VETRYA

Initiation of coverage | **Buy**

12 March 2019 – 5:30PM | *MARKET PRICE:* ***EUR6.56*** | *TARGET PRICE:* ***EUR11.15***

A digital player with a comprehensive offer

We initiate coverage of Vetrya with a BUY rating and a target price of EUR11.15 per share (70% upside potential). Vetrya is a leading international group in the development of digital services and business models enabled by new technological and communication paradigms. The Group is the Italian leading independent operator in the digital mobile entertainment industry. Thanks to the high-quality service standards and speed execution of its projects, Vetrya recorded an outstanding 26% CAGR in revenues between 2013 and 2017 and EBITDA has risen by >3.5x for the year to 31 December 2017. In our view, the experienced management team should be able to drive the Group's transition to services, solutions and applications for the new 5G mobile generation, new platforms for live and on-demand video distribution, artificial intelligence-based applications, virtual reality and augmented reality, big data and digital advertising platforms. The recent acquisition of Viralize will reinforce its internationalization process and its position in the segment of digital advertising based on Artificial Intelligence (AI). We forecast that Viralize should boost Vetrya Group's EBITDA pro-forma by over 30% in 2019 with approximately a 60bps positive effect on margin. Our BUY rating is based on the assumption of strong organic growth (14% revenues CAGR over 2017-2022) and the possibility of margin expansion due to economy of scale (19.5% EBITDA CAGR 2017-2022, with EBITDA margin up 310bps to 14.6%). Current valuation at 4x EBITDA19E is well below 6x of the European telecom sector and 8x of its foreign peers.

> Vetrya disruptive growth was historically in domestic mobile services but the Group has successfully boosted its specialisation in deployment of cloud computing platforms for end-to-end distribution of videos live and on demand in other sectors (media, utility, financials), international mobile hub and digital communication and it has scaled up to a global presence.

> We expect Vetrya to further expand its presence in UK, France and consolidate its presence in USA, Brazil and Asia-Pacific as well as to break into the Eastern Europe market; in addition, the partnership signed with Neosperience should reinforce its tailor made solutions. The acquisition of Veralize proves that the group is well on track to exploiting the good momentum of digital video delivery and the opportunities offered to marketers by AI platforms.

> We set a TP of EUR11.15 per share. This is the average of a DCF analysis (WACC at 10.3%, g at 1.5%) and multiples and implies and EV/EBITDA 19E at 7.6x. Main risks are: 1) low liquidity; 2) increasing competition in MarTech sector; 3) M&A disappointment.

IT services

Data

Shares Outstanding (m):	6.58
Market Cap. (EURm):	43.19
Enterprise Value (EURm):	36.70
Free Float (%):	28.6%
Av. Daily Trad. Vol. (m):	0.03
Main Shareholder:	Founders 56.2%
Reuters/Bloomberg:	VTY.MI VTY IM
52-Week Range (EUR)	4.6 8.7

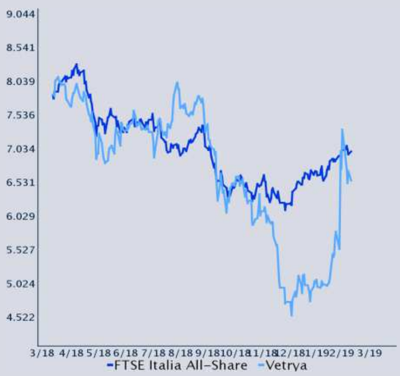
Source: Factset, Ubi Banca estimates

Performance

	1m	3m	12m
Absolute	31.2%	10.8%	-15.2%
Rel. to FTSE IT	24.5%	-0.3%	-6.4%

Source: Factset

Graph area Absolute/Relative 12 M



Source: Factset

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Financials

	2017	2018E	2019E	2020E
Revenues (EURm)	58.78	59.96	89.12	100.32
EBITDA (EURm)	6.76	7.00	10.56	13.44
EBITDA margin (%)	11.5%	11.7%	11.8%	13.4%
EBIT (EURm)	3.83	4.23	7.42	10.06
EPS (EUR)	0.37	0.43	0.76	1.05
CFPS (EUR)	2.18	0.62	1.98	1.29
DPS (EUR)	0.16	0.19	0.34	0.46

Source: Company Data, UBI Banca Estimates

Ratios

priced on 11 March 2019

	2017 *	2018E	2019E	2020E
P/E(x)	18.0	15.4	8.6	6.3
P/CF(x)	7.5	8.0	2.7	4.5
P/BV(x)	2.4	2.2	1.7	1.4
Dividend Yield	2.4%	2.9%	5.1%	7.0%
EV/EBITDA(x)	5.5	5.2	3.9	3.0
Debt/Equity (x)	-0.4	-0.3	-0.0	-0.1
Debt/EBITDA (x)	-1.0	-0.9	-0.1	-0.2

Source: UBI Banca Estimates ** based on 2017 average price*

Key Financials

(EURm)	2017	2018E	2019E	2020E
Revenues	58.78	59.96	89.12	100.32
EBITDA	6.76	7.00	10.56	13.44
EBIT	3.83	4.23	7.42	10.06
NOPAT	2.57	2.84	4.97	6.74
Free Cash Flow	10.82	0.85	-6.33	3.71
Net Capital Employed	11.41	13.36	24.72	27.92
Shareholders' Equity	18.04	19.78	25.58	30.28
Net Financial Position	-6.63	-6.42	-0.86	-2.36

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2017	2018E	2019E	2020E
Net Debt/EBITDA (x)	-1.0	-0.9	-0.1	-0.2
Net Debt/Equity (x)	-0.4	-0.3	-0.0	-0.1
Interest Coverage (%)	0.0	0.0	0.0	0.0
Free Cash Flow Yield (%)	24.9%	2.0%	nm	8.6%
ROE (%)	13.4%	14.2%	19.7%	22.8%
ROI after-tax (%)	15.9%	21.8%	20.5%	18.7%
ROCE (%)	16.5%	22.9%	26.1%	25.6%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2017 *	2018E	2019E	2020E
P/E (x)	18.0	15.4	8.6	6.3
P/BV (x)	2.4	2.2	1.7	1.4
P/CF (x)	7.5	8.0	2.7	4.5
Dividend Yield (%)	2.4%	2.9%	5.1%	7.0%
EV/Sales (x)	0.6	0.6	0.5	0.4
EV/EBITDA (x)	5.5	5.2	3.9	3.0
EV/EBIT (x)	9.7	8.7	5.6	4.0
EV/CE (x)	3.1	2.6	1.2	1.1

Source: Company data, UBI Banca estimates *   * ** based on 2017 average price*

Key Value Drivers

(%)	2017	2018E	2019E	2020E
Payout	43.6%	44.0%	44.0%	44.0%
NWC/Sales	0.7%	2.9%	6.1%	7.1%
Capex/Sales	-5.7%	-5.0%	-5.0%	-4.8%

Source: Company data, UBI Banca estimates

Investment Case

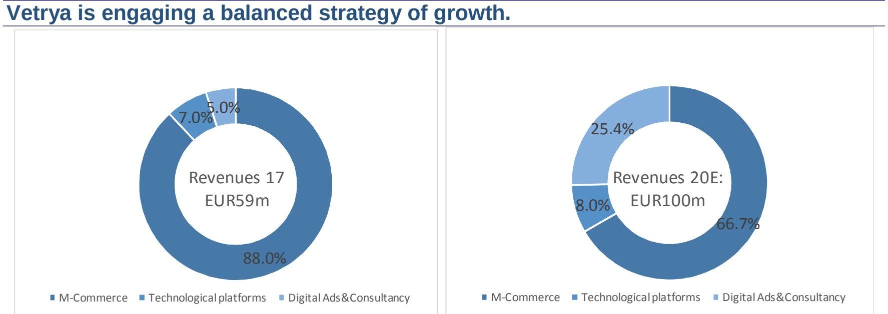
We initiate coverage on Vetrya with a BUY rating and a target price of EUR11.95 per share, which indicates upside potential of 73%.

Vetrya was listed on the Milan Stock Exchange, in the Italian AIM/Alternative Investment Market segment, in July 2016 at EUR6 per share raising EUR4 million worth of fresh financial resources. In October 2017, Vetrya completed a share capital increase of EUR5.3 million by issuing 0.878m newly issued ordinary shares (approximately 15% of the pre-money share capital) at EUR6 per share; the accelerated book building reserved for "qualified investors" lead free-floated to 28.6%. During IPO, warrants were assigned at a 1:1 ratio. 0.646m warrants are still outstanding with a 1:1 conversion ratio at EUR7.99 per share. They will expire on 27 May 2019 but the EGM scheduled in April 2019 will propose to extend the exercise period until 27 May 2021.

Vetrya is a leading domestic player in the B2B market of digital content delivery. It is specialized in the development of multi-screen cloud platforms for broadband and ultra-broadband telecommunications networks, media asset management, mobile entertainment, mobile commerce, Internet TV, broadcasting and contents production. It also offers digital advertising aggregation and professional services. The latest two businesses accounted for around 5% of 2017 revenues but the recent acquisition of Veralize, a market leader in the field of digital advertising, is to strengthen this business line and lift its weight to around 25% of expected consolidated revenues by 2020.

Figure 1. Breakdown of consolidated revenues in 2017 and 2020E

Vetrya is engaging a balanced strategy of growth.



Source: Company data and UBI Banca estimates

The Group was founded in Orvieto in 2010 by Luca Tomassini and has been profitable since 2013. In 2017, it reached revenues of EUR58.8 million generated by 96 employees. At the end of June 2018, the number of employees rose to 111, with an average age of 33 years and located in 7 offices around the world. The headquarters is in Orvieto where there is a 15.000 sqm campus devoted to research and innovation.

The main activity (88% of revenues in 2017) is Mobile Commerce: Vetrya manages the supply of Mobile Value Added Services (MVAS) to the customers of its telecom partners. MVAS include browsing (pay-per-page), music, games, TV, social networking, payments&banking, ticketing, voting and infotainment. Vetrya receives around 70-80% of the price paid by the mobile customer and pays 55-60% of it to Content Providers. Overall it takes 10-25% of each payment.

The core business was launched in 2012 for H3G Italia and in 2013 its platform, called Wonda, was opened to the other domestic mobile players TIM, Wind and Vodafone and to international players. To date, Vetrya is interconnected to over 90 mobile operators worldwide. Vetrya has a permanent contract with all these operators, with the exception of H3G which merged with Wind in November 2016.

The 3-year contract with Wind Tre expired at the end of December 2018; it was renewed at the beginning of 2019.

The cloud computing platforms developed by the company over the years are enabling Vetrya to rapidly scale new services and business models for digital communication and we anticipate that this percentage is estimated to be drastically reduced by other revenue sources (such as video distribution platforms and digital advertising at a global level) to ca. 65% by 2020.

Figure 2. Historical Milestones

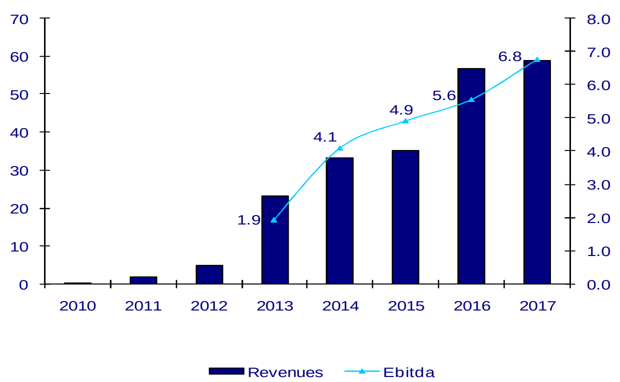
Vetrya has rapidly deployed a broad portfolio of solutions for the delivery of digital content, digital advertising aggregation and consultancy activity.

