

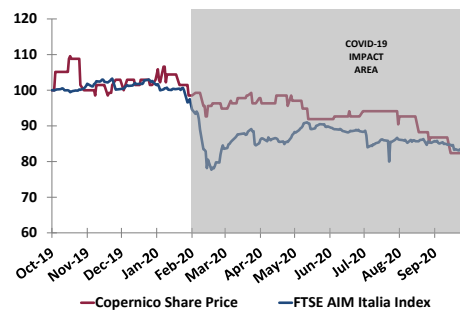


NEUTRAL

Current Share Price (€): 5.50

Target Price (€): 5.64

Copernico - 1Y Performance



Source: S&P Capital IQ - Note: 28/10/2019=100

Company data

ISIN number	IT0005379406
Bloomberg code	COP IM
Reuters code	COP.MI
Industry	Financial services
Stock market	AIM Italia
Share Price (€)	5.50
Date of Price	27/10/2020
Shares Outstanding (m)	1.95
Market Cap (€m)	10.7
Daily Volume	0
Avg Daily Volume YTD	398
Target Price (€)	5.64
Premium (%)	3%
Recommendation	NEUTRAL

Share price performance

	1M	3M	1Y
Copernico - Absolute (%)	-7%	-14%	-19%
FTSE AIM Italia (%)	-4%	-8%	-18%
1Y Range H/L (€)	7.45	5.50	
YTD Change (€) / %	-1.50	-21%	

Source: S&P Capital IQ

Analysts

Luigi Tardella - Co-Head of Research
tardellaresearch@advisory.envent.it

Andrea Zampaloni -
azampaloni@advisory.envent.it

EnVent Capital Markets Limited

42, Berkeley Square - London W1J 5AW (UK)
Phone +44 (0) 20 35198451

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H1 2020 brokerage margin +8%; AUM resilient to volatile market

Slight drop in AUM, while brokerage margin is improving

H1 2020 Assets Under Management (AUM) were €558m, close to the FY19 €561m. Fee income and fee expense were respectively €3.3m and €1.9m, also in line with H1 2019 figures of €3.2m and €1.8m. Brokerage margin was €1.5m, +8% vs. H1 2019 of €1.3m. EBT of €(0.1)m, close to breakeven like H1 2019. Net loss at €0.1m.

On the balance sheet side, H1 2020 net working capital was in line with FY19 of €0.9m, while net cash decreased to €1.6m, from €1.9m as of year-end 2019. Shareholders' equity was €4.7m. Number of private bankers went from 85 to 83 in H1 2020 and to 82 as of September 2020.

AUM have been resilient to extreme financial markets volatility

Copernico AUM €3.2m decrease comes from net inflows increased by 88% to €17.5m, from €9.3m H1 2019, offset by market drops mainly related to volatility in H1 2020 due to COVID-19.

Financial market sees uncertainties ahead due to increase in COVID-19 cases

Asset management industry has just passed a roller-coaster period. Uncertainties from macro factors trend remain, coupled with increasing COVID-19 cases and overall fear of going back to several lockdowns. We appreciate the resiliency of Copernico, however, we remain conservative on the financial market performance for the short-term. The H1 2020 figures are in line with our previous note base scenario, which assumes moderate AUM growth for 2020. However, we have repositioned AUM expected trend along the 2020-24E period, factoring the current industry stagnation and increasing net inflows more on the long horizon rather than in the short-term.

Target Price €5.64 per share (from €6.13), NEUTRAL recommendation confirmed

Our valuation on updated estimates suggests a Target Price of €5.64 per share, from €6.13, in line with the current share price of €5.50. As a consequence, we confirm a NEUTRAL recommendation on the stock.

