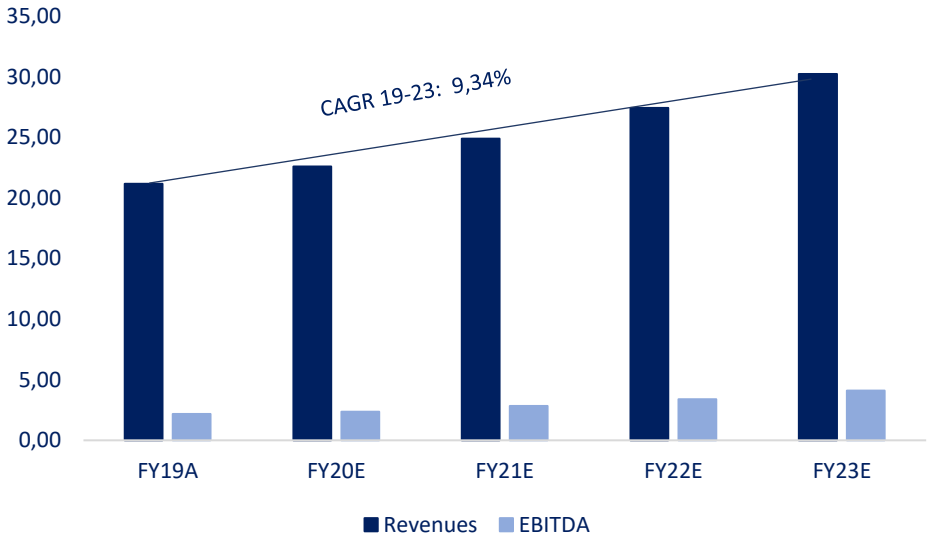
Regarding Capex, investments during the year are mainly related to the development of the Technological Campus.

The NFP is in slight increase compared to the previous year, from € 12.93 Mln to € 13.56 Mln. The most important item is given by medium/long-term Debts to banks, consisting of mortgage loans and liabilities for the development of the Technological Campus Reti, the expansion of the offices, started in 2013, aimed at creating an organisational structure appropriate to the management of new projects and staff training. Of this NFP value, a share of € 3.21 Mln is attributable to the ordinary operations, while the remaining share of € 10.35 Mln is attributable to the construction of the Campus.

The NFP inherent to the Campus is made up only of the debts contracted by the Company for the purchase and making operative of the real estate complex. The operating NFP, on the other hand, is affected by: the cash flows generated by the operations, the debt repayment plan and the investments made by the Company. The debt repayment plan for the real estate complex is financed through the operating NFP, as the management of the Campus is not able to generate cash flows directly.

5.2 FY20E – FY23E Estimates

Chart 18 – VoP, EBITDA19A-23E



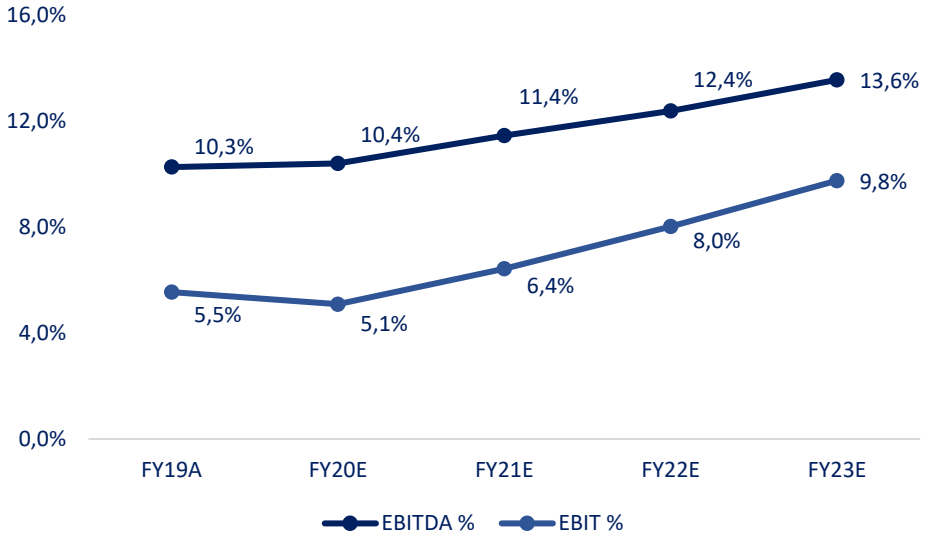
Source: elaboration Integrae SIM

For the coming years, we expect an increase in the value of production that, according to our estimates, will increase from € 21.17 Mln in 2019 to € 30.25 Mln in 2023E (CAGR19A-23E: 9.34%), thanks to the following main growth drivers of Time and Material and Fixed Price contracts:

