VETRYA OUTPERFORM

Price (Eu): 7.66

Target Price (Eu): 10.20

SECTOR: Industrials

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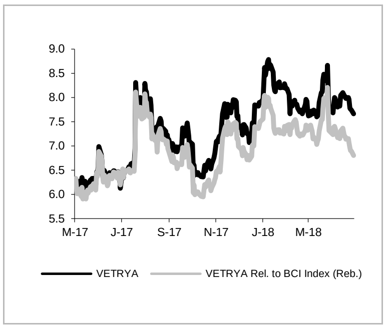
Positive FY17 NFP To Boost R&D and Fund Foreign Expansion

- **FY17 net profit surged 48.9% YoY to Eu2.4mn; NFP positive at Eu6.6mn:** Vetrya closed FY17 with a 3.8% increase in revenue to Eu58.8mn. Further down the P&L, the group recorded a strong improvement in EBITDA, which grew 21.8% to Eu6.76mn, with the EBITDA margin therefore rising sharply from 9.8% in 2016 to 11.5% in 2017. This allowed the group to close FY17 with restated net profit of Eu2.4mn, up 48.9% YoY. Thanks to a Eu16mn improvement in working capital (commercial receivables came down from Eu38.7mn at FY16 to Eu21.1mn), mainly as a result of greater recourse to factoring, and the Eu5.3mn rights issue completed on 3rd October 2017, the company was able to close the year with a positive net financial position of Eu6.6mn. The Board of Directors approved a Eu0.16 DPS (total pay-out Eu1.1mn) to be paid on 23rd May 2018.
- **New contracts to increase visibility on company growth.** Vetrya has built up a solid track record that marks it out as a reliable partner for telecom operators, and we are confident the company is in a position to keep on enriching its international customer portfolio. Notably, in 1Q18 Vetrya signed two important new contracts with major mobile players: Vodafone Iberia and Tim Brazil, which have in excess of 59mn and 14mn mobile customers respectively. These new contracts should boost international revenue starting from 2H18, and as a result we are raising our 2019 revenue estimates while leaving our 2018 forecasts broadly unchanged (-0.6%). As for EBITDA, our projections point to Eu7.2mn for 2018 and Eu8.2mn for 2019 (-1.9% and +8.5% respectively). Our review of financial costs takes into account the use of factoring, which we expect to continue in the years to come. We are also lowering our tax rate assumption from 38% to 34%, in line with the cut in IRES tax. In conclusion, we are revising our EPS estimates downwards by -17.6% and -0.6% for 2018 and 2019 respectively due to the EPS dilution generated by the 2017 rights issue (we are revising net profit upwards by 5.1% and 26.4% for 2018 and 2019 respectively).
- **Strong cash position and positive cashflow to open the door to M&A opportunities.** We expect the group to use its net cash to reinforce its service offering by means of targeted acquisitions. We expect the main focus to be on acquiring technological know-how in fields ranging from artificial intelligence and machine learning to digital marketing and online gaming.
- **OUTPERFORM confirmed; target raised to Eu10.2.** We confirm our positive view on the stock thanks to solid expected organic growth. We believe the strong net financial position (Eu6.6mn) at FY17 should be used to support the group's growth, allowing Vetrya to increase its R&D investments and pursue foreign expansion, and potentially enable the group to grasp any M&A opportunities that may arise. Recently signed contracts provide high visibility on revenue growth, with the 2017-2020 CAGR forecast at 8.5%. We have valued Vetrya using a combination of a discounted cash flow (DCF) model (50% weight - Eu11.3 per share) and a peer comparison (50% weight – Eu9.2 per share). This yields a fair price of Eu10.2 per share.

Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	57	59	64	71	75
Ebitda (Eu mn)	6	7	7	8	9
Net profit (Eu mn)	2	2	3	4	4
EPS - New (Eu)	0.303	0.393	0.442	0.543	0.605
EPS - Old (Eu)	0.295	0.474	0.536	0.547	0.559
DPS (Eu)	0.000	0.160	0.163	0.166	0.173

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	25.2	19.5	17.3	14.1	12.7
Div. Yield	0.0%	2.1%	2.1%	2.2%	2.3%
EV/Ebitda	10.8	6.5	5.9	4.9	4.2
ROCE	17.1%	24.6%	41.3%	49.9%	54.4%

VETRYA - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): from 7.00 to 10.20

Change in EPS est:	**2018E**	**2019E**
	-17.6%	**-0.6%**

STOCK DATA	
Reuters code:	VTY.MI
Bloomberg code:	VTY IM

Performance	**1m**	**3m**	**12m**
Absolute	-1.3%	-6.4%	21.2%
Relative	-7.4%	-7.0%	8.3%
12 months H/L:			8.78/6.10

SHAREHOLDER DATA	
No. of Ord. shares (mn):	7
Total No. of shares (mn):	7
Mkt Cap Ord (Eu mn):	50
Total Mkt Cap (Eu mn):	50
Mkt Float - ord (Eu mn):	14
Mkt Float (in %):	*28.6%*
Main shareholder:	
Aglaia Holding Srl	56.2%

BALANCE SHEET DATA	**2018**
Book value (Eu mn):	19
BVPS (Eu):	2.95
P/BV:	2.6
Net Financial Position (Eu mn):	8
Enterprise value (Eu mn):	42

VETRYA - *KEY FIGURES*		2016A	2017A	2018E	2019E	2020E
	Fiscal year end	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
PROFIT & LOSS (Eu mn)	Sales	57	59	64	71	75
	EBITDA	6	7	7	8	9
	EBIT	3	4	5	6	6
	Financial income (charges)	(0)	(0)	(0)	(0)	(0)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	3	4	4	5	6
	Taxes	(1)	(1)	(1)	(2)	(2)
	Tax rate (%)	40.0%	33.9%	34.0%	34.0%	34.0%
	Minorities & discontinue activities	(0)	0	0	0	0
	Net profit	2	2	3	4	4
	Total extraordinary items	(0)	(0)	0	0	0
	Ebitda excl. extraordinary items	6	7	7	8	9
	Ebit excl. extraordinary items	3	4	5	6	6
	Net profit restated	2	2	3	4	4
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	6	7	7	7	7
	EPS stated fd	0.304	0.394	0.442	0.543	0.605
	EPS restated fd	0.303	0.393	0.442	0.543	0.605
	BVPS fd	1.941	2.942	2.946	3.326	3.764
	Dividend per share (ord)	0.000	0.160	0.163	0.166	0.173
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	43.6%	36.9%	30.6%	28.1%
CASH FLOW (Eu mn)	Gross cash flow	4	5	5	6	7
	Change in NWC	(4)	9	0	(0)	(0)
	Capital expenditure	(3)	(3)	(2)	(3)	(3)
	Other cash items	(1)	(0)	(1)	0	0
	Free cash flow (FCF)	(3)	11	3	3	4
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	0	(1)	(1)	(1)
	Equity financing/Buy-back	4	5	0	0	0
	Change in Net Financial Position	1	16	1	2	3
BALANCE SHEET (Eu mn)	Total fixed assets	11	12	12	12	12
	Net working capital	10	0	0	1	1
	Long term liabilities	1	1	1	1	1
	Net capital employed	20	11	11	12	12
	Net financial position	(9)	7	8	10	13
	Group equity	10	18	19	22	25
	Minorities	0	0	0	0	0
	Net equity	10	18	19	22	25
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	50	50	50	50	50
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(9)	7	8	10	13
	Enterprise value	60	44	42	40	37
RATIOS(%)	EBITDA margin*	9.8%	11.5%	11.2%	11.5%	11.9%
	EBIT margin*	5.3%	6.5%	7.4%	8.0%	8.4%
	Gearing - Debt/equity	91.2%	-36.7%	-41.7%	-47.3%	-52.9%
	Interest cover on EBIT	10.9	21.8	16.7	20.3	22.5
	Debt/Ebitda	1.70	nm	nm	nm	nm
	ROCE*	17.1%	24.6%	41.3%	49.9%	54.4%
	ROE*	21.6%	17.0%	15.5%	17.3%	17.1%
	EV/CE	3.4	2.8	3.7	3.5	3.2
	EV/Sales	1.1	0.7	0.7	0.6	0.5
	EV/Ebit	20.1	11.4	9.0	7.0	5.9
	Free Cash Flow Yield	-6.4%	21.4%	5.0%	6.6%	7.6%
GROWTH RATES (%)	Sales	60.7%	3.8%	8.5%	12.0%	5.0%
	EBITDA*	13.2%	21.8%	5.9%	15.1%	8.4%
	EBIT*	-11.4%	29.0%	22.3%	21.5%	10.8%
	Net profit	-2.1%	48.9%	20.5%	22.9%	11.3%
	EPS restated	-8.4%	29.6%	12.4%	22.9%	11.3%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

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Executive Summary

Founded in 2010, Vetrya builds innovative services and solutions for digital communications and media. The core business is a series of proprietary cloud platforms for the distribution of multimedia content to any broadband network (mobile/fixed). The main segments addressed by Vetrya are mobile value-added services, multi-screen cloud platforms for broadband telecommunication networks, media asset management, mobile entertainment, internet TV and digital advertising. The company offers high quality standards in the services it provides, a direct interconnection with telecommunication operators for the provision of mobile commerce, and the ability to monetise digital content through carrier billing. Vetrya's listing took place on 29 July, 2016, on AIM Italia at Eu6.0ps.

