Tinexta

Company outlook and H121 results

Growth in highly innovative areas

Professional services

Tinexta provides IT solutions, information and consulting services in niche markets, predominantly to corporate clients. It has leading or strong market positions in the majority of its businesses, which have structural growth drivers. Management's strategy of diversifying its services and geographic expansion via M&A and subsequent organic growth has generated improving financial metrics, while remaining shareholder friendly with respect to cash returns and a robust balance sheet. Our discounted cash flow (DCF)-based valuation is c €41 per share.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	258.7	53.5	0.80	0.00	44.0	N/A
12/20	269.0	58.6	0.86	0.26	41.4	0.7
12/21e	373.7	72.1	1.08	0.33	32.6	0.9
12/22e	438.6	92.8	1.40	0.43	25.3	1.2
12/23e	502.5	115.1	1.73	0.54	20.4	1.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Structural growth drivers

Tinexta is exposed to favourable growth trends, including the transition to a digital economy with a requirement for enhanced online security; governments' desires to stimulate innovation and growth; and the internationalisation of trade. Management's strategy is to further develop the group by expanding domestically and/or internationally, and to offer more services in 'highly innovative areas' to existing and potential new clients, while seeking cross-selling opportunities between the business units. As a result, Tinexta is likely to make further acquisitions. To date, management's strategy has proven to be very beneficial to its growth prospects, profitability, free cash flow generation and ROIC.

Strong organic growth for revenue and profits

We are introducing forecasts for FY23 to be consistent with management's customary three-year business plan, and to include the medium-term growth of a new venture with Intesa Sanpaolo that increases distribution of services and other M&A. For FY21–23, we forecast an organic revenue CAGR of c 12% and a reported EBITDA CAGR of c 21%. This compares favourably with Tinexta's historical growth due to its greater exposure to higher growth markets. Following H121 results, we upgrade our FY22 EBITDA forecast by c 6%, due mainly to M&A. Underlying positive free cash flow supports a dividend pay-out ratio of c 33% and leaves plenty of headroom for likely strategic acquisitions. Excluding future potential acquisitions, we see the balance sheet (end FY21e net debt to EBITDA 2.6x due to recent M&A) de-gearing quickly (we forecast 1.0x by end FY23).

Valuation: DCF-based valuation of c €41 per share

Tinexta's prospective EV/EBITDA multiples (19.2x, 15.5x and 12.9x) and P/E multiples (32.6x, 25.3x and 20.4x) for FY21e, FY22e and FY23e are at a premium to historical multiples, reflecting an improving business mix, growth rates and profitability. Our DCF points to a valuation of c €41 per share.

9 August 2021

Price	**€35.3**
Market cap	**€1,666m**
Net debt (€m) at 30 June 2021	205
Shares in issue	47.2m
Free float	34%
Code	TNXT
Primary exchange	Borsa Italiana STAR
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	7.0	42.5	96.5
Rel (local)	3.9	33.9	46.9
52-week high/low		€37.8	€16.4

Business description

Tinexta has four divisions: Digital Trust, solutions to increase trust in digital transactions; Credit Information & Management, services to manage credit; Innovation & Marketing Services, services to help clients develop their businesses; and Cyber Security, services to help digital transformation.

Next events

Q321 results	10 November 2021
FY21 results	February 2022

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Edison profile page

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Investment summary

Company description: Digital security, professional information and consulting services

Tinexta, which was listed in 2014, has leading or strong market positions in its three longer-standing business units Digital Trust (DT), Innovation & Marketing Services (IMS) and Credit Information & Management (CIM), and is attempting to build a leading domestic position in a new area, Cyber Security (CS), which management believes has above-average growth prospects.

Structural growth drivers for the individual business units include the digitisation of the economy, governments' desires to increase R&D and innovation, and the internationalisation of trade as companies and SMEs seek to grow and diversify.

Financials: Strong organic growth expected

Tinexta's already-attractive medium-term growth profile has been enhanced by its recent entry into cyber security and other M&A including a new venture, with a leading Italian bank, to distribute its CIM and IMS services to a wider customer base, which we expect to provide significant incremental growth by FY25. We forecast an organic revenue CAGR from FY21–23 of c 12%, and c 21% reported EBITDA growth, as we expect margins to improve in all four business units. We expect growth rates to accelerate from FY21 to FY23 due to the phasing of M&A and the revenue ramp from the new venture. We expect that the higher profitability will lead to an improvement in free cash flow generation. The balance sheet is robust, with our forecast for net debt/EBITDA of 2.6x by end FY21 due to recent M&A, and we expect quick deleveraging to 1.0x by FY23.

Valuation: DCF supports a value of c €41 per share

Our DCF-based valuation is c €41 per share based on our explicit estimates until FY23. We assume lower revenue growth forecasts in FY24 and FY25, albeit still at a robust c 11%, including the ramp in revenue from the new venture, and a quick fade thereafter from 6% revenue growth in FY26 to 2% by our terminal year of FY31. Beyond FY25, we incorporate a flat EBITDA margin of 29.5%, which is conservative compared to Tinexta's operating history. Our DCF uses a weighted-average cost of capital (WACC) of 7% and a terminal growth rate of 2%. Tinexta's EV/EBITDA multiples (19.2x, 15.5x and 12.9x) and P/E multiples (32.6x, 25.3x and 20.4x) for FY21e, FY22e and FY23e are at a premium to historical averages, which is warranted by higher growth rates and profitability.

Sensitivities: New products, economic sensitivity and M&A

We see the following sensitivities as key determinants of the Tinexta's prospects:

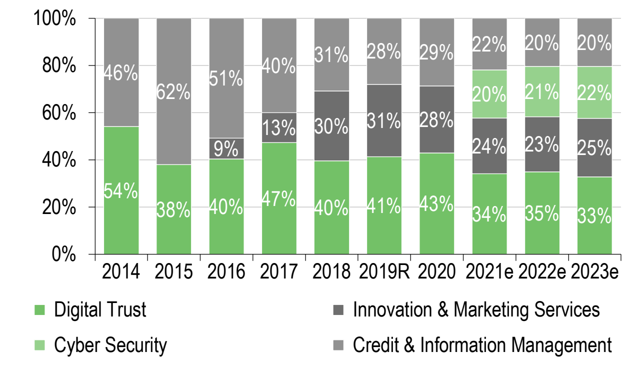
- **Uptake of new products and services:** the outlook for DT and Cyber Security appears strong, however both are dependent on Tinexta's success in winning new clients in new geographies. For IMS and CIM, the outlook also depends on leveraging its partners' client relationships.
- **M&A:** following a high level of M&A, it is likely that there will be further acquisitions as Tinexta seeks international growth and to develop its offer into contiguous services. Success has been high to-date, as evidenced by the improved return on invested capital (ROIC), from 10.2% in FY16 to 16.7% in FY20.
- **Economic sensitivity:** outside the structural growth drivers for the individual business units, all have proven vulnerable to changes in the macroeconomic environment to a greater or lesser extent, as evidenced in FY20 due to COVID-19.

Company description: Digital security, professional information and consulting services

The business profile of Tinexta (named Tecnoinvestimenti until November 2018) has changed significantly in recent years through a combination of M&A (25 acquisitions since 2013, including the announcement of eight acquisitions in FY20 and one so far in FY21), while maintaining a relatively strong balance sheet, and strong growth both organically and through acquisitions. It is currently focused on four business units, which primarily serve corporate customers of all sizes with digital security, information and consulting services. In order of our expected FY22 revenue contributions, these are:

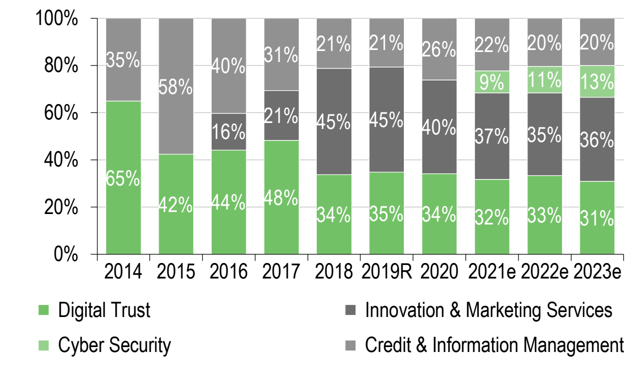
1. Digital Trust (DT) – provides solutions that enable and enhance confidence (ie trust) in the security and validity of digital identities and transactions. Since FY16, the business unit has delivered average annual organic revenue growth of c 9% and EBITDA growth of 13%. Management's three-year business plan for FY21–23 includes CAGRs for organic revenue of 7% and EBITDA of 12%.
2. Innovation & Marketing Services (IMS) – provides specialist consulting services that help businesses finance and develop their growth prospects. Since the formation of the business unit in FY16, the CAGR for organic revenue has been c 6%, and for EBITDA c 8%. The FY21–23 plan estimates CAGRS for organic revenue and EBITDA of 13% and 14%, respectively. Its longer-term growth profile will be higher following the recent announcement of a new venture to enhance distribution of both IMS's and CIM's services (see below).
3. Credit Information & Management (CIM) – predominantly provides information services that help financial institutions and corporates manage credit and access funding. Organic revenue has been relatively volatile, with an average annual decline since FY16 of c 2%, but EBITDA growth has been better with a CAGR of c 7% over the same period, albeit the growth mostly arose in FY20 as the pandemic re-affirmed the importance of credit information and it benefited from helping customers gain government financial support during the COVID-19 pandemic. The three-year business plan estimates CAGRs for organic revenue and EBITDA of 6% and 7% respectively, a much improved outlook due to repositioning of the business and an improvement in underlying demand. The plan was set before the announcement of the new venture with Intesa Sanpaolo that will increase distribution of its services and enhance growth further.
4. Cyber Security (CS) – provides technologies and services to help with digital security and digital transformation. The business unit was created at the end of FY20 on the announcement of three acquisitions. Management expects CS will generate the highest average organic revenue and EBITDA growth in the FY21–23 plan, 17% and 41% respectively, on FY20's proforma revenue of c €69m and EBITDA of c €8m.

