

MATICA FINTEC

FY19: Significant yoy growth and higher than expected margins

Sharp increase in profitability in FY19: MATICA FINTEC, innovative SME and leader in technological systems for the e-ID and digital payment sectors, recently released a strong set of FY19 results, its first as listed company. Revenues reached Euro 14.3 m, largely in line with our estimates (Euro 14.9 m) and +6,1% vs. FY18 adj. (Euro 13.5 m). 97% of total revenues were realized abroad, confirming the Company's international calling. EBITDA reached Euro 3.2 m, up by +40% vs. FY 2018 adj. (Euro 2.3 m) and outperforming our forecast of Euro 2.9 m thanks to a shift in product mix in favor of solutions with high technological content, and in spite of non-recurring IPO costs. Net result was positive for Euro 0.3 m and Net Cash stood at Euro 0.7 m.

Growing demand for high-tech solutions: thanks to continuous R&D activity (approx. 10% of revenues), the Company's products are characterized by efficiency, reliability and high technological content including biometric systems, laser technology and holographic application for identity systems. In 2019, the Company witnessed a growing demand for high-tech solutions with a positive impact on profitability.

Outlook and estimates: In 2020 the Management will focus strategies announced in IPO and aimed at increasing resources, revenues and market share. As for corona virus Management highlights that the Company has not halted operations but it is still difficult to asses any potential effects on the Company's FY20 financials. However, given the business of the Company driven partly by the use of payment cards, we estimate that any negative effect from the coronavirus spread, could possibly be mitigated by an increase in demand from the financial cards business.

Following the above, and while awaiting to better understand the impact of the current sanitarian emergency, we confirm our FY20-22 estimates in growth and margins. However, we stress that unpredictable temporal extension and geographical spread of the COVID-19 emergency could undermine the feasibility of our estimates.

Valuation: We set a target price of Euro 3.88 per share, (Euro 3.62 p.s. previously), providing for a +145% upside on current stock price and obtained by weighting equally the DCF and the multiple comparison analysis.

Sector: Technology

Target Price (Euro) 3.88 (3.62 pr)
 Market Price (Euro) 1.58
 Market Cap (Euro m) 17
 EV (Euro m) 21
(as of April 28th, 2020)

Share Data

Market	AIM ITALIA
Bloomberg/Reuters	MFT:IM / MFTC.MI
ISIN	IT0005388449
N. of Shares	10,508,200
Free Float	38.39%
CEO and Chairman	Sandro Camilleri

AIM Positioning

FY 2018	Com pany	AIM sector	AIM Italia
Revenues	14	35	43
EBITDA margin	16%	17%	14%
NFF/EBITDA (x)	1.6	0.4	3.8

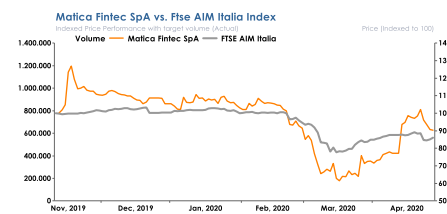
Market Data - Eu m	Com pany	AIM sector	AIM Italia
Mkt Cap	17	65	46
Perf. YTD	-14%	-6%	-14%
Free Float	38%	31%	33%
ADTT YTD (Eu k)	66	85	83

Performance

	1M	3M	6M
Absolute	26.4%	-14.9%	n.a.
Relative	22.6%	0.2%	n.a.
52-week High/Low (Eu)	2.38 / 0.99		

IR TOP RESEARCH

Luisa Primi – l.primi@irtop.com
 T +39 02 89056957



Key Figures (Euro m)	Revenue	Yoy %	EBITDA	EBITDA %	EBIT	EBIT %	Net Profit	Net Debt
2019A	14.3	+6%	3.2	22%	0.7	4.5%	0.3	(0.7)
2020E	15.9	+11%	3.3	21%	0.5	3.3%	0.3	(2.0)
2021E	17.8	+12%	4.1	23%	1.2	6.5%	0.7	(4.2)
2022E	20.3	+14%	4.9	24%	3.6	17.9%	2.4	(6.3)

KEY FIGURES

Profit&Loss Statement	2018 adj	2019A	2020E	2021E	2022E
Revenues	13.5	14.3	15.9	17.8	20.3
EBITDA	2.3	3.2	3.3	4.1	4.9
EBIT	(0.4)	0.7	0.5	1.2	3.6
Financial Income (charges)	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)
Extraordinary items	(0.1)	0.3	0.0	0.0	0.0
Pre-tax profit (loss)	(0.8)	0.7	0.4	1.1	3.5
Taxes	(0.2)	(0.4)	(0.2)	(0.3)	(1.1)
Net profit (loss)	(0.9)	0.3	0.3	0.7	2.4

