Relatech S.p.A.

Sector: ICT

VALUETRACK

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Enabling corporates going "digital"

Relatech is a digital company providing solutions and services for corporates' digitalization. It works directly with clients or via larger system integrators, following a "vendor neutral" approach. IPO proceeds should allow the company to speed up its growth via internal path and M&A.

A small ICT company, grown very fast

Relatech has seen Value of Production growing up from €3mn to ca. €19mn (2019E) in four years, driven by strong market demand for digitalization, booming requests from top clients and acquisitions. Adjusted EBIT margin 2019E should stand at around 13% and net financial position post IPO is positive. As the company doesn't capitalize any R&D expenditure, it has a light capital employed, achieving a ROCE after tax around 35%.

The mantra now is "acceleration & diversification"

Management is focusing on growth acceleration, in order to bring the company out of the crowd of the small players. This should be driven by:

1. Increased efforts on clients' acquisition and cross selling activities;
2. Widening of product offer, backed by a "vendor neutral" strategy;
3. Selective M&A aimed to widen the offer and diversify the client base.

Cross selling to boost revenues and earnings growth

We expect full integration of the latest acquisition and cross selling on the complementary client bases to drive top line and earnings up at a low double annual digit rate in the next few years. After tax, OpFCF/EBITDA conversion rate should remain at extremely high level allowing the company to pile further free cash flow, to be used to fund M&A activity, in a sector with steady growth ahead and with significant room for consolidation.

Fair Value at €2.8 per share, or ca.10x 2019E Adj. EV/EBIT

At current market price Relatech shares are trading at very low multiples i.e. 5.0x-5.4x-9.2x Adjusted EV/EBITDA-EV/EBIT-P/E 2019E respectively. We assess Relatech fair value at €2.8 per share (ca. 65% higher than current market price), or 9.8x 2019E Adj. EV/EBIT and 15.1x Adj. P/E, based upon multiples analysis on two clusters of peers, i.e. international and local comparables. As the company has issued in IPO also 9.3mn warrants, which may increase by ca 50% the number of outstanding shares, the fully diluted 2020E adj. P/E at fair value should be of 17.3x.

Fair Value (€)	**2.80**
Market Price (€)	**1.68**
Market Cap. (€m)	**15.9**

KEY FINANCIALS (€m)	2018A	2019E	2020E
VALUE OF PRODUCTION	14.4	19.3	21.8
ADJ. EBITDA	2.0	2.5	3.0
ADJ. EBIT	1.9	2.3	2.7
ADJ. NET PROFIT	1.4	1.7	1.9
EQUITY	2.8	8.1	9.9
NET FIN. POS.	-1.1	3.3	5.2
EPS ADJ. (€)	nm	0.19	0.20
DPS (€)	0.10	0.00	0.00

Source: Value Track (2018PF-20E estimates)

RATIOS & MULTIPLES	2018A	2019E	2020E
ADJ. EBITDA MARGIN (%)	14.2%	13.2%	13.8%
ADJ EBIT MARGIN (%)	13.5%	12.1%	12.4%
NET DEBT / EBITDA (x)	0.5	nm	nm
NET DEBT / EQUITY (%)	40.0	<0	<0
EV/EBITDA ADJ. (x)	nm	5.0	3.6
EV/EBIT ADJ. (x).	nm	5.4	4.0
P/E ADJ. (x)	nm	9.2	9.0
DIV YIELD (%)	nm	00.0	00.0

Source: Value Track (2018PF-20E estimates)

STOCK DATA	
FAIR VALUE (€)	2.80
MARKET PRICE (€)	1.68
SHS. OUT. (m)	9.33
MARKET CAP. (€m)	15.9
FREE FLOAT (%)	20.2
AVG. -20D VOL. ('000)	69.2
RIC / BBG	RLT.MI / RLT IM
52 WK RANGE	1.70-2.79

Source: Stock Market Data

Investment Summary

Relatech is a €19mn top line (2019E) consulting and ICT company, focused on providing solutions and services for medium to large corporates' digitalization process in all the key business areas, from supply chain, to client engagement or IoT and cybersecurity.

Relatech works directly for enterprises or through larger system integrators and boasts many strategic relationships with universities and research hubs as well as with vendor partners, following a "vendor neutral" approach.

The company has recently listed on AIM Italia through a private placement and rising ca. €4.1mn (€3.1mn net of IPO costs) to be used to fund internal and external growth in a highly fragmented market, with steady growth ahead and due to consolidate. Relatech is controlled by its founder Mr Pasquale Lambardi with a 75% stake post IPO. The company has also issued 9.3mn warrants 2019-2022, which could bring to the company additional resources up to €11.5-13.6mn.

The Italian ICT market is facing steady demand…

Italy has historically lagged behind the rest of Europe in terms of digitalization, but growth rates are steadily in the mid-single digit range driven by corporates necessity to exploit the potentialities of new digital enabling factors. Within this scenario, a few topics such as **IoT**, **Big Data Analytics**, **eCommerce**, **Cybersecurity**, are increasingly perceived as top priorities by Italian corporates and, as a consequence, are growing at **double digit rates**.

…and Relatech has deep skills in the hottest topics

Relatech is already addressing many among the above mentioned "digital needs" of corporates through the various modules of its "in-house developed" technological platform named **RePlatform**. This is an **innovative and totally customizable** set of frameworks comprehensive of both codes, IT solutions and consulting services and centred on **four modules** (ReYou, ReData, ReSec, ReThing) addressing different technological areas / customers' needs.

Over the latest three years Relatech coped well with frantic growth…

Over the latest three years, Relatech has recorded a **strong top line growth** (**3yy CAGR of 54%**) and including acquisitions revenues stood at ca. €17mn as of 2018PF, with a 3yr CAGR of 67%.

EBITDA and EBIT margins steadily floated in mid-teens range and, due to the fact that the company doesn't capitalize at all any R&D expenses, it has maintained an extremely light capital employed structure, with **Net Debt at the end of 2018 at roughly €1.1mn** despite M&A related expenses. Also, people turnover has been kept under control, i.e. below 10%, definitively not bad by consultancy industry standards.

…thanks to very loyal clients

Relatech clients are highly diversified in terms of sectors (healthcare, retailing, telecom and tourism the most important ones) **and "size"**, with average annual tickets ranging from few thousands to few million euro. **Clients' loyalty is quite high** with most of clients remaining with Relatech for years, notwithstanding the duration of the original contract, due to up selling or new projects. We calculate that more than 90% of 2018 revenues have been generated by clients always active in 2015-18 years and that **ca. 15% of the top line is related to recurring revenues**, i.e. those linked to contracts of project and application maintenance.

Now is time to address client concentration

At the moment the business of Relatech is still concentrated towards one large multinational company, **Walgreens Boots Alliance group** (WBA), **representing ca. 59% of pro-forma 2018 revenues**, as its projects have been facing an exceptional growth.

These large projects have required sizeable resources from Relatech, limiting somehow the possibility for exploiting other growth opportunities. In the meantime, in fact the rest of the client basis has been growing at ca 10% per year, a pace we consider solid but below the company and the local market potential.

Management is currently pursuing a **strategy of client diversification**, focusing on acquisition of new clients, cross selling on customers recently engaged as well as via selective M&A.

…and further widen product offer

The second target of management is **becoming a truly "vendor neutral" company**, i.e. being able to integrate and customize all the most successful solutions around, through a proper quantity and quality of partnerships.

In order to build such a portfolio, it is sometimes enough to hire the right people or team, or to have good relationship with strong research hubs, but sometimes it is much more effective (also in terms of time to market) to identify a potential target and buy skills and partnerships.

Hence, also in this respect management is expecting to use M&A to address the company's need.

Relatech's future strategy

Source: Relatech

The rationale of recent IPO is clear: To accelerate growth

At this point of the company's growth and diversification process, management is seeking a catalyst able to speed it up.

Stock market listing fits this need as it has provided funding for a more aggressive M&A activity, as this would allow management to address the key issues at the same time: diversification of clients, widening of the partnerships and enrichment with new specific skills and customization capabilities. On top of this, the IPO is expected to increase the Group visibility and hence support the hiring and retention policy.

The IPO has been 100% represented by new shares: **€4.1mn fresh money** (€3.1mn net of listing costs) to devote to M&A, for pushing the company out of the crowd of small players. In addition, Relatech has issued a large amount of European-style **warrants** (9.3mn, expiring in 2022 and exercisable from mid 2020), which **could bring additional resources over the next three years** (€11-13.3mn) and additional 400k warrants could be assigned for free to Board of Director members.

Warrant Relatech 2019-2022: exercise windows and price

From	To	Exercise Price
11-May-20	20-May-20	2.36
10-May-21	21-May-21	2.60
9-May-22	20-May-22	2.86

Source: Relatech

2019E-21E key P&L items up double digit, high cash conversion and RoCE

Our forecasts are based on organic growth and cautiously assume that the growth of revenues from the top client (i.e. from the whole of the legal entities belonging to WBA group) slow down and stabilises below the market growth trend (3% CAGR into 2021E).

On the other hand, we expect management's strategy to become punchier on diversification and increase the client base (clients up 53% over the next three years) while getting the average ticket of minor clients gradually up (+ 4% per year over 2019E-21E).

The combination of these trends should boost Relatech **top line up at ca 11% CAGR 18PF/21E**. We expect margins to stay around 15% on average over the forecast period, leading Adj. net profit at ca. €2.3mn as of 2021E.

Relatech business model should remain lean and with low capital intensity, despite the capitalization of the costs related to the IPO process adds ca €1mn of intangible assets and apparently lead to higher capital intensity. Given the limited capex required by the business, the margin growth expected into 2021E should mostly pour into free cash flow with an **extremely high OpFCF/EBITDA conversion rate** and **RoCE after tax of ca 45%** as of 2021E. Overall, Relatech is expected to generate ca €5.1mn free cash flow over the 2019-2021E period (to be added to the €3.1mn net IPO proceeds).

Valuation points to a fair value of €2.8 per share

We provide a fair valuation of €2.8 per share, i.e. a fair **EV/EBIT Adj. 2019E - 2020E of 9.8x and 7.8x respectively, and P/E Adj. 2019E – 2020E of 15.1x – 14.0x.**

Considering the outstanding warrants, our fully diluted fair value, i.e. considering all warrants exercised in 2020, would imply a 2020E P/E of 17.3x.

Valuation

Our valuation of Relatech is primarily driven by peers' analysis, despite the wide range of multiples, driven by business models and product offers, combined with companies' size and client base.

We believe Relatech should deserve a valuation broadly aligned to its domestic peers as, if on the one hand Relatech boasts above average profitability, on the other side it also shows an above average risk profile (due to its small size and the high client concentration).

Based on these elements, we calculate a **fair Equity Value of €2.8 per share**, which implies **2019E -2020E multiples of 9.8x – 7.8 for EV/EBIT Adj. and 15.1x – 14.0 for P/E Adj. respectively, while on a fully diluted basis our fair value would imply a 2020E P/E of 17.3x**.

Our DCF Model, run as a safety check, hints at an equity value per share of €3.3, based on central assumptions of 12.6% WACC and 2% PGR (**€3.0 per share on a fully diluted basis)**

Here below, we provide a sensitivity analysis of possible stock trading multiples in a range of share prices between €2.20 and €3.40 (Enterprise Value based on our 2019E-20E financial forecasts).

Relatech: Sensitivity of implicit stock trading multiples in the share price range between €2.20 and €3.40

Share price	Equity Value	EV / EBITDA Adj. (x)		EV / EBIT Adj. (x)		EV / OpFCF Adj (x) (*)		P /E Adj.		P / E Adj. fully dilut.	
		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
€2.20	20.5	6.8	5.1	7.4	5.7	7.1	5.3	11.8	11.0	11.8	13.6
€2.40	22.4	7.5	5.7	8.2	6.4	7.8	5.9	12.9	12.0	12.9	14.9
€2.60	24.3	8.2	6.4	9.0	7.1	8.6	6.6	14.0	13.0	14.0	16.1
€2.80	**26.1**	**9.0**	**7.0**	**9.8**	**7.8**	**9.3**	**7.2**	**15.1**	**14.0**	**15.1**	**17.3**
€3.00	28.0	9.7	7.6	10.6	8.5	10.1	7.9	16.2	15.0	16.2	18.6
€3.20	29.9	10.5	8.2	11.4	9.2	10.9	8.5	17.2	16.0	17.2	19.8
€3.40	31.7	11.2	8.8	12.2	9.9	11.6	9.1	18.3	17.0	18.3	21.1

Source: Value Track Analysis *(*) OpFCF calculated as EBITDA less Capex*

Peers Analysis

Valuations witnessed within the ICT, software and system integrator sectors are quite scattered and, as we move in a universe with major differences in terms of size of the businesses and product offers, lead to an even more complex multiples' outlook.

Which peers?

Having said this, we have built two peer groups:

- **First group includes some main European players** that we see somehow closer to Relatech, i.e. with relatively smaller size than global "giants" and similar profitability (i.e. business model). These companies have large international footprints and annual turnover well above Relatech (they range from €400mn to €2.6bn), but we have not included global champions such as Accenture or pure software houses;
- **Second group of peers includes the more directly comparable small-mid cap listed in Italy**, i.e. system integrators, local software houses and (more in general) B2B ICT service providers. The sample built in this way counts nine names and shows a group of stocks with average valuations below the group above (-4%/12% on average/median multiples) but whose businesses have order of magnitude more comparable to Relatech.

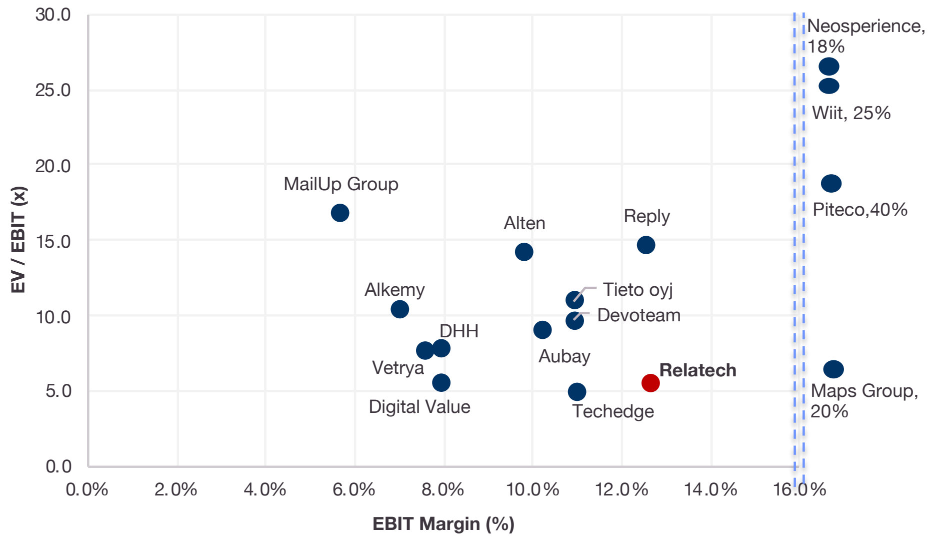
The table below highlights the key data of the stocks included in the two groups.

Company	Country / Listing	Mkt Cap (€mn)	Sales 2019E (€mn)
First Group – Main European players			
Alten	France	3,639	2,585
Aubay	France	416	427
Devoteam	France	891	777
Tieto oyj	Finland	1,969	1,638
Reply	Italy	2,280	1,185
Second Group – Italian comparables			
Digital 360	AIM	15.3	26
Alkemy	AIM	60.2	97
MailUp Group	AIM	57.3	51
Wiit	MTA	134.7	30
Vetrya	AIM	48.7	85
Digital Value	AIM	134.6	310
DHH	AIM	8.2	7
Piteco	MTA	91.6	25
Neosperience	AIM	67.2	14
Maps Group	AIM	29.5	19
Techedge	MTA	133.0	208

Source: Consensus estimates, Value Track Analysis

Also, it is worth pointing out that smaller players are not necessarily but often less profitable than "big boys" (see chart), and the latter clearly benefit also from other strength points, as higher diversification and better resilience. This is mirrored in richer average multiples, as from the table below.