- Time and Material:
  - Increase in the number of days in relation to the new Employees recruitment. In particular, with the new hiring, the Company will have more professional resources to address the growing demands from customers. Estimates of new hiring are a consequence of customer relations and market growth trends. In addition, we believe that the strengthening of the Sales department will further contribute to the increase of these activities;
  - Increase of the prices applied thanks to the continuous professional updating of the resources and the technological evolution of the solutions offered by the Company.

- Fixed Price:
  - Increase in the number of projects depending on the willingness of management to move more and more towards a Fixed Price contract type. Also, in this area, we believe that sales will be supported by the development of the Sales department;
  - Increase of the average projects price, in order to include the technological evolution of the solutions offered by the Company and the continuous updating of the employees.

Chart 19 - EBITDA% and EBIT% 19A-23E



Source: elaboration Integrae SIM

In addition, we expect an increase in EBITDA that, according to our estimates, will increase from € 2.17 Mln in 2019 to € 4.10 Mln in 2023E, thanks to the following growth drivers:

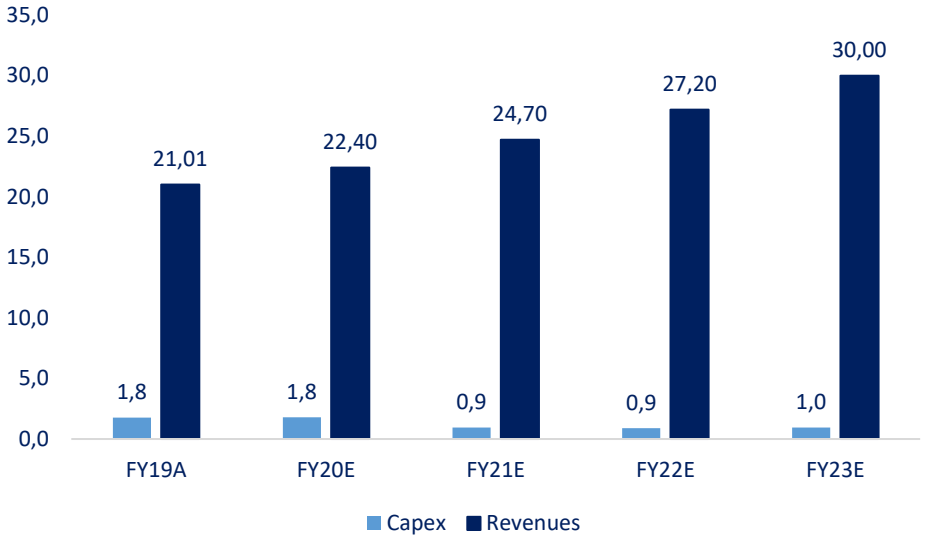
- The progressive increase in the share of Fixed Price contracts;
- Greater economies of scale.

A higher marginality for the year 2020E is justified by a lower incidence of Services costs, this decrease is mainly due to:

- Reduced travel expenses due to the Covid-19 epidemic;
- Reduced representation expenses due to the effect of the Covid-19 epidemic;
- Standardisation of the resale purchase mix (HW/SW and Services)

For the 2021E year, on the other hand, we expect an efficiency in the incidence of Employees Costs on revenues thanks to the reduction in orders processed through Time and Material contracts and the growth in orders processed through Fixed Price contracts.