Source: Company presentation

Speed execution of projects and the high quality standard of the services have sustained exponential growth since its founding, reaching revenues of EUR23 million in 2013. Since then, Vetrya has increased its top line with a 26% CAGR 2013-2017 while EBITDA has risen by >3.5x with EBITDA/revenues ratio rising by >3% to 11.5% in FY17.

Figure 3. Evolution of revenues and positive EBITDA since founding (EURm)

In 2017 sales and EBITDA organically grew by 3.8% and 21.8% respectively.



Source: Company data

Over the past 3 years the Group has been scaling up from a domestic player to a group with a global presence: in 2017 it opened Vetrya Asia Pacific to cover the South-East Asian market, Vetrya do Brasil to serve Latin America and Vetrya

Iberia for the Iberian market. It has been present in the US through Vetrya Inc since 2014.

Figure 4. International presence

Vetrya has a network of companies and commercial offices around the world.

Source: Company presentation

In the first six months of 2018, Vetrya's subsidiaries signed contracts for the provision of m-payment services and m-commerce through the Wonda platform with Vodafone Spain, TIM Brasil and Telenor. In addition, Vetrya reached an agreement with Mondia Media, a leading global player in the B2B digital entertainment management, to provide m-payment services to Polish telecom operators, in particular Orange Group. Previously, in mid-2017, Vetrya Asia Pacific signed agreements to provide m-payment and m-commerce solutions to telecom operators active in Malaysia (Celcom, UMobile, Maxis, Digi), Indonesia (Telkomsel, Indosat, Excelcomindo, Hutchinson 3), Thailand (Ais, Dtac, True, Cat), Singapore (Singtel, M1, Starhub) and Vietnam (Mobifone, Vinaphone, Viettel, Gmobile and Vietnammobile).

Figure 5. Agreements in place with mobile telecom operators

The agreements signed in 2018 significantly expand the potential customers.

	Country	Date	MNO's customers
Telenor	Nordics and Asia Pacific*	19-Jun-18	173.7m
TIM Brasil	Brazil	16-Apr-18	55.9m
Vodafone Spain	Spain	22-Mar-18	13.9m
Asian operators	Malaysia, Indonesia, Singapore Thailand, Vietnam	3-July-17	n.a.
TIM	Italy	2013	18.9m
H3G**	Italy	2012	28.6m

*Source: company data as at 31 December 2018 (30 June for Wind Tre); *India, Norway, Sweden, Denmark, Serbia, Montenegro, Hungary, Bulgaria, Thailand, Bangladesh, Pakistan and Burma;** the number of customers refers to Wind Tre Group.*

On a stand-alone basis, we estimate that the accelerated internationalisation process of the Group will lift the contribution of foreign revenues from ca. 5% in 2015 to 10% in 2018 to over 30% in 2020. We expect that the weight of the first two clients on the consolidated top line will reduce from around 90% in 2015 to ca. 80% in 2018 to below 65% in 2020.

Figure 6. Vetrya stand-alone revenues breakdown by clients in 2015-2020E

Domestic exposure is assumed to decrease 18% in the period 2020-2015.

(EURm)	2015	2016	2017	2018E	2019E	2020E
Total Revenues (Consolidated)	**35.2**	**56.6**	**58.8**	**60.0**	**74.9**	**78.3**
WindTre	26.2	34.0	34.5	34.7	35.1	35.5
Change		29.7%	1.6%	0.6%	1.2%	1.1%
TIM	4.8	13.6	14.0	14.1	14.4	14.6
change		181.5%	3.1%	0.7%	2.1%	1.4%
Others clients	4.2	9.1	10.3	11.2	25.3	28.1
International revenues	2.0	4.1	5.2	6.0	20.4	23.2
% of total revenues	5.6%	7.3%	8.8%	10.1%	27.2%	29.7%

Source: Company data and UBI Banca estimates.

On 28 February 2019, the Group announced the acquisition for 5.5x EBITDA18E of Viralize, a leading player in the digital video advertising market based on Artificial Intelligence. Specifically, it develops algorithms, software and web platforms that allow the dissemination of video advertising on customer request. Closing is expected by the end of March. We expect Veralize to boost pro-forma 2019 EBITDA of the Group by over 30%.

Figure 7. Pro-forma 12M revenues and EBITDA after Veralize acquisition in 2015-2020E.

In the last 2 years the revenues of Veralize more than triple and 2018 closed with EBITDA over EUR2.5 million.

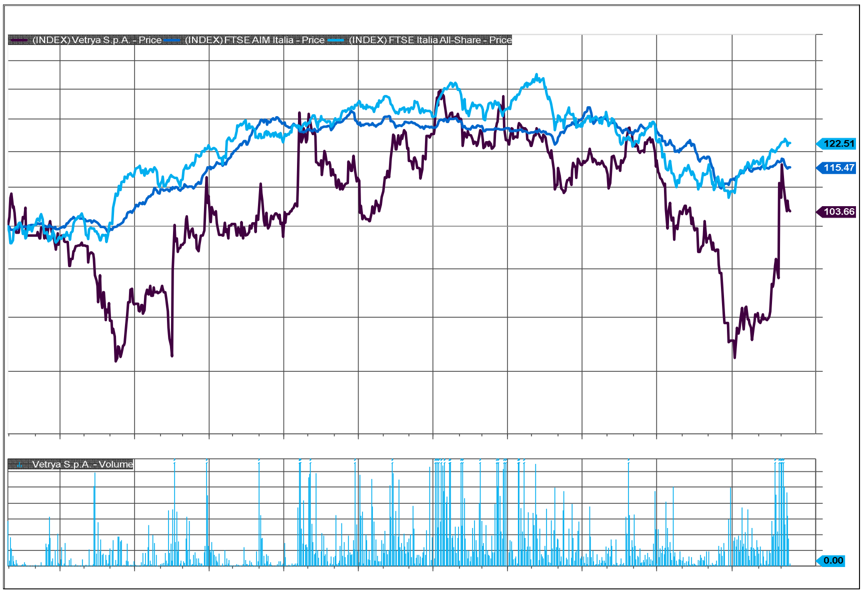
(EURm)	2015	2016	2017	2018E	2019E	2020E
Veralize						
Revenues		3.8	6.8	14.5	19.0	22.0
EBITDA		0.1	0.5	2.6	2.7	3.2
EBITDA margin		2.7%	7.1%	17.9%	14.3%	14.4%
Vetrya						
Revenues	35.2	56.6	58.8	60.0	74.9	78.3
EBITDA	4.8	5.6	6.8	7.0	8.5	10.3
EBITDA margin	13.7%	9.8%	11.5%	11.7%	11.4%	13.1%
Pro-forma Vetrya Group						
Revenues	35.2	60.4	65.6	74.5	93.9	100.3
EBITDA	4.8	5.7	7.2	9.6	11.2	13.4
EBITDA margin	13.7%	9.4%	11.0%	12.9%	12.0%	13.4%
EBITDA growth					32.0%	30.9%

Source: Company data and UBI Banca estimates.

At the beginning of 2017, the shares embarked on an 18-month rally prompted by evidence of impressive take-off of the domestic m-commerce business (+57% YoY revenues to EUR50 million generated by this business, mainly in Italy) and the announcement of the first steps taken towards the internationalisation of the Group. From a technical point of view, PIR (Italian tax-exempt investment plan) inflows were supportive, too. In the last quarter of 2018 the share price has followed a downward trend driven by concern for the domestic market and consequent general weakness of the Italian small-mid cap market due to increasing liquidity discount.

The YTD stock price rebound was supported by the key managerial actions which proved the Group to be a leading player in the delivery of video content and has succeeded in enhancing its competence in AI to support innovation of services: (1) on 20 February 2019, Vetrya became corner investor with a 3.61%-stake in Neosperience, a software vendor in the sector of digital customer experience; (2) on 27 February, Vetrya announced to have reached an agreement with TIM and Qualcomm Technologies to design and develop a live streaming media solution based on 5G NR connectivity; (3) on 28 February 2019, the Group announced the acquisition of Viralize.

Figure 8. Price performance vs. FTSE Italy AIM and FTSE Italia All Share since flotation (29 July 2016)



Source: Factset

We believe that Vetrya is an attractive investment for the following reasons:

- Strong organic growth: 2015-2017 revenues and EBITDA CAGR were equal to 29% and 17% respectively. We estimate consolidated revenues CAGR 2017-2022 at 14% and EBITDA at 19.5%.
- Good visibility of results: the relationship with telecom companies and low customer churn rate represent barriers to entry; online adverting spending is resilient in case of worsening of the macroeconomic scenario.
- Appealing strategy: Vetrya has a unique and integrated offer. Brand recognition, rapid product innovation and domestic strong experience allow for a speedier internationalisation expansion. Vetrya would make it easier for Veralize to come into contact with telecom clients.
- Scalability of the proprietary platforms: capacity serves customers as they grow.
- Attractive industry trend: for the period 2018-2020 the Italian digital content segment is expected to grow at 7% CAGR (*Source: Anitec-Assinform research, April 2018*). Globally, the component relating to video transmission would be boosted by 5G spectrum. Therefore, the percentage of Internet traffic related to video is expected to increase from 73% in 2016 to 82% in 2021 (*Source: Cisco*) and overall time spent in video consumption is estimated to grow with a 25% CAGR in 2017-2022 (*Source: PwC Global Entertaintement&Media outlook 2018-2022*). The rise of IoT and the evolution of content towards artificial and virtual reality (AR/VR) would provide further scope of growth.

Our target price of EUR11.15 derives from a weighted average of a DCF analysis and is 70% higher than the current market price; we have therefore put a Buy rating on the stock.

Main risks are: 1) low liquidity; 2) increasing competition in MarTech sector; 3) M&A disappointment.

Company profile

Vetrya assists its corporate clients to innovate their business model and introduce new services thanks to its outstanding expertise in cloud computing, big data and Internet of Thinks (IoT). The Group cooperates with national and international telecommunication operators, media companies, broadcasters, publishers, utilities, banks and consumer services players.

Vetrya currently offers B2B solutions for the delivery of digital content, digital advertising aggregation and consultancy activity. More specifically, Vetrya's revenues are generated by:

- Mobile Commerce (88% of revenues 2017), which is delivered in partnership with Mobile Network Operators (MNO). Vetrya acts both as aggregator of Content Provider (CP) and as a technology provider. It manages activation, delivery of digital content on any type of devices, protection, payment system, quality control and compliance through its cloud computing platform (called Mobile Hub) which is interconnected to the network of mobile telecommunications operators. Remuneration comes from revenues sharing with carriers.
- Development of platforms in cloud (7% of revenues 2017) for the end-to-end distribution of multimedia content (mainly videos in live streaming and on demand) on any device, second screen services, videos syndication and aggregation of content providers. All platforms are designed through a strategic agreement with Microsoft Azure. It mainly distributes video contents through partnerships with primary media groups such as RAI, Ansa, La Repubblica. Remuneration is mainly generated through Internet traffic and revenues sharing of purchase of digital content, while upfront fees resulting from customer customization of the platform are limited.
- Digital advertising solutions (4% of revenues 2017) through specific platforms that interconnect the most important online advertising networks to distribute advertising campaigns on any device by positioning them through banners in the available spaces. It acts as a concessionaire with a 10-15% margin and takes a portion of the revenues generated by premium content download and internet traffic (revenues sharing model).
- Professional services (1% of revenues 2017) provided by its own competence centre called BIC (Broadband Innovation Centre), which offers strategic consulting and web services, design and development of user interfaces, content production, rights management and activity of systems integration.