Relatech vs Peers: EBIT margin 2019E vs EV/EBIT (*)



Source: Consensus estimates, Value Track Analysis *(*) Digital 360 is not included for graphical reasons(EBIT margin at 2.7%)*

Relatech Peers' stock trading multiples

Company	EV / EBIT (x)		EV / OpFCF (x) (*)		P / E (x)	
	2019E	2020E	2019E	2020E	2019E	2020E
First Group – Main European players:						
Alten	14.2	12.8	13.9	12.6	20.3	18.5
Aubay	9.0	8.1	9.1	8.2	14.7	13.6
Devoteam	9.7	8.2	9.4	7.9	19.7	17.3
Tieto oyj	11.0	10.2	10.7	9.9	14.8	13.8
Reply	14.7	12.9	14.2	13.4	21.1	19.5
Average	**11.7**	**10.5**	**11.5**	**10.4**	**18.1**	**16.5**
Second Group – Italian comparables:						
Digital 360	n.m.	15.8	13.0	7.0	n.m.	n.m.
Alkemy	10.4	8.3	13.4	10.1	14.2	12.2
MailUp Group	16.7	10.2	17.3	9.8	n.m.	20.1
Wiit	18.6	16.0	18.6	14.3	26.2	23.7
Vetrya	7.6	5.1	8.1	5.1	10.4	7.4
Digital Value	5.4	4.6	5.5	4.6	10.1	8.7
DHH	7.7	4.4	8.6	4.7	19.6	13.1
Piteco	12.4	10.0	10.8	8.8	13.1	11.7
Maps Group	7.6	6.1	8.7	6.5	11.2	9.9
Neosperience	25.1	17.4	19.8	13.4	n.m.	27.5
Techedge	4.9	3.6	5.1	3.7	7.6	6.3
Average	**11.7**	**9.2**	**11.7**	**8.0**	**14.1**	**14.1**
Relatech @ mkt price (on Adj. figures)	**5.4**	**4.0**	**5.2**	**3.7**	**9.2**	**9.0**
Disc. (-) / Prem. (+) on First Group Avg.	*-54%*	*-62%*	*-55%*	*-64%*	*-49%*	*-45%*
Disc. (-) / Prem. (+) on Second Group Avg.	*-53%*	*-57%*	*-56%*	*-54%*	*-35%*	*-36%*

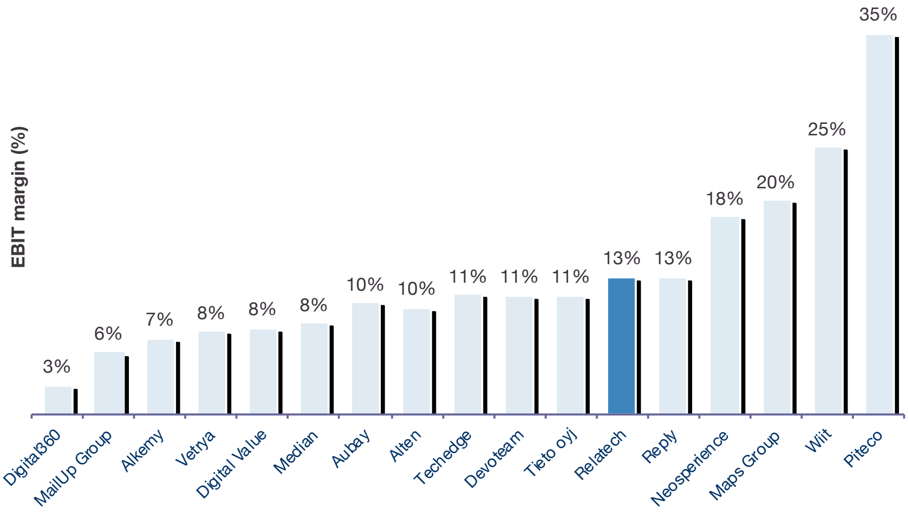
Source: Consensus estimates, Value Track Analysis *(*) OpFCF calculated as EBITDA less Capex*

Relatech positioning

Compared to peers, **Relatech is well positioned in terms of profitability and free cash flow generation**. In this respect our preferred metric is EBIT, as Relatech accounting policy does not envisage any capitalization of R&D costs and hence the EBITDA margin could be misleading if compared to companies with different accounting policies.

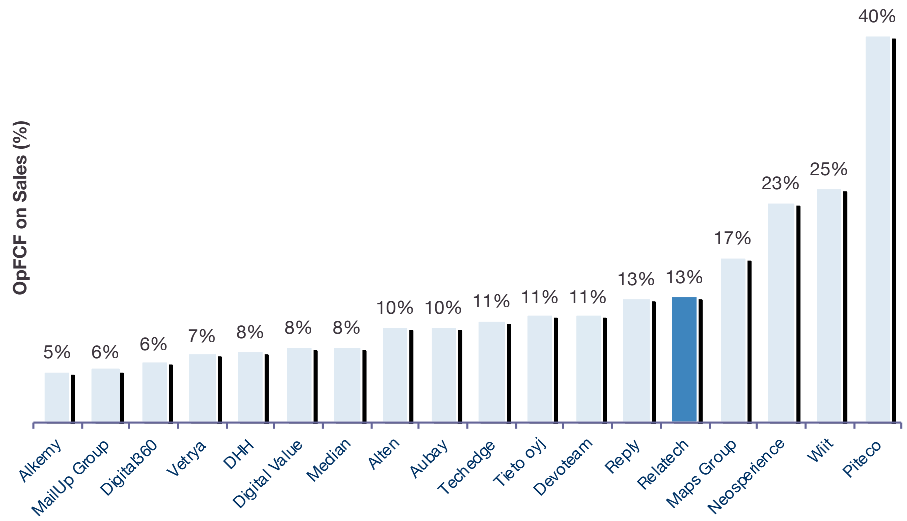
The second metric we use is a proxy of Operating Free Cash Flow (OpFCF), i.e. EBITDA less capex: this is a useful indicator of cash flow generation, as it factors total investments required by the business (including R&D investments, if not charged) and leaves out those amortizations that are linked to accounting issues (as amortization of goodwill or IPO costs).

Relatech: 2019E Industrial performance vs. peers – EBIT margin on Sales (%)



Source: Consensus estimates, Value Track Analysis *(*) Calculated as % on Revenues from Sales*

Relatech: 2019E Industrial performance vs. Peers – OpFCF on Sales (%)

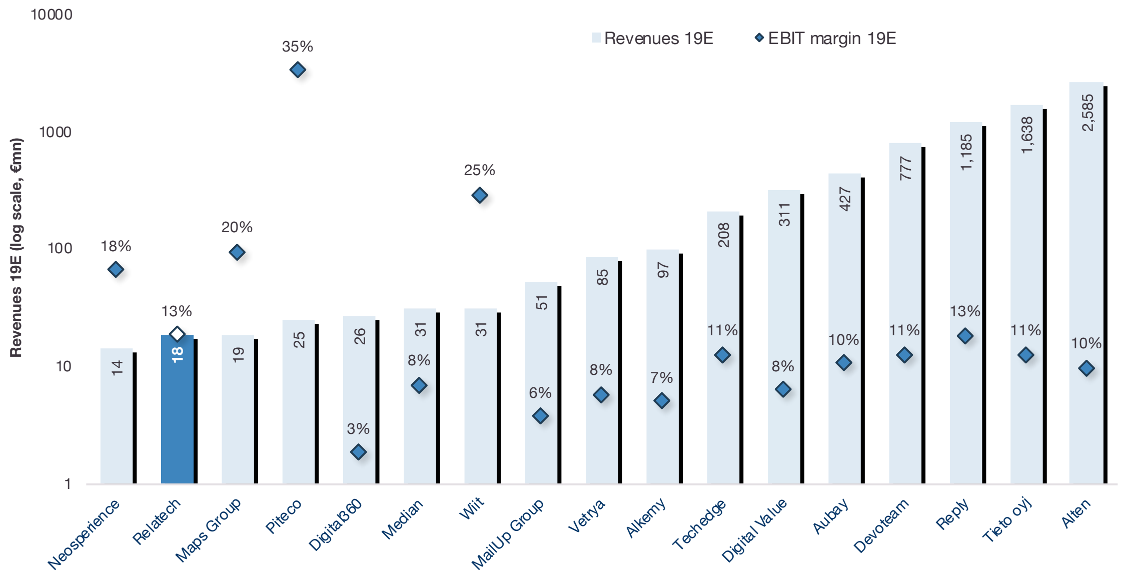


Source: Consensus estimates, Value Track Analysis

On the other hand, there are two elements of weakness to be factored in the valuation of Relatech and that are likely to fully offset the potential premium that the high profitability may call for:

- **Smaller size of the business** and hence, all the rest being equal, not only a smaller market capitalization and lower liquidity, but also a higher "execution risk" in general;
- **Client concentration**, which is expected to decrease materially but at this stage it still affects the risk profile of the company.

Relatech 2019E: Industrial performance and Revenues size (€mn) vs. peers



Source: Value Track Analysis

Target multiples and fair equity value

As a consequence of above-mentioned consideration, we summarise in the table below the "fair" multiples we would apply to Relatech 2019E results, based on our forecasts. These multiples imply an average 10% discount vs. domestic players and 17% discount to the international ones, leading to a **fair value of €2.8 per share**.

In more detail, this **value implies 2019-2020E multiples of 9.8x-7.8x for EV/EBIT Adj., 9.3x-7.2x for EV/OpFCF Adj. and 15.1x-14.0 for adj. P/E.** The implied discount to peers is also justified by the impact of potential exercise of the sizeable amount of warrants issued at IPO (whose exercise price is below our fair value and first exercise period is May 2020): the **2020E fully diluted P/E at fair value would stand at 17.3x**. On the other hand, it should be noted that 2019E-20E results are not including yet the non-operating income related to IPO costs tax credit.

Relatech: Stock average Fair Value based on "fair" multiples

Company	EV / EBIT (x)	EV / (OpFCF) (x)(*)	Adj. P / E (x)
Fair Multiples 2019E (on Adj. values)	**10.0**	**9.5**	**14.5**
Disc. (-) / Prem. (+) vs. First International Peers (Avg)	*-15%*	*-17%*	*-20%*
Disc. (-) / Prem. (+) vs. Domestic Peers (Avg)	*-14%*	*-19%*	*3%*
Fair share price (€)	**2.9**	**2.8**	**2.7**

Source: Value Track Analysis *(*) OpFCF calculated as EBITDA less Capex*

Discounted Cash Flow Model

As a safety check, we also run a DCF Model, which incorporates medium and long-term growth potential, albeit based on organic growth only.

Hence, DCF is based on the current capital structure of the company which highlights a Net Cash position at €3.3mn at the end of 2019E.

Using an expanded CAPM approach we get an overall cost of Equity capital at 12.6%, which corresponds "*de facto*" to rolling WACC, since Relatech is expected to stay cash positive if we exclude M&A.

The detailed calculation is based on the following assumptions:

- Risk free rate at 2.0%, in line with medium term target inflation;
- Unlevered beta at 0.95 (average of Software Entertainment, Software Internet and Software System and Application, *source*: Damodaran);
- Implied Italian Equity Risk premium ERP at 9.02%, derived using a relative stock market volatility approach considering an implied US ERP at 5.9% (*source*: Damodaran);
- Additional 2.0% Small Size Risk Premium, to compensate for AIM Italia lower liquidity.

Relatech: WACC calculation

Components	Value
Risk free	2.0%
Risk Premium	9.02%
Beta Unlevered	0.95
Small Cap Mkt Risk Premium	2.0%
Cost of Equity / WACC	**12.6%**

Source: Value Track Analysis

Additional DCF model assumptions

Additional DCF assumptions are the following:

- 2019E is used as reference point for valuation;
- Financial statements projection starting from 2020E to 2028E;
- Terminal value at 2028YE obtained applying a 2% Perpetuity Growth Rate in order to consider overall market growth and the Company's level of maturity.

That said, the result of our calculation is a **fair Equity value standing at €30.6mn or €3.3 per share**, i.e. at slight premium to our multiple-based valuation. On a fully diluted basis the Equity value goes to **€41.6mn or €3.0 per share.**

Relatech: DCF model

	€mn
PV of future cash flows 2020E-2028E	14.5
PV of Terminal value @ 2028E	12.9
Fair Enterprise value	**27.4**
Implied EV/ Adj. EBIT 19E (x)	11.7x
Net Fin. Position 2019E	3.3
Minorities	0.1
Fair Equity value	**30.6**
Fair Equity value per share (€)	**3.3**

Source: Value Track Analysis

Here below we provide 1) a sensitivity analysis of fair Equity Value, allowing for both WACC and PGR and 2) the implied 2019E EV/ Adj. EBIT multiple based on different fair Enterprise Values.

Relatech Group: Fair Share Price (€) - Sensitivity Analysis

		Perpetuity Growth Rate				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
WACC	**11.6%**	3.3	3.4	3.5	3.5	3.6
	12.1%	3.2	3.3	3.4	3.4	3.5
	12.6%	3.1	3.2	**3.3**	3.4	3.4
	13.1%	3.1	3.1	3.2	3.3	3.3
	13.6%	3.0	3.0	3.1	3.2	3.3

Source: Value Track Analysis

Relatech Group: Implied 2019E EV/ Adj. EBIT - Sensitivity Analysis

		Perpetuity Growth Rate				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
WACC	**11.6%**	11.9x	12.1x	12.4x	12.8x	13.1x
	12.1%	11.5x	11.8x	12.1x	12.4x	12.7x
	12.6%	11.2x	11.4x	**11.7x**	12.0x	12.3x
	13.1%	10.9x	11.1x	11.4x	11.7x	12.0x
	13.6%	10.5x	10.8x	11.0x	11.3x	11.6x

Source: Value Track Analysis

Company overview

Relatech identity card

The company operates in the Italian ICT market, namely focusing on **providing solutions and services for companies' digital transformation**.

The array of products it offers ranges from IoT modules, cybersecurity algorithms, and cloud services to digital marketing and e-commerce facilities. All of them are offered either through business partnerships with key hi-tech players (IBM, Microsoft, Oracle) developed over the years or via an internally developed platform – **RePlatform** – which enables even more customized solutions to its final customers.

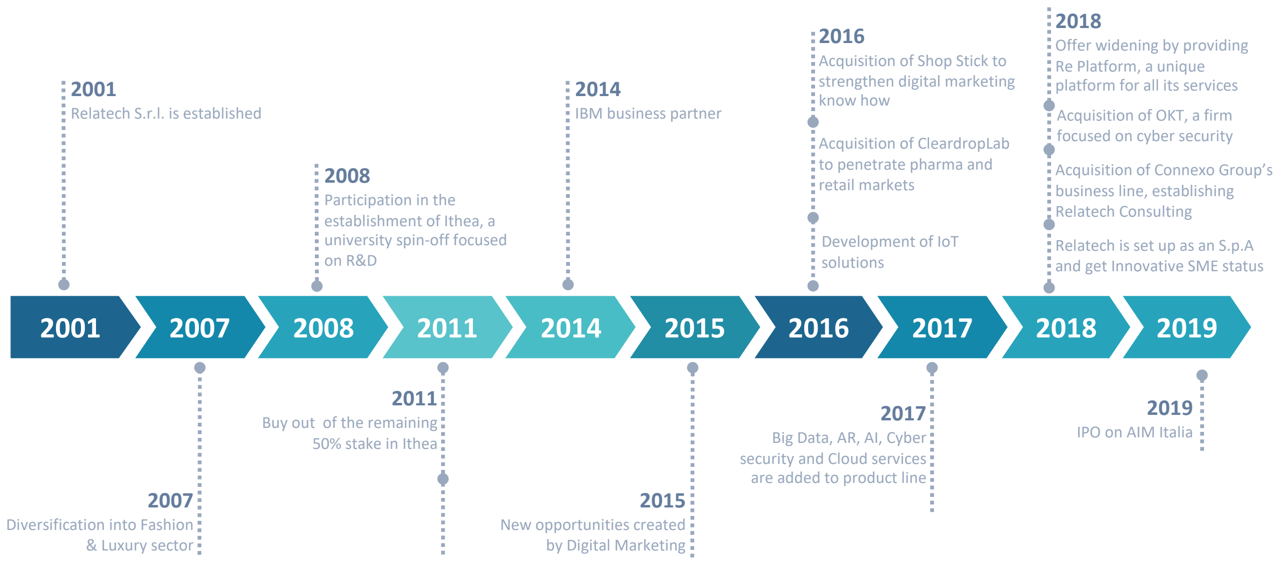
Relatech also commits itself in shepherding its clients in the development of their IT-related ideas by offering maintenance and software-based services.

Historical milestones

Even though the company was founded in 2001, it is only in the latest ten years that growth has become notable thanks to an acceleration driven by both organic development and M&A deals. In a nutshell, we would distinguish the following periods:

- **2001-2007**. Start-up of the business;
- **2008-2014**. Relatech starts building a partnership ecosystem. The establishment of **Ithea**, a research unit linked to the university world and the signature of a partnership with **IBM** are the two cornerstone moments;
- **2015 - 2018**. Growth accelerates. New important clients are added to the portfolio, and new skills are insourced thanks to carefully selected **M&A deals**, four in the period;
- **2019 to present**. Relatech shares are listed on AIM Italia (first day of trading 28 June).

Relatech: Main historical milestones



Source: Relatech

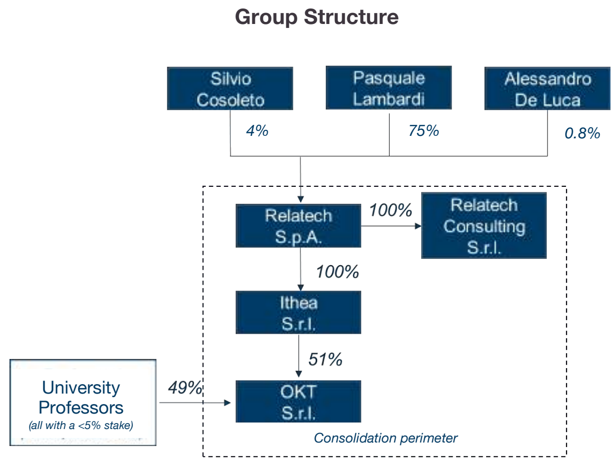
Shareholder structure / Top Management structure / Group structure

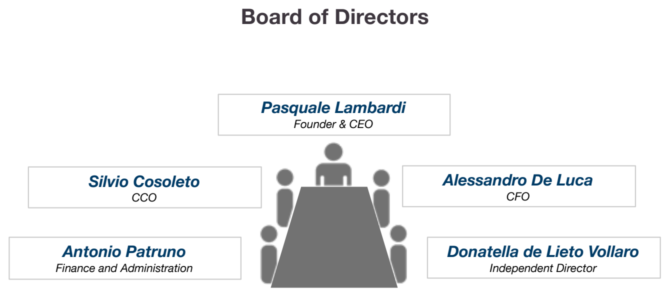
The **perimeter of consolidation 2019 is made of four companies** out of which two have been acquired in 2018FY. Relatech S.p.A., the parent company, owns 100% of Relatech Consulting S.r.l. (which includes the asset acquired from Connexo Group's bankruptcy procedure) and of Ithea S.r.l., university spin-off focused on R&D. Ithea has a 51% stake in OKT S.r.l., another university spin-off.

