SYMMETRY INVEST A/S

Piteco SpA

DATE	17/05/2019
TARGET:	10 EUR
Price:	5,0 EUR
UPSIDE:	100%

SYMMETRY INVEST A/S

CVR: 35056467 aa@symmetry.dk

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Market leader no one knows about

- This is a stock really few investors look at. A small Italian company with basically no analyst coverage on it, being majority owned by an Italian conglomerate.
- We look at the story different. We see 3 different businesses under the same umbrella. All of them high quality, growing recurring businesses.
- All 3 group companies are founder led and delivering impressive results.
- The Podini Family have shown themselves to be great capital allocators and a good controlling shareholder.
- With no multiple expansion investors will get a +15 % carry just from current cash flow and organic growth. But should the stock reprice to peer levels there is at least a double in the stock from here over the next 1-2 years.

Ticker	PITE
ISIN	IT0004997984

Currency	EUR
Target	10
Latest	5
Stocks in issue (mil.)	17,93
Market cap (mil.)	90

Nøgletal (2019)	
P/E*	10,9
Dividend yield	3,4 %

*adjusted for non-cash D&A on intangibles.

Financials *(thousands EUR)*	2018	2019	2020
Net Revenue	20.214	26.372	28.218
EBITDA	8.266	10.499	11.319
EBIT	6.399	9.700	10.348
Net Income	5.265	8.325	8.904
EBITDA margin	40,9%	42,0%	42,0%
EBIT Margin	31,7%	39,2%	39,2%

Piteco SpA

We have written some posts about Piteco earlier and also mentioned it in our Q2 2018 newsletter. But as the stock has come down and the financial results are really great, we thought it was a good time to rewrite the case. As Piteco is now the largest investment in our fund we wanted to let our investors and other followers knowing why:

Piteco completed in late 2018 a change of listing from the Italian AIM to the main list in Milano. This has made the stock more accessible and given it more liquidity. For Scandinavians the stock can be traded manually by SAXO Bank, Interactive Brokers etc. It is also on the BEC IT-platform and can be traded online for all banks using that platform. For smaller brokers like Nordnet etc. the shares can be traded by phone-orders.

Basically, Piteco is a holding company with 3 different group companies. The main company is still the Piteco business followed in size by LendingTools and Myrios. All 3 companies operate in the software-space, selling software solutions to the financial planning, treasury management, budgeting, trading, payments and banking industry. The 3 companies operate as separate companies but have clear synergies in sales, development, costumer overlap etc. One of the main attributes of all the group companies is the fact that their revenue is primarily annual recurring revenue with + 95 % customer retention and often +100 % EUR retention. They are also high margin companies with the 3 different companies having an EBITDA margin between (39-58 %) – despite them not having big CAPEX or capitalized R&D expenses. This makes all 3 companies being highly cash generative in nature. With high customer retention they are like a growing annuity. Also, the software the companies are selling is a tiny cost for the costumers, but in most cases, it is critical infrastructure and have high switching costs. This explains the high retention rates. As long as the product are good and works well, price really don’t matter for the costumers.

A little history:

Piteco is majority owned by the Italian software conglomerate Dedagroup:

Table 1 - PITECO, Shareholders structure details

	%	# m
Podini Family	**67.24**	**12.19**
Dedagroup S.p.A.	55.44	10.05
Marco Podini	5.68	1.03
Maria Luisa Podini	5.68	1.03
Francesca Zanella	0.21	0.04
Lillo S.p.A.	0.22	0.04
Management	**5.72**	**1.04**
Andrea Guido Guillermaz	1.91	0.35
Riccardo Veneziani	1.91	0.35
Paolo Virenti	1.91	0.35
Free Float	**25.86**	**4.69**
Ennismore Fund Management	7.77	1.41
Treasury shares	**1.19**	**0.22**
Total	**100.00**	**18.13**

Source: Company data, updated 03 April 2019 [1]

Dedagroup is owned by the Podini family through their holding company Seqeunza :

Shareholder	Shares	Interest
Sequenza SpA	1.363.341	96,75%
Dedagroup Wiz Srl	1.295	0,09%
Gianni Camisa	44.546	3,16%
TOTAL	**1.409.182**	**100,00%**

[2]

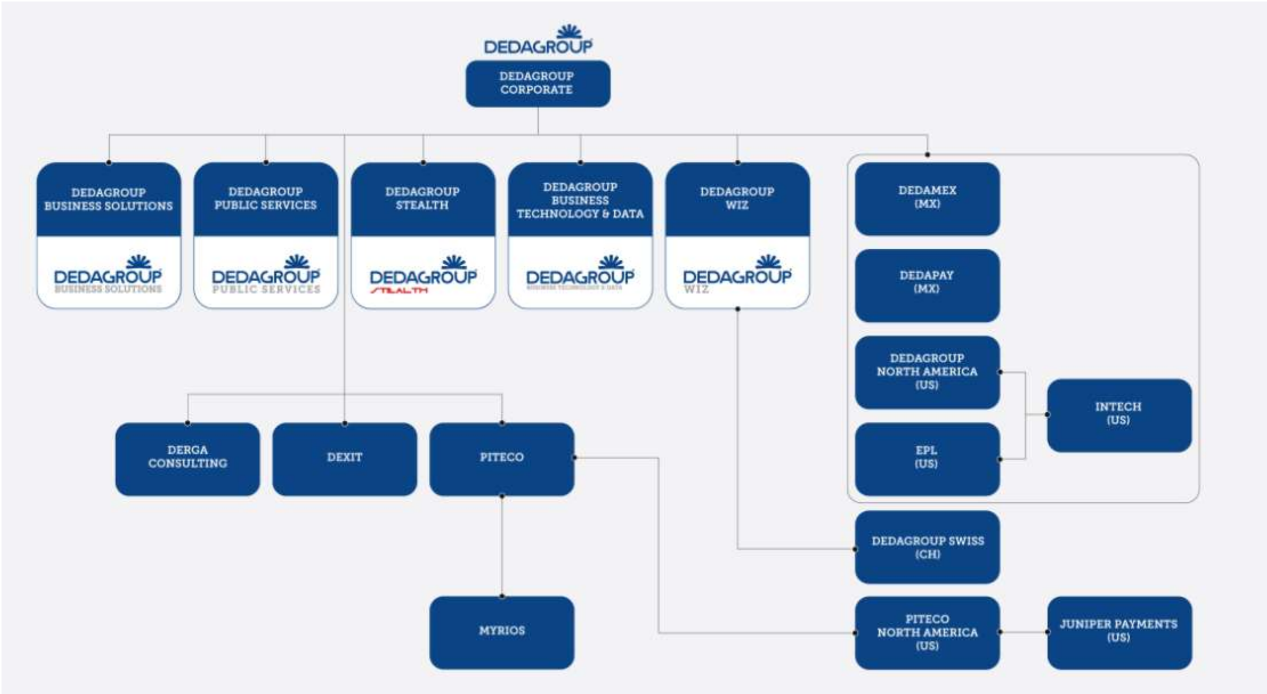
The Podini family controls 67 % of Piteco with Management having 6 %. With 1 % in treasury shares and long-term holder Ennismore sitting on 8 % only around 18 % are left in free float (of which Symmetry holds a big part). This also explain the lack of interest in the company from most market participants. Only the small boutique firm SFO SIM are covering the shares and the company themselves are doing very little to market the company.

We first were attached to Piteco when it did its IPO in 2015 but waited to buy our first shares until 2017. We were first attracted by the stable recurring revenue, growing at a nice rate with a good dividend-yield on top of it. But the more we looked into Piteco and Dedagroup we have come to appreciate the long-term vision here. We have also had several conversations with Marco Podini in order for us to understand the company. Marcos ability to do capital allocation in Piteco is a highly valued asset. We think Marco Podini are going to use the Piteco platform to build an international software company in treasury management, interbank-clearing, budgeting and financial planning. We are really impressed about where he has taken Piteco in 2019 compared to 2015 when they did the IPO.