Vetrya developed the following solutions and platforms to fully exploit the opportunities allowed by the evolution of network and communication technologies:

Eclexia® video platform (www.eclexia.tv): it is Vetrya's multiscreen distribution platform, a complete system of video asset management in cloud computing that allows managing the end-to-end live and on-demand video content distribution, from any source and any device (smartphone, tablet, connect TV, game console, web and set-top-box).
Wonda® Mobile Hub: it is a mobile hub in cloud computing, interconnected with more than 150 mobile telecommunication operators around the world. It offers multiple services for both the B2B and B2C markets and it is able to support aggregation, cloud storage and contents delivery of hundreds of thousands of multimedia objects. It supplies the following services: aggregation of content providers, e-payment multi-device services, IP billing, mPay, phone credit, credit card circuits, tele voting, mobile/TV interactive services, games and instant contests, delayed winning, SMS info news.
Visidea® video syndication (www.visidea.it): it is a platform than supports and handles digital videos advertising guaranteeing advertisers a targeted audience with a rich video experience.

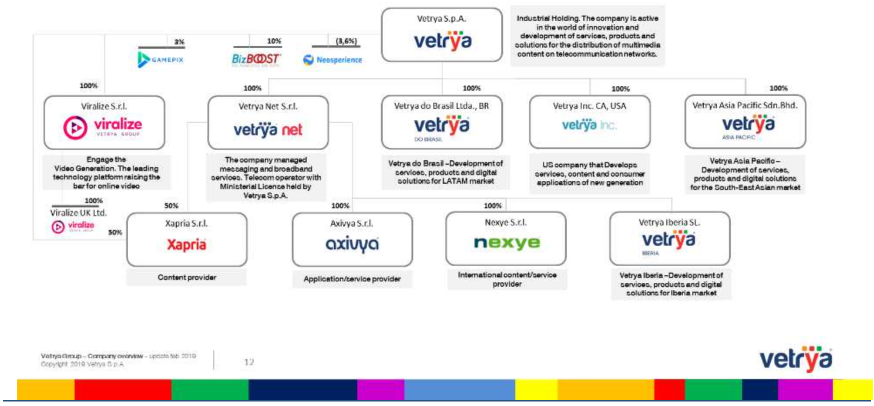
Xivin® second screen (www.xivin.tv): it is the interactive TV platform that allows the broadcast automatic synchronization on the basis of audio listening while contextualizing it in the interactive environment. Thanks to this platform, viewers interact with linear TV, looking into topics, contents, video and images of what is being aired at that particular time. It allows the full interaction with the social media world and the real-time television audience measurement of that program, commented and discussed by viewers.
Epikall® (www.epikall.it): it is Vetrya's platform of cognitive services based on AI. It's a cloud computing solution that favors an interaction with tools to improve the user's experience by using AI based on machine learning. The Epikall platform can develop new models of interaction such as real-time processing of images, speech synthesis and knowledge to create smart tips and semantic search.
Digital pay® (www.digitalpay.it): it is the solution for online payment based on Direct Carrier Billing. It has been designed to support both mobile and broadband users and allows merchants to sell digital services at a global level without needing a credit card or a bank account.
Dpay2: it is a platform that is compliant with PSD2 technology with the use of APIs enabling financial institutions to connect with Fintech. It has already been implemented into Wonda® mobile hub platform. It provides banks with solutions for three different blocks: data provider, data enrichment and data processing.
Vilast®: it is a cloud computing platform for digital signage services which allows distribution of videos, animation, texts and images on any kind of display, such as connect TV, monitor, set top box, PC, videowall, AppleTV, tablet and smartphone. It has an advanced editor, a broadcasting system and show schedule management; it permits the distribution of single content in defined groups, such as type of computer and geographic area.
Flexia®: it is an e-commerce platform and IoT. It is a cloud computing solution providing an end-to-end multi-channel sales cycle of goods and services (products repository management to promotional sales and campaign, storehouse management, customer engagement both in real store and virtual channel) and introducing IoT into the sales environment.
Visyd adv® (www.vetryadigital.it): it is Vetrya's digital advertising platform. It helps aggregate and sell advertising spaces to advertisers through major web AD networks.
Coltiba®: it is a IoT platform for smart agriculture that, through sensors, helps obtain and analyse data concerning every kind of crop.

Vetrya has also produced the consumer app Blabel in California, which is a free real time multimedia messaging service that allows the exchange of messages on any kind of device.

Vetrya structure involves the parent company Vetrya SpA and four main subsidiaries: Vetrya net, Vetrya do Brasil, Vetrya Inc and Vetrya Asia Pacific. Viralize will be maintained as a separated company.

Figure 9. Group structure

Vetrya has 3 equity participations: Gamepix (3%-stake) and BizBoost (10%), which are dedicated to mobile games and TV advertising. Their book value is EUR0.2 million each. In 2019 it acquired for EUR1 million a 3.6%-stake in Neosperience, which is a software vendor in the sector of digital customer experience.



Source: Company presentation

Vetrya SpA (www.vetrya.com): it is the industrial holding and is specialized in developing multi-screen cloud platforms for broadband and ultra-broadband telecommunications networks.

Vetrya net: it develops and manages messaging services. It is a telecom provider (OLO – Other Licenced Operator) that offers SMS delivery. It fully controls Axivia (application/service provider), Nexye (international content/service provider) and Vetrya Iberia and has a 50%-stake in Xapria (content provider).

Vetrya do Brazil: it develops solutions for the Latin American market. Its headquarters is in Rio de Janeiro.

Vetrya Inc: it is based in Palo Alto (California) and develops B2C solutions.

Vetrya Asia Pacific: it develops solutions for Asia Pacific. It is located in Kuala Lumpur (Malaysia).

Vetrya Iberia: it develops solutions for the Iberian market. Its headquarters is in Madrid.

Viralize: it develops solutions for the international market. Its headquarters are in Florence, Milan, Rome, Madrid and the UK.

Company strategy

The Group's development strategy is centred on both consolidation of the domestic market position through continuing innovation of services and on internationalization.

The Group boasts a state-of-the-art technology and is engaged in the research, development and promotion of innovative solutions on mobile devices, video solutions, cloud computing, artificial intelligence, big data, mobile payment, VR/AR, innovative platform for live and on demand content television distribution and on second screen solutions, interactive video solutions, solutions for predictive analytics and social network analysis, risk management solutions, privacy and management of safe information, solution for increasing the marketing and online advertising performance.

Regarding the expansion of foreign revenues, in the Mobile Commerce business, video platform e digital advertising line Vetrya is aiming to create a solid position in key markets such as Spain, Portugal, Turkey, South Africa, France, Austria, the United Kingdom, the United Arab Emirates and the largest countries of Latin America and Asia. Its offer of cloud platforms for the distribution of end-to-end services will be addressed mainly to broadcasters, telecommunications operators, publishers, and media companies and will be carried out in parallel in the same markets identified for the marketing of the mobile commerce services, thus reducing costs for the location of the platform.

In order to position Vetrya in the segment of digital marketing hub and customer data platform, on 28 February the Group announced to have signed a binding agreement for the acquisition of 100% of Viralize for 5.5x EBITDA18E, an Italian company founded in 2013 that has developed a state-of-the-art digital advertising video platform based on Artificial Intelligence technology. Its goal is to deliver enhanced video experiences for users by uniting Publishers, Content Creators and Brands. Its proprietary platform allows publishers to deliver and monetize premium video, gives creators the global arena to distribute souped-up content, and connects advertisers to qualified, engaged audiences.

Shareholder structure

The company is managed and controlled by the founder Luca Tomassini (Chairman and CEO) who owns 56.2% of Vetrya through Aglaia Holding Srl. The holding is owned by the Tomassini family, and in particular Luca Tomassini and Katia Sagrafena (General Manager of Vetrya). The second largest shareholder with a 15.2%-stake is Edoardo Narduzzi, who owns Masada S.r.l. He is a member of the BoD of Vetrya and partner of Techedge, a leading company in business process solutions (EUR120 million turnover).

Total outstanding ordinary shares are 6.582.975. In addition, there are 646.366 warrants outstanding which could be converted into Vetrya share (1:1 conversion ratio) at EUR7.99 per share in the period 13 May-27 May 2019. In the EGM scheduled on 29 April the BoD will propose to postpone the exercise period to 27 May 2021. In case of total subscription free-float would increase from 28.6% to 35%.

The board of directors is composed of five members, one of whom is independent. The total remuneration of the board in 2017 was EUR1.3 million p.a. If this remuneration were to be stripped out EBITDA would have reached EUR8.1 million with a 13.8% margin.

Figure 10. Shareholder structure

Vetrya has been listed on the AIM Italia market since July 2016. Following a EUR5 million capital increase completed in July 2017, free-float reached more than 28%.

	Number of shares (m)	% of capital
Aglaia Holding S.r.l.	3.7	56.2%
Masada S.r.l.	1.0	15.2%
Luca Tomassini	0.12	0.002%
Free float	1.88	28.6%
Total	6.58	100.0%

Source: Company data as 30 November 2018

Founders

Vetrya's founders have a long-standing experience in the sector.

Luca Tomassini (Chairman and CEO)

Luca Tomassini was born in Pisa, on 21 October 1965. He was knighted "Cavaliere del Lavoro" (Order of Merit for Labor) by the Italian Head of State in May 2015. He is an adjunct professor at the LUISS Business School and teaches telecommunications and digital media at the University of Tuscia. He started his career in 1987 in SIP (today Telecom Italia) in the Network Sales Division where he was responsible for developing mobile devices and services for the RTMS 450, E-TACS 900 and GSM networks. He was also the Italian representative for Groupe Mobile Spéciale (today GSM) for the definition of the mobile pan-European system. He was a member of ETSI for the definition of the GSM, DECT and UMTS and ITU standards. In 1990 he was in charge of the development of mobile product and took care of the launch of the E-TACS, the second generation mobile service. From 1995 to 1999 he was part of the Business Customer Division of Telecom Italia and he was responsible for the development of its business division and for its Internet & Intranet project. From 1999 to 2007, he was member of the Franco Bernabe Group and CEO of Integra Net Factory S.p.A., a company operating in the ICT world. From 2000 to 2004, he was CEO of Kelyan and President of Tidysoft. In 2004 he was the founder, President and CEO of Kelyan lab (since 2005 Xaltia) which launched the first service in the world of Mobile TV on 2.5G / 3G networks for TIM in Italy, Brazil, Peru and Greece. From 2000 to 2008 he was Chairman and CEO of Green Media, CEO of Electrosys ITELCO and Infoguard Italy, leader in ICT security systems and telecommunications. From 2007 to 2010, he was Senior Vice President of Telecom Italia as Director of Innovation Business Developer in TIM, Director of Business Innovation at Telecom Italia Domestic Market Operation, Director of Mobile Virtual Network Operator and Director of Broadband Content. He was on the board of the University of Viterbo. In addition to being Board Director of the Open IPTV Forum, he has been on the board of Matrix S.p.A. (Now Italy On Line), World Space Italy and Italian Association of IPTV operator. He has been a member of numerous scientific committees, associations for the development of telecommunications and management committees of magazine and ICT. He is Adjunct Professor at the LUISS Business School and a Professor of digital new media and telecommunications at the Faculty of industrial engineering and economics. He has also been a professor at the Guglielmo Reiss Romoli secondary school. Since 2010 he's been President and CEO of Vetrya S.p.A.