Exhibit 1: Revenue contribution by business unit (before parent company/other)



Source: Tinexta accounts, Edison Investment Research

Exhibit 2: Clean EBITDA contribution by business unit (before central costs)



Source: Tinexta accounts, Edison Investment Research

Tinexta was founded in 2009 when Tecno Holding, owned by the Italian Chambers of Commerce, contributed assets into the company in exchange for a shareholding in Tinexta. Tecno Holding remains the reference shareholder with a stake of 55.8% of the company. The shares were listed on AIM Italia in 2014 and transferred to Borsa Italiana STAR in 2016. The assets contributed included the company InfoCert, which is the foundation of DT, as well as other assets including parking lots, real estate and majority ownership of a construction company. From 2012, the assets were managed more proactively, that is non-core assets such as the parking lots were sold, and management sought to invest in other professional services with a better growth profile, with existing confidence that DT had a strong outlook. In chronological order Tinexta entered CIM in 2012; IMS (previously named Sales & Marketing Solutions) in 2016; and CS in 2020/21.

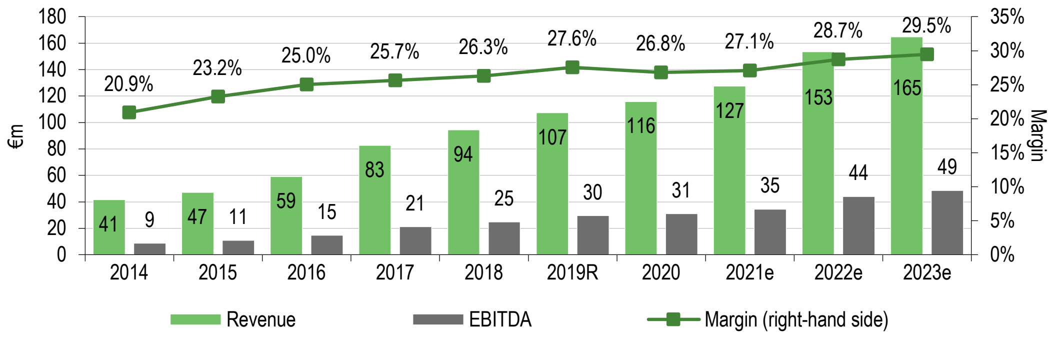
The change in the business profile has been achieved with a significant level of M&A, a cumulative spend of €331m through the cash flow statement from FY14 through H121, and cumulative investment in tangibles and intangibles of €70m. Tinexta's M&A strategy typically involves purchasing a majority stake in a company before buying out minorities, protected by put and call options, at a later date. Once Tinexta has established a foothold in a market, it tends to follow up with smaller acquisitions that either expand the existing product or service offer for clients.

M&A has been funded by a combination of cash generation, debt (maintaining a reasonably strong balance sheet) and minor equity issuance (€23m in when it listed on AIM Italia in 2014, and €42m when it moved listing to Borsa Italiana STAR).

Management's strategy is to further develop the group by expanding domestically and/or internationally, and to offer more services in 'highly innovative areas' to existing and potential new clients. To date the strategy has been successful, generating strong revenue and profit growth, and an improvement in post-tax ROIC from 10.2% in FY16 to 16.7% in FY20.

Digital Trust (34% of FY21e revenue)

Exhibit 3: Digital Trust's financial highlights



Source: Tinexta, Edison Investment Research estimates

DT provides solutions that enable and increase the confidence (ie trust) of users when signing or sending documents electronically. The services provide surety with respect to the validity of the identities of individuals and businesses online (ie digital identities), the authenticity of electronic documents such as contracts and the secure storage of documents.

DT should be a beneficiary of the economy-wide transition from analogue to digital. This includes the enhanced requirement for online security including knowing who and what one is dealing with, so is well aligned with initiatives such as know your client and anti-money laundering. In addition, there are opportunities that subsequently follow in the streamlining of business processes and infrastructure change. Regulatory tailwinds (see below) are helping Tinexta to take advantage of these trends across the whole of the EU, having been previously a purely domestic Italian business.

The business unit has two main operating companies: InfoCert (99.9% owned) and Visura. In addition, InfoCert has two subsidiaries: Sixtema (80% owned from 1 April 2017), which provides IT and management services; and Camerfirma (51% owned since 1 May 2018), which provides digital trust services in Spain and South America.

External estimates for sizes and growth rates of the digital trust markets are as follows:

Exhibit 4: Market and growth expectations

Source: Tinexta presentation, 19 May 2021

InfoCert

InfoCert is the market leader in Italy for certified electronic mail, digital signature, electronic invoicing and digital documents storage. In order to provide these services, InfoCert is registered as a Certification Authority and is accredited by the AgID, the Italian government agency for digital identity.

InfoCert has two main businesses. First is the established core business of off-the-shelf certified email and digital signature that is more suited to smaller clients, for example, individuals and SMEs etc, for which clients pay an annual subscription. Italy is one of three countries in the world that uses certified email, as well as Hong Kong and Switzerland. It was introduced in 2005 to enable parties to communicate securely with local and central government, with the aim of modernising bureaucracy and combatting corruption. Certified email has the same legal value as a letter sent by registered mail with advice of receipt. Over time, the requirements to use certified email have increased. For example, since July 2013, all communications (including invoicing) between companies and public administration must take place via certified email, and since 2019 all invoices between companies but be via certified electronic invoice. In FY20 off-the-shelf products represented 57% of DT's revenue, versus 64% in FY16.

Second, and most importantly, InfoCert has two products that address the digital trust market for enterprises: Trusted Onboarding Platform (TOP) and GoSign, which we estimate have grown at a CAGR of 24% between FY16 and FY20:

- TOP is a patented solution that enables remote secure identification and onboarding of new clients and subsequent signing of legally binding contracts. Management believes there are no competitors with a similar service. A typical contract lasts for two to three years, with an upfront fee for installation, an annual maintenance fee and a fee for each new client signed, which represents the majority of the revenue. At the end of FY20, TOP had 122 customers, including 20 outside Italy, versus 89 clients at the end of 2019, year-on-year growth of 37%, and 29 clients at the end of 2016.
- GoSign enables companies to prepare, sign, authenticate and store documents. It streamlines business processes, guarantees the full legal value of documents and reduces the costs of archiving. The revenue model for GoSign is similar to that of TOP. At the end of FY20, TOP had 102 clients, of which 16 were non-Italian, versus 66 at the end of FY19.

DT's core products have traditionally been aimed at individuals/professionals with low turnover (spending at most €1k pa) to large enterprises (spending at least €100k pa). From 2021, it will begin to focus on SMEs that are likely to spend somewhere between these sums.

EU regulation provides a tailwind for geographic expansion

InfoCert's aspiration is to create the leading pan-European digital trust provider by rolling out its services across other European countries. The EU regulation eIDAS (electronic Identification And trust Services) establishes the framework to ensure electronic interactions between individuals, public authorities and businesses are safer and more efficient regardless of in which country they take place. The framework makes it more straightforward to deliver business services across the EU by promoting interoperability and ensuring that countries mutually recognise each other's electronic identification and trust services. This offers a significant reduction in costs and time through streamlined processes; safer transmission of electronically signed documents; enhanced document tracking; and increased security of cross-border legal contract execution or transmission of legally binding documents.

Providers of trust services across the EU must register as a qualified trust service provider (QTSP), and are subject to annual audit by a national regulator to ensure compliance with the regulations. InfoCert is registered as a QTSP in Italy.

Management expects to be a consolidator across key focus markets. Outside Italy, InfoCert's stated ambition is to make acquisitions in France, Germany and Spain as well as in other key countries (the UK, Belgium, Holland, Norway, Sweden, Hungary, Slovakia, Greece, Poland and Romania). Tinexta previously invested in an associate company, LuxTrust, to develop its activities in the Benelux countries and France, but the venture was dissolved in November 2020 as the strategic objectives of the partners diverged. Management has rectified the lost presence in France, the second largest digital trust market in the EU, with its first significant direct move into the market. In July 2021, InfoCert announced the proposed acquisition of a majority (60%) stake in CertEurope and the option to buy the remaining minority stake, subject to earn-out, in FY23, for a total estimated investment of €72.2m, equivalent to 12–13x FY22 EBITDA. CertEurope is one of the three largest Certification Authorities in France. Management quotes an estimate for market growth of 23% over the next few years, which is well ahead of its current medium-term guidance for 7% organic growth for the business unit (see below). CertEurope's pro forma EBITDA margin for FY20 of 37% compares very favourably to Digital Trust's FY20 margin of 26.8%. Therefore, the acquisition is accretive to Digital Trust's revenue growth and margin prospects from FY22 following the expected completion in Q421. Prior to this, in September 2020, Tinexta announced a strategic agreement and the acquisition of a 16.7% shareholding in Authada, with an option to obtain 100% control, to collaborate in developing digital trust activities in Germany.