Key financials and estimates

€m	2018	2019	2020E	2021E	2022E	2023E	2024E
Assets Under Management (AUM)	497	561	589	671	758	857	972
Brokerage Margin	2.7	2.7	3.1	4.1	4.7	5.4	6.3
EBT	0.0	(0.2)	0.1	0.8	1.2	1.6	2.3
Net Income (Loss)	0.0	0.0	0.1	0.5	0.8	1.1	1.5
Net (Debt) Cash	0.4	1.9	2.0	2.5	3.3	4.5	6.0
Equity	2.3	4.3	4.4	4.8	5.6	6.7	8.2
Cost/Income	100%	102%	91%	75%	70%	66%	61%
Net fees/AUM (bps)	55	49	53	60	62	63	64
ROE	2%	1%	1%	10%	13%	16%	19%

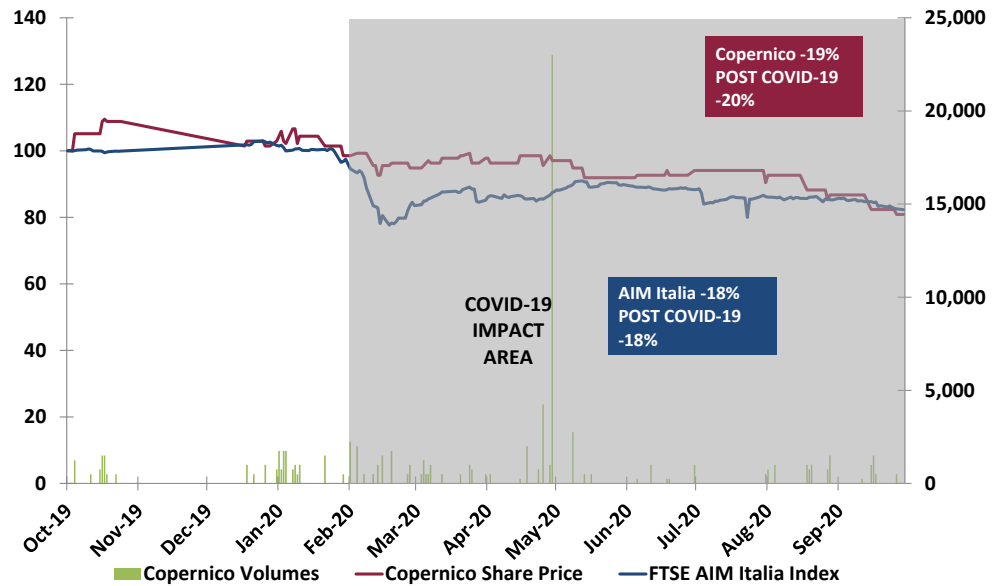
Source: Company data 2018-19A, EnVent Research 2020-24E

Market update

Copernico shares in the last 12 months traded in the range €5.50-7.45, with beginning price at €6.80 and ending at €5.50, 19% decrease

In the same period, the FTSE AIM Italia Index decreased by 18%

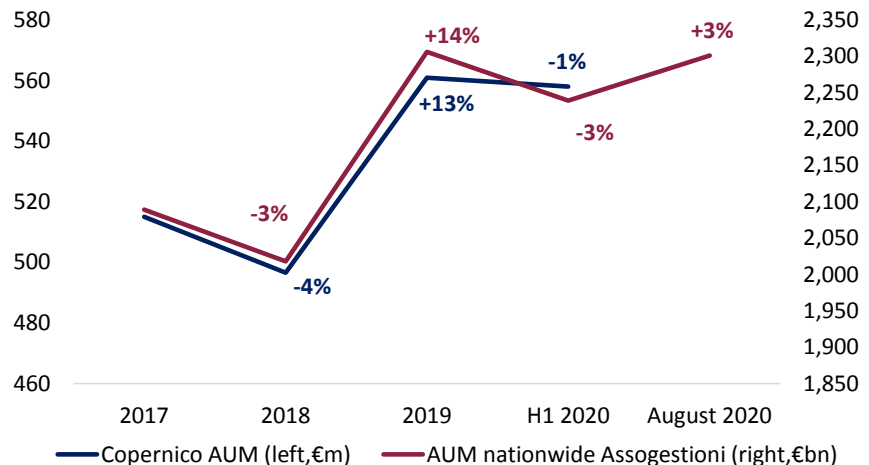
1Y Share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 28/10/2019=100

2017-H1 2020 Copernico AUM trend has been in line with the Italian asset management industry

AUM trend before COVID-19 market impact



Source: Company data and Assogestioni, October 2020

Resilient figures despite COVID-19 crisis

Overall performance unchanged compared to H1 2019

H1 2020 Assets Under Management (AUM) were €558m from €561m in FY19 (-1%). Fee income and fee expense were respectively €3.3m and €1.9m, in line with H1 2019 figures of €3.2m and €1.8m. Brokerage margin was €1.5m, +8% vs. H1 2019 of €1.3m. EBT was €(0.1)m, close to breakeven as in H1 2019. Same for net loss of €0.1m.