Katia Sagrafena (General Manager)

Katia Sagrafena was born in Rome on 31 August 1967. She began her career in 1988 working for Information Systems (IBM Group) initially for software development activities in banking (Banca Toscana, ICCRI, IPACRI) and, then, on project management for Alitalia and I.N.P.S. In 1997 she joined Siemens, where she managed and coordinated working groups associated with framework agreements (multi-project and multi-platform) with full operational autonomy with Telecom Italia and Enel customers. From 2001 till 2005 she coordinated for EDS (now HP) about 400 employees of the Solution Center PA and she later worked as Program Manager in the Sales Department devoted to the development of PA and large customers division. From 2006 to 2009 she was Director of Human Resource Development for Xaltia S.p.A. Since 2010 she has been General Manager and Director of Human Resource Development for Vetrya S.p.A..

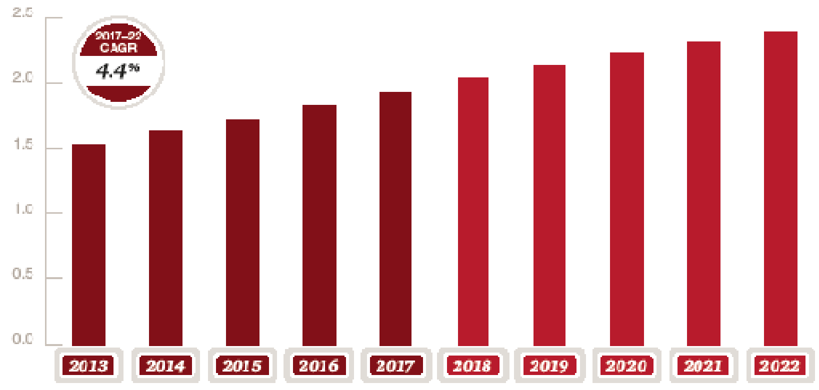
The digital entertainment&media sector

Vetrya is mostly placed in the segments of development of solutions for the creation, management and distribution of multimedia content for operators, broadcasters and content producers.

According to "Perspectives from the global Entertainment&Media outlook 2018-2022" by PWC, this industry is expected to remain exciting and the overall volume of E&M spending is estimated to rise at a steady, reliable path in line with economic growth. Digital revenues will continue to make up more and more of the total industry's income increasing from 36.8% in 2013 to 50.8% in 2018 and to 56.9% in 2022.

Figure 11. Global E&M revenues (USD trillion)

Growth rates remain steady even as the industry is being transformed.

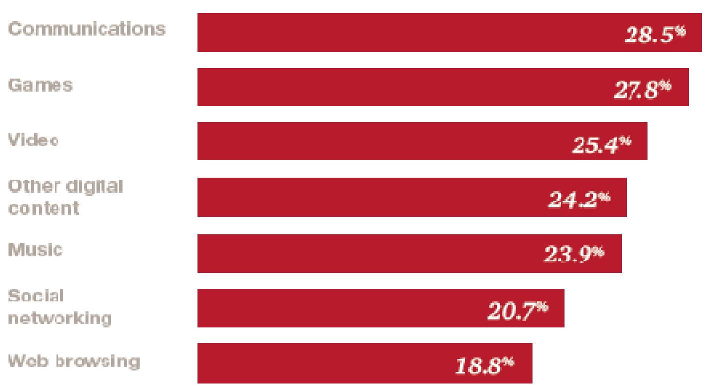


Source: PwC Global Entertainment&Media outlook 2018-2022, www.pwc.com/outlook

Overall, the total amount of time and money spent on E&M industries is expected to grow worldwide.

Figure 12. Data consumption CAGR 2017-2022 by content type

Consumers are expected to spend more time engaging in E&M sectors.

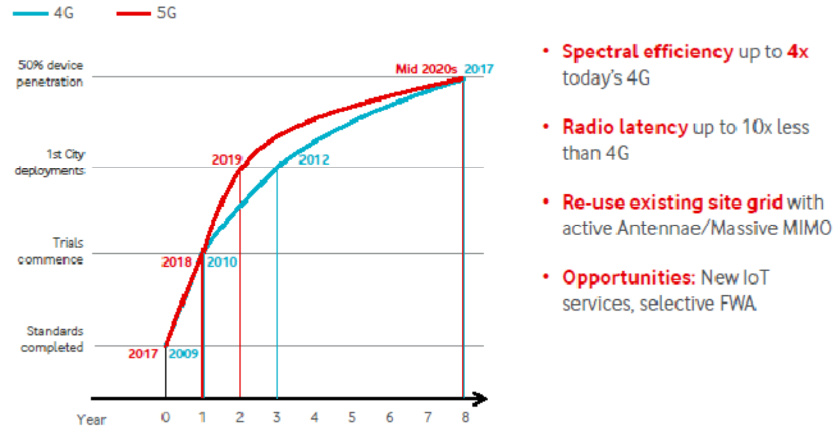


Source: PwC Global Entertainment&Media outlook 2018-2022, www.pwc.com/outlook

The media and entertainment sectors have in recent years been a driver for the development of digital technologies and in general of technological innovation. Within this sector, the audiovisual industry has undergone a process of innovation, continuing to provide its essential contribution to information and growth. The component relating to video transmission is that which most requires appropriate performance and would be boosted by 5G spectrum. 5G will be able to provide further ideas as downloading of entire films would be possible in a matter of seconds. The time it takes a network to respond to a request will decrease from 120 milliseconds on 3G to 15-60 milliseconds on 4G to 0.001 seconds on 5G.

Figure 13. Expected industry adoption of 5G

The industry adoption of 5G is likely to be similar to 4G.

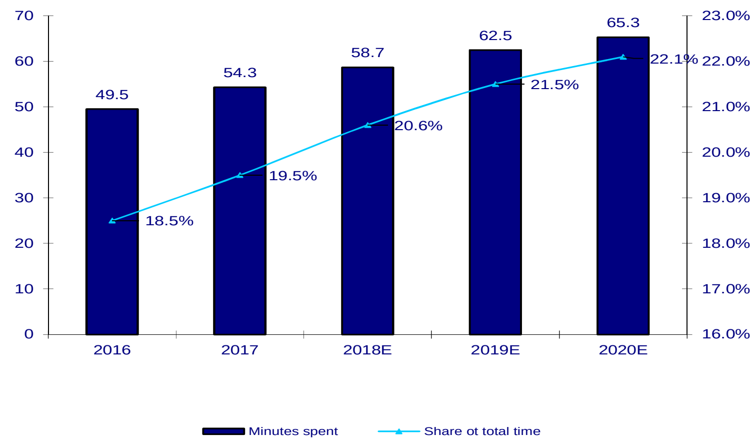


Source: Vodafone presentation, 15 May 2018

This will be crucial over the next few years, with the influx of 4k and 8k movie downloads, high-resolution artificial and virtual reality and ultra-high definition game streaming from cloud servers

Figure 14. Average daily time spent watching digital video

The march of video is set to continue and is set to account for almost a quarter of all digital media consumption by 2020.



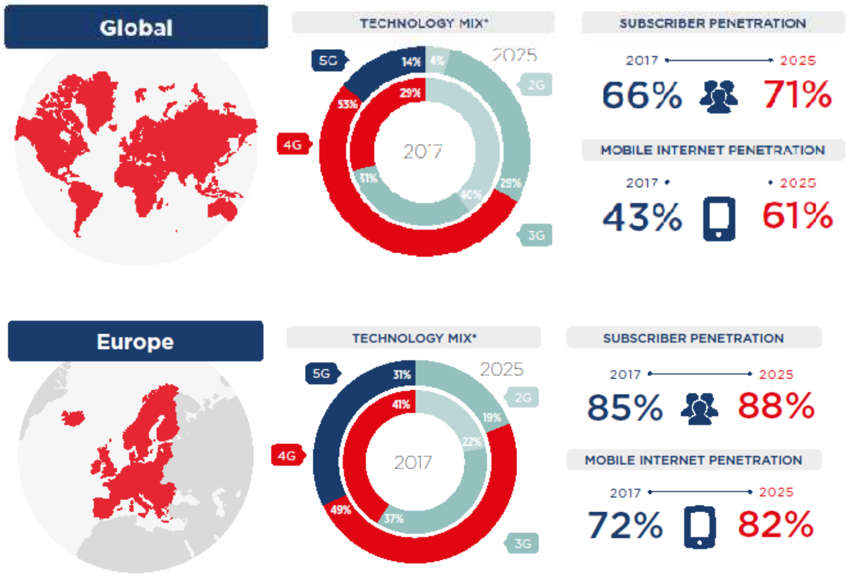
Source: eMarketer 2018

According to Cisco, the percentage of internet traffic related to video will increase from 73% in 2016 to 82% in 2021. Looking at mobile data traffic, video is estimated to account for around 75% of the total by 2023, up from 55% in 2017 (*Source:*

Ericsson).
By 2025 mobile Internet users are expected to jump from 3 billion to 5 billion, of which 1.2 billion 5G connections (*Source: GSMA, April 2018*).

Figure 15. Expected evolution of mobile industry KPIs

In Europe 5G take off is to boost mobile Internet penetration by 10% by 2025 to 82%.

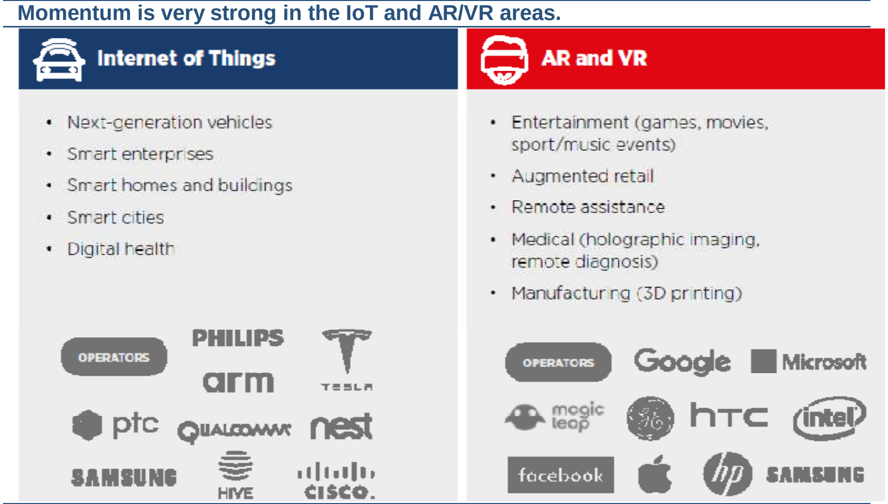


Source: The mobile economy 2018, GSMA April 2018

As they look for new revenues streams, the largest mobile operators are moving beyond their traditional telco businesses following as predominant drivers the convergence of telecom and media, the rise of IoT and the evolution of the digitally delivered services and content such as artificial and virtual reality (AR/VR).

Figure 16. Key areas of innovation for telecom operators

Momentum is very strong in the IoT and AR/VR areas.

