

Company Update

Hold (maintained)

16 October 2017 – 5:30PM

MARKET PRICE: EUR1.43

TARGET PRICE: EUR1.32 (from EUR1.89)

## Entertainment

### Data

Shares Outstanding (m):	28.0
Market Cap. (EURm):	40.1
Enterprise Value (EURm):	58.0
Free Float (%):	61.6%
Av. Daily Trad. Vol. (m):	0.1
Main Shareholder:	Founders 29.5%
Reuters/Bloomberg:	EXSY.MI EXSY IM
52-Week Range (EUR)	1.3 2.0

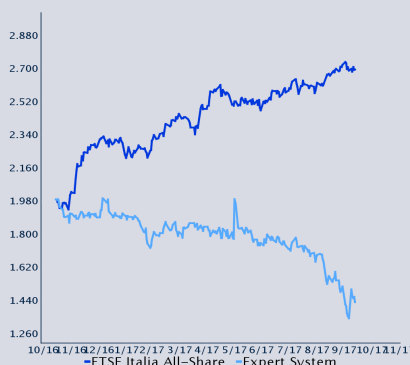
Source: Factset, UbiBanca estimates

### Performance

	1m	3m	12m
Absolute	-7.9%	-19.8%	-29.1%
Rel. to FTSE IT	-8.8%	-23.2%	-48.8%

Source: Factset

### Graph area Absolute/Relative 12 M



Source: Factset

Marco Cristofori

Senior Analyst

[marco.cristofori@ubibanca.it](mailto:marco.cristofori@ubibanca.it)

Tel. +39 02 62753015

Website: [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research)

## Recovery still far

Expert System's sales declined by 1.5% in 1H17 with sales in Italy (the only country generating EBITDA for the company) falling 29%; other countries reported negative margins despite a 30% increase in revenues. There was a loss of EUR4 million at the EBITDA level and net losses exceeded EUR7.6 million. Net debt increased to EUR15.2 million. The management is reacting by changing the product mix towards a greater amount of revenues generated by recurring licenses rather than perpetual licenses and by implementing cost cuts, which should result in payroll costs falling by EUR2.5-3 million next year. However, we believe that 2018 will be another year of transition and that the company will achieve operating breakeven only in 2020 (vs. 2018 as previously expected). The 2017-19 business plan could be revised downwards in coming weeks. Expert System is forecasting flat sales for 2017, implying no recovery in the second part of the year, and some profitability recovery. To support the significant cash burn and imminent investments the company will launch a rights issue for EUR5 million in November, which could benefit from the company's classification as an innovative small company. Although we believe investors should consider the long-term potential of Expert System rather than its short-term results, the delivery of solid fundamentals is taking much longer than expected while its attractiveness as a potential prey for large IT companies has diminished. Given the downgrades to our estimates, our target price decrease to EUR1.32 per share (from EUR1.89), 7% below the current market price. Hold confirmed.

- > Following weaker than expected results for 1H17 and the downward revision of 2017 guidance, we have revised our estimates and lowered our 2017-19 sales estimates by 16% on average. We now expect negative EBITDA of EUR3.0 million this year, a positive EUR1.6 million EBITDA in 2018 and EUR5.6 million in 2019, while the net result is likely to remain negative. Our new estimates are well below those of the 2017-19 business plan, which could be revised in the near future.
- > The shares have dropped by 21% since our rating downgrade last March, strongly underperforming the market. Our new target price of EUR1.32 per share (from EUR1.89) is based on the average of a DCF analysis (70% weight) and a relative valuation (30% weight). At target price the share would trade at 10.4x EV/EBITDA in 2019, a slight premium to the median of peers (9.9x).

### Financials

	2016	2017E	2018E	2019E
Revenues (EURm)	23.4	23.7	26.4	34.5
EBITDA (EURm)	-2.2	-3.0	1.6	5.6
EBITDA margin (%)	-9.6%	-12.7%	6.0%	16.3%
EBIT (EURm)	-8.5	-9.6	-5.2	-1.4
EPS (EUR)	-0.29	-0.35	-0.17	-0.06
CFPS (EUR)	-0.07	-0.11	0.07	0.16
DPS (EUR)	0.0	0.0	0.0	0.0

Source: Company Data, UBI Banca Estimates

### Ratios

priced on 13 October 2017

	2016	2017E	2018E	2019E
P/E(x)	nm	nm	nm	nm
P/CF(x)	-29.6	nm	20.6	7.5
P/BV(x)	3.3	5.9	21.5	nm
Dividend Yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA(x)	nm	nm	38.2	10.9
Debt/Equity (x)	0.7	2.4	10.0	nm
Debt/EBITDA (x)	-4.9	-5.4	11.8	3.4

