

RECOMMENDATION
BUY (from BUY)

Target Price
€ 11.66 (from € 11.94)

Price as of 20/04/2020
€ 6.28

NEOSPERIENCE

Sector: Application Software
Bloomberg negotiation code: NSP IM
AIM Market

Market Capitalisation:	45,606,629 €
Number of shares:	7,262,202*
Shareholders Equity 31.12.2019:	14,504,927 €
Outstanding warrants (1:1):	951,448*

(*) See page 7-8

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Equity Research Department

Gian Franco Traverso Guicciardi (AIAF)

Tel. +39 0669933.440

Tatjana Eifrig

Tel. +39 0669933.413

Stefania Vergati

Tel. +39 0669933.228

Gaspere Novelli

Tel. +39 0669933.292

E-mail: ufficio.studi@finnat.it

Neosperience grows with new Solutions

- Neosperience provides a software platform, called “Neosperience Cloud”, which enables companies to know, involve and retain their customers using artificial intelligence to offer personalised experiences (Digital Customer Experience) capable of boosting the value of the promoted brand.
- The Group has acquired a 51% stake in HOK Group, which operates in digital technologies as a community tech and talent aggregator on the Italian software scene.
- Neosperience has started the innovative startup “Value China S.r.l.”, dedicated to the Chinese and Asian market, for the supply of digital products and services both for European businesses wishing to sell to the Chinese market and Chinese businesses wishing to bring their products and services to Europe.
- The company has been chosen by Gartner as a global customer analytics platform alongside Salesforce and SAS.
- Taking account of the current macro-economic situation arising from the Covid-19 virus crisis, which is inevitably affecting Neosperience's business, and following the various extraordinary operations in which the Group has been involved in recent months, we deemed it necessary to review our estimates for the period 2020-2024.
- We now estimate an average annual growth of the value of production of 26.88% (down from the 33.52% CAGR we previously estimated for 2018/2023). Our recommendation is still to buy but we are lowering the target price from € 11.94 to € 11.66.

Year to 31/12 (k €)	2019	2020E	2021E	2022E	2023E	2024E
Value of Production	17,508	17,960	25,667	34,344	45,295	57,563
Value Added	7,413	9,801	14,721	20,528	29,942	38,508
EBITDA	3,568	4,386	6,740	9,470	14,802	18,427
EBIT	1,117	1,568	3,522	6,850	11,654	14,696
Group net income	924	1,026	2,426	4,788	8,189	10,358
FOCF	-	5,164	4,944	6,755	9,627	11,831
NFP	-1,212	3,884	8,054	13,622	21,123	30,921
ROE	6.49	6.72	14.30	23.28	30.81	29.75

Source: Neosperience; Estimates: Banca Finnat

Reference Market

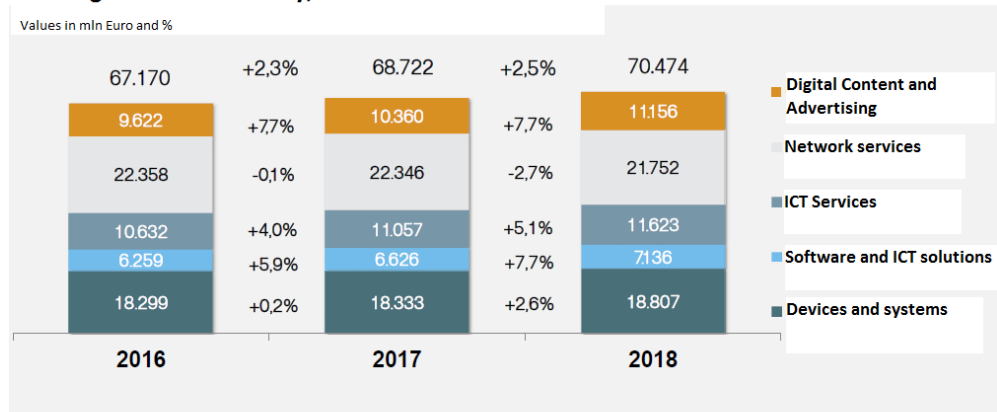
The reference market for Neosperience Spa is mainly Italy. A sales branch opened in the USA in August 2019.

The company provides a software platform, called *"Neosperience Cloud"*, which enables companies to know, involve and retain their customers using artificial intelligence. AI enables companies to offer personalised, relevant experiences (*Digital Customer Experience*) capable of boosting the value of the promoted brand.

The reference market for the Neosperience offer is digital.

In Italy this market achieved sales of 70,474 million Euro in 2018, a 2.5% increase on 2017. Growth in the digital market was mainly driven by the *"Digital content and advertising"* sector (up 7.7% to 11,156 million Euro in sales), *"Software and ICT solutions"* (up 7.7% to 7,136 million Euro), *"ICT Services"* (up 5.1% to 11,623 million Euro) and *"Devices and systems"* (up 2.6% to 18,807 million Euro). However, the *"Network services"* sector fell (by 2.7% to 21,752 million Euro).

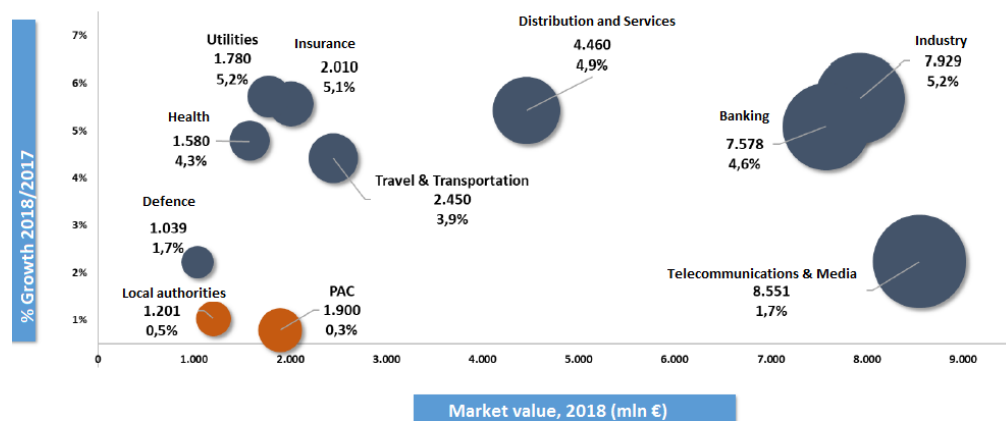
The Digital Market in Italy, 2016-2018



Fonte: Anitec-Assinform / NetConsulting cube, Marzo 2019

In relation to different sectors, the digital market in Italy grew in 2018 by 5.2% in the industrial sector (2018 market value at 7.9 million Euro), 4.6% in banking (7.6 million Euro), 5.2% in utilities (1.8 million Euro), 5.1% in insurance (2 million Euro), 3.9% in transportation (2.4 million Euro) and 4.9% in distribution (4.5 million Euro).

Digital Market Trend by sector



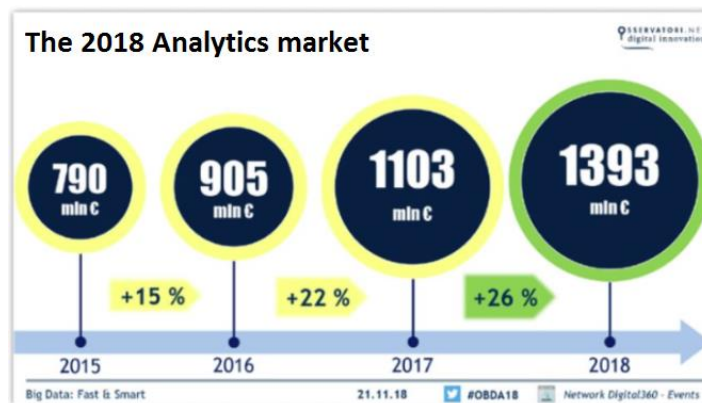
Fonte: Anitec-Assinform / NetConsulting cube, Marzo 2019

Neosperience's business is also positioned in the new *"Digital Customer Experience"* market, defined as the customer's perception and related feelings arising from the interactions with a company through a smartphone and other digital devices. It begins with an analysis of data (*Big Data*) from purchasing behaviour and, using special analysis tools (*Business Analytics*) that take the endogenous and exogenous variables in purchasing behaviour into account, allows consumers to be accurately classified.