Highly scalable business model. Vetrya's revenues are related to small transactions carried out by millions of people every day on their mobile devices. Vetrya aggregates content and builds technological platforms by which MNOs deliver content to their customers. The company gets paid through a Revenue Sharing Model: Vetrya retains 10%-25% of the End User Price (EUP). Given that the majority of the costs (mostly for content) are correlated to the level of revenues, the model is highly scalable.

Mobile content and services: a high growth market. According to PWC, end-user spending in the Italian Entertainment & Media sector will rise from Eu22.0bn in 2015 to Eu26.9bn in 2020 (CAGR 4.1%), mostly driven by access to Internet (CAGR 6.9%), which should represent 46% of the consumer market in 2020. TV, Video and Games will record above-average growth since mobile content is becoming ever more significant in the digital environment. MVAS are expected to grow high single-digit in the next five years worldwide. In this context, there is no shortage of content and services offered by various players. International players have captured huge market shares, attracting many mobile customers to their platforms. Local media companies are competing to offer content that is more relevant to local markets. MNOs started offering MVAS in order to exploit the increase in data usage to drive greater revenues, differentiate their offerings, and attract new customers, as well as to reduce churn and improve brand perception. MNOs can adopt different strategies in order to offer MVAS: one way is to sign commercial agreements with prominent international and local players (Netflix, Sky, MS Premium, Spotify) in order to offer their platforms at better conditions; another is to create proprietary platforms. These proprietary platforms typically include "no data consumption" formats that can be at a competitive advantage to other platforms. Operators leveraging on Vetrya's know-how can offer MVAS without incurring any upfront CAPEX and without significant risks, accelerating their time to market while also streamlining processes for feature upgrades and new service launches.

Vetrya's positioning. Vetrya has developed a series of proprietary platforms in cloud computing:

- for the provision of digital services on broadband and ultrafast broadband networks (mobile and fiber), such as the distribution of content and services to any device (smartphone, tablet, connected TV, gaming, set-top boxes, etc.), mobile payment systems, digital advertising, cognitive services, artificial intelligence and internet of things;
- leading web and API content platforms (for example, movie and music streaming services, live and on-demand video, video syndication);
- successful premium platforms based on mobile web for various national and international telecommunications operators, broadcasters, communication companies and publishers (for example RAI, TIM, H3G, Wind, Vodafone, La Repubblica, RCS Corriere della Sera, ANSA, etc ... as well as numerous international clients such as Vodafone Spain, TIM Brasil, Orange, etc ...).

Other premium services developed by Vetrya are digital payment solutions for ticketing, subscriptions to publications, online communities (e.g. TIM Cafè) and digital advertising services (such as the Digital Pay cloud platform).

We also expect Vetrya to generate at least 50% of revenues from non-premium services and projects for large customers offering solutions such as: messaging services, applications and corporate platforms, cloud computing platforms for video content distribution live and on demand, payment gateways, innovative solutions and content.

Consolidation in Italy and expansion abroad should drive growth (we forecast an 8.5% 2017-20 revenue CAGR). Our estimates assume strong revenue growth from Eu58.8mn in 2017 to Eu75.0mn in 2020; this will be driven by the launch and consolidation of new platforms in Italy, the expansion of Vetrya's activities in other European countries (i.e. Portugal and Spain through Vetrya Iberia), the Middle East (i.e. Egypt and Turkey), the South East Asian market through the recently launched Vetrya Asia Pacific, and the LatAm market through Vetrya do Brasil. Specifically, we expect the majority of revenue growth to come from foreign operations.

OUTPERFORM confirmed; target raised to Eu10.2. We confirm our positive view on the stock thanks to solid expected organic growth. We believe the strong net financial position (Eu6.6mn) at FY17 should be used to support the group's growth, allowing Vetrya to increase its R&D investments and pursue foreign expansion, and potentially enable the group to grasp any M&A opportunities that may arise. Recently signed contracts provide high visibility on revenue growth, with the 2017-2020 CAGR forecast at 8.5%. We have valued Vetrya using a combination of a discounted cash flow (DCF) model (50% weight - Eu11.3 per share) and a peer comparison (50% weight – Eu9.2 per share). This yields a fair price of Eu10.2 per share.

Company at a Glance

Overview

Vetrya [VTY.MI] is an Italian group based in Orvieto (Umbria, Italy). It is a recognised leader in the development of digital services, applications and broadband solutions. It contributes to the success of its customers by introducing innovation throughout the value chain, with a wide range of multi-screen cloud platforms for broadband and ultrafast broadband (mobile and fibre) telecommunications networks, media asset management, mobile entertainment, mobile commerce, value-added services, internet TV, broadcasting, digital advertising, artificial intelligence and content production. Vetrya is able to bring its outstanding skills and experience in cloud computing, big data and the internet of things to each and every network-connected device. The group operates in digital markets, media, telco, broadband, product, outsourcing and content management. It has an established presence in the United States through Vetrya Inc., a company located in Palo Alto (CA), which develops services and B2C applications. It also operates in the South East Asian market through Vetrya Asia Pacific Sdn. Bhd., based in Kuala Lumpur Malaysia, in South America through Vetrya do Brasil, based in Rio de Janeiro, Brazil and in the Iberian Market through Vetrya Iberia, Madrid. It boasts successful collaborations with leading global telecom operators, media companies, publishers, broadcasters, banks, utilities, manufacturing and consumer products. It is active in the digital market through the following divisions:

- Mobile Commerce
- Publishing & Advertising
- Consultancy & App Development

Mobile Commerce represents the group’s core business, with the combined exposure to two Mobile Network Operators (MNOs), namely H3G Italy, Wind and TIM, accounting for a significant part of the revenues; at the same time the company’s expansion in foreign markets should further diversify the revenue mix. In fact, in recent years Vetrya has started to expand its business abroad, opening branches in various countries such as Spain, Brazil or Indonesia and signing agreements with MNO players, exemplified by the deal signed with Vodafone Spain in March. By 2020, we expect international revenues to have reached 18-22% of total turnover.

Vetrya Group – International presence and services

Source: Company data

M-Commerce

Vetrya group operates in the Italian Mobile Commerce (M-Commerce) market. Specifically, Vetrya enables the supply of *Mobile Value-Added Services* (MVAS), which Mobile Network Operators (MNOs) usually sell to their mobile customers in exchange for a fee charged to mobile phone credit (Direct Carrier Billing).

MVAS are referred to as non-basic or non-core communication services that add value to basic or core services (i.e. Voice). MVAS include, for example:

- Browsing (pay-per-page)
- Mobile Music (streaming, live, on demand, virtual music stores)
- Mobile Gaming (real time game play and downloads)
- Mobile TV (mobile video downloads, live and on-demand streaming)
- Mobile Social Networking
- Mobile Payments and Banking
- Mobile Ticketing
- Voting
- Infotainment (infotainment combines "Information" and "Entertainment" to create exciting value-added services)

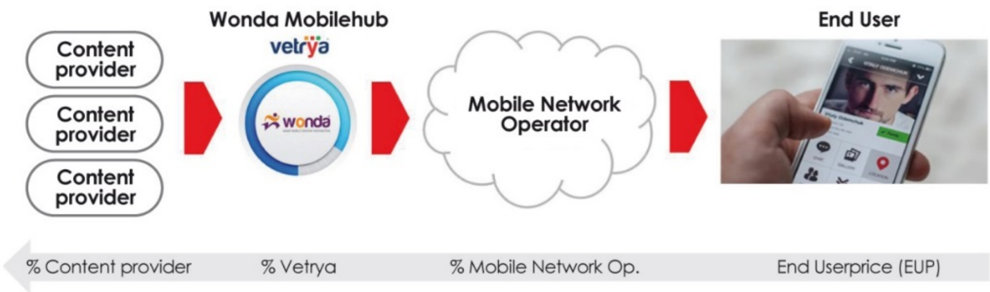
Vetrya provides an end-to-end offering to MNOs…

- Vetrya acts as an aggregator of Content Providers (CPs) through a cloud computing platform available anywhere in the world called Mobile Hub: Their CPs make digital content (publishing, video, audio, games) available to be delivered to MNOs, Which are interconnected through Vetrya's Mobile Hub;
- Vetrya creates the platforms to deliver digital content to MNO customers and manages all the technical issues: activation processes, delivery on any type of device / OS / app, protection systems for conditional access services, payment systems (mobile phone credit, credit card circuits), quality control, compliance, legally compliant SMS, monitoring, maintenance, etc.;

… and gets paid through a Revenue Sharing Model:

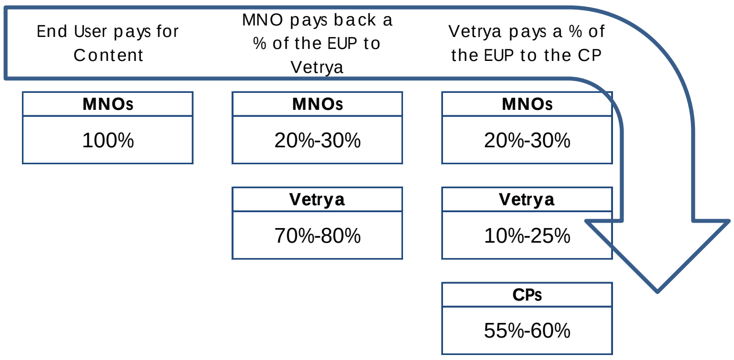
- From the MNOs, Vetrya receives on average 70%-80% of the end user price paid by the mobile customer for each individual content consumption transaction;
- Vetrya pays CPs on average 55%-60% of the end user price paid by the mobile customer for each individual content consumption transaction;
- At the end of the process, Vetrya retains on average 10%-25% of each payment made by the end user.