On the balance sheet side, H1 2020 net working capital was in line with FY19, from €0.8m as of year-end 2019 to €0.9m as of June 2020. Net cash balance was €1.6m from €1.9m in 2019. Shareholders' equity was €4.7m. Number of private bankers

went from 85 to 83 in H1 2020 and to 82 as of September 2020.

Profit and Loss

€m	H1 2019	H1 2020
Assets Under Management (AUM)	547	558
Fee income	3.2	3.3
Fee expense	(1.8)	(1.9)
Net fees	1.3	1.5
Brokerage Margin	1.3	1.5
Personnel	(0.6)	(0.7)
G&A	(0.6)	(0.7)
D&A	(0.1)	(0.1)
Other income (expense)	(0.0)	0.0
EBT	0.0	(0.1)
Income taxes	0.0	0.0
Net Income (Loss)	0.0	(0.1)

Source: Company data

Balance Sheet

€m	H1 2019	2019	H1 2020
Net Working Capital	0.2	0.8	1.4
Non-current assets	2.1	2.1	2.2
Provisions	(0.6)	(0.5)	(0.5)
Net Invested Capital	1.7	2.4	3.0
Net Debt (Cash)	(0.5)	(1.9)	(1.6)
Equity	2.2	4.3	4.7
Sources	1.7	2.4	3.0

Source: Company data

Cash Flow

€m	H1 2019	H1 2020
EBT	0.0	(0.1)
Current taxes	0.0	0.0
D&A	0.1	0.1
Net Working Capital	0.4	(0.6)
Provisions	(0.0)	(0.0)
Cash flow from P&L operations	0.5	(0.5)
Capex	(0.3)	(0.3)
Operating cash flow after capex	(0.3)	(0.3)
Paid-in capital	(0.1)	0.4
Net cash flow	0.1	(0.3)
Net (Debt) Cash - Beginning	0.4	1.9
Net (Debt) Cash - End	0.5	1.6
Change in Net (Debt) Cash	0.1	(0.3)

Source: Company data

Ratio analysis

KPIs	H1 2019	H1 2020
Assets Under Management (€m)	547	558
Net inflows (€m)	51	(3)
Fee income (€m)	3.2	3.3
<i>Fee income/AUM</i>	1.2%	1.2%
Net fees (€m)	1.3	1.5
Net fees/AUM (bps)	24.5	26.1
<i>Cost/Income</i>	92%	99%
Private bankers (units)	87	83
Avg. Portfolio per Banker (€m)	6.3	6.7
<i>ROE</i>	2%	neg.

Source: Company data

Business update

As of September 2020, 2 bankers were hired, while 1 left, a -2% turnover. Management states that the development of COVID-19 emergency might impact negatively the foregoing business activity but, given the type of asset classes under advisory (bonds and insurance products), AUM and relative income streaming would ensure resiliency also during H2 2020.

Assignment of new warrants

In June 2019, the Shareholders' meeting had decided the assignment of 65,000 free warrants, out of total 715,000, to selected bankers, management team and personnel. In July 2020, 65,000 new warrants have been assigned to 69 financial

65,000 new warrants "Warrant Copernico SIM S.p.A. 2019-2022" to selected stakeholders

advisors, 4 managers and 22 employees, bringing the total number of listed warrants to 696,494.

Outlook: challenges are still present for the short-term horizon

The asset management industry performance, with first phase of COVID-19, resulted in a V-shape with a strong market drop followed by a sharp recovery. COVID-19 cases are back on a rise coupled with fear of going back to several lockdowns across the world. This will likely increase market volatility in the short-term. However, Copernico's assets allocation policies proved to be defensive versus market swings in H1 2020 and we foresee that these would be effective also during H2 2020. Thus, we maintain our view on the AUM development in the short-term, on the conservative side.