Source: UBI Banca Estimates \* Based on 2016 average price

**Key Financials**

(EURm)	2016	2017E	2018E	2019E
Revenues	23.4	23.7	26.4	34.5
EBITDA	-2.2	-3.0	1.6	5.6
EBIT	-8.5	-9.6	-5.2	-1.4
NOPAT	-8.5	-9.6	-5.2	-1.4
Free Cash Flow	-4.9	-5.2	-2.4	-0.6
Net Capital Employed	27.5	23.0	20.6	19.5
Shareholders' Equity	16.4	6.7	1.9	0.2
Net Financial Position	11.1	16.3	18.7	19.3

Source: Company data, UBI Banca estimates

**Key Profitability Drivers**

	2016	2017E	2018E	2019E
Net Debt/Ebitda (x)	-4.9	-5.4	11.8	3.4
Net Debt/Equity (x)	0.7	2.4	10.0	109.0
Interest Coverage (%)	-14.3	-4.9	-8.0	-1.9
Free Cash Flow Yield (%)	-9.2%	nm	nm	nm
ROE (%)	-49.4%	nm	nm	nm
ROI (%)	-18.2%	-23.2%	-14.4%	-4.2%
ROCE (%)	-29.1%	-38.4%	-24.0%	-7.0%

Source: Company data, UBI Banca estimates

**Key Valuation Ratios**

	2016	2017E	2018E	2019E
P/E (x)	nm	nm	nm	nm
P/BV (x)	3.3	5.9	21.5	nm
P/CF (x)	nm	nm	20.6	7.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	2.3	2.0	1.9	1.5
EV/EBITDA (x)	nm	nm	38.2	10.9
EV/EBIT (x)	nm	nm	nm	nm
EV/CE (x)	2.4	2.5	2.9	3.1

Source: Company data, UBI Banca estimates

**Key Value Drivers**

(%)	2016	2017E	2018E	2019E
Payout	0.0%	0.0%	0.0%	0.0%
NWC/Sales	32.9%	23.8%	20.0%	17.8%
Capex/Sales	21.8%	16.1%	15.3%	12.1%

Source: Company data, UBI Banca estimates

### Recent Developments

- > We were surprised by the very poor 1H17 results of Expert System: sales were broadly stable with good growth outside Italy (+33% in Europe & UK and +25% in the US) offset by a drop in Italian sales (-29%). The value of production, down 11%, was penalised by lower grants and contributions (which should be recovered in the second half of the year) and by a decrease in fixed assets for internal use. EBITDA was negative for nearly EUR4 million, double the loss reported in 1H16, with Italy accounting for EUR2.1 million of EBITDA losses (vs. breakeven in 1H16). Europe accounted for EUR0.8 million of EBITDA losses (slightly more than last year) while the US had a reduction in EBITDA losses to EUR1.0 million (EUR1.2 million in 1H16). Personnel costs increased to EUR9.8 million (partially due to non-recurring costs to incentivise staff turnover) and were 83% of the value of production compared to 69% in 1H16. After EUR3.3 million of D&A costs (up 12%), EBIT was negative for EUR7.3 million while the accounting of EUR1.1 million of unrealized forex losses led to a net loss of EUR7.6 million, or 90% of sales. Net debt increased to EUR15.2 million vs. EUR11.1 million at Dec-16, after EUR2.6 million of capex.
- > The performance of Italy (which includes also other countries such as Middle East) is clearly disappointing and could alter the business model of Expert System if the negative trend is not reversed: in the past, the company financed its foreign expansion, which is just starting to give results, through the cash flow generated on the domestic market. The negative performance of Italy could be explained by the postponement of two important contracts, by a slowdown in orders in the intelligence & security segment that is probably linked to the imminent elections in Italy and by lower sales in Middle East (an area with a high profitability).
- > In addition, Expert System is attempting to adopt a different business model based on recurring fees rather than the sale of perpetual licenses. This strategy clearly reduces revenues in the short-term but should lead to lower volatility in revenues in the future. The company is also trying to form partnerships with large IT vendors in order to supply its services through multinational and well established vendors. This new strategy is an attractive opportunity to increase revenues at a limited cost.
- > Against this backdrop, Expert System now expects the 2017 value of production to be in line with last year (EUR29.6 million), which implies no revenue growth in the second half of the year and means the company will fail to attain the target in its 2017-19 business plan (EUR34.5 million). Value of production is estimated to rise in the US by around 20%, by 40% in Spain, to remain broadly stable in Italy and France while the slowdown in the rest of the world is expected to continue.
- > The company has implemented several cost cutting measures (standardisation of business procedures, staff reductions and a common commercial approach) that should reduce costs by around EUR2.5-3 million in 2018. It will revise its 2017-19 business plan in the coming months.
- > The company has been classified as an innovative small company ("PMI innovativa"). This classification gives Expert System several advantages: tax savings, the possibility of remunerating staff through a tax-free "work for equity plan", while investors in the company can benefit from a tax credit of 30% on their investment (up to EUR1.0 million per annum for individuals and EUR1.8 million per annum for legal entities).
- > Expert System is expected to hold a right issue of EUR5 million next November.