[1] SFO SIM

[2] Dedagroup 2017 annual report

Piteco is only a small part of DedaGroup:



[3]

As can be seen above Dedagroup consist of a lot of different companies in the software-sector.

[4]

[3] Dedagroup.com
[4] Dedagroup 2017 annual report

Dedagroup is a big company expecting to generate around 500 mio. Euro in revenue in 2018. In 2017 Piteco only stood for around 6 % of the total revenue in Dedagroup (as Dedagroup controls Piteco they consolidate Piteco into their own financials).

This is the same in regards to employees. At the end of 2017 Piteco employed 84 people out of 1.696 in DedaGroup.

Dedagroup is a profitable company with EBITDA around 20 mio. Euro. Dedagroup has grown consistently for 12 years since its founding. At the end of 2017 Dedagroup had around 17 mio. Euro in cash and a low NIBD/EBITDA.

Piteco are the only subsidiary on Dedagroup that is listed on the stock exchange. Some could wonder why Dedagroup have listed Piteco.

As we write this the market cap of Piteco are around 90 mio. Euro. The 32 % not owned by Dedagroup were worth 28 mio. Euro. With management holding 6 %, Dedagroup could quite easy have bought out minority shareholders if they wanted to.

The Podini family did buy more shares in late 2018 and the company bought its own shares which increased the Podini family's stake. Simply because Marco Podini believed the shares very way to cheap. As we understand it, they don't want to take it private. They have a vision for Piteco. Using it as a platform to become a much larger company in the future. With the shares listed they can also use it for currency when they to M&A. They did so when they acquired Myrios – negotiating that the seller of Myrios could have 50% of his minority stake paid in Piteco shares when using the PUT option.

So even though we don't think the Podini family wants to take Piteco private again, we think it's a good put option for shareholders to have. If shares become too cheap, they will buy more directly and through share repurchases as shown in 2018.

Besides sharing the long-term vision of the company and wanting to partner up with Marco, a big reason for us owning the shares is because it's just too cheap. Companies similar to Piteco with high customer retention, no cyclicality and a growing annuity stream often trades at 25-30+ times earnings. At 5 Euro pr. Share Piteco trades around 11 times our 2019 FCF estimate. For the company to be valued in line with peers it would have to at least double.

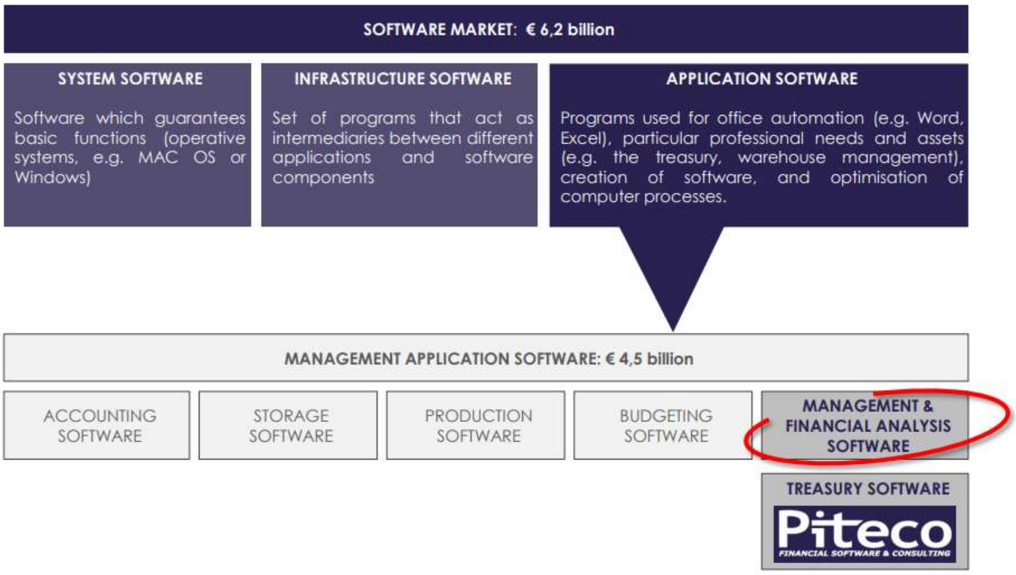
What we have learned over the years is that when you partner with wonderful business owners and capital allocators like Marco, you always nearly get positive surprises rather than negative ones. When we started to follow Piteco we have not build into our model that they could acquire LendingTools or Myrius at low multiples or that they could buy back shares and convertibles at a steep discount to intrinsic value or they could expand internationally to Geneva etc. Those positive things just happened because we partnered with the right manager

We will walk through all 3 group companies before we do a summary and valuation.

Piteco:

Piteco develops and sell corporate treasury management and financial planning software (TSM). The primary customers are medium sized corporates and big companies. The costumers are primarily Italian, but a growing number comes from international costumers or multinationals based in Italy.

The Piteco software is quite important for companies to handle their liquidity across their groups. It could be in planning of subsidiary investments, cash pools, project finance etc. The great thing about the Piteco software is that it is fully adaptable to SAP, Oracle, Microsoft systems etc. It means Piteco can integrate it into costumers existing ERP and accounting systems. Some of the bigger players like SAP already have their own treasury software. But it's really complicated to create a good product here, and basically most companies buy add-ons from companies like Piteco.



[5]

Piteco estimates the total market for management application software to be a 4,5-billion-euro market. Piteco are only targeting the management and financial analysis part of the market. But with Piteco currently having revenue around 15 mio. Euro per year they are only having a small fraction of the addressable market.

The Piteco software tool comprises of around 20 different modules that are tailored for different industries, costumer types etc. This gives Piteco an advantage as they can tailor the product directly to the need of costumers. Normally a new customer buys 4-6 modules and then keep adding more modules each year, which give Piteco a high $ retention on costumers.

[5] Piteco presentation

Below is a list of some of Pitecos costumers:

[6]

One of the things we like the most about Piteco is the low costumer churn. It is our understanding from speaking with the company that Piteco practically never loses a costumer to a competitor. The only reason for them to lose costumers is when costumers go bankrupt or they get bought out by other companies using a different software provider. We understand the total customer retention rate is in the high 90's. If we then include annual price increases (the contract has yearly inflation adjustments) and the fact that costumers normally buy more and more modules each year, it then gives Piteco a EUR retention on their costumers > 100 %. It's a quite good business when you start the new year on January 1., and you basically are guaranteed to grow your business. And all new costumers you onboard are just add-ons to the existing business.   Low churn is one of the main advantages for at software company. For Piteco the sales cycle is quite long. The main competitor for Piteco are spreadsheets. The main task for the sales force is to convince companies to go from spreadsheet to start using a TSM. When costumers sign up, they buy a software license and an implementation project. In the following years they pay yearly maintenance/service fees which are normally around 20 % of the one-time cost. As Piteco sell more and more SAAS deals instead of on-premise sales, those upfront project and software revenues will be lower and the recurring fees become higher.

What makes the sales cycle long also works the other way around. It makes the costumers extremely sticky after they join. If you spend 100.000 Euro and a considerable amount of time on a project to install a new software, as long as it works you don't notice the 20.000 Euro maintenance fee you pay each year. It is also worth remembering that the Piteco fee are a small fraction of the IT-budget. If a customer pays Oracle or SAP 2-3 mio. EUR a year for the ERP

[6] Piteco presentation

system etc. the 30.000-40.000 Euro or so they pay Piteco are not a concern to them. This is also the reason for the really high margins Piteco have. A 40 % EBITDA margin is explained by the high level of recurring maintenance fees that have really high margins attached. A smaller and smaller part of the business consist of lower margin and more volatile project work.

Another reason is that Piteco is the by far market leader in Italy in the TMS space. Off all customers using a TMS (not included those still using spreadsheets) we estimate Piteco have around 80 % market share. There are no real competitors in Italy. Only a few targeting other populations etc. Some competitors have earlier tried to go into Italy but excited again. Again, the product is really sticky. As Piteco have developed such a strong market presence it's hard for competitors to come in and catch up with them now.