Visura

Visura was acquired in 2016. It resells the core InfoCert digital trust products and services of certified email, electronic signature and invoicing to non-corporates/small professionals, and other software solutions for lawyers (all civil court proceedings must be filed electronically with the Ministry of Justice) and accountants (mandatory filing of financial statements electronically with Chambers of Commerce). The key strategic reason for owning Visura is to gain better access to the professional markets.

Digital Trust's financials

As identified above, DT is exposed to favourable structural growth from the digitisation of the economy. However, its near-term performance can be affected by wider economic issues, as seen with the COVID-19 outbreak in Q120. Historically, DT has generated relatively consistent high-single-digit organic revenue growth, and is now Tinexta's largest source of revenue, and second largest of EBITDA, at an FY20 margin of 26.8% (group average 30.2%). Over the long term, DT has typically demonstrated EBITDA growth ahead of revenue growth, except in FY20 due to COVID-19 disruption.

Exhibit 5: DT organic growth profile

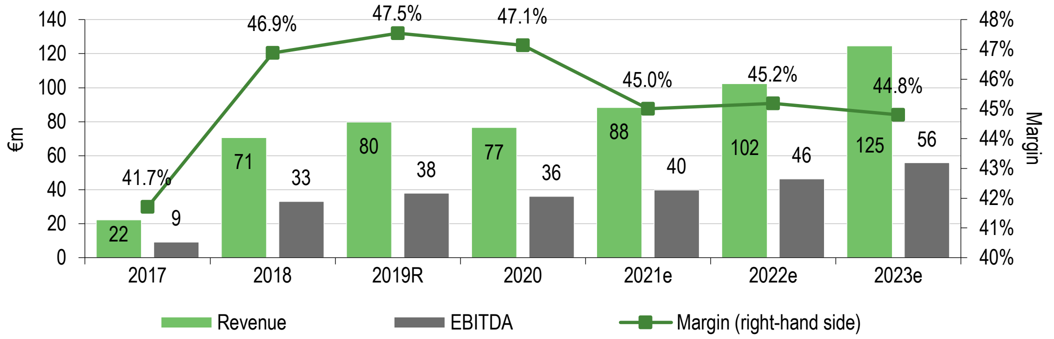
	FY16	FY17	FY18	FY19	Q120	Q220	Q320	Q420	FY20	Q121	Q221	FY21e	FY22e	FY23e
Revenue	9.4%	8.5%	7.7%	11.1%	2.9%	9.6%	9.9%	9.4%	8.0%	19.4%	10.9%	10.0%	7.0%	7.3%
EBITDA	18.2%	18.3%	11.1%	11.3%	(1.1%)	9.1%	4.2%	6.5%	5.0%	21.1%	4.9%	11.2%	10.3%	10.0%

Source: Tinexta, Edison Investment Research

The group's three-year business plan for FY21–23, introduced in February 2021, included management guidance for a revenue CAGR of 7% and EBITDA of 12% for DT. FY21 has started strongly with organic revenue growth of 19.4% in Q121 and 10.9% in Q221, against the COVID-19-affected Q120 (2.9%) and Q220 (9.6%) comparatives, which imply a relatively consistent two-year growth rate of 22% or an average growth rate of c 11%, ahead of management's guidance for the year of 7%. There was some modest year-on-year EBITDA margin compression in Q221 due to product mix changes, ie strong growth from lower-margin off-the-shelf products. We have increased our assumption for organic growth in FY21 to 10% from 7%, above management guidance, but have moderated our margin assumption to 27.1% from 27.7% previously to reflect the lower operational gearing. For FY22, we have incorporated CertEurope with the assumption that its revenue will grow by 10% pa (lower than estimated market growth of 23%), with an EBITDA margin of 35%. In FY22 we estimate a revenue contribution of c €17m and EBITDA of €6m.

Innovation & Marketing Services (24% of FY21e revenue)

Exhibit 6: Innovation & Marketing Services financial highlights



Source: Tinexta, Edison Investment Research estimates

IMS has two main operating businesses: Warrant Hub (more than 80% of revenue) and Co.Mark. It was created on the acquisition of Co.Mark in 2016 as Tinexta sought new areas of growth outside the mature CIM business unit. There will likely be further M&A as Tinexta looks to expand to contiguous industries in Italy, in order to enhance its services for clients, and into international markets. IMS is Tinexta's most profitable business with an FY20 EBITDA margin of 47.1%.

Warrant Hub

The majority of Warrant Hub's revenues derive from consulting to help companies gain tax credits and other incentives or contributions principally from governmental institutions (eg the Italian Ministry of Economic Development and the EU). Warrant Hub's consultants mainly offer expertise in R&D and in government requirements to be successful in gaining subsidies. As for Co.Mark, there is a fixed fee for the work performed and a success fee based on the tax credit/benefit awarded.

Warrant Hub's subsidiaries provide related services: Warrant Innovation Lab helps with the sharing of R&D and technology ideas; PrivacyLab helps with managing GDPR compliance; and Euroquality (based in Paris) and its affiliate Europroject (based in Sofia) provide similar services to Warrant Hub. In July 2021, Warrant Hub announced the relatively small acquisitions (€4.5m) of Financial Consulting Lab and Financial CLab, which help clients to access finance, and will strengthen its presence in the north of Italy.

Co.Mark

The bulk of Co.Mark's revenue is from consulting to help SMEs, who typically lack the required skills, to identify, develop and grow their export markets. The consultants offer an end-to-end service from a strategic analysis of products and positioning, identification of customers/end markets, negotiations of contracts and managing interactions with customers. The contract is typically annual, paid in monthly instalments with success fees based on the sales boost delivered. Management believes that Co.Mark is the market leader. The Italian government has been supportive of the industry to help SMEs boost exports, by occasionally offering 'vouchers' to partially subsidise a small proportion of the spend.

The strategy is to expand geographically (it expanded into Spain in 2015) and offer new services to further differentiate its offer and to provide cross-selling opportunities. The latter is exemplified by the announcement of the purchase of a 60% stake of Queryo Advance in January 2021 for €8.75m, with put call options for the remaining 40% at an estimated value of €6.9m. Queryo provides digital marketing services such as search engine optimisation, web marketing and e-commerce strategy, and represents an important cross-sell opportunity to SMEs. Queryo was founded in 2014 and has grown revenues to €4.8m in FY20 (CAGR of c 80% over that period) and EBITDA to €2.5m. With strong growth expected to continue, it will enhance IMS's total growth rate.

Innovation & Marketing Services financials

Exhibit 7 demonstrates both IMS's strong organic growth since its formation and its economic sensitivity in FY20 due to COVID-19, which mainly affected Co.Mark's activities, while Warrant Hub was stable. IMS also typically exhibits some seasonality during the financial year due to holidays and the phasing of projects.

Exhibit 7: IMS organic growth profile

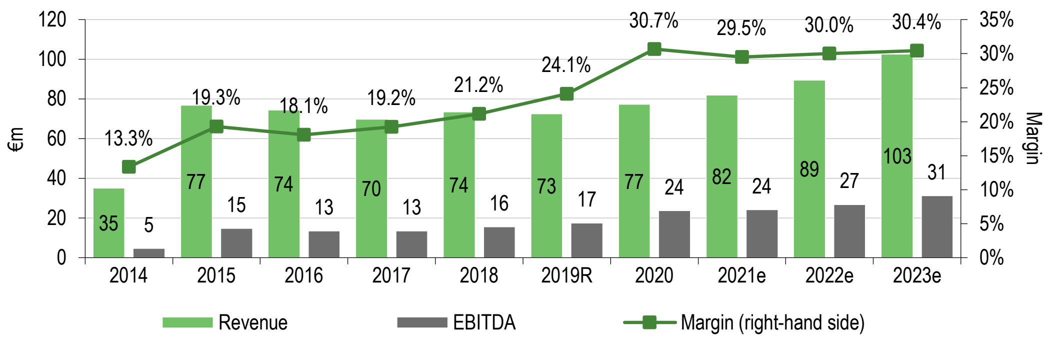
	FY17	FY18	FY19	Q120	Q220	Q320	Q420	FY20	Q121	Q221	FY21e	FY22e	FY23e
Revenue	(3.9%)	22.1%	12.9%	(22.3%)	(2.2%)	12.9%	(4.8%)	(5.6%)	23.5%	5.2%	9.0%	15.9%	21.6%
EBITDA	(10.1%)	35.5%	11.7%	(44.0%)	(1.8%)	43.2%	(14.5%)	(6.0%)	36.0%	(6.9%)	9.5%	16.4%	20.6%

Source: Tinexta, Edison Investment Research

Management's three-year business plan for FY21–23 guides to organic revenue growth of 9% and EBITDA growth of 10% for FY20's constituent businesses, which rises to 13% and 14%, respectively including the Queryo acquisition. Our forecasts from FY22 include the incremental revenue we expect IMS to generate from CIM's new venture with Intesa Sanpaolo (see below). FY21 began strongly with c 24% organic growth in Q121, in contrast to COVID-19-affected Q120 (22% decline) and growth moderated to 5.2% in Q221. The two-year growth rate improved from a decline of 4% in Q1 to growth of 3% in Q2.The first quarter is typically a seasonally small quarter from a financial perspective. The improvement in revenue was due to a rebound at lower-margin Co.Mark following the COVID disruption in the previous year. As shown in Exhibit 6 above, IMS's EBITDA margin was relatively stable at c 47% from FY18–20, but we expect it to be lower at 45% from FY21 due to mix, ie recovery at Co.Mark. Our forecasts are unchanged following Q221 results. Our estimates require c 7% organic revenue growth and EBITDA growth in H221, against more difficult comparatives from H220 as the business recovered post COVID.