Financial Projections

Profit and Loss							
€m	2018	2019	2020E	2021E	2022E	2023E	2024E
Assets Under Management (AUM)	497	561	589	671	758	857	972
Fee income	6.7	6.5	7.1	9.0	10.2	11.5	13.0
Fee expense	(3.9)	(3.8)	(4.0)	(4.9)	(5.5)	(6.1)	(6.8)
Net fees	2.7	2.7	3.1	4.0	4.7	5.4	6.3
<i>Net fees/AUM (bps)</i>	<i>55</i>	<i>49</i>	<i>53</i>	<i>60</i>	<i>62</i>	<i>63</i>	<i>64</i>
Brokerage Margin	2.7	2.7	3.1	4.1	4.7	5.4	6.3
Personnel	(1.2)	(1.3)	(1.3)	(1.5)	(1.7)	(1.9)	(2.1)
G&A	(1.5)	(1.5)	(1.5)	(1.6)	(1.6)	(1.6)	(1.7)
Writedown/writeup on financial assets	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
D&A	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Other income (expense)	0.2	0.1	0.0	0.0	0.0	0.0	0.0
EBT	0.0	(0.2)	0.1	0.8	1.2	1.6	2.3
<i>EBT/Brokerage margin</i>	<i>2%</i>	<i>-9%</i>	<i>3%</i>	<i>20%</i>	<i>25%</i>	<i>30%</i>	<i>36%</i>
Income taxes	0.0	0.3	(0.1)	(0.3)	(0.4)	(0.6)	(0.7)
Net Income (Loss)	0.0	0.0	0.1	0.5	0.8	1.1	1.5

Source: Company data 2018-19A, EnVent Research 2020-24E

Balance Sheet							
€m	2018	2019	2020E	2021E	2022E	2023E	2024E
Net Working Capital	0.5	0.8	0.9	1.0	1.1	1.2	1.3
Non-current assets	1.9	2.1	2.0	1.9	1.8	1.7	1.6
Provisions	(0.6)	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)	(0.7)
Net Invested Capital	1.8	2.4	2.3	2.3	2.3	2.2	2.2
Net Debt (Cash)	(0.4)	(1.9)	(2.0)	(2.5)	(3.3)	(4.5)	(6.0)
Equity	2.3	4.3	4.4	4.8	5.6	6.7	8.2
Sources	1.8	2.4	2.3	2.3	2.3	2.2	2.2

Source: Company data 2018-19A, EnVent Research 2020-24E

Cash Flow

€m	2018	2019	2020E	2021E	2022E	2023E	2024E
EBT	0.0	(0.2)	0.1	0.8	1.2	1.6	2.3
Current taxes	0.0	0.3	(0.1)	(0.3)	(0.4)	(0.6)	(0.7)
D&A	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Working Capital	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Provisions	(0.1)	(0.0)	0.0	0.0	0.0	0.0	0.1
Cash flow from operations	(0.3)	(0.1)	0.2	0.6	0.9	1.3	1.7
Capex	(0.2)	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Operating cash flow after capex	(0.5)	(0.5)	0.1	0.5	0.8	1.2	1.6
Paid-in capital/IPO proceeds	0.1	2.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	(0.5)	1.5	0.1	0.5	0.8	1.2	1.6
Net (Debt) Cash - Beginning	0.9	0.4	1.9	2.0	2.5	3.3	4.5
Net (Debt) Cash - End	0.4	1.9	2.0	2.5	3.3	4.5	6.0
Change in Net (Debt) Cash	(0.5)	1.5	0.1	0.5	0.8	1.2	1.6

Source: Company data 2018-19A, EnVent Research 2020-24E

Ratio analysis

KPIs	2018	2019	2020E	2021E	2022E	2023E	2024E
Assets Under Management (€m)	497	561	589	671	758	857	972
Net inflows (€m)	(18)	64	28	82	87	99	115
Fee income (€m)	6.7	6.5	7.1	9.0	10.2	11.5	13.0
<i>Fee income/AUM</i>	<i>1.34%</i>	<i>1.16%</i>	<i>1.20%</i>	<i>1.34%</i>	<i>1.34%</i>	<i>1.34%</i>	<i>1.34%</i>
Net fees (€m)	2.7	2.7	3.1	4.0	4.7	5.4	6.3
Net fees/AUM (bps)	55	49	53	60	62	63	64
<i>Cost/Income</i>	<i>99.6%</i>	<i>102.3%</i>	<i>90.8%</i>	<i>75.4%</i>	<i>70.4%</i>	<i>65.5%</i>	<i>60.7%</i>
Financial advisors (units)	89	85	85	94	103	112	121
Avg. Portfolio per financial advisor (€m)	5.6	6.6	6.9	7.1	7.4	7.7	8.0
Earnings per share (€)	0.0	0.0	0.0	0.3	0.4	0.6	0.8
<i>ROE</i>	<i>2.0%</i>	<i>1.0%</i>	<i>1.2%</i>	<i>10.1%</i>	<i>13.5%</i>	<i>16.2%</i>	<i>18.7%</i>