It has already been approved by the Board. The rights issue should be helped by the company's classification as an innovative small company as investors who subscribe to the rights will benefit from the 30% tax credit. It should be remembered that the company held a capital increase in July 2016 (2 new shares for every 19 old shares at EUR1.80 per share, equal to the IPO price) that was fully subscribed and raised EUR4.7 million of fresh resources for Expert System. We believe that the company founders (who currently control 29.5% of the company) and Luxid may not entirely subscribe to the rights issue: in this case, the free float would increase from the current level of 65.77%.

- > In July, Expert system assigned 360k new shares compliant with the Stock Grant Temis 2016-20 plan, with an EPS dilution of 1.3% based on our calculation. The share capital is now composed by 28 million ordinary shares.
- > Expert System signed a contract with Lloyd's of London in order to supply its "Cogito" solution. In our view this contract is important (even if financials of the contract were undisclosed) given the high standing of Lloyd's which will be an significant reference for Expert System in penetrating the insurance industry.

Figure 1 – 1H17 results

**Both sales and EBITDA were well below our estimates; they were penalised by the drop in the domestic market, by investments to develop the commercial network, particularly in the US, and by non-recurring costs to replace international management.**

(EURm)	1H16A	1H17A	% Chg.
Sales total	8.57	8.44	-1.5%
VoP	13.15	11.75	-10.7%
EBITDA	(1.95)	(3.98)	nm
% margin	-22.8%	-47.2%	
EBIT	(4.90)	(7.30)	nm
% margin	-57.1%	(86.4%	
Pre tax profit	(5.39)	(8.63)	nm
<b>Net profit</b>	<b>(5.05)</b>	<b>(7.60)</b>	<b>nm</b>
Net debt/(cash)	13.94	15.22	9.2%

Source: Company data

### Financial Projections

- > Following weak 1H17 results and the downward revision of 2017 guidance, it is clear that 2017 could be a tough year and that 2018 could be another transition year for Expert System.
- > Whilst awaiting the new business plan, which we believe could incorporate a sharp reduction in profitability targets, we have cut our 2017-19 sales estimates (16% on average). We have reduced our 2017 sales and value of production estimates by 15%, implying 3% revenues growth in the second half of the year.
- > Even assuming sound sales growth of 11% in 2018 and the full impact of the cost saving measures, we believe that the operating result could remain negative even if it does show a significant improvement compared to 2017. This should lead to a negative bottom line of around EUR4.9 million.
- > Our new estimates assume strong sales growth in 2019 (+31%) driven by successful expansion in the US and Europe and a higher weight of software licences (the target is to reach 53% of sales in 2019 vs. around 40% in 2016). More standardised solutions (which enjoy higher profitability), growing economies of scale, and fixed costs spread across a wider revenue base should allow the company to reach an EBITDA of around EUR5.6 million but still not enough to give a positive EBIT. Therefore, we believe the net result could remain negative also in 2019.
- > Growing net losses coupled with rising capex could generate negative cash flow leading to an increase in net debt, which is now expected to reach EUR16.3 million at Dec-17 (vs. EUR15.2 million at June-17) and to grow further in 2018 and 2019.
- > Based on our estimates, net equity would be close to zero at the end of 2019, thus implying that a right issue (not included in our forecasts) is imperative for Expert System. Assuming the full subscription of EUR5 million right issue in November, net equity could be around EUR12 million at year-end.
- > We also highlight the risk of a new technological breakthrough that would make “Cogito” obsolete and lead to a potential write-down of existing intangible assets (EUR17.7 million at June-17).