Credit Information & Management (22% of FY21e revenue)

Exhibit 8: Credit Information & Management financial highlights



Source: Tinexta, Edison Investment Research estimates

CIM has two main operating businesses: Innolva (100% owned) and REValuta (95% owned).

Innolva

Innolva offers data services that help banks and SMEs with the granting, ongoing assessment and recovery of credit in Italy. It was created in 2017 with the merger of two group companies, Assicom (acquired in 2014) and Ribes (initial stake acquired in 2012), in response to difficult market conditions, consolidation of the customer base and aggressive pricing from competition.

The foundation of Innolva's database is the financial statements of all companies in Italy from the Chambers of Commerce. All companies are required to file their financial statements in digital form via certified mail. While this means the data is publicly available for everyone, Innolva adds value through enhanced analysis and inclusion of other information including data on debts, judicial and corporate actions, and legal notices regarding bankruptcy etc.

Innolva's data services are typically sold as an annual subscription, but larger customers will have multi-year deals. In addition to data, Innolva offers debt recovery services.

The core credit information market is highly price competitive, with three players: Cerved is the market leader, and management believes Innolva's market position is third behind another competitor, Crif. Unlike for Tinexta's other business units, international expansion opportunities are low.

Innolva has other subsidiaries that offer varying services. One example is PromozioniServizi (acquired in 2018), a consultancy that helps SMEs apply for long-term, lower-cost financing from banks and access guarantees from the Guarantee Fund of Mediocredito Centrale, ultimately owned by the Ministry of the Economy and Finance. It helps the SMEs determine whether they are likely to qualify for the credit and then complete the application process.

Expanded distribution through Intesa Sanpaolo

In June 2021, Tinexta announced a new venture with Intesa Sanpaolo (IS), a leading bank in Italy that will significantly enhance distribution of Innolva's and IMS's services, and is, in our view, transformative to its growth prospects.

IS is contributing 100% of Intesa Sanpaolo Forvalue (ISF) to Tinexta's Innolva in the CIM business unit in return for an initial 25% stake in the enlarged Innolva. There is an earn-out to increase the holding to 30% after 2025 and a put and call option on the initial holding to protect each party in the event of the venture ending. ISF has a network of over 90 agents who offer non-financial services such as consulting on business projections and project appraisals to SMEs. Tinexta will benefit from offering Innolva's services (support in obtaining access to funding) and those of its IMS business unit (consulting to grow businesses internationally and digital marketing) through the expanded network, which serves c 150k SMEs.

Tinexta estimates the new venture will create incremental revenue of €55–60m by FY25 across both CIM and IMS. We estimate an EBITDA margin of 36–37%, pointing to at least c €20m of additional EBITDA to Tinexta by FY25, with minorities deducted on only the incremental CIM profit (40% of incremental EBITDA).

REValuta

The majority of REValuta's revenue is from the provision of residential property valuation services to banks. Management believes it is one of the largest providers of this service in Italy.

REValuta has multi-year contracts with banks, although these may not be exclusive, under which there is a fixed fee per appraisal. The business is sensitive to the macroeconomic environment and new mortgage volumes. Management looks to expand by winning contracts with new banks, adding appraisers as required and M&A.

Credit Information & Management's financials

CIM's growth profile reflects its changing business exposure. From FY16 through FY19 the core CIM reported declining revenue due to variable demand from its financial and corporate customers and pricing pressure from competitors. However, good cost control led to an increase in the EBITDA margin, from 18.1% in FY16 to 24.1% in FY19. Early FY20 results suffered from the economic impact of COVID-19, but recovered strongly for the remainder of the year.

Exhibit 9: CIM organic growth profile

	FY16	FY17	FY18	FY19	Q120	Q220	Q320	Q420	FY20	Q121	Q221	FY21e	FY22e	FY23e
Revenue	(3.0%)	(6.0%)	2.3%	(7.5%)	(12.3%)	(2.7%)	38.7%	6.6%	6.5%	10.7%	8.9%	89.6%	9.3%	14.8%
EBITDA	(9.1%)	(0.1%)	10.2%	(0.4%)	(32.2%)	55.0%	136.4%	19.7%	35.4%	47.3%	(6.5%)	2.0%	11.1%	16.5%

Source: Tinexta, Edison Investment Research

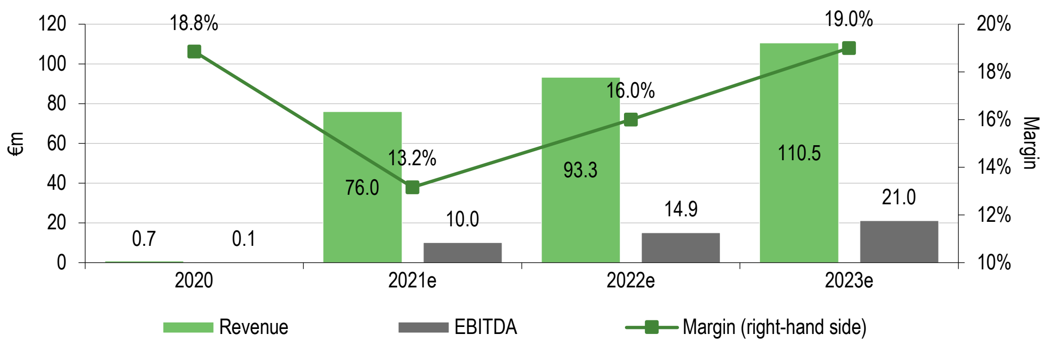
Management believes the economic weakness has re-emphasised the need for good data and services in helping to manage credit. In addition, PromozioniServizi has been a significant beneficiary of the COVID-19 pandemic as it tilted towards helping SMEs access the Italian government's 'Guarantee Fund for SMEs' (ie financial support for companies affected by lockdowns), which could continue further into FY21 depending on how the pandemic evolves. REValuta is enjoying a strong rebound due to higher demand for new mortgages and refinancing of existing mortgages, as evidenced in Q221, following a difficult FY20.

The FY21–FY23 business plan indicates a CAGR for revenue of 6%, much better than CIM's historical growth rate, and EBITDA growth of 7%, implying an improving EBITDA margin. Our estimates reflect the new venture with Intesa, for which we expect no revenue in FY21 but a gradual build from FY22.

In Q121, organic revenue growth of 10.7% was against the quarter with the easiest comparative: Q120's negative 12.3%. In Q221, the growth rate declined to 8.9%, which reflects the more difficult comparative from Q220. The two-year growth rate improved from a decline of c 3% in Q1 to c 6% in Q2, indicating an underlying improvement in revenue growth, notably due to REValuta and despite the relatively lower contribution from requests to access the Guarantee Fund versus the prior year. Our forecasts for FY22 and FY23 are unchanged following Q221 results, and require 3% organic revenue growth against a more difficult comparative (c 18% in H220).

Cyber Security (20% of FY21e revenue)

Exhibit 10: Cyber Security financial highlights



Source: Tinexta, Edison Investment Research estimates

In October 2020, Tinexta announced it was entering the cyber security market through the acquisition of stakes in three companies, which were considered to have best in class assets and services: 70% of the Projects & Solutions/R&D division of Corvallis, 60% of Yoroi; and 51% of

Swascan, for a total initial equity investment of €47.8m, and potential ultimate investment including the buying out of minorities of €104.3m announced (see Edison update note). The stake in Swascan was acquired in October 2020, and the acquisitions of Corvallis and Yoroi were completed in January 2021.

Corvallis is a digital solution provider and integrator whose customer base is typically larger corporates including financial institutions. Cyber security was not a major source of revenue on the acquisition, but its strong customer relationships with recurring revenues were considered an attractive source of new customers for the other companies being acquired.

Yoroi and Swascan both provide cybersecurity solutions across the whole value chain, and post acquisition are expected to gain better traction with larger corporate customers versus their core customer base of SMEs. Swascan is a very young company, founded in 2016, with strengths in security testing and compliance requirements.