Balance Sheet					
Net working capital (NWC)	(0.4)	2.4	2.0	2.4	2.8
Net fixed assets	7.2	4.8	4.4	2.6	2.6
M/L Funds	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)
Net Capital Employed	6.2	6.8	5.8	4.3	4.6
Net Debt	3.7	(0.7)	(2.0)	(4.2)	(6.3)
Equity	2.5	7.5	7.7	8.5	10.9

Cash Flow					
EBIT		0.7	0.5	1.2	3.6
D&A		2.5	2.8	2.9	1.2
Tax		(0.4)	(0.2)	(0.3)	(1.1)
Change in M/L Funds		(0.1)	0.1	0.0	0.1
Gross Cash Flow		2.7	3.3	3.8	3.8
Change in NWC		(2.8)	0.4	(0.4)	(0.4)
Operating Cash Flow		(0.1)	3.7	3.5	3.4
Capex		(1.2)	(1.5)	(1.1)	(1.2)
Change in other non-current asset		1.3	(0.9)	(0.1)	(0.1)
Financial Income (charges)		(0.3)	(0.1)	(0.1)	(0.1)
Free Cash Flow		(0.2)	1.2	2.2	2.1
Dividend		0.0	0.0	0.0	0.0
Change in Equity		4.7	0.0	0.0	0.0
Change in Net debt		4.5	1.2	2.2	2.1

Per Share Data					
Current Price	1.58				
Total shares out fully diluted (mn)	10.5				
EPS	(0.1)	0.0	0.0	0.1	0.2
DPS	0.0	0.0	0.0	0.0	0.0
FCF	0.0	(0.0)	0.1	0.2	0.2
Pay out ratio	0%	0%	0%	0%	0%

Ratios					
EBITDA margin	16.8%	22.2%	20.8%	23.0%	23.9%
EBIT margin	n.s.	4.5%	3.3%	6.5%	17.9%
Net Debt/Equity	149.6%	-9.7%	-25.4%	-49.3%	-57.6%
Net Debt/(Net Debt + Equity)	59.9%	-10.8%	-34.0%	-97.1%	-136.1%
Net Debt/EBITDA	1.65	-0.23	-0.59	-1.01	-1.29
Interest cover EBIT	n.s.	2.46	5.22	11.68	36.36
ROE	-37.3%	4.1%	3.3%	8.6%	22.1%
ROCE	-4.0%	15.2%	12.0%	35.2%	103.6%
Free Cash Flow Yield	0.0%	n.m.	7.4%	13.3%	12.6%

Growth Rates					
Revenues	-16%	6%	11%	12%	14%
EBITDA	13%	12%	4%	24%	18%
EBIT	-5%	254%	-20%	124%	211%
Net Profit	-116%	232%	-17%	187%	231%

FY 2019 RESULTS

Matica Fintec just released as strong set of FY 2019 financials with yoy revenue growth of +6% and with a sharp increase in profitability driven by the increase in revenues and a favourable product mix (EBITDA +40%).

More in detail, revenues came in at Euro 14.3 m, up by +6.1% vs. FY18 adjusted (Euro 13.5 m) and largely in line with our estimates (Euro 14.9 m). 97% of total revenues were realized abroad, confirming the Company's international calling characterized by a significant geographical diversification: 26% in Europe (ex. Italy), 21% Asia, 29% America and 24% in the rest of the world.

At profitability level, the Company benefited from a shift in product mix in favour of solutions with a higher technological content. As a results Gross Margin grew from 52.8% to 59.2%, reaching Euro 8.9 m at the end of 2019 (Euro 7.4 in FY18 adj.) and EBITDA reached Euro 3.2 m, up by +40% vs. FY 2018 adj. (Euro 2.3 m) and outperforming our forecast of Euro 2.9 m in spite of the presence of non-recurring IPO related expenses. EBITDA margin grew by 540 bps to 22.2% (16.8% in FY8 adj.)

Net Cash stood at Euro 0.7 m at the end of the period considered, after an improvement from Euro 3.7 m in FY 2018, thanks to the IPO proceeds (Euro 6.0 m) and good operating cash flow.