Figure 2 – Old vs. New estimates

(EURm)	2016A	2017E		2018E		2019E	
		Old	New	Old	New	Old	New
Total Sales	23.4	27.8	23.7	33.1	26.4	39.7	34.5
% change			-14.7%		-20.1%		-13.0%
VoP	29.6	34.5	29.7	40.5	32.4	48.1	41.9
% change			-13.8%		-19.9%		-12.9%
<b>EBITDA</b>	<b>(2.2)</b>	<b>3.6</b>	<b>(3.0)</b>	<b>6.7</b>	<b>1.6</b>	<b>9.2</b>	<b>5.6</b>
% change			nm		-76.4%		-39.2%
EBIT	(8.5)	(3.0)	(9.6)	(0.1)	(5.2)	2.2	(1.4)
% change			nm		nm		-163.7%
<b>Net result</b>	<b>(8.1)</b>	<b>(3.5)</b>	<b>(9.7)</b>	<b>(0.5)</b>	<b>(4.9)</b>	<b>2.0</b>	<b>(1.7)</b>
% change			nm		nm		nm
Net Debt/(Cash)	11.1	11.4	16.3	10.0	18.7	5.8	19.3
<b>EBIT margin</b>	<b>-36.6%</b>	-10.7%	-40.6%	-0.3%	-19.8%	5.6%	-4.1%
<b>EBITDA margin</b>	<b>-9.6%</b>	13.1%	-12.7%	20.3%	6.0%	23.3%	16.3%

Source: Company data, UBI Banca estimates

Figure 3 – 2H17E estimates

(EURm)	H2-16A	H2-17E	% Chg.
Sales total	14.80	15.26	3.1%
<b>VoP</b>	<b>16.40</b>	<b>17.99</b>	<b>9.7%</b>
<b>EBITDA</b>	<b>(0.29)</b>	<b>0.98</b>	<b>nm</b>
<b>% margin</b>	<b>-2.0%</b>	<b>6.5%</b>	
EBIT	(3.65)	(2.32)	nm
% margin	-24.7%	-15.2%	
Pre tax	(3.32)	(2.78)	nm
<b>Net attributable result</b>	<b>(3.08)</b>	<b>(2.10)</b>	<b>nm</b>
Net debt/(cash)	11.10	16.29	46.8%

Source: Company data, UBI Banca estimates

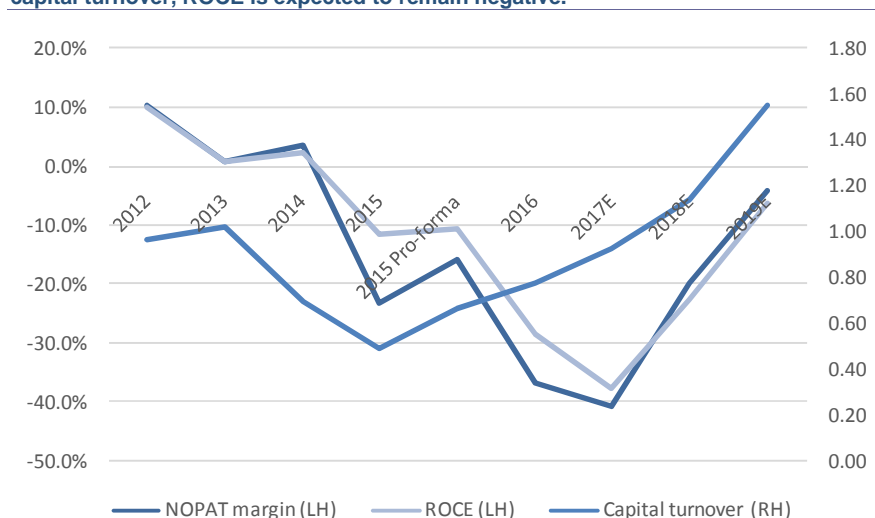
Figure 4 – 2017-19 business plan compared to our new estimates