The shareholders' structure of Relatech is extremely simple. The **founder Mr. Pasquale Lambardi owns a 75% stake** post IPO, while other two key executives (**Mr. Silvio Cosoleto** and **Mr. Alessandro De Luca** own a combined 4.8% of capital (4% and 0.8% respectively). The free float currently represents 20.2% of capital.

Mr. Lambardi serves as CEO. Besides him, Mr. Silvio Cosoleto and Mr. Alessandro De Luca are respectively Chief Commercial & Operations Officer (in charge thus of sales and operations activities) and Chief Financial Officer. All three are part of the **Board of Directors** that currently includes **5 people**, including one independent director.

Relatech: Group Structure and Board of Directors





Source: Relatech

Relatech group structure by legal entities

Name	Stake (%)	Based in	Perimeter of activity
Relatech	Parent Co.	Milan	Headquarter functions + IT factory i.e. provider of system integration services, professional services and manager of digital projects and solutions for the group.
		Naples	IT factory focused on enterprise clients. It provides digital solutions in particular in Digital Marketing, Customer Engagement and Mobility & IoT segments.
Ithea	100%	Naples, Rende	R&D competence center, boasting partnerships with several universities and many research centers.
OKT	51%	Rende	University spin-off focused on research on cyber security, big data, blockchain themes.
Relatech Consulting	100%	Milan	Consultancy house specialized in ERP and CRM solutions / platforms based on Microsoft and Oracle technologies.
		Genoa	IT factory supplying IT services to naval market.

Source: Relatech

What Relatech sells

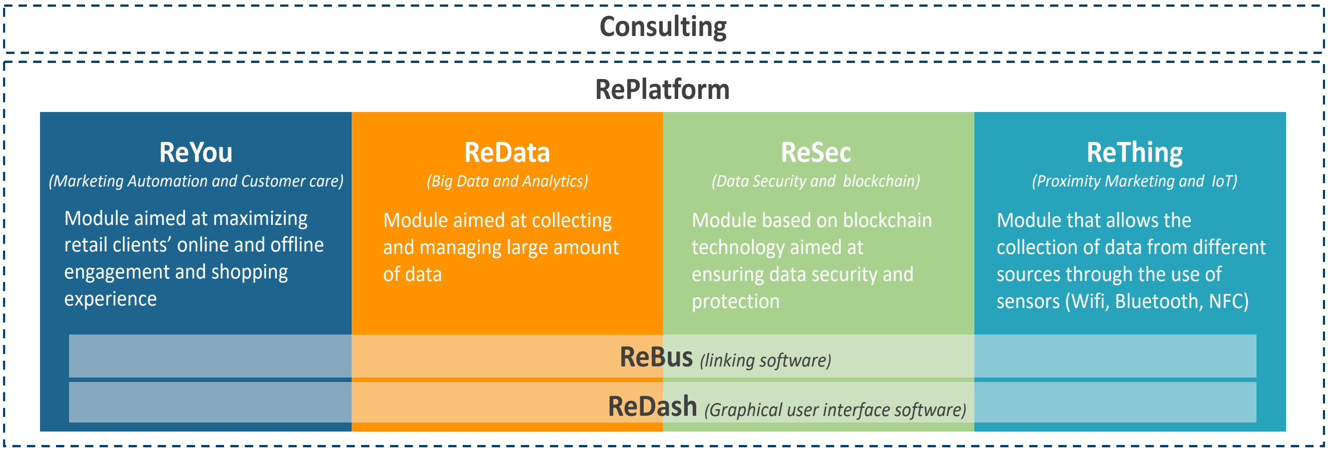
Relatech's product offering is a sum of skills, methodologies and software that the company for organizational and marketing purposes has grouped under a "platform" umbrella called **RePlatform**.

Indeed, as an effect of the huge amount on in-house developments accrued during the years RePlatform is now an **innovative and totally customizable set of frameworks** comprehensive of both codes, IT solutions and consulting services.

The core of the platform is made of **four modules** (named ReYou, ReData, ReSec, ReThing) addressing different technological areas / customers' needs:

- **ReYou** is mainly focused on online / offline clients engagement;
- **ReData** is mainly focused on Big Data themes;
- **ReSec** is mainly focused on Data security / Blockchain;
- **ReThing** is mainly focused on Proximity marketing and IoT.

Relatech Services and Solutions Offering



Source: Relatech

We note that:

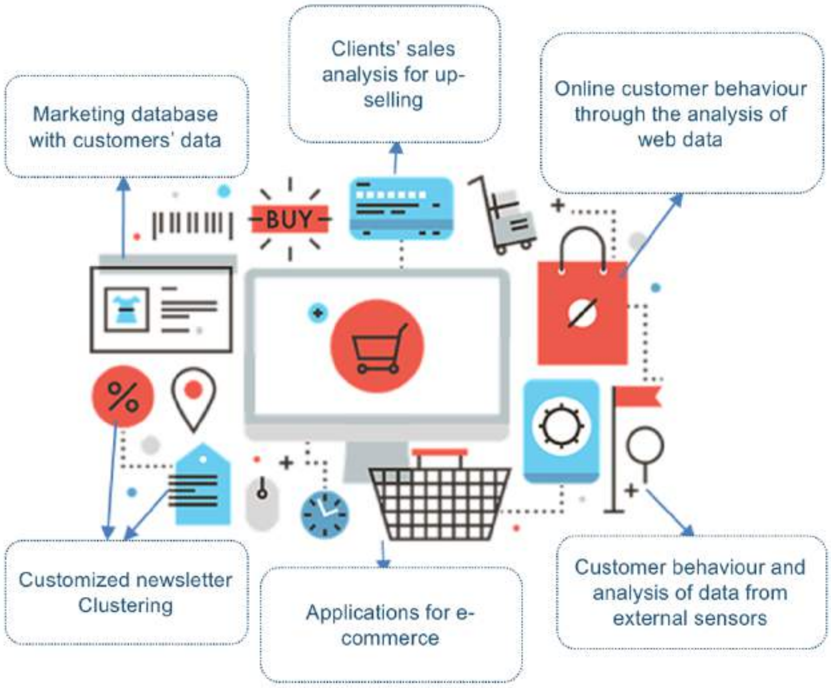
- These modules are not explicitly offered to clients as "closed packages" but are rather used by Relatech to customize the solutions aimed at solving the specific clients' needs;
- Besides the four modules, it can be provided to clients also a **consultancy activity** as Relatech has developed an in-depth knowledge on the IT sector and can help its clients to label and transform their business, namely offering services addressed to e-commerce, ERP, CRM, and BPM;
- Modules are integrated in a unified solution thanks to a **linking software**, named **ReBus**, and clients can access this unified solution via a **graphical user interface** named **ReDash**.

Module #1 - ReYou

Module often used on projects regarding e-commerce, CRM, digital marketing.

It is focused on online and offline client engagement activities through Marketing Automation solutions aimed at improving the buying experience for the customers, the brand reputation and customers' loyalty.

ReYou Module: Examples of applications



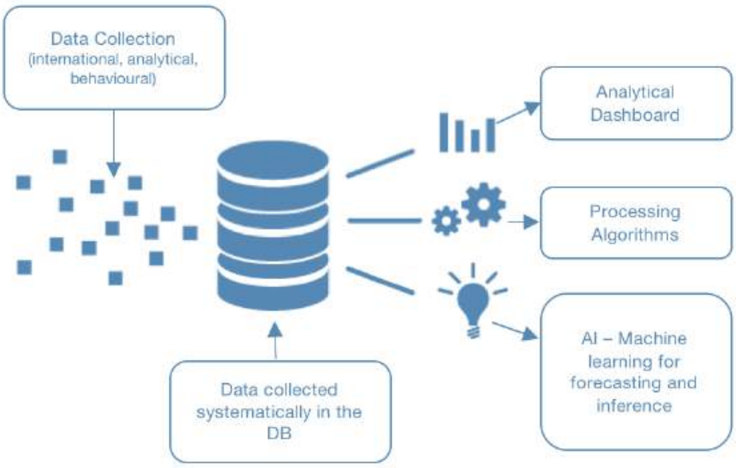
Source: Relatech

Module #2 - ReData

Module which embraces the Big Data & Data Analytics world. It is a tech framework developed to record and process huge amount of data.

Given the initial data input, it also allows to produce forecast outputs through machine learning technology.

ReData Module devoted to Data collection and analyses



Source: Relatech

Module #3 - ReSec

Module that can be applied both on the cybersecurity side and on the blockchain one. In the first case, it works to protect computer systems from cyber-attacks from the web, in the latter instead the module is aimed at granting protection and privacy of customers' data stored during the normal business operations through the use of blockchain technology.

ReSec – User Interface of the cybersecurity dashboard

Source: Relatech

Module #4 - ReThing

Module based on IoT technology. It allows the collection of data from different sources (Wi-Fi, Bluetooth, Beacon, etc.) using both local devices and server hubs. This technology can be used, for instance, to trigger proximity marketing techniques aimed at maximizing customers' expenditures within retail stores. It can also be deployed in Industry 4.0 cases, in order to monitor production sites, plants, materials and people.

ReThing Module: Examples of Proximity marketing apps based on IoT technologies

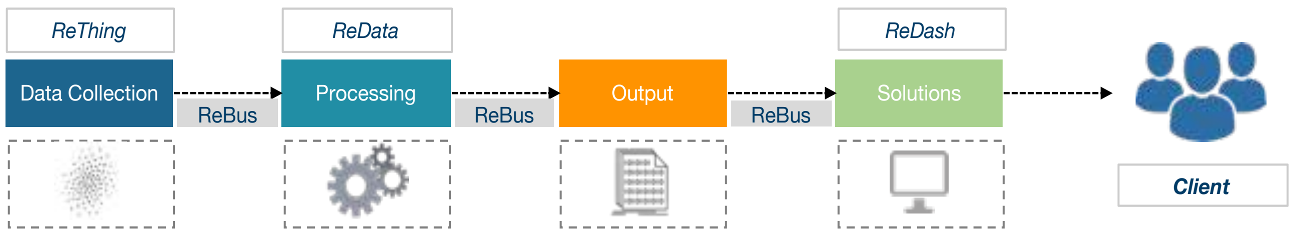
Source: Relatech

Additional Software and Interfaces: ReBus and ReDash

ReBus is the software that allows the four aforementioned modules to communicate each other in order to process data. In other words, it allows the information to flow in and out the four modules.

ReDash is the graphic user interface software that allows the easy readability of the outputs.

ReBus and ReDash to maximize potential of the four RePlatform modules



Source: Relatech

How these services are sold, "delivered" and paid

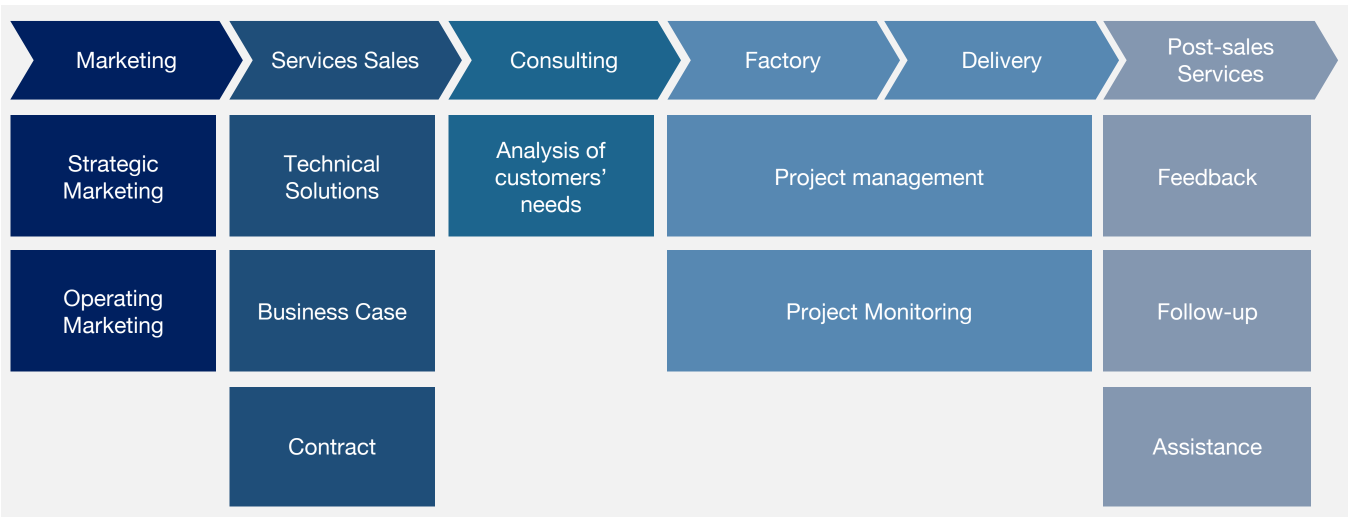
It's all about consulting

Relatech proposition is leveraged upon business consulting, as this is the starting point to:

- Understand clients' needs and existing processes, infrastructures, etc.;
- Spot the best solution to address these needs (in terms of technologies and customization);
- Offer a "turn-key" project and often a post sales / maintenance contract on top.

This may slightly differ when the client is not an enterprise, but a System Integrator, depending on its specific needs.

Relatech's Value Chain



Source: Relatech

Go to market strategy

Leads for Relatech come from either **direct request of potential clients** (e.g. thanks to "word of mouth" of existing and past clients or to the signalling of partner vendors) or from **Relatech marketing activity** (e.g. sector events, social media marketing).

Normally the process starts with a "pitch", where Relatech proposal is evaluated on the back of its solution as well as of its costs and timing.

The proposal is normally relatively complex and includes:

- Technical details of the solution identified;
- Analysis of the execution process, including resources required and timing;
- Costs and legal implications (e.g. responsibilities, SLA - Service Level Agreement - potential penalties or premiums).

Sometimes the service required is the consultancy service in itself and hence there is not a proper bidding process, as it may occur when the client simply needs a "software selection" or a "gap analysis", but this is not the rule.

According to management the economic side of the offer is only rarely the winning factor for getting the award, given projects are mostly tailor made and critical for the client.

Final contracts are not standardised and tend to differentiate materially, given the wide range of products, project complexity, SLA and duration. However, orders typically include the following elements:

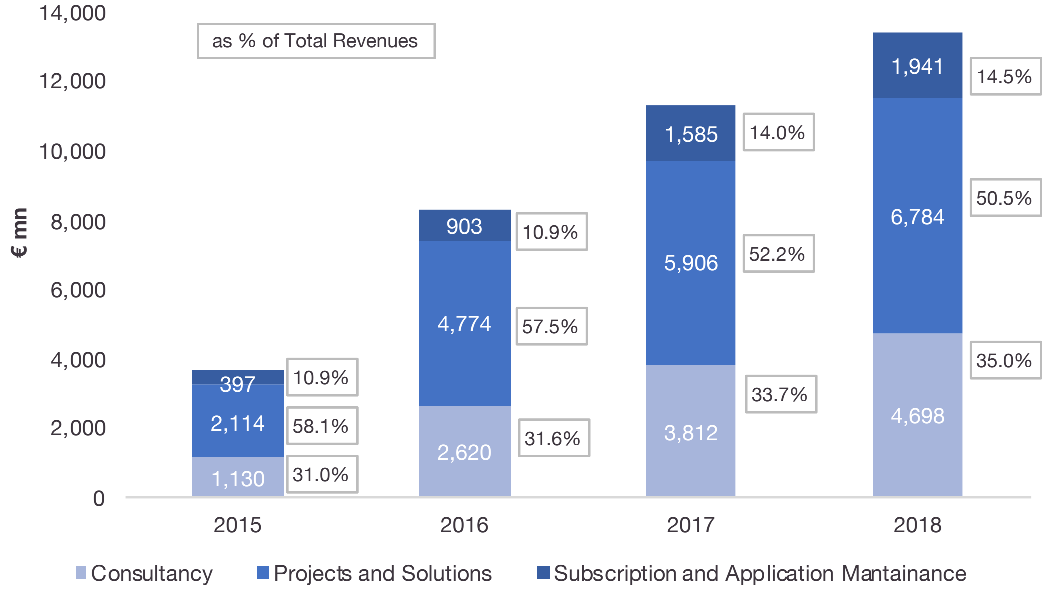
- Description of consulting project (e.g. detailed steps, resources devoted, format and timing of delivery);
- Description of the solution to be developed and/or installed and customised;
- Post sale and/or project maintenance commitment;
- Cost and payment terms;
- Other terms conditions (e.g. dispute settlement mechanisms, penalties for delayed delivery).