Vetrya Group – M-Commerce Scheme



Source: Company data

Vetrya Group – Business Model



Source: Company data and Intermonte SIM Estimates

Main Platforms

Wonda – Mobile Content Distribution:

End-to-end platform for multimedia content distribution to mobile devices. It is connected to a multi-channel mobile payment gateway.

Mobile Hub: end-to-end management of mobile commerce services. It is able to monetize the digital products of its customers for millions of users using carrier billing.

Publishing and Advertising

This area encompasses several different activities related to cloud computing proprietary technological platforms developed by Vetrya for the distribution of content (especially video) to any Internet-connected device and for the management of related services. These platforms allow publishers and companies in the media sector to produce, manage, and distribute content in any mode (live and on demand). All the platforms are designed and developed using Cloud computing technology (through a strategic agreement with Microsoft Azure), allowing de-facto scalability and global availability of those resources.

Through these platforms, which are typically integrated with one another, Vetrya offers customers video distribution services (e.g. RAI, ANSA, Corriere della Sera, Il Messaggero TV, La Repubblica, 3 Movie, etc…), free and premium services, digital advertising (campaign management: digital distribution, pre-roll, insert, banner, overlay), and data analytics and reporting - in order to realise additional revenue streams.

Main Platforms

Eclexia - Cloud Video Distribution:

- Multi-screen platform: it enables the end-to-end management of streaming video distribution in live and on-demand modes, from any source to any device (smartphone, tablet, connected TV, game console, desktop/laptop PC and set-top box);
- Functionality: content management system to manage the programming grid, transcoding services to adapt the content to different devices, digital rights management support (acquiring constantly updated third party libraries), content delivery network services (cloud services), integration with third parties (social networks).

Visidea – Video Syndication:

- Enables advertising campaign management (pre-roll, insert, video banner, overlay), data analytics and reporting;
- Video Syndication platform: distribution of client content on the main third party video platforms (YouTube, Social Networks and others) to increase advertising revenue inflows.

Xivin – Second Screen:

- Enables automatic synchronisation of the mobile device to the TV broadcast through audio recognition, allowing interaction between TV and Internet content;
- Enables a range of interactive services that can be monetised by publishers and broadcasters: e-commerce, voting, audience measurement, connection to social media.

Visyd – Digital advertising:

- Multi-screen digital advertising platform: mobile, desktop, connected TV, broadband devices, internet TV, video and display advertising.
- Real-time performance analysis platform enabling data segmentation for monitoring the relevant KPI in the current marketing campaign.

Vetrya usually offers its services without asking for significant fees related to platform customisation, maintenance and software upgrades, editorial content management or customer care activities. This gives its customers the opportunity to develop their content distribution platforms without heavy upfront costs. Vetrya's revenues are typically linked to consumption of internet traffic (directly proportional to the number of times a user accesses the platform); to revenues generated by the consumption of paid content (revenue sharing model); to advertising collection (acting as a concessionaire, margins around 10-15%).

Consultancy & App Development

The Group provides professional services related to strategic consultancy, design and development of dedicated Internet applications and services. The company develops projects, services, and end-to-end Internet applications tailored to client requirements. Examples include cross-device apps (smartphone, tablet, connected TV, desktop/laptop, game console, smart watch, wearable), and advanced web platforms, especially for telecommunications companies, media companies, publishers, and broadcasters. In our estimates, this business line accounts for less than 5% of total revenues.

SWOT Analysis

Strengths

Exposure to fast growing Mobile Entertainment and Mobile Commerce markets: Vetrya is 100% exposed to fast-growing end markets. Demand for MVAS services and mobile content consumption are expected to grow constantly at high single-digit rates.

High scalability of the business model: cloud-based platforms allow Vetrya to offer its services globally, without significant incremental investments. The more Vetrya is able to enlarge its potential customer base, by reaching agreements with new Mobile network operators or by offering further contents to its customer base (MNOs), the more its revenues are expected to grow. Mobile Network Operators can rely on Vetrya's services without incurring significant up-front costs.

Revenue sharing model: this model allows Vetrya to maintain a very light cost structure; the cost for the acquisition of contents, which represent the majority of Vetrya's cost base, is correlated to the level of revenues. Revenues are related to small transactions that millions of people do every day on their mobile devices.

Balanced financial structure: Vetrya generates positive cash flows. Most of the financial exposure is represented by short term debt for working capital requirements. Credit risk is very limited given that the customer base is made up of MNOs (typically very large companies).

Very strong relationships with Italian MNOs: In the last seven years, Vetrya has shown its customers that it is a reliable partner with the ability to build and manage quality platforms.

Weaknesses

Over-reliance on a small number of customers: Vetrya is a young company that has built-up its position leveraging on a small number of relationships with the main MNOs in Italy. Despite the constant growth in the number of customers in publishing, digital advertising, consultancy and app development, we expect that two customers, namely H3G and TIM, generate significant parts of revenues (up to 80%). In the coming years we expect Vetrya to develop its international customer base, in order to achieve more balanced exposure.

Exposure to low-end MVAS market: according to our analysis Vetrya generates at least 50% of revenues from services related to the sale of non-premium content (such as messaging services for News & Sports, Weather Forecasts, Horoscopes and others; online TV / Radio; video content related to News & Sports, Entertainment and others), for which reasonable substitutes are freely available on the Internet. In our view these services target a residual portion of the total mobile customer population, composed of less experienced and less advanced users. Going forward, these services might be at risk of erosion in the medium term, given the worthwhile substitutes available online for free.

Dependence on MNOs' strategies and investments: the success of Vetrya's platforms depends significantly on the marketing investments made by MNOs to promote proprietary MVAS services.

Low pricing power with both MNOs and CPs: commercial agreements with Content Providers are fairly standardised, and Vetrya does not enjoy pricing power. MNOs have strong pricing power and might decide to retain higher margins in-house in the future, especially in the low-end MVAS market.

Opportunities

International expansion: expanding on an international basis and reaching agreements with new MNOs is the most significant opportunity the company can seize. This would reduce exposure to current Italian MNOs, and significantly enlarge the potential customer base. Expansion in the Asia-Pacific region (Vetrya has just established a Newco in Malaysia) could be a strategic move: it is a region where MVAS is currently growing at double-digit rates, and the quality of existing services is still relatively low compared to those in western countries.

Use of proceeds: Vetrya needs to focus on the internationalisation of its services (MVAS, publishing and digital advertising, consultancy and apps) so it can build up a solid track record and increase its know-how in order to become a key player for MNOs, broadcasters and publishers globally. These opportunities can be seized by raising new funds through further capital raising and M&A operations.

Video distribution for broadcasters and media companies: the progressive introduction of new platforms to complement existing traditional video distribution technologies (e.g. satellite, digital terrestrial TV) presents Vetrya with the chance to become a major global player in the distribution of live and on-demand video through proprietary platforms.

Favourable revision to regulation on Mobile Commerce: Italian Law limits direct billing purchases to a maximum of Eu25 for individual transactions, and a maximum monthly total of Eu300. A looser limit on direct billing purchases could provide a boost for the introduction of additional digital services (e.g. ticketing, Public Administration payments).

Digital payment: Vetrya could develop digital payment systems that do not just take advantage of the remaining phone credit, but also integrate other payment networks (e.g. credit cards, bank account). This is an ongoing project.

Cash generation: solid cash generation despite major investments made in R&D for the development of proprietary platforms and for the Vetrya Corporate Campus.

International coverage: it already operates on international markets and has started an internationalisation policy facilitated by the use of cloud platforms.

Unique and integrated offer: it has built a significant range of services and solutions for the distribution of multimedia content on any type of broadband network (mobile / fixed), which is able to address a wider range of customer needs than its main competitors.

Threats

Faster-than-expected decline in non-premium MVAS consumption: according to our analysis, at least 50% of Vetrya revenues are related to non-premium MVAS. Vetrya needs to design new services / content, in order to find new paths for growth that can quickly generate new revenue streams.

Change in strategy by MNOs: MNOs could decide to retain higher margins from MVAS services offered by Vetrya or decide to bring the most promising platforms in-house.