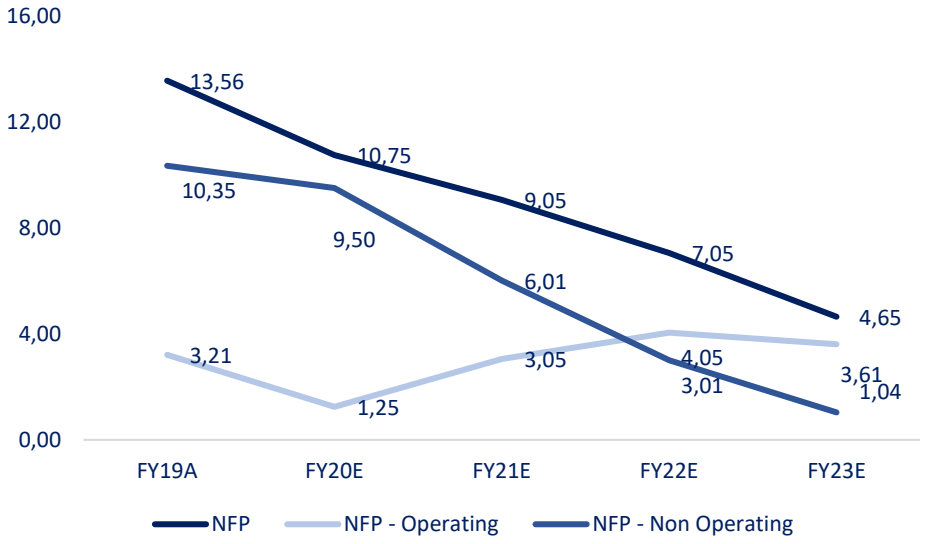
Chart 20 – Revenues, Capex 19A-23E



Source: elaboration Integrae SIM

Regarding Capex, we expect investments mainly linked to the further developments of the Technological Campus and to the Research and Development expenses. For 2020E, under Capex, listing costs are included.

Chart 21 - NFP 19A-23E



Source: elaboration Integrae SIM

Regarding Working Capital, the days of collection have been computed as an average of the last three years, to which a slight annual efficiency has been applied, linked to the higher contractual strength estimated for the Company, reached thanks to the larger size. Regarding payment days, the estimates are based on the values of the last three years, to which we have applied a slight prudential decrease. In addition, we have estimated a significant decrease in tax receivables item during 2020E, as we believe that existing receivables will be used to offset the payment of taxes.

We believe that the Company will not continue to pursue its historical Dividend Pay-out Ratio policies after 2020E (in order to use all the resources generated for the benefit of the Company) and that it will continue to improve its overall NFP, thanks to the cash flows generated by ordinary operations. The NFP shows a significant improvement in 2020E, thanks to the collection resulting from the IPO operation.

5.3 Strategic guidelines

The strategy of Reti aims to consolidate its position in the IT market through the implementation of some strategic guidelines, such as:

- **Enlargement and reinforcement of the Technological Campus**, with the aim of maintaining a competitive time-to-market, through: (i) development of the proprietary Learning Provider (Reti Academy) which offers on one hand seminars, workshops for learning and experiential training in the technical and managerial field and on the other hand workshops aimed at involving new talents and potential clients; (ii) development of processes related to the prototyping phases of tailor-made technological solutions; (iii) optimisation of processes related to stress tests, testing and delivery of implemented solutions; (iv) enlargement of new laboratories and development of eco-sustainable and flexible environments that respond always faster to rapid changes in the ways of work;

- **Development of ESG strategies**, with the aim of: (i) increasing its positive social and cultural impact (training activities and dissemination events); (ii) encourage professional and personal development in compliance with the work life balance by creating a working environment suitable for fostering the competences development; (iii) increase positive impact of the Company on clients by creating innovative and sustainable products and services; iv) minimise resource use and emissions;

- **Investments in Employees**: aimed at recruiting specialized personnel in the six competence centres. The employees retention is closely linked to the development of specific initiatives of the company for the benefit of employees: technical and managerial training, participation in courses aimed at achieving international certifications, services contained in the corporate welfare plan and rewarding remuneration system;

- **Scouting of new strategic partnerships** with the main players in the IT sector, with the aim of identifying and applying new technological solutions in order to always ensure a cutting-edge offer;

- **Strengthening of the internal sales force**, with the introduction of new professionals exclusively dedicated to the sales activity, which will accompany current technical resources already involved in the sales activities, through the adoption of new ways of the offer proposing.

5.4 Use of Proceeds

Reti concluded the listing on the AIM Italia market in order to find resources finalized to the growth plan acceleration. In particular, the Company has planned to continue its internal and external growth.

- As for the internal growth, the idea is to invest in the expansion and strengthening of the campus, in the organic path of growth anticipation, in the search for new important partnerships, and in R&D activities.

