Softec | Italy | FTSE AIM Italia | Digital

Rating: BUY | Target Price: € 2,20 | Initiation of Coverage | Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	-6,15%	-1,18%	-13,40%	47,37%
to FTSE AIM Italia	-10,52%	-17,43%	-39,80%	11,72%
to FTSE STAR Italia	-11,13%	-10,75%	-37,66%	-28,77%
to FTSE All-Share	-11,31%	-10,22%	-39,87%	-7,25%
to EUROSTOXX	-9,88%	-9,31%	-33,74%	-6,60%
to MSCI World Index	-6,88%	-7,14%	-35,27%	-28,00%

Stock Data	
Price	€ 1,68
Target price	€ 2,20
Upside/(Downside) potential	31,0%
Bloomberg Code	YSFT IM Equity
Market Cap (€m)	€ 4,20
EV (€m)	€ 6,37
Free Float	10,01%
Share Outstanding	2.497.960
52-week high	€ 3,32
52-week low	€ 1,14
Average daily volumes (3m)	2.300

Key Financials (€m)	FY19A	FY20A	FY21E	FY22E
Revenues	6,7	5,5	7,0	8,2
VoP	6,7	5,5	7,0	8,2
EBITDA	0,3	-0,3	0,4	0,7
EBIT	-0,7	-1,1	-0,2	0,1
Net Profit	-1,0	-1,1	-0,3	0,0
EBITDA margin	4,8%	-4,8%	5,0%	7,9%
EBIT margin	-10,6%	-19,4%	-2,1%	1,8%
Net Profit margin	-15,6%	-20,6%	-3,6%	0,4%

Main Ratios	FY19A	FY20A	FY21E	FY22E
EV/EBITDA (x)	19,8	N/A	18,2	9,8
EV/EBIT (x)	N/A	N/A	N/A	43,4
P/E (x)	N/A	N/A	N/A	131,1

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Stocks performance relative to FTSE AIM Italia
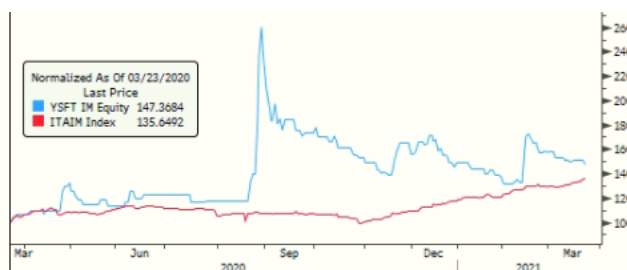
Company Overview

Softec SpA, a company listed on the AIM segment of Borsa Italiana with offices in Milan and Prato, operates in the digital innovation services sector with a focus on Phygital Retail, Industry 4.0, and data-driven Customer Experience. With more than 20 years of history, Softec provides its "turnkey" and SaaS services through Orchestra: a highly scalable cloud-based customer data platform. During 2020 the Company undertook major changes in top and middle management, hired new commercial resources, reorganized technical area, and began to reorganize the business lines, to strengthen the proprietary products, with a focus on the Internet of things, Blockchain, and Artificial Intelligence.

Market

Mordor Intelligence estimates that the global digital transformation market generated a value of approximately $ 999 billion in 2020, and is expected to reach $ 2,745 billion in 2026 (CAGR $21-26$: 18.5%), while the value of the robotics market in 2020 was $ 23.67 billion and is expected to reach $ 74 billion in 2026 (CAGR: $21-26$: 20.4%).
In 2019, total IoT market revenues grew by 6.19% year over year up to $ 686 billion.
The value of the global cloud computing market is expected to increase from $ 371.4 billion, in 2020, to $ 832.1 billion in 2025 (CAGR $20-25$: 17.5%).

Valuation Update

We have conducted the valuation of Softec equity value based on the DCF methodology and market multiples of a comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.5%) provides an equity value of € 6.5 million. The equity value of Softec using market multiples is € 4.5 million (including a discount of 25%). The result is an average equity value of approx. € 5.5 million. The target price is € 2.20, rating BUY and MEDIUM risk.

Summary

1. Company Overview

1.1 Activity

Softec Spa ("Softec"), a Company listed on the AIM segment of Borsa Italiana with offices in Milan and Prato, operates in the digital innovation services sector with a focus on phygital retail, industry 4.0, and data-driven customer experience. With more than 20 years of history, Softec provides clients with its "turnkey" and SaaS services through Orchestra: highly scalable cloud-based customer data platform.

The Orchestra platform enables Softec to provide its customers with an omnichannel experience that natively integrates artificial intelligence, IoT, and robotic process orchestration. Since 2016, Softec has been a member of Pepper Partner Europe.

In addition to its proprietary platform, Softec has a portfolio of customers, in which more than fifty counterparties, belonging to different product areas, participate and it operates thanks to the expertise of around sixty professionals and the offer deriving from more than twenty high-standing specialized partners.

During 2020, the Company undertook major changes in top and middle management, inserted new commercial resources, reorganized and focused on the technical area, and began to reorganize the business lines, to strengthen the proprietary products, with a strong focus on the Internet of things, Blockchain and Artificial Intelligence. Management objectives are optimization and efficiency of commercial and technical development processes and new competitive positioning as a qualified technological partner to support retailers and manufacturing companies in the digital evolution of their business process in terms of industry 4.0 and retail 4.0.

The Company controls 49% of TradeTracker Italia Srl, part of TradeTracker International: leader in performance marketing in many European States, it is a performance affiliate network that uses innovative, simple, and transparent technology, through which the client can accurately monitor the progress of the web campaigns, optimizing their ROI. This for Softec represents a remarkable advantage both in the process of valorization of its media and in the support to customers.
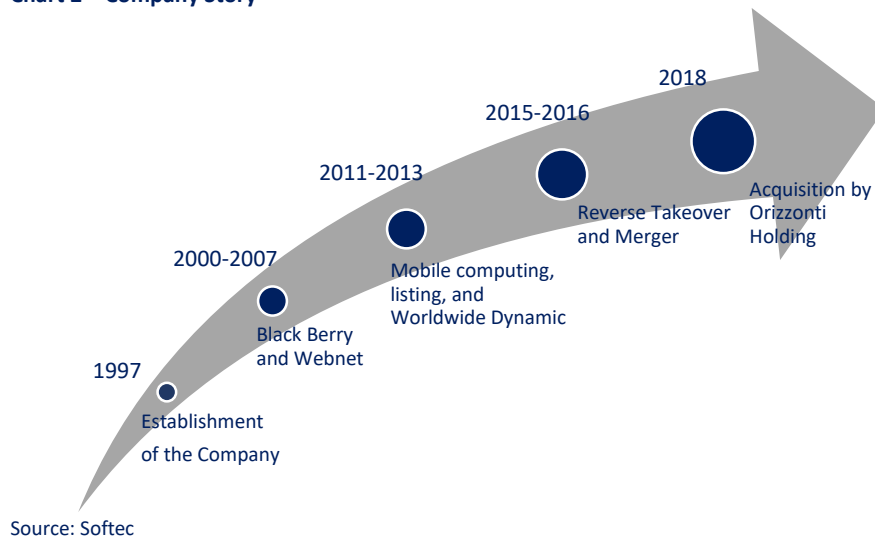
Chart 1 – Softec Projects

Source: Softec
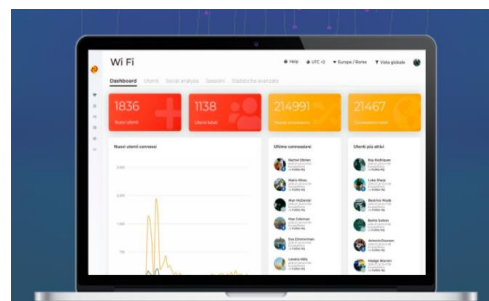
1.2 Company Story

Chart 2 – Company Story

Source: Softec

- In 1997, the Company was founded in the form of a limited liability company. The move to a SpA took place only in 2000.

- In 2000 and until 2005, the Company concentrated its efforts on the spread in Italy of Black Berry equipment and in 2007 signed an agreement with a primary operator of telephony for the installation and management of Black Berry technology. Subsequently, in 2008, the merger with Webnet Srl was concluded: the first step of an expansion process characterized by the acquisition of branches and investments in synergetic companies.

- In the following years, the company focused on mobile computing and, in 2011, signed an important partnership with a second international telephone operator. In order to accelerate its growth, in 2012, the process of listing on the Mercato Alternativo del Capitale was concluded, during the same year, the Company switched to the multilateral trading system AIM Italy. In 2013, Softec acquired a significant share in Worlwide Dynamic Company International Ltd.

- In 2015, the reverse takeover operation was carried out with the contribution of FullPlan and FullDigi by FullSix Spa, which, as a result of the transaction, increased to 70% its share capital of Softec. FullDigi is active in the digital communications sector, focusing on the following activities: digital strategy, creativity, web design & user experience, customer relationship marketing, software development, and mobile sites & apps. FullPlan is active in the digital communications sector, mainly in the following activities: SEO (Search Engine Optimization), SEA (Search Engine Advertising), Social Media Marketing, Performance Media Marketing, and Web Analytics. In 2016 the merger with FullPlan and FullDigi took place. In 2017, a capital increase was approved, bringing in new financial shareholders.