(EURm)	Business Plan			Our new estimates			Delta vs. UBI		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Total Sales	28.2	34.9	47.4	23.7	26.4	34.5	19.0%	32.2%	37.4%
% growth	20.5%	23.8%	35.8%	1.4%	11.4%	30.7%			
VoP	34.5	41.4	54.0	29.7	32.4	41.9	16.0%	27.6%	29.0%
% growth	16.5%	20.0%	30.4%	0.6%	9.1%	29.0%			
<b>EBITDA</b>	<b>3.6</b>	<b>7.3</b>	<b>11.6</b>	<b>(3.0)</b>	<b>1.6</b>	<b>5.6</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>
<b>% Margin</b>	<b>12.8%</b>	<b>20.9%</b>	<b>24.5%</b>	<b>-12.7%</b>	<b>6.0%</b>	<b>16.3%</b>			
<b>Net Profit</b>	<b>(3.4)</b>	<b>0.1</b>	<b>2.7</b>	<b>(9.7)</b>	<b>(4.9)</b>	<b>(1.7)</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>
Net Debt/(Cash)	9.8	9.7	5.5	16.3	18.7	19.3	-39.8%	-48.1%	-71.6%

Source: Company data, UBI Banca estimates

Figure 5 – NOPAT margin, Capital Turnover and ROCE trend

Despite the recovery in the NOPAT margin in 2018-19 and the expected increase in capital turnover, ROCE is expected to remain negative.



Source: Company data, UBI Banca estimates

**Valuation**

- > Given the downgrade in our estimates, our DCF valuation has fallen to EUR1.30 per share from EUR1.77, while our relative valuation has declined to EUR1.35 per share from EUR2.02 per share. Our target price has been cut by 30% to EUR1.32 per share (vs. EUR1.89 previously) based on the average of a DCF analysis (70% weight) and a relative valuation (30% weight). We gave a higher weighting to the DCF analysis as Expert System is still in a transition phase following the acquisition of Temis and its sizeable investments to develop the commercial network (mainly in the US) could give results only in the long-term. Given 7% downside to our target price, we maintain our Hold rating.
- > It should be noted that our valuation does not include ADMantX, which is not consolidated but has a book value of EUR4.2 million. ADMantX reported net equity of EUR1.9 million at Dec-16 and a net loss of EUR1.4 million for full year 2016 and, therefore, we prudently decided not to include ADMantX in our valuation.
- > The outstanding warrants (4 warrants give the right to subscribe to one new share at EUR2.40 in October 2017 and at EUR2.70 in October 2018) are currently out of the money.
- > At our EUR1.32 per share target price, Expert System would trade at 1.4x 2019 EV/Sales, which is below the median multiple of our sample of peers (3.1x), and at 10.4x EV/EBITDA, a slight premium to the median of peers (9.9x).

Figure 6 – Valuation summary

(EUR)		% Weight	30 March-17	Delta
DCF Valuation	1.30	70.0%	1.77	-26.8%
Relative Valuation	1.35	30.0%	2.02	-33.0%
<b>Target Price</b>	<b>1.32</b>		<b>1.89</b>	<b>-30.5%</b>
Current price	1.43		1.81	-21.0%
Potential upside	-7.3%		4.8%	

Source: UBI Banca estimates

Figure 7 – DCF Valuation

**Our model incorporates a WACC of 6.1%, a terminal growth rate of 2% and an operating margin of 6.5% at terminal value. Our DCF valuation implies an EV/EBITDA of 3.7x at terminal value.**

	(EUR m)	(% weight)
Sum of PV 2017-25 FCF	(3.5)	-9%
Terminal value	45.0	109%
<b>Total Enterprise value</b>	<b>41.5</b>	<b>100%</b>
- minorities	0.0	
- Pension Provision	(1.7)	
- Net cash (debt)	(11.1)	
<b>Total Equity value</b>	<b>28.7</b>	
Number of shares outstanding (m)	28.0	
<b>Fair value per share (EUR)</b>	<b>1.02</b>	