OUTLOOK AND ESTIMATES

In 2020 the Management will focus strategies announced in IPO and aimed at increasing resources, revenues and market share. In the first months of 2020 the Company continued to collect new orders, Management specifically highlighted an order of Euro 0.3 m from a primary US system integrator (e-ID solutions), USD 0.2 m from Bancor a public bank entity (Central Issuance) and Euro 0.6 m Halyk Bank (Financial Instant Issuance).

As for corona virus Management highlights that the Company has not halted operations but it is still difficult to asses any potential effects on the Company's FY20 financials. However, given the business of the Company driven partly by the use of payment cards, we estimate that any negative effect from coronavirus spread, could possibly be mitigated by an increase in the financial cards business to support online and off line financial services. Indeed, World Health Organization (WHO) suggests using financial cards as an alternative to cash which represents a vehicle for contagion.

Following the above, and while awaiting to better understand the impact of the current sanitarian emergency, we confirm our FY20-22 estimates in growth and margins. Hence, we expect revenues and EPS to grow at a 19-22 CAGR of +12% and +9% respectively, with an EBITDA margin of 23.9% in FY 22. However, we stress that unpredictable temporal extension and geographical spread of the COVID-19 emergency could undermine the feasibility of our estimates. We stress that our forecast does not include any potential opportunities arising from further M&A activity, which however remains a key strategic pillar for the Company in the next years.

ESTIMATES REVISION

Euro m – IAS/IFRS	19A	20E Old	20E New	21E Old	21E New	22E Old	22E New
Sales	14.3	16.5	15.9	18.5	17.8	21.1	20.3
yoy	+6.1%	+11%	+11%	+12%	+12%	+14%	+14%
Revenues (VoP)	15.0	16.8	16.2	18.9	18.2	21.5	20.8
yoy	+7.0%	+11%	+8%	+13%	+13%	+14%	+14%
EBITDA	3.2	3.5	3.3	4.3	4.1	5.1	4.9
margin	22.2%	20.8%	20.8%	23.0%	23.0%	23.9%	23.9%
EBIT	0.7	1.5	0.5	2.8	1.2	3.7	3.6
margin	4.5%	9.0%	3.3%	14.8%	6.5%	17.3%	17.9%
Pre tax profit	0.7	1.4	0.4	2.7	1.1	3.6	3.5
Net Profit	0.3	0.8	0.3	1.8	0.7	2.5	2.4

Euro m – IAS/IFRS	19A	20E Old	20E New	21E Old	21E New	22E Old	22E New
Net Working Capital (NWC)	2.4	2.1	2.0	2.3	2.4	2.8	2.8
Fixed net assets	4.8	5.6	4.4	5.1	2.6	4.8	2.6
Funds	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)
Net Capital Employed	6.8	7.2	5.8	6.9	4.3	7.0	4.6
Net Financial Position (Cash)	(0.7)	(2.3)	(2.0)	(4.4)	(4.2)	(6.7)	(6.3)
Equity	7.5	9.5	7.7	11.3	8.5	13.8	10.9
Sources	6.8	7.2	5.8	6.9	4.3	7.0	4.6

Source: Company data (IAS/IFRS) for FY 2019, IR Top Research estimates for FY 2020-2022

VALUATION

After updating our model to include up-dated market multiples, risk-free rate and ERP, we set a Target price of Matica Fintec of Euro 3.88 p.s. (Euro 3.62 p.s. previously) providing for an upside on current share price of +145%. Our valuation of Matica Fintec is based on a DCF and Multiple comparison, weighted equally. At current market price (Euro 1.58 p.s.) Matica Fintec is trading at a significant discount to its peer group of International companies active in Matica's reference market. At our TP, the stock would be trading at 20-21 EV/EBITDA multiples of 12.1x and 9.7x respectively.

Method	Weight	Price (Eu)
Multiple analysis	50%	3.26
DCF	50%	4.49
Target Price	100%	3.88

Our valuation does not consider the possible dilution impact from the exercise of outstanding warrants which would have an impact of -2% on our valuation.