- In 2018 the acquisition by Orizzonti Holding took place. OH Spa carried out a takeover bid on FullSix and, consequently, on Softec (price € 3 per share), acquiring a direct share in Softec of 39.56% and indirect control of the company, having acquired 85.48% of FullSix (76.37% OH Spa and 9.11% of the subsidiary Centro Studi Srl). In 2020, OH granted to FullSix its share in Softec.

1.3   Shareholders and Structure

Chart 3 – Shareholders

Stakeholders	Share
Fullsix Spa	89,99%
Market	10,01%

Source: Softec

The Company is controlled 89.99% by Fullsix Spa and the remaining 10.01% by the market.

In turn, Softec controls 49% of TradeTracker Italia Srl, part of TradeTracker International: leader in performance marketing in many European States, it is a performance affiliate network that uses innovative, simple, and transparent technology, through which the client can accurately monitor the progress of the web campaigns, optimizing their ROI.

1.4   Key People

Marco Morini – General Manager

After graduating in Computer Engineering from the Polytechnic of Milan, before becoming General Manager of Softec (in January 2020), he held the following positions: Team leader technical server support at Fujitsu from 2004 to 2005, BlackBerry Administrator at Italtel from 2006 to 2008, Partner in Qubbo from 2017 to 2018, Partner in DriveLikeYou from 2017 to 2018, CEO of TechMobile Srl from 2009 to 2018 and Executive VP of Sales at BSS-One. In addition to this, he has been involved in consulting activities during 2019.

Alessandro Ghizzardi – CTO

He has been holding the position of CTO at Softec since June 2020, after almost four years as Information Technology Team Leader of the Company. Before joining Softec, he held various positions in Companies such as Conde Nast, Microsoft, FullSix, Il sole 24 Ore, and Prodigit. In addition to this, he was Co-owner and CTO of Phase Information Technologies, Owner and CEO of Mecenate Aste, President and founding member of Umbracoitaliae, and Co-owner and Founder of Ituna. He is also a founding member of UGido NET.

Daniele Cardesi – Sales Director

He has been a Sales Director at Softec since April 2020. Previously he was: Web Developer and Key Account of Modus Informatica & Sistemi – Espin, Sales agent of Manetti&Roberts, CEO of Zerozero39 Srl, Sales Director of PrivateWave Italia, Enterprise Mobility Business Unit Manager of S2E, Business Development Manager of Habble, Business Development Manager of Extra Group and Digital Solutions Manager of Extreme Automation.

Massimo Furoni – Chief Marketing Officer

He has been Chief Marketing Officer at Softec since June 2020, previously having served as Head of Data-Driven Communication within the Company for about four years. After his studies at the University of Milan, he was: Copywriter in OgilvyOne for seven years, Senior copywriter in Ogilvy & Mather for three years, Senior copywriter & Social Media Strategist for nearly ten years, and Head of Content & Social Media for nearly eight years in FullSix.

2. The Business Model

Softec's business is evolving to support the ongoing repositioning plan, in particular, the business model is moving from the original perspective of a web agency to a tech company perspective. In particular, thanks also to the continuous investment in the development of the proprietary platform Orchestra, the Company is moving from a business model based mainly on consulting to a new phase of Platform Driven Solution that aims to spread the platform and the industrialized solutions based on it, thus guaranteeing the scalability of the business. In fact, the platform was designed as an open ecosystem, with distributed APIs and SDKs, where third parties can develop in SaaS mode or "turnkey".

As mentioned, the adoption of the new business model follows the new positioning strategy with a focus on Retailers and enterprises B2B2C, Retail 4.0, and Manufacturing 4.0, which will lead to an expansion of the customer base also toward smaller players (SMEs and small business) characterized by the need to digitize their business models, also favored by government contributions for investments in digital innovation.

In addition, as a result of the repositioning, revenues will increasingly be supported by SAAS fees for proprietary assets, subject to technological enhancement in terms of development and integration with other proprietary or third-party platforms to increase attractiveness and potential.

2.1 Product and Services Portfolio

In carrying out its business, the Company has identified a number of specific focuses on which, transversely, the offer is developed:

- **Phygital IoT & Retail Experience**: in this area, management believes that the physical location will continue to be of strategic importance to the business but with a very different point of view. The physical place will pass from the final moment of purchase to a fundamental and dynamic element of the customer experience with the product or service;
- **Platforms & Robotics**: in the process of evolution toward omnichannel models, platforms play a fundamental role. In this context, Softec, thanks to its assets and third-party platforms, is able to help its customers in the development and efficiency of its business;
- **Brand & User experience**: in the customer experience segment, data is becoming increasingly important as it can converge all tactical actions into a common strategy of technology, user experience, media, and content, monitored by precise KPIs and continuously optimized in terms of performance to ensure maximum ROI.

In relation to the described focus, the Company deals with: platform programming and management activities, marketing and CX activities, UX/UI/ Service Design activities, and concept ideation.

Softec offers its customers four main product and service lines:

- **Platform:** the Platform division specializes in developing and selling services that can be delivered through proprietary platforms. The solutions of this division allow companies to communicate personalized messages for target customers at the best time and in the best places. They also allow faster access to the free wi-fi network through social log–in, which, together with a marketing intelligence and automation system, can better recognize customer habits, promote activities and events, and

study services to enhance the experience. Since 2016 Softec has been a partner of Softbank Robotics and distributes Pepper and Nao robots, developing customized applications through the Orchestra platform;

- **Communication:** the communication division comprises a set of services and consultancy, aimed at promoting business development through an important presence on digital channels;

- **Data-Driven Marketing:** Softec collects and analyzes customer data to better understand their needs and design an optimized, functional strategy and user experience;

- **Digital Transformation:** this division includes a set of technological services and services aimed at fostering the design and development of multi-channel solutions and IT projects.

<u>Platform</u>

Within the platform division Softec has several platforms:

- **DesktopMate:** is a Mobile Application Management and Mobile Device Management platform that allows switching from static application to a dynamic management system of services delivered through mobile devices, subsequently, it becomes a new channel of communication with end-users. The platform integrates, together with service management, the management and control of smart objects (IoT). DesktopMate allows to dynamically manage the content of a mobile client, which presents itself to an end-user as a simple application. Thanks to its unique features it is possible to use its functionality, to create an innovative channel of direct communication with end-users also through push messaging. A successful example of this platform is the ConadApp, an application implemented for the company Conad, with which it is possible to check the details of the membership card, the points balance, the current promotions, as well as the geolocation of the nearest stores but also a timely marketing channel with which to reach customers with promotional and ADV content;

- **Orchestra:** cloud-based computing platform for the collection, aggregation, consultation, and correlation of data from the use of physical and non-physical spaces, to provide anonymous or profiled information useful to improve the user experience. The data can be collected in different places: public places, museums, theaters, shops, sports facilities, shopping centers, airports, train stations, conference rooms, and others. The data is collected through the various services offered by Orchestra:

  - WiFi;
  - Beacons;
  - Internet of things (IoT);
  - Customer Relationship Management (CRM);
  - Gamification & behavioral analytics;
  - Mobile Engagement;
  - Robotics.

- **Orchestra Robotics MBS:** is a Behavioral Management System platform, which can be integrated into Orchestra, that manages end-to-end application development, behavior development, distribution, and management of the fleets of humanoid robots, allowing the collection of KPIs and analytical data of the context. The platform natively supports AI through integration with Microsoft Azure, IBM Cloud, and TensorFlow.

Communication

The communication division covers several services:

- **Digital Experience & Service design:** Softec designs digital services and solutions that help companies to build trust with their users, supporting business and loyalization of the enterprises' clients. Softec is dealing with a user-centered approach with high added value, aimed at creating a new digital experience for users;

- **Digital Strategy & Communication:** Softec develops the identity and digital presence of its customers, paying particular attention also to the social dimension, with a multichannel perspective, activating on a case-by-case basis the most appropriate and with greater added value channels. It also designs personalized digital experiences to engage consumers and connect them with the brand;

- **Solution Building:** Softec continuously develops and evolves its digital skills to predict the needs of consumers with the most appropriate and innovative means and technologies. The Company realizes digital solutions in order to satisfy the expectations of consumers who, in a market in continuous evolution, are increasingly prepared, attentive, sensitive, and above all demanding toward brands;

- **Data Management:** the interdisciplinary and integrated approach aims to strengthen the link between the brand and the end-user. Softec collects, analyzes, and processes the most relevant data in the digital landscape to generate new opportunities, and develop tailored solutions to support its customers.

Data-Driven Marketing

Softec supports companies to seize the opportunities of digital communication, reducing its complexity and increasing its effectiveness and efficiency. It also assists enterprises in crossing the boundaries between multiple digital media platforms, in order to build relationships with their customers, optimize average investment, and monitor results in an integrated way. Depending on the objectives to be achieved, Softec offers several services:
- content marketing;
- display and video advertising;
- search engine optimization;
- search engine advertising;
- lead generation;
- direct e-mail marketing;
- social advertising & management.