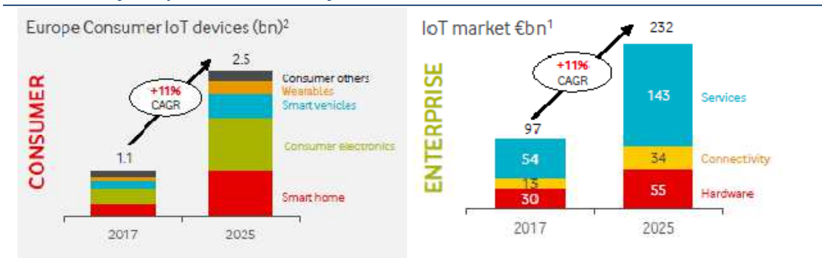


Source: The mobile economy 2018, GSMA April 2018

As for IoT, many European operators such as Telefonica, Orange and Vodafone have IoT dedicated lines of business devoted to enterprises and in November 2017 Vodafone launched "V by Vodafone" in Italy, Spain, Germany and the UK, a consumer product that offers tracking solutions for cars, pets, as well as home security. According to GSMA, the number of IoT connections (cellular and non-cellular) will increase more than threefold worldwide between 2017 and 2025, reaching 25 billion. IoT is rapidly becoming a mainstream technology in some consumer markets such as consumer electronics and smart homes while in the industrial segment it is still in its infancy.

Figure 17. Vetrya – Expected evolution of IoT industry

The industry adoption of 5G is likely to be similar to 4G.

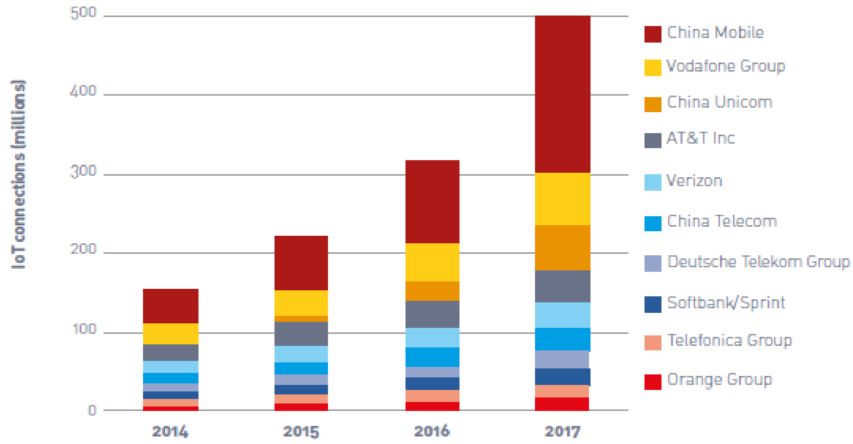


Source: Vodafone presentation, 15 May 2018.

The IoT/M2M connectivity market is dominated by 10 players; Chinese operators together with Vodafone and AT&T lead the rank.

Figure 18. IoT connections for the top 10 telecom operators, 2014-2017

Leaders are operators in large geographic markets.



Source: Ovum estimates, IoT viewpoints 2018

In addition to increasing use in media&entertainment market as well as in IoT applications, video is expected to have a growing role in advertising, too. According to the "2018 Video marketing survey" published in November 2018 by Brightcove, the leading global provider of cloud services for video, video contents impact significantly on consumers' buying decisions, particularly those of Millennials. Specifically, 85% of consumers aged between 18-34 years have purchased a product or service after viewing a video. Video is one of the most powerful form of content because:

1) It is the most memorable form of content: 21% of consumers overall and 29% of Millennials find video more memorable than other forms of content. Video was ranked significantly higher than other forms of content such as display ads (13%), email marketing (9%), case studies (4%), text ads (2%), among others, which all ranked lower than 4% of overall consumers.
2) Video engages consumers more than any other form of content: 45% of consumers overall and 56% of Millennials feel that video is more

engaging than other forms of content.

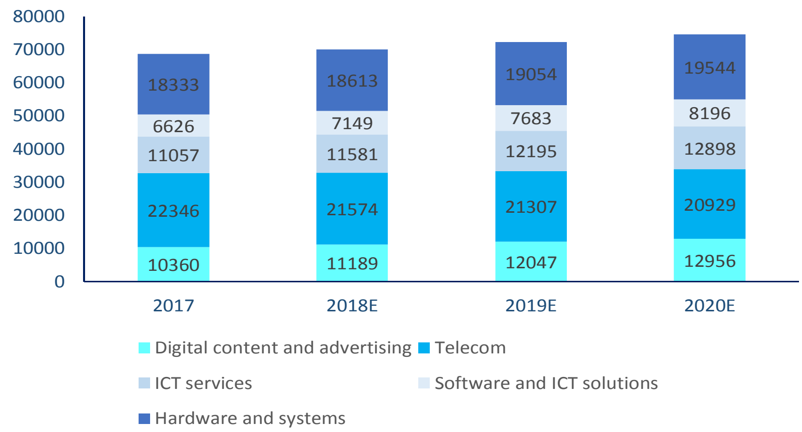
3) Video is preferred for brand and marketing communication: 36% percent of consumers overall and 46% of Millennials prefer video content to other forms of brand and marketing communication.

The Italian digital content market

According to Anitec-Assinform research, in 2017 the Italian digital market grew by 2.3% to EUR68.7 billion after a 2% increase in 2016. For the period 2018-2020 digital content segment and software solutions are expected to grow at a CAGR above 7% reaching respectively EUR13 billion and EUR8.2 billion. The software segment will be driven by demand of new applications, in particular in IoT and web services. Content device is expected to remain dominated by entertainment (mobile entertainment, music, gaming and ebook).

Figure 19. Italian digital market evolution 2017-2020 (EURm)

Italian mobile data revenues generated in 2017 were EUR5.7 billion equally split among three players.

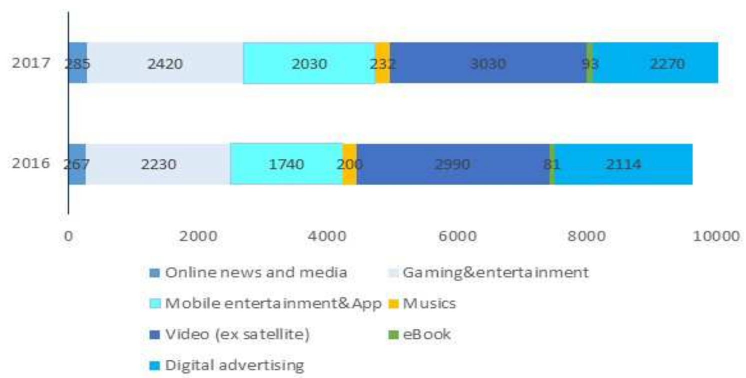


Source: Anitec-Assinform report 2018

As for digital content and advertising market, these areas recorded EUR8 billion revenues in 2017 (+7.7% YoY) of which EUR2 billion were generated by mobile entertainment (+16.7% YoY).

Figure 20. Italian digital content and advertising 2016-2017 (EURm)

In 2017 mobile digital entertainment market recorded the highest growth rate among digital content segments.

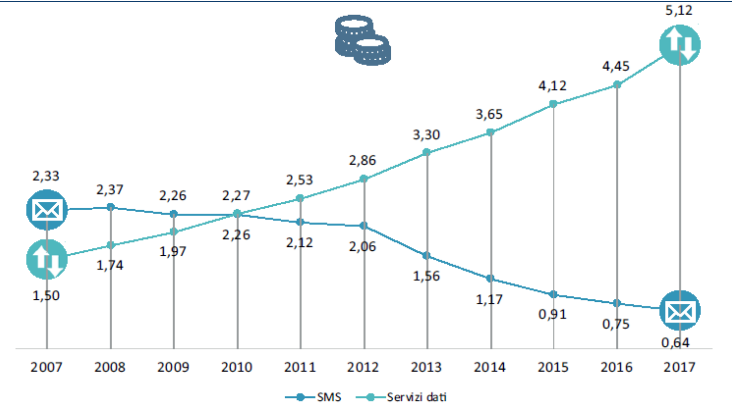


Source: Anitec-Assinform report 2018

In the last 10 years mobile revenues generated by data traffic have recorded a 4% 2010-2017 CAGR reaching EUR5.7 billion in 2017 driven by Internet data traffic; on the other hand, contribution by traditional SMS dropped from 60% of total revenues in 2007 to 11% in 2017.

Figure 21. Evolution of domestic mobile data revenues 2007-2017 (EURbn)

Data traffic recorded a 2010-2017 CAGR of 12%.

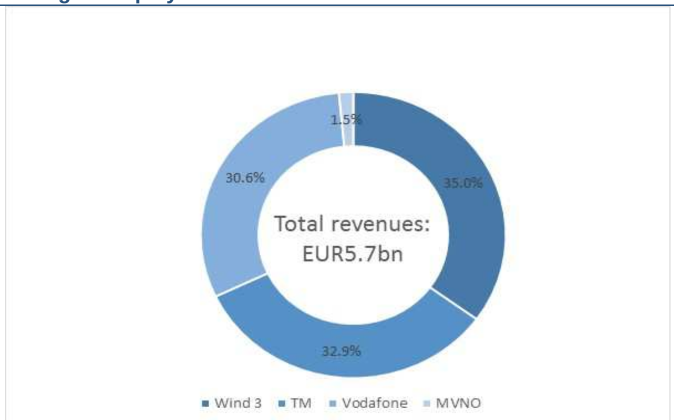


Source: AGCOM Annual Report 2018

As at the end of 2017, the Italian mobile market appears to be an oligopoly in which three operators (Wind 3, TIM and Vodafone) have similar shares both in voice and in data traffic. In May 2018 Illiad launched a disruptive plan costing EUR5.99 per month (now EUR6.99) including unlimited voice and SMS and 40GB worth of data. 1.5 million subscribers were reached in three months. The Group aims to reach EBITDA-breakeven point with less than 10% market share.

Figure 22. Domestic mobile data revenues in 2017 – Breakdown by operators

Italian mobile data revenues generated in 2017 were EUR5.7 billion equally split among three players.



Source: AGCOM Annual Report 2018

SWOT Analysis

Figure 23. SWOT Analysis

Strengths	Weaknesses
Highly talented and motivated people	Dependency on key talents
State-of-the-art technology and strong innovation capability	Small size compared to clients and competitors
Solid client base: Tier-1 companies	Dependency on telecom and media operators
Scalable business	
Large cash generation	
Exposure to growing m-commerce and m-payment market	
Opportunities	**Threats**
Expansion outside Italy, particularly in the Asia Pacific, Latam, Europe and Far East	Execution risk in M&A
Potential M&A to expand product offering and geography	Disruptive technology
Evolution towards digital payment integrated with credit card or bank account	Increasing regulatory requirements and connected reputational risk.
Potential change of regulation to wide limit on direct billing purchases	High competition in MarTech sector

Source: UBI Banca estimates

Recent developments

2017 and first half 2018 results

Vetrya closed FY17 with consolidated revenues at EUR58.8 million (3.7% YoY rise) driven by significant growth of international revenues (+25.8% YoY to EUR5.2 million). In terms of products, mobile commerce increased 2.7% YoY to EUR51.7 million and provision of platforms in cloud for the management of digital content (mainly video) was up 21.2% to EUR4.1 million. The total Value of Production reached EUR60.9 million, up to EUR2.5 million or 4.3% YoY.

Consolidated EBITDA rose by 21.8% to EUR6.8 million, with a significant improvement of EBITDA margin (11.5% compared to 9.8% in 2016), despite labour costs rose by 6.2% to EUR4.4 million as a consequence of the increase in employees by 11 net adds. EBIT growth was 28.9% YoY although D&A jumped by EUR0.4 million to EUR2.8 million. Net profit increased by EUR0.8 million to EUR2.4 million after EUR1.2 million taxes (33.9% tax rate).