We see the acquisitions as a natural progression of Tinexta's strategy of moving towards providing services with a high digital content and higher rates of growth. Its strategy is to combine the businesses, thereby establishing itself as a leading domestic player in cyber security. It will also develop an integrated offer with InfoCert, which should be fertile ground for cross-selling opportunities, and there may also be revenue synergies with other group companies, for example selling solutions to SME clients of IMS. At the time of the acquisitions, management indicated that it would seek partnerships with other companies (including competitors) that have complementary skills in order to round out the offer and help target specific business verticals. The first such partnership was announced in July 2021 with Leonardo, a leading global company in aerospace, defence and security, with a view to collaborating on cyber security projects in multiple industries.

Management estimates the Italian cyber security market's CAGR will be 9% from 2019–23, with growth across all services and client industries.

Cyber Security financials

In the FY21–23 business plan, management guides to revenue of c €76m and EBITDA of €10m in FY21, and three-year organic CAGRs of 17% (significantly ahead of market growth of 9%) and 41% respectively from FY20's pro forma revenue and EBITDA of €69m and €8m. Our forecasts are in line with management's guidance. Management believes CS will outpace the market primarily due to its significant penetration tester resources versus competitors, and from the potential for revenue synergies with DT and network effects of combining the three companies. The guidance implies revenue of €111m and EBITDA of €21m (a margin of 19%) in FY23. Cyber Security's higher organic revenue growth estimate is accretive to Tinexta's total growth, and its lower EBITDA margin versus other group companies (due to the relative immaturity of the businesses) dilutes the total margin. In H121, CS generated revenue of €34.6m and EBITDA of €3.5m, equivalent to 45% and 35% of annual guidance, respectively. This was stated to be in line with management's expectations. Management guidance implies improving revenue momentum with higher margins versus H121, during which time management was focused on integrating the businesses.

Management

The current board of directors is composed of 11 members including the chairman and chief executive officer.

Chairman: Enrico Salza was chairman of Tecno Holding, the majority shareholder of Tinexta. He is also chairman of Intesa San Paolo Highline (and past chairman of Intesa San Paolo), a member of the board of Italian Banking Association, Assonime (the association of Italian joint stock companies) and the Venice Cini Foundation. He has held positions on the boards of companies including Banca

Fideuram (Intesa San Paolo Group), Swedish Match, UBS Italia and Il Sole 24 Ore. He has also been president of the Chambers of Commerce of Turin, national vice president of the Chambers of Commerce and a member of the board of Confindustria.

Chief executive officer: Pier Andrea Chevallard was the managing director of Tecno Holding. In 2015 he became the chief executive officer and general manager of Tinexta (ex Tecnoinvestimenti). From 2001–14 he served as secretary general of the Milan Chamber of Commerce. He was also director of Promos (Special Export Promotion Company of the Chambers of Commerce of Milan), managing director of Parcam and a member of the board of directors of Fiera Milano.

Chief financial officer: Oddone Pozzi has been the CFO of Tinexta since June 2020. Prior to joining Tinexta, Oddone was CFO and board member of Mondadori, co-CEO of Giochi Preziosi Group (2006–14) and CFO of the Ventaglio Group (2004–06).

Sensitivities

We believe the key sensitivities for Tinexta are as follows:

- **The extent and phasing of the acceptance of new products:** the outlook for DT and CS looks favourable given the structural growth driven by the importance of online security. However, the growth rate is dependent on the speed of adoption domestically, in new countries and in new client industries. In addition, a good proportion of incremental revenue for DT's solutions varies with clients' volume growth.
- **Economic sensitivity:** as was seen during FY20 due to the COVID-19 crisis, all of the business units (excluding CS, which was acquired later in FY20) are vulnerable to economic slowdown. The greatest direct sensitivity is in CIM given the exposure to domestic credit and real estate markets, however both DT and IMS generated lower near-term growth as clients were temporarily less willing to invest in growing their businesses.
- **Government financial support:** the Italian government provides financial support in the form of guarantees and subsidies that help drive market growth for a number of the group business, primarily CIM and IMS. Some of these initiatives can affect short-term demand as clients may defer spend in anticipation of a new announcement or scheme.
- **Competitive pressures:** in many businesses Tinexta has leading positions, but more notably in its core information market in CIM, its market position is weaker potentially putting it at a disadvantage to its larger competitor with respect to pricing and new product initiatives. However, the new venture with Intesa Sanpaolo has improved the growth outlook for the business unit as a whole.
- **Acquisitions:** Tinexta has a good track record with respect to acquisitions, as evidenced by the improvement in ROIC, as it has diversified into new industries and into complementary products and services. Management continues to seek exposure in new and contiguous niche markets.
- **Growing international presence:** Tinexta has aspirations to grow outside Italy, notably in DT. This opens it to the challenge of managing businesses overseas and these countries may have different growth prospects and more competition. Tinexta has traditionally managed the former by initially buying majority shareholdings and incentivising key staff to remain.
- **Tecno Holding's shareholding:** the Chambers of Commerce, via Tecno Holding, have been long-term shareholders of Tinexta, and currently hold 55.8% of the company. They have been diluted down on each equity raise (2014 and 2016).

Financials

We have highlighted the revenue and profit drivers and our estimates in the relevant business sections. Our underlying assumptions for all of the business units from FY21–23 are in line with management's three-year plan, introduced in February 2021, except for higher organic revenue growth for DT in FY21 as highlighted. Our forecasts for FY22 onwards are higher than the guidance at the start of FY21 due to the inclusion of new revenue and profit from the Innolva and Intesa Sanpaolo venture that has transformed the outlook for CIM, and the agreed acquisition of CertEurope in Digital Trust. H121's results indicated that DT revenue growth has performed well ahead of management guidance, and there was improving underlying revenue growth for CIM and IMS from Q1 to Q2, while margins were affected by mix changes within the business units.

Following the H121 results, our forecast changes are summarised below, mainly our assumption for higher organic revenue growth for DT in FY21 and the acquisition of CertEurope. Our revenue assumption in FY22 increases by 5% to €439m and EBITDA by 6% to c €120m. Further down the P&L, our estimate for interest has increased due to higher expected net debt following the recent acquisition (see below).

Exhibit 11: Forecast changes

€m	FY21e (new)	FY22e (new)	FY21 (old)	FY22 (old)	FY21e change	FY22e change
Revenue	373.7	438.6	370.2	417.8	0.9%	5.0%
Digital Trust	127.4	153.4	124.0	132.6	2.8%	15.7%
Credit & Information Management	81.9	89.5	81.9	89.5	0.0%	0.0%
Innovation & Marketing Services	88.4	102.4	88.4	102.4	0.0%	0.0%
Cyber Security	76.0	93.3	76.0	93.3	0.0%	0.0%
EBITDA	96.5	119.6	96.2	112.6	0.2%	6.2%
Margin	25.8%	27.3%	26.0%	27.0%		
Digital Trust	34.5	44.1	34.3	37.8	0.7%	16.8%
Credit & Information Management	24.2	26.8	24.2	26.8	0.0%	0.0%
Innovation & Marketing Services	39.8	46.3	39.8	46.3	0.0%	0.0%
Cyber Security	10.0	14.9	10.0	14.9	0.0%	0.0%
Central costs	(12.0)	(12.5)	(12.0)	(13.2)	0.0%	(5.3%)

Source: Edison Investment Research

Revenue growth accelerating

Our forecasts for total group organic revenue growth accelerate from 9.1% in FY21 to 14.6% in FY23, producing an average three-year growth of c 12%. This reflects the inclusion of higher-growth CS from FY22 after its first full year of consolidation (FY21), the ramping up of revenues from the Innolva/Intesa Sanpaolo venture from 2022 towards management's estimate of incremental revenue of €55–60m by 2025, and the contribution from CertEurope in FY22.

Exhibit 12: Tinexta's revenue

€m	2014	2015	2016	2017	2018	2019R	H120	2020	H121	2021e	2022e	2023e
Revenue	76.6	124.1	146.9	174.8	238.7	258.7	123.7	269.0	177.8	373.7	438.6	502.5
Growth y-o-y		62.1%	18.3%	19.0%	36.6%	8.4%	(2.3%)	4.0%	43.7%	38.9%	17.4%	14.6%
Organic growth y-o-y		N/A	(1.8%)	(0.1%)	7.4%	5.9%	(2.7%)	3.2%	12.7%	9.1%	12.8%	14.6%
Digital Trust	41.5	47.1	59.2	82.7	94.5	107.3	55.4	115.8	63.6	127.4	153.4	164.7
Credit & Information Management	35.1	76.8	74.5	69.9	73.6	72.6	35.3	77.3	38.7	81.9	89.5	102.7
Innovation & Marketing Services			13.1	22.2	70.7	79.8	33.7	76.5	41.7	88.4	102.4	124.6
Cyber Security							0.0	0.7	34.6	76.0	93.3	110.5

Source: Tinexta, Edison Investment Research

In H121, Tinexta's organic revenue growth of 12.7% was further boosted by acquisitions, primarily of the CS business unit and Queryo.

Profitability: Double-digit EBITDA growth

Our expected EBITDA margin expansion in all divisions naturally translates to a higher group EBITDA margin after FY21, when it is negatively affected by the first-time inclusion of CS's lower-than-average margin, which is expected to grow quickly thereafter. This continues Tinexta's success at enhancing its profitability via M&A and accelerated organic growth. We forecast the group EBITDA margin will expand from 25.8% in the current year to 28.6% in FY23.