	Country	Market Cap (Euro m)	2018 Revenues (Euro m)	Growth yoy (%)	2018A EBITDA margin (%)	2019E EBITDA margin (%)
Zebra	USA	11,193	3,564	+8%	19%	19%
Evolis	France	143	82	+2%	17%	16%
Identiv Inc	USA	47	66	+24%	4%	5%
Rambus Inc.	USA	1,319	196	-44%	-19%	-20%
Illinois Tool Works Inc.	USA	48,800	12,518	-1%	27%	27%
IPG Photonics Corporation	USA	6,431	1,237	-1%	41%	29%
CPI Card Group	USA	7	217	+9%	9%	13%
Assa Abloy AB	Sweden	19,269	8,188	+4%	18%	19%
3D System	USA	913	583	+2%	2%	-1%
Ingenico Group SA	France	7,298	2,643	+6%	18%	17%
Median		3,875	910	+3%	18%	16%
Matica Fintec	Italy	17	14	n.a.	16%	22%

	EV/EBITDA			EV/EBIT			P/E		
	19A	20E	21E	19A	20E	21E	19A	20E	21E
Zebra	17.7	15.7	12.4	22.3	18.4	14.0	17.7	15.7	12.4
Evolis	8.4	9.8	6.4	11.6	14.1	8.4	8.4	9.8	6.4
Identiv Inc	24.7	n.a.	n.a.	183.6	n.a.	n.a.	24.7	n.a.	n.a.
Rambus Inc.	8.9	8.1	7.0	10.6	9.7	8.2	8.9	8.1	7.0
Illinois Tool Works Inc.	16.8	18.4	16.3	18.9	21.5	18.6	16.8	18.4	16.3
IPG Photonics Corporation	17.2	21.2	13.2	22.9	32.2	17.5	17.2	21.2	13.2
CPI Card Group	8.3	n.a.	n.a.	15.6	n.a.	n.a.	8.3	n.a.	n.a.
Assa Abloy AB	15.1	15.0	12.8	18.6	18.7	15.6	15.1	15.0	12.8
3D System	30.6	43.5	24.8	970.1	n.a.	804.1	30.6	43.5	24.8
Ingenico Group SA	14.1	14.4	12.6	23.4	19.3	16.4	14.1	14.4	12.6
Median	16.0	15.4	12.7	20.6	18.7	16.0	16.0	15.4	12.7

Source: IR Top estimates for MATICA FINTEC and FactSet data for peers as of April 28th, 2020

MATICA IN BRIEF

Matica Fintec, is a registered Innovative SME and leader in technological systems for the e-ID and Digital Payment sectors. The Company is based in Milan (Italy) and specialized in the design, manufacturing and market of systems for the issuance of security documents (licenses, passports, identity card etc.) and financial cards (credit cards, debit cards etc.) mainly for Governmental and Financial Institutional clients. In FY 2019, total sales reached Euro 14.3 m (Euro 13.5 m in FY 2018 adj.), of which 97% (95% in FY 2018 adj.) were realized outside Italy in over 200 countries worldwide thanks to a capillary sales network.

STRATEGY

Matica Fintec intends to pursue its development and growth strategy through the following guidelines:

- R&D to anticipate technological evolution in the market;
- Optimization of the production process;
- M&A.

INNOVATION

Matica Fintec has obtained 9 patents and invested approx. 10% of total 2018 revenues in R&D for the development of cutting-edge, secure and reliable technologies. The Company's products are characterized by efficiency, reliability and high technological content including biometric systems, laser technology, and holographic application for identity documents.

REFERENCE MARKET

The two reference markets for Matica Fintec are the e-ID and Digital Payment markets which both are expected to grow rapidly in the next years.

DIGITAL PAYMENT MARKET: According to The World Payment Report 2019 realized by Campgemi, the volume of non-cash transactions has grown and will continue to do so also in the coming years.

In 2016, global non-cash transaction volumes grew at 11.9% to reach 538.6 billion. The report estimates that **the number of non-cash transactions will increase to 1,045.5 billion in 2022 (+94% vs 2017).**

The report estimates suggest that during the five-year period between 2017 and 2022, **the CAGR of worldwide non-cash transactions will be 14.0%**. The highest growth rate, of 23.5% over the five-year period, is expected to be in the developing regions of Latin America, MEA and Emerging Asia.

E-IDENTITY MARKET: According to the report "The Global Biometric Systems Market 2015-2025" the **global public spending, for the period 2017-2025**, is expected to double for biometric recognition systems: from \$ 5.2 billion in 2017 to \$ 10.2 billion in 2025.

Another report, The Persistence Market Research 2018, estimates that the **ID card printer market will grow by 50%, or a CAGR of +5.4%, between 2017 and 2025:** from a total value of \$ 4 billion in 2017 to \$ 6 billion in 2025.