The 2017 net cash position was equal to EUR6.6 million following EUR5.3 million cash collected in October via a capital increase aimed at financing potential M&A deals and EUR8.6 million positive change in working capital as an effect of greater recourse to factoring which reduced receivable to EUR21 million. Fixed assets were broadly stable at EUR11.6 million. Total shareholder's equity amounted to EUR18 million. The Ordinary Meeting approved the distribution of EUR0.16 dividend per share for a total amount of EUR1.05 million (44% pay-out ratio).

Figure 24. FY16-17 results

The economies of scale made available by the scalability of the cloud platforms boosted margins.

(EURm)	FY16A	FY17A	% change
Revenues	56.6	58.8	3.8%
Mobile Commerce	50.4	51.7	2.7%
Technological platforms	3.4	4.1	21.2%
Digital Advertising	2.3	2.4	3.8%
Professional services	0.6	0.6	3.8%
VoP	58.4	60.9	4.3%
EBITDA	5.6	6.8	21.8%
EBITDA margin	9.8%	11.5%	
EBIT	3.0	3.8	28.9%
EBIT margin	5.3%	6.5%	
Net Profit/loss	1.62	2.41	48.9%
Net profit margin	2.9%	4.1%	
Net debt/(Cash)	9.4	-6.6	
EBITDA margin	9.8%	11.5%	
EBIT margin	5.3%	6.5%	
Net profit margin	2.9%	4.1%	

Source: Company data

In the first half of 2018, revenues slightly declined (5% to EUR26.7 million) but EBITDA grew by 73.8% from EUR1.8 million to EUR3.2 million with margin up 540bp to 11.9% thanks to a lower incidence of cost of goods (from 82.7% to 76.4%) as an effect of the revenues mix. EBIT moved from EUR0.7 million to EUR1.9 million after EUR1.3 million D&A (flattish). Net profit increased by 4x compared to 1H17 up to EUR1.2 million. Net cash was stable at EUR6.6 million after EUR1.3 million CAPEX and EUR1.05 dividend distribution.

Figure 25. 1H17-1H18 results

Strong improvement of margin despite seasonal effect generally boosts profitability of second half of the year.

(EURm)	1H17A	1H18A	% change
Revenues	28.2	26.7	-5.1%
VoP	29.2	28.2	-3.5%
EBITDA	1.8	3.2	73.8%
EBITDA margin	6.5%	11.9%	
EBIT	0.7	1.9	179.5%
EBIT margin	2.4%	6.9%	
Net Profit/loss	0.3	1.2	255.0%
Net profit margin	1.2%	4.6%	
Net debt/(Cash)	10.3	-6.6	
EBITDA margin	6.5%	11.9%	-5.7%
EBIT margin	2.4%	6.9%	-3.4%
Net profit margin	1.2%	4.6%	-2.2%

Source: Company data

Acquisition of a minority stake in Neosperience

On 6 December, Vetrya, announced to have reached an agreement with the founders of Neosperience, Dario Melpignano and Luigi Linotto, to become a cornerstone investor and subscribe to a significant stake during the IPO for a total amount of EUR1 million. They signed a 5-year shareholders' agreement and agreed that 2 BoD members out of 7 will be nominated by Vetrya. The stock was listed on 20 February 2019 at EUR3.42 per share (vs current price of EUR5.06 as at 11 March) raising EUR4.1 million fresh capital, equal to a post-money capitalisation of EUR22.1 million. Following the IPO, Vetrya owns 233,500 shares of Neosperience, equal to a 3.61%-stake. An 18-months lock-up period was agreed.

Neosperience is a software vendor in the sector of digital customer experience. The Group was founded in Brescia in 2006 and it is an innovative SME. Its main product is Neosperience Cloud, an integrated platform that allows companies to offer their customers a personalized digital experience, starting from an analysis based on cognitive and social behavioural psycology. It is a pioneer in the use of artificial intelligence for the integration of empathy into technology. It closed 2017 with EUR8.6 million revenues and a net profit of EUR450k.

Vetrya, will use the Neosperience Cloud platform to offer tailored made contents; as a result Neosperience will benefit from a significant acceleration in the global distribution of its platform, by strategically exploiting the markets in which Vetrya is already operating.

Acquisition of Veralize

On 28 February 2019, Vetrya announced to have signed a binding agreement for the acquisition of Viralize, which is expected to close by the end of March.

Veralize mainly carries out web services aimed at broadcasting videos. It connects video advertising demand with publisher and creator audiences, providing a proprietary video platform that makes it easy to distribute cross-screen, cross-platform content and advertising campaigns while ensuring that relevant ads are shown to engage audiences at the right time.

Viralize was founded by Marco Paolieri, Maurizio Sambati and Ugo Vesper in 2013 in collaboration with the startup studio Nana Bianca and it has been profitable since 2016. Its headquarter is in Florence but has additional offices in London, Milan and Madrid. The Group employs 37 people. Following the acquisition, Mr. Paolieri will retain his position as Target's Chief Executive Officer while Mr. Sambati and Mr. Vespier will maintain the role of Chief Technology Officer and Chief Product Officer respectively.

The first business supported by Viralize is the monetization for publishers and creators. The Group gets paid for distributing video ads for brands and media agencies through a revenues sharing mechanism and pays publishers and content creators. Its average gross margin is 40%. In addition, it supports publishers and creators to distribute direct demand or direct programmatic sources as a SaaS and gets paid a flat CPM fee. Viralize also bundles content and demand together from a premium publisher and gets paid for distributing video content and ads via revenues sharing or a flat CPM on the campaign budget and pays publishers.

In 2017 it recorded EUR6.8 million revenues and EUR0.5 million EBITDA; in 2018 it is expected to close with over EUR14.5 million revenues and EUR2.6 million EBITDA by serving 5,000 publishers which use Viralize's platform for direct or programmatic sales and to monetize inventory thanks to its direct relationship with top brands, media agencies and programmatic platforms. In 2018 Viralize successfully delivered thousands of content videos and video ads from more than 200 advertisers on 5000+ websites. Its library includes 500,000 videos in 18 languages. Partner publishers include first tier players like Universal, Sky, Condé Nast, DailyMail.

Figure 26. Viralize media agencies & trading desk and main brands

In 2017 the mobile digital entertainment market recorded the highest growth rate.

Source: Viralize presentation

This acquisition allowed Vetrya to strengthen its offer of digital services and to reinforce its internalization process. The integration into Vetrya is expected to improve Veralize's competence in the monetization of the mobile audience.

Vetrya will recognize an EV equal to 5.5x EBITDA 2018 certified by the auditing company and pay half of the proceeds in cash at the closing and in any case not later than 4 months after the closing. The balance of the amount due will be paid upon expiry of the sixtieth day following the approval of the 2021 financial statements. In that circumstances, the price tag will be recalculated by applying a 5.5x multiple to EBITDA 2021. In any case, the counterparts have agreed that under no circumstance may the final price be inferior to EUR10 million and superior to EUR15.95 million. If the reviewed price is above EUR10 million, Vetrya could decide to pay the final balance in cash or alternatively 30% in cash and 70% by issuing new Vetrya shares; lock-up on the newly issued shares will be for a total duration of 12 months and Viralize's shareholders are not allowed to sell more than 1/12 of total shares a month and Vetrya will have a right of first refusal.

Considering that net debt is estimated to be close to zero, we assume the price tag to be at first set at EUR14.3 million, of which EUR8.8 million paid in cash at the closing.

Financial projections

EBITDA margin 2022E at 14.5%

As regards Veralize, we assume a significant growth in revenues also thanks to cross selling opportunities with a few top telecom clients of Vetrya. We estimate a 2017-2022 CAGR above 30% for revenues and 50% for EBITDA. Overall we expect Veralize's revenues to move from EUR14.5 million in 2018 to EUR22 million in 2020 to EUR27 million in 2022.

Figure 27. Evolution of operating results 2017-2022E of Veralize

Long-term EBITDA margin is assumed at 15%.

(EURm)	2017	2018E	2019E	2020E	2021E	2022E
Revenues	6.8	14.5	19.0	22.0	26.0	27.0
yoy growth	78.6%	112.3%	31.0%	15.8%	18.2%	3.8%
Other revenues	0.3	0.0	0.0	0.0	0.0	0.0
% on sales	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Value of Production	7.1	14.5	19.0	22.0	26.0	27.0
Industrial costs (Marketing & Variable Costs)	5.5	10.5	14.5	16.8	19.9	20.7
% on sales	9.3%	17.5%	19.4%	21.5%	24.0%	23.9%
Industrial Value Added (IAV)	1.6	4.0	4.5	5.2	6.1	6.3
% on sales	2.7%	6.6%	6.0%	6.6%	7.4%	7.3%
Other operating costs	0.4	0.6	0.7	0.8	0.9	0.9
% on sales	0.7%	0.9%	0.9%	1.0%	1.1%	1.0%
Value added	1.2	3.4	3.8	4.4	5.2	5.5
% on sales	17.5%	23.7%	19.8%	20.0%	20.1%	20.2%
Labour costs	0.7	0.8	1.0	1.2	1.4	1.4
% on sales	1.2%	1.4%	1.4%	1.6%	1.6%	1.7%
EBITDA	**0.48**	**2.60**	**2.72**	**3.17**	**3.87**	**4.02**
% on sales	**7.1%**	**17.9%**	**14.3%**	**14.4%**	**14.9%**	**14.9%**

Source: Company data and UBI Banca estimates.

As regards Vetrya, we forecast a broadly stable consolidated top line in 2018 (+2% YoY). As for the period 2019-2022, we assume a 10% CAGR driven by international revenues as an effect of the agreements signed in 2018 with international telecom operators coming into force. Overall we estimate an 8% revenues CAGR 2017-2022.

Figure 28. Revenues breakdown by segments in 2017-2022E for Vetrya stand-alone.

M-commerce through revenues sharing would remain the leading source of revenues for Vetrya .

(EURm)	2017	2018E	2019E	2020E	2021E	2022E
Total Revenues (Consolidated)	**58.8**	**60.0**	**74.9**	**78.3**	**83.0**	**86.7**
Mobile Commerce	51.7	51.7	64.6	66.9	70.2	73.0
Technological platforms	4.1	5.1	6.9	8.0	9.2	9.9
Digital Advertising	2.4	2.5	2.6	2.7	2.8	2.9
Professional services	0.59	0.62	0.70	0.75	0.80	0.85
Growth in %	3.8%	2.0%	24.9%	4.6%	6.0%	4.4%
Mobile Commerce	2.7%	0.0%	25.0%	3.5%	5.0%	4.0%
Technological platforms	21.2%	25.0%	35.0%	15.0%	15.0%	8.0%
Digital Advertising	3.8%	6.3%	4.0%	3.8%	3.7%	3.6%
Professional services	3.8%	5.5%	12.9%	7.1%	6.7%	6.3%
Weight in %						
Mobile Commerce	88.0%	86.2%	86.3%	85.4%	84.6%	84.2%
Technological platforms	7.0%	8.6%	9.3%	10.2%	11.1%	11.4%
Digital Advertising	4.0%	4.2%	3.5%	3.4%	3.4%	3.3%
Professional services	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%

Source: Company data and UBI Banca estimates.

In 2018, we assumed that EBITDA would be broadly stable at EUR7 million. In 2019 we expect that the cost of international expansion could weigh on margin but since 2020 operating leverage is assumed to drive EBITDA margin from c.a. 11.4% in 2019 to 13.1% in 2020 to 14.5% in 2022. 2017-2022E CAGR is estimated at 13.1%.