Digital Transformation

Softec supports companies in the digitization process by offering three main types of services:

- **Digital Experience & Service Design:** design and development of digital solutions that help companies build a trustful relationship with their users, supporting business and brand loyalty;

- **Technology Design:** designing services that help companies meet their growth and development needs, helping them through the digitization process and providing suitable technology tools;

- **Technology Development:** develop and integrate platforms for content management, collaboration, e-commerce, mobile apps, and other web-based platforms to make everyday work easier, more efficient, and more profitable.
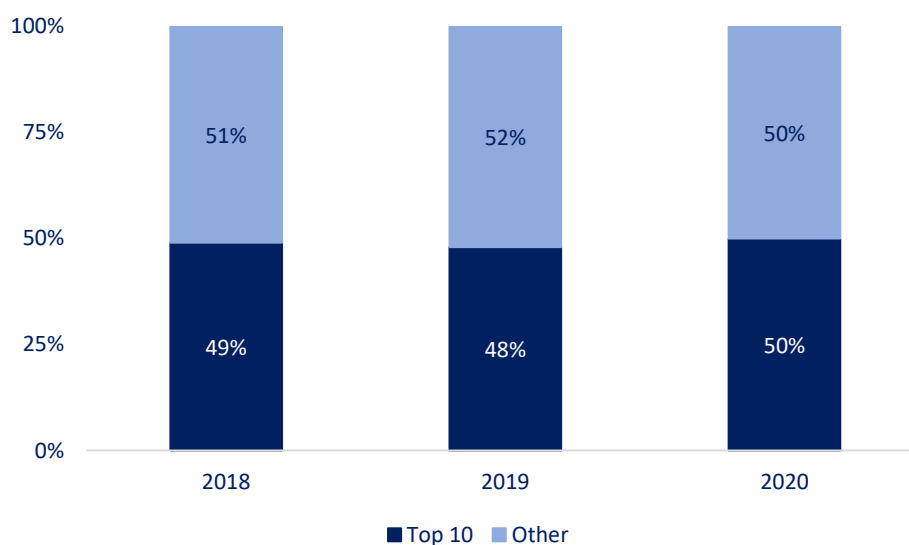
2.2   Clients and Providers

2.2.1 Clients

Chart 4 – Top 5 Client Weight
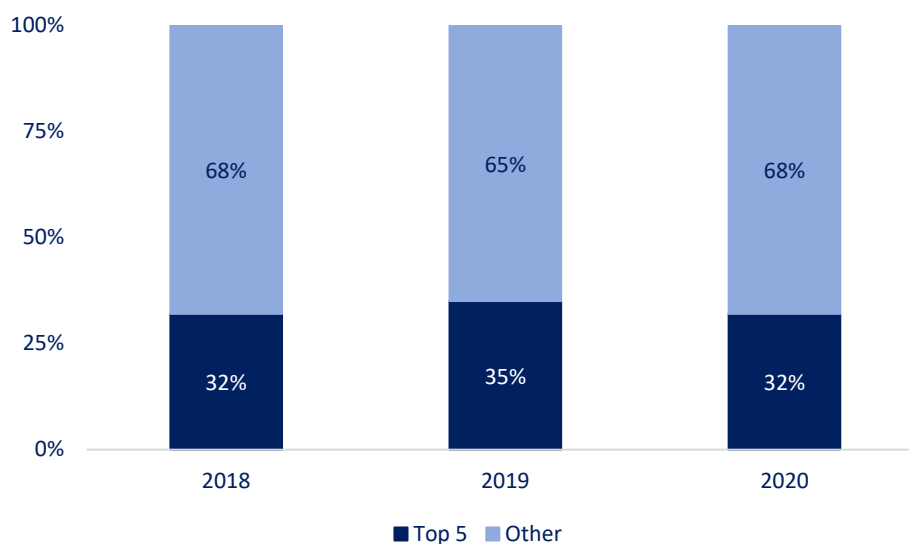
Source: Integrae SIM

**Chart 5 – Top 10 Client Weight**

Source: Integrae SIM

Softec, in addition to already consolidated important clients, thanks to the ongoing repositioning process, has already had the opportunity, during 2020, to sign contracts with new important counterparties and is working to formalize new contracts with prospect clients. In the search for new clients, the Company has implemented the inbound methodology to produce highly qualified leads through a path based on communication strategies of high-value content that are converted into opportunities through elements of digital attraction. For the correct implementation of this strategy, Softec has set up the Hubspot tool, a world-leading solution for the application of inbound methodologies. The Company does not have any concentration problems in its clients portfolio. In addition to this, a share close to 20% of total clients is linked to Softec by multi-year contracts.
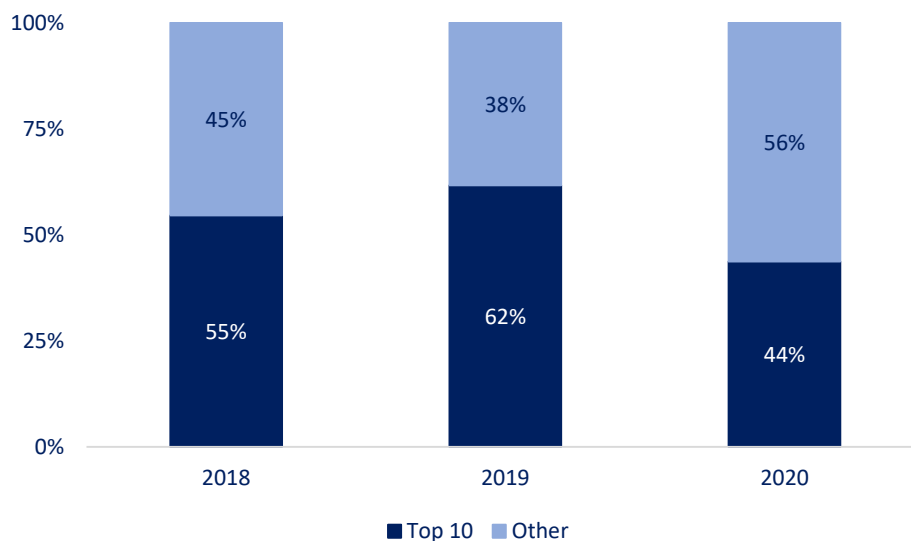
2.2.2 Providers

Chart 6 – Top 5 Provider Weight
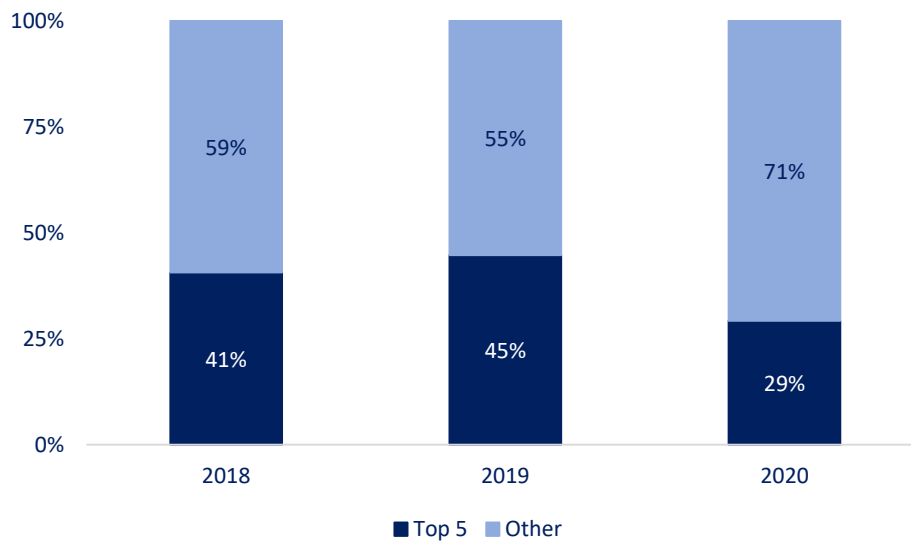
Source: Integrae SIM

**Chart 7 – Top 10 Provider Weight**

Source: Integrae SIM

The Company acquires goods and services from partner companies, certified leaders in the reference sectors, in order to guarantee its clients innovative and technologically advanced solutions and high-standing performance. Softec partners are mainly related to two categories: technological partners and strategic partners. Technological partners include companies such as Tag Distribuzione, Kleecks, Cookiebot, SoftBank Robotics, Thawte, VeriSign, Google, Facebook, Cisco, HubSpot, Liferay, Magnolia, Mobile Iron, Mobile Tornado, Libellum, Blackberry, ReteApps, Cloudflare, Cisco Meraki, Umbraco, Atonomo, Keetings, Open CMS, and Positive Technology. Strategic partners include EY, Microsoft, Think Open, Irideos, TIM, and AGM. Even in terms of providers portfolio, despite the partnership links, there are no problems of concentration or dependence. In addition, in 2020, consolidation and expansion of the relationship with channel partners was developed in order to broaden both the perimeter of the offer and the number of relationships and interactions.

3.   The market

3.1   Digital Transformation

Digital transformation is the use of digital technologies to change business models to provide new opportunities for value generation: it is the process of moving from a traditional enterprise to a digital enterprise. Digitization, through software implementation, helps companies to improve their brand reputation, customer experience, and customer retention. The industries that mainly adopt digitization processes are: automotive, food & beverages, IT, telecom, banking financial services and insurance (BFSI), retail. Mordor Intelligence estimates that the global digital transformation market in 2020 has a value of around $ 999 billion and is expected to reach $ 2.745 billion in 2026 (CAGR 21-26: 18.5%).