- As for the external growth, the idea is to accelerate its growth through the acquisition of mainly small and medium-sized Italian companies, with the dual objective of further strengthening of the qualified personnel in the current competence centres and acquiring new know-how, in order to penetrate industries where not yet fully represented.

The investments, both for internal and external growth, will be mainly directed to the strengthening of the know-how in terms of Business & Artificial Intelligence, a sector with high development potential. These investments will allow Reti to further penetrate and consolidate its leadership in the high-potential Finance and Industry sectors.

6 Valuation

We conducted the evaluation of Reti on three components:

- Estimation of the ordinary operations value through the DCF and market multiple methods, using the NFP related to the ordinary operations;
- Real estate valuation of the Campus, based on the expert report conducted by Arch. Elena Ciapparelli;
- ESG impact valuation based on the expert report of Professor Paolo Rossi.

6.1 DCF Method

Table 4 – WACC

WACC			6,79%
Risk Free Rate	0,28%	α (specific risk)	2,50%
Market Premium	8,46%	Beta Adjusted	0,75
D/E (average)	42,86%	Beta Relevered	0,98
Ke	9,08%	Kd	2,00%

Source: Integrae SIM

In particular:

- The Risk-Free Rate represented by Rendistato of August 2020 with maturity between 3 years and 7 months and 4 years and 6 months;
- The Market Premium coincides with the risk premium for the Italian market calculated by Professor A. Damodaran;
- D/E is calculated based on the Integrae SIM estimates;
- Ke has been calculated via CAPM;
- Alpha, or additional specific risk, typical of equity investments in companies with small size operations. Being small, the additional small cap risk has been assumed equal to 2.5%, average value among those suggested by the main studies on the subject (Massari Zanetti, Financial Valuation, McGraw-Hill, 2004, p. 145, A. Damodaran, Cost of Equity and Small Cap Premium in Investment Valuation, Tools and Techniques for Determining the Value of Any Assets, III edition 2012, Guatri Bini, New Company Evaluation Treaty, 2009, p. 236);
- Beta is calculated starting from the unlevered Beta to 5 years of competitors;
- Kd coincides with the current cost of the Company's debt.

Using this data, it results in a WACC of 6.79%.

Table 5 – DCF Valuation

DCF Equity Value		27,4
FCFO actualized	6,1	20%
TV actualized DCF	24,5	80%
Enterprise Value	**30,6**	100%
NFP (FY19A)	3,2	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumption, the result is an **equity value of € 27.4 Mln**. For the calculation of the equity value, it was used the share of NFP attributable to the ordinary operations.

Table 6 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		5,3%	5,8%	6,3%	6,8%	7,3%	7,8%	8,3%
Growth Rate (g)	2,5%	56,3	47,5	41,0	36,0	32,0	28,8	26,1
	2,0%	48,2	41,6	36,5	32,5	29,3	26,6	24,3
	1,5%	42,3	37,1	33,0	29,7	27,0	24,7	22,7
	1,0%	37,7	33,6	30,2	27,4	25,1	23,1	21,3
	0,5%	34,1	30,7	27,8	25,5	23,4	21,7	20,1
	0,0%	31,2	28,3	25,9	23,8	22,0	20,5	19,1
	-0,5%	28,7	26,3	24,2	22,4	20,8	19,4	18,2

Source: Integrae SIM

6.2 Market Multiples

Our panel is made up of companies belonging to the same sector of Reti, but many have higher capitalization.

6.2.1 Panel Composition

Alten SA (France) is an international consulting company specialized in technological and engineering innovation founded in France in 1988, has 34,000 employees and is listed on the Paris Stock Exchange since 1998. It operates in the fields of information technology, electronics, embedded software, telecommunications networks and engineering.

Se.Sa SpA (Italy) headquartered in Empoli (FI) and operating throughout the country, it is the head of a Group that is the reference operator in Italy in the field of added-value IT solutions for the business and professional segment. The Group has the mission to bring the advanced technological solutions of the major international IT vendors in the districts of the Italian economy, leading companies in the technological innovation path with particular reference to the SME and Enterprise segments.

Accenture Plc (USA) provides management and technology consulting services and solutions. The company offers a range of specialized solutions to clients in all industrial sectors worldwide. Accenture manages a network of companies that provide consulting, technology, and outsourcing.

Bouvet ASA (Norway) is a Scandinavian company providing consultancy and development services in the field of information and integrated communication technologies to both public and private sector companies.