Figure 29. Evolution of operating results 2017-2022E for Vetrya stand-alone

Long-term EBITDA margin is assumed at 14.5%.

(EURm)	2017	2018E	2019E	2020E	2021E	2022E
Revenues	58.8	60.0	74.9	78.3	83.0	86.7
yoy growth	3.8%	2.0%	24.9%	4.6%	6.0%	4.4%
Other revenues	2.1	2.2	2.7	2.7	2.9	3.0
% on sales	3.6%	3.6%	3.6%	3.5%	3.5%	3.4%
Value of Production	60.9	62.1	77.5	81.1	85.9	89.7
Industrial costs (Marketing & Variable)	46.2	45.6	57.7	59.2	61.9	64.7
% on sales	78.5%	76.0%	77.1%	75.6%	74.6%	74.6%
Industrial Value Added (IAV)	14.7	16.5	19.8	21.9	23.9	25.0
% on sales	25.1%	27.6%	26.5%	27.9%	28.9%	28.8%
Other operating costs	3.6	3.9	4.6	4.5	4.6	4.8
% on sales	6.1%	6.5%	6.1%	5.7%	5.5%	5.5%
Value added	11.2	12.7	15.3	17.4	19.4	20.2
% on sales	19.0%	21.1%	20.4%	22.2%	23.4%	23.3%
Labour costs	4.4	5.7	6.8	7.1	7.4	7.7
% on sales	7.5%	9.4%	9.0%	9.1%	9.0%	8.9%
EBITDA	**6.8**	**7.0**	**8.5**	**10.3**	**11.9**	**12.5**
% on sales	**11.5%**	**11.7%**	**11.4%**	**13.1%**	**14.4%**	**14.5%**

Source: Company data UBI Banca estimates.

Assuming that Veralize will be consolidated starting from the end of March 2019, we incorporate a 14% CAGR 2017-2022E for revenues and 20% for EBITDA.

Figure 30. Evolution of consolidated operating results 2017-2022E

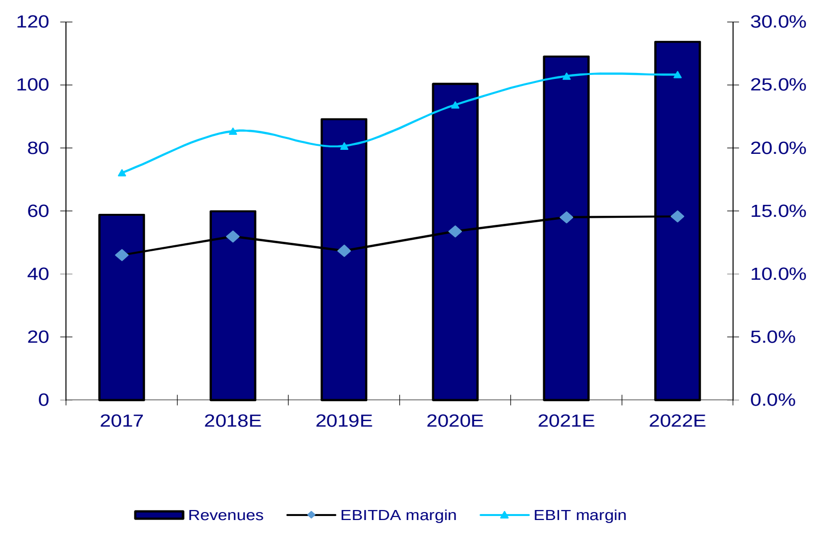
Veralize would represent ca 25% of consolidated EBITDA in 2019-2022.

(EURm)	2017	2018E	2019E	2020E	2021E	2022E
Revenues	58.8	60.0	89.1	100.3	109.0	113.7
yoy growth	3.8%	2.0%	48.6%	12.6%	8.7%	4.3%
Other revenues	2.1	2.2	2.7	2.7	2.9	3.0
% on sales	3.6%	3.6%	3.6%	3.5%	3.5%	3.4%
Value of Production	60.9	62.1	91.8	103.1	111.9	116.7
Industrial costs (Marketing & Variable)	46.2	45.6	68.6	76.0	81.8	85.3
% on sales	78.5%	76.0%	91.6%	97.1%	98.6%	98.4%
Industrial Value Added (IAV)	14.7	16.5	23.2	27.0	30.1	31.3
% on sales	25.1%	27.6%	31.0%	34.5%	36.2%	36.1%
Other operating costs	3.6	3.9	5.1	5.2	5.4	5.7
% on sales	6.1%	6.5%	6.8%	6.7%	6.6%	6.5%
Value added	11.2	12.7	18.1	21.8	24.6	25.7
% on sales	19.0%	21.1%	20.3%	21.7%	22.6%	22.6%
Labour costs	4.4	5.7	7.5	8.3	8.8	9.1
% on sales	7.5%	9.4%	10.1%	10.7%	10.6%	10.5%
EBITDA	**6.8**	**7.0**	**10.6**	**13.4**	**15.8**	**16.6**
% on sales	**11.5%**	**11.7%**	**11.8%**	**13.4%**	**14.5%**	**14.6%**

Source: Company data UBI Banca estimates.

Cumulative 2018-2022E D&A costs are expected at EUR16 million facing cumulative CAPEX 2018-2022E at EUR22 million.

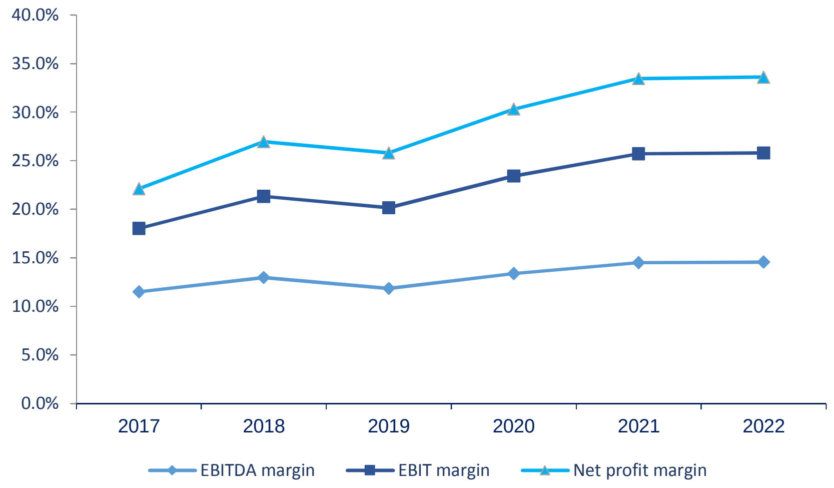
Figure 31. Revenues, EBITDA and EBIT margin trend 2017-2022E



Source: Company data, UBI Banca estimates

Tax rate is expected to decrease from 34% in 2017 to 31% in 2022.

Figure 32. EBITDA and EBIT and net profit margin trend 2017-2022E



Source: Company data, UBI Banca estimates

We believe that the ROACE should remain healthy and broadly flattish until 2020 thanks to limited capex requirements, improvement in profitability and capital turnover.

Figure 33. ROACE, ROS and Capital Turnover

We assume a 28% ROACE as a peak.

(EURm)	2017	2018E	2019E	2020E	2021E	2022E
ROACE	16.5%	22.9%	26.1%	25.6%	24.3%	21.3%
ROS	6.5%	7.1%	8.3%	10.0%	11.2%	11.2%
Cap. Turn	3.84	5.06	4.94	4.07	3.41	2.94

Source: Company data and UBI Banca estimates.

Valuation

We set a target price of EUR11.15 per share obtained from the simple average of a DCF valuation approach and a Multiples relative valuation.

Figure 35. Valuation Summary

Method	Fair Value (EUR)
DCF	10.70
Multiples Valuation	11.61
Target Price	**11.15**
Price per share (actual)	6.56
Upside/(downside)	70%

Source: UBI Banca estimates

At our target price, Vetrya would trade at 7.6x EV/EBITDA 2019E, broadly in line with foreign peers.

Figure 36. Implicit multiples based on our target price

(x)	2018E	2019E	2020E
P/E	26.8 x	14.6 x	10.6 x
EV/EBITDA	9.8 x	7.6 x	5.9 x
EV/EBIT	16.2 x	10.9 x	7.9 x
EV/Sales	1.14 x	0.90 x	0.79 x
P/BV	3.8 x	2.9 x	2.4 x
EV/ Capital employed	5.1 x	3.3 x	2.8 x

Source: UBI Banca estimates

DCF

To calculate the company's WACC, we used the following assumptions:

- a risk-free rate of 3.5% (compared to current 2.6% 10Y interest rate on Italian bonds);
- a market risk premium of 4.5%;
- a beta of 1.5 (median of the 1Y and 3Y unlevered beta in FTSE AIM Italia calculated by Factset for Vetrya);
- a terminal growth rate of 1.5% and an operating margin of 11.4% at terminal value;
- A debt/equity ratio of 0.

We are also incorporating the potential dilution of the exercise of warrants the 646k warrants at EUR7.99 which have a 2.4% negative impact on the fair value. Neosperience stake is incorporated at current market price (EUR5.2 per share).

Figure 37. WACC and embedded DCF assumptions

WACC assumptions		Embedded DCF assumptions	
Risk-free rate	3.5%	Revenue CAGR 2017-2022 (%)	14.1%
Debt spread (%)		Target EBIT margin 2022 (%)	11.2%
Cost of debt [net] (%)		D&A. on sales (avg. 2018-2022) (%)	3.4%
Market risk premium (%)	4.5%	Capex on sales (avg. 2018-2022) (%)	4.7%
Beta (x)	1.5	Revenue CAGR 2023-2026 (%)	3.2%
Cost of equity (%)	10.3%	Target EBIT margin 2026 (%)	11.4%
Weight of Debt	0%	D&A. on sales (avg. 2023-2026) (%)	3.2%
Weight of Equity	100%	Capex on sales (avg. 2023-2026) (%)	4.3%
WACC	**10.3%**		

Source: UBI Banca estimates

We estimate a WACC of 10.3%, obtaining a theoretical value of EUR10.7 per share.

Figure 38. DCF Valuation

FCF in the 2019-2022 period is hurt by EUR15.95 million expected cash out for Veralize

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2019-22 FCF	1.08	2%	0.15
Sum of PV 2023-26 FCF	18.35	28%	2.54
Terminal Value	45.46	70%	6.29
Total Enterprise value	**64.90**	**100%**	**8.98**
- Net cash (debt) as of 31/12/2018E	6.42		0.89
- Financial assets	1.84		0.25
- Cash in from warrants	5.16		0.71
- Cash out for 3.61%-stake in Neosperience	-1.00		-0.14
Total Equity value	**77.33**		**11.27**
Number of shares outstanding fully diluted(m)	7.23		
Fair value per share (EUR)	**10.7**		

Source: UBI Banca estimates

We have also carried out a sensitivity analysis which shows the changes to our fair value according to changes in the WACC and to cumulative changes of between -4% and +4% to our annual Ebitda estimates in 2019-2022.

Figure 39. Sensitivity analysis of WACC and 2019E-2022E growth of Ebitda

A Rfr of 4% increases WACC to 10.8% and decreases TP to EUR10.06 (-6%).

		growth				
		-4.0%	**-2.0%**	**0.00%**	**+2.0%**	**+4.0%**
	11.3%	7.76	8.61	9.50	10.42	11.38
	10.8%	8.22	9.12	10.06	11.04	12.05
WACC	**10.3%**	8.74	9.70	**10.70**	11.73	12.81
	9.8%	9.33	10.35	11.41	12.51	13.66
	9.3%	9.99	11.08	12.22	13.40	14.63

Source: UBI Banca estimates.