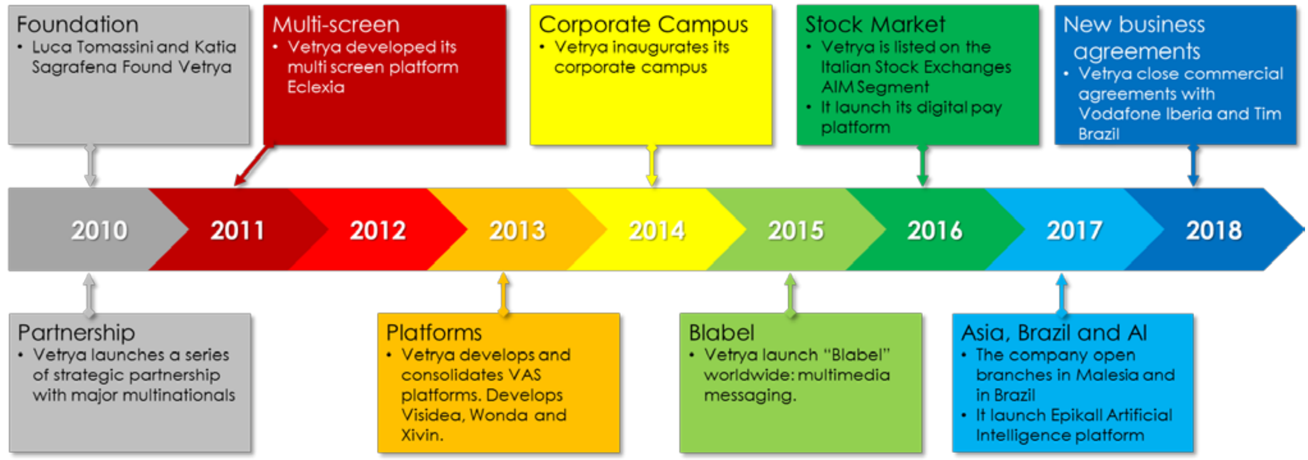
Fierce competition at high end of MVAS market: There is no shortage of high quality platforms and contents offered by various players on the internet (Facebook, Netflix, Spotify). International players have captured huge market shares, attracting many mobile customers to their platforms. Local media companies are competing to offer content that is more relevant to the local market. Some MNOs have decided to tap into this market, offering proprietary platforms with the support of well-known consultancy companies like Reply, Accenture, and Mondia Media (formerly Arvato Mobile). As a small, new company Vetrya has just started to build a successful track record as service provider.

Stricter regulation on MVAS: Stricter regulation of business practices by mobile operators and their suppliers could reduce the consumption of non-premium MVAS; at least 50% of Vetrya's revenues are related to this type of MVAS, according to our analysis.

Group Profile

Vetrya Group - Corporate History

Vetrya Group – Key Milestones from start-up in 2010



Source: Company Presentation

Vetrya Group – Founders

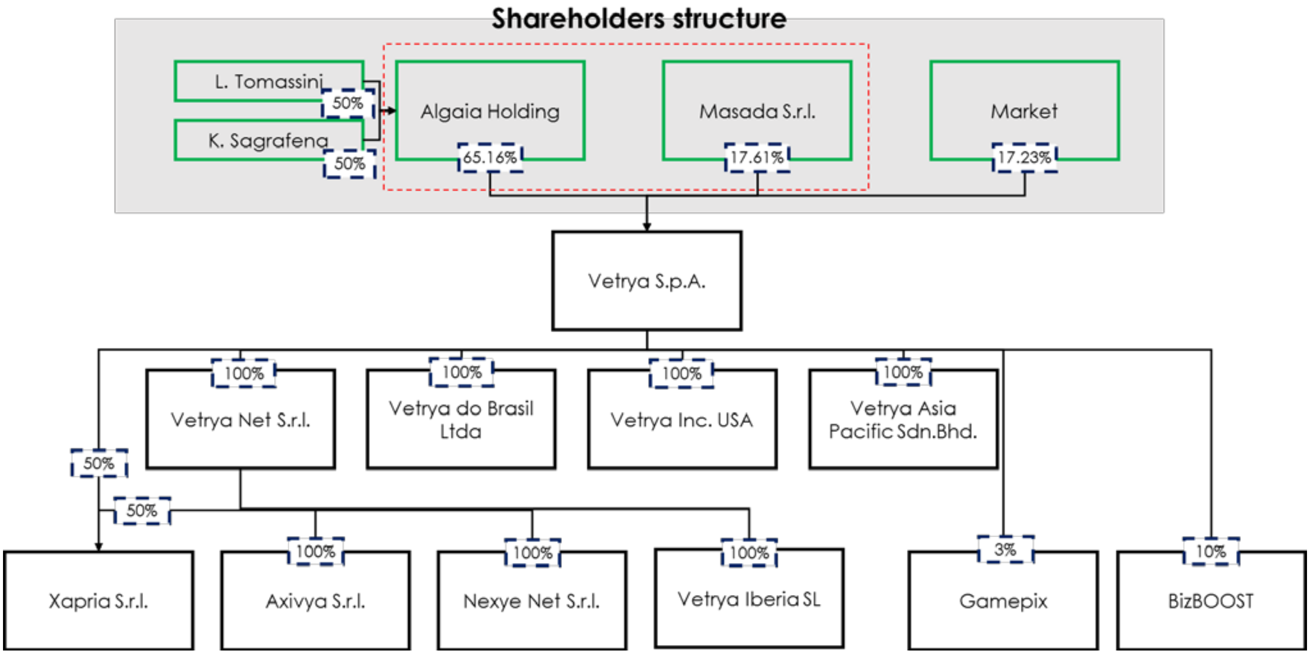
Luca Tomassini: Born Pisa, 21 October 1965. He was made a Knight of the Order of Merit for Labour by the Italian Head of State on 31 May 2015. His career began in 1987 at the Headquarters of SIP (today Telecom Italia). In 1990, he took charge of mobile product development and was responsible for the launch of second generation E-TACS mobile telephony. At the Business Clients Division of Telecom Italia, he was in charge of Business Systems Development and the Telecom Italia Group Internet & Intranet project between 1995 and 1999. From 1999 to 2007 he was a founding partner of Franco Bernabè group and CEO of Integra Net Factory S.p.A., active in ICT. From 2000 to 2004, he was CEO of Kelyan and Chairman of Tidysoft. In 2004, he became founder, Chairman and CEO of Kelyan lab (Xaltia from 2005), which launched the world's first Mobile TV service, on 2.5G/3G networks for TIM in Italy, Brazil, Peru and Greece. From 2000 to 2008, he held board memberships of companies that develop ICT solutions for business, and value-added services for the telecoms industry. Over this period he was Chairman and CEO of Green Media, CEO of Electrosys Itelco, a well-established producer of systems for broadcasting, and CEO of Infoguard Italia, world leader in ICT security systems. As a Senior Vice President, Telecom Italia from 2007 to 2010 he headed Innovation Business Development at TIM, Business Innovation at Telecom Italia Domestic Market Operations, Mobile Virtual Network Operations, and Broadband Content. Since 2010 he has been Chairman and CEO of Vetrya S.p.A. 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 at Tuscia University. He was previously a Professor at the Guglielmo Reiss Romoli secondary school.

Katia Sagrafena: Born Rome, 31 August 1967. Katia Sagrafena began her career in 1988 at Sistemi Informativi (IBM Group), initially in software development for banks. In 1997, she joined Siemens, where she had full operational independence to manage and coordinate workgroups on framework agreements (multi-project and multi-platform) for Telecom Italia and ENEL. From 2001 to 2005 she was in charge of a 400-strong workforce at Solution Center PA for EDS (now HP), and then became Program Manager, Sales Management, where she collaborated in the development and business teams working for the public sector and other major clients. From 2006 to 2009 she was Director of Human Resources Enhancement for Xaltia S.p.A. Since 2010 she has been General Manager and Director of Human Resources Enhancement for Vetrya S.p.A.

Vetrya Group – Shareholders and Group structure

Aglaia Holding Srl, owned by the two founders in equal proportions, is the major shareholder. Masada Srl is owned by Edoardo Narduzzi, Chairman and partner of Techedge S.p.A., a leader in Italy for business process solutions. The float amounts to 17.23%.

Vetrya Group – Shareholders and Group structure



Source: Company Presentation (Sept 2017)