The competitive situation is quite different if we look at it from a global perspective than from an Italian perspective. Either way the market is still quite fragmented. It gives Piteco M&A options but could also make Piteco a target. From an international perspective the two biggest competitors are Sungard and Kyriba. Sungaard is a big company that besides TMS products sell a lot of other services. Kyriba is a premium product that is primarily sold to bigger companies.

The main competitor in Italy is DocFinance. Our understanding from studying DocFinance is that their product is much less sophisticated and adaptable compared to the Piteco tools. But that DocFinance primarily target small companies where Piteco historically have focused on the medium and larger sized companies.

The fact that the Italian market is still quite small kind of protects Piteco from international competitors. Also, the sales cycle in Italy depends on connections and a big network which Piteco and DedaGroup have and which a competitor would lack.

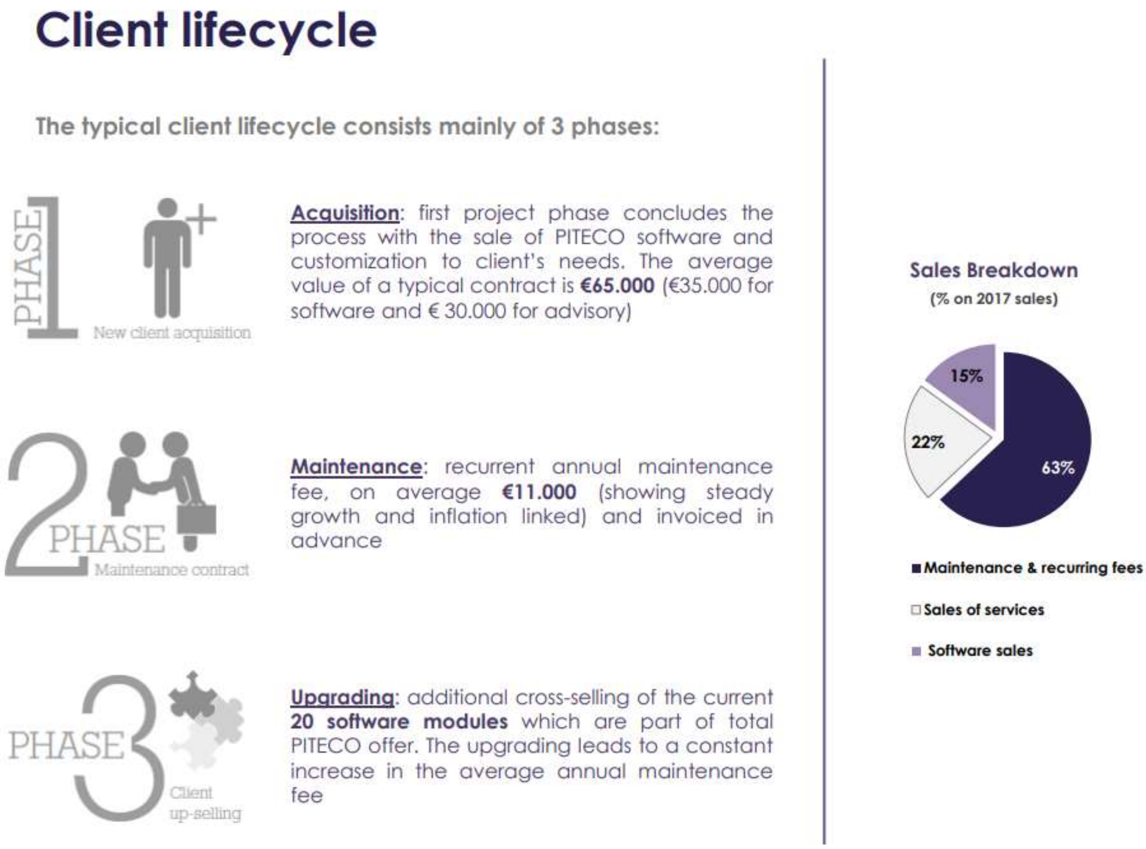
The only analyst following Piteco writes the following about the competitive situation:

Piteco's competitive positioning is strong and well defensible: within its client size target its selling proposition is **the most complete and best performing**. Moreover, the rather limited size and the peculiarity of the domestic market, represent **barriers to larger global players**. Piteco is the brand in software for treasury management solutions. In the purchasing decision process, **the price of the software tool is not a key issue** and, according to a Deloitte survey addressing the drivers for choosing the treasury management software, represents just 10% of total motivation for the choice. Potential customers primarily value (almost 75%) the match with their treasury management needs and the integration with their global ERP software already in place within the organization. Piteco states the average value of a typical contract to the tune of € 65k, cash in hand, o/w € 35k for software and € 30k for advisory. Subsequently, the recurring yearly maintenance fee is worth circa € 11k (showing steady growth and inflation linked) and billed in advance at the beginning of the year. Generally, clients upgrade their tool with one or more of the current 19 modules, leading to a steady increase in the average maintenance fee.

Alternatives out there are **more expensive, limited, inflexible and less modulable, adjustable, specific and customisable**. Even the treasury management module developed by **SAP is to a certain extent less performant and flexible** than the Piteco tool. Additionally, spreadsheets, still extensively used amongst small firms, are time consuming and with a high degree of misplacing data risk. [7]

[7] CFO SIM

The client cycle is different for costumers buying the on-premise software compared to cloud/SAAS costumers. The main costumer group is still the first one. The client lifecycle is explained below:



[8]

As explained above the typical costumer buy a project for 65.000 Euro upfront and then pay around 11.000 Euro and growing in maintenance fee thereafter.

The other costumer group which are fairly new to Piteco is the SAAS costumers. In 2014 Piteco launched the Cloud version of their product. This product typically sells to smaller companies which themselves have their ERP system in the cloud. For smaller costumers there is no upfront fee. Instead they pay an annual SAAS fee for the software. For very big SAAS projects where Piteco would put a lot of man-hours upfront to implement the product, it is our understanding that they still charge an upfront fee on top of the annual SAAS fee.

For us the most important metric to follow regarding the Piteco business is the annual growth in recurring revenue:

	2013	2014	2015	2016	2017	2018
Maintaince		4.882.928	5.145.768	5.589.933	5.745.000	5.953.000
SAAS		31.939	275.049	312.649	497.000	797.000
Growth recurring			10,3%	8,9%	5,8%	8,1%

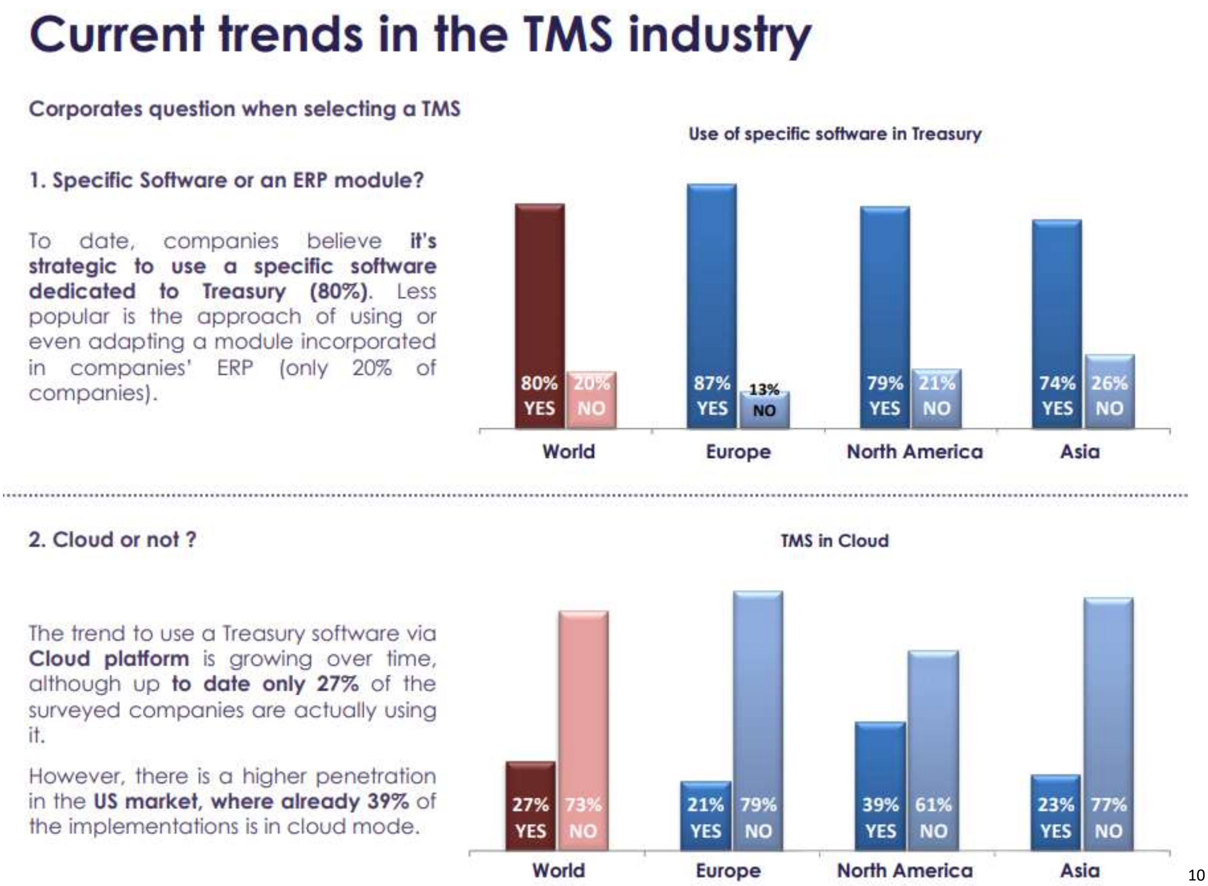
[9]