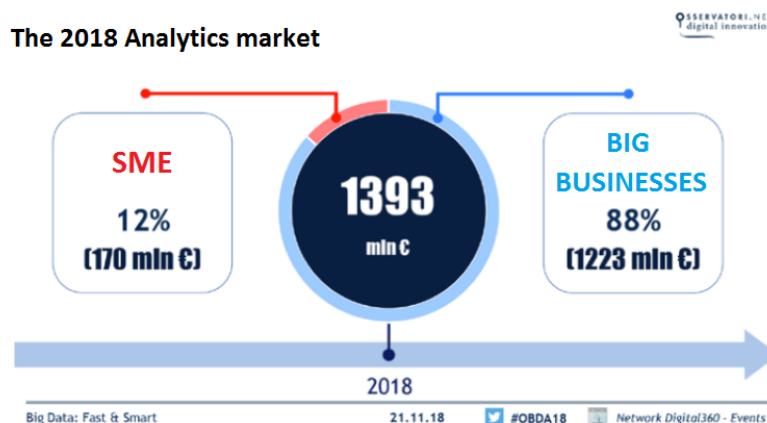
Some of the competitive advantages, generated by investments in the Digital Customer Experience, are increased sales and customer retention; a reduction in customer losses and greater sales opportunities thanks to positive word of mouth. Analytics can aid automation in non-strategic decisions and interactions, boosting segmentation and micro-targeting activities in marketing and reducing the complexity of consent processes and the risks associated with each initiative.

In *Digital Customer Experience*, in 2018, revenues generated globally by "Big Data" and "Business Analytics" markets amounted to 166 billion dollars, a 10% rise on 2017 (Statista 2019).

In 2018 the "Big Data & Analytics" market in Italy grew by 26% to 1.393 billion Euro compared to 1.103 billion Euro in 2017. This growth came on top of the positive growth rates recorded in 2017 (+22%) and 2016 (+15%).



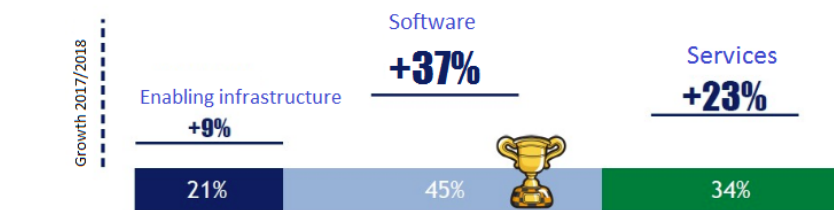
In particular, the sector was made up of 88% big businesses (1.223 billion Euro) and the remaining 12% (170 million Euro) small and medium enterprises.



In terms of investments in *Big Data & Analytics*, 45% went to software (databases, tools and applications for acquiring, viewing and analysing data), 34% to services (activities associated with the customisation of software, integration with company information systems and the redesign of processes) and the remaining 21% to infrastructure (investments in developing computing, server and storage capacity).

The software market showed the highest growth (+37%) followed by services (+23%) and infrastructural resources (+9%).

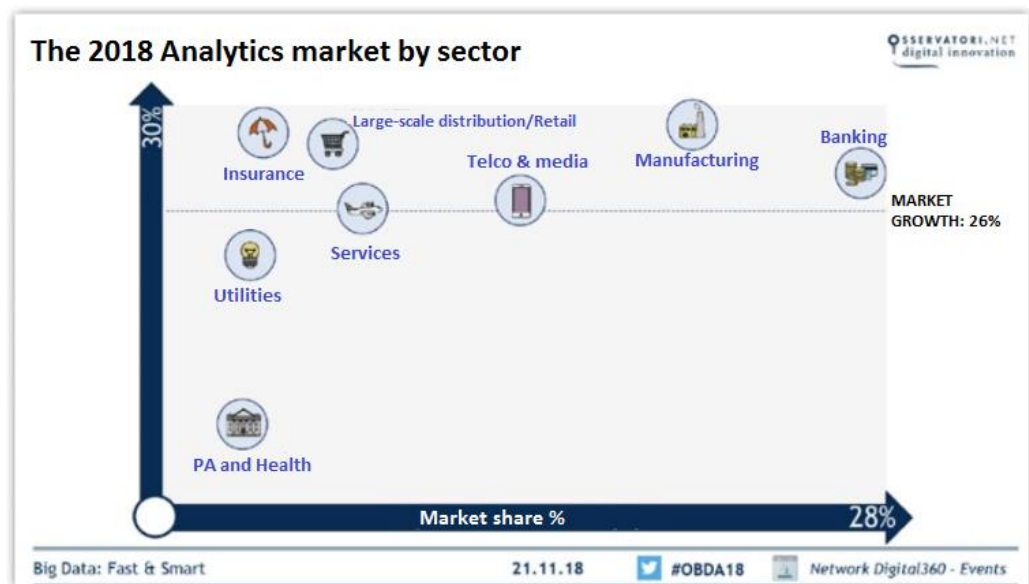
Expenditure in Analytics



Expenditure on **Public Cloud** infrastructure, platforms and software in Analytics budget: **14%**

Source: *Big Data Analytics & Business Intelligence Observatory, 2018*

The main sectors resorting to *Big Data & Analytics* are banking (28%), manufacturing (25%), Telco and media (14%), services (8%), Public administration and health (6%), Large-scale distribution/Retail (7%), insurance (6%) and utilities (6%).



The implementation of the new GDPR (*General Data Protection Regulation*, the new EU regulation on personal data processing and privacy introduced in 2018) had an impact on *Big Data & Analytics* in terms of action taken by companies and implications on projects and on new internal policies for data access (62%) and storage (55%). 43% of big companies have added information on Analytics to their new privacy notices for customers, while 24% has invested in specific technologies.

The following types of analytics can be identified within the market:

- *Descriptive Analytics*: covers the majority of companies using analytics tools designed to describe the current/past situation of company processes and/or functional areas. These tools allow data to be accessed and analysed and provide an overview of performance indicators.
- *Predictive Analytics*: developed with the spread of advanced data analysis tools and rising demand for forecasting and predictive models.
- *Prescriptive Analytics*: relates to advanced tools that, together with data analysis, enable decision makers to propose operative and strategic solutions based on analysis carried out.
- *Automated Analytics*: for companies using tools that are able to autonomously implement the proposed action according to the result of analysis carried out.

Neosperience's business, in the evolution of the Digital Customer Experience of its clients, is based on the use of "Artificial Intelligence" (AI).

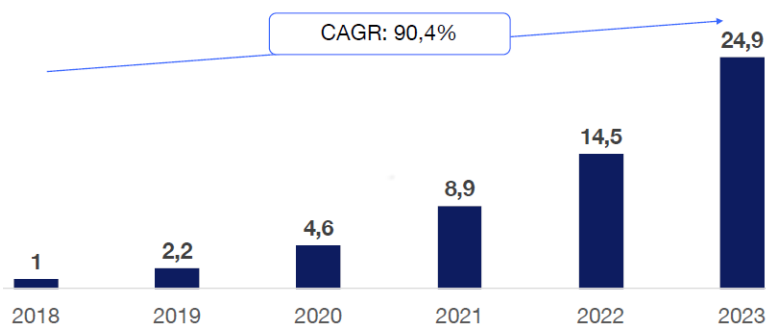
According to a study by *IDC* (a global market research, consultancy and events firm operating in the IT and digital innovation sector), global spending on AI systems in 2018 amounted to 24.86 billion dollars. This figure is expected to rise to 79.2 billion dollars in 2022.

The expansion of AI will be driven by the following:

- The customer experience will enable companies to improve interactions with customers and aid acquisition and retention activities.
- The creation of new revenues with increased sales of existing products/services and the development of new products and services.
- Lower production or delivery costs.