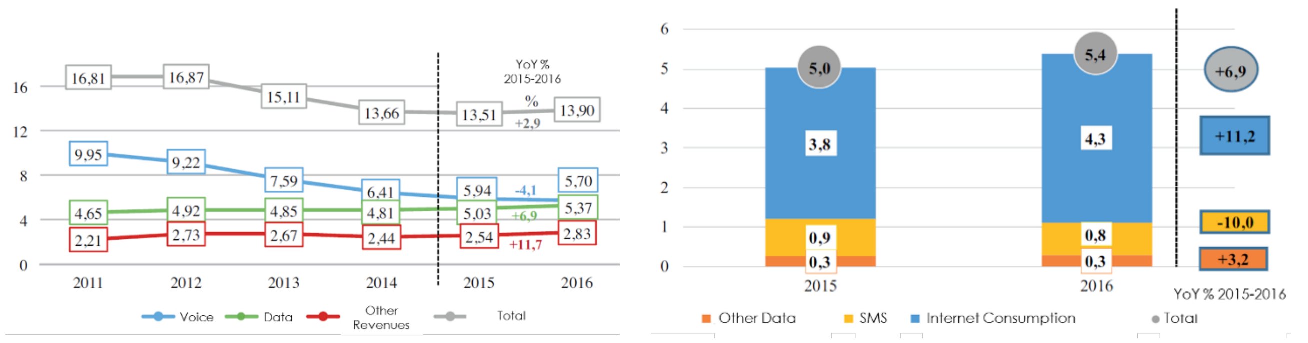
Focus on the core M-Commerce Business

Reference Market

Increasing importance of Data Usage and Content for MNOs

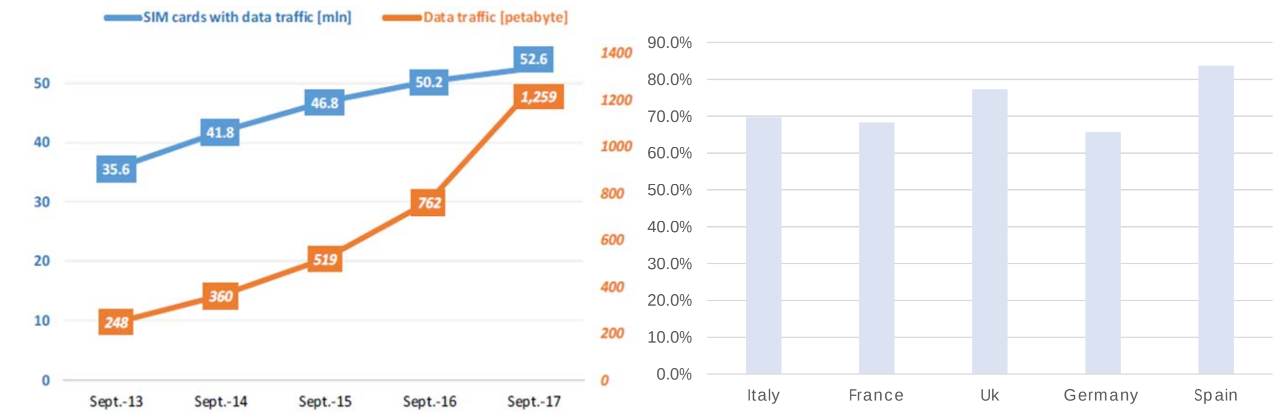
In the Telecom Sector ARPU related to voice services is declining due to fierce competition between market players, which is driving down voice tariffs. The highly competitive environment also brings challenges related to customer retention and churn rates. In this context, offering data for the consumption of digital content is becoming increasingly important globally, especially in developed countries like Italy. Fixed and Mobile data consumption has increased rapidly thanks to improvements in the broadband network and the penetration of smartphone devices. In Italy, mobile broadband coverage and smartphone penetration is high: smartphone connections in Italy are expected to grow from around 52.6mn in September 2017 to roughly 65mn in 2020. Developing markets, especially in the Asia-Pacific region, should show very high increases in smartphone penetration.

Italian Market –Spending for Mobile Services and detail of Data Services Spending (Eu bn)



Source: AGCOM Annual Report 2017

Italian Market –Data Traffic Growth and 4G coverage by country (right)



Source: AGCOM Observatory n. 4/2017 and Open Signal - The State of LTE (Feb. 2018)

Entertainment & Media Sector: digital is driving growth

Almost 100% of Vetrya's MVAS revenues are related to the entertainment & media sector. According to PWC, end-user spending in the Italian Entertainment & Media sector will rise from Eu22.0bn in 2015 to Eu26.9bn in 2020 (CAGR 4.1%), mostly driven by access to Internet (CAGR 6.9%), which should represent 46% of the consumer market in 2020. TV, Video and Games will record above-average growth since mobile content is becoming more and more significant in the digital environment.

Italian Entertainment & Media Market – End User Spending (Eu bn)

Sector	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR % 2015-20
Books	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	(0.5%)
YoY %		(3.4%)	(4.4%)	(2.6%)	1.3%	0.3%	(0.1%)	(0.5%)	(0.9%)	(1.3%)	
B2B	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.9	1.4%
YoY %		(0.3%)	(2.2%)	(1.5%)	(1.5%)	1.6%	1.5%	1.4%	1.2%	1.2%	
Cinema	0.7	0.6	0.6	0.6	0.7	0.7	0.6	0.7	0.7	0.7	0.9%
YoY %		(8.6%)	1.4%	(7.1%)	10.8%	5.5%	(7.8%)	1.8%	2.3%	3.0%	
Internet	**6.8**	**7.3**	**7.8**	**8.3**	**8.8**	**9.5**	**10.1**	**10.8**	**11.6**	**12.3**	**6.9%**
YoY %		**8.3%**	**6.4%**	**5.7%**	**6.6%**	**7.4%**	**7.2%**	**7.0%**	**6.7%**	**6.3%**	
Magazines	2.0	1.7	1.6	1.5	1.4	1.4	1.3	1.3	1.3	1.3	(2.3%)
YoY %		(12.5%)	(9.4%)	(5.9%)	(4.6%)	(3.3%)	(2.5%)	(2.0%)	(1.9%)	(1.8%)	
Music	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6%
YoY %		(2.6%)	(0.7%)	0.0%	5.5%	1.2%	0.7%	0.8%	0.6%	(0.2%)	
Newspapers	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.3%
YoY %		(6.5%)	(3.3%)	0.1%	(1.6%)	1.3%	1.3%	1.3%	1.3%	1.3%	
Radio	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6%
YoY %		(2.8%)	13.1%	(9.8%)	4.8%	1.0%	0.7%	0.4%	0.5%	0.5%	
TV and Video	**5.5**	**5.1**	**5.0**	**4.9**	**4.9**	**5.5**	**5.6**	**5.8**	**5.9**	**6.1**	**4.1%**
YoY %		**(6.4%)**	**(2.3%)**	**(2.3%)**	**1.4%**	**11.0%**	**2.6%**	**2.6%**	**2.5%**	**2.3%**	
Videogames	**0.8**	**0.8**	**0.8**	**0.9**	**0.9**	**1.0**	**1.0**	**1.1**	**1.1**	**1.2**	**4.6%**
YoY %		**(1.9%)**	**5.9%**	**8.7%**	**6.9%**	**5.9%**	**5.3%**	**4.9%**	**3.9%**	**2.8%**	
Total	**21.2**	**20.9**	**21.0**	**21.3**	**22.0**	**23.3**	**24.2**	**25.1**	**26.0**	**26.9**	4.1%
YoY %		(1.4%)	0.7%	1.1%	3.5%	5.9%	3.6%	3.8%	3.7%	3.5%	

Source: PWC Entertainment & Media Outlook 2016-2020

Crowded markets with both local and international players

There is no shortage of content and services offered by different players. International players have captured huge market shares, attracting many mobile customers to their platforms. Local media companies are competing to offer content that is more relevant to the local market.

Such content is typically made available both in HTML and in App formats. Two international players, namely Google and Apple, have built the two major global application stores (Google Play and Apple App Store). Handset makers have also built their own app stores (e.g. Samsung). Other independent players have followed suit (App Central, Getjar, Mobango), and finally some network operators offer proprietary app stores (for example the Orange app store).

Non-premium content is typically offered for free on advertising-based platforms. This might be the case for news-related content that is offered by local publishers or TV-related content offered by local broadcasters on their websites / apps.

With regard to social networks / communities / messaging services, international players have captured the largest market share, offering free / freemium / premium platforms.

Premium content related to Video and Music is typically offered on a subscription basis. International players like Netflix or Spotify have established the practice of offering a monthly subscription, most often linked to a credit card payment.

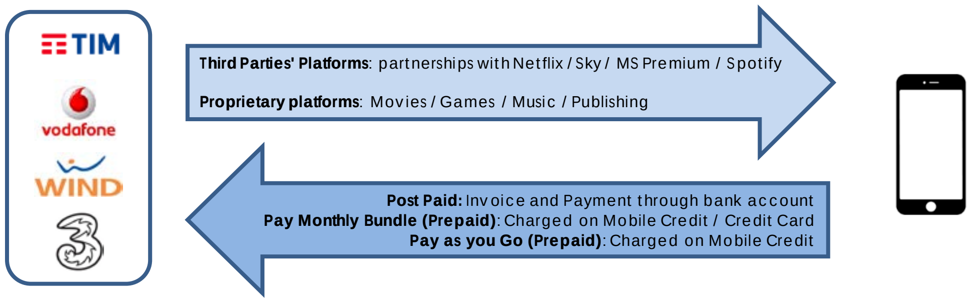
Games can be based on free / freemium / premium subscription formats. The main platforms to obtain mobile games are the major app stores.

TLC: Partnering and Competing With Other Players

MNOs started offering MVAS in order to exploit the increase in data usage to drive greater revenues, differentiate their offer and attract new customers, as well as reducing churn and improving brand perception. MNOs can adopt different strategies in order to offer premium MVAS: one way is to seal commercial agreements with prominent international and local players (Netflix, Sky, MS Premium, Spotify) to offer their platforms at better conditions; another way is to create proprietary platforms; some players do both.

Offering international platforms can attract customers and improve brand perception. Huge CAPEX investments by international tech players are a guarantee of high content and service quality. Some TLCs decided to launch proprietary platforms in order to compete in the fast-growing content distribution market. These proprietary platforms typically include “no data consumption" formats that can be at a competitive advantage to other platforms. Consumption from mobile devices can be charged either on a "Pay per view" or on a "Pay Monthly" basis, with payment through Credit Card / Direct Billing / Invoicing.