From order acquisition to cash in

Once the order is acquired the **execution** path depends on the specific project, but it typically includes:

- **Analysis phase**, i.e. the consulting team evaluates in depth the firm's processes, identifies the gaps relative to the best practice or the optimization potential; select the best software solution(s) based on the client's needs, and/or its budget and/or its existing platforms and infrastructures;
- **Execution and resources planning,** i.e. project management plans activities required, resource (people) allocation, set sprint timing, schedule of milestones, monitoring of work progress in terms of timing/costs/quality;
- **Delivery (via the so called agile/scrum methodology)** under the project manager supervision. More in detail:
    - IT team (the Factory) focuses on the development of the solution;
    - Solution is customized and installed;
    - Solution is tested;
    - Clients' employees are trained if required.
- **Post-sale phase** including a few potential activities (as customer satisfaction analysis, data reporting, cross-selling and up-selling) as well as the project maintenance, if such a service is subscribed. In 2018 ca 15% of revenues were linked to project or application maintenance.

Relatech: 2016-18P Revenues breakdown – one-off orders vs follow ups



Source: Relatech, Value Track Analysis

The **payments are received on the back of work progress**, given most of Relatech business is run via projects of a certain complexity. As a broad indication, Relatech invoices 20% of total orders' value when it gets the order, 30% each at first and second steps of progress and the final 10% at roll-out.

Relatech has virtually no problems of bad debts and so far has also enjoyed favourable terms of payments, given the high revenues contribution from foreign clients, who are "better payers" than Italian ones.

It is worth to point out that, as most consultancy firms, Relatech is keen in maintaining a certain **balance between in house and *purchased* work force**: the two largest cost items in the Group's P&L are in fact labour costs (42% of 2018 Value of Production) and service costs (41%, out of which ca 90% is represented by professional services).

As a consequence, the quality and quantity of sub suppliers is also key to the quality of the service provided to clients in the execution phase (see section on partnerships).

Partnerships

During the years Relatech has developed an "**ecosystem**" made of several valuable business and technological partners out of which we mention:

- **IT Vendors** such as **IBM**, **Microsoft**, **Oracle** whose software / services Relatech is allowed to utilize in order to complement its in-house developed solutions;

- **IT Consultants / System integrators** such as **Accenture**, **NTT Data**, **Reply** that often mutually collaborate with Relatech on specific complex projects to be deployed towards top-tier end-users. Obviously, while most of these firms may represent a business partner in certain projects, in some others Relatech may find them as direct competitors.

Main partnerships with IT vendors and IT Services providers

Type	Partner	Description	When	Lenght
Tech	IBM	Project Development and Software reselling	Since 2014	Annual
	TechData	Software and Hardware reselling	Since 2014	Annual
	openbravo	IT software reselling	Since 2014	Annual
	Microsoft	Software reselling	Since 2019	Annual
	ORACLE	Software reselling	Since 2019	Annual
Business	Engineering	IT Services	Since 2013	Annual
	accenture	IT Consulting Services	Since 2006	Annual
	REPLY	IT Services	Since 2014	Annual
	NTT Data	IT Services	Since 2015	Annual
	Sirti	IT Services	Since 2015	Annual
	Atos	IT Services	Since 2018	Annual

Source: Relatech

Out of the above-mentioned partnerships **a special role is played by IBM** with which Relatech signed a **strategic agreement back in 2015** on collaboration themes such as Cloud, IoT, Analytics, Mobile.

Indeed, as IBM is more and more evolving towards the provision of (hybrid) cloud based digital services, developers such as Relatech can offer to their final clients state-of-the-art solutions with almost limitless scalability and flexibility thus removing the need for capital investment in infrastructure.

An example of such partnership is the recent deploy of an innovative **Health & Loyalty System for Apoteca Natura** that includes:

- An app, MyApotecaNatura, available online and on mobile devices with which customers can monitor their health data, count their steps, set therapy reminders and receive personal healthcare updates;
- A customer loyalty program, Apoteca Natura's MyCard, that enables customers to make purchases and collect and redeem loyalty points.

Such a solution has been developed by Relatech combining several items of IBM offer, e.g. the IBM Cloud Kubernetes Service, the IBM Db2 on Cloud and the well known IBM Watson™ Campaign Automation system.

https://www.ibm.com/case-studies/apoteca-natura-healthcare-mobile-app-ibm-cloud-watson-campaign

Who are Relatech clients

Relatech is a provider of software solutions tailor made for **medium to large enterprises**; these solutions are based on software and applications developed in house or provided by the major international vendors.

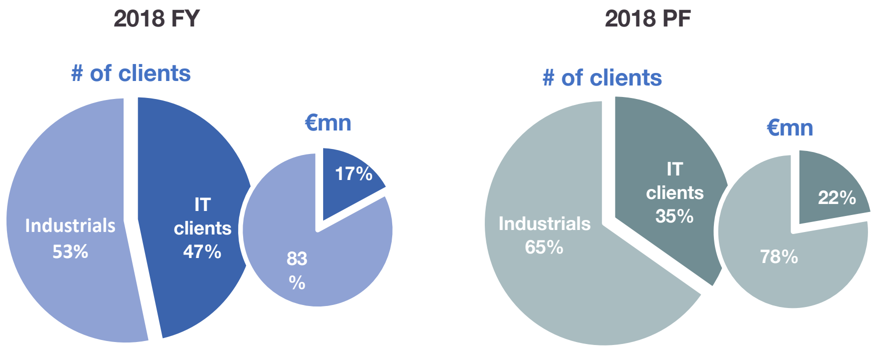
Relatech also works for the **leading system integrators** which, in executing large projects to major multinational clients, hire Relatech as supplier of specific solution or for the execution of part of the project.

The Company therefore either invoices to final clients (enterprises) or to IT companies, and it may happen to see the same name (e.g. IBM) acting as a client or as a supplier, depending on the project and the final client.

Projects with different roles, clients in different sectors and business areas

As from the charts below the IT clients (i.e. the system integrators and the IT vendors) appear relatively marginal in terms of overall revenues, but this is probably understating their importance, as their share of revenues is "diluted" by the presence of a very large key client. If we focus on number of clients, the picture is relatively different, with IT companies and large vendors representing almost half of the client base as of end of 2018 (one third on pro-forma basis i.e. including the client base of the company acquired in December 2018).

Relatech: 2018P & 2018PF Revenues to final clients - corporates vs. system integrators



Source: Relatech, Value Track Analysis

Relatech clients are highly diversified in terms of sectors and "size", with average annual tickets ranging from few thousands to few million euro: in 2018 the company recorded ca. 20 references in the cluster below €100k average ticket, six in the cluster between €100k-€1mn and three top clients with tickets above €1mn.

According to management there is not a "typical" target client for Relatech, as demand for its services is linked to the level of IT spending and innovation pace, rather than the size of the business or its sector. However, Relatech industrial clients are generally medium to large corporates, with virtually **no direct presence of P.A. clients**.

In terms of sector "verticals", Relatech has built a strong knowledge in **healthcare and retailing** upon the long-lasting partnerships with its top client, but this specific competence has been deployed with a few other key clients in healthcare and pharma.

Having said this, we do not envisage a clear sector specialization at Relatech, and if we focus on "final clients", i.e. including also those firms reached in a indirect way as supplier to other system integrators, we reckon also a good presence in **banks**, **insurance**, **utilities**, **food** and **transportation** sectors.

Lastly, following the acquisition of Connexo (now Relatech Consulting) at the end of 2018, the company has brought home a few large clients in the **telecom and tourism** sectors, too.

High loyalty and high concentration of clients

Relatech indicates that ca. **15% of the top line is related to recurring revenues**, i.e. those linked to contracts of project and application maintenance. Yet, **clients' loyalty is quite high** in general, and given the massive and evolving needs of digitalization and innovation, most clients remain with Relatech for years, notwithstanding the duration of the original contract, due to up selling or new projects. We calculate that **more than 90% of 2018P revenues have been generated by clients always active in 2015-18 years**.

Relatech: 2015-18 Clients' loyalty (*)

Client	2015	2016	2017	2018
Client#1	✓	✓	✓	✓
Client#2	✓	✓	✓	✓
Client#3	✓	✓	✓	✓
Client#4	✓	✓	✓	✓
Client#5	✓	✓	✓	✗
Client#6	--	--	✓	✓
Client#7	--	--	✓	✓
Client#8	--	--	--	✓
Client#9	--	✓	✓	✗
Client#10	✓	✓	✓	✓
Client#11	--	--	--	✓
Client#12	✓	✓	✓	✓
Client#13	--	--	--	✓
Client#14	--	--	--	✓
Client#15	✓	✓	✓	✗
Client#16	✓	✗		
Client#17	--	--	--	✓
Client#18	✓	✓	✓	✓
Client#19	✓	✗		
Client#20	--	✓	✗	
Client#21	--	--	--	✓

Client	2015	2016	2017	2018
Client#22	✓	✓	✓	✓
Client#23	✓	✓	✓	✓
Client#24	--	✓	✓	✗
Client#25	--	--	--	✓
Client#26	--	✓	✓	✓
Client#27	--	--	--	✓
Client#28	--	--	--	✓
Client#29	--	--	✓	✗
Client#30	✓	✓	✓	✓
Client#31	✓	✓	✗	
Client#32	✓	✓	✓	✓
Client#33	--	--	✓	✗
Client#34	--	--	--	✓
Client#35	✓	✓	✓	✓
Client#36	--	--	✓	✓
Client#37	✓	✓	✓	✓
Client#38	✓	✗		
Client#39	✓	✓	✓	✓
Client#40	--	✓	✓	✓
Client#41	✓	✓	✓	✗
Client#42	--	--	--	✓

Source: Relatech, Value Track Analysis

(*) Clients ranked according to the amount of revenues generated

Also, as from the table below, reporting the client base on the back of its "age", it appears that the client acquisitions over the last years have been showing increasing revenues per client and that acquisition policy has accelerated in 2018. These data based on internal accounting by the company do not include the client base acquired via M&A in December 2018.

Relatech: 2015-18 Clients' loyalty from a different perspective

Clients	2015	2016	2017	2018
Clients active for 4 years (#clients)	-	-	-	**14**
as% of Total clients	-	-	-	*47%*
Total Revenues	**-**	**-**	**-**	**12,607,887**
% of Total Revenues	-	-	-	*94%*
Clients active for 3 years (#clients)	-	-	**17**	**2**
as% of Total clients	-	-	*65%*	*7%*
Total Revenues	**-**	**-**	**10,855,483**	**60,792**
% of Total Revenues	-	-	*96%*	*0%*
Clients active for 2 years (#clients)	-	**18**	**4**	**3**
as% of Total clients	-	*78%*	*15%*	*10%*
Total Revenues	**-**	**8,066,727**	**268,010**	**365,853**
% of Total Revenues	-	*99%*	*2%*	*3%*
Clients active for the first year (#clients)	**21 (*)**	**5**	**5**	**11**
as% of Total clients		*22%*	*19%*	*37%*
Total Revenues	**3,640,778 (*)**	**109,067**	**196,775**	**388,532**
% of Total Revenues		*1%*	*2%*	*3%*

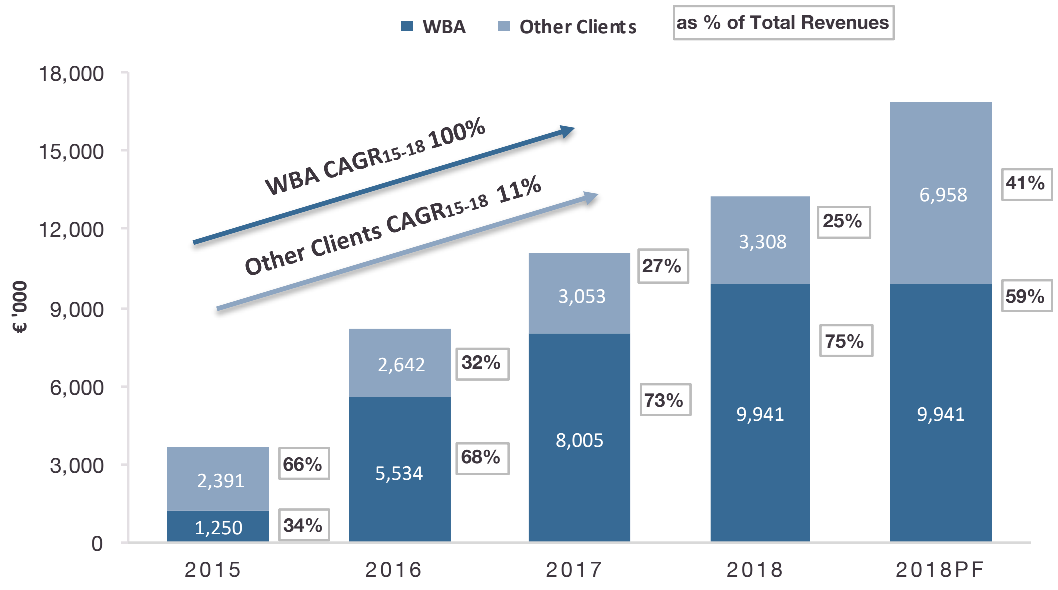
Source: Relatech, Value Track Analysis (*) Number of clients and revenues refer to Group (2015 clients' details not available)

In terms of concentration, the current client base of Relatech is **highly dependent upon Walgreens Boots Alliance group** (from now **WBA**). Such a relationship started in 2011 and has been recently renewed at least up to 2020 within a framework contract agreement and is driven by a major global effort of digitalization and a never-ending need of WBA to fine tune its business model by investing in new enabling technologies.

Indeed, this multinational - under different legal entities – should have accounted for ca. 59% of Relatech's 2018 pro-forma revenues, (i.e. including the newly acquired Connexo). The following table, based on internal accounting data by the company, shows the trend witnessed by the top client and by the rest of Relatech clientele since 2015, including our estimate of the pro-forma picture as of end-2018.

We underline that WBA has been an extremely loyal and profitable clients especially since 2015 and that such a relationship has very high and complex exit barriers. Indeed, we'll see in the next page that Relatech is providing support on a number of projects, both front and back end.

Relatech: 2015-18 Revenues concentration



Source: Relatech, Value Track Analysis

A few details on WBA client

Given the strong relationship and the importance of Walgreens Boots Alliance for Relatech, it is worth providing some specific information about this client.

WBA is a **US$130bn revenues global leader in the distribution of pharmaceutical products**. It generates its revenues both thanks to a 18,000+ stores retail distribution network spread across 11 countries and to a wholesale distribution to ca. 230,000 drugstores, physicians, health centres and hospitals in more than 20 countries.

Given its two-sided nature (retail accounting for ca. 80% of total and wholesale for the remaining 20%), WBA has developed both sophisticated supply chain / procurement skills and deep retail clients' engagement techniques capability, all skills that are currently undergoing a heavy reshuffle, triggered by the new opportunities offered by the digital revolution.

In particular, WBA is focusing its digital transformation effort in the following three areas: 1) streamlining of day-to-day operations; 2) evolution towards an omni-channel clients interface business model; 3) protection of customers', employees' and company's data.

1. Streamlining of day-to-day operations

To cope with the increasing margin pressure coming from private benefit managers, the company is being working out a technology-based cost transformation program aimed at improving its operational efficiency.

The company COO recently claimed: "*We are re-platforming both our retail supply chain as well as our pharmacy supply chain, and we expect that investment will again give us opportunities for really simplifying the business in the future and give us data points and processes we've never had in the past before.*"

2. Evolution towards an omni-channel clients interface business model

WBA is evolving towards an omni-channel clients interface business model both on the retail and wholesale side, with an increasing attention to data-driven healthcare initiatives.

- **Online Retail business -** The two-retail arms Walgreens and Boots are pushing on the evolution towards an omni-channel retailing business model by further improving their e-shops and driving the download and use of their proprietary apps for patients.
- **Online Wholesale business -** In order to deal more effectively with its suppliers, wholesale customers and stakeholders (such as Insurance companies, Hospitals and so on), WBA is developing e-connectors with all of them thus increasing the portion of the business automatically managed via electronic channels.
- **Data-driven healthcare initiatives -** WBA has joined back in summer 2018 Inovalon ONE® Platform, a new integrated cloud-based platform able to be rapidly configured to enable the operationalization of large-scale, data-driven healthcare initiatives. The platform aggregates and analyses data to provide sophisticated insights in real-time, improving business strategy and execution.

3. Protection of customers', employees' and company's data

The protection of customers', employees', and company's data is critical to the businesses as data breaches represent not only serious reputational events but can also result in lost sales, fines or lawsuits. That's why WBA group is devoting more and more resources to face and prevent these potential threats.

We underline that Relatech is supporting WBA mostly in the first area of digital transformation - i.e. "Streamlining of day-to-day operations" - with different projects at the corporate level as well as in the supply chain area and with execution in different locations (US, UK and Europe).