In relation to the AI market, the new sector of *Empathic Artificial Intelligence* – Neosperience's key market – represents a further development in AI systems capable of interacting with the end customer by analysing their behaviour and emotions and guaranteeing a better *digital experience*. This market is estimated to grow at an average annual rate (CAGR 2018-2023) of 90.4% to 24.9 billion dollars by 2023.

Ricavi mondiali nel segmento Empathic Artificial Intelligence
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Source: *The Next Web 2018*

Activities and Strategies

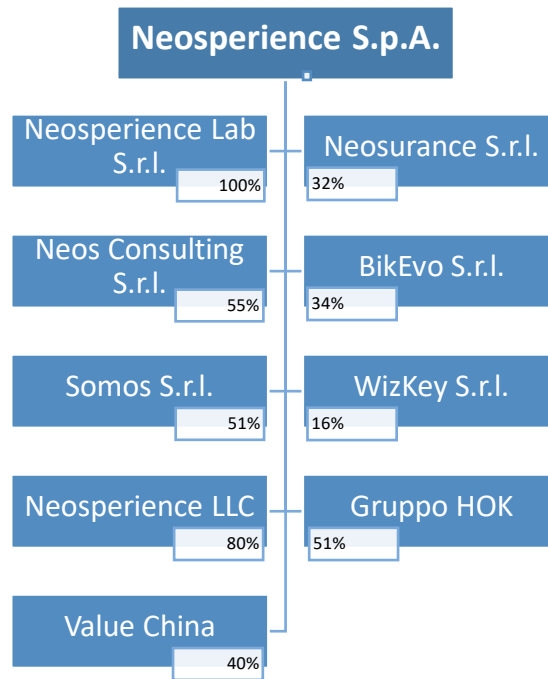
Neosperience, an “innovative SME” founded in Brescia in 2006 and listed on the AIM market of Borsa Italiana since 20 February 2019 at a placing price of €3.42, provides a software platform called “*Neosperience Cloud*”, which enables companies to know, involve and retain their customers using artificial intelligence. AI enables them to offer personalised, relevant experiences that boost the value of the promoted brand.

This software consists of a set of application modules able to forge empathetic relationships that take account of the uniqueness of each customer.

The application modules use artificial intelligence to get to know each customer and adapt the experience to his/her emotional characteristics.

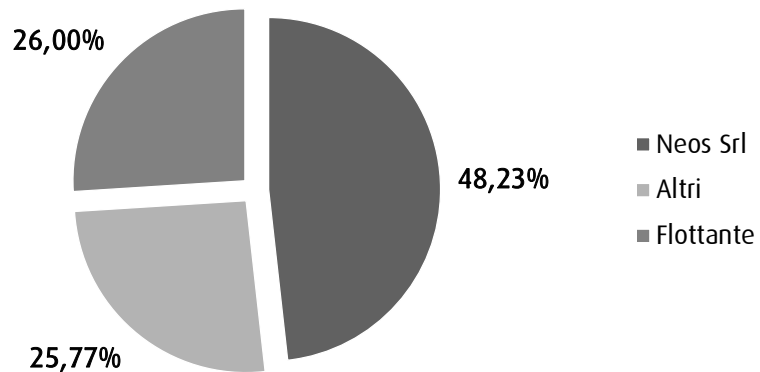
Neosperience Group is currently made up of:

- 100% *Neosperience Lab Srl* designs research and development projects and IT solutions for process and product innovation.
- 55% *Neos Consulting Srl* operates as an organisational and industrial consultancy firm and uses information systems as a platform to enable clients to manage the change and engineer their processes.
- 51% *Somas Srl* provides consultancy and applicative development with innovative technologies in web and IoT, with a focus on the transportation market.
- 80% *Neosperience LLC* is the American legal entity based in Seattle that aims to offer Neosperience's application solutions on the USA market.
- 32% *Neosurance Srl* is an AI Insurance Platform that offers innovative solutions for communities and insurance companies worldwide, enabling them to offer short-term micro-policies and a low unit cost.
- 34% *BikeEvo Srl* is a community and app aimed at amateur cyclists that offers customised services such as “Bike Personal Coach”, a virtual coach on a par with professional trainers.
- 16% *WizKey Srl* is an application platform developed from the web console and from Neosperience Cloud's infrastructure modules for credit trading with blockchain designed to modernise the credit securitisation market through smart contracts.
- 51% *HOK Group* operates in digital technologies and acts as a community tech and talent aggregator on the Italian software scene.
- 40% *Value China* dedicated to the Chinese and Asian market for the supply of digital products and services, like market strategies, marketing solutions, consultancy and development of software and mini-apps on major digital platforms such as WeChat and Alipay, both for European businesses wishing to sell to the Chinese market and Chinese businesses wishing to bring their products and services to Europe.



Source: Neosperience

Neosperience's capital, currently equal to €726,220.20, is made up of 7,262,202 shares and is 48.23% owned by Neos Srl, 25.77% by other partners and the remaining 26% is floated on the market.



Source: Neosperience

In February Vetrya Spa sold 116,750 of its Neosperience shares to a small group of corporate investors. When these shares were acquired from Vetrya, each of the investors entered into a lock-up agreement for the remaining duration of the time agreed by Vetrya in the shareholders' agreement. Therefore, these 116,750 shares, equal to 1.61% of Neosperience's share capital, will remain under lock-up agreement until 31 August 2020. In addition, upon sale of the shares, the shareholders' agreement was terminated and, given that Vetrya ceded all remaining governance rights, the Neosperience non-executive director of the Vetrya share (Matteo Montanari) tendered his resignation.

The outstanding warrants ("Warrant Neosperience 2019-2021" issued as part of the IPO) amount to 951,448. They are expected to be exercised, in a ratio of 1:1, during two residual time periods:

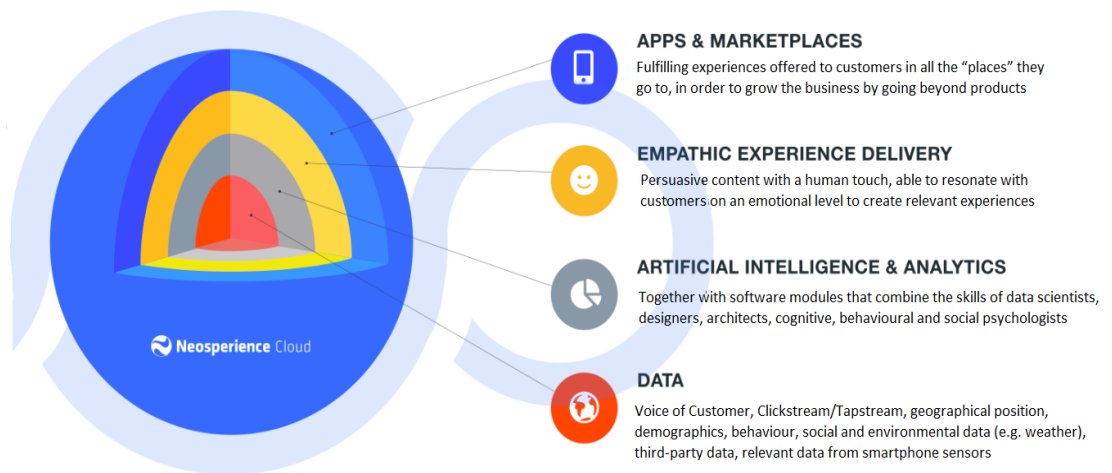
- Second exercise period: between 15 and 30 November 2020 at a subscription price for each converted share of 4.15 Euro.
- Third exercise period: between 15 and 30 November 2021 at a subscription price for each converted share of 4.57 Euro.

255,052 warrants were exercised during the first exercise period (15-30 November 2019); 255,052 shares were assigned at a price of 3.77 Euro per share for an overall equivalent of 961,546.04 Euro.

In December the Neosperience board of directors ruled on a capital increase of maximum 100,000 Euro (and a maximum of 1,000,000 Neosperience ordinary shares) reserved to one or more strategic partners, corporate investors and/or acquisitions and a further capital increase of 50,000 Euro for one or more bonus plans (stock option plans) reserved to employees, co-workers, consultants, and board members of Neosperience S.p.A. and its subsidiaries (including future subsidiaries). A maximum of 500,000 stock options are expected to be attributed no later than 5 years from the date of the board ruling, in one or more tranches, for the subscription of the same number of the company's ordinary shares.