Tinexta's EBITDA margin has increased over the long term, from 20.6% in FY16 to 30.2% in FY20, due to margin expansion in the individual business units as well as mix changes, notably the increasing importance of IMS, which has a higher margin than the group average.

In H121, the overall EBITDA margin declined to 23.8% from 28.2% in H120 due to the first-time inclusion of CS and mix changes within the business units, eg the recovery of Co.Mark in IMS and REValuta in CIM.

Exhibit 13: Tinexta's EBITDA progression

	2014	2015	2016	2017	2018	2019R	H120	2020	H121	2021e	2022e	2023e
EBITDA	11.1	23.3	30.2	38.9	66.6	76.8	34.9	81.2	42.3	96.5	119.6	143.6
Margin	14.4%	18.8%	20.6%	22.2%	27.9%	29.7%	28.2%	30.2%	23.8%	25.8%	27.3%	28.6%
Growth y-o-y		111.0%	29.7%	28.4%	71.4%	15.4%	(4.8%)	5.7%	21.2%	18.8%	24.0%	20.0%
Digital Trust	8.7	10.9	14.8	21.2	24.8	29.6	14.0	31.0	15.6	34.5	44.1	48.5
Credit & Information Management	4.7	14.8	13.5	13.4	15.6	17.5	10.2	23.7	11.4	24.2	26.8	31.3
Innovation & Marketing Services			5.2	9.2	33.1	37.9	15.0	36.1	17.1	39.8	46.3	55.8
Cyber Security							0.0	0.1	3.5	10.0	14.9	21.0
Central costs	(2.3)	(2.4)	(3.3)	(5.1)	(7.0)	(8.2)	(4.2)	(9.7)	(5.4)	(12.0)	(12.5)	(13.0)

Source: Tinexta, Edison Investment Research

Tinexta's history of organic revenue growth and margin expansion has produced an impressive improvement in ROIC, which is testimony to its M&A activity and, more recently, the new CFO's focus on specifically targeting more efficient use of working capital. The post-tax ROIC (defined as normalised operating profit relative to average invested capital, ie shareholders' funds and net debt) has increased from 10.2% in FY16 to 16.7% in FY20.

Cash flow: Improving cash generation

Tinexta's operating and free cash flow generation have improved over the long term due to its higher profitability as the business mix has changed, and the more recent control of working capital by the relatively new CFO, which was very beneficial to FY20's cash flow.

Exhibit 14: Summary cash flow

€m	2014	2015	2016	2017	2018	2019R	H120	2020	H121	2021e	2022e	2023e
Operating cash flow	**7.5**	**14.6**	**20.0**	**32.2**	**43.4**	**55.2**	**34.4**	**81.6**	**36.4**	**68.0**	**89.7**	**107.1**
Net income	5.0	11.1	11.6	20.2	32.9	28.8	16.0	37.9	20.6	45.6	61.2	76.9
Depreciation and amortisation	3.0	7.6	10.8	11.7	15.2	20.3	10.5	22.3	12.8	26.9	28.8	30.9
Working capital	1.3	(3.2)	(0.0)	(2.8)	(11.3)	(7.4)	1.3	16.7	9.2	(9.3)	(5.8)	(5.7)
Tax paid	(4.9)	(7.7)	(9.2)	(5.7)	(19.3)	(8.7)	(5.2)	(13.9)	(14.0)	(19.1)	(25.6)	(32.2)
Investing cash flow	**(63.3)**	**(4.4)**	**(42.6)**	**(63.2)**	**(49.9)**	**(59.2)**	**(18.4)**	**(39.7)**	**(54.2)**	**(198.9)**	**(15.4)**	**(15.8)**
Capex and intangibles	(4.0)	(5.8)	(5.7)	(6.5)	(13.1)	(13.5)	(70.1)	(14.9)	(73.9)	(14.9)	(16.7)	(17.6)
Acquisitions and disposals	(59.6)	(4.9)	(37.0)	(61.1)	(33.2)	(47.5)	(13.0)	(36.1)	(52.2)	(185.0)	0.0	0.0
Financing cash flows	52.6	(5.7)	63.7	7.6	4.7	2.5	(13.4)	17.4	20.0	135.7	(78.2)	(92.7)
Dividends	(0.5)	(3.5)	(3.8)	(7.0)	(12.1)	(16.4)	(2.2)	(2.2)	(12.4)	(12.2)	(15.2)	(19.7)
Share repurchase/issue	22.2	0.0	48.2	1.1	1.1	1.1	(9.0)	(10.0)	(6.0)	(8.0)	(8.0)	(8.0)
Free cash flow	**3.5**	**8.7**	**14.3**	**25.7**	**30.3**	**41.7**	**28.9**	**66.7**	**29.7**	**53.1**	**73.0**	**89.5**
Closing cash	14.8	19.3	60.4	37.0	35.1	33.6	36.2	92.8	95.0	97.6	93.7	92.4
Closing net debt	**55.4**	**48.5**	**71.2**	**104.4**	**124.9**	**129.1**	**114.6**	**91.9**	**205.2**	**245.9**	**199.7**	**141.0**
Net debt/ EBITDA	5.0	2.1	2.4	2.7	1.9	1.7	1.4	1.1	2.4	2.6	1.7	1.0
Relative to revenue:												
Operating cash flow	**9.8%**	**11.7%**	**13.6%**	**18.4%**	**18.2%**	**21.3%**	**12.8%**	**30.3%**	**8.3%**	**18.2%**	**20.4%**	**21.3%**
Net income	6.5%	8.9%	7.9%	11.6%	13.8%	11.1%	5.9%	14.1%	4.7%	12.2%	14.0%	15.3%
Depreciation and amortisation	3.9%	6.1%	7.4%	6.7%	6.4%	7.8%	3.9%	8.3%	2.9%	7.2%	6.6%	6.1%
Working capital	1.7%	(2.6%)	(0.0%)	(1.6%)	(4.7%)	(2.9%)	0.5%	6.2%	2.1%	(2.5%)	(1.3%)	(1.1%)
Tax paid	(6.4%)	(6.2%)	(6.3%)	(3.2%)	(8.1%)	(3.4%)	(1.9%)	(5.2%)	(3.2%)	(5.1%)	(5.8%)	(6.4%)
Investing cash flow	**(82.6%)**	**(3.6%)**	**(29.0%)**	**(36.1%)**	**(20.9%)**	**(22.9%)**	**(6.9%)**	**(14.8%)**	**(12.4%)**	**(53.2%)**	**(3.5%)**	**(3.1%)**
Capex and intangibles	(5.2%)	(4.7%)	(3.9%)	(3.7%)	(5.5%)	(5.2%)	(26.0%)	(5.5%)	(16.8%)	(4.0%)	(3.8%)	(3.5%)
Acquisitions and disposals	(77.8%)	(4.0%)	(25.2%)	(34.9%)	(13.9%)	(18.3%)	(4.8%)	(13.4%)	(11.9%)	(49.5%)	0.0%	0.0%
Financing cash flows	68.6%	(4.6%)	43.4%	4.3%	1.9%	1.0%	(5.0%)	6.5%	4.6%	36.3%	(17.8%)	(18.4%)
Dividends	(0.6%)	(2.8%)	(2.6%)	(4.0%)	(5.1%)	(6.3%)	(0.8%)	(0.8%)	(2.8%)	(3.3%)	(3.5%)	(3.9%)
Share repurchase/issue	29.0%	0.0%	32.8%	0.6%	0.5%	0.4%	(3.4%)	(3.7%)	(1.4%)	(2.1%)	(1.8%)	(1.6%)
Free cash flow	**4.6%**	**7.0%**	**9.7%**	**14.7%**	**12.7%**	**16.1%**	**10.8%**	**24.8%**	**6.8%**	**14.2%**	**16.6%**	**17.8%**

Source: Tinexta, Edison Investment Research

Relative to its revenue, Tinexta's operating cash generation improved from 9.8% in FY14 to an impressive 30.3% in FY20. The rebasing in FY21 is primarily due to the first-time consolidation of CS from FY21, which has a lower EBITDA margin than the group average but is expected to increase quickly. Management has stated that working capital intensity relative to revenue is likely to be stable going forward. In H121, Tinexta's free cash flow of €29.7m compares with €28.9m in H120 as lower profitability (inclusion of lower-margin CS) was helped by modestly lower capex, both relative to revenue.

Tinexta's capital intensity with respect to investment in fixed and intangible assets has been a relatively consistent 4.0–5.5% of sales, which we assume will continue.

The strong and growing free cash flow generation has enabled Tinexta to consistently invest in M&A, a cumulative €331m from FY14–H121, which is likely to continue as it seeks to internationalise and provide new services in contiguous areas for clients.

Before no dividend was paid for FY19 due to the COVID-19 outbreak, the pay-out ratio was roughly one-third of net income, which we assume is continued in our forecast. A share buyback programme of €25m is underway to fulfil the FY20–22 stock option plan.