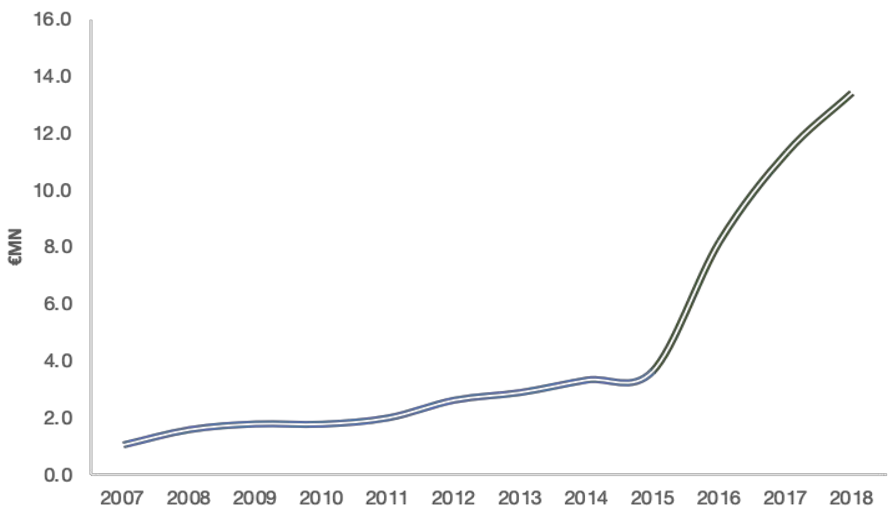
What has been delivered so far

Top line changed gear in 2015

As previously described, Relatech history can be divided in three periods. Leaving aside the start-up phase and focusing on the latest ten years, as clearly reported in the chart below we can observe two different patterns:

- **2008-2015 -Relatech focusing on R&D;**
- **2015-2018 - Relatech accelerating growth with key clients and M&A.**

Relatech FY2007-18P: Revenues path



Source: Relatech, Value Track Analysis

2008-2015: Relatech focusing on R&D

Relatech has been characterised by a low turnover growth across this period, with revenues moving from ca €1.0mn of 2007 to ca. €3.5mn of 2015, highlighting a 17% CAGR, as shown by the blue path in the graph above.

Although the seed stage had been left behind, revenues remained anchored to small contracts, with management mostly involved in the research and development of innovative solutions also through the cooperation with Italian universities. In addition, in this period main founder's focus was not fully addressed to Relatech world, since he was still running also other business activities (see Appendix for further information on this).

2015-2018 - Relatech accelerating growth with key clients and M&A

The revenues line over latest three years, painted in green in the chart above, tells a different story.

Revenues from sales have reached €13.2mn in FY2018, growing at a 3yr CAGR of 54%. On a pro-forma basis – i.e. including the newly acquired assets from Connexo - revenues stood at almost €17mn, with a 3yr CAGR of 67%.

Major improvements on a few key features

This impressive growth trend is the result of a period of full transformation. In our view, management has made a few key steps in the right direction and the main points worthy to notice are:

- **The founder fully concentrated** (and invested) on Relatech business;
- **A reinforced management structure,** through the recruitment of a new Sales and Operation Director (CCO), with proven track record as sales operations and business development manager for various companies involved in the IT sector;
- **New partnership agreements** with several international vendors and system integrators, a key factor towards a fully "platform neutral" strategy enabling Relatech to increase customer base, to create new and innovative products, as well as to enter in new markets;
- **A successful strategy of penetration and cross-selling with top clients,** as over this period total revenues to the WBA Group have jumped from ca. €1mn to above €10mn;
- **Increasing M&A activity, with five small deals over the last 3-years**, mostly aimed at bringing in new technologies, partnerships and know-how, but also acquiring new customers on which to exploit cross selling opportunities.

Relatech: Recent M&A Activity

Date	Company	Price (EV)	Rationale	Description
02/02/2016	Shopstic	€287,000	Acquisition of technology	◆ Digital Marketing solutions developed thanks to acquired know-how
02/02/2016	PointStic	€8,350	Acquisition of technology	◆ Gamification, Loyalty Program Solutions ◆ Awarded with SMAU Innovation Award
12/02/2016	ClearDrop Labs	€117,594	Increasing revenues	◆ Acquisition aimed at hiring 25 experts on new technologies and on pharma industry
03/03/2018	OKT (51%)	€109,400	R&D activity	◆ Aimed at acquiring know-how and algorithms on Cybersecurity and Blockchain
28/12/2018	Connexo's assets	€1,370,000	Commercial Partnerships	◆ Acquisition of know-how on ERP/CRM via Oracle and Microsoft platforms addressed to Food, Telecom and Tourism ◆ Hired 35 new experts

Source: Relatech

Growth and balance sheet were strong over the last three years

As previously mentioned, following recent acquisitions Relatech Group includes OKT, while the assets purchased from "ex" Connexo and now grouped into Relatech Consulting Srl will be consolidated on a line by line basis as of 1.1.2019 (consolidated at Balance Sheet level as of Dec 2018).

Over the latest years, Relatech has experienced a **clear acceleration at top line** (two years CAGR of 32%) and profitability more than doubled since 2016.

As for Balance Sheet, the company shows light capital employed with Net Debt position at roughly €1mn, despite the above-mentioned acquisition.

Top line (VoP) at €14.4mn, + 24% YoY in FY2018

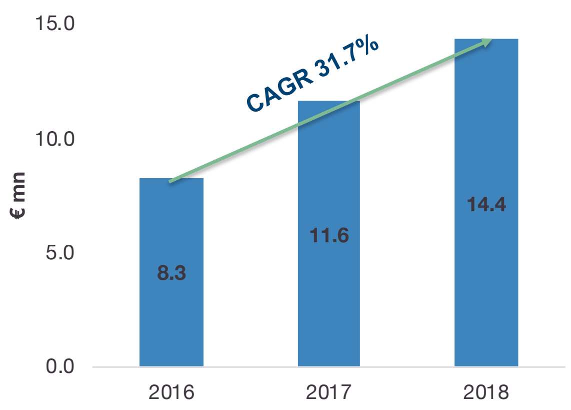
FY2018 results highlight a healthy **+24% YoY organic growth of Value of Production (VoP)**, mainly due to the expansion in customer base (+15% YoY), as well as to a more energic upselling and cross selling activity through the launch of new solutions, translating in higher average ticket per customer (+3% YoY).

In terms of business line, we note the key strength points for Relatech are represented by Strategic Consultancy and the ReYou framework, both standing at around 35% of VoP and growing at double-digit rate, while the other three frameworks ReData, ReThink and ReSec accounted around 30% of total business. The consolidation of the research hub OKT (acquired in March 2018) adds further €0.4mn to the top line or 300b.p. of YoY growth.

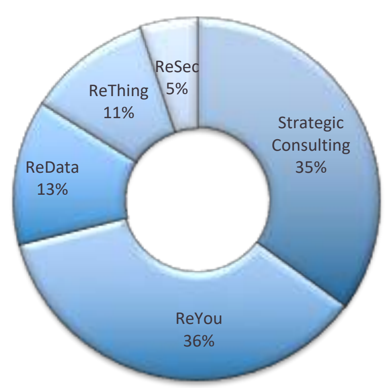
As for the geographical breakdown of the business, we highlight a similar distribution between domestic and foreign sales, with international projects facing a significant growth acceleration across the latest years, mostly driven by WBA orders.

Relatech: 2016A-18A Value of Production evolution and composition

2016A-18A Value of Production



2018A - Value of Production by Business Line



Source: Relatech, Value Track Analysis

Costs analysis: it is a "people business"

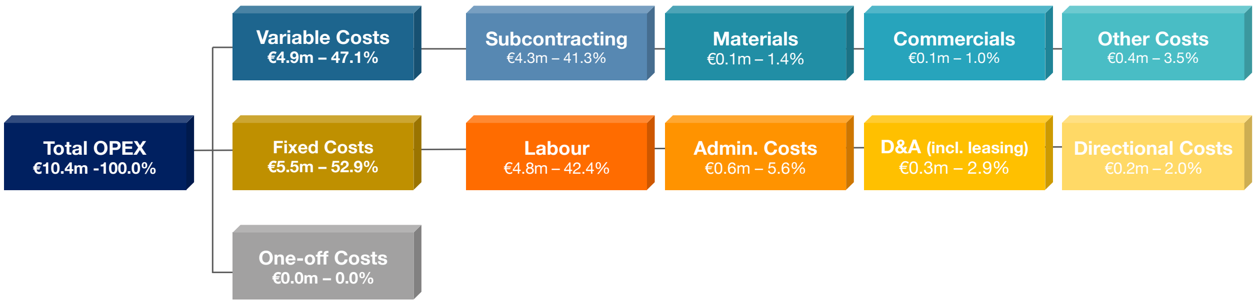
Relatech's total operating **costs base is almost equally split between variable and fixed costs**.

However, regardless the Opex nature (variable vs. fixed), the main cost items refer to labour costs, either in-house or third-party, i.e. sub-contractors, people. In other words, **ca. 85% of Operating costs relates to personnel, but allocation between in-house and out-sourced resources make the business model more flexible**, as it is typical in this industry.

We also underline that **Relatech do not capitalize R&D costs**, rather it accounts them at 100% among operating expenses.

This means that EBITDA fully mirrors industrial profitability and leads to: 1) the absence of material D&A charges, 2) a very light capital employed structure.

Relatech: OPEX Breakdown (2017A)



Source: Relatech, Value Track Analysis

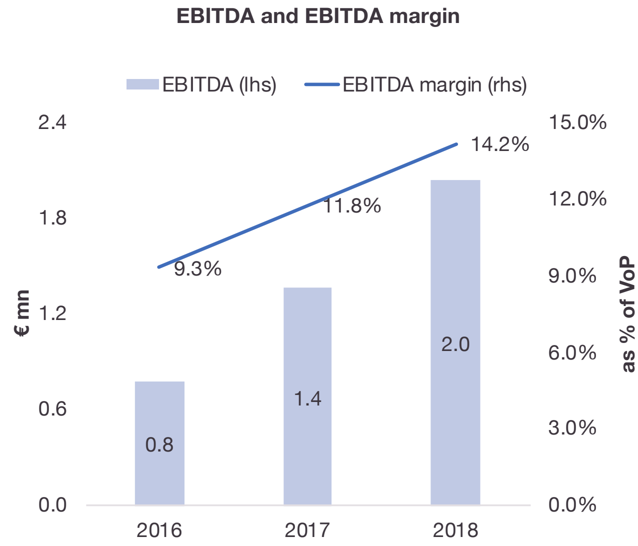
Profitability is improving: EBITDA +480bps over the last two years

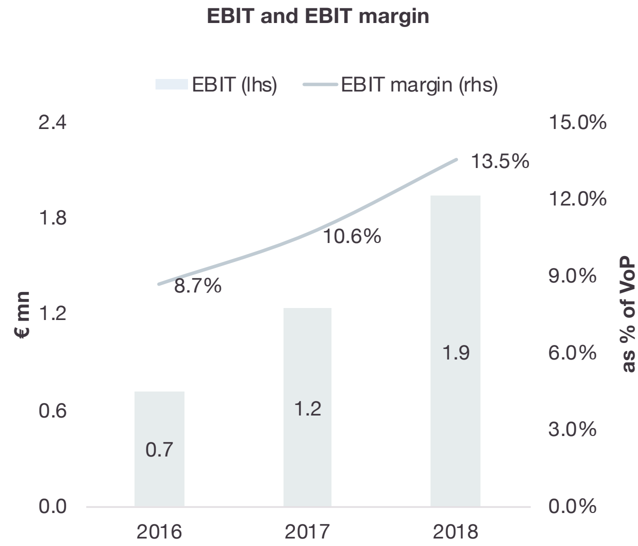
Relatech experienced a solid enhancement in profitability over the last few years, with **EBITDA in fiscal period 2018P achieving ca. €2mn (+49% YoY), with a 14.2% margin on VoP** thanks to labour and subcontracting costs growing more than proportionally.

EBIT margin as well recorded an expansion of ca. 490bps across the same reference period (2016A-18A), up to 13.5%, or €1.9mn in absolute value, benefitting from the extremely low impact of D&A charges.

Thanks to substantially zero financial charges, Net Profit has almost reached the €1.5mn threshold.

Relatech: 2016A-18A EBITDA and EBIT evolution with margins





Source: Relatech, Value Track Analysis

Relatech: 2016FY-18FY P&L

(€'000)	2016FY	2017FY	2018FY
Total Value of Production	**8,280**	**11,615**	**14,356**
Raw Materials	-52	-51	-58
Rental and Leasing	-174	-301	-403
Cost of Services	-3,493	-5,487	-5,824
Labour costs	-3,671	-4,348	-6,019
Other Costs	-117	-62	-18
EBITDA	**772**	**1,366**	**2,034**
EBITDA margin (as % of VoP)	*9.3%*	*11.8%*	*14.2%*
Depreciation on Tangible Assets	-29	-22	-39
Impairments & Provisions	-12	-39	0
EBITA	**730**	**1,305**	**1,995**
EBITA margin (as % of VoP)	*8.8%*	*11.2%*	*13.9%*
Amortisation of Intangible Assets	-13	-71	-50
EBIT	**717**	**1,235**	**1,945**
EBIT margin (as % of VoP)	*8.7%*	*10.6%*	*13.5%*
Non-Operating and Extraordinary items	-10	5	-32
Pre-tax Profit	**707**	**1,239**	**1,913**
Taxes	-216	-332	-444
Group Net Profit	**491**	**907**	**1,469**
Minorities	0.0	0.0	-25
Net Profit	**491**	**907**	**1,444**
Adjusted Net Profit	**491**	**906**	**1,461**

Source: Relatech, Value Track Analysis

Net Working Capital at its peak, net debt at €1.1mn

At Balance Sheet and Cash Flow level, we consider worthy of note for 2018FY the following factors:

- **Capital Employed** at ca. €3.9mn, that is 22% of pro-forma VoP, as Connexo was consolidated in Balance Sheet only as of Dec 2018;
- **Net Working Capital** recording a worsening in 2018, moving from 7.4% of VoP of 2017 to 17.4% in 2018 (on a pro-forma basis the ratio is ca 13.9%) and mainly due to (i) the negative impact of Connexo deal, (ii) the increase in VAT credits and to (iii) some delays in the cash-in of the contribution for R&D;
- **As a result, poor operating Cash Flow generation at 6% of EBITDA;**
- **Net Debt at ca. €1.1mn** despite Connexo's acquisition worth €1.5mn (including costs related to deal) and the extraordinary dividend payment for €250k, actually cashed out in January 2019 but included in financial debt (to shareholders).

Relatech: 2016-18P Balance Sheet

(€'000)	2016FY	2017FY	2018FY
Net Fixed Assets	105	388	2,053
Net Working Capital	655	859	2,503
Severance pay and other funds	327	452	605
Total Capital Employed	**433**	**795**	**3,951**
Group Net Equity	726	1,533	2,838
Net Fin. Position [Net debt (-) / Cash (+)]	**293**	**738**	**-1,114**

Source: Relatech, Value Track Analysis

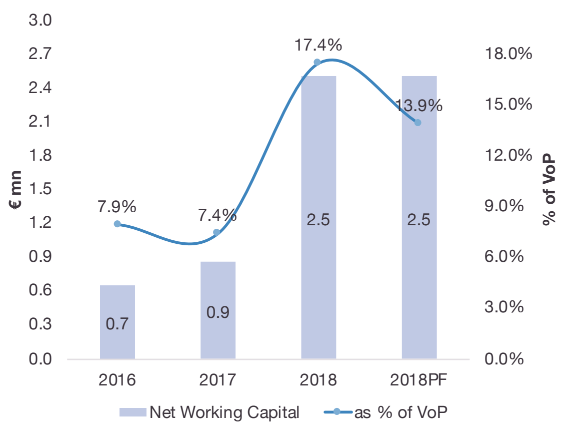
Relatech: 2016-18P Cash Flow Statement

(€'000)	2016FY	2017FY	2018FY
EBITDA	**772**	**1,366**	**2,034**
Op. WC requirements	-655	-204	-1,908
Capex (not incl. Fin. Inv.)	0	-107	-163
Change in provisions	327	125	153
OpFCF b.t.	**444**	**1,180**	**115**
As a % of EBITDA	*58%*	*86%*	*6%*
Cash Taxes	-216	-332	-180
OpFCF a.t.	**228**	**848**	**-65**
Capital Injections / Others	0	0	58
Other (incl. Fin. Inv.)	-314	-293	-1,585
CF available to serve debt / equity investors	**-87**	**555**	**-1,592**
Net Financial Charges	-6	-10	-10
Dividend paid (*)	0	-100	-250
Change in Net Fin Position	**-92**	**445**	**-1,852**

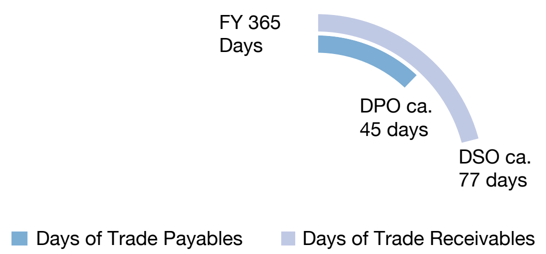
Source: Relatech, Value Track Analysis (*) debt to shareholders cash out in Jan 2019

Relatech: 2016-18A NWC and Cash conversion cycle

FY2016-18A Net Working Capital Evolution



Cash Conversion cycle in 2018A



Source: Relatech, Value Track Analysis

What we like about Relatech

Domestic market demand is growing and resilient

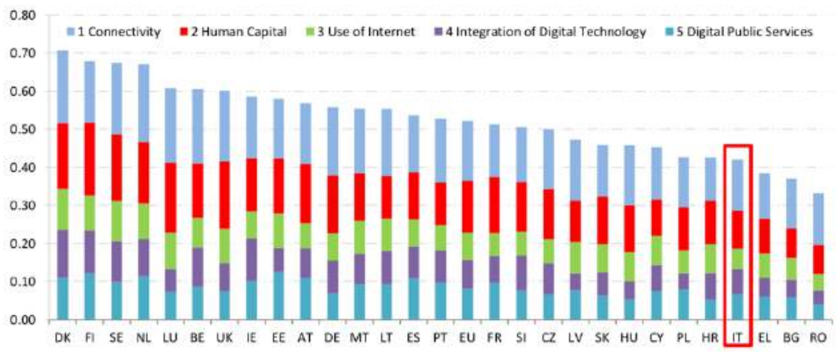
Italian digitalization: A slow but inevitable process

The bad news is that Italy as a whole (Corporates + Public Administration + Residential people) is traditionally lagging European averages in terms of “digitalization”. Indeed, latest European statistics rank Italy 25th out of 28 countries.