OPPORTUNITIES

- **Research & Development:** Continuous investment in R&D (approx. 10% of revenue in 2018).
- **International footprint:** Widespread presence in principal foreign markets
- **Customer Care:** through the assistance and after-sales services.
- **e-ID and Digital Payment systems:** wide range of high-tech systems designed to provide customized solutions for specific needs.
- **Industry experience:** Over 10 years of experience and know-how.

RISKS

- **Risks related to the competitors: Competitive arena:** global competition with large-scale players
- **Rapidly changing technologies** which makes continuously update of products and services offered necessary
- **Costs in Euro vs. competitors in dollars**
- **Maintenance of high safety and technological standards:** R&D policy aimed at the creation and introduction in the market of highly specialized and innovative solutions
- Risks related to the **implementation of the strategic plan**

MATICA FINTEC ON AIM ITALIA

IPO

Listing Market: AIM Italia – Borsa Italiana SpA

Capital raised: Euro 6.9 m (Euro 6.0 m capital increase and Euro 0.9 m Greenshoe option)

Price: Euro 1.71 p.s.

Capitalisation: Euro 18 m

SHARES (as of April 28th, 2020)

Code: MFT

Bloomberg: MFT:IM

Reuters: MFTC.MI

ISIN: IT0005388449

Share: 10,508,200

Price: Euro 1.58

Performance from IPO: -8%

Capitalisation: Euro 17 m

Free Float: 38.39%

NomAd and Global Coordinator: Integrae Sim

Auditing firm: Nexia Audirevi

WARRANTS (as of April 28th, 2020)

Name: "Warrant Matica 2019-2022"

Alphanumeric code: WMFT22

ISIN: IT0005388381

Issued warrants: 4,033,800

Exercise ratio: 1 ordinary share every 10 warrants held

1st exercise period: November 16th, 2020 – November 30th, 2020; exercise price Euro 1.881

2nd exercise period: November 15th, 2021 – November 30th, 2021; exercise price Euro 2.069

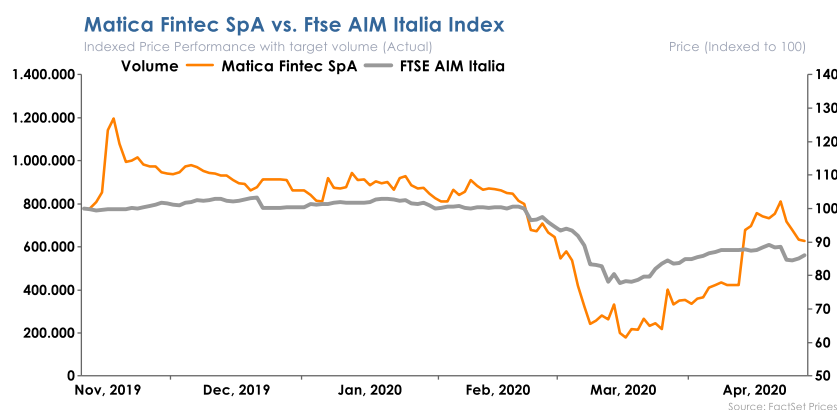
3rd exercise period: November 15th, 2022 – November 30th, 2022; exercise price Euro 2.276

Number of outstanding Warrant at April 28th, 2020: 4,033,800.

After the exercise of the greenshoe option (n. 525,600 shares at Euro 1.71 p.s.) the total IPO related capital increase amounted to n. 4,033,800 shares for a total value of Euro 6,9 m (Euro 1.71 p.s.) of which: capital increase of Euro 6.0 m and Euro 0.9 m related to the greenshoe option. As a result free float increased to 38.39%.

Shareholder	N° of shares	%
Matica Technologies AG	6,474,400	61.61%
Market	4,033,800	38.39%
Total	10,508,200	100.00%

Source: Company data as of April 28th, 2020



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Date	Target Price	Market Price	Validity Time
April 29 th , 2020	3.88	1.58	12 months
November 13 th , 2019	3.62	1.75	12 months

VALUATION METHODOLOGY (HORIZON: 12M): IR Top obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models. Moreover, IR Top used a proprietary model, "AIM Positioning rating", which incorporates a number of variables selected by IR Top based on research of "Osservatorio AIM Italia", managed by IR Top and focused on research about performance of Companies listed on AIM Italia. Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IR Top premises.

RESEARCH TEAM:

Luisa Primi, (Senior Analyst, AIAF Associated)
Chiara Cardelli, (Researcher)

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