Business model

As a “Software Vendor”, Neosperience provides its clients (businesses) with a software platform called “Neosperience Cloud” in “Saas” mood (Software as a service, a model of application software distribution with which a software producer develops, operates and manages a web application that it makes available to its clients via the Internet on a subscription basis). This software uses the “Amazon Web Services” (AWS) server, a cloud services platform (server farm) capable of offering processing power, database storage, content distribution and other functionalities to support business expansion and growth.

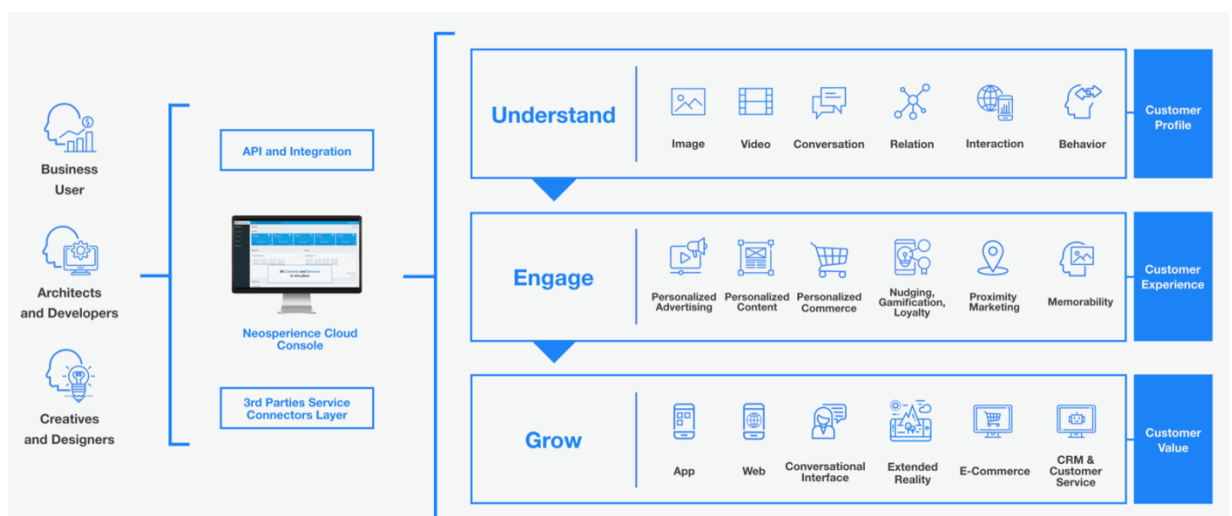


Source: Neosperience

Neosperience Cloud is made up of a set of application modules that use artificial intelligence to come into contact with end customers.

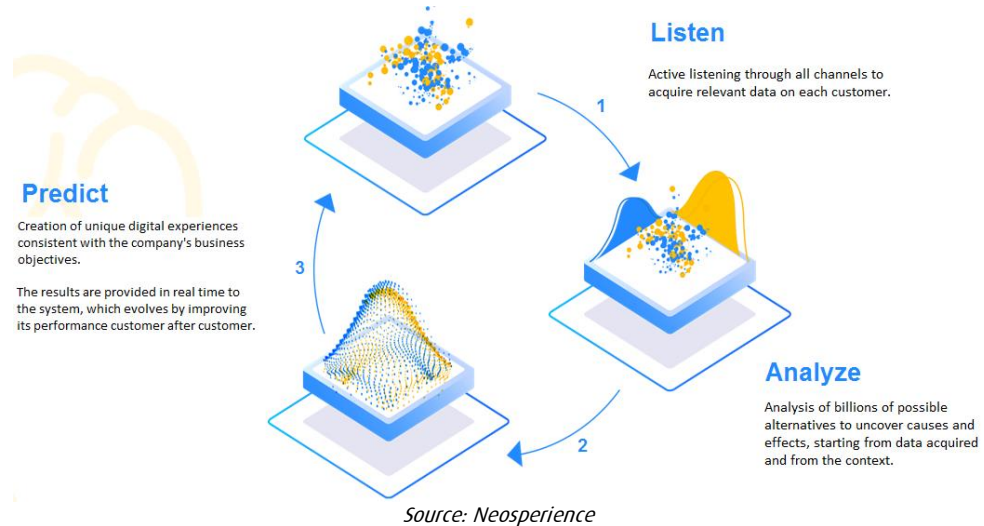
The application modules enable businesses purchasing the software platform to promote their brand/business by entering in direct contact with potential customers through a multitude of channels such as the web, apps, platforms, bricks-and-mortar points of sale, social media.

Once the connection is established with a customer, his/her profile is processed by applying artificial intelligence to a set of information and data processed by data scientists and cognitive, behavioural and social psychologists.



Source: Neosperience

Therefore, the software platform uses artificial intelligence to identify users' personal characteristics and create personalised experiences. This data is used by companies to launch digital marketing activities that put the customer in contact with their brands. Neosperience Cloud enables companies to create various versions of the same app/website depending on the profile of the customer being targeted.



The “Neosperience Cloud” software platform mainly targets marketing directors, sales directors and digital managers, and can be used directly by the company/client via a web console (*Neosperience Cloud Console*) through which all customer engagement processes can be managed to involve and retain customers.

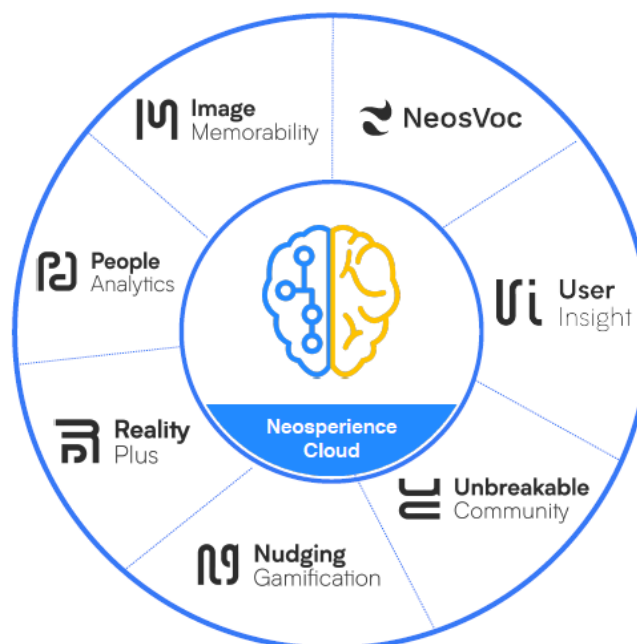
The technological approach of Neosperience Cloud involves a platform and “as a service” solutions that are versatile and scalable, which allow the rapid generation of vertical applicative solutions dedicated to specific industrial sectors. These solutions operate using the Neosperience Cloud platform. This allows clients to “try out” some of the platform's functionalities and then buy individual modules, which are easy to integrate with one another since they use the same technology.

The solutions launched by Neosperience include:

- *Image Memorability* is a system that uses artificial intelligence to process a “memorability map” of an image, i.e. identify the parts of an image that are most memorable to end customers/consumers. This system allows images to be ranked quickly and cheaply, enabling companies to choose the most effective in terms of sales.
- *NeosVoc* is a *Voice of Customer* platform, i.e. a set of methodologies, real-time listening tools and new analysis models that provide in-depth knowledge about customers and offer them more tailored experiences and products. With NeosVoc, data is collected and analysed simultaneously; information is gathered through web interviews and chatbots, as well as video interviews and video focus groups. Data is then collected and can be immediately viewed on a dashboard that shows real-time trends.
- *User Insight* is a tool providing insights into user behaviour on a website by collecting relevant information for a comprehensive understanding of the psychographic and behavioural characteristics of each visitor.

This qualitative information then enables much more tailored content, products and experiences to be offered.