Chart 8 – Digital in the world 2019 *(Data in bln)*
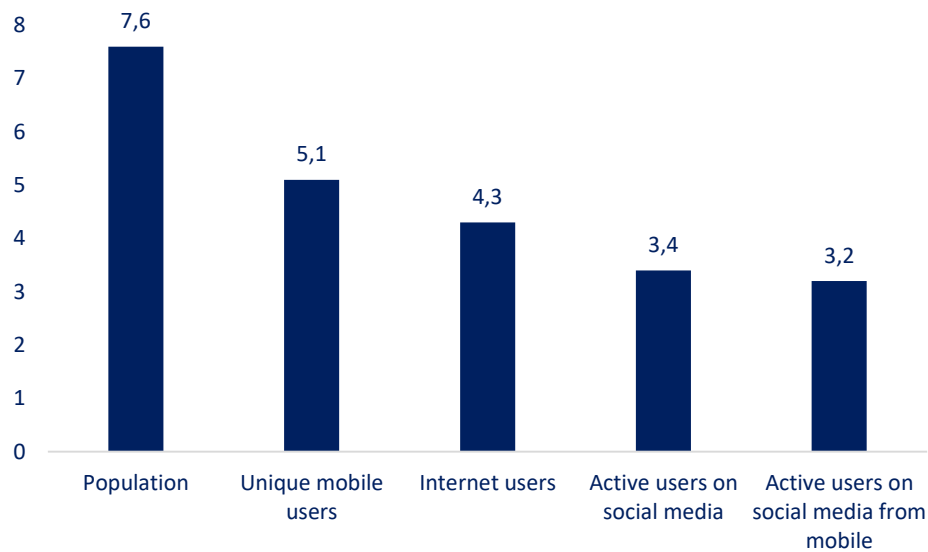
Source: The evolution of the company with the 4th Industrial Revolution November 2019, Casaleggio

Digital around the world has a very important presence. With a population of about 7.6 billion, mobile users are 5.1 billion, with a penetration of 67%. Internet users are 4.3 billion with a penetration of 57%, active users on social media are 3.4 billion with a penetration of 45% and active users on social media from mobile are 3.2 billion with a penetration of 42%.

According to the estimates of Statista, including the effects of the Covid 19 pandemic, it is expected that investments in digital transformation will reach a total of $ 6.8 tln over the period 2020-2023. In 2020, the value of the global digital transformation market is expected to be $ 1.3 tln.

Chart 9 – Industry 4.0 market size in Italy *(Data in € bln)*

2,4	3,2	3,9
2017	2018	2019
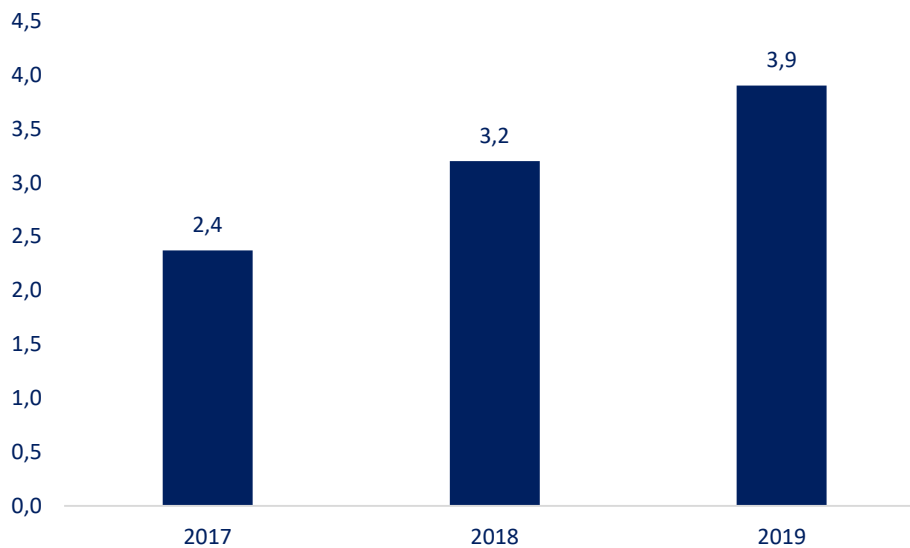
Source: Observatory Industry 4.0 of the School of Management of the Politecnico di Milano, June 2020

The 4.0 Italian industry market in 2017 had a value of around € 2.4 billion. In 2018, it reached a total value of € 3.2 billion, up 35% from 2017. In 2019, the market value was € 3.9 billion, an increase of about 22% compared to the previous year. The Italian industry market in 4.0 grew to a CAGR of 28.27% in the period 2017-2019.

Among the main sectors of the digital transformation market there are: robotics, internet of things (IoT), big data & analytics, machine learning & artificial intelligence, cloud.

3.2   Robotics

Robotics is the meeting point for the technology, engineering, and manufacturing of machinery that replicates human movements. The goal of robotics is to improve business performance. This market is undergoing an intense transformation, with robots starting to take the role of personal assistants, medical assistants, delivery vehicles, autonomous vehicles, exoskeletons, and unmanned aerial vehicles. The value of the robotics market in 2020, according to Mordor Intelligence estimates, is $ 23.67 billion and is expected to reach a value of $ 74 billion in 2026 (CAGR 21-26: 20.4%).

3.3   Internet of Things

The Internet of things (IoT) identifies the path in technological development whereby, through the Internet, some objects of daily experience acquire their identity in the digital world. In fact, thanks to the developments in communication technology and data analytics, many intelligent objects can collect data, analyze it, and possibly perform autonomous actions.

Chart 10 – Italian IoT market value 2016-2019 *(Data in € bln)*
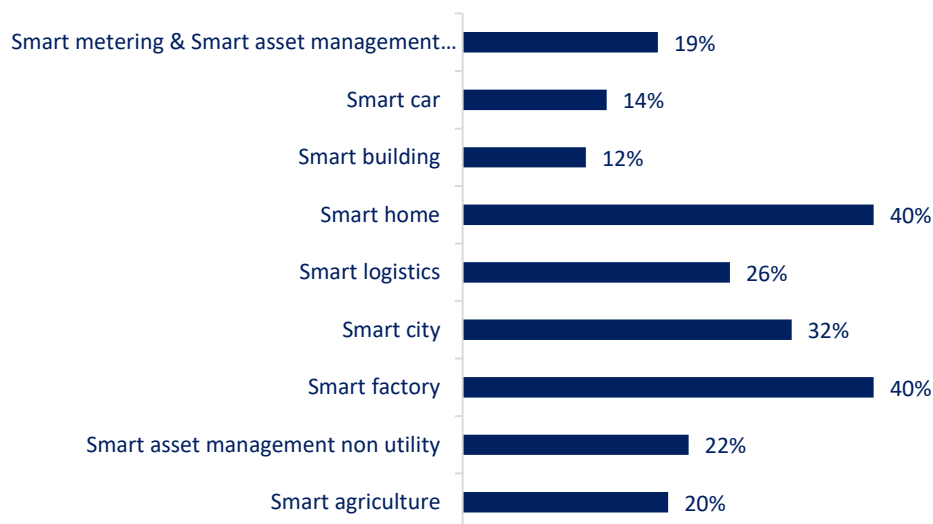
	2016	2017	2018	2019
Value	2,8	3,7	5,0	6,2
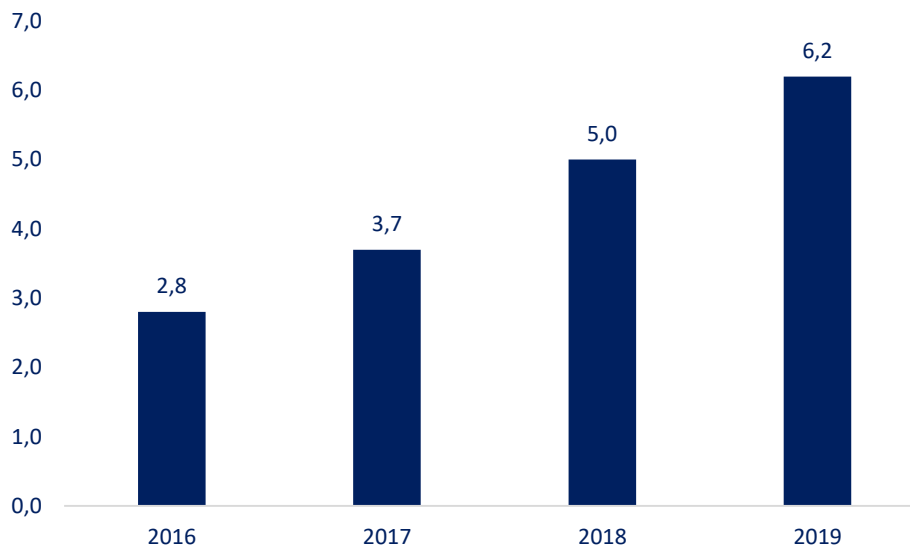
Source: Osservatorio Internet of Things of the School of Management of Politecnico di Milano, 2020

In Italy, according to data provided by Politecnico di Milano, the IoT market has increased from a value of € 2.8 billion in 2016 to a value of € 6.2 billion in 2019 (CAGR 16-19: 30.34%). In 2019, there was a growth of 24% year on year, an increase that is typically aligned with that of the major western countries (ranging from 20% to 25%). The increase in market size is supported both by the more consolidated applications that exploit the traditional mobile connectivity with a value of € 3.2 billion (+14% compared to 2018) and by those that use other communication technologies with a value of € 3 billion (+36% compared to 2018). A marked increase also derives from the component of services enabled by connected objects, which registered an increase of 28% and reaches a value of € 2.3 billion, a sign of the growing maturity of the market.