Source: Company data 2018-19A, EnVent Research 2020-24E

Valuation

Free cash flow to equity model

Updated assumptions:

- Risk free rate: 1.7% (Italian 10-year government bonds interest rate. Source: Bloomberg, October 2020)
- Market return: 13.0% (Source: Bloomberg, October 2020)
- Market risk premium: 11.3%
- Beta: 1 (Due to heterogeneity among peers part of the Italian and European Asset Managers sample, we did not use the 1.1 median value but a standard value of 1)
- Cost of equity: 13.0%
- Perpetual growth rate after explicit projections: 2.0%
- Terminal Value assumes a normalized sustainable Fee income/AUM equal to 1.30% (Copernico 2017-19 value) and a net cash flow of around €1.3m
- Capital requirements will be driven by fee expense and fixed costs

FCFE Valuation

€m	2019	2020E	2021E	2022E	2023E	2024E	Perpetuity
Cash flow from operations	(0.1)	0.2	0.6	0.9	1.3	1.7	1.4
Cash flow from investing	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Capital Requirements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	(0.5)	0.1	0.5	0.8	1.2	1.6	1.3
Cost of Equity (Ke)	13.0%						
Long-term growth (G)	2.0%						
Discounted Cash Flows		0.1	0.4	0.6	0.8	0.9	
Sum of Discounted Cash Flows	2.7						
Terminal Value							11.5
Discounted Terminal Value	6.6						
Net cash as of 30/06/2020	1.6						
Equity Value	11.0						
FCFE - Implied multiples	2018	2019	2020E	2021E	2022E	2023E	2024E
P/E	238.9X	266.0X	209.8X	22.6X	14.6X	10.1X	7.2X
Equity Value/AUM	2.2%	2.0%	1.9%	1.6%	1.5%	1.3%	1.1%

Source: EnVent Research

Target Price

The application of our valuation model yields a share price of €5.64, in line with the current share price of €5.50. As a consequence, we confirm our NEUTRAL recommendation.

Please refer to important disclosures at the end of this report.

Copernico Price per Share	€
Target Price	5.64
Current Share Price (27/10/2020)	5.50
Premium (Discount)	3%

Source: EnVent Research

Investment Case

Company

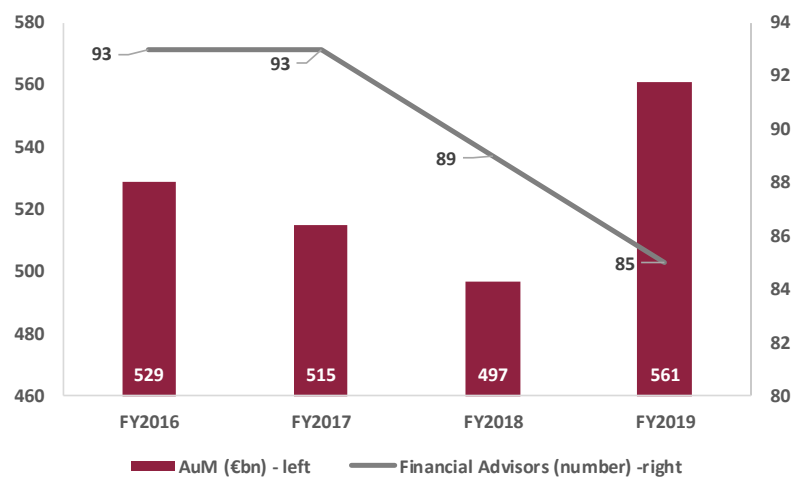
Copernico SIM is an investment firm that operates as asset management advisor to retail clients with a 20-year track record. Copernico provides investment advice and placing services without having custody of client assets. A network of over 80 financial advisors covered more than €550m Assets Under Management from over 6,400 clients.