Reply SpA (Italy) is specialized in the design and implementation of solutions based on the new channels of communication and digital media. Composed by a network of highly specialized companies model, supports main European industrial groups belonging to the Telco & Media sectors, Industry and Services, Banking and Insurance and PA in the definition and development of business models enabled by the new paradigms of AI, Cloud Computing, Digital Media and Internet of Things. Services include: Consulting, System Integration and Digital Services.

Websolute SpA (Italy) is a digital company active mainly in the creation of digital platforms, digital marketing and Brand UX, UI and Customer Journey. In 2018, the company obtained certification as an innovative SME. Websolute, configurable as a Group, is an operating holding company and offers a diverse range of products and services: Digital Platforms, Digital Marketing, Brand UX, UI and Customer Journey, Social & Influencer Marketing, e-commerce Strategy & Management, Cloud & System Integration, Mobile Apps, New Media Publishing, Digital Strategy Consulting and more.

6.2.2 Comparables Financial Highlights

Table 7 – Comparables *(data in € mln)*

FY2019A	**Alten SA**	**Se.Sa S.p.A.**	**Accenture PLC***	**Bouvet ASA**	**Reply S.p.A.**	**Websolute S.p.A.**	**Peer Median**	**Reti**
Country	France	Italy	USA	Norway	Italy	Italy		Italy
Mkt Cap	3.790,0	428,2	114.799,0	403,0	2.597,0	13,3	1.512,6	11,3
EV	3.892,0	401,1	109.602,0	392,0	2.496,0	14,2	1.448,6	14,5
Profitability								
VoP	2.624,0	1.539,9	38.142,0	216,0	1.183,0	12,8	1.361,5	21,2
EBITDA	320,5	64,4	6.353,0	29,7	191,3	2,1	127,9	2,2
Net Profit	180,6	29,3	4.218,2	18,3	113,0	0,7	71,2	0,6
EBITDA Margin	12,2%	4,2%	16,7%	13,8%	16,2%	16,6%	15,0%	10,3%
Net Profit Margin	6,9%	1,9%	11,1%	8,5%	9,6%	5,1%	7,7%	2,7%
Capital Structure								
NFP**	102,0	-27,1	-5.197,0	-11,0	-101,0	0,9	-19,0	3,2
NFP/EBITDA	0,3x	N/A	N/A	N/A	-0,5x	0,4x	0,3x	1,5x

Source: Bloomberg

*Data Accenture 31/08/2019

** The Reti NFP value refers only to Operating NFP

6.2.3 Multiples Method

Table 8 – Market Multiples

Company Name	EV/EBITDA (x)		
	FY20E	FY21E	FY22E
Alten SA	13,0	9,5	8,2
Se.Sa S.p.A.	9,8	8,7	7,8
Accenture PLC	17,5	17,1	16,0
Bouvet ASA	14,4	13,4	12,2
Reply S.p.A.	17,8	15,6	14,2
Websolute S.p.A.	6,1	5,4	4,5
Peer median	**13,7**	**11,4**	**10,2**

Source: elaboration Integrae SIM and market consensus

Table 9 – Market Multiples Valuation

€/mln	2020E	2021E	2022E
Enterprise Value (EV)			
EV/EBITDA	32,2	32,6	34,7
Equity Value			
EV/EBITDA	30,9	29,5	30,7
Equity Value post 25% discount			
EV/EBITDA	23,2	22,2	23,0
Average	**23,2**	**22,2**	**23,0**

Source: elaboration Integrae SIM and market consensus

The equity value of Reti using the market multiples EV/ EBITDA, is about € 30.4 Mln. To this value, we have applied a discount of 25% in order to include in the price also the smaller liquidity that presumably will characterize the Reti stock regarding the comparables: the result is an equity value of € 22.8 Mln. For the calculation of the equity value, was used the share of NFP attributable to the ordinary operations.