Chart 11 – Changes in IoT segments in Italy 2018-2019

Segment	Change
Smart metering & Smart asset management…	19%
Smart car	14%
Smart building	12%
Smart home	40%
Smart logistics	26%
Smart city	32%
Smart factory	40%
Smart asset management non utility	22%
Smart agriculture	20%

Source: Internet of things Observatory of the School of Management of Politecnico di Milano

In 2019, Smart metering & smart asset management in utilities was the most important segment of the IoT market, with a value of € 1.700 billion, equal to 27% of total revenues, and overall, it showed a growth of 19% compared to 2018.

The smart car segment, has a value of € 1.2 billion, equal to about 19% of the market, and had an increase of 14% compared to the previous year. Smart building, with a value of € 670 million (10.8% of the market), increased by 12% compared to 2018.

The segments with the most significant growth were smart home (€ 530 million, +40%), mainly thanks to the increasing demand for voice assistants, the smart factory (€ 350 million, +40%), which in the last three years has benefited from the incentives provided by the National Plan Industry 4.0, and the smart city (€ 520 million, +32%), which experienced growth of the number of projects launched by many Italian municipalities and the birth of new initiatives and collaborations between public and private sectors.

Chart 12 – Total number of device connections worldwide (inlc. Non-IoT) *(Data in bln)*

Source: IoT Analytics market insights for the internet of things, November 2020

The total number of devices, including both IoT and non-IoT devices, is estimated to increase from 21.6 billion in 2020 to 41.2 billion in 2025 (CAGR 20-25: 13.79%). In the same period, Non-IoT devices are expected to pass from 9.9 billion to 10.3 billion (CAGR 20-25: 0.8%). While IoT devices are expected to move from 11.7 billion to 30.9 billion (CAGR 20-25: 21.44%).

3.4 Big Data & Business Analytics

The Italian big data analytics market is dynamic and more and more mature, with some companies showing an advanced level of technology use, complex experimentation, and data science skills, and others that, even late, are increasing their investment and focusing on data integration projects.

Chart 13 – Italian analytics market 2015-2020 *(Data in € mln)*
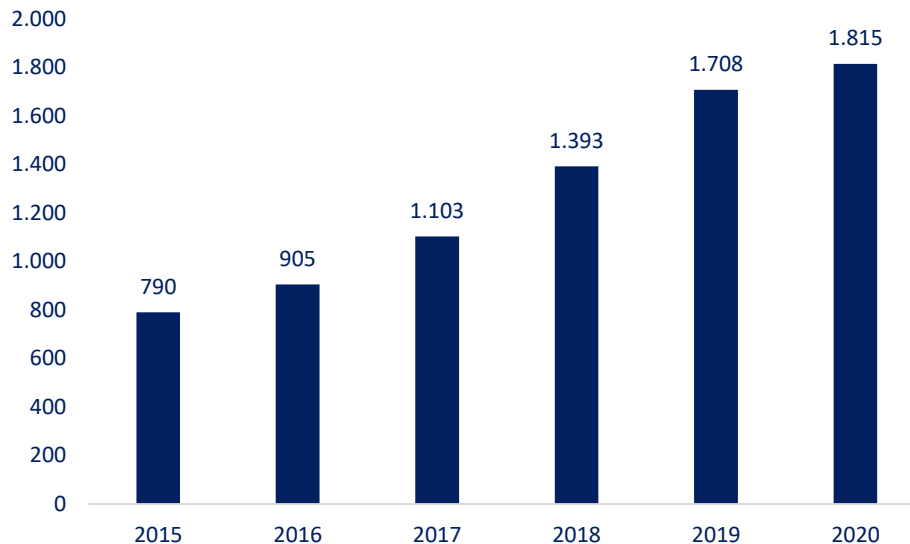
Source: Big Data & Business Analytics Observatory Milan Polytechnic, November 2020

Italian big data market grew by 23% between 2017 and 2018. In 2019, the market reached € 1,708 million value, increasing by 26% compared to 2018 and more than twice as high as in 2015 (CAGR 15-19: 21.3%). In 2020, by contrast, the market grew by 6% over the previous year, failing to maintain the same growth as in recent years.
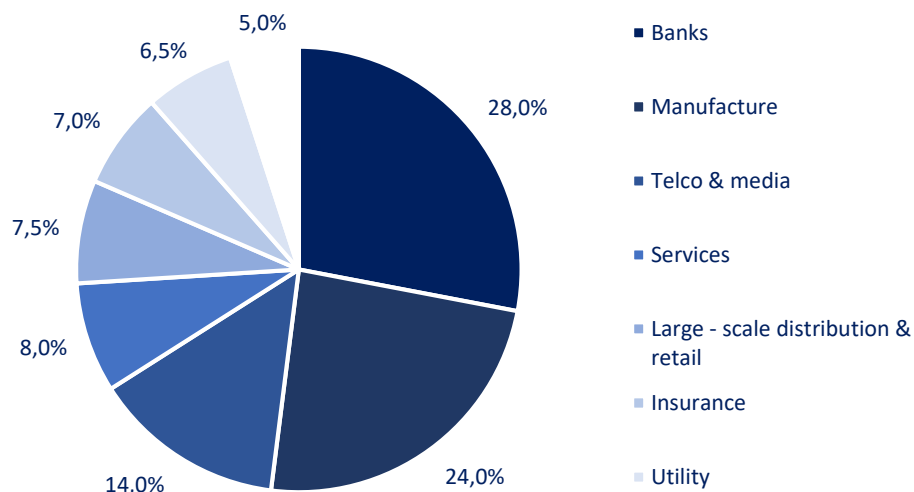
Chart 14 – Italian analytics market by segment 2020

Source: Big Data & Business Analytics Observatory Milan Polytechnic, November 2020

The banks confirm their propensity to data-driven logic, accounting for 28% of the market, followed by manufacturing with a 24% share and telco and media with a 14% share. Services

account for 8%, large-scale distribution & retail for 7.5%, insurance for 7%, utilities for 6.5%, and, finally, government and healthcare for 5%.

Analyzing the composition of the market, software is worth 52% and confirms a significant growth, equal to an increase of 16% compared to 2019. Services account for 28% of the market, while infrastructure expenses have increased by 7% and reached 20% with investments in compute and storage solutions. Analytics in cloud, with a growth rate of 24% compared to the previous year, represents a share of 19%.

3.5 Machine Learnings & Artificial Intelligence

IDC estimates that global revenues for the AI sector totaled $ 156.5 billion in 2020, up 12.3% year on year. Revenues are expected to exceed $ 300 billion in 2024, growing at a CAGR of 17.1%.

Chart 15 – Italian AI market 2018-2020 *(Data in € mln)*
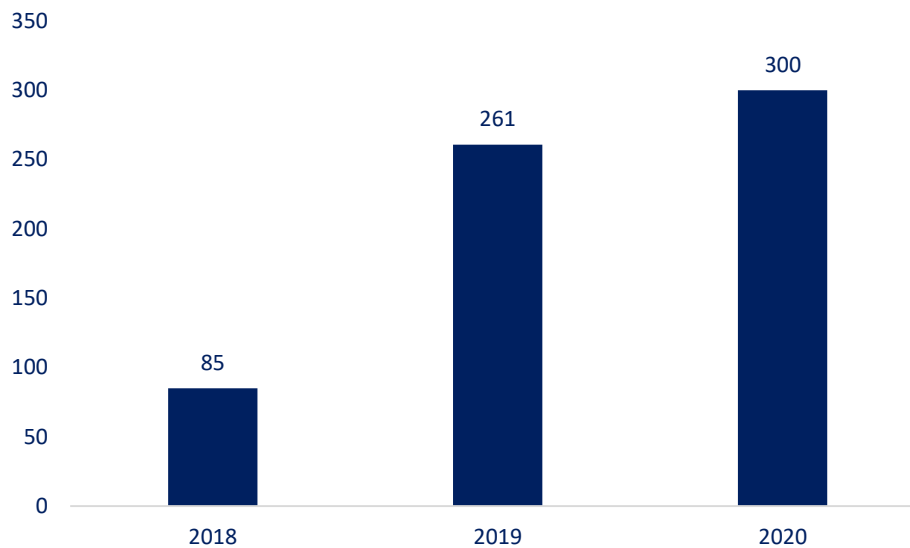
Source: Artificial Intelligence Observatory of the Milan Polytechnic, 2021

The Italian artificial intelligence sector rose from € 85 million in 2018 to € 261 million in 2019, up by 207.1%. In 2020, revenues in the sector reached € 300 million, with an increase of 14.9% compared to the previous year.
Despite the economic decline, caused by the pandemic, which has created a strong barrier to the spread of AI solutions, these are now present in 53% of the medium and large Italian enterprises.

Grand View Research estimates that the global artificial intelligence market in 2019 was worth $ 39.9 billion and is expected to grow to a CAGR of 42.2% until 2027.