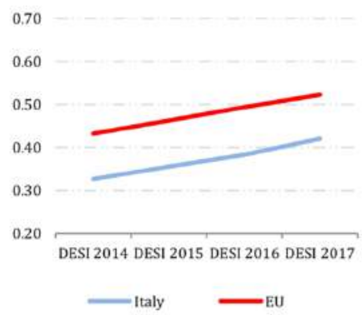
The good news is, however, that there’s a clear and steady trend towards an improvement of such an index year by year.

Digital Economy and Society Index (DESI): 2017

DESI Index 2017: Italy 25th out of 28 countries



DESI Index steadily improving

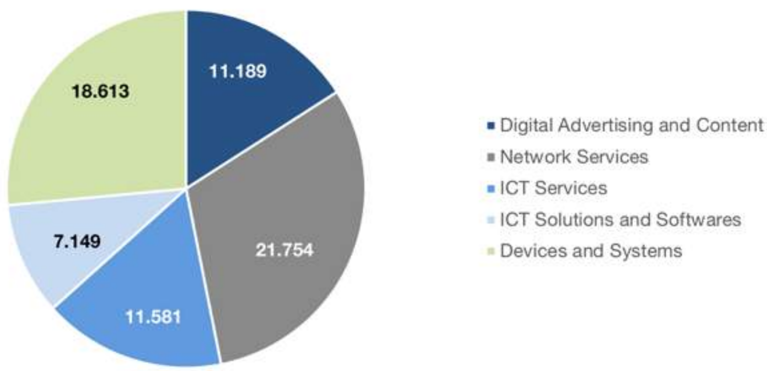


Source: European Commission / Digital Economy & Society

Such an improvement implies, at the corporates level, a steady (even if low single digit) growth of investments in ICT (Information and Communication Technology).

As a result, total annual value of the Italian ICT Solutions and Software and Services market (the one to which Relatech is more directly exposed) has achieved ca. €18-19bn threshold, some 27% of total Italian Digital market.

Italian Digital Market 2018



Source: Anitec-Assinform / NetConsulting cube, Marzo 2018

Italian ICT Software and Services steadily growing mid-single digit

It is not always possible to clearly separate Software segment by Services and Solutions. Indeed, ICT suppliers are focusing themselves in providing a combined mix of software products and consulting services, so as to ease the impact of the digital transformation. If we stick to official latest statistics, the ICT Software market is growing at a higher rate (+5% YoY) compared to Services and Solutions (ca. +1.2% YoY), driven by Application software i.e. the one that is more directly involved in the exploitation of the potential generated by new enabling technologies such as IoT, Big Data and so on.

As far as the ICT Services and Solutions segment is concerned, "traditional" outsourcing services remain the biggest slice (ca. 33% of total revenues), but growth here is pretty flat (+0.4% YoY).

Italian Software Market

(€mn)	2017	2018	2019E	2018/17	2019/18
Application Software	3,044	3,220	3,427	5.8%	**6.4%**
Application Development & Deployment	1,603	1,678	1,753	4.7%	**4.5%**
Infrastructure Software	1,311	1,344	1,371	2.5%	**2.0%**
Total	**5,958**	**6,242**	**6,551**	**4.7%**	**5.0%**

Source: Assintel Report 2019

Italian IT Services Market

(€mn)	2017	2018	2019E	2018/17	2019/18
Project Solutions	4,057	4,148	4,235	2.2%	**2.1%**
Outsourcing Services	4,230	4,261	4,279	0.7%	**0.4%**
Support & Training Services	2,510	2,538	2,568	1.1%	**1.2%**
Total	**10,797**	**10,947**	**11,067**	**1.1%**	**1.2%**

Source: Assintel Report 2019

Last but not least, looking at Software and Services by analysing the way in which IT solutions / infrastructures are provided to clients shows how "cloud" installation / management (rather than on premise one) is more and more the preferred technological delivery method while subscription (rather than perpetual license) is the preferred invoicing way.

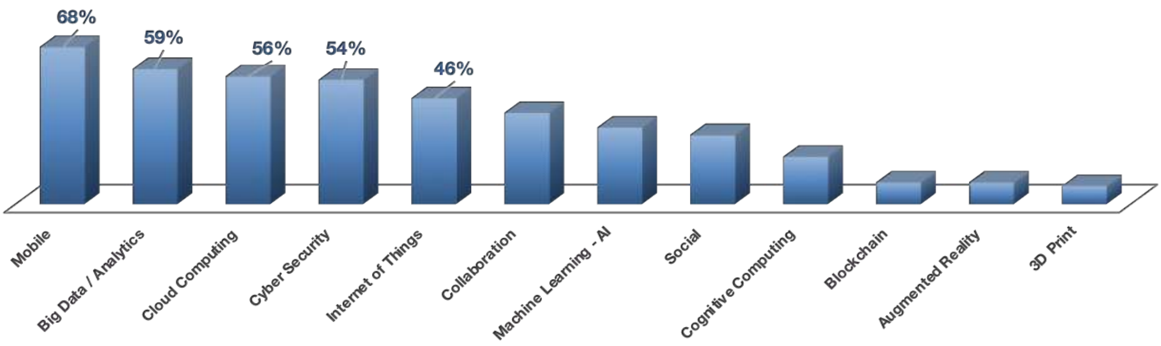
Cloud Computing Services Market in Italy

Source: Anitec-Assinform / NetConsulting cube, Marzo 2018, Assintel Report 2019

Relatech has deep skills in the hottest topics

We saw before that the Italian ICT market is growing in the mid-single digit range (software slightly more and services less). These numbers however hide a few topics, such as **IoT, Big Data / Data Analytics, Cybersecurity, Blockchain, Industry 4.0, Mobile/App,** that are increasingly perceived as top priorities by Italian corporates and, as a consequence, **are growing at much higher rates**. Just to give an example, demand for IoT solutions has been growing at 20% on a YoY basis, also thanks to the execution of Piano Industria 4.0.

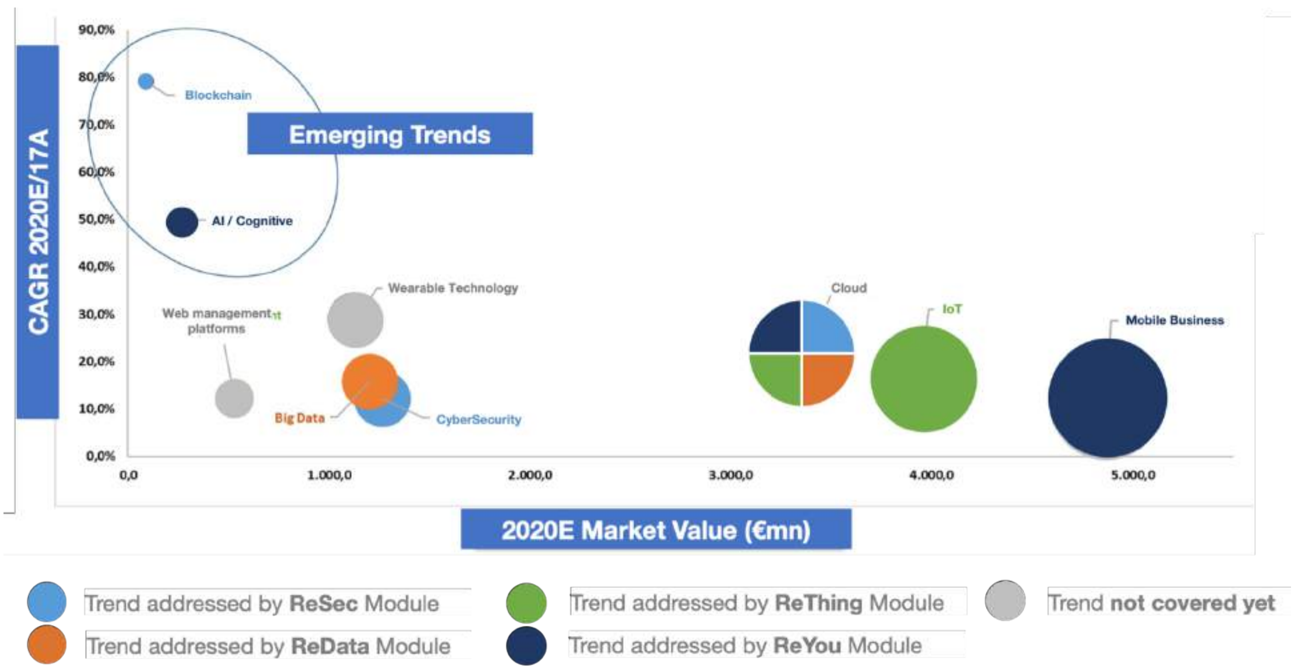
Percentage of Italian corporates hinting at the following digital topics as their top priorities



Source: CIO Survey 2017 by NetConsulting Cube

We underline that **Relatech is already addressing many among the above mentioned most relevant and growing "digital needs" of corporates** through the various modules of its in-house developed technological platform (RePlatform).

Hot topics in the Italian Digital market are almost entirely addressed by Relatech's modules (*)



Source: Value Track analysis on NetConsulting Cube market estimates

(*) Coloured circles highlight trends already addressed by Relatech's modules. Grey circles highlight trends not addressed yet by Relatech

Winning "partnerships" strategy

We appreciate that Relatech's business model is so highly dependent on partnerships, both with universities / R&D centres and with IT Vendors or IT System integrators.

Partnerships with Universities

As per management vision, counting on partnerships with universities is key for several reasons:

- Universities are the centres where research is done. By sponsoring and providing support to the development of new ideas, Relatech can get back plenty of benefits in terms of ability to improve its product or to enlarge its offering, thus completing its know-how and presenting itself as the perfect technology partner;
- Relatech has a strong presence in factories and research hubs located in Southern Italy, i.e. in emerging software "districts" where highly specialized and innovative skills combine with high cost effectiveness (also thanks to special tax and labour regulations);
- Boasting partnerships with universities is also a differentiating factor vs. competition. Indeed, it is estimated that most of smaller size competitors do not have in-house R&D team / capabilities.

Partnerships with IT Vendors

We saw before how the long-standing partnership with IBM has allowed Relatech to develop state-of-the-art solutions for its final clients. At the same time, the IT vendor can represent a driver for further growth as typically it is not its core business to customize products / solutions and it generally outsources such a phase.

Relatech is riding such a strategy and has recently broadened the range of its partnership by adding Microsoft and Oracle.

In this sense, the development of new relationships – such as one with Salesforce – may accelerate the path and the penetration in the e-commerce & CRM segment, thus allowing the enhancement of the services offered through the module ReYou.

We note that getting new partnership can be pursued also, and probably more easily via M&A.

Partnerships in R&D and Awards

Source: Relatech

A key implication: attract and retain talents

The strong relationships with universities and research hubs and the solid and increasing partnerships with leading system integrators and vendors bring also another key effect: they clearly **facilitate Relatech in hiring and retaining its talents**. In fact, being able to build trusted relationships with academicians and students is central in order to leverage Relatech's image as an innovative company and offer a clear and sound path to new graduates. The good capacity of the Company of retaining young people – labour force turnover ratio has been stabilising below 10% - often lead to additional and fruitful "networking" activity with clients and suppliers through ex-Relatech people.

Relatech has a flexible and "tailor made" approach

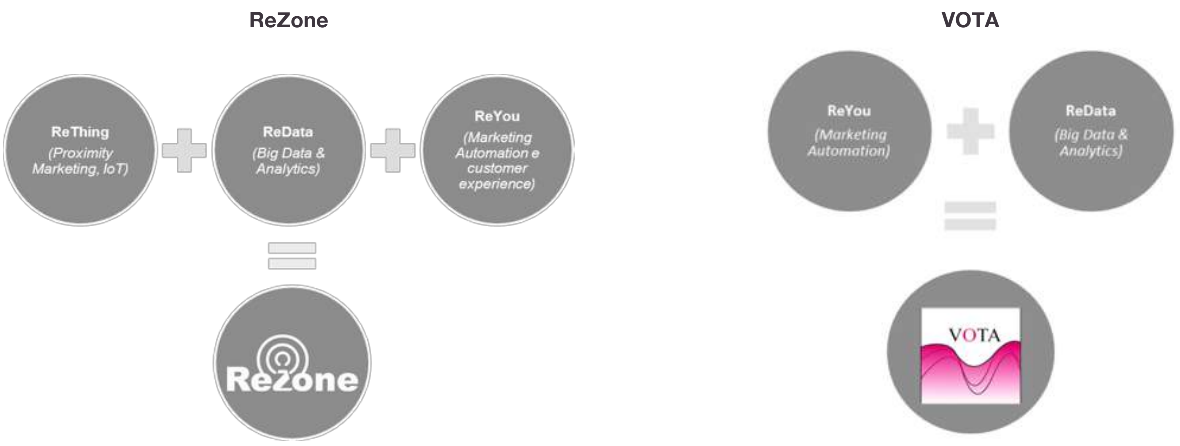
Contrary to what happens with bigger market players offering mainly standardised solutions, Relatech offers its **own proprietary solutions** for the digital transformation process **that can be deeply customized on each client's needs**.

We saw before that the core of this "tailor made" approach is **RePlatform** that can be declined in various ways in order to fit the needs of specific sectors.

Not only such an approach allows a precise fit to already existing customers' needs but it also allows the development of **new "vertical" solution** to be proposed to future clients.

Some examples of this verticalization are ReZone and VOTA.

ReZone and VOTA "verticalizations"



Source: Relatech

ReZone is a cognitive proximity marketing solution utilizing three RePlatform modules i.e.:

- ReThing to collect data on users from various devices in order to better profile them;
- ReYou to better engage prospect customers by targeting them with personalized promotions;
- ReData to collect, record and analyse users' behaviour;

and, eventually, utilizes ReDash to provide the marketer with readable data updated in real-time.

VOTA (Vocal Tract & Training Analysis) allows users to monitor, test and analyse the state of their voice in order to identify possible vocal pathologies. It exploiting the following modules:

- ReYou to collect user data;
- ReData to process these data;

while ReDash provides the user a readable output.

Key concerns

Revenues concentration: issue addressed, but it will take some time

As seen in previous sections, Relatech revenues are still concentrated towards one single very large client i.e. **Walgreens Boots Alliance group** (**WBA**), that reached 59% of total pro-forma revenues as of 2018 from 34% of 2015.

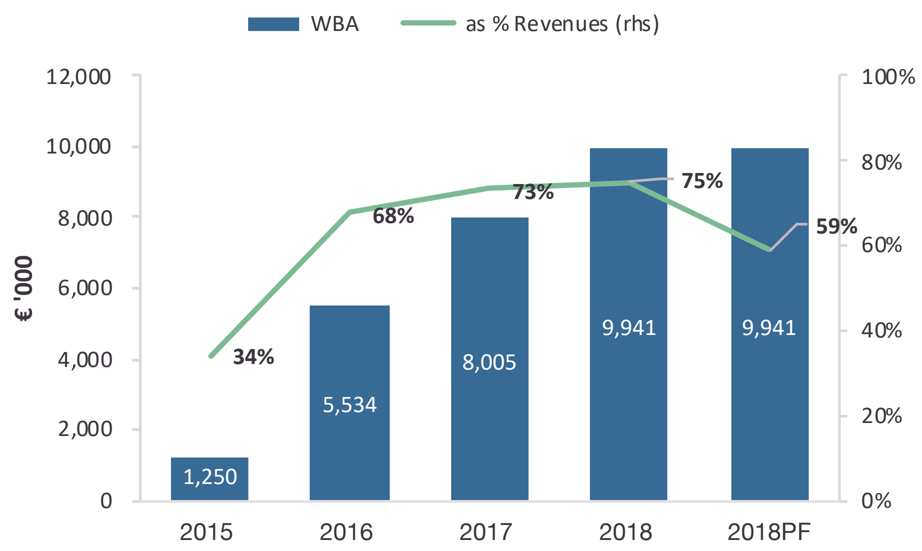
Despite revenues from other clients have being steadily growing at 11% CAGR over the last three years, this client's revenues have gone up 8-folds since 2015.

This factor is clearly an element of potential risk for the Group, in our view, even if it is mitigated by few factors, as the following:

- There are few different legal entities and different counterparts within this large Group;
- Relatech revenues are split among different contracts and with various duration;
- Specific orders are made to Relatech within a framework contract that is in place since 2011 and is subject to automatic renewal;
- As seen previously, WBA Group is expected to keep investing heavily in its digital transformation.

In addition, with the acquisition of Connexo at the end of 2018, the concentration of Relatech revenues towards its first client has started to reduce and this, combined with the increasing efforts to widen the client base, will further improve the picture (see chart below). Finally, the planned M&A should contribute to further "dilute" the relative importance of this client in the next years.