[8] Piteco presentation
[9] Symmetry calculation based on company IFRS numbers.

This shift from 100 % on-premise sales to more and more SAAS/Cloud sales have influenced the revenue numbers for Piteco. As can be seen on the previous page that number accelerated in 2018 to 8,1 % growth from a low of 5,8 % in 2017. One of the main reasons for this growth is the number of new clients onboarded. This number are growing which add additional recurring revenue. It is really interesting to follow the growth of the SAAS business. It has grown from virtually nothing in 2014 to close to a million euro in 2018 with good growth numbers.

If we split the 8,1 % growth in 2018 in two pieces we get another interesting metric. The growth in recurring revenues were only 4,7 % in the first 6 months of 2018. Then it accelerated a lot to 12,5 % in the second half of 2018. With a lot of new costumers currently coming in the momentum are great going into 2019

The growth opportunities are really big. According to Piteco, only 1/4 of the potential customers are today using a TMS. The remaining 3/4 of the TAM are still using spreadsheets. In addition, Piteco have the opportunity to move down market with their new cloud solution, increasing the TAM additionally. In the Italian market alone the growth opportunity is really big. Piteco also showed this by accelerating revenue growth again in H2 2018 and had the best year ever in 2018 on new costumer onboardings.



[10]

The research above indicates that costumers using a TMS system want a specific application software to do so instead of the ERP module. It's around 80 % of costumers who prefers to have an add-on product. It's also interesting to see

[10] Piteco presentation

that even with SAAS products booming this year, the vast majority of TMS sales are still not in the cloud. This also corresponds quite well with Piteco numbers, where cloud just recently have started to grow.

[11]

The above figure illustrates the size of the typical costumer using a TMS. It is still primarily larger corporations that is using a TMS. But smaller ones are increasingly adapting to the trend as the TMS products becomes more applicable to their accounting systems.

Why are companies using a TMS as an add-on to their ERP system? We did some interviews with companies on different sizes on the topic. As I have a background as an accountant before starting my investment firm, I know some about the space.

Below we have highlighted two responses we got from our interviews. First from a CFO of a midsized Danish company about why they don't use a TMS:

> "Personally I have been presented with a lot of different TMS systems, but just never have found some where I find the trouble worth the upside."

The next one is from a Fortune 500 company where the group treasurer tells about the importance of their TMS:

> We definitely use a specialised Treasury Management System. Some reasons for the system;
> - Managing a diverse currency and commodity portfolio
> - Supports a cashpooling structure and more effective use of funds
> - Automates many process from taking the forecast, executing external trades, with straight through processing for settlement, accounting etc
> - Better controls
> - Streamlines payment process (via SWIFT), trade matching (MiSys) and FX trading (360T)
> - Few people (6 for front, middle and back office running a totally centralised Treasury process.

[11] Piteco presentation

In our interviews we have not identified companies that actually installed and used a TMS and went back to using a spreadsheet. This backs our opinion that companies carefully test and consider using it, but if they decide to do so, they are really loyal to it.

Another growing stream of revenue are the international opportunity for Piteco. Piteco uses resellers in other parts of the world, but do have some direct advantages to. They have together with Myrios set up a new Geneva office. They will use this office to grow into the European market. They have their US subsidiary LendingTools which create a lot of connections to them in the US. Additionally, they are majority owned by DedaGroup which themselves is a huge software conglomerate. Dedagroup are big on countries like Mexico where they can use their knowledge and connections to help the Piteco product travel.

But investors need to be aware here, that what gives Piteco such a strong Moat and market position in Italy also works the other way around internationally. In some markets, competitors have strong market positions that Piteco need to break down and penetrate, making it more expensive and costly to grow internationally.

LendingTools:

In April 2017 Piteco bought a majority stake in US based LendingTools (LT) through the US subsidiary Juniper. LT have a leading position in the US for processing interbank payments and is the largest network outside the federal reserve. LT is a high growth, high margin recurring payment processing company. Those companies normally trade for huge 25-30+ times multiples as they are annuity like in their nature. As Piteco only paid around 10-12 times earnings for it, we think it's a good way to start with the history here:

The way Piteco purchased LendingTools are quite interesting (some of this is from websites, company reports, analytic reports etc. and some based on our conversations with the company):

LT were founded and owned by three community bankers which founded the company back in 1990. Over the years the second generation took over LT and developed the software into a high growth application for community banks in the US to handle all their interbank transactions and act as a clearing house. As the founder's health become bad and they wanted to retire while the second generation wanted to take care of the bank, they decided the best thing to do was to sell LT. They had a lot of concerns with this.

1) They did not want to sell to private equity
2) They did not want to sell to a competitor
3) They did not want to sell to a big bank

Price was not the main concern. It was to find the right home for the company. They found a great solution to this which involved a management buyout with Piteco as the founding partner. The management buyout included 3 parties:

1) Jon Budd which was previously COO of the company. After the founders sold, he became the CEO and bought 20 % of the company
2) Jorge Jimenez, the chairman, bought 20 %. Jorge Jimenez is one of LT's partners through his international blockchain house eZforex.com. He was also a former product developer at the Federal Reserve.
3) Piteco SpA bought 60 %.

Jorge Jimenez had some connections to Piteco and thought they would be an ideal partner to have with them in this business going forward. The 3 parties each put up 1 million, 1 million and 3 million $ to fund Juniper. Piteco then made a loan of 10 mio. USD to Juniper. Juniper used those 15 mio. $ to purchase 100 % of LT. Piteco get 2,5 % interest on that intercompany loan and themselves loaned the money in Italy for a 1,75 % interest rate making a small arbitrage.