- *Unbreakable Community* integrates data collected from each touchpoint to identify the personal profile and category of each individual in the community and build one-to-one dialogue with each one. This solution builds long-lasting relationships by helping to integrate, involve and reward customers with personalised offers for better customer retention.
- *Nudging Gamification* is a system that offers its customers personalised experiences based on their characteristics. Through a user-friendly dashboard, Neosperience Nudging Gamification can be applied to online and offline touchpoints, encouraging customers to reach specific behavioural goals such as purchasing an item, downloading content or filling in a form.
- *Reality Plus* is a platform that rapidly develops products and solutions in Augmented Reality in order to offer customers more fulfilling experiences.
- *People Analytics* is a system that, using artificial intelligence and machine learning, through camera vision, allows customers' movements and behaviour inside a point of sale to be monitored (whilst complying with privacy regulations). This information enables sales personnel to better monitor customers and understand their propensity to purchase.



Source: Neosperience

The Group's main clients include:

Fashion, Luxury & Beauty



Consumer Products, Retail & Distribution, Energy, Communications & Media



Automotive, Health, Industry & Services



Financial Services, Travel & Transportation, Government



Neosperience Group also activated (2019-2020) a number of strategic partnerships with major players in the sector, including:



Business & Technology Partner

- Business and technology partnerships and collaboration programs with the major software and cloud vendors complementary to Neosperience.



Tencent Cloud

Official Global Reseller

- Offering of Tencent cloud products to integrate Neosperience solutions.
- Large-scale supply of the platform connecting serverless services on AWS and Tencent Cloud (digital West-East connection).



WeChat

Exclusive Italian Partner for Digital Products & Projects

- Development of mini-programs for the major Italian cities.
- Full WeChat support to direct Chinese users to our mini-programs and promote them through WeChat platforms and channels in China.



tinaba
支付宝 ALIPAY
pacypay

Official Marketing Partner

- Support for Alipay, Tinaba and Pacypay customers to activate digital marketing campaigns.
- Agreement to promote Tinaba and Pacypay to the Group's clients.

In October 2019 Neosperience obtained the approval of the Ministry of Economic Development and the Lombardy Region for the funding of a 6 million Euro project. This project aims to set up "Neosperience Cloud Tourism", a platform for tour operators. The funding will be equal to 2,580,000 Euro, made up of 53.5% non-refundable and 46.5% in the form of a long-term subsidised loan.

Also in October, Neosperience acquired a 51% stake in HOK Group (comprised of Hok Srl, Mikamai, LinkMe and Jack Magma), which operates in digital technologies as a community tech and talent aggregator on the Italian software scene.

The operation envisaged the initial acquisition of 51% of HOK for an equivalent of 672,028 Euro, including 505,343 Euro in cash and 166,685 Euro in 18,500 Neosperience shares assigned by February 2020 and subject to lock-up until August 2020. The remaining 49% will be acquired by July 2020, for an amount between a minimum of 925,674 Euro and a maximum of 1,065,074 Euro, depending on the adjusted EBITDA of the HOK Group for 2019. This amount will all be assigned in newly-issued Neosperience shares, also subject to lock-up. Both Neosperience and HOK own call and put options, respectively, in the remaining 49%.

This acquisition further adds to Neosperience Group's skills and expands its client portfolio.

In November (2019) the Group was selected to regenerate Villa Reale in Monza, promoted by Triennale Milano with the contribution of the Chamber of Commerce of Milan Monza Brianza Lodi.

Also in November, Neosperience set up the innovative startup "Value China S.r.l." together with 4 Chinese entrepreneurs now based in Italy and operating in digital marketing projects for Chinese users. Value China targets the Chinese and Asian market for the supply of digital products and services, like market strategies, marketing solutions, consultancy and development of software and mini-apps on major digital platforms such as WeChat and Alipay, both for European businesses wishing to sell to the Chinese market and Chinese businesses wishing to bring their products and services to Europe.

With an initial share capital of Euro 10,000, Value China is an innovative startup based in Bologna. The operation envisaged Neosperience subscribing 40% of the company in the startup phase, with a surcharge of Euro 190,000 to take account of the know-how and commercial launch from Chinese partners. The contract states the possibility of Neosperience reaching 51% by 2020, rising to 80%, at predetermined prices and conditions nonetheless linked to results obtained.

In late November, Value China, together with "appTaxi", one of the largest taxi consortiums in Italy, developed Europe's first mini-app for calling and paying for taxis for Chinese tourists, using Alipay and WeChat platforms.

In December 2019, at the second edition of the "Global WeChat Developer Challenge" organised in Berlin by Tencent, the Value China team gained a podium place amongst all of the software houses and digital agencies from around the world that took part in the initiative. Value China gained first place in its category and third place overall for its WeChat mini-app developed for French wine Group Boisset, which the team chose to enter in the competition and with which it aims to inspire Chinese customers to visit the over 30 Boisset Collection Group wineries around the world.

Also in December, Neosperience was the only Italian company to be named by Gartner as a global customer analytics platform, as one of the six most innovative software producers in the world together with Salesforce and SAS.

In January 2020 the Group presented its "Customer Empathy Maturity Model" at the "NRF Big Show 2020", a major international retail event held in Washington DC. The proprietary analysis model is able to measure the level of customer empathy at organisations in the main industrial sectors using artificial intelligence and machine learning.

This is a new solution that adds to the others launched over recent months and which forms the basis of the Group's development strategy.

Also in January, Value China, owned by Neosperience, was chosen as the Official Reseller of Tencent Cloud in Italy, the largest Chinese provider of cloud services. Thanks to this collaboration with Tencent Cloud, Value China and the other companies in Neosperience Group will be able to offer advanced digital marketing services while fully exploiting the services offered by Tencent to the Asian market, thus enabling Italian and European companies to access the enormous customer base in the Far East more effectively and efficiently.

In February 2020 Neosperience, in collaboration with Banca Valsabbina, presented "Neosperience Innovation Lab", a laboratory located in Brescia dedicated to supporting the digital transformation of SMEs intending to embark on this journey. Neosperience Innovation Lab will work alongside SMEs to analyse and evaluate their possible new digital positioning by preparing an Innovation Business Plan that sets out the strategy and provides criteria for measuring the return on investment. Having made the initial verifications, Neosperience will help companies develop tools to implement their strategy, enabling a subsequent testing phase, which may also involve the joint incorporation of an innovative startup. At the end of the testing phase, the Corporate Startup may be incorporated, transforming into a digital business unit of the company or, depending on market opportunities, may continue to operate autonomously to maximise development and create value.

Bearing in mind the worldwide impact of the Covid-19 virus crisis between late December 2019 and January 2020, Neosperience, in collaboration with Milan Polytechnic, set up its own platform and big data analysis team to support the health system in the development of an algorithm to help healthcare workers screen patients. This system aims to collect more reliable data for treatment assessments, allowing for improved prognoses. All data are collected anonymously.

In March 2020, Value China, the company in the Neosperience Group operating in the development of marketing technologies and digital commerce for the Chinese market, and Business Strategies, the leading Italian wine specialist, launched "Winease", a platform targeting companies and aimed at the promotion and sale of Italian wine on the Chinese market through digital commerce.

The project is also helped by Interwine, the oldest professional wine trade show in continental China, and by Putaojiu.com, a communication company specialised in the wine sector.

Neosurance Srl, the insurtech company created by Neosperience and Digitaltech International to offer an end-to-end platform for the sale of digital policies to insurance communities and companies, has attracted from new investors, including Luiss Alumni 4 Growth and Net Insurance, a total value of 350 thousand Euro, with Luiss Alumni 4 Growth already committed to making a further investment of between 180 thousand Euro and 250 thousand Euro within 60 days.

On 31 March, the overall round of new and existing investors, including the pool led by Mezzetti Advisory Group, was equal to 1.1 million Euro.

Growth strategies

With regard to growth strategies, Neosperience Group envisages:

1. *Strengthening business and skills*, i.e.:
 - Further implement the scalable platform and the range of solutions offered. To this end Neosperience intends to consolidate its *Neosperience Cloud* technology and create additional functions for it. As such, a variety of new solutions have been launched, i.e. modules suited to individual product sectors that the company makes available to its clients in the specific sector.
 - Integrate further software ecosystems to accelerate the development strategy on the market with an indirect channel model.
 - Expand Neosperience Cloud's market by also reaching SMEs with an innovative model of corporate startup.
2. *International expansion*, i.e.:
 - Accelerate the current internationalisation process (United States and China).
 - Create a new Asian hub through Value China, capitalising on the relationship developed with Tencent (WeChat).
3. *M&A* through:
 - Acquisition of complementary companies aligned with Neosperience's growth strategy.
 - Expand the solutions portfolio with a focus on Chinese customers based in Europe and on post-Coronavirus services to people.