Relative valuation

There are a few listed players that could be considered direct peers of Vetrya. We have identified a group of national and international companies listed on Nasdaq, AIM Italia and Euronext Growth, which is the stock exchange most directly comparable to the Italian market. Considering that most of the current revenues of Vetrya are generated by Mobile VAS, we have also used the average multiples of the European telecom sector.

The French and American peers provides software solution to broadcasting and telecom operators to deliver multimedia content. The Italian players used in our sample are leading independent players active in Mar-Tech solutions.

Dalet: founded in April 1990 in France, it is specialized in publishing computer software for managing and distributing multimedia content. It operates through the following segments: Media Asset Management, Sports Applications, Newsroom Solutions and Digital Audio Radio Solutions. The Media Asset Management segment offers metadata management and archiving tools. The Sports Applications segment offers tools for fast-paced sports production. The Newsroom Solutions segment markets software that creates a media supply chain where its contents can be transformed and delivered to multiple platforms and devices. The Digital Audio Radio Solutions segment includes tools for large-scale news stations and multichannel music networks. The core business is sale of services (project management, consulting and training) which generates 57% of revenues; 34% of the top line is the sale of licenses. It was listed on Euronext Growth segment in June 2000.

StreamWide: founded in December 2000 in France, it is a provider of communications systems for telecom operators, governments, and enterprises. It is specialized in publishing software used to supply value-added and new-generation telephone services to fixed and mobile telecom operators. Basing its products on a patented technology, the group offers solutions for unified and convergent e-mail, prepaid account taxation and management, vocal server and interactive video creation, personalized ring tone delivery, etc. 65% of revenues are generated by services, 23% by licenses. It was floated on Euronext Growth in January 2008.

Limelight Networks: it is engaged in the provision of digital content delivery solutions. It offers cloud security, content delivery, video content management, website and web application acceleration, website and content security, and cloud storage services. It serves the software, device manufacturing, media, broadcasting and gaming industries. The company was founded in June 2001 in Tempe, AZ. In was listed on Nasdaq in June 2007.

MailUp (AIM): it is a leading player in the provision of Software-as-a-Service products for digital marketing professionals. These products include the Group's email marketing platform, SMS professional delivery solutions and BEE drag-and-drop editing tool for email and landing pages launched in 2014.The Group is offering a broad spectrum of solutions with a focus on data-driven multi-channel marketing automation. It was founded in 2002 and was listed on the Italian AIM/Alternative Investment Market segment in July 2014.

Digitouch (AIM): it is a holding company operating in the digital advertising business. It provides independent concessionaires for advertisements in mobiles and new devices, purchases advertising space on behalf of its clients, creates online performance-based advertising campaigns, provides strategic consulting for online and offline media planning and operates as a mobile data profiler that collects and examines data of mobile users from mobile operators for the benefit of advertisers. It was founded in 2007 and listed on AIM Italia in March 2015.

Alkemy (AIM): founded in 2012, it provides marketing and information technology consulting services. Its Digital Enabler model provides business to business digital services and has set the standards for skills, performance, completeness of its offer and size and floated on AIM Italia in December 2017.

In the European telecom panel we have included the following companies: Deutsche Telekom, Elisa, KPN, Orange, Swisscom, Telecom Italia, Telefonica, Telekon Austria, Telenor, Telia and Vodafone.

Figure 40. Peer comparison

Thanks to both organic and external growth we estimate an average growth of the bottom line which is 40% higher than the median of the panel.

Company	Mkt. cap.	EBITDA margin		EBIT margin		Net margin	EPS CAGR
	(EURm)	2018E	2019E	2018E	2019E	2018E	2018-20
Dalet SA	38.5	13.0%	13.9%	5.8%	6.8%	2.3%	23.0%
StreamWIDE	28.8	15.9%	21.8%	-25.4%	-3.8%	-14.7%	
MailUp SpA	44.3	9.5%	11.0%	4.8%	6.7%	2.6%	67.7%
DigiTouch SpA	19.0	14.2%	15.7%	7.5%	9.1%	4.4%	46.0%
Alkemy SpA	58.6	11.1%	12.4%	8.0%	8.3%	2.9%	28.6%
Limelight Networks	335.9	16.6%	16.7%	7.1%	4.0%	5.0%	36.9%
European Telecom Pannel		32.0%	32.5%	13.3%	15.0%	6.9%	3.4%
Vetrya	43.2	11.7%	11.8%	7.1%	8.3%	4.7%	57.1%

Source: Factset, UBI Banca estimates for Vetrya and MailUp

The implied value of Vetrya given median EV/EBITDA and EV/EBIT multiples 18E-20E of our panel group is EUR11.61 per share.

Figure 41. Peer comparison and valuation based on multiples priced on 11 March 2019

Vetrya is trading at a huge discount compared to both Euroepan telecom sector and foreign peers.

Company	Mkt. cap.	EV/Sales			EV/EBITDA			EV/EBIT		
	(EURm)	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
MaulUp	44.3	1.0x	0.8x	0.6x	10.6x	7.4x	5.6x	21.0x	12.0x	8.4x
DigiTouch SpA	19.0	0.5x	0.4x	0.3x	3.2x	2.3x	1.6x	6.4x	3.9x	2.5x
Alkemy SpA	58.6	0.7x	0.5x	0.4x	6.7x	4.4x	3.5x	9.3x	6.6x	5.1x
Italian AIM peers Median		**0.7x**	**0.5x**	**0.4x**	**6.7x**	**4.4x**	**3.5x**	**9.3x**	**6.5x**	**5.1x**
Dalet SA.	38.5	0.7x	0.6x	0.5x	5.9x	5.7x	5.5x	15.0x	12.2x	9.4x
StreamWide	28.8	2.9x	3.3x	2.7x	16.5x	9.9x	6.6x		79.0x	19.5x
Limelight Networks	335.9	1.2x	1.3x	1.0x	7.4x	8.0x	5.3x	17.3x	33.5x	15.4x
Foreign peers Median		1.2x	1.3x	1.0x	7.4x	8.0x	5.5x	16.2x	33.5x	15.4x
European telecom pannel Median		1.8x	1.9x	1.8x	5.6x	6.1x	5.8x	16.1x	11.7x	11.0x
Median		1.2x	1.3x	1.0x	6.7x	6.1x	5.5x	16.1x	11.7x	11.0x
Vetrya	**43.2**	**0.6x**	**0.5x**	**0.4x**	**5.2x**	**3.9x**	**3.0x**	**8.7x**	**5.6x**	**4.0x**
Premium/Discount to average		-50.0%	-65.2%	-60.0%	-22.1%	-35.8%	-46.5%	-46.1%	-52.5%	-63.9%

Source: Factset, UBI Banca estimates for Vetrya and MailUp

Income Statement

(EURm)	2017	2018E	2019E	2020E
Net Revenues	58.78	59.96	89.12	100.32
EBITDA	6.76	7.00	10.56	13.44
EBITDA margin	11.5%	11.7%	11.8%	13.4%
EBIT	3.83	4.23	7.42	10.06
EBIT margin	6.5%	7.1%	8.3%	10.0%
Net financial income /expense	-0.18	-0.03	-0.02	-0.01
Associates & Others	-0.00	0.00	0.00	0.00
Profit before taxes	3.65	4.20	7.40	10.05
Taxes	-1.24	-1.40	-2.37	-3.14
Minorities & discontinuing ops	0.00	0.00	0.00	0.00
Net Income	2.41	2.80	5.03	6.91

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2017	2018E	2019E	2020E
Net working capital	0.40	1.72	5.43	7.08
Net Fixed assets	11.63	12.23	28.98	30.65
M/L term funds	-0.60	-0.60	-9.69	-9.80
Capital employed	11.43	13.36	24.72	27.92
Shareholders' equity	18.04	19.78	25.58	30.28
Minorities	0.00	0.00	0.00	0.00
Shareholders' funds	18.04	19.78	25.58	30.28
Net financial debt/(cash)	-6.63	-6.42	-0.86	-2.36

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2017	2018E	2019E	2020E
NFP Beginning of Period	9.45	-6.63	-6.42	-0.86
Group Net Profit	2.41	2.80	5.03	6.91
Minorities	0.00	0.00	0.00	0.00
D&A	2.79	2.63	2.93	3.15
Change in Funds & TFR	0.57	-0.05	8.29	-0.44
Gross Cash Flow	5.78	5.38	16.46	9.62
Change In Working Capital	8.58	-1.28	-2.91	-1.09
Other	0.00	0.00	-0.32	0.00
Operating Cash Flow	14.36	4.10	13.03	8.52
Net Capex	-3.33	-3.00	-18.36	-4.82
Other Investments	-0.21	-0.25	-1.00	0.00
Free Cash Flow	10.82	0.85	-6.33	3.71
Dividends Paid	0.00	-1.05	-1.23	-2.21
Other & Chg in Consolid. Area	0.00	0.00	0.00	0.00
Chg in Net Worth & Capital Incr.	5.26	0.00	2.00	0.00
Change in NFP	16.08	-0.21	-5.56	1.49
NFP End of Period	-6.63	-6.42	-0.86	-2.36

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2017	2018E	2019E	2020E
ROE	13.4%	14.2%	19.7%	22.8%
ROI	15.9%	21.8%	20.5%	18.7%
Net Fin. Debt/Equity (x)	-0.4	-0.3	-0.0	-0.1
Net Fin. Debt/EBITDA (x)	-1.0	-0.9	-0.1	-0.2
Interest Coverage	0.0	0.0	0.0	0.0
NWC/Sales	0.7%	2.9%	6.1%	7.1%
Capex/Sales	-5.7%	-5.0%	-20.6%	-4.8%
Pay Out Ratio	43.6%	44.0%	44.0%	44.0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2017	2018E	2019E	2020E
EPS	0.37	0.43	0.76	1.05
DPS	0.16	0.19	0.34	0.46
Op. CFPS	2.18	0.62	1.98	1.29
Free CFPS	1.64	0.13	-0.96	0.56
BVPS	2.74	3.01	3.89	4.60

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2017 *	2018E	2019E	2020E
P/E	18.0	15.4	8.6	6.3
P/OpCFPS	3.0	10.5	3.3	5.1
P/BV	2.4	2.2	1.7	1.4
Dividend Yield (%)	2.4%	2.9%	5.1%	7.0%
Free Cash Flow Yield (%)	25.2%	2.0%	nm	8.6%
EV (EURm)	37.08	36.70	41.26	39.77
EV/Sales	0.6	0.6	0.5	0.4
EV/EBITDA	5.5	5.2	3.9	3.0
EV/EBIT	9.9	8.7	5.6	4.0
EV/Capital Employed	3.1	2.6	1.2	1.1

Source: Company data, UBI Banca estimates ** Based on 2017 average price*

Growth Rates

(%)	2017	2018E	2019E	2020E
Growth Group Net Sales	3.8%	2.0%	48.6%	12.6%
Growth EBITDA	21.8%	3.5%	50.8%	27.3%
Growth EBIT	25.2%	10.1%	74.3%	35.0%
Growth Net Profit	40.3%	15.3%	78.1%	36.4%

Source: Company data, UBI Banca estimates

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

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

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

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

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

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Distribution of ratings

Equity rating dispersion in the past 12 months			
Buy	***Hold***	***Sell***	***No Rating***
89.8%	*2.0%*	*0.0%*	*8.2%*
Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months			
Buy	***Hold***	***Sell***	***No Rating***
100%	*100%*	*-*	*100%*

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