Chart 16 – Italian AI market by segment 2020
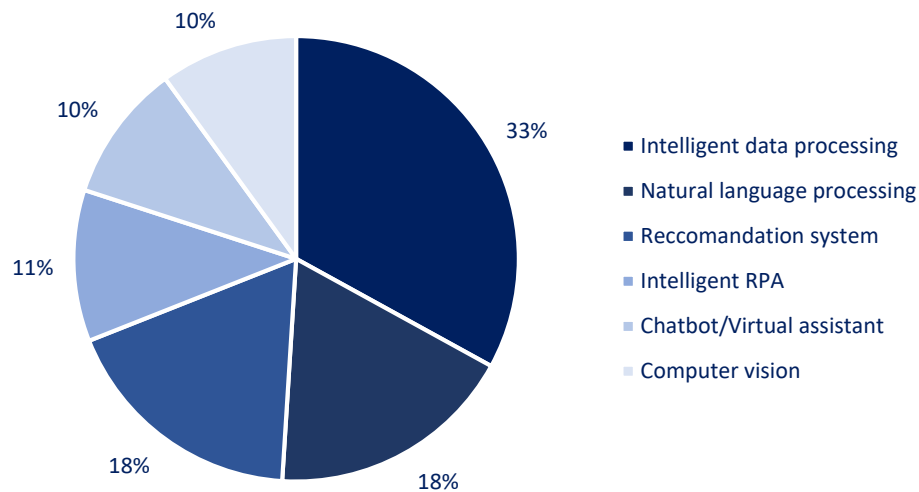
Source: Artificial Intelligence Observatory of the Milan Polytechnic, 2021

AI projects that attract the most investment are Intelligent Data Processing algorithms, which account for 33% of revenues and in 2020 grew by 15% over the previous year. The following are Natural Language Processing solutions with 18% of the market and 9% growth over 2019. Then, algorithms to suggest to customers content in line with individual preferences (Recommendation System) show a share of 18% and a growth of 15%, the solutions with which AI automates some of the activities of a project and governs the various phases (Intelligent RPA), account for 11% of the market and have recorded an increase of 15%. The items that grew the most in terms of resources were chatbots and virtual assistants with a 10% share and a 28% growth over 2019. Finally, computer vision initiatives, which analyze the content of an image in contexts such as surveillance in public places or monitoring a production line, weigh 10% and have reported a growth of 15% compared to the previous year.

3.6 Cloud

Cloud computing is the use of remote service networks to store, manage, and process data. Markets and Markets estimate that the value of the global cloud computing market will rise from $ 371.4 billion in 2020 to $ 832.1 billion in 2025 (CAGR 20-25: 17.5%).

Chart 17 – Italian Cloud market size 2017-2020 *(Data in € bln)*
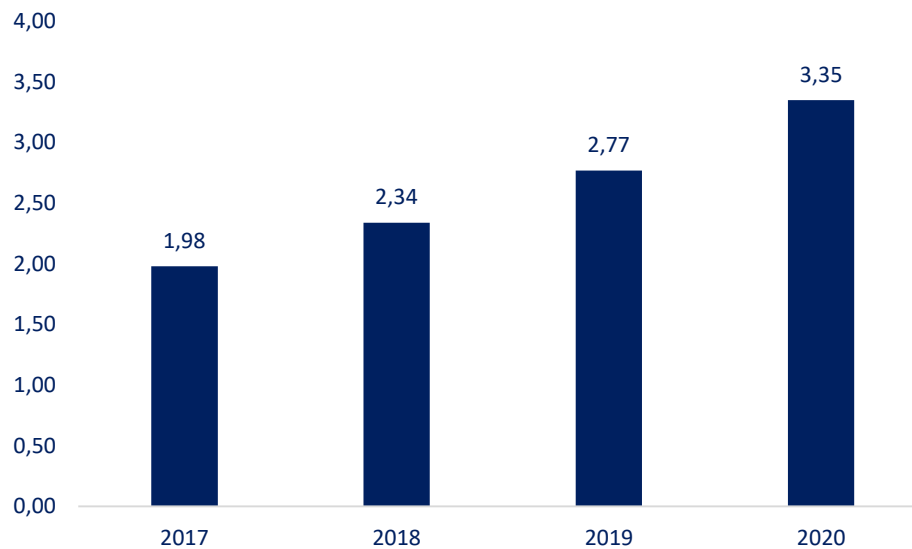
Source: Cloud Transformation Observatory of Milan Polytechnic, October 2020

The Italian cloud market, in 2017, had a total size of € 1.98 billion. In 2018 it reached € 2.34 billion, up 18.2% compared to 2017. In 2019, the total market revenues amounted to € 2.77 billion, increasing 18.4% compared to the previous year. Finally, it is expected that the year 2020 will be closed with a value of € 3.35 billion, consolidating a growth of 20.9% compared to 2019. The Italian market grew from 2017 to 2020 with a CAGR of 19.2%.

The Software as a Service (SaaS) component grew by 46% year on year, followed by the Platform as a Service (PaaS) component, up by 22%, and the Infrastructure as a Service (IaaS) component, up by 16%.

4. Competitive positioning

In the development of its business, the Company competes with some important players on the Italian market. The competitors of Softec can be grouped into the following categories:

- Generalists: are positioned on the market defining a specific approach to customers;
- Specialists: position themselves on the market by defining specific skills, ready to expand their offer to exploit additional opportunities;
- Verticals: these are generalist players that specialize in a particular industry or area.

Softec is positioned among the vertical players through a model of "consulting in action", offering a level of consulting, with a value recognized by the market, and at the same time, great technical expertise, being able to follow the projects from the "concept" to full technological delivery. The Company focuses on the SME and Small Business, segment on which it is not forced to compete with the major players of the market (with which it is able to enter into partnerships in case of large projects).

In the development of its business, Softec presents some important distinctive elements compared to its competitors:

- Internal technological assets (such as Orchestra, Pepper BMS, and Badgeminton);
- Wide offer in the Phygital segment;
- Skills and track records on many industries also on projects with high levels of innovation;
- International experience in Phygital Banking and Branch Automation.

4.1 Swot

Strengths:

- Complete and integrated offer in the field of tech and consulting;
- Complete Phygital offer;
- Significant track record with consolidated methodology;
- Reorganization and repositioning starting from the year 2020.

Weaknesses:

- The need to make improvements, following the repositioning, in terms of time to market asset;
- International coverage is still rather limited.

Opportunities:

- Coverage of the entire value chain in Retail;
- Increasing importance of the Phygital department as a result of the pandemic;
- Government grants for SMEs and Small Business for investments in innovation.

Threats:

- Potential negative developments for retailers and B2B2C companies in relation to the effects of the pandemic.

5. Economics & Financials

Table 1 – Economics & Financials

INCOME STATEMENT (€/mln)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	6,72	5,49	6,95	8,15	9,45
Other Revenues	0,01	0,03	0,05	0,05	0,05
Value of Production	**6,74**	**5,52**	**7,00**	**8,20**	**9,50**
Services	2,55	2,10	2,95	3,05	3,20
Employees	3,58	3,45	3,50	4,25	5,00
Other Operating Expenses	0,29	0,24	0,20	0,25	0,25
EBITDA	**0,32**	**-0,27**	**0,35**	**0,65**	**1,05**
EBITDA Margin	*4,8%*	*-4,8%*	*5,0%*	*7,9%*	*11,1%*
D&A	1,04	0,80	0,50	0,50	0,60
EBIT	**-0,71**	**-1,07**	**-0,15**	**0,15**	**0,45**
EBIT Margin	*-10,6%*	*-19,4%*	*-2,1%*	*1,8%*	*4,7%*
Financial Management	(0,14)	(0,06)	(0,10)	(0,10)	(0,05)
EBT	**-0,85**	**-1,13**	**-0,25**	**0,05**	**0,40**
Taxes	0,20	0,01	0,00	0,02	0,10
Net Income	**-1,05**	**-1,14**	**-0,25**	**0,03**	**0,30**

BALANCE SHEET (€/mln)	FY19A	FY20A	FY21E	FY22E	FY23E
Fixed Assets	**6,75**	**5,66**	**5,50**	**5,45**	**5,40**
Account receivable	1,65	1,77	1,60	1,80	2,10
Inventories	0,62	0,29	0,30	0,30	0,35
Account payable	1,35	1,29	0,90	0,90	0,95
Operating Working Capital	**0,92**	**0,77**	**1,00**	**1,20**	**1,50**
Other receivable	0,40	0,11	0,15	0,15	0,15
Other payable	1,34	1,59	1,45	1,50	1,55
Net Working Capital	**(0,02)**	**(0,71)**	**(0,30)**	**(0,15)**	**0,10**
Severance Indemnities & Other Provisions	1,18	0,85	0,90	0,95	1,05
NET INVESTED CAPITAL	**5,55**	**4,11**	**4,30**	**4,35**	**4,45**
Share Capital	2,50	2,50	2,50	2,50	2,50
Reserves	1,61	0,57	-0,57	-0,82	-0,79
Net Income	-1,05	-1,14	-0,25	0,03	0,30
Equity	**3,06**	**1,93**	**1,68**	**1,71**	**2,01**
Cash & Cash Equivalent	0,31	0,03	0,43	0,41	0,46
Short Term Debt to Bank	0,98	0,95	1,80	1,95	1,90
M/L Term Debt to Bank	1,83	1,26	1,25	1,10	1,00
Net Financial Position	**2,49**	**2,18**	**2,62**	**2,64**	**2,44**
SOURCES	**5,55**	**4,11**	**4,30**	**4,35**	**4,45**

CASH FLOW (€/mln)	FY20A	FY21E	FY22E	FY23E
EBIT	-1,07	-0,15	0,15	0,45
Taxes	0,01	0,00	0,02	0,10
NOPAT	**-1,08**	**-0,15**	**0,13**	**0,35**
D&A	0,80	0,50	0,50	0,60
Change in receivable	(0,12)	0,17	(0,20)	(0,30)
Change in inventories	0,32	(0,01)	0,00	(0,05)
Change in payable	(0,06)	(0,39)	0,00	0,05
Change in others	0,54	-0,18	0,05	0,05
Change in NWC	*0,68*	*(0,41)*	*(0,15)*	*(0,25)*
Change in provisions	-0,33	0,05	0,05	0,10
OPERATING CASH FLOW	**0,08**	**(0,01)**	**0,54**	**0,80**
Capex	0,3	(0,3)	(0,5)	(0,6)
FREE CASH FLOW	**0,36**	**(0,34)**	**0,08**	**0,25**
Financial Management	(0,06)	(0,10)	(0,10)	(0,05)
Change in Debt to Bank	(0,60)	0,85	0,00	(0,15)
Change in Equity	0,01	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	**(0,29)**	**0,41**	**(0,02)**	**0,05**

Source: estimates Integrae SIM

5.1   FY20A Results

In 2020A, in addition to the difficulties arising from the spread of the Covid 19 pandemic and its consequences, the Company has faced a phase of profound management transition. In fact, during the year, significant changes in top and middle management were made, new commercial resources were hired, the technical area was reorganized and focused, and the reorganization of the business lines started, to strengthen the proprietary products, with a strong focus on the Internet of things, Blockchain and Artificial Intelligence developments.