Balance sheet: De-gearing in the absence of M&A

Tinexta's net financial position has improved over the long term despite consistent investment in M&A. Since FY18 its year-end net debt/EBITDA ratio had been consistently below 2.0x, which compares favourably with earlier years when it was consistently above 2.0x. At the end of FY20 Tinexta's net debt was c €92m, equivalent to 1.2x FY20 EBITDA. The completion of the CS acquisition in H121 led to an increase in net debt at end June 2021 to €205m. We forecast end-FY21 net debt of €246m (2.6x net debt/EBITDA) due to the further acquisition of CertEurope before year end without any contribution to EBITDA, dropping to €141m (1.0x net debt/EBITDA) by the end of FY23, excluding any future potential acquisitions.

At the end of FY20, the combined value of goodwill (€215m) and intangibles (€70m) on the balance sheet was €285m, equivalent to 55% of the total asset base of €522m and net asset base of €174m. The acquisition of CS increased goodwill and intangibles to €391m at the end of H121.

Valuation

Our preferred valuation method for Tinexta is a DCF-based analysis. We also compare it to peers and construct a sum-of-the-parts (SOTP) valuation, but we note that a number of peers have extreme valuations and very different geographic exposure, scale and business models.

DCF

While recognising the high sensitivity to the key assumptions, we primarily value Tinexta using a DCF model, which indicates a fair valuation of €40.9 per share. We show a sensitivity analysis below.

Our near-term forecasts to FY23 are detailed in the Financials section above. Between FY23 and FY25, we gradually fade down the revenue assumptions for the business units, and include the ramp up of the recently-announced Innolva venture with Intesa Sanpaolo and acquisition of CertEurope, which produces growth of c 11% for the group in both FY24 and FY25. Beyond FY25 we assume a quick fade down in the group's annual revenue growth to 6% in FY26 and 2% by FY31. We assume a stable EBITDA margin of 29.5% from FY25, that is assuming no further operational gearing, which is conservative versus Tinexta's history of operational gearing. We assume a WACC of 7% and a terminal growth rate of 2%.

Exhibit 15: DCF sensitivity (€/share)

		Terminal growth rate				
		1%	2%	3%	4%	5%
WACC	10.0%	21.8	23.4	25.5	28.2	32.1
	9.5%	23.4	25.3	27.8	31.2	36.1
	9.0%	25.3	27.6	30.6	34.8	41.1
	8.5%	27.4	30.1	33.8	39.2	47.6
	8.0%	29.8	33.1	37.7	44.6	56.1
	7.5%	32.6	36.6	42.5	51.6	68.1
	7.0%	35.9	**40.9**	48.4	61.0	86.1
	6.5%	39.7	46.1	56.1	74.1	116.1
	6.0%	44.4	52.6	66.3	93.8	176.1
	5.5%	50.1	61.0	80.7	126.5	355.9

Source: Edison Investment Research

Peer group and SOTP valuation

Exhibit 16 highlights the growth estimates, profitability and valuations of companies with similar industry exposure to Tinexta. Some caution is warranted given many are not direct peers as they do not compete head to head, and have different business mixes and geographic exposure.

Exhibit 16: Peer valuations

Company	Year -end	Share price (local ccy)	Ccy	Market cap (€m)	Sales growth (%) FY1	Sales growth (%) FY2	EBITDA growth (%) FY1	EBITDA growth (%) FY2	EBITDA margin (%) FY1	EBITDA margin (%) FY2	EV/Sales (x) FY1	EV/Sales (x) FY2	EV/EBITDA (x) FY1	EV/EBITDA (x) FY2	P/E (x) FY1	P/E (x) FY2
DocuSign	Dec	292.7	USD	48,078	41	29	110	35	20.2	21.1	27.8	21.5	137.2	101.9	147.3	112.3
Zix Corp	Jan	7.4	USD	354	14	14	8	13	22.1	22.0	2.9	2.6	13.2	11.7	10.7	9.0
Adobe	Dec	621.3	USD	249,560	22	15	25	14	50.1	49.6	18.8	16.3	37.5	33.0	42.8	37.4
DT Average					26	19	48	21	30.8	30.9	16.5	13.5	62.6	48.8	66.9	52.9
DT average (excl. DocuSign)					18	14	17	13	36.1	35.8	10.8	9.5	25.3	22.3	26.7	23.2
Cerved Group	Nov	9.9	EUR	1,919	7	4	5	7	41.1	42.3	4.8	4.7	11.7	11.0	18.1	16.4
Equifax	Dec	259.7	USD	26,678	17	6	14	16	34.2	37.3	7.3	6.9	21.3	18.4	29.4	24.6
Experian	Dec	3,213.0	GBp	34,670	14	9	16	10	35.0	35.5	7.4	6.8	21.2	19.2	31.1	27.6
Fair Isaac Corp	Mar	513.6	USD	12,462	2	6	14	10	40.3	41.7	11.8	11.1	29.2	26.6	36.2	32.5
TransUnion	Sep	120.7	USD	19,487	13	7	17	9	39.9	40.6	8.5	7.9	21.4	19.5	27.5	24.7
CIM Average					10	6	13	10	38.1	39.5	8.0	7.5	21.0	19.0	28.5	25.2
Alkemy	Dec	14.6	EUR	80	19	11	44	16	9.6	10.1	1.1	0.9	10.9	9.4	21.7	16.4
Be Shaping the Future	Dec	2.0	EUR	256	19	7	22	10	16.4	17.0	1.4	1.3	8.7	7.9	24.0	22.2
IMS Average					19	9	33	13	13.0	13.5	1.2	1.1	9.8	8.6	22.8	19.3
Reply	Dec	152.7	EUR	5,715	16	10	16	9	16.6	16.5	3.8	3.5	23.0	21.0	40.9	36.6
Secunet Security Networks	Dec	474.5	EUR	3,072	18	1	13	0	20.1	19.9	8.9	8.8	44.3	44.3	76.0	76.3
CS Average					17	6	15	5	18.4	18.2	6.4	6.1	33.7	32.7	58.5	56.4
Tinexta	Dec	36.0	EUR	1,699	39	17	19	24	25.8	27.3	5.0	4.3	19.5	15.8	33.3	25.8

Source: Edison Investment Research, Refinitiv. Note: Priced 4 August 2021.

To take account of Tinexta's business mix we have produced a SOTP valuation, using the average multiples for the different peer group segments as above, and applying them to our forecasts for the four business units. We exclude the higher outlier valuations where appropriate so that the valuation is not skewed. Our SOTP suggests a valuation of €35–41 per share.

Exhibit 17: SOTP valuation

	EBITDA		EBITDA multiple		Valuation				
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e	
	€m	€m	x	x	€m	€m	€/share	€/share	Comments
Digital Trust	34.5	44.1	25.3	22.3	874.8	983.5	18.5	20.8	Excludes DocuSign
Credit Information & Management	24.2	26.8	21.0	19.0	506.5	508.7	10.7	10.8	
Innovation & Marketing Services	39.8	46.3	9.8	8.6	390.5	400.1	8.3	8.5	
Cyber Security	10.0	14.9	33.7	32.7	336.6	487.4	7.1	10.3	
Total/ (average)	108.5	132.1	22.4	20.6	2,108.4	2,379.7	44.7	50.4	
Central costs	(12.0)	(12.5)	20.2	18.6	(242.4)	(232.2)	(5.1)	(4.9)	10% discount to average multiple
	96.5	119.6	19.3	18.0	1,865.9	2,147.4	39.5	45.5	
Associate					6.3	6.3	0.1	0.1	
Minorities					(3.7)	(3.7)	(0.1)	(0.1)	
Net cash/(debt)					(205.2)	(205.2)	(4.3)	(4.3)	
Market value					1,663.3	1,944.7	35.2	41.2	
Shares (m)					47.2	47.2			
Implied share price (€)					35.2	41.2			

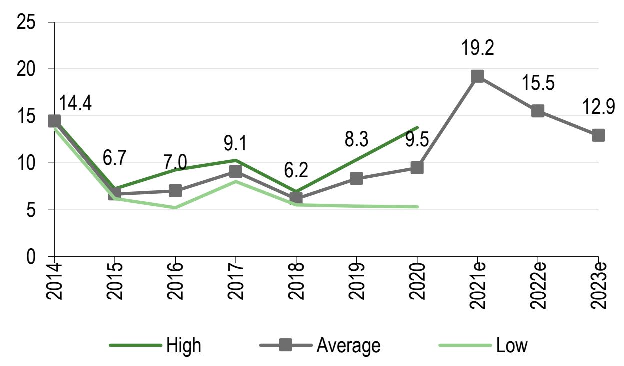
Source: Edison Investment Research

Valuation relative to history

Exhibits 18 and 19 show Tinexta's prospective EV/EBITDA and P/E multiples (using current enterprise value (EV) and market value (MV)) against its historical high, average (indicated) and low multiples in any year (using historical EV and MV).