Relatech: WBA at 58% of Total Revenues in 2018PF



Source: Relatech, Value Track Analysis

We eventually note that a large and extremely loyal client is very often a key support (in terms of cash flows and speed of innovation) for smaller companies, while they are building a wider client base.

Moreover, WBA has allowed Relatech to build a solid know-how and vertical specialization in high potential sectors as healthcare and retail and this starts to be capitalised with other clients.

Being a small player in an industry with a few real giants

The Italian IT reference market results highly fragmented, crowded with giant companies such as international system vendors or well-established consulting firms and a myriad of small independent companies focused only on specific segments.

Within this scenario we see Relatech as closer to the latter group. Indeed Relatech, with its low double digit million turnover - despite the small acquisitions made after 2015 and the solid organic growth - is smaller than at least 200 firms active in the market.

Companies active in the Italian IT market ranked by revenues size (FY2017)

Rank.	Name	Revenues (€/000)
1	IBM Italia S.p.A.	3,552,051
2	Accenture S.p.A.	1,576,400
3	Engineering S.p.A.	1,028,797
4	Reply S.p.A.	902,114
5	Almaviva S.p.A.	771,422
…	…	…
200	Future Time S.r.l.	14,955

Source: Amadeus

At the moment, the size of the market and its potential growth are enough capacious to allow any player to find its space/niche.

Although we expect this to last in the future as well, not being able to reach a certain relevant size may slow down growth and affect Relatech's capacity to develop future business and attract talents.

Relatech is still a "tiny company" and it will be crucial that key shareholders are able to spot M&A targets, high potential clients and/or an attractive consolidation opportunity at some point.

The following table shows the distribution of companies in the sector based on revenues cluster, and it appears that should Relatech speed up its growth with selective M&A in the near future, it could get out of the "below €25mn" crowd.

Companies active in the Italian IT market ranked by revenues size (FY2017)

Cluster by 2017FY Revenues size (€mn)	Number of active companies
> 500mn	5
250-500mn	3
100-250mn	14
50-100mn	26
25-50mn	67
0-25mn	85

Source: Amadeus

At this stage we do not analyse the alternative scenario for a smaller player in a market where concentration is due to growth and M&A is likely to remain quite lively, i.e. becoming a target. Yet, we believe that the current management strategy of funding via an IPO both growth acceleration and client diversification is going to be supportive to valuation and attractiveness to larger players.

Growth is a must, but it is challenging

Managing a sustainable and "balanced" growth for a small company may be challenging, especially when the initial corporate structure is extremely lean.

The consulting business has a few critical factors to manage in chasing organic growth, as attracting and retaining talents, while preserving quality and standardisation, while keeping innovating etc. If we add M&A to this picture (i.e. identifying, negotiating and integrating targets), we fully understand the challenge Relatech top management team is going to face.

Very often this risk is mitigated by the presence of an anchor investor, as a private equity, that supports management in the growth path, but this is not the case for Relatech. On the other hand, we must acknowledge that the lack of financial investors also implies that the company will have no issues linked to stock overhang.

Outstanding warrants have positive and negative implications

The sizeable number of warrants issued at IPO suggests that on the one hand the company could benefit from a relatively large amount of free cash to support its growth over the next three years (2020-2022). Assuming the share price is supportive, the maximum amount of proceeds from the warrant exercise could range between €11.5mn (assuming 100% exercise in mid 2020 at price of €2.36) to €13.6mn (assuming full exercise in 2022 at €2.80).

On the other hand such a large amount of financial instruments exercisable over the next 12 months at a price only 10% above the IPO price may become a technical hurdle for a further share appreciation in this time horizon.

Forecasted Financials 2019E-21E

Introduction

Our financial estimates on Relatech Group for 2019E-21E periods:

- Are built in accordance with IT GAAP principles;
- Do not factor in our model any potential future M&A deal, even if we believe one or more acquisitions are likely, as discussed;
- Assume that the company capitalizes its ca. €1mn IPO costs starting as of 2H19;
- Assume 2018FY results as "starting point";
- Include the presence of non-operating / extraordinary costs throughout the P&L. Therefore, we calculate adjusted figures excluding the impact on key accounts of such charges.

2018FY pro-forma figures

As described above, Relatech closed on 28 December 2018 the acquisition of a business unit of the Connexo Group (following its bankruptcy), which will be consolidated at P&L level only from January 2019 (on a line by line basis in the 2018FY Group Balance Sheet). Even if it is not technically possible to build a real pro-forma set of figures, here below we provide our own simulation of 2018 P&L key figures, useful to give a clearer view of the newly acquired firm's contribution to the Group's consolidated figures. We underline that such a simulation is based on our own calculations / estimates, consolidating the newly acquired business as of 2018 1st January. We also highlight that pro-forma figures on 2018 are somehow "inflated" as they do not take into consideration integration costs, which we project in out 2019E-211E estimates.

Relatech: 2018FY P&L – from Actual to Pro-forma figures

(€'000)	Relatech	Connexo	Pro- forma
Value of Production	**14,356**	**3,650**	**18,006**
EBITDA	**2,034**	**420**	**2,454**
EBITDA margin on VoP (%)	*14.2%*	*11.5%*	*13,6%*
Depreciation & Amortization	-89	-130	-219
EBIT	**1,945**	**290**	**2,235**
EBIT margin on VoP (%)	*13.5%*	*7.9%*	*12.4%*
Net Fin.Income (charges)	-10	0	-10
Non-Operating/Extraordinary Items	-22	0	-22
Pre-tax Profit	**1,913**	**290**	**2,203**
Tax	-444	-116	-560
Group Net Profit	**1,469**	**174**	**1,643**
Minorities	-25	0	-25
Net Profit	**1,444**	**174 (*)**	**1,618**

Source: Relatech, Value Track Analysis (*) Post consolidation adjustments (i.e. ca.€130k goodwill amortization)

New customers' acquisition and higher average ticket drive 2019E-21E top line

Our top-line forecasts are built bottom up i.e. driven by the expected evolution of Relatech's customer base and average ticket per client.

In our model we still consider Relatech and ex-Connexo customer bases as separate, despite they have been already integrated in the customer management system of Relatech. This because they experienced different growth paths in the latest years, different results in terms of customer acquisition and retention, as well as different average ticket.

As for Relatech, we split its customer base in three main clusters: 1) clients generating to Relatech revenues below €100k, 2) those generating revenues from €100k to €1mn, and 3) those generating revenues above €1mn (i.e. the legal entities of the WBA Group).

Basically, from our revenues model summary (table below) the key trends emerging are the following:

- Customer acquisition and retention rates (net adds) aligned with historical trend, albeit we assume a cautious scenario for ex-Connexo in 2019, given the recent history of the company;
- Group and Relatech average ticket per client decreasing; however, this is due to the lower growth pace assumed for WBA Group compared to the rest of the clients (that are much smaller);
- The average ticket of smaller clients (below €100k) and of ex-Connexo clients is seen slightly up, while we expect some ticket dilution in the cluster from €100k to €1mn, as we assume new clients to be on the low end of this revenues bracket;
- The impact of cross-selling activities on both customer bases (Relatech and ex-Connexo) is expected to become more relevant as of 2020E, as these initiatives have been launched in Q1 2019. **We estimate that almost one quarter of the expected revenues growth over the next three years is due to cross selling activities.**

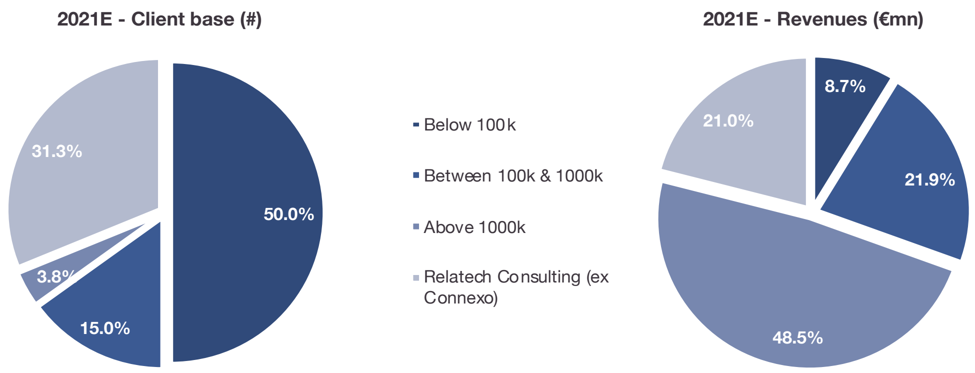
Relatech: 2019E-2021E Customer and Revenues from Sales

	2019E	2020E	2021E
Relatech stand-alone			
Number of clients (#)	41	48	55
Ticket per client (€)	361k	331k	316k
Change YoY (%)	*-18%*	*-8%*	*-5%*
Revenues (€'000)	**14,808**	**15,908**	**17,367**
Ex-Connexo stand-alone			
Number of clients (#)	20	22	25
Ticket per client (€)	175k	175k	180k
Change YoY (%)	*5%*	*0%*	*3%*
Revenues (€'000)	**3,500**	**3,850**	**4,500**
Cross selling-activities			
Number of clients involved (#)	4	17	24
Additional ticket per client (€)	37k	60k	62k
Revenues (€'000)	**148**	**1,030**	**1,468**
Total Group			
Number of clients (#)	61	70	80
Ticket per client (€)	303k	297k	292k
Change YoY (%)	*-7%*	*-2%*	*-2%*
Total Revenues from Sales (€'000)	**18,456**	**20,788**	**23,335**

Source: Relatech, Value Track Analysis

Having said that, on a pro-forma basis we get a picture of Relatech revenues distribution, with ca. 80 clients expected to generate ca. €23mn at the end of period. Thanks to the trends outlined, we also expect the weight of top client to decrease from 61% in 2018PF to less than 50% as of 2021E

Relatech: 2021E breakdown by client average ticket (per year)



Source: Relatech, Value Track Analysis

To move from *Revenues from Sales* to *Value of Production* (VoP) we need to consider the *Other Revenues*, which in forecasted years are entirely composed by the contributions to R&D expenses (seen up to ca. 8% of VoP in coming years). These revenues come mainly from the Italian Government and are expected to increase accordingly to R&D costs, i.e. to ca. €1.2mn at the end of forecasted period from €0.6mn in 2018P.

Cross selling activities to boost profitability, EBITDA up to €3.6mn in 2021E

As concern Opex, we expect Relatech to positively benefit from a different mix in its cost structure.

In fact, on the one hand raw materials, rental & leasing costs in addition to other operating costs should continue to remain marginal (4.1% of VoP), with a structure consistent with the past. On the other side, labour cost and cost of services - which basically refer to “people” costs - remain the key items, since they are expected to represent ca. 81%-84% of Value of Production.

That said, we estimate (*i*) **labour cost to progressively increase**, with more than 100 new hires over the three-year period, and on the opposite (*ii*) **cost of services stable** in terms of marginality on VoP, since Relatech aims at internalizing part of production currently outsourced, as the company keeps growing and entering new product lines.

The integration of Connexo should generate some integration / restructuring costs, mainly related to rationalization of personnel of the newly acquired business. The impact of such integration should absorb ca. €150k in 2019E and we neutralize it in our adjusted figures calculations.

Overall, the stronger scale effect on the new cost allocation, combined with higher revenues per client due to cross-selling activities, as well as to Connexo’s full integration, should bring **Reported EBITDA back to 13.8% - 14.7% in 2020E-21E** respectively, once the integration of Connexo is completed.

Relatech: More than 100 new hires across 2018A-21E

(€’000)	2018A	2019E	2020E	2021E
Personnel (Avg)	**144**	**223**	**258**	**286**
Personnel (BoP)	121	203	242	273
Personnel (EoP)	166	242	273	298
New hires per year	**45**	**39**	**31**	**25**

Source: Relatech, Value Track Analysis

Relatech: 2018A-21E VoP and Opex per employee

(€'000)	2018A	2019E	2020E	2021E
VoP/employee	**100.0**	**86.9**	**84.6**	**85.7**
Raw Materials / Leasing and Other costs per employee	-3.3	-3.6	-3.5	-3.5
as (%) of VoP	*3.3%*	*4.1%*	*4.1%*	*4.1%*
Cost of Services per employee	-40.6	-27.8	-27.1	-27.4
as (%) of VoP	*40.6%*	*32.0%*	*32.0%*	*32.0%*
Labour costs per employee	-41.9	-44.8	-42.4	-42.2
as (%) of VoP	*-51.5%*	*-50.1%*	*-49.2%*	*-51.5%*

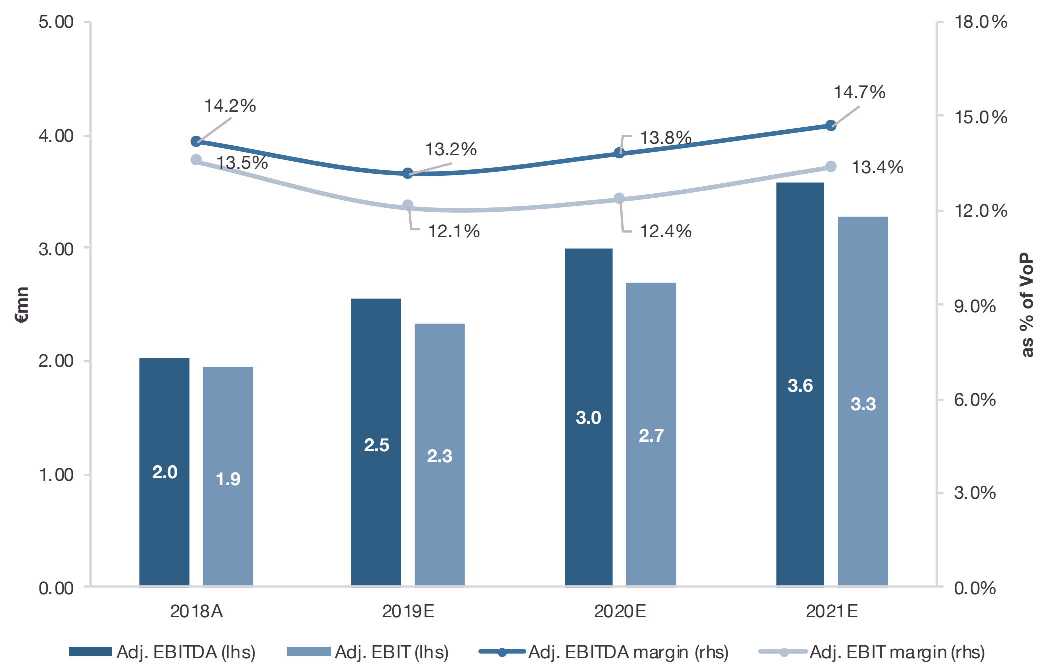
Source: Relatech, Value Track Analysis

As far depreciation charges are concerned, their impact should basically remain constant and relatively light.

EBIT however should be burdened by: (i) charges related to the amortization of Connexo's goodwill, (ii) IPO costs amortization and (iii) a €288k one off provision for legal matters in 2019E related to Connexo, all of which, in our view, distort the industrial result of Relatech and are therefore eliminated from our adjusted calculations. As an effect, Reported EBIT is expected to reach ca. €3.14mn (ca. €3.27mn on Adj. base), with margin moving from 13.5% of 2018FY to 12.8% as of 2021E (13.4% on adjusted base). Net Profit should grow at a 2018A-2021E CAGR of 14.5%, reaching ca. €2.2mn at the end of the forecasted period (ca. €2.27mn on adjusted base).

It should be noted that **visibility over 2019E is relatively good at this stage at both top line and profitability level, as more than 70% of the business has already been acquired** and the resources relative to these projects have been already allocated.

Relatech: 2018A-2021E Profitability evolution



Source: Relatech, Value Track Analysis

Relatech: 2018A-21E P&L

(€'000)	2018A	2019E	2020E	2021E
Revenues from Sales	13,218	18,456	20,788	23,335
Other Revenues	1,138	880	1,000	1,120
Total Value of Production	**14,356**	**19,336**	**21,788**	**24,455**
Raw Materials	-58	-97	-109	-122
Rental and Leasing	-403	-580	-654	-734
Cost of Services	-5,824	-6,188	-6,972	-7,826
Labour costs	-6,019	-9,962	-10,921	-12,041
Other Costs	-18	-116	-131	-147
EBITDA	**2,034**	**2,394**	**3,002**	**3,586**
EBITDA margin (as % of VoP)	*14.2%*	*12.4%*	*13.8%*	*14.7%*
Depreciation on Tangible Assets	-39	-50	-55	-60
Provisions	0	-288	0	0
Amortisation of Intangible Assets	-50	-285	-383	-385
EBIT	**1,945**	**1,771**	**2,564**	**3,141**
EBIT margin (as % of VoP)	*13.5%*	*9.2%*	*11.8%*	*12.8%*
Non-Operating and Extraordinary items	-32	-43	3	26
Pre-tax Profit	1,913	1,728	2,567	3,167
Taxes	-444	-494	-809	-998
Net Profit (Loss)	1,444	1,234	1,758	2,170
Adjusted EBITDA	--	**2,544**	**3,002**	**3,586**
Adjusted EBITDA margin (as % of VoP)		*13.2%*	*13.8%*	*14.7%*
Adjusted EBIT	--	**2,339**	**2,694**	**3,271**
Adjusted EBITDA margin (as % of VoP)		*12.1%*	*12.4%*	*13.4%*
Adjusted Net Profit	--	**1,734**	**1,863**	**2,274**

Source: Value Track Analysis

Low capital employed provides a high return on capital

In our opinion, Relatech's main features as for balance sheet and cash flow statement are:

1. The **extremely low capital employed**, based on restrained net fixed assets and moderate working capital requirements;
2. The **strong cash generation**, i.e. ca. €7.8mn of cumulated 3yr free cash flows before taxes, or ca. €8.5mn after taxes to serve debt and equity investors, but mostly to be reinvested.