During the year Softec generated revenues of € 5.49 million, down from € 6.72 million in 2019A. As explained through the press release, this decrease in revenues is mainly due to the failure to ship two large orders, the start of which has slipped by few months for reasons also related to Covid-19 and whose competence is for the current fiscal year. With regards to the activities carried out to contain the effects of the epidemic, the Company announces that thanks to the nature of the business, the conduct of activities through smart working (started in the first months of 2020A) did not have a significant impact in terms of productivity.

At the level of marginality, EBITDA decreased during the year, from € 0.32 million to - € 0.27 million, EBIT (from - € 0.71 million to - € 1.07 million) and Net Income also decreased (from - € 1.05 million to - € 1.14 million). The decline in marginality is mainly linked to the decline in revenues and the difficulty of proportionally reducing a portion of the incurred costs. Some of the reorganization activities carried out to reduce costs had a positive impact on structural costs but with efficiency effects not yet all visible at the end of the fiscal year 2020.

Despite the results observed in the Income Statement, the value of the NFP improved from 2019A to 2020A from € 2.49 million to € 2.18 million. The variation is mainly due to the reduction in the debts registered under IFRS 16, due to a logistic optimization route that led to early termination of the lease contract of the Milan P.le Lugano office, with the consequent transition to co-working spaces.

5.2 FY21E – FY23E Estimates

Chart 18 – VoP, EBITDA19A-23E
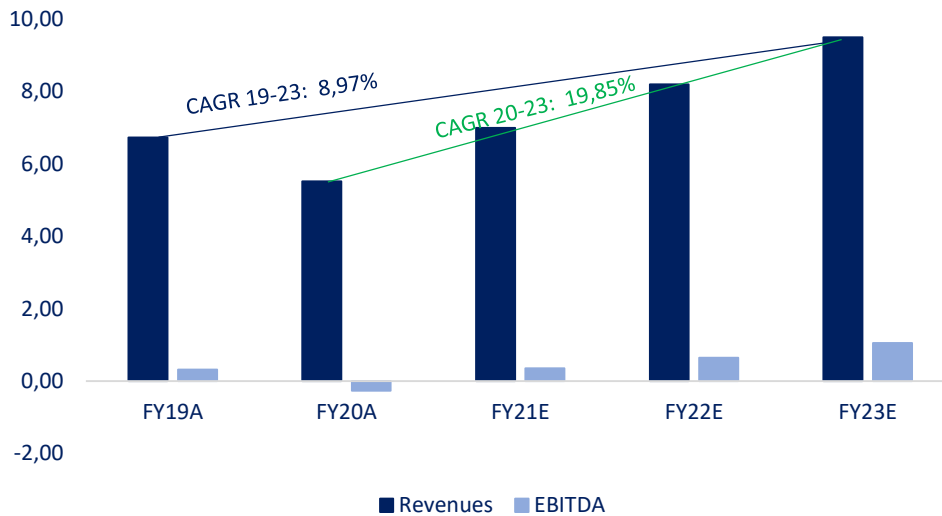
Source: elaboration Integrae SIM

For the coming years, we expect an increase in the Value of Production that, according to our estimates, will grow from € 5.52 million in 2020A to € 9.50 million in 2023E (CAGR20A-23E: 19.85%), thanks to the following main growth drivers:

- Exploitation of new business opportunities in the field of: phygital IoT and retail experience, platforms, robotics, brand, and user experience;
- Strengthening and reorganization of the production area;
- New competitive positioning as a qualified technology partner that supports retailers and manufacturing companies on the digital evolution of their business process for Industry 4.0 and Retail 4.0;
- Inbound Marketing Strategies;
- Consolidation and extension of the ongoing relationship with channel partners;
- Investments for internal technology developments;
- Investment in technology for employees;
- Employees restructuring;
- Qualitative/quantitative strengthening of the network of industrial partners for the development of the indirect channel;
- Implementation of a retention policy for management and key people;
- CED decommissioning and outsourcing of the Hosting service (the systems were obsolete, this will allow a reduction of the risks).

Chart 19 – EBITDA% and EBIT% 19A-23E
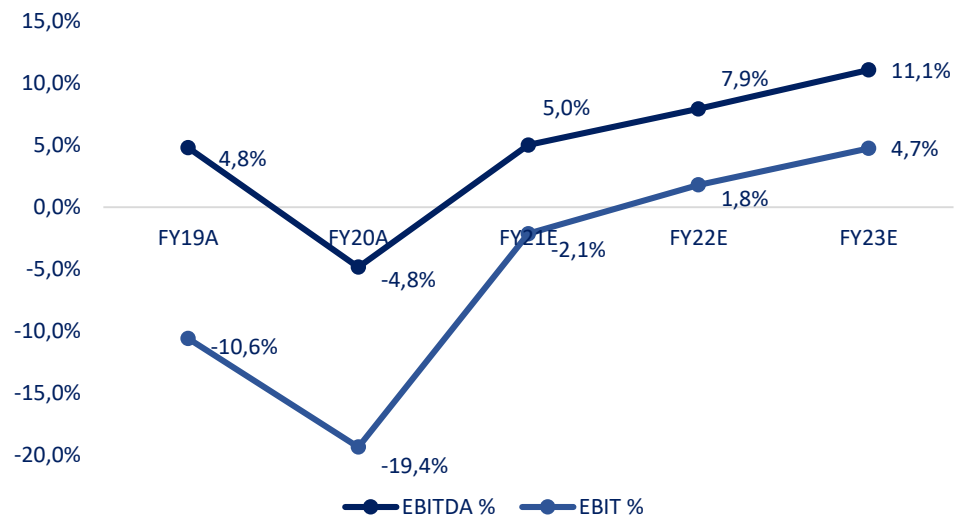
Source: elaboration Integrae SIM

Similarly, we expect EBITDA to increase from - € 0.27 million in 2020A to € 1.05 million in 2023E. We believe that Softec will be able to improve its marginality in the years of the plan thanks to the new competitive positioning on higher value-added activities and further rationalization of the costs structure.

Chart 20 – Revenues, Capex 20A-23E
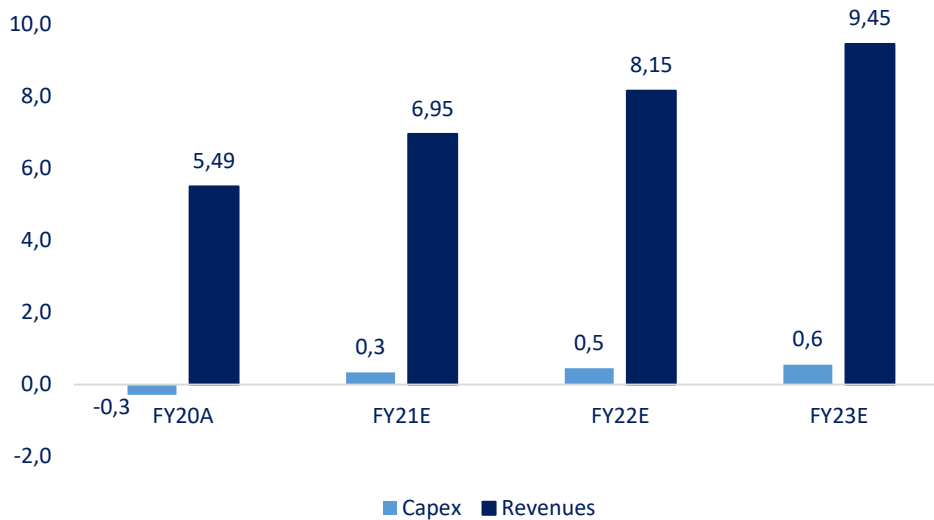
Source: elaboration Integrae SIM

We believe that in the coming years, the Company will invest mainly in internal technology developments and technology improvement for employees.