Source: UBI Banca estimates

Figure 8 – Peer comparison based on multiples priced on 13 October 2017

Company	Market Cap (EURm)	P/E		EV/EBITDA		EV/Sales		Share performance	
		2018E	2019E	2018E	2019E	2018E	2019E	1M	3M
Nuance Communications	3,841	14.2 x	13.0 x	9.6 x	8.3 x	2.88 x	2.58 x	-2.9%	-13.3%
Open Text Corporation	7,520	13.6 x	12.4 x	11.0 x	9.7 x	3.96 x	3.60 x	5.3%	-1.4%
Trend Micro Incorporated	6,174	28.4 x	26.4 x	12.8 x	11.4 x	4.35 x	4.02 x	8.2%	-1.5%
Verint Systems Inc.	2,308	13.8 x	12.6 x	9.7 x	7.5 x	2.31 x	1.97 x	5.1%	1.4%
Splunk	7,517	nm	50.9 x	37.9 x	23.5 x	4.92 x	3.64 x	-5.0%	1.4%
Teradata Corporation	3,673	26.1 x	24.1 x	10.6 x	10.1 x	1.84 x	1.80 x	5.8%	9.3%
CommVault Systems	2,373	42.4 x		17.2 x		2.82 x		1.9%	2.5%
PRGX Global	130	76.1 x		6.0 x		0.81 x		0.7%	5.6%
<b>Average</b>		<b>30.6 x</b>	<b>23.2 x</b>	<b>14.4 x</b>	<b>11.8 x</b>	<b>2.99 x</b>	<b>2.94 x</b>	<b>2.4%</b>	<b>0.5%</b>
<b>Median</b>		<b>26.1 x</b>	<b>18.6 x</b>	<b>10.8 x</b>	<b>9.9 x</b>	<b>2.85 x</b>	<b>3.09 x</b>	<b>3.5%</b>	<b>1.4%</b>
<b>Expert System current market multiples</b>	<b>40</b>	<b>nm</b>	<b>nm</b>	<b>38.2 x</b>	<b>10.9 x</b>	<b>1.89 x</b>	<b>1.48 x</b>	<b>-7.9%</b>	<b>-19.8%</b>
<b>Premium (discount) to Average</b>					<b>-7.3%</b>	<b>-36.7%</b>	<b>-49.7%</b>		

Source: Factset, UBI Banca estimates

Figure 9 – Implicit multiples based on our EUR1.32 target price

(x)	2017E	2018E	2019E
P/E	nm	nm	nm
EV/EBITDA	nm	36.3 x	10.4 x
EV/Sales	1.89 x	1.80 x	1.40 x
P/CF	nm	14.8 x	8.8 x
EV/ Capital employed	2.16 x	2.48 x	2.62 x

Source: UBI Banca estimates



**Income Statement**

(EURm)	2016	2017E	2018E	2019E
Net Revenues	29.0	29.2	32.0	41.4
EBITDA	-2.2	-3.0	1.6	5.6
EBITDA margin	-9.6%	-12.7%	6.0%	16.3%
EBIT	-8.5	-9.6	-5.2	-1.4
EBIT margin	-29.4%	-33.0%	-16.4%	-3.4%
Net financial income /expense	-0.5	-1.8	-0.5	-0.6
Associates & Others	0.3	0.0	0.0	0.0
Profit before taxes	-8.7	-11.4	-5.7	-2.0
Taxes	0.6	1.7	0.9	0.3
Minorities & discontinuing ops	0.0	0.0	0.0	0.0
Net Income	-8.1	-9.7	-4.9	-1.7

Source: Company data, UBI Banca estimates

**Balance Sheet**

(EURm)	2016	2017E	2018E	2019E
Net working capital	9.5	7.0	6.4	7.4
Net Fixed assets	20.4	18.6	16.7	14.8
M/L term funds	-2.4	-2.5	-2.6	-2.7
Capital employed	27.5	23.0	20.6	19.5
Shareholders' equity	16.4	6.7	1.9	0.2
Minorities	0.0	0.0	0.0	0.0
Shareholders' funds	16.4	6.7	1.9	0.2
Net financial debt/(cash)	11.1	16.3	18.7	19.3

Source: Company data, UBI Banca estimates

**Cash Flow Statement**

(EURm)	2016	2017E	2018E	2019E
NFP Beginning of Period	11.1	11.1	16.3	18.7
Group Net Profit	-8.1	-9.7	-4.9	-1.7
Minorities	0.0	0.0	0.0	0.0
D&A	6.3	6.6	6.8	7.0
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	-1.8	-3.1	1.9	5.3
Change In Working Capital	3.2	2.6	0.6	-1.0
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	1.4	-0.5	2.5	4.4
Net Capex	-6.3	-4.7	-4.9	-5.0
Other Investments	0.0	0.0	0.0	0.0
Free Cash Flow	-4.9	-5.2	-2.4	-0.6
Dividends Paid	0.0	0.0	0.0	0.0
Other & Chg in Consolid. Area	0.5	0.0	0.0	0.0
Chg in Net Worth & Capital Incr.	4.4	0.0	0.0	0.0
Change in NFP	-0.0	-5.2	-2.4	-0.6
NFP End of Period	11.1	16.3	18.7	19.3