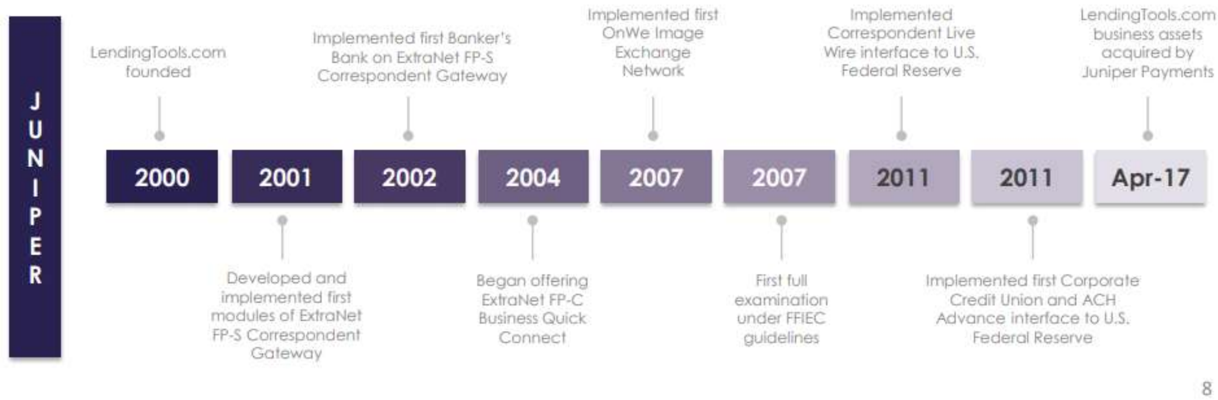
http://www.marketwired.com/press-release/juniper-payments-llc-jumps-forward-into-bank-credit-union-space-with-acquisition-lendingtoolscom-2209222.htm

With Jon as CEO and Jorge as chairman they both have high incentives to deliver good results at LT. Because Piteco put out the loan, the 20 % stake they purchased work as a levered investment. They only put up 6-7 % of the purchase price but got a 20 % interest. This means the value creation are levered on both the upside and the downside.

[12]

As Jon Budd was previously the COO with family members as CEO our impression is that he has a lot of ideas to accelerate growth at LT. With his commitment and the good network of Jorge and Piteco, the scene is set for something great.

Below is the timeline for LT/Juniper:



[13]

[12] Piteco presentation
[13] Piteco presentation

Presentation of JUNIPER

Juniper Payments serves a specialized niche market of wholesale correspondent banking. The company is the market leader in this sector with **more than 3.300 banks and credit unions utilizing its online platform** software to transmit and receive daily transactions that total over $3 billion. No other U.S. third-party service provider maintains connections to more financial institutions exception the U.S. Federal Reserve.

SaaS Model. All products and support are delivered as services over the Internet. The system is modular in design, so correspondents may add new modules to their product over time. These modules may then be enabled for all or for a sub-set of the end user financial institutions. This provides a highly customized and dynamic service to meet each customers specific requirements

Juniper's headquarters is in Wichita, Kansas (USA), with data center in Kansas and Nebraska. The company has 20 long tenured employees.

Juniper is:

- Regulated as Technology Service Provider under FFIEC by U.S. Federal Banking Agencies;
- SSAE 16 Type II audited.

Juniper has:

- Private Data Centers with a fully mirrored Disaster Recovery site;
- 99,999% uptime since inception of company.

Juniper's **business model** is based on **recurring revenues.** 90% of annual revenues are based on "right to use" services by end-users via principal customer contracts. The remaining 10% is due to customization fees and technical advisory and support. An average contract lasts generally for about 5 years or more and the contracts have a **very high retention rate**.

[14]

LT is a software/payment company acting as a correspondent in the interbank industry. It serves banks and credit unions primarily in the US and handle daily transaction for them. The products are regulated and authorized by the government with +90 % of revenue being recurring in nature with high renewal rates.

ABOUT US

In the late 1990's three community bankers saw a need for software tailored specifically for community bankers' needs. In 2000, they founded LendingTools.com, introducing affordable and user-friendly banking applications. From here, our company founders effectively changed the software landscape in the banking industry.

With early offerings like lending analysis tools, CRM and an Intranet platform, the name "LendingTools.com" was fitting for our small Kansas company. We soon developed solutions for a local correspondent bank and tapped into a new need: correspondent software. Here, we found a niche, launching the industry's only web-based software tools crafted exclusively for correspondent institutions.

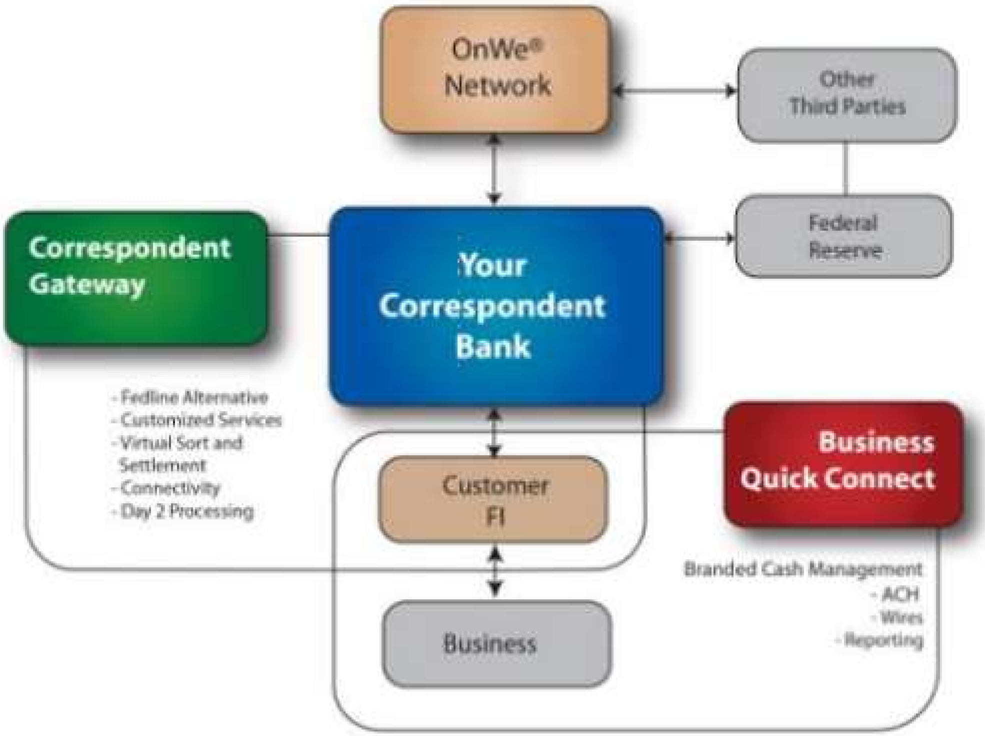
Today, our name remains the same, though it's often shortened to "LT" by our customers. Whatever you call us, our dedication, vision and reliability in serving correspondent financial institutions and their respective customer bases, is second to none. We are the leading third-party provider of inter-bank transaction and reporting systems outside the Federal Reserve serving thousands of institutions nationwide.

[15]

[14] Lendingtools.com
[15] http://www.lendingtools.com/aboutus.html

[16]

Small and medium sized banks and credit unions in the US are increasingly outsourcing their payments solutions. As banks wants to due more and more transactions (higher fees), but don't want more administration by handling settlements, compliance etc. the LT solution makes perfect sense to use.



[17]

The chart above illustrates how the technology works. As we understand it, when two banks want to settle payments and process transfers, they need a correspondent to verify and control this. It can be through the federal reserve systems, but with the OnWe network that talks with the federal reserve, the LT cloud-solution acts as a quick and scalable correspondent. This is how they can process more than 3 billion $ of daily transactions.