Chart 21 - NFP 20A-23E
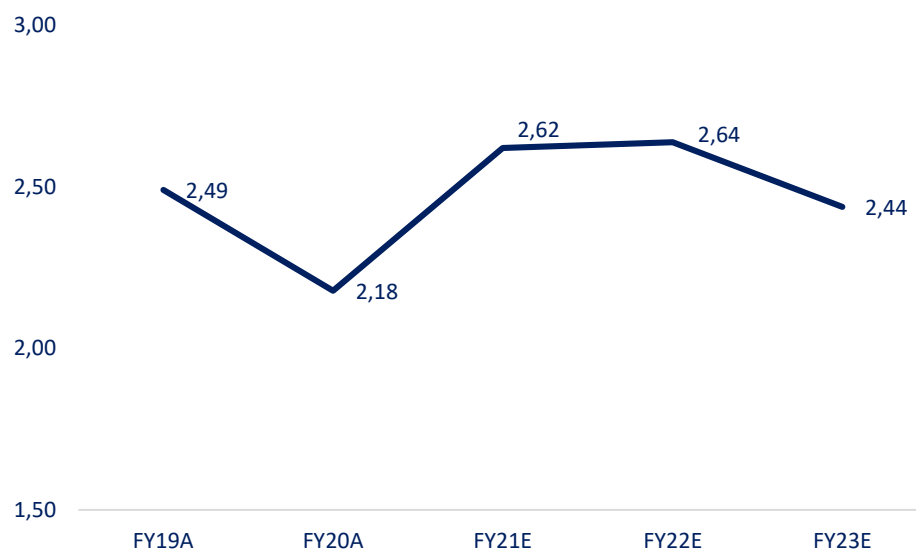
Source: elaboration Integrae SIM

6. Valuation

We have conducted the valuation of Softec equity value based on the DCF methodology and market multiples of a comparable Companies sample.

6.1 DCF Method

Table 2 – WACC

WACC		**5,27%**
Risk Free Rate	-0,13% α (specific risk)	2,50%
Market Premium	6,85% Beta Adjusted	1,0
D/E (average)	122,22% Beta Relevered	1,9
Ke	9,24% Kd	2,80%

Source: Integrae SIM

In particular:

- The Risk-Free Rate represented by Rendistato of February 2021 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 was set equal to the market Beta because Beta calculated based on the competitors was not statistically significant;
- Kd coincides with the current cost of the Company's debt.

Using this data, it results in a WACC of 5.27%.

Table 3 – DCF Valuation

DCF Equity Value		**6,5**
FCFO actualized	0,3	4%
TV actualized DCF	8,3	96%
Enterprise Value	**8,6**	100%
NFP (FY20A)	2,2	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 6.5 million**.

Table 4 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		3,8%	4,3%	4,8%	5,3%	5,8%	6,3%	6,8%
	2,5%	27,7	19,0	14,1	11,0	8,8	7,2	6,0
	2,0%	19,4	14,4	11,2	9,0	7,4	6,1	5,2
Growth	1,5%	14,7	11,5	9,2	7,6	6,3	5,3	4,5
Rate (g)	1,0%	11,7	9,4	7,7	6,5	5,4	4,6	3,9
	0,5%	9,6	7,9	6,6	5,6	4,7	4,1	3,5
	0,0%	8,1	6,8	5,7	4,9	4,2	3,6	3,1
	-0,5%	7,0	5,9	5,0	4,3	3,7	3,2	2,7

Source: Integrae SIM

6.2 Market Multiples

The used panel is made up of Companies belonging to the same sector of Softec.

6.2.1 Panel Composition

Digital 360 Spa (Italy) aims to lead companies and public administrations in the process of digital transformation and to facilitate their meeting with the best technology providers. It pursues the objective through the business units: Demand Generation that supports technology companies in the activities of communication, storytelling, event management and generation of business opportunities and Advisory & Coaching that is aimed at all enterprises and public administrations wishing to undertake a path of digital transformation.

DHH Spa (Italy) is a company that provides "virtual infrastructure" to manage websites, apps, e-commerce, and software-as-a-service applications to over 100,000 customers throughout South-East Europe.

Reply SpA (Italy) is specialized in the design and implementation of solutions based on the new channels of communication and digital media. Composed of a network model of highly specialized companies, supports main European industrial groups belonging to the Telco & Media, Industry and Services, Banking and Insurance and PA sectors 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 mainly active 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 is an operating holding company and offers a wide and diversified 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.

Digital Value Spa (Italy) with its headquarters in Rome and Milan and activities throughout the country, is the head of a Group that is one of the reference operators in Italy in the field of IT solutions and services. The Group carries out research, design, development, and commercialization of ICT solutions and services for the digitization of large accounts clients operating in strategic sectors of the country's economy (Telecommunications, Transport, Utilities, Finance, Industry, and Public Administration).

Neosperience Spa (Italy) is an innovative Italian SME operating as a software vendor. Founded in Brescia in 2006, the Company is active in the Digital Customer Experience sector with Neosperience Cloud: a software platform that uses artificial intelligence to offer a personalized and empathic digital experience. Neosperience's client companies include leading companies in the fashion, retail, and financial services sectors.

Be Think, Solve, Execute Spa (Italy) listed on the STAR segment of Borsa Italiana, is one of the leading Italian players in the Business Consulting and IT services sector. Thanks to the combination of specialist skills, advanced proprietary technologies, and consolidated experience, the Group supports leading international financial, insurance, and industrial institutions in creating value and growing business.

Table 5 – Comparables Financial Highlights *(data in € mln)*

FY2019A	Digital360 SpA	DHH SpA	Reply S.p.A.	Websolute SpA	Digital Value SpA	Neosperience SpA	Be Think, Solve, Execute S.p.A.	Peer Median	Softec
Country	Italy	Italy	Italy	Italy	Italy	Italy	Italy		Italy
Mkt Cap	4,5	12,3	2.598,2	19,9	176,2	57,7	170,0	57,7	4,5
EV	21,4	10,0	2.496,5	20,8	148,3	59,2	183,1	59,2	7,0
Profitability									
Sales	24,9	6,8	1.205,7	12,8	363,2	13,9	148,5	24,9	6,7
EBITDA	2,9	0,5	191,3	2,1	31,3	3,1	20,9	3,1	0,3
EBIT	0,5	0,1	154,1	0,9	27,1	1,1	12,2	1,1	-0,7
Net Profit	-0,5	0,1	113,0	0,5	19,0	0,9	6,1	0,9	-1,0
EBITDA Margin	11,6%	7,4%	15,9%	16,6%	8,6%	22,3%	14,1%	14,1%	4,8%
EBIT Margin	2,0%	1,5%	12,8%	6,8%	7,5%	7,9%	8,2%	7,5%	-10,6%
Net Profit Margin	-2,0%	1,5%	9,4%	3,9%	5,2%	6,5%	4,1%	4,1%	-15,6%
Capital Structure									
NFP	16,9	-2,3	-101,7	0,9	-27,9	1,5	13,1	0,9	2,5
NFP/EBITDA	5,8x	N/A	N/A	0,4x	N/A	0,5x	0,6x	0,6x	7,7x

Source: Bloomberg

6.2.2 Multiples Method

Table 6 – Market Multiples

Company Name	EV/Sales (x)			EV/EBITDA (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Digital360 SpA	1,5	1,3	1,1	7,7	6,6	5,8
Dominion Hosting Holding SpA	2,6	2,3	N/A	7,1	6,2	N/A
Reply S.p.A.	2,4	2,2	2,0	14,8	13,3	12,4
Websolute SpA	0,8	0,7	N/A	5,7	4,7	N/A
Digital Value SpA	0,8	0,7	N/A	8,0	6,8	N/A
Neosperience SpA	1,7	1,3	1,0	7,3	4,8	3,2
Be Think, Solve, Execute S.p.A.	1,2	1,1	N/A	6,7	6,2	N/A
Peer median	**1,5**	**1,3**	**1,1**	**7,3**	**6,2**	**5,8**

Source: elaboration Integrae SIM and market consensus

Table 7 – Market Multiples Valuation

€/mln	2021E	2022E	2023E
Enterprise Value (EV)			
EV/Sales	10,1	10,5	10,8
EV/EBITDA	2,5	4,0	6,1
Equity Value			
EV/Sales	7,5	7,9	8,3
EV/EBITDA	N/A	1,4	3,7
Equity Value post 25% discount			
EV/Sales	5,6	5,9	6,3
EV/EBITDA	N/A	1,1	2,7
Average	**5,6**	**3,5**	**4,5**

Source: elaboration Integrae SIM and market consensus

The equity value of Softec using the market multiples EV/Sales and EV/EBITDA, is about € 6.0 million. To this value we have applied a 25% discount: **as a result, the equity value is € 4.5 million.**

7. Equity Value

Table 8 – Equity Value

Average Equity Value (€/mln)	**5,5**
Equity Value DCF (€/mln)	6,5
Equity Value multiples (€/mln)	4,5
Target Price (€)	**2,20**

Source: Integrae SIM

The result is an average equity value of € 5.5 million. **The target price is € 2.20, rating BUY and MEDIUM risk.**

Table 9 – Implied Multiples – Sensitivity Analysis

Equity Value (€/mln)	EV/Sales			EV/EBITDA		
	2021E	2022E	2023E	2021E	2022E	2023E
3,0	0,7x	0,6x	0,5x	N/A	8,0x	4,9x
4,0	0,9x	0,8x	0,7x	N/A	9,5x	5,9x
5,0	1,0x	0,9x	0,8x	N/A	11,0x	6,8x
6,0	1,2x	1,0x	0,9x	N/A	12,6x	7,8x
7,0	1,3x	1,1x	1,0x	N/A	14,1x	8,7x
8,0	1,5x	1,2x	1,1x	N/A	15,7x	9,7x
9,0	1,6x	1,4x	1,2x	N/A	17,2x	10,6x

Source: Integrae SIM

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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		

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