Business models implemented by Telco Operators



Source: Intermonte SIM

<u>Current major MVAS offering of Italian MNOs in Video / Music / Games:</u>

<u>Video on-demand</u>:

- ***TIM***: TIM Vision, TIM Premium Online, TIM Sky, Netflix, Studio+
- ***Vodafone***: TIDAL, Now TV (Sky), Netflix, ChiliTv, Infinity (MS Premium), Spotify, Amazon Kindle
- ***Wind & H3G Italy***: NOtv Mobile proprietary platform (Movie by 3)

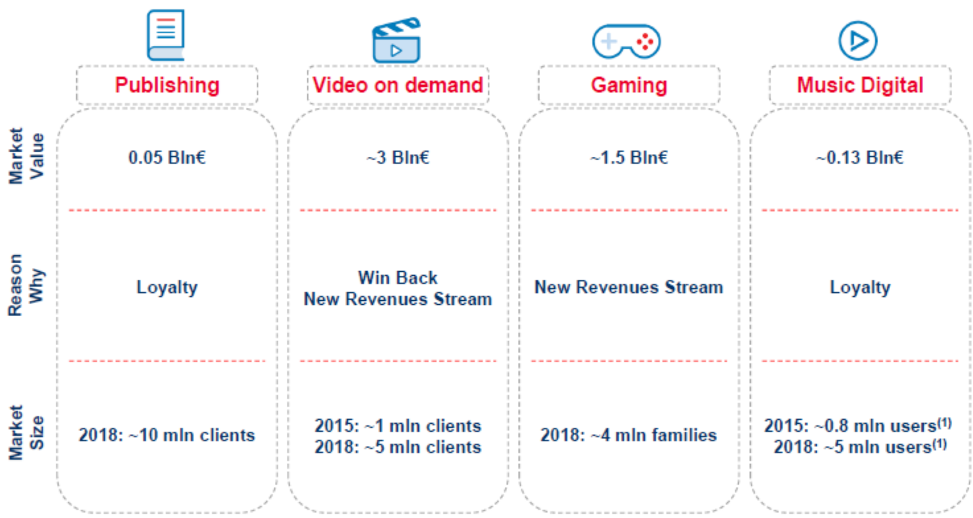
<u>Gaming</u>:

- ***TIM***: TIM Games (proprietary platform)
- ***Vodafone***: no gaming platforms
- ***Wind & H3G Italy***: partnership with Gameloft for purchase of games through direct carrier billing & proprietary platform (Games by 3)

<u>Music</u>:

- ***TIM***: TIM Music
- ***Vodafone***: TIDAL, Apple Music, Spotify, Deezer Music, SoundCloud
- ***Wind & H3G Italy***: proprietary platform (Music by 3)

Italian Digital Market – Growth Estimates for Video / Music / Games



Source: Telecom Italia Company Presentation Feb 2016

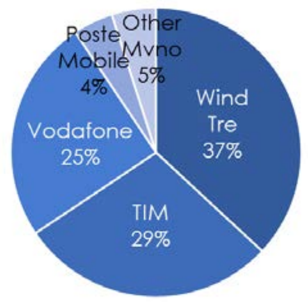
Size of the Italian mobile market

In December 2017, there were 100.2 mn active SIMs in Italy, of which 16.3mn Machine to Machine (M2M) which we exclude from the analysis. Last year the number of SIMs with Internet access grew by 3.1%, exceeding 52.2mn units.

Finally, it is worth noting that Italian Law limits direct billing purchases to a maximum of Eu25 for individual transactions, and a maximum Eu300 per month.

Italian Mobile Market – 2017

Total Mkt Revenue (Eu bn)	13.4
Average monthly ARPU (Eu)	13.3
Total # Sim (mn)	83.9
Residential	88.4%
Business	11.6%
Total SIM	83.9
Sim with data (mn)	52.6
Sim with data (%)	62.7%



Source: AGCOM - Osservatorio n. 4 del 2017 (Sep). Note: data refers to Human Sim

Italian Mobile Market - SIM with Data Traffic

	2012	2013	2014	2015	2016	2017	...	2020E
# SIM (mn)	28.1	35.6	41.8	46.8	50.2	52.6		65.0
YoY Growth		27%	17%	12%	7%	5%		7%

Source: AGCOM and 2020 Estimate from PWC Entertainment & Media Outlook 2016-2020

Vetrya Positioning

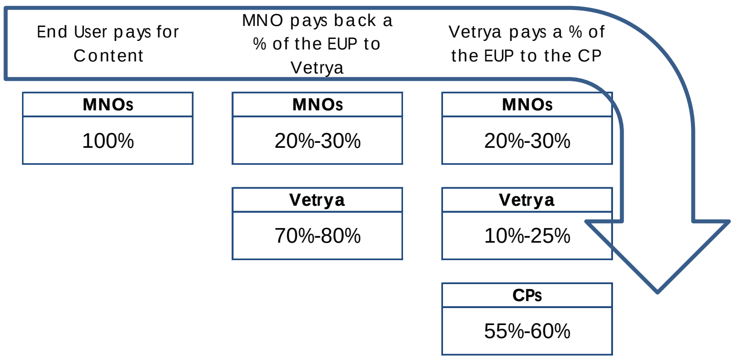
Value added services (MVAS)

Vetrya acts as a content aggregator. Content Providers (CPs) sign agreements with Vetrya for the distribution of their content (publishing, video, audio, games) through Vetrya's Mobile Hub, interconnected with local and international network operators. The Mobile Hub allows CPs to address a potentially mass market and monetise their digital content without paying upfront distribution costs. Typically, contracts between Vetrya and CPs have no expiry date and are based on a revenue sharing model. Agreements with Vetrya usually provide CPs with a share of around 55-60% of the end user price. Vetrya's negotiating power with CPs is limited, and can vary according to: 1) the potential customer base 2) the quality and standing of the CP. Vetrya has also reached agreements with international content aggregators under standardised conditions.

Vetrya acts as a technology provider. Vetrya creates the platforms to deliver digital content to MNOs' customers and manages all the technical issues: activation processes, delivery on any type of device / OS / app, protection systems for conditional access services, payment systems (mobile phone credit, credit card circuits), quality control, compliance, legally compliant SMS, monitoring and maintenance. For the MNO, Vetrya is a single point of call, replacing separate vendor-specific, multiple-delivery models with a comprehensive standardised approach featuring full service management. Typically, contracts between Vetrya and MNOs are renewed automatically on a 1-2 year basis, and are based on a revenue-sharing model. Agreements with Vetrya usually provide MNOs with a 20-30% share of the end user price. Once again, Vetrya's bargaining power with MNOs is limited, and can vary depending on: 1) the quality of the content and services provided; 2) the number of services offered; 3) the level of competition. Operators using Vetrya's platforms can offer MVAS without incurring any upfront CAPEX and without significant risks, accelerating their time to market while also streamlining processes for feature upgrades and new service launches. On the other hand, MNOs' advertising spending to promote MVAS services are key to the success of the different platforms, and consequently to Vetrya's top line.

Vetrya acts as a content producer. Vetrya also creates some content (e.g. mobile games, videoclip, etc ..) for distribution. Revenues related to proprietary content, which obviously drive higher margins for Vetrya, should represent less than 10% of the total.

Vetrya - Business model



Source: Intermonte SIM

Competitive Scenario in MVAS:

On the supply side, the market is characterised by small, local operators who use aggressive trading practices that are difficult to sustain in the medium to long term; they are also less scrupulous in complying with regulatory requirements. A few larger international operators exist who pursue longer-term strategies. The long-term growth of these firms is related to their ability to develop a new generation of services; this requires innovation, economies of scale, increasingly specialised know-how, and global distribution capabilities. In this environment, Vetrya stands out as one of the leading national operators thanks to the experience accumulated since its inception, and the market insight built up over the years that have gone by since the initial development of MVAS.

The main existing suppliers of MVAS services in this market sector (including international operators, and those who might decide to offer services similar to Vetrya's, especially in mobile payment services) include the following:

- **Buongiorno!**: a multinational group operating in the digital entertainment market; a global player in its target market. In July 2012, Buongiorno! became a wholly owned subsidiary of NTT DoCoMo, the world leader in mobile telecommunication technologies and services;
- **PureBros**: an independent company active in the MVAS market;
- **Neomobile**: a global group in mobile commerce using platforms to monetise services and / or digital products through direct carrier billing;
- **InternetQ**: a UK company listed on the AIM market in London that provides mobile marketing and digital entertainment services. InternetQ design platforms such as Minimob (mobile advertising) and Akazoo (music streaming);
- **Netsize**: controlled by Gemalto Group, it operates in the MVAS market and is a global leader in mobile micro payment and messaging solutions;
- **Mobilestreams**: a UK company listed on the AIM market in London that provides entertainment-related MVAS. The company distributes a variety of multimedia content to consumers (ringtones, images, videos and other products) through proprietary platforms connected to the various mobile operators;
- **Zamano**: a UK company listed on the AIM market in London that provides messaging services (cloud-based messaging solutions) and online payment solutions (mobile payments) through agreements with major telephone and mobile marketing services.

Publishing and Advertising: digital advertising

Through its Visyd cloud platform, Vetrya is an advertising space aggregator that brings together available advertising space (belonging to clients who own digital space in applications and / or on web sites) and the main "advertising network "(i.e. Google).

The platform enables the sale of advertising space in the various display formats (e.g. text, images, interactive and video) in direct and scheduled modes.