6.3 Campus Valuation

The evaluation of the real estate complex in which the Technological Campus of Reti is situated was conducted by Arch. Elena Ciapparelli, member of the Order of Architects P.P.C. of the Province of Varese at N. 3052. The appraisal of the assets *"was obtained following the comparative estimate procedure. Data were collected from various sources, listed below, and the technician selected the most appropriate average value for the area and the current state of conservation of the assets. From a market research, it appears that, at present, there are no properties on the market that can objectively be compared to the properties of Reti S.p.A."*, in fact, "*on one hand, there are no offices for sale similar either by area or by equal finishes (state and conditions) or by equal measures (sizes, dimensions). On the other hand, there are no production spaces for sale in the same area (it is a central area, the manufacturing purpose is allowed only to the previously existing factories) and above all equipped with the latest generation of temperature control systems, external coat, photovoltaic and home automation systems, and finishes comparable to the properties of Reti.".* For this reason the appointed technician "*mainly made use of an interpolation between the two most authoritative price lists available, the Revenue Agency Real Estate Quotation Database (OMI, the 2nd half of 2019, the last currently available), and the Survey of Property Prices in the Province of Varese, published by the Varese Chamber of Commerce, valid for 2019 (the last one available).".* The economic evaluation of the buildings and uncovered areas amounted to € 13.565 Mln, of which € 8.994 Mln attributable to the completed buildings and € 4.570 attributable to the buildings in the design phase.

Table 10 – Campus Equity Value

Equity Value Campus (€/mln)	3,22
Enterprise Value Campus (€/mln)	13,57
NFP Campus 19A (€/mln)	10,35

Source: Integrae SIM

The enterprise value of the real estate complex has been estimated at **€ 13.57 Mln**, the NFP connected to the Campus is equal to € 10.35 Mln. As a result, the **equity value of the Campus is equal to € 3.22 Mln.**

6.4 ESG Valuation

Investors' attention to ESG issues is constantly growing. This is evidenced by the increase in the investments managed according to criteria oriented towards social and environmental sustainability and fair governance. Studies especially on the US market show that active portfolio management strategies that integrate traditional value-based analysis models and ESG criteria achieve better performance.

The data also shows that the best portfolio investment strategies are those that combine ESG ratings with fundamental analysis considerations, in particular the price earnings ratio, to further demonstrate the benefits of an integrated approach in asset allocation. An in-depth analysis of the performance determinants for stocks in the index reveals that companies with a high ESG rating have been more efficient both in increasing Value of Production volumes and in improving operating marginality (which in median value is negative for other enterprises), and in the dividend yield. The evidence is consistent with the assumption that the adoption of ESG best practices is the source of a long-term competitive advantage.

The market's focus on ESG issues is evidenced by the growing number of companies that, in addition to traditional economic and financial documents, publish additional information related to this area, as well as the growing number of institutional investors that openly rely

on these criteria, not only in the context of traditional asset management, but also for alternative investments such as private equity and at the time of the collection on the primary market (it is considered the green bond market growth). Specialised analysts who introduced aggregated indices and rating measures in the field of ESG are also growing. According to data from some analysts (Bloomberg, Merrill Lynch, Global Sustainable Investment Alliance) in 2016 the stock of investments allocated according to ESG criteria was equal to 23,000 billion dollars, strongly increasing compared to previous years. In Europe, the share of new investments managed in accordance with ESG criteria has now exceeded 50%.
There is no well-defined taxonomy of investment criteria compatible with the ESG paradigm. However, it is possible to identify some shared strategies (Bernow et al., 2017; Sandrin, 2018):

- **Screening**. It consists in the *tout court* exclusion of certain areas of business from asset allocation, considered unethical (weapons, tobacco, gambling) or not eco-friendly. It is a "passive" approach easy to implement, but that does not consider the differences between each single company.
- **ESG integration**. In the stock picking phase, an ESG rating is actively allocated to individual companies, depending on certain observable or estimable parameters. These factors are then considered alongside to the traditional ones adopted by economic and financial analysts. This is clearly an approach that requires collection and analysis of numerous data, and therefore a significant investment in terms of time and competences.
- **Best-in-class**. It consists in the selection, within all possible business sectors, of companies that perform better based on the ESG criteria.
- **Focalisation**. In this case the choice is made to focalize on a single investment topic, which could be the eco-efficiency, sourcing, governance, exploitation of workers.
- **Engagement**. The sensitivity of the market to ESG issues has led institutional investors to be increasingly active not only in the analysis of investment opportunities, but also ex post through moral suasion actions if not open criticism in the appropriate venues such as the shareholders' assemblies, in order to convince the financed companies to improve.