Source: Company data, UBI Banca estimates

**Financial Ratios**

(%)	2016	2017E	2018E	2019E
ROE	-49.4%	-144.1%	-261.2%	-950.4%
ROI	-18.2%	-23.2%	-14.4%	-4.2%
Net Fin. Debt/Equity (x)	0.7	2.4	10.0	nm
Net Fin. Debt/EBITDA (x)	-4.9	-5.4	11.8	3.4
Interest Coverage	-14.3	-4.9	-8.0	-1.9
NWC/Sales	32.9%	23.8%	20.0%	17.8%
Capex/Sales	21.8%	16.1%	15.3%	12.1%
Pay Out Ratio	-0.0%	0.0%	0.0%	0.0%

Source: Company data, UBI Banca estimates

**Per Share Data**

(EUR)	2016	2017E	2018E	2019E
EPS	-0.29	-0.35	-0.17	-0.06
DPS	0.00	0.00	0.00	0.00
Op. CFPS	-0.07	-0.11	0.07	0.19
Free CFPS	-0.18	-0.19	-0.09	-0.02
BVPS	0.59	0.24	nm	nm

Source: Company data, UBI Banca estimates

**Stock Market Ratios**

(x)	2016	2017E	2018E	2019E
P/E	nm	nm	nm	nm
P/OpCFPS	38.9	nm	16.0	9.2
P/BV	3.3	5.9	21.5	225.7
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	-9.2%	nm	nm	nm
EV (EURm)	66.7	58.0	60.5	61.1
EV/Sales	2.3	2.0	1.9	1.5
EV/EBITDA	nm	nm	38.2	10.9
EV/EBIT	nm	nm	nm	nm
EV/Capital Employed	2.4	2.5	2.9	3.1

Source: Company data, UBI Banca estimates

**Growth Rates**

(%)	2016	2017E	2018E	2019E
Growth Group Net Sales	45.1%	0.4%	9.6%	29.6%
Growth EBITDA	nm	nm	nm	nm
Growth EBIT	nm	nm	nm	nm
Growth Net Profit	nm	nm	nm	nm

Source: Company data, UBI Banca estimates

## Disclaimer

### Analyst Declaration

*This research report (the "Report") has been prepared by Marco Cristofori on behalf of UBI Banca S.p.A. ("UBI Banca"). UBI Banca is an Italian bank supervised by the European Central Bank and is duly authorised to provide investment services pursuant to Article 1, Paragraph 5, letter a), b), c), c-bis), e) and f) of the Legislative Decree 24 February 1998, n° 58 under the supervision of Consob. UBI Banca has its head office at Piazza Vittorio Veneto 8, 24122 Bergamo.*

*The analyst who prepared the Report, and whose name and role appear on the front page, certifies that:*

- a. the views expressed on the company mentioned herein (the "Company") accurately reflects his personal views. It does not represent the views or opinions of UBI Banca, its management or any other company which is part of or affiliated to the UBI Banca group (the "UBI Banca Group"). It may possible that some UBI Banca Group's employees may disagree with the views expressed in this Report;*
- b. he has not received and will not receive any direct or indirect compensation in exchange for any views expressed in this Report;*
- c. the analyst does not own any securities and/or any other financial instrument issued by the Company or any financial instrument whose price depends on or is linked to any securities and/or any financial instrument issued by the Company;*
- d. neither the analyst nor any member of the analyst's household serves as an officer, director or advisory board member of the Company;*
- e. the remuneration of the analyst is not directly tied to transactions in services of investment firms or other type of transactions it or any legal person part of the same group performs, or to trading fees it or any legal person that is part of the same group receives;*
- f. the analyst named in the document is member of AIAF.*

### General disclosure

*This Report is for information purposes only. This Report (i) is not, nor may it be construed, to constitute, an offer for sale or subscription of or a solicitation of any offer to buy or subscribe for any securities issued or to be issued by the Company, (ii) should not be regarded as a substitute for the exercise of the recipient's own judgement. In addition, the information included in this Report may not be suitable for all recipients. Therefore the recipient should conduct his own investigations and analysis of the Company and securities referred to in this document and make his own investment decisions without undue reliance on its contents. Neither UBI Banca, nor any other company of the UBI Banca Group, nor any of its directors, managers, officers or employees, accepts any direct or indirect liability whatsoever (in negligence or otherwise), and accordingly no direct or indirect liability whatsoever shall be assumed by, or shall be placed on, UBI Banca, or any other company of the UBI Banca Group, or any of its directors, managers, officers or employees, for any loss, damage, cost, expense, lower earnings howsoever arising from any use of this Report or its contents or otherwise arising in connection with this Report.*