Results on 31.12.2019

EUR (K)	2018	2019	VAR %	2019E
Sales revenue	8,558	13,949	62.99	13,960
<i>Domestic Cloud Licensing</i>	<i>1,256*</i>	<i>1,685</i>	<i>34.16</i>	<i>1,723</i>
<i>Domestic Solution Sales</i>	<i>2,688*</i>	<i>4,635</i>	<i>72.43</i>	<i>4,775</i>
<i>Professional Services</i>	<i>3,364*</i>	<i>5,929</i>	<i>76.25</i>	<i>4,976</i>
<i>Vertical & Strategic Project</i>	<i>1,250*</i>	<i>1,700</i>	<i>36.00</i>	<i>1,989</i>
<i>International sales</i>	-	-		<i>497</i>
Inventory var. for products under development	370	-		-
Increased fixed assets for in-house work	1,739	2,010	15.58	500
Other revenues	1,105	1,549	40.18	498
VALUE OF PRODUCTION	11,772	17,508	48.73	14,958
Materials	47	59	25.53	67
%	0.40	0.34		0.45
Services	5,823	9,680	66.24	6,541
%	49.46	55.29		43.73
Third-Party Goods	158	306	93.67	425
%	1.34	1.75		2.84
Inventory var. for raw mat., subsid. and consumption	-	50	-	-
VALUE ADDED	5,744	7,413	29.06	7,925
%	48.79	42.34		52.98
Labour cost	2,130	3,440	61.50	3,570
%	18.09	19.65		23.87
Other operating expenses	247	405	309.00	547
%	2.10	2.31		3.66
EBITDA	3,367	3,568	5.97	3,807
%	28.60	20.38		25.45
Depreciation & Write downs	2,837	2,451	-13.61	2,336
EBIT	530	1,117	110.75	1,471
%	4.50	6.38		9.83
Financial expenses (income)	72	101		92
Financial assets adjustments	-	33		-
PRE-TAX PROFIT	458	983	114.63	1,379
%	3.89	5.61		9.22
Taxes	28	36		414
<i>Tax rate</i>	-	-		<i>30.00</i>
NET INCOME	430	947	120.23	965
Minorities	9	23		9
GROUP NET INCOME	421	924	119.48	956
%	3.58	5.28		6.39
Equity	4,513	14,506		13,828
NFP	-3,465	-1,212		6,152
ROI	6.64	7.11		19.16
ROE	9.48	6.49		6.95

Source: Neosperience; (*) revenues by segment were reclassified to make them comparable to 2019 data.

Neosperience Group ended 2019 with 63% higher consolidated revenues than the previous year, up from €8.6 million in 2018 to €13.9 million compared to the expected €4 million. This growth was mainly driven by "Domestic Solution Sales" (+72.43%) and "Professional Services" (+76.25%), which benefited from both the acquisition of new clients and the broader spread of solutions on the Neosperience Cloud platform.

The value of production rose from 11.8 million Euro in the previous year to 17.5 million Euro (+48.73%) compared to our estimate of €15 million, driven in part by contributions from the Ministry of Economic Development and from the European Commission for research and development activities.

Higher costs for services (+66.24%) and labour (+61.50%), in addition to the choice to record the entirety of the IPO-related expenditure (approximately 800 thousand Euro) within the year 2019, after the relative tax credit, did not prevent gross operating income (EBITDA) from reaching 3.6 million Euro, up 6% on the 3.4 million Euro recorded in 2018, compared to our estimate of 3.8 million Euro.

However, the margin, calculated on the value of production, fell from 28.60% to 20.38%.

In part due to lower depreciation on intangible fixed assets, net operating income (EBIT) rose to 1.1 million Euro from the 530 thousand Euro recorded on 31.12.2018 (+110.75%) compared to our estimate of €1.5 million.

Net profit margin rose from 4.50% recorded in 2018 to 6.38% on 31.12.2019.

Neosperience Group ended 2019 with net income of €924 thousand compared to €421 thousand recorded on 31.12.2018 (+119.48%), down from our estimate of €956 thousand.

The net financial position was minus 1.2 million Euro compared to 3.5 million Euro recorded on 31.12.2018 due to the acquisitions completed within the accounting period.

Shareholders equity stood at €14.5 million compared to €4.5 million recorded on 31.12.2018 while ROE weakened from 9.48% at the end of 2018 to 6.49%.

Outlook 2020-2024

Old estimates

EUR (K)	2018	2019E	2020E	2021E	2022E	2023E	CAGR 18/23
Sales revenue	8,558	13,960	19,696	27,545	37,146	49,962	42.32
<i>Domestic Cloud Licensing</i>	<i>1,368</i>	<i>1,723</i>	<i>2,277</i>	<i>3,151</i>	<i>4,302</i>	<i>5,532</i>	<i>32.24</i>
<i>Domestic Solution Sales</i>	<i>3,618</i>	<i>4,775</i>	<i>6,175</i>	<i>7,666</i>	<i>8,079</i>	<i>8,295</i>	<i>18.05</i>
<i>Professional Services</i>	<i>3,572</i>	<i>4,976</i>	<i>5,643</i>	<i>6,236</i>	<i>7,128</i>	<i>7,424</i>	<i>15.76</i>
<i>Vertical & Strategic Project</i>	-	<i>1,989</i>	<i>2,476</i>	<i>2,969</i>	<i>3,466</i>	<i>3,958</i>	-
<i>International sales</i>	-	<i>497</i>	<i>3,126</i>	<i>7,523</i>	<i>14,171</i>	<i>24,753</i>	-
Inventory var. for products under development	370	-	-	-	-	-	-
Increased fixed assets for in-house work	1,739	500	250	-	-	-	-
Other revenue and income	1,105	498	-	-	-	-	-
VALUE OF PRODUCTION	11,772	14,958	19,946	27,545	37,146	49,962	33.52
Raw materials	47	67	70	74	82	75	<i>9.78</i>
%	<i>0.40</i>	<i>0.45</i>	<i>0.35</i>	<i>0.27</i>	<i>0.22</i>	<i>0.15</i>	
Services	5,823	6,541	8,507	12,886	18,250	24,017	<i>32.76</i>
%	<i>49.46</i>	<i>43.73</i>	<i>42.65</i>	<i>46.78</i>	<i>49.13</i>	<i>48.07</i>	
Third-party goods	158	425	560	669	739	999	<i>44.61</i>
%	<i>1.34</i>	<i>2.84</i>	<i>2.81</i>	<i>2.43</i>	<i>1.99</i>	<i>2.00</i>	
VALUE ADDED	5,744	7,925	10,809	13,916	18,075	24,871	34.06
%	<i>48.79</i>	<i>52.98</i>	<i>54.19</i>	<i>50.52</i>	<i>48.66</i>	<i>49.78</i>	
Labour cost	2,130	3,570	5,036	5,801	7,188	8,144	<i>30.76</i>
%	<i>18.09</i>	<i>23.87</i>	<i>25.25</i>	<i>21.06</i>	<i>19.35</i>	<i>16.30</i>	
Other operating expenses	247	547	822	970	1,118	1,189	<i>36.93</i>
%	<i>2.10</i>	<i>3.66</i>	<i>4.12</i>	<i>3.52</i>	<i>3.01</i>	<i>2.38</i>	
EBITDA	3,367	3,807	4,951	7,145	9,769	15,538	35.78
%	<i>28.60</i>	<i>25.45</i>	<i>24.82</i>	<i>25.94</i>	<i>26.30</i>	<i>31.10</i>	
Depreciation & Write downs	2,837	2,336	1,356	1,301	1,300	948	<i>-19.69</i>
EBIT	530	1,471	3,595	5,844	8,469	14,590	94.07
%	<i>4.50</i>	<i>9.83</i>	<i>18.02</i>	<i>21.22</i>	<i>22.80</i>	<i>29.20</i>	
Financial expenses (income)	72	92	51	18	(18)	(64)	
PRE-TAX PROFIT	458	1,379	3,544	5,826	8,487	14,654	100.00
%	<i>3.89</i>	<i>9.22</i>	<i>17.77</i>	<i>21.15</i>	<i>22.85</i>	<i>29.33</i>	
Taxes	28	414	1,063	1,748	2,546	4,396	
<i>Tax rate (%)</i>	-	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	
NET INCOME	430	965	2,481	4,078	5,941	10,258	88.59
Minorities	9	9	9	9	9	9	
GROUP NET INCOME	421	956	2,472	4,069	5,932	10,249	89.36
%	<i>3.58</i>	<i>6.39</i>	<i>12.39</i>	<i>14.77</i>	<i>15.97</i>	<i>20.51</i>	
FOCF	-	1,359	3,380	5,476	7,790	11,713	
NFP	-3,465	6,152	8,306	12,877	19,346	27,939	
Equity	4,513	13,828	15,134	18,325	22,927	30,001	
NIC	7,978	7,676	6,828	5,448	3,581	2,062	
ROI	6.64	19.16	52.64	-	-	-	
ROE	9.48	6.95	16.41	22.29	25.96	34.24	