[16] http://www.lendingtools.com/
[17] Piteco presentation

Administration and Control	ExtraNet FP-S Base System	Security, content and user experience management,
	Archival	Transaction retention and download
	Authentication	Extensive multi-factor validation including biometric scanning
	Secure File Management	Secure upload and transmission of files/documents
Payments Origination Transmission and Settlement	ACH Advance	Automated delivery/transmission to ACH Operator
	ACH Entry/Management	Origination/upload/validation/processing of ACH and auto-origination of files per pre-defined schedules
	International ACH - IAT	Origination of ACH transactions to US FedGlobal
	Domestic Wires – Live Wire	Automated wire transfers to/from US Federal Reserve
	Domestic Wires Entry	Origination/upload/validation of US wires
	Domestic Wires – FR-ETA	Origination/validation of US Electronic Tax wires
	International FX	Interfaces to various FX providers for foreign wires and currency
	Check Image Returns	Create check image returns from receipt files
	Check Adjustments	Online entry of check image correction adjustments
	Account to Account Transfers	Direct transfers between respondents
	Fed Funds/EBA Management	Online display/entry of overnight investment orders
	Vault Cash Orders	Online entry of domestic branch cash orders
	Foreign Currency Orders	Online orders buy/sell foreign currency, travelers checks, drafts, cash letters, collections,
ExtraNet CL	OnWe® Clearing Network	Check image direct exchange between respondents
ExtraNet FT	Secure File Transfer	Validation/transmission of check image files
Risk Managment	OFAC Scanning	Immediate validation of ACH/Wires against US Treasury lists
	ACH Risk Management	Limits and reporting for ACH origination files
	Wire Risk Management	Limits and reporting for Wire transfers
	Trend Analytics ACH/Wires	Multi-day trend analysis for transactions/files
Reporting and Audit	Account Inquiry	Balance and transaction listing with core interface
	Real Time Interface	Immediate cash position of intra-day activity
	Report File Delivery	Unlimited report delivery classes - online/download
	Loan Payment/Advance	Submit and report payment and advance requests
	Credit Card Payment	Submit and report end user credit card payments
	Audit Trail	Complete tracking and reporting of every user action

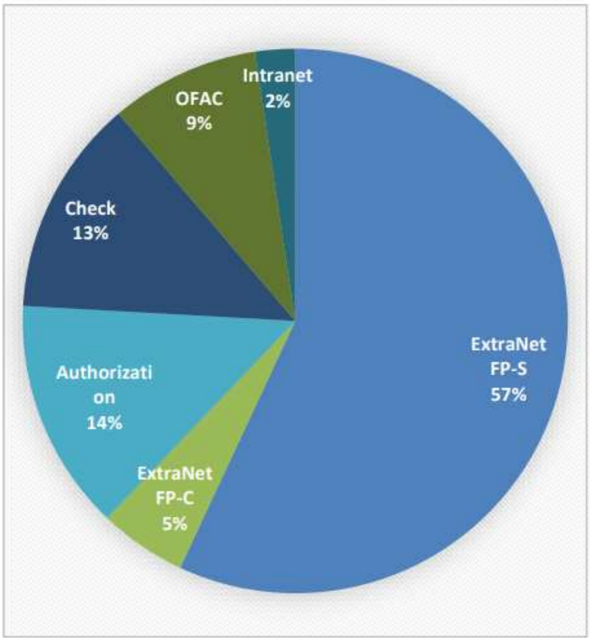
[18]

The chart above explains some of the features the LT system have for its customers. We have talked to people with more technology knowledge than we have, but we have not been able to deeply understand the software and how it stands from a competitive position. From that point we lean ourselves to the financial numbers to understand the growth dynamics.

[18] Piteco presentation

Administration and Control	▪ Internet based platform for community financial institutions to business customers ▪ Modular structure and control available at multiple levels ▪ Includes multi-factor authentication and user level permissions and limits ▪ Operates as a stand alone offering or integrated into Juniper's FP-S transaction flow
Payments and Compliance	▪ Business customer entry level program for Automated Clearing House (ACH) and wire transfer payments ▪ Facilitates one-time payments, templates for repetitive payments and upload of formatted payment files from other systems ▪ Integrated Office of Foreign Asset Control (OFAC) scanning for compliance with regulations
Reporting and Audit	▪ Complete tracking of all activity in Audit Trail reports with multiple search options ▪ Report delivery to business customer level also included ▪ Account balance data available via BAI file import

Sales Breakdown by product.
Revenue is for the period May - December 2017



Example of clients

19

LT shows their revenue mix and some costumer examples above. Some of the costumers are quite big banks and credit unions in the US.

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19 Piteco presentation

If we then look a little bit at the actual numbers for LT:

	2016	2017 (8m)	H1 18	H2 18
Revenue	4.429.000	2.874.000	2.176.000	2.624.000
Pr. month	369.083	359.250	362.667	437.333
USD / EUR	1,1077	1,161	1,20833	1,152
USD / month	408.834	417.089	438.221	503.808
Growth YoY		2,0%	5,1%	20,8%

[20]

It's not really easy to calculate the actual growth rates as Piteco only report the EUR numbers and really don't do a lot to market the good results. In 2016 Juniper did around 408.000 in monthly revenue. In the 8 months Piteco owned the business in 2017 the monthly revenue was around 417.000 USD or only 2 % higher than in 2016. We were somehow disappointed with those numbers.

The explanation for the lower growth was some market turbulence and some internal disruption related to the Piteco purchase and new CEO etc. It is also our understanding that the founders handled the business quite conservative regarding to growth initiatives, investment etc. as Jon Budd and Jorge was handed the keys, they started to implement new growth initiatives.

This has clearly paid off. In the first half of 2018 revenue pr. Month grew 5 % over 2017 (which only consist of second half 2017 numbers). But then H2 2018 numbers came in marts. We calculate the growth to around 21 % organic YoY. For FY 2018 we estimate around 12-14 % organic growth compared to 2017. This is based on the reported 2.176.000 number for H1 in comparison with the 4,6 mio. Number reported for the whole year.

One reason for the big revenue increase in the second part of 2018 was that LT signed a new big aggregator contract that aggregated volume for several banks into LT systems. This will have more than half a million USD in FY effect and with only part of that in 2018 numbers. LT are set for a good 2019.

It's the goal and ambition for LT to grow at double digits going forward. We use more conservative assumptions in our model but would of cause be happy to see the high growth continue.

The growth comes from different factors. One is that payments and payments processing are just an ever-growing factor. This is why most payment companies are trading at huge multiples. With the internet we simply do more and more transactions each year. We see nothing that would stop this trend. Another factor is that the US are still underbanked:

[20] Symmetry calculations

According to this article 5 % of the US population are still unbanked and 18 % underbanked.

https://theirrelevantinvestor.com/2019/04/07/the-well-being-of-u-s-households/

As more and more people become banked and younger generations that are used to the internet grow up, payments will continue to grow.

It is quite remarkable how cheap Piteco bought LT. The benefit of having the right connections and network really benefitted Piteco here.

Piteco paid 13 mio. USD in mid-2017 for a company which generated 1,75 (around 1,3 after tax with current US 25 % tax rate) in 2016. This was a P/E multiple of 10 times historical numbers.

Equivalent	$ 13 ml
- equity	$ 3 ml
- debt (10 Y: 2,5%)	$ 10 ml

Data 2016	
Turnover	$ 5.0 ml
EBT (Earnings Before Tax)	$ 1,75 ml
Employees	19

[21]

If we fast forward to 2018 Piteco have said that LT did 4,6 mio. Euro in revenue with a 41 % EBITDA margin. In USD that gives us an EBITDA of 2,2 mio. USD. The business only has really few CAPEX. This leave at least 1,5 mio. USD in 2018 net profit or only 8,7 times the 2017 purchase price. And as we have shown above, the business has just recently started to accelerate.

[21] Piteco presentation

Myrius:

As we said in the beginning, when you partner with wonderful capital allocators like Marco Podini, you normally get positive surprises. Such a positive surprise was handed to us last summer when Piteco announced the acquisition of a 54 % stake in Myrios.

Myrios products are sold to banks, insurance companies and big industrials. As of now Myrios only have a few big costumers, but it's our understanding that the pipeline is huge. The Myrios product are suited for Capital management, risk management and compliance. It can handle risk and compliance for derivatives, currencies, commodities etc. that banks and insurance companies can't.

> Compared to the existing offerings on the market, we are characterized by the specialized skills we provide.
> Our success factor in innovative and complex projects is based on the synergy of the mix of these professional skills.
> We put at your disposal the skills on which we have based the choices of successful solutions and pursue with commitment opportunities for growth to efficiently serve our customers.
> We take care of the innovation of the processes on which companies increase their business. [22]

Their main product is a product called Myrios FM (Financial modelling). It's a software solution aimed at supporting complex processes and calculations in the Finance and risk management areas.

The software is developed on a three-tier and Microsoft SQL Server Architecture. It is entirely on Microsoft.Net framework.