Vetrya's competitors for this specific activity include:

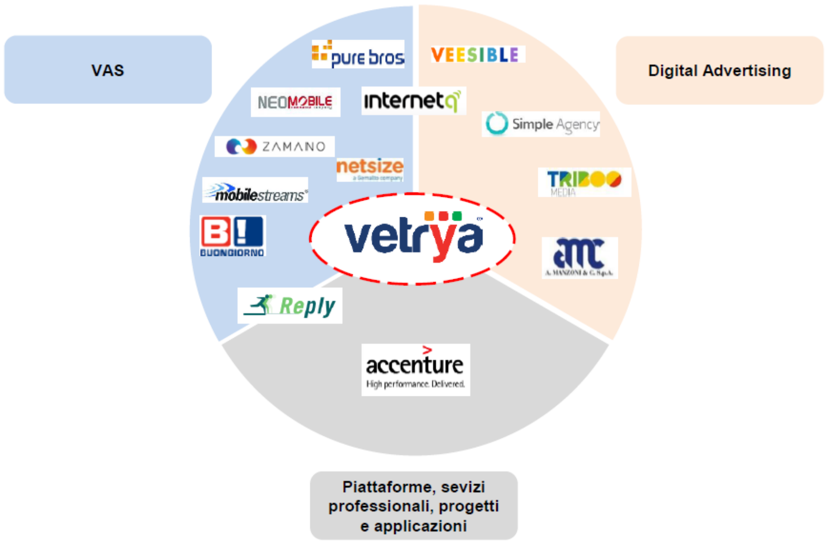
- **Triboo:** listed on the Italian AIM market, it operates in the field of digital advertising, offering integrated services for publishing and web advertising;
- **Manzoni Advertising**: exclusive advertising agency for the L'Espresso group and for other Italian publishing groups. Active in the multimedia market, it focuses its offering not only on television but also on the digital market;
- **Veesible**: advertising agency founded in 2000 under the Tiscali brand, active in the Italian digital market and focused on cutting-edge communication solutions. Thanks to its Tiscali heritage, the company has 15 years of experience in the online advertising market.
- **Simple Agency**: active in digital marketing, it has joined Aegis Media Italy, thus becoming part of the Dentsu Aegis Network.

Publishing and Advertising: publishing, platforms, consulting, apps

We believe that the principal competitive factors in this segment can be defined as the ability to rapidly develop and deploy internet-based platforms and solutions; service quality; technical knowledge, skills, and experience; and the abilities and experience gained in providing professional services in brand value and value-added services. Vetrya currently operates in a competitive environment which pits it against Italian and multinational companies with greater financial resources than itself. Vetrya is also competing against a number of small, specialist companies, whose research and development activities are more heavily focused on fewer products. The market for solutions, platforms, consultancy, projects, digital applications and apps is highly competitive both nationally and internationally, and Vetrya is up against companies offering similar products and services. Among the main competitors are:

- **Reply:** listed on the MTA market, Italy's Reply offers consultancy, systems integration and digital services. It specialises in the design and implementation of solutions based on the Internet and social networks, and is also active in the provision of value-added services;
- **Accenture**: an international consultancy company, it is also involved in providing services and solutions for the digital market

Vetrya Group – Competitive Positioning



Source: Company data

Vetrya International Expansion

Expanding on an international basis of the overall supply by Vetrya and reaching agreements with new MNOs is the most significant opportunity the company can seize. This would reduce exposure to current Italian MNOs, and significantly enlarge the potential customer base. In 2015, Vetrya started its international expansion by providing services for MNOs in Portugal, Spain and Egypt. Vetrya announced on 13th Jan, 2017 the creation of Vetrya Asia Pacific Ltd., a subsidiary of Vetrya SpA, which aims to internationalize the entire group offering on the South-East Asian markets. Expansion in the Asia-Pacific region could be a strategic move: it is a region where MVAS is currently growing at double-digit rates, and the quality of existing services is still relatively low compared to those in western countries. At the end of 2017 they also started the opening of the Brazilian Branch.

Thanks to the branches in Spain and Brazil, Vetrya was able to sign two agreements with Vodafone Spain, in April, and with Tim Brazil in March 2018. These contracts allow Vetrya to provide digital services and mobile payments through Wonda, its proprietary cloud-computing platform, to the 59 million Tim Brazil clients and Vodafone Iberia one (more than 14mn customers). These accords are in line with the company strategy to grow mainly through the expansion in other countries and we expect these contracts to have a positive impact on P&L from 2H18, but to produce its full effects from 2019.

FY17 Results and Intermonte Estimates

FY17 Results

Net profit surged 48.9% YoY to Eu2.4mn; NFP positive at Eu6.6mn: Vetrya closed FY17 with a 3.8% increase in revenue to Eu58.8mn. On the other hand, the group recorded a strong improvement in EBITDA, which grew 21.8% to Eu6.76mn, with the EBITDA margin therefore rising sharply from 9.8% in 2016 to 11.5% in 2017. This allowed the group to close FY17 with restated net profit of Eu2.4mn, up 48.9% YoY. Thanks to a Eu16mn improvement in working capital (commercial receivables came down from Eu38.7mn at FY16 to Eu21.1mn), mainly as a result of greater recourse to factoring, and the Eu5.3mn rights issue completed on 3rd October 2017, the company was able to close the year with a positive net financial position of Eu6.6mn. The Board of Directors approved a Eu0.16 DPS (total pay-out Eu1.1mn) to be paid on 23rd May 2018.

Vetrya Group – FY17 Results

(Eu mn)	2016A	2017A	YoY
Revenues	**56.6**	**58.8**	3.8%
Capitalized Costs & Others	1.8	2.1	
Value of Production	**58.4**	**60.9**	4.3%
Total Costs	(52.9)	(54.1)	
EBITDA before exc.	**5.6**	**6.8**	**21.8%**
Ebitda Margin	9.8%	11.5%	
Exceptional items	0.0	0.0	
EBITDA IFRS	**5.6**	**6.8**	21.8%
Ebitda Margin	9.8%	11.1%	
Deprec and amort.	(2.6)	(2.9)	
EBIT	**3.0**	**3.8**	29.0%
Ebit Margin	5.1%	6.3%	
Financial Charges	(0.3)	(0.2)	
Extra items	0.0	0.0	
Pretax Profit	**2.7**	**3.7**	35.4%
Income Tax	(1.1)	(1.2)	
Tax Rate	-40.0%	-33.9%	
minorities/discont OP	(0.0)	0.0	
Net profit	**1.6**	**2.4**	**53.5%**
NFP at year end	**(9.4)**	**6.6**	**n.m.**

Source: Company data

Intermonte Estimates

New contracts to increase visibility on company growth: Vetrya has built up a solid track record that marks it out as a reliable partner for telecom operators and we are confident the company is in a position to keep on enriching its international customer portfolio. Notably, in 1Q18 Vetrya signed two new important contracts with major mobile players: Vodafone Iberia and Tim Brazil. These new contracts should boost international revenue starting from 2H18. Tim Brazil and Vodafone Iberia has a number of mobile customers exceeding 59mn and 14mn respectively. In light of these contracts, we are raising our 2019 revenue estimates, leaving our 2018 forecasts broadly unchanged (-0.6%). As for EBITDA, our projections point to Eu7.2mn for 2018 and Eu8.2mn for 2019 (-1.9% and +8.5% respectively). Our review of financial costs takes into account the use of factoring, which we expect to continue also in the years to come. We are also lowering our tax rate assumption from 38% to 34%, in line with the cut in IRES tax. In conclusion, we are revising our EPS estimates downwards by -17.6% and -0.6% for 2018 and 2019 respectively due to the EPS dilution generated by the 2017 right issue (we review net profit upward by 5.1% and 26.4% for 2018 and 2019).

Vetrya Group – Income Statement

(Eu mn)	2015A	2016A	2017A	2018E	2019E	2020E	CAGR 17-20
Revenues	**35.2**	**56.6**	**58.8**	**63.8**	**71.4**	**75.0**	**8.5%**
YoY Growth	*0.3%*	*60.7%*	*3.8%*	*8.5%*	*12.0%*	*5.0%*	
Capitalized Costs & Oth	2.1	1.8	2.1	2.4	2.5	2.6	
On sales %	6.8%	3.6%	3.9%	4.0%	4.0%	4.0%	
Value of Production	**37.4**	**58.4**	**60.9**	**66.2**	**73.9**	**77.6**	**8.4%**
YoY Growth	*2.5%*	*56.4%*	*4.3%*	*8.7%*	*11.7%*	*4.9%*	
Total Costs	**(32.4)**	**(52.9)**	**(54.1)**	**(59.0)**	**(65.7)**	**(68.6)**	**8.2%**
Structure Costs	(7.6)	(8.5)	(9.6)	(10.3)	(10.8)	(11.1)	
Content Costs	(24.9)	(44.342)	(44.6)	(48.7)	(54.9)	(57.6)	
on revenues %	-73.7%	-78.3%	-75.9%	-76.4%	-76.8%	-76.8%	
EBITDA ORGANIC	**4.9**	**5.6**	**6.8**	**7.2**	**8.2**	**8.9**	**9.7%**
YoY Growth	*17.3%*	*13.2%*	*21.8%*	*5.9%*	*15.1%*	*8.4%*	
Ebitda Margin	*13.9%*	*9.8%*	*11.5%*	*11.2%*	*11.5%*	*11.9%*	
D&A	(1.6)	(2.6)	(2.9)	(2.5)	(2.5)	(2.6)	
YoY Growth	*56.3%*	*66.2%*	*13.5%*	*-15.6%*	*3.0%*	*3.0%*	
EBIT	**3.4**	**3.0**	**3.8**	**4.7**	**5.7**	**6.3**	**18.1%**
YoY Growth	*5.1%*	*-11.4%*	*29.0%*	*22.3%*	*21.5%*	*10.8%*	
Ebit Margin	*9.0%*	*5.1%*	*6.3%*	*7.1%*	*7.7%*	*8.1%*	
Financial Charges	(0.5)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	
Extra items	(0.2)	0.0	0.0	0.0	0.0	0.0	
Pretax Profit	**2.7**	**2.7**	**3.7**	**4.4**	**5.4**	**6.0**	**18.1%**
YoY Growth	*37.2%*	*-1.4%*	*35.4%*	*20.5%*	*22.9%*	*11.3%*	
Income Tax	(1.0)	(1.1)	(1.2)	(1.5)	(1.8)	(2.1)	
	37.8%	*40.0%*	*33.9%*	***34.0%***	***34.0%***	***34.0%***	
Net Profit	**1.7**	**1.6**	**2.4**	**2.9**	**3.6**	**4.0**	**18.1%**
YoY Growth	*78.6%*	*-2.1%*	*48.9%*	*20.5%*	*22.9%*	*11.3%*	