Services:

- Placing: purchase and disposal of client financial assets through agreement with asset managers institutions, pension funds and insurance companies
- Investment advice: consulting services and asset allocation on client's savings, with no access to the client's liquidity

Core values are independence and transparency, since clients know how much they pay and what their portfolio comprises at any time in the investment process, and safety, given that Copernico does not hold any cash from clients.

Copernico - AUM and Financial Advisors, 2016-19



Source: Company data

Revenue drivers

Revenues are generated through:

- Placing: Copernico advises clients in the purchase and disposal of financial assets, via investment/liquidation proposal. This service line, provided in a framework of commercial agreements with more than 30 asset management companies, pension funds and insurance companies, has been so far the one generating most income fees
- Investment advice: consulting services on all, or part, of clients' savings

Along with the shift towards Advanced and Independent placing, Copernico is also committed to develop clients' wealth and portfolio analysis.

Drivers

Industry drivers

Italian private wealth is significant and financial assets continue to gain ground. Italian households net worth is significant: gross financial assets accounted for €4,374bn in 2017 (Source: Bankitalia). Comparing Italy with other European countries (2017 available data), the households net worth/gross disposable income ratio in Italy is higher than in Germany, France, and UK. Financial assets represented 45% of total net worth in 2017 and, after a decline in the financial crisis years, have been experiencing growth again since 2013.

Yields on Italian treasuries are low and not expected to increase. The historical lowest yield on Italian government bonds further leads investors towards alternative investment solutions. As a result, the amount of debt securities held by Italian investors decreased from 20% to 7% along 2010-Q1 2018 (Source: Assogestioni, “L'industria del risparmio gestito”, Salone del Risparmio, February 2019).

MiFID II transparency to fuel new entrance of households. The underlying intent of MiFID II is to introduce more transparency that should generate a better awareness for the client, who has not had a clear view of fees charged on his investments so far. More aware clients could be attracted by a transparent and fair pricing offered.

Improved portfolio diversification offers opportunity for investment advisors. Italian households have a lower portion of their financial assets managed by investment managers than those in other countries. Furthermore, these assets traditionally are extensively made of government bonds. Therefore, investment advisors can push for an increase of the stake of professional asset management within Italian household investment portfolios, aligning them with those of other developed economies.

Innovation. Fintech/robo-advisory and multichannel platforms may support distribution channels and commercial strategies of financial intermediaries offering investment services.

Demographic shift. Aging of Italian population may push demand of saving and investment advisory for both insurance products and retirement schemes.

Company drivers

Long-run track record even in troubling times. Throughout 2010-2017, investment companies/SIMs decreased significantly, facing a rising competition in the industry and changes in regulatory framework. Since 1999, Copernico resilient aptitude has helped to adapt to the evolving circumstances in the investment industry.

Complex market, tailor made approach. Financial markets are becoming more complex and diversified, making traditional investment channels less appealing and challenging the *old school* asset management industry. Copernico strategy focuses on a more tailor-made approach on investment advisory and portfolio analysis to clients.

Independence, transparent and conflict-free business model. Copernico's shareholder base, that does not include financial institutions, wealth managers or financial services firms, and transparency on clients' costs are value selling propositions attractive for established financial advisors and their clients.

Diversified client portfolio. The AUM spread over a quite large number of clients would reduce the risk of dependence of a high portion of fee income on a relatively small number of individual large clients.

Northern Italy based. Most of Copernico's clients live and operate in the wealthiest regions of the country, where households have substantial savings coupled with a high rate of employment which helps to appreciate investment advisory.

Management and Shareholders: a partnership attitude. Key managers and several financial advisors are shareholders of Copernico. The combined role of financial advisors, shareholders and board members nurtures a culture of partnership and cooperation. The lean organization approach contributes to the transparency of customer relationship management and keeps overheads down to a reasonable level.

Challenges

Market fluctuations. Cyclical market trends might lead to slowdown in net inflows. In this case, AUM are likely to decrease in value, with lower management fees and performance fees, given the predictable drop in asset performance.

Financial advisor concentrations. The situation where large portfolios are managed by individual advisors increases the Company's risk, as their bargaining power would be much stronger in case of dispute.

Reputation and turnover of the network. To drive profitability, Copernico largely relies on its network of financial advisors. Therefore, poor performance or reputational damage can impact the Company revenues. Conversely, a good