[22] Myrios.net (translated from Italian)

[23]

The product can handle data in organizations and support the activity in the back office to the front end of brokering houses handling OTC products, derivatives and keeping track of deals.

Myrios was founded by Marco Pecetto which is still the CEO of the company. Myrios have until now primarily been focused on the Italian market. But with the help of Piteco, Juniper and DedaGroup it will take a more international approach to sales going forward. Recently they opened an office in Geneva to sell into the Swizz market where a lot of the potential costumer (trading houses) are incorporated.

[23] Myrios.net

If we then look a little bit at the numbers for Myrius they also seem quite good:

Myrius		2016	2017	2018
Revenue		2,2	2,76	3,04
EBITDA			1,5	1,76
Margin			54,3%	57,9%
YoY			**25,5%**	**10,1%**
Rev. Pr. month			0,230	0,25

Revenue in 2018 grew just above 10 % YoY with EBITDA growing 17 % to 1,76 mio. Euro. Good numbers. It is again our understand that Myrius numbers for the first half of 2018 was somehow affected by management spending time negating the Piteco deal etc. After the Piteco deal closed management could use 100 % of the time growing Myrios and using the Piteco and DedaGroup network to do so. Also, it's our understanding that Myrios landed some new bank deals in the summer of last year which only effected the second half numbers. The numbers clearly support this thesis:

	Q1-Q3	Q4
Number month	9,5	2,5
Revenue	2,2	0,8
Rev. Pr. month	0,232	0,32
Growth		**38,2%**
EBITDA	1,26	0,5
Margin	**57,27%**	**62,50%**

If we break the 2018 numbers into two pieces. The first 9 month where Piteco did not own the business and the last 3 months where Piteco did so we get a totally different picture. In the first 9 month the revenue pr. Month was only 1,26, or slightly more than FY2017 with a little higher margin. In the last 3-month revenue was 0,32 pr. Month or 38 % higher than the first 9 month with a +60 % EBITDA margin. This is truly remarkable numbers. Even though we are blown away by those numbers we want to caution a little bit for several reasons:

1) The numbers are small. So even some rounding could affect them quite a bit
2) The Myrios business do have seasonality with Q4 being the strongest one.

But what we do know is that Myrios grew revenue +10% in FY2018, it got some new costumers throughout the summer and finished the year strong. It gives them good momentum moving into 2019. When we talked to management about this amazing numbers, they also confirmed that Myrios landed some new SAAS deals in the middle of 2018 which have FY effect in 2019. Myrius should be set up for a strong 2019.

The reason Myrios grow a lot and have a big potential are the value proposition it offers its customers. As we understand the competitive landscape the biggest competitor for Myrios is a tool from Nymex. This sells for around 1-3 million Euro in yearly fees. Myrios can sell a competing product at 1/4 of the price and still make 60 % EBITDA margin. This is the beauty of software. We think both Italian banks that need to lower their expenses and European trading houses (normally based in Switzerland, Luxembourg etc.) will consider adopting the Myrios tool. And we need to remember that Myrios only had 3 mio. Euro in revenue in 2018. It only needs a few new costumers a year to have high growth rates.

I think Marco bought Myrios because it's an amazing business with huge growth potential which Piteco, DedaGroup and LT can help it unfold. If we look at the growth numbers it's even more amazing how cheap Piteco bought it.

Piteco paid 7,3 mio. EUR for a 56 % stake corresponding to a 13 mio. Euro market value. With 1 mio. Euro in cash it leaves a 12-million-euro enterprise value. With a 2018 EBITDA of 1,76 it gives an EV/EBITDA multiple of only 6,8. There is some small earn outs for 2018 and 2019 that could push the numbers a little higher. We have to have in mind here that this is a business with virtually no CAPEX and the earnings are applicable to the patent box tax regime netting a 5-10 % tax rate at the moment. Even after adjusting for the earn-out, capex and taxes PITECO paid an all-in P/E ratio of less than 10 times earnings for Myrios. This is a high margin, cash generating business with huge growth potential and +90 % recurring revenues. And the deal was financed with debt at 2-3 % interest rate!

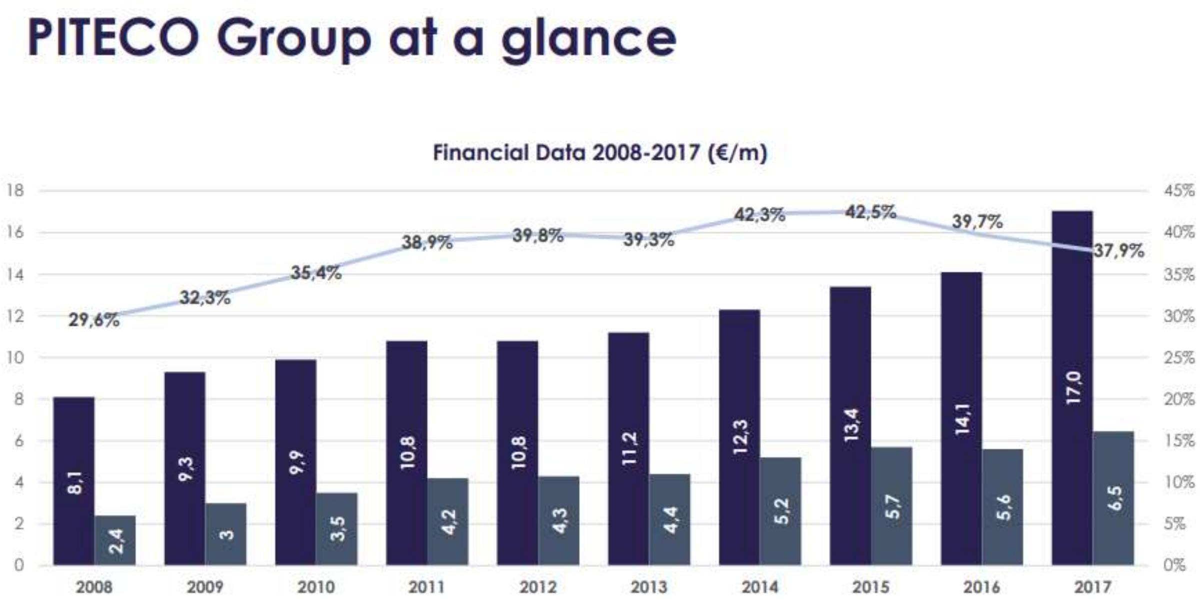
The logical question, one we also asked ourselves several times was: how was Piteco able to buy such a high-quality business for such a low multiple. We also asked the company about this:

The main reason was that Piteco already had a partnership with Myrios before the transaction. The two companies already knew each other well and had good chemistry. The founder and CEO of Myrios Marco Pecetto understood that with the help of Piteco, the full potential of Myrios could be unlocked. With Piteco having relationships with +600 Italian costumers, Juniper having relationships with a huge number of US banks and DedaGroup being a big software conglomerate selling into the financial services industry, Piteco already worked with a lot of potential Myrios costumers. The sales synergies were simply really big. For Marco Pecetto, it was much valuable to sell 56 % to Piteco and get their help growing the business than keeping the 100 % alone.

This again underscores our point that when partnering up with good capital allocators like Marco Podini which have a huge network and touchpoint throughout the industry, positive surprises normally happens.

Summary:

Piteco have delivered great numbers over a long period of time. Below is a 10-year table over revenue and EBITDA from 2008 to 2017.



[24]

One thing we think is particularly interesting is the stability. Piteco grow year after year. In 2018 we had the worst financial crisis since the great depression. Piteco just grew throughout it in 2009 and 2010. In 2011 Italy had the Euro and debt crisis. Again, Piteco just grew consistently. The numbers for 2017-2019 will of cause be helped by the LT and Myrios deals. But the Piteco business still keep growing 5-10 % on a recurring basis year after year.