Source: Neosperience; Estimates: Banca Finnat

New estimates

EUR (K)	2019	2020E	2021E	2022E	2023E	2024E	CAGR 19/24
Sales revenue	13,949	16,460	23,867	32,220	42,853	54,851	31.50
<i>Domestic Cloud Licensing</i>	<i>1,685</i>	<i>2,140</i>	<i>2,864</i>	<i>3,544</i>	<i>4,285</i>	<i>4,937</i>	<i>23.98</i>
<i>Domestic Solution Sales</i>	<i>4,635</i>	<i>4,609</i>	<i>6,444</i>	<i>8,377</i>	<i>10,713</i>	<i>13,164</i>	<i>23.22</i>
<i>Professional Services</i>	<i>5,929</i>	<i>6,090</i>	<i>8,115</i>	<i>9,505</i>	<i>10,713</i>	<i>11,245</i>	<i>13.66</i>
<i>Vertical & Strategic Project</i>	<i>1,700</i>	<i>1,811</i>	<i>2,864</i>	<i>4,189</i>	<i>5,999</i>	<i>8,228</i>	<i>37.08</i>
<i>International sales</i>	<i>-</i>	<i>1,811</i>	<i>3,580</i>	<i>6,605</i>	<i>11,142</i>	<i>17,278</i>	<i>-</i>
Increased fixed assets for in-house work	2,010	1,500	1,800	2,124	2,443	2,711	6.17
Other revenue and income	1,549	-	-	-	-	-	
VALUE OF PRODUCTION	17,508	17,960	25,667	34,344	45,295	57,563	26.88
Raw materials	59	54	64	71	77	82	6.88
%	<i>0.34</i>	<i>0.30</i>	<i>0.25</i>	<i>0.21</i>	<i>0.17</i>	<i>0.14</i>	
Services	9,680	7,771	10,518	13,349	14,844	18,501	13.83
%	<i>55.29</i>	<i>43.27</i>	<i>40.98</i>	<i>38.87</i>	<i>32.77</i>	<i>32.14</i>	
Third-party goods	306	334	364	396	432	471	9.00
%	<i>1.75</i>	<i>1.86</i>	<i>1.42</i>	<i>1.15</i>	<i>0.95</i>	<i>0.82</i>	
Inventory var. for raw mat., subsid. and consumption	50	-	-	-	-	-	
VALUE ADDED	7,413	9,801	14,721	20,528	29,942	38,508	39.03
%	<i>42.34</i>	<i>54.57</i>	<i>57.35</i>	<i>59.77</i>	<i>66.10</i>	<i>66.90</i>	
Labour cost	3,440	5,012	7,497	10,507	14,506	19,357	41.27
%	<i>19.65</i>	<i>27.91</i>	<i>29.21</i>	<i>30.59</i>	<i>32.02</i>	<i>33.63</i>	
Other operating expenses	405	403	484	551	634	724	12.32
%	<i>2.31</i>	<i>2.25</i>	<i>1.89</i>	<i>1.60</i>	<i>1.40</i>	<i>1.26</i>	
EBITDA	3,568	4,386	6,740	9,470	14,802	18,427	38.87
%	<i>20.38</i>	<i>24.42</i>	<i>26.26</i>	<i>27.57</i>	<i>32.68</i>	<i>32.01</i>	
Depreciation & Write downs	2,451	2,818	3,218	2,620	3,148	3,731	8.77
EBIT	1,117	1,568	3,522	6,850	11,654	14,696	67.43
%	<i>6.38</i>	<i>8.73</i>	<i>13.72</i>	<i>19.95</i>	<i>25.73</i>	<i>25.53</i>	
Financial expenses (income)	101	69	23	(23)	(77)	(134)	
Financial assets adjustments	33	-	-	-	-	-	
PRE-TAX PROFIT	983	1,499	3,499	6,873	11,731	14,830	72.08
%	<i>5.61</i>	<i>8.35</i>	<i>13.63</i>	<i>20.01</i>	<i>25.90</i>	<i>25.76</i>	
Taxes	36	450	1,050	2,062	3,519	4,449	
<i>Tax rate (%)</i>	<i>-</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	
NET INCOME	947	1,049	2,449	4,811	8,212	10,381	61.43
Minorities	23	23	23	23	23	23	
GROUP NET INCOME	924	1,026	2,426	4,788	8,189	10,358	62.15
%	<i>5.28</i>	<i>5.71</i>	<i>9.45</i>	<i>13.94</i>	<i>18.08</i>	<i>17.99</i>	
FOCF	-	5,164	4,944	6,755	9,627	11,831	
NFP	-1,212	3,884	8,054	13,622	21,123	30,921	
Equity	14,506	15,555	17,254	20,854	26,864	35,079	
NIC	15,718	11,672	9,199	7,233	5,741	4,157	
ROI	7.11	13.43	38.28	94.71	203.01	353.51	
ROE	6.49	6.72	14.30	23.28	30.81	29.75	

Source: Neosperience; Estimates: Banca Finnat



In light of the macro-economic situation arising from the Covid-19 virus crisis beginning in early 2020, which is inevitably affecting Neosperience's business (due to its ties with the Chinese market), and following the various extraordinary operations in which the Group has been involved in recent months, we deemed it necessary to review our estimates for the period 2020-2024.

For the period 2019-2024 we now estimate that consolidated net sales will grow at an average annual rate of 31.50% (compared to our estimate of 42.32% for the period 2018-2023). In particular, we expect *"Domestic Platform Licensing"* to grow at an average annual rate of 23.98%, compared to our estimate of 32.24% for the period 2018-2023, while we expect *Domestic Solutions Sales* (i.e. specific modules designed for individual product sectors) to grow at an average annual rate of 23.22%.

We also expect *Vertical & Strategic Project* to grow sharply (CAGR 2019-2024 of 37.08%), which should benefit from the launch of *"Neosperience Innovation Lab"*, the laboratory dedicated to supporting the digital transformation of SMEs intending to embark on this journey. We estimate the value of production will grow from €17.5 million recorded in 2019 to €57.6 million by the end of the forecast period, with CAGR 2019-2024 equal to 26.88% (compared to the previous estimate of 33.52% for 2018-2023).

The estimated rise in costs for services (CAGR 13.83%), labour (CAGR 41.27%) and other operating expenses (CAGR 12.32%), arising from the broader scope of the consolidation, should not prevent the gross operating income (EBITDA) from reaching €18.4 million by the end of the forecast period, up from €3.6 million recorded in 2019 (CAGR 2019-2024 of 38.87% compared to the previous growth estimate of 35.78% for the period 2018-2023), with a margin, calculated on the value of production, up from the 20.38% recorded in 2019 to 32.01% by the end of the forecast period.