Source: Intermonte SIM Estimates

Vetrya Group – Cash Flow

(Eu mn)	2015A	2016A	2017A	2018E	2019E	2020E	CAGR 17-20
EBITDA adjusted	4.9	5.6	6.8	7.2	8.2	8.9	
Financial Charges	(0.6)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	
Cash Taxes	(1.0)	(1.1)	(1.2)	(1.5)	(1.8)	(2.1)	
Change in WC	(0.2)	(3.9)	9.1	0.1	(0.3)	(0.2)	
CAPEX	(2.7)	(2.6)	(3.5)	(2.4)	(2.5)	(2.6)	
Others							
Operating Cash Flow	**0.3**	**(2.3)**	**11.0**	**3.0**	**3.3**	**3.8**	**-29.5%**
Non-recurring Cash Outs		(0.9)	(0.2)	(0.5)			
Acquisitions							
Rights Issue		4.1	5.3				
Disposals							
Dividends				(1.1)	(1.1)	(1.1)	
Others	(0.0)						
Change in NFP	**0.3**	**0.8**	**16.1**	**1.5**	**2.3**	**2.8**	**-44.5%**
NFP at year beginning	(10.5)	(10.2)	(9.4)	6.6	8.1	10.4	
NFP at year end	**(10.2)**	**(9.4)**	**6.6**	**8.1**	**10.4**	**13.1**	**25.6%**
Net Debt/EBITDA	*-2.1x*	*-1.7x*	*1.0x*	*1.1x*	*1.3x*	*1.5x*	

Source: Intermonte SIM Estimates

Vetrya Group – Balance Sheet

(Eu mn)	2015A	2016A	2017A	2018E	2019E	2020E	CAGR 17-20
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	
Receivables	20.4	38.7	21.2	23.0	25.7	27.0	
Payables	(13.9)	(28.2)	(22.2)	(22.6)	(25.1)	(26.2)	
Other current assets/liabil	(0.9)	(1.0)	1.4	-	-	-	
NWC	**5.6**	**9.5**	**0.4**	**0.3**	**0.6**	**0.8**	**24.1%**
Net Fixed Assets	4.9	4.9	5.9	6.2	6.0	5.8	
Net Intangible assets (Otl	4.5	5.8	5.3	5.5	5.7	5.8	
Net Financial Investment	0.2	0.2	0.4	0.4	0.4	0.4	
Termination Indemnity Re	(0.3)	(0.6)	(0.6)	(1.1)	(1.1)	(1.1)	
Net Capital Employed	**14.9**	**19.8**	**11.4**	**11.3**	**11.5**	**11.7**	**0.7%**
NFP	**(10.2)**	**(9.4)**	**6.6**	**8.1**	**10.4**	**13.1**	**25.6%**
Group Equity	4.6	10.4	18.0	19.4	21.9	24.8	
Minorities	0.1	-	-	-	-	-	
Net Equity	**4.7**	**10.4**	**18.0**	**19.4**	**21.9**	**24.8**	**11.2%**

Source: Intermonte SIM Estimates

Valuation

We have valued Vetrya using a combination of a discounted cash flow (DCF) model (50% weight - Eu11.3 per share) and a peer comparison (50% weight – Eu9.2 per share). This yields a fair price of Eu10.2 per share. At target, the stock would be trading at 8.7x and 7.6x EV/EBITDA for 2018 and 2019 respectively.

In calculating our fair value per share, we considered the fully diluted number of shares, 7.2mn, i.e. adding to the 6.58mn outstanding shares the 0.64mn new shares expected from the exercise of warrants.

Vetrya: Valuation Summary

(Eu mn)	Val.	Weight	Weight Val.
DCF Valuation (WACC @ 8.8%, g @ 2.5%)	11.3	50%	5.6
EV/EBITDA adj. FY1 @ 7.5x, FY2 6.5x	9.2	50%	4.6
Fair value per Share (Eu)			**10.2**
Actual Share Price			7.66
Upside / (Downside)			**33.4%**

Source: Intermonte SIM Estimates

More precisely, at the IPO on 29th July 2016, 0.64mn new shares were subscribed and an equivalent number of Warrants (1:1 conversion ratio) were assigned to each subscriber with three vesting windows.

In our valuation we assume that all 636,265 warrants will be exercised in 2018, with the issue of 636,265 new shares and a Eu4.62mn cash-in.

Warrant Details

	Exercise period		Strike price
I Period	15/05/2017	29/05/2017	6.60
II Period	14/05/2018	28/05/2018	7.26
III Period	13/05/2019	27/05/2019	7.99

Source: Company data

DCF Valuation

Our discounted cashflow model has a 4-year explicit forecast period starting from 2018 and running until 2021, and yields an equity value of Eu10.6 per share. The model is based on the following assumptions:

- WACC at 8.8% (2.5% risk-free rate, 5.5% risk premium, 1.10x beta, 100% equity weighting);
- Long-term growth rate of 2.5%

Vetrya– DCF fair value per share

Total Disc. FCF	24.7
Terminal value	45.4
Total EV (Eu mn)	**70.1**
NFP '17 adj	6.6
TOTAL Equity Value	**76.7**
# of shares (mn)	6.58
Fair Value per share (Eu)	**11.7**
Fully diluted FV per share (Eu)	**11.3**

WACC	*8.8%*
Terminal value	*2.5%*

Source: Intermonte SIM Estimates

Vetrya Group – DCF Sensitivity

	(Eu)	Wacc 7.8%	8.3%	8.8%	9.3%	9.8%
Term. Growth	1.5%	11.6	11.0	10.4	9.9	9.5
	2.0%	12.2	11.5	10.8	10.2	9.7
	2.5%	12.9	12.0	**11.3**	10.6	10.1
	3.0%	13.7	12.7	11.8	11.1	10.5
	3.5%	14.7	13.5	12.5	11.6	10.9

Source: Intermonte SIM Estimates

Peer comparison

It is hard to identify listed peers for Vetrya. We have therefore selected a group of Italian listed companies from our coverage universe that have a similar market cap and solid future growth prospects.

Based on these criteria we identified the following small cap companies as peers: Alkemy, B&C Speakers, Giglio, Italian Wine Brands, Openjobmetis, and Servizi Italia. In this way we are adjusting company valuations for the stock's limited liquidity, a factor that the market has been increasingly taking into account in recent weeks.

Italian Small Caps

Name	Capi 18	1 month perf	3 months perf	perf YTD 18	2018 Sales Growth	2019 Sales Growth	2020 Sales Growth	2018 EBITDA margin	2019 EBITDA margin	2020 EBITDA margin
VETRYA	51.0	-10.6%	-5.8%	-1.9%	8.5%	12.0%	5.0%	11.2%	11.5%	11.9%
ALKEMY	64.1	-5.4%	-5.1%	-4.5%	22.4%	17.6%	12.3%	12.4%	12.9%	13.2%
B&C SPEAKERS	149.2	15.5%	13.0%	24.3%	37.6%	5.5%	5.4%	21.0%	21.3%	21.6%
GIGLIO	95.3	-3.9%	-18.4%	-14.0%	40.4%	12.6%		11.0%	10.7%	
ITALIAN WINE BRANDS	78.0	-3.2%	3.4%	8.1%	4.5%	3.6%	3.5%	10.6%	11.7%	12.0%
OPENJOBMETIS	163.7	5.1%	-14.7%	-7.3%	9.7%	5.0%	4.8%	4.1%	4.2%	4.3%
SERVIZI ITALIA	175.0	0.7%	-17.7%	-17.9%	1.3%	2.2%	2.3%	28.0%	28.4%	28.4%

Name	P/E 18	P/E 19	P/E 20	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020	EV/SALES 2018	EV/SALES 2019	EV/SALES 2020
ALKEMY	19.8	15.8	13.3	8.82	6.86	5.55	1.09	0.88	0.73
B&C SPEAKERS	19.9	18.5	17.1	13.16	12.18	11.27	2.76	2.59	2.43
GIGLIO	18.2	15.9		7.87	6.82		0.86	0.73	
ITALIAN WINE BRANDS	11.6	9.4	8.6	4.36	3.27	2.50	0.46	0.38	0.30
OPENJOBMETIS	10.3	9.4	8.7	7.16	6.08	5.13	0.29	0.26	0.22
SERVIZI ITALIA	12.1	11.2	10.4	3.46	3.17	2.95	0.97	0.90	0.84
Median Peers	**15.2**	**13.5**	**10.4**	**7.51**	**6.45**	**5.13**	**0.91**	**0.81**	**0.73**
VETRYA	17.5	14.2	12.8	5.98	4.92	4.23	0.67	0.57	0.50
Premium (Discount)	**16%**	**6%**	**23%**	**-20%**	**-24%**	**-18%**	**-27%**	**-30%**	**-31%**

Source: Intermonte SIM estimates

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	**VETRYA**		
Current Recomm:	OUTPERFORM		
Current Target (Eu):	10.20		
Current Price (Eu):	7.66		
Date of report:	02/05/2018		