6.4.1 Reti ESG Valuation

The evaluation of ESG value creation by Reti was conducted by Professor Paolo Rossi and is based on two different categories of evaluation: welfare activities and projects for communities and territories and projects and business solutions of Reti:

- Welfare activities and projects for community and territory: the promotion of social projects and activities, in line with the Company's corporate mission, allows to generate positive cultural and economic repercussions in the community to which it belongs, generating a positive social impact in the medium-long term that is the fundamental objective of a company considered "socially oriented" and an integral part of a community. The methodological tool used is the one related to the so-called "impact value chain", which allows to identify the different steps in which the so-called theory of change is expressed. The produced outputs, for each category of stakeholders, have been classified as capital goods and/or services resulting from an active participation or activity carried out by the Company in a value creation chain, in the short term, the effects of which are directly controllable and/or attributable to the Company itself. The outcomes were considered to be the observed benefits over the medium term of the activity's outputs;
- Projects and business solutions: Reti, in order to increase its impact on customers, is committed to creating innovative and sustainable products and services through the promotion and dissemination of its values, the adoption of an open business model in

terms of exchange of ideas and skills, the connection between people and technology, as well as through projects that also have positive social and environmental aims. The analysis conducted by Professor Rossi has considered the benefits of some Reti projects: digital banking projects, urban mobility projects and migration projects on the cloud.

Table 11 – ESG Valuation: Discounted Values *(data in € mln)*

	FY19A	FY20E	FY21E	FY22E	FY23E	Total
Welfare activities and projects for community and territory	1,25	0,81	0,75	0,73	0,80	**4,33**
Business Projects and Solutions	-	3,07	0,55	0,44	0,38	**4,45**
Total Discounted Value	1,25	3,88	1,29	1,17	1,18	**8,78**

Source: Integrae SIM

According to Professor Rossi's estimates regarding the generation of ESG value by Reti, the value generated by welfare activities and projects for community and territory from 2019 to 2023 will amount to € 4.33 Mln, while the value generated by projects and business solutions in the same period will be equal to € 4.45 Mln. The total estimated value is therefore € 8.78 Mln.

6.5 Conclusions

Table 12 – Equity Value

Average Equity Value (€/mln)	25,1
Equity Value DCF (€/mln)	27,4
Equity Value multiples (€/mln)	22,8
Target Price (€)	**1,95**

Source: Integrae SIM

The average equity value is equal to € 25.1 million. The target price is, therefore, € 1.95, BUY rating and MEDIUM risk.

Table 13 – Implied Multiples – Sensitivity Analysis

Equity Value (€/mln)	EV/EBITDA			EV/EBIT		
	2020E	2021E	2022E	2020E	2021E	2022E
22,0	10,7x	8,8x	7,4x	21,9x	15,8x	11,5x
23,0	11,2x	9,2x	7,7x	22,8x	16,4x	11,9x
24,0	11,6x	9,5x	8,0x	23,7x	17,0x	12,4x
25,0	12,0x	9,9x	8,3x	24,5x	17,6x	12,8x
26,0	12,4x	10,2x	8,6x	25,4x	18,3x	13,3x
27,0	12,9x	10,6x	8,9x	26,3x	18,9x	13,7x
28,0	13,3x	11,0x	9,2x	27,1x	19,5x	14,2x

Source: Integrae SIM

In addition, we highlight that within the complex of assets organized by the entrepreneur there are therefore two additional configurations of value for the benefit of shareholders:

- Tangible assets, represented by the net value of the real estate complex, functional to the entire business and equal to € 3.22 Mln;
- Intangible assets, represented by the creation of ESG value able to positively impact the whole complex of interests that revolve around Reti and, by these means, not only ensure its economic survival, but above all its growth in the medium and long term (equal to € 8.78 Mln).

There is therefore a total additional value of about € 12.00 Mln that Reti is able to generate and that traditional valuations based on cash flows and/or multiples of comparable companies are not able to capture. Additional value that constitutes the uniqueness of Reti within the panorama of companies operating in the same business segment.

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

The methods that INTEGRAE SIM SpA prefers to use for value the company under analysis are those which are generally used, such as the market multiples method which compares average multiples (P/E, EV/EBITDA, and other) of similar shares and/or sectors, and the traditional financial methods (RIM, DCF, DDM, EVA etc). For financial securities (banks and insurance companies) Integrae SIM SpA tends to use methods based on comparison of the ROE and the cost of capital (embedded value for insurance companies).

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