*The information provided and the opinions expressed in this Report are based upon information and data provided to the public by the Company or news otherwise public and refers to the date of publication of the Report. The sources (press publications, financial statements, current and periodic releases, as well as meetings and telephone conversations with the Company's representatives) are believed to be reliable and in good faith, but no representation or warranty, express or implied, is made by UBI Banca as to*

their accuracy, completeness or correctness. Past performance is not a guarantee of future results. Any opinions, forecasts or estimates contained herein constitute a judgement as at the date of this Report, and there can be no assurance that the future results of the Company and/or any future events involving directly or indirectly the Company will be consistent with any such opinions, forecasts or estimates. Any information herein is subject to change, update or amendment without notice by UBI Banca subsequent to the date of this Report, with no undertaking by UBI Banca to notify the recipient of this Report of such change, update or amendment.

#### **Organizational and administrative arrangements to prevent conflicts of interests**

UBI Banca maintains procedures and organizational mechanism (physical and non physical barriers designed to restrict the flow of information between the unit which performs investment research activity and other units of UBI Banca) to prevent and professionally manage conflicts of interest in relation to investment research.

For further information please see UBI Banca's website ([www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research)) "Informativa sintetica sull'attività di ricerca".

#### **Disclosure of potential conflicts of interest**

In relation to the Company the following potential conflict of interest have been found:

- > UBI Banca acts as Corporate Broker for Expert System
- > UBI Banca may have long or short positions with the issuer

On the basis of the checks carried out no other conflict of interest arose.

#### **Frequency of updates**

UBI Banca aims to provide continuous coverage of the companies in conjunction with the timing of periodical accounting reports and any exceptional event that occurs affecting the issuer's sphere of operations and in any case at least twice per year. The companies for which UBI Banca acts as Sponsor or Specialist are covered in compliance with regulations of the market authorities.

For further information please refer to [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research)

#### **Valuation methodology**

UBI Banca's analysts value the Company subject to their recommendations using several methods among which the most prevalent are: the Discounted Cash Flow method (DCF), the Economic Value Added method (EVA), the Multiple comparison method, the SOP method and the NAV method.

The analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (i.e. holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

For further information please refer to [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research).

### Ranking system

UBI Banca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

*Buy: if the target price is 10% higher than the market price, over the next 12 months.*

*Hold: if the target price is 10% below or 10% above the market price, over the next 12 months.*

*Sell: if the target price is 10% lower than the market price, over the next 12 months.*

*No Rating: the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.*

*Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.*

*Market price: closing price on the day before the issue date of the report, appearing on the first page.*

### Distribution

*Italy: This document is intended for distribution in electronic form to "Professional Clients" and "Qualified Counterparties" as defined by Legislative Decree 24 February 1998, n. 58 and by Consob Regulation n. 16190 dated 29.10.2007, as further amended and supplemented.*

*This Report has been released within 30 minutes from the timing reported on the front page.*

*IN THE UNITED KINGDOM, THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT PERSONS WHO (A) ARE (I) PERSONS FALLING WITHIN ARTICLE 19 OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AND ONLY WHERE THE CONDITIONS CONTAINED IN THOSE ARTICLES HAVE BEEN, OR WILL AT THE RELEVANT TIME BE, SATISFIED) OR (II) ANY OTHER PERSONS TO WHOM IT MAY BE LAWFULLY COMMUNICATED; AND (B) ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC), (ALL SUCH PERSONS BEING REFERRED TO AS "RELEVANT PERSONS"). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS.*

### Copyright

*This Report is being supplied solely for the recipient's information and may not be reproduced, redistributed or passed on, directly or indirectly to any other person or published, in whole or in part, for any purpose without prior written consent of UBI Banca.*

*The copyright and intellectual property rights on the data are owned by UBI Banca Group, unless otherwise indicated. The data, information, opinions and valuations contained in this Report may not be subject to further distribution or reproduction, in any form or via any means, even in part, unless expressly consented by UBI Banca.*

*By accepting this Report the recipient agrees to be bound by all of the forgoing provisions.*

**Distribution of ratings**

**Equity rating dispersion in the past 12 months**

<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>No Rating</b>
85.3%	11.8%	0.0%	2.9%

**Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months**

<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>No Rating</b>
100%	100%	-	100%

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research).

**Historical ratings and target prices**

<b>Date</b>	<b>Rating</b>	<b>Target Price (EUR)</b>	<b>Market Price (EUR)</b>
25 July 2016	BUY	2.55	1.80
14 October 2016	BUY	2.32	2.02
30 March 2017	HOLD	1.89	1.81