One thing Piteco do is they constantly innovative and invest in innovation. The figures below are from the 2018 annual report in Italian:

Personale	31/12/2018	31/12/2017	Media del periodo
Dirigenti	7	6	7
Quadri	27	26	27
Impiegati	60	52	56
Operai			
Altri (Juniper payments, LIC)	20	19	19
Totale	**114**	**103**	**108**

[25]

[24] Piteco presentation
[25] Piteco 2018 Annual IFRS report

As we don't speak Italian it was good that CFO SIM broke out the details for us in the latest report:

> The group operates in five sites (Milan, Rome, Padua, Turin and Wichita US), with 114 operatives:
>
> - 4 managers/founding partners: Paolo Virenti (CEO Piteco), Riccardo Veneziani (CFO Piteco), Andrea Guillermaz (Sales Director Piteco) and Marco Pecetto (CEO Myrios);
> - 6 administrative;
> - 4 in competence centre (research), skilled resources in treasury & finance. These people are dedicated to the study and design of new functions;
> - 30 in delivery: skilled resources in treasury and finance with the focus of consulting and developing the project in accordance to customer needs. In addition, they are involved in the sale of additional services to existing customers, with an average 180 days/y spent with the customers;
> - 8 in sales & marketing, focused on new client development;
> - 45 engineers in development. Technical resources with analysis and programming skills, and knowledge of the main programming languages and the most sophisticated market technology. They also provide customer services.
> - 20 in the Juniper Payments subsidiary, Wichita, Kansas, US. [26]

We think it's great to see how few people works with administrative functions and how many engineers they have developing products and improving the solutions. As we understand from the company, it's a big advantage for Piteco that the people implementing and handling the design phase is software are engineers. With the sales people handling the introduction the ones upselling products afterwards are IT-guys.

The CEO of Piteco was recently interview in the newspaper here:

https://www.pitecolab.it/static/news/Piteco-punta-su-USA-e-Svizzera-948.aspx?fbclid=IwAR2mrN2QabvHBIipJ37Ggg_F9RmiDvx4WSbPiSzhuairnRbrdK5Yo6HUkJQ

In English, he talks about the big opportunity Piteco see by expanding their reach to USA and Europa. They bought Myrios and are now opening an office in Switzerland. They will use this office to expand all the group products to European multinationals.

He also talks about the big growth opportunities LendingTools have in the USA. A huge part of the US population still uses checkbooks and are underbanked. He sees interbank transactions to continue to grow a lot and LendingTools to take share of this.

[26] CFO SIM

Valuation:

Our financial projections for Piteco is set below:

	2017	2018	2019	2020	2021	2022	2023	2024	Terminal
Revenue									
Piteco	14.172	14.764	15.945	17.061	18.085	18.989	19.939	20.936	
Juniper	2.874	4.600	5.400	5.724	6.067	6.431	6.753	7.091	
Myrios	0	850	3.600	4.140	4.761	5.237	5.656	6.052	
EBITDA									
Piteco		5.758	6.219	6.654	7.053	7.406	7.776	8.165	
Juniper		1.886	2.214	2.347	2.487	2.637	2.769	2.907	
Myrios		493	2.016	2.318	2.666	2.933	3.167	3.389	
Growth									
Piteco		4%	8%	7%	6%	5%	5%	5%	3%
Juniper		10%	17%	6%	6%	6%	5%	5%	3%
Myrios		10%	20%	15%	15%	10%	8%	7%	4%
Margin									
Piteco		39%	39%	39%	39%	39%	39%	39%	39%
Juniper		41%	41%	41%	41%	41%	41%	41%	41%
Myrios		58%	56%	56%	56%	56%	56%	56%	56% [27]

There is especially for Piteco good visibility for future growth. Growth in H2 2018 was +8 %. The growth in LT in 2018 and 2019 are based on full consolidation in 2018 and some forex gains in 2018 and 2019 as the USD/EUR have gone up. The Myrius numbers for 2019 include full consolidation. We expect stable margins for Piteco and Juniper going forward. We expect slightly lower margins for Myrios as they invest in new office and sales to support growth. Management said in the remarks that they expected growing margins, but we would want to be a little conservative here as margins are already high.

Below are the projections for the Net income.

	2018	2019	2020	2021	2022	2023	2024
EBITDA	8.137	10.449	11.319	12.207	12.975	13.712	14.461
Capex	-600	-700	-728	-757	-787	-819	-852
Interest	-500	-500	-500	-500	-500	-500	-500
Tax	-924	-924	-1.187	-1.490	-1.812	-2.158	-2.524
Net income	6.113	8.325	8.904	9.460	9.876	10.235	10.585 [28]

The tax rate for the company was 2 % in 2017 and 8 % in 2019. In our model we using 10,12, 14, 16, 18 and 20 % as long-term tax rates. The reason for the low tax rate is because most earnings are applicable to the Italian patent box regime which tax exempts companies with technological knowhow, exports, patents etc. With full consolidation of Myrios in 2019 there is a change that the tax rate could stay below 10 % for a long time. But as this is based on political decisions in Italy, we want to be a little more conservative on the long-term tax rate.

[27] Symmetry estimates
[28] Symmetry estimates

At a 5 Euro share price Piteco have a 90 million Euro market capitalization. It gives us a P/E (or P/FCF) of 10,8 times 2019 earnings and 10,1 times 2020 earnings.

We just think this is way to cheap for a company of this quality with this growth aspects and stability in earnings.

Minorities:

One of the more difficult things to do when valuating the company is how to account for the minority interest in Juniper and Myrios.
Piteco owns 60 % of Juniper and 56 % of Myrios. As the minority holders have a put option on their stake and Piteco thinks it more likely than not that they will exercise this put option, according to IFRS they calculate the net present value of put options on the balance sheet as a liability instead of according minority interest in the P&L and equity lines. One should think of those as “deferred payments” for the last part of the acquisition.
The fair value on those put options are 2,3 mio. EUR and 9,2 mio. EUR respectively. The reasons for the low liability on juniper put relates to the fact that Piteco funded the minority part with a 10 mio. USD intercompany loan.
We use 3 different methodologies to value Piteco.
In all 3 methodologies we use fair value of 25 times FCF to value the business.
Piteco is a high growth company with +90 % recurring revenues and high margin, high cash flow and asset light. Those companies do commend high multiples. US payment companies and data processing companies can trade at +30 times earnings, while they normally are lower in Europe. We think 25x FCF which corresponds to a 4 % free cash flow yield is fair as long as they can sustain an 8-12 % organic growth rate.

	Free cash flow	Minority interest	25 x FCF	financial debt	Put option liability	intercomp. Loan	Enterprise value	**Per share**
Methodology 1	8.325	0	208.125	0	-11.500	0	196.625	**11,0**
Methodology 2	8.525	0	213.125	-15.300	-11.500	0	186.325	**10,4**
Methodology 3	8.825	-1.307	187.950	-15.300	0	8.000	180.650	**10,1**

[29]

As we said we use 3 different methodologies to value the company. The outcome is a fair value per share between 10,1 and 11,0 Euro. We think the second methodology are the most accurate which corresponds to 10,4 EUR pr. Share in valuation.

[29] Symmetry estimates

- In method 1 we simply take our free cash flow estimate which include interest on debt and fair value adjustment on put options. We then deduct for the put option debt.
- In the second method we add back interest on debt in FCF. This improves FCF. We instead deduct the net financial debt from the enterprise value calculation.
- In the last method I calculate the 40 % + 44 % minority interest. The free cash flow goes up a little as the fair valuation of the put option also can be removed. This gives a lower value of 181.375. But here we assume that minority holders don't exercise put options. We then don't have to deduct the put option liability and can instead add the intercompany loan as an asset.

We also want to add that Piteco has a convertible bond outstanding which can increase share count by around 4 % and decrease my fair value of around 2 % if its fully converted into shares. Piteco have bought back some of that in the open market and I think they will continue to do so as they became available. I have not included this in the valuation.

All in we are really happy with our investment in Piteco.

[30]

The stock has ticked up some from the lows in 2018 due to the extremely good H2 numbers and generally better market positions. But on the other hand, the stock is still below the high from the two years ago before the two good M&A deals.

Best regards

Andreas Aaen

Symmetry Invest

[30] Google finance