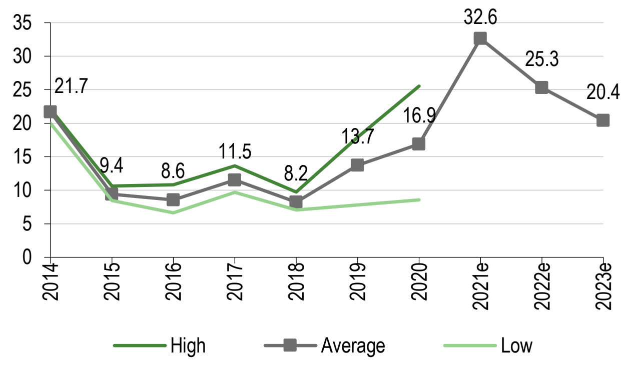
Tinexta's EV/EBITDA multiples for FY21–23 of 19.2x, 15.5x and 12.9x compare with its long-run average multiple of 8.6x, which excludes the COVID-19 affected FY20 results, and its prior all-time high multiple of 14.6x in FY14. Similarly, its P/E multiples for FY21–23 of 32.6x, 25.3x and 20.4x are ahead of its historical long-term multiples. Its prospective multiples are mainly at a premium to historical multiples, reflecting its improved medium-term growth prospects for revenue and higher profitability, including the incremental revenue and EBITDA beyond our explicit forecast period from the new venture.

Exhibit 18: EV/EBITDA multiple



Source: Tinexta, Edison Investment Research, Refinitiv

Exhibit 19: P/E multiple

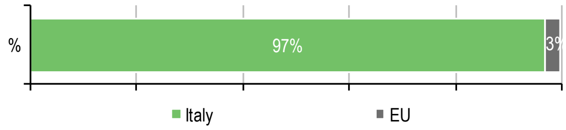


Source: Tinexta, Edison Investment Research, Refinitiv

Exhibit 20: Financial summary

€m	2016	2017	2018	2019	2020	2021e	2022e	2023e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue	146.9	174.8	238.7	258.7	269.0	373.7	438.6	502.5
Operating costs		(135.9)	(172.1)	(181.9)	(187.8)	(277.3)	(319.0)	(358.9)
EBITDA before non-recurring costs	30.2	38.9	66.6	76.8	81.2	96.5	119.6	143.6
EBITDA	29.3	40.6	66.0	71.3	77.9	95.0	119.6	143.6
Normalised operating profit	23.5	29.9	54.3	59.0	62.2	75.5	96.8	118.7
Amortisation of acquired intangibles	(5.1)	(4.6)	(5.8)	(5.9)	(6.0)	(6.0)	(6.0)	(6.0)
Exceptionals	(1.0)	1.8	(0.6)	(5.5)	(3.3)	(1.5)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	17.4	27.1	47.9	47.5	52.9	68.1	90.9	112.7
Net Interest	(1.0)	1.5	(2.5)	(4.1)	0.6	(3.1)	(3.7)	(3.2)
Joint ventures & associates (post tax)	0.0	0.0	0.1	(1.1)	(1.0)	(0.4)	(0.4)	(0.4)
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	22.5	30.7	51.8	53.5	58.6	72.1	92.8	115.1
Profit Before Tax (reported)	16.4	28.6	45.5	42.2	52.5	64.6	86.8	109.1
Reported tax	(4.8)	(8.4)	(12.6)	(13.4)	(14.6)	(19.1)	(25.6)	(32.2)
Profit After Tax (norm)	15.9	21.6	36.8	38.3	40.8	50.8	65.4	81.1
Profit After Tax (reported)	11.6	20.2	32.9	28.8	37.9	45.6	61.2	76.9
Minority interests	(0.1)	(0.1)	(0.6)	(0.6)	(0.6)	(0.8)	(1.2)	(1.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	15.9	21.6	36.2	37.7	40.1	50.0	64.2	79.3
Net income (reported)	11.6	20.1	32.4	28.2	37.3	44.8	60.0	75.1
WASC (m)	37.5	46.6	46.8	47.0	46.7	46.2	46.0	45.8
EPS - normalised (€)	0.42	0.47	0.78	0.80	0.86	1.08	1.40	1.73
EPS - normalised fully diluted (€)	0.42	0.46	0.77	0.80	0.86	1.08	1.40	1.73
EPS - basic reported (€)	0.31	0.43	0.69	0.60	0.80	0.97	1.30	1.64
Dividend (€)	0.09	0.14	0.23	0.00	0.26	0.33	0.43	0.54
Revenue growth (%)	18.3	19.0	36.6	8.4	4.0	38.9	17.4	14.6
EBITDA Margin before non-recurring costs (%)	20.6	22.2	27.9	29.7	30.2	25.8	27.3	28.6
Normalised Operating Margin	16.0	17.1	22.8	22.8	23.1	20.2	22.1	23.6
BALANCE SHEET								
Fixed Assets	216.4	275.8	307.1	316.7	325.8	498.9	486.8	473.5
Intangible Assets	200.7	260.6	272.1	269.9	285.1	461.1	451.0	438.9
Tangible Assets	7.1	8.3	8.2	21.2	19.0	16.0	14.1	12.9
Investments & other	8.6	6.9	26.8	25.6	21.7	21.7	21.7	21.7
Current Assets	122.6	125.8	143.4	139.4	196.1	233.6	250.1	268.7
Stocks	1.0	2.1	1.3	1.1	1.2	1.2	1.2	1.2
Debtors	50.9	80.3	86.3	89.8	84.1	116.8	137.1	157.1
Cash & cash equivalents	60.4	37.0	35.1	33.6	92.8	97.6	93.7	92.4
Other financial assets	6.4	4.3	8.2	6.6	7.3	7.3	7.3	7.3
Other	3.9	2.2	12.4	8.2	10.7	10.7	10.7	10.7
Current Liabilities	(89.8)	(102.9)	(194.4)	(160.4)	(154.9)	(192.6)	(207.1)	(221.4)
Creditors	(33.2)	(47.7)	(93.9)	(92.7)	(106.7)	(130.1)	(144.6)	(158.9)
Tax and social security	(1.5)	(6.1)	(0.7)	(2.9)	(5.1)	(5.1)	(5.1)	(5.1)
Short term borrowings	(36.9)	(21.7)	(97.4)	(62.0)	(40.4)	(54.6)	(54.6)	(54.6)
Other	(18.2)	(27.3)	(2.4)	(2.9)	(2.7)	(2.7)	(2.7)	(2.7)
Long Term Liabilities	(119.2)	(155.5)	(110.8)	(146.2)	(193.2)	(338.9)	(288.9)	(228.9)
Long term borrowings	(100.8)	(123.8)	(70.7)	(107.0)	(150.5)	(296.3)	(246.3)	(186.3)
Other long term liabilities	(10.2)	(17.5)	(18.2)	(15.8)	(14.3)	(14.3)	(14.3)	(14.3)
Net Assets	129.9	143.2	145.4	149.4	173.9	201.0	240.8	291.9
Minority interests	(0.2)	(0.5)	(3.8)	(3.9)	(4.0)	(4.8)	(6.0)	(7.8)
Shareholders' equity	129.7	142.7	141.6	145.6	169.8	196.2	234.8	284.0
CASH FLOW								
Operating cash flow	20.0	32.2	43.4	55.2	81.6	68.0	89.7	107.1
Capex and intangibles	(5.7)	(6.5)	(13.1)	(13.5)	(14.9)	(14.9)	(16.7)	(17.6)
Acquisitions/disposals	(37.0)	(61.1)	(33.2)	(47.5)	(36.1)	(185.0)	0.0	0.0
Net interest	(1.0)	(1.5)	(1.4)	(2.5)	(1.9)	(3.1)	(3.7)	(3.2)
Equity financing	48.2	1.1	1.1	1.1	(10.0)	(8.0)	(8.0)	(8.0)
Dividends	(3.8)	(7.0)	(12.1)	(16.4)	(2.2)	(12.2)	(15.2)	(19.7)
Borrowings	19.4	15.2	17.3	23.7	35.4	160.0	(50.0)	(60.0)
Other	1.1	4.2	(3.9)	(1.7)	7.3	0.0	0.0	0.0
Net Cash Flow	41.1	(23.4)	(1.9)	(1.5)	59.2	4.8	(3.8)	(1.3)
Opening net debt/(cash)	48.5	71.2	104.4	124.9	129.1	91.9	245.9	199.7
Closing net debt/(cash)	71.2	104.4	124.9	129.1	91.9	245.9	199.7	141.0

Source: Company data, Edison Investment Research

Contact details	Revenue by geography (FY20)
Piazza Sallustio 9 Roma 00187 Italy +39 06 4201 2631 www.tinexta.com	

Management team

Chairman: Enrico Salza	CEO: Pier Andrea Chevallard
Enrico Salza is also chairman of Intesa Sanpaolo, and a member of the board of the Italian Banking Association, Assonime (association of Italian joint stock companies) and the Venice Cini Foundation.	Pier Andrea Chevallard was the managing director of Tecno Holding from 2009 until 2015 when he became the managing director and general manager of Tecnoinvestimenti. From 2001–14 he served as secretary general of the Milan Chamber of Commerce.
CFO: Oddone Pozzi	
Oddone Pozzi has been the CFO of Tinexta since June 2020. Prior to joining Tinexta, Oddone was the CFO and board member of Mondadori, co-CEO of Giochi Preziosi Group and CFO of the Ventaglio Group.	

Principal shareholders	(%)
Tecno Holding	55.8
Invesco	4.4
Mediolanum	2.0
ARCA Fondi	1.6
Quaestio Capital	1.6
J Chahine Capital	0.9
Vanguard	0.8

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