In more details on the capital employed structure, we expect:

- Net Working Capital on VoP to slightly decrease relative to the past - stabilizing around 14%;
- Net Fixed Asset almost unchanged in absolute terms, as effect of (i) the positive contribution of capitalized IPO costs, (ii) limited PP&E capex absorption and (iii) relatively high D&A charges which incorporate goodwill and IPO costs amortization.

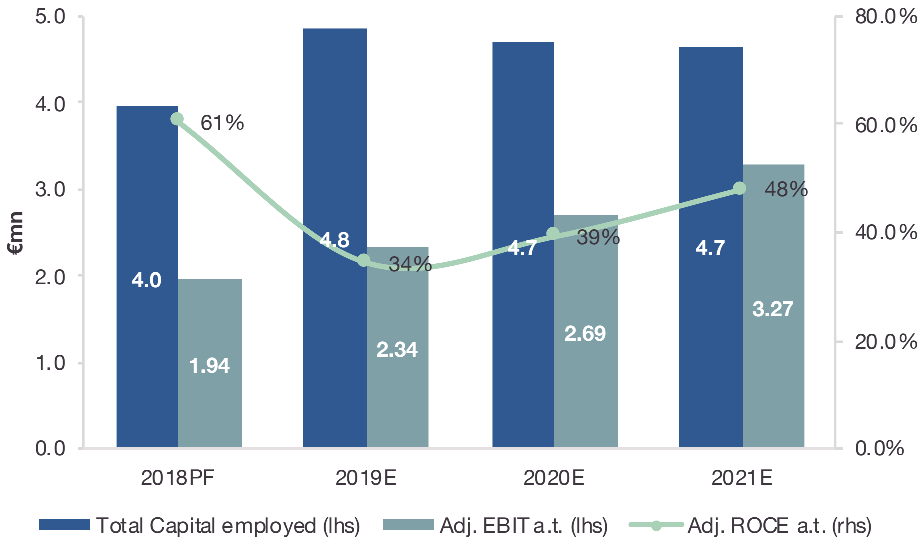
Based on such assumptions, we forecast Relatech to average a total **return on capital employed after taxes around 36.6%** (37.2% on adj. figures), despite the relatively large amount of goodwill and capitalized costs included in the Balance Sheet since 2018.

Relatech: 2018A-21E Balance Sheet

(€'000)	2018A	2019E	2020E	2021E
Net Fixed assets	2,053	2,818	2,480	2,135
Net Working Capital	2,503	2,957	3,199	3,567
Severance pay and other funds	0	930	985	1,045
Total Capital Employed	**3,951**	**4,845**	**4,694**	**4,657**
As a % of VoP (Pro-Forma)	*21.9%*	25.1%	21.5%	19.0%
Group Net Equity	2,838	8,131	9,889	12,059
Net Fin. Position [Net debt (-) / Cash (+)]	**-1,114**	**3,286**	**5,195**	**7,402**

Source: Value Track Analysis

Relatech: 2018PF-2021E Return on capital employed evolution



Source: Relatech, Value Track Analysis

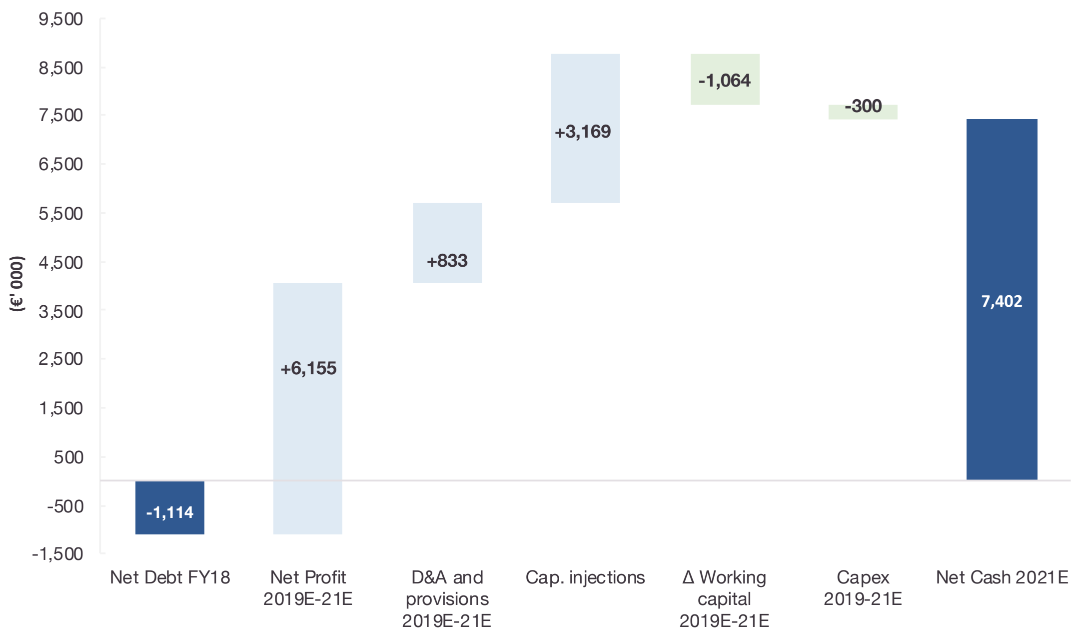
Last but not least, Relatech has become cash positive after the IPO, as its net proceeds of ca. €3.1mn exceed the net debt position at the end of 2018 and this, coupled with the free cash flow generation, indicates that the company is expected to remain cash positive, unless some M&A deal or dividend payments take place, resulting in a Net Cash position of ca. €7.4mn at the end of 2021.

Relatech: 2018A-21E Cash Flow Statement

(€'000)	2018A	2019E	2020E	2021E
EBITDA	2,034	2,394	3,002	3,586
Op. WC requirements	-1,908	-454	-242	-368
Capex (not incl. Fin. Inv.)	-163	-100	-100	-100
Capex as a % of VoP	1.1%	0.5%	0.5%	0.4%
Change in provisions	153	38	55	60
OpFCF b.t.	**115**	**1,878**	**2,715**	**3,178**
As a % of EBITDA	6%	78%	90%	89%
Cash Taxes	-180	-494	-809	-998
OpFCF a.t.	-65	1,384	1,906	2,181
Capital Injections / Others	0	4,059	0	0
Other (incl. Fin. Inv. & IPO costs)	-1,527	-1,000	0	0
CF available to serve debt / equity investors	**-1,592**	**4,443**	**1,906**	**2,181**
Net Financial Charges	-10	-43	3	26
Dividend paid	-250	0	0	0
Change in Net Fin. Position	**-1,852**	**4,400**	**1,909**	**2,207**

Source: Relatech, Value Track Analysis

Relatech: 2018A-21E Strong cash-flow generation (€'000)



Source: Relatech, Value Track Analysis

Appendix I: Top Managers Curricula

Role	Background
Pasquale Lambardi *Chairman and CEO*	***Education*** ◆ **(1999)** Degree in Computer Engineering at Università degli Studi della Calabria ◆ **(2013)** Master in Professional Coaching – ESEM – Escuela Internacional De Direccion Empresarial De Madrid ◆ **(2017)** Master in Analytics and Cognitive (IBM – Milano) ***Professional Experience*** ◆ **(1999 – 2000)** Computer Programmer at Telecom Italia S.p.A. ◆ **(2000 – 2001)** Computer Programmer at IBM S.p.A. ◆ **(2007 – 2011)** Founder and CEO of Datafashion (software house), sold to an Italian, fashion Group ◆ **(2001 – Present)** Founder and CEO of Relatech S.p.A.
Alessandro De Luca *CFO* *(Director)*	***Education*** ◆ **(1998)** Degree in Business Administration at Università degli Studi di Perugia. ***Professional Experience*** ◆ **(2001 – 2002)** External Auditor at Mazars & Guerard S.p.A. ◆ **(2002 – 2006)** External Auditor at Studio M. Rigobon, A. Bitetti ◆ **(2007 – Present)** Name Partner at M. Rigobon - A. Bitetti – A. De Luca ◆ Director and member of the «Collegio Sindacale» in several companies, some of them listed on AIM Italia
Silvio Cosoleto *CCO* *(Director)*	***Education*** ◆ **(1997)** Degree in Engineering at Politecnico di Milano. ◆ **(2016)** Executive Master in Sales Management – Internationalization at NIBI (Nuovo Istituto di Business Internazionale) ◆ **(2017)** Master in Analytics e Cognitive (IBM – Milano) ◆ Operations & Supply Chain Management (Politecnico di Milano – School of Management) ◆ Chief Information Officer Management (SDA Bocconi) ◆ Master in Project Management (Sciaky Bussiness School) ***Professional Experience*** ◆ **(1997 – 2007)** Worked in several IT firms as BU Manager, Operations Manager, CIO, Service and Project Manager ◆ **(2007 – 2010)** Chief Information Officer at AGS S.p.A. ◆ **(2010 – 2012)** BU and Operations Manager at AGS S.p.A. ◆ **(2012 – 2013)** Sales Operations Manager at Hanwha SolarOne GmbH ◆ **(2013 – 2015)** Business Development and Sales Manager at AGS S.p.A. ◆ **(2015 – 2017)** Sales & Operations Director at Relatech S.p.A.

Appendix II: Main competitors

Relatech's main competitors in the Italian market are:

- **Altea**. It supports several infrastructure and application systems projects and their digitization. The company has developed expertise in project governance and recorded a turnover of €72m in its FY2016 (+20,7% YoY)
- **Alten.** Alten Italia has become the main technological partner for many Italian companies willing to develop their digital strategies. It boasts €1,975.4m in turnover for the FY2017.
- **Aubay.** It is a leading Digital Service company operating in management consulting and ICT. The group is listed in Paris, counts about 6000 employees, of which 1700 based in Italy and had €353.6m in revenues in its FY2017.
- **Beta 80 Group.** The company shepherds clients through their digital Transformation path providing consulting, system integration, application delivery and operations services. Though based in Milan, it operates globally through its 500+ employee recording revenues for €37.5m (FY2017).
- **Corvallis**. By offering a premium product line to public entities and financial services and industrials, consumers & services firms, it has been among the leading players within the Italian IT market for more than 30 years. It provides a vast array of services ranging from consulting to software integration, going through middle hardware products and cloud outsourcing.
- **Gruppo Euris.** It is active both in the development of softwares and in project management and IT consulting. It recorded €18m in revenues in its FY2017.
- **Dedagroup.** It is one of the most important players in the "Made in Italy" IT segment. Based in Trento, it recorded €230m in turnover. As a software vendor and with its expertise in system integration, its natural clients are financial services firms and public entities.
- **Gruppo SCAI.** The group owns a network of companies operating in the system integration, digital innovation, and business transformation fields. Revenues amount to €63m in FY2016.
- **Indra.** With its €3bn in revenues (FY2017), Indra is the worldwide leader in the development of technological solution in several industries, namely Defense, Transportation, Energy, Telecommunications and Media, Financial Services, Public entities and Healthcare.
- **Lutech.** Acquired in July 2017 by One Equity Partners, a private equity firm based in Chicago, Lutech has set two strategic goals for itself: becoming one of the main players in the Italian IT market and growing in the Central and Western Europe. It recorded revenues for €264m in FY2017.
- **Spindox.** Born in 2007, it provides a broad line of IT services such as system integration, customised application systems, maintenance, hardware & software infrastructure management and testing. It registered €32m in turnover, data from FY2017.

Appendix III: Italian Digital Market 2017/19 by segment

Italian Software Market

(€mn)	2017	2018	2019	18/17	19/18
Application Software	**3,044**	**3,220**	**3,427**	**5.8%**	**6.4%**
Collaborative & Content Applications	797	861	940	8.0%	9.2%
CRM	332	347	365	4.5%	5.2%
ERM	994	1,058	1,131	6.4%	6.9%
SCM	123	129	136	4.9%	5.4%
Others	798	825	855	3.4%	3.6%
Application Development & Deployment	**1,603**	**1,678**	**1,753**	**4.7%**	**4.5%**
Data Access, Analysis & Delivery	351	371	393	5.7%	5.9%
Platform & Integration Software	566	579	590	2.3%	1.9%
Structured Data Management Software	686	728	770	6.1%	5.8%
Infrastructure Software	**1,311**	**1,344**	**1,371**	**2.5%**	**2.0%**
Security Software	363	391	420	7.7%	7.4%
Storage Software	186	192	201	3.2%	4.7%
Others	762	761	750	-0.1%	-1.4%
Total	**5,958**	**6,242**	**6,551**	**4.7%**	**5.0%**

Source: Assintel Report 2019

Italian IT Services Market

(€mn)	2017	2018	2019	18/17	19/18
Project Solutions	**4,057**	**4,148**	**4,235**	**2.2%**	**2.1%**
IT Consulting	717	738	758	2.9%	2.7%
Systems Integration	2,296	2,347	2,397	2.2%	2.1%
Network Consulting & Integration	671	693	714	3.3%	3.0%
Custom Application Development	373	370	366	-0.8%	-1.1%
Outsourcing Services	**4,230**	**4,261**	**4,279**	**0.7%**	**0.4%**
Application Management	737	773	803	4.9%	3.9%
Hosted Application Management	130	144	158	10.8%	9.7%
Hosing Infrastructure Services	797	854	914	7.2%	7.0%
IT Outsourcing	1,806	1,725	1,636	-4.5%	-5.2%
Network and Endpoint Outsourcing Services	760	765	768	0.7%	0.4%
Support & Training Services	**2,510**	**2,538**	**2,568**	**1.1%**	**1.2%**
HW & SW Deploy & Support	2,231	2,255	2,277	1.1%	1.0%
IT Education & Training	279	283	291	1.4%	2.8%
Total	**10,797**	**10,947**	**11,067**	**1.1%**	**1.2%**

Source: Assintel Report 2019

Appendix IV: 2016A-20E group financial figures

Relatech: 2016A-20E P&L

(€'000)	2016FY	2017FY	2018FY	2019E	2020E
Total Value of Production	**8,280**	**11,615**	**14,356**	**19,336**	**21,788**
COGS	-3,837	-5,901	-6,303	-6,980	-7,865
Labour costs	-3,671	-4,348	-6,019	-9,962	-10,921
EBITDA (Reported)	**772**	**1,366**	**2,034**	**2,394**	**3,002**
EBITDA margin (as % of VoP)	9.4%	12.4%	15.4%	13.0%	14.4%
Depreciation and amortization	-55	-132	-89	-623	-438
EBIT (Reported)	**717**	**1,235**	**1,945**	**1,771**	**2,564**
EBIT margin (as % of VoP)	8.8%	11.2%	14.7%	9.6%	12.3%
Non-Operating and Extraordinary items	-10	5	-32	-43	3
Pre-tax Profit	**707**	**1,239**	**1,913**	**1,728**	**2,567**
Taxes & Minorities	-216	-332	-444	-494	-809
Net Profit (Loss)	**491**	**907**	**1,444**	**1,234**	**1,758**

Source: Relatech, Value Track Analysis

Relatech: 2016A-20E Balance Sheet

(€'000)	2016FY	2017FY	2018FY	2019E	2020E
Net Fixed Assets	105	388	2,053	2,818	2,480
Net Working Capital	655	859	2,503	2,957	3,199
Severance pay and other funds	327	452	605	930	985
Total Capital Employed	**433**	**795**	**3,951**	**4,845**	**4,694**
Group Net Equity	726	1,533	2,838	8,131	9,889
Net Fin. Position [Net debt (-) / Cash (+)]	**293**	**738**	**-1,114**	**3,286**	**5,195**

Source: Relatech, Value Track Analysis

Relatech: 2016A-20E Cash Flow Statement

(€'000)	2016FY	2017FY	2018FY	2019E	2020E
EBITDA (Reported)	**772**	**1,366**	**2,034**	**2,394**	**3,002**
Op. WC requirements	-655	-204	-1,857	-454	-242
Capex (not incl. Fin. Inv.)	0	-107	-163	-100	-100
Change in provisions	327	125	153	38	55
OpFCF b.t.	**444**	**1,180**	**167**	**1,878**	**2,715**
As a % of EBITDA	*58%*	86%	8%	78%	90%
Cash Taxes	-216	-332	-180	-494	-809
OpFCF a.t.	**228**	**848**	**-12**	**1,384**	**1,906**
Capital Injections / Others	0	0	58	4,059	0
Other (incl. Fin. Inv.)	-314	-293	-1,638	-1,000	0
CF available to serve debt / equity investors	**-87**	**555**	**-1,592**	**4,443**	**1,906**
Net Financial Charges	-6	-10	-10	-43	3
Dividend paid	0	-100	-250	0	0
Change in Net Fin Position	**-92**	**445**	**-1,852**	**4,400**	**1,909**

Source: Relatech, Value Track Analysis

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