Net operating income (EBIT) should rise to €14.7 million by 2024 (compared to our estimate of €14.6 million by 2023) from the €1.1 million recorded in 2019, at an average annual growth rate of 67.43%. ROS should rise from 6.38% in 2019 to 25.53% by the end of the forecast period (2024).

We estimate Group net income will rise at an average annual rate (2019-2024) of 62.15% (from the previous CAGR 2018-2023 of 89.36%), rising to €10.3 million in 2024 from €924 thousand in 2019, with a margin of the value of production up from 5.28% in 2019 to 17.99% by the end of the forecast period.

In the period 2020-2024 the Group is expected to move from a position of net debt of 1.2 million Euro in 2019 to a positive net financial position of 30.9 million Euro by the end of 2024, while shareholders equity is expected to rise from €14.5 million recorded at the end of 2019 to €35.1 million in 2024.

Valuation

For the purposes of valuation, we use the Discounted Cash Flow methodology with the explicit forecast of cash flows generated in the period 2020/2024.

We still set a perpetual growth rate of 1.25% but calculate a 12.75% WACC (up from the previous 12.25%) as a result of a Free Risk Rate of 1.50% (up from 1.25%), a Beta Coefficient equal to the unit and Market risk premium of 11.25% (up from 10.50%).

On reviewing our estimates and adjusting the financial parameters, we obtain an Enterprise Value of 85.9 million Euro and an **equity value of 11.66 Euro per share**. Our recommendation is still to buy.

Cash Flow Model (K €)

	2020E	2021E	2022E	2023E	2024E
EBIT	1,568	3,522	6,850	11,654	14,696
Taxes	450	1,050	2,062	3,519	4,449
NOPAT	1,118	2,472	4,788	8,135	10,247
D&A	2,818	3,218	2,620	3,148	3,731
Capex	1,700	2,000	2,324	2,642	2,912
CNWC	2,927	1,254	1,671	986	765
FOCF	5,164	4,944	6,755	9,627	11,831

Estimates: Banca Finnat

DCF Model Valuation (k €)

Perpetual Growth Rate (%)	1.25
WACC (%)	12.75
Discounted Terminal Value	59,320
Cum. Disc. Free Operating Cash Flow	26,584
Enterprise Value	85,904
Net financial position as of 31/12/2019	-1,212
Equity Value	84,692
No. Shares	7,262,202
Value per share	11.66

Estimates: Banca Finnat

WACC Calculation (%)

Risk free rate	1.50
Market risk premium	11.25
Beta (x)	1
Cost of Equity	12.75
WACC	12.75

Estimates: Banca Finnat

Historical recommendations and target price trend

Date	Rating	Target Price	Market Price
24.10.2019	Buy	11.94 €	8.30 €
18.04.2019	Buy	11.00 €	5.16 €
21.02.2019	Buy	10.27 €	-

Key to Investment Rating (12 Month Horizon)

BUY: Upside potential at least 15%

HOLD: Expected to perform +/- 10%

REDUCE: Target achieved but fundamentals disappoint

SELL: Downside potential at least 15%

INCOME STATEMENT (Eur k)	2019	2020E	2021E	2022E	2023E	2024E
Sales revenue	13,949	16,460	23,867	32,220	42,853	54,851
<i>Domestic Cloud Licensing</i>	<i>1,685</i>	<i>2,140</i>	<i>2,864</i>	<i>3,544</i>	<i>4,285</i>	<i>4,937</i>
<i>Domestic Solution Sales</i>	<i>4,635</i>	<i>4,609</i>	<i>6,444</i>	<i>8,377</i>	<i>10,713</i>	<i>13,164</i>
<i>Professional Services</i>	<i>5,929</i>	<i>6,090</i>	<i>8,115</i>	<i>9,505</i>	<i>10,713</i>	<i>11,245</i>
<i>Vertical & Strategic project</i>	<i>1,700</i>	<i>1,811</i>	<i>2,864</i>	<i>4,189</i>	<i>5,999</i>	<i>8,228</i>
<i>International sales</i>	<i>-</i>	<i>1,811</i>	<i>3,580</i>	<i>6,605</i>	<i>11,142</i>	<i>17,278</i>
Other revenue and income	1,549	-	-	-	-	-
Increased fixed assets for in-house work	2,010	1,500	1,800	2,124	2,443	2,711
VALUE OF PRODUCTION	17,508	17,960	25,667	34,344	45,295	57,563
Raw materials	59	54	64	71	77	82
Services	9,680	7,771	10,518	13,349	14,844	18,501
Third-party goods	306	334	364	396	432	471
Inventory var. for raw mat., subsid. and consumption	50	-	-	-	-	-
VALUE ADDED	7,413	9,801	14,721	20,528	29,942	38,508
Labour cost	3,440	5,012	7,497	10,507	14,506	19,357
Other operating expenses	405	403	484	551	634	724
EBITDA	3,568	4,386	6,740	9,470	14,802	18,427
Depreciation & Write downs	2,451	2,818	3,218	2,620	3,148	3,731
EBIT	1,117	1,568	3,522	6,850	11,654	14,696
Financial expenses (income)	101	69	23	(23)	(77)	(134)
Financial assets adjustments	33	-	-	-	-	-
PRE-TAX PROFIT	983	1,499	3,499	6,873	11,731	14,830
Taxes	36	450	1,050	2,062	3,519	4,449
<i>Tax rate (%)</i>	<i>3.66</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>	<i>30.00</i>
NET INCOME	947	1,049	2,449	4,811	8,212	10,381
Minorities	23	23	23	23	23	23
GROUP NET INCOME	924	1,026	2,426	4,788	8,189	10,358
FOCF	-	5,164	4,944	6,755	9,627	11,831
BALANCE SHEET (Eur k)	2019	2020E	2021E	2022E	2023E	2024E
Group Shareholders Equity	14,245	15,271	16,970	20,570	26,580	34,818
Total Shareholders Equity	14,506	15,555	17,254	20,854	26,864	35,079
NFP	-1,212	3,884	8,054	13,622	21,123	30,921
Net Invested Capital	15,718	11,672	9,199	7,233	5,741	4,157
FINANCIAL RATIOS (%)	2019	2020E	2021E	2022E	2023E	2024E
EBITDA margin	20.38	24.42	26.26	27.57	32.68	32.01
EBIT margin	6.38	8.73	13.72	19.95	25.73	25.53
Net margin	5.28	5.71	9.45	13.94	18.08	17.99
ROI	7.11	13.43	38.28	94.71	203.01	353.51
ROE	6.49	6.72	14.30	23.28	30.81	29.75
GROWTH (%)	2019	2020E	2021E	2022E	2023E	2024E
Value of production	48.73	2.58	42.91	33.81	31.89	27.08
EBITDA	5.97	22.93	53.66	40.52	56.30	24.49
EBIT	110.75	40.38	124.59	94.52	70.13	26.10
Net profit	119.48	11.07	136.39	97.37	71.02	26.49
VALUATION METRICS	2019	2020E	2021E	2022E	2023E	2024E
P/E	48.16	43.46	18.62	9.48	5.55	4.39
P/CF	13.42	11.79	8.05	6.14	4.01	3.23
P/BV	3.20	2.99	2.69	2.22	1.72	1.31
EV/SALES	3.36	2.53	1.57	0.99	0.57	0.27
EV/EBITDA	13.12	9.51	5.57	3.38	1.65	0.80
EV/EBIT	41.91	26.61	10.66	4.67	2.10	1.00

Source: Neosperience; Estimates: Banca Finnat

General information

This research was conducted by Stefania Vergati, a financial analyst at Banca Finnat S.p.A. (“**Banca Finnat**” or “**Bank**”), authorised by Banca d’Italia to carry out banking activities pursuant to Leg. Dec. 385/1993 and provide investment services and activities pursuant to Leg. Dec. 58/1998. In carrying out its activities, Banca Finnat is subject to the regulation of Banca d’Italia and of CONSOB within their respective remits.

The content and aims of this research are part of the provisions laid down in the EU Delegated Regulation no. 2016/958 and articles 34, 36 and 37 of the EU Delegated Regulation no. 2017/565 governing the obligations of brokers with regards to the publication of investment recommendations.

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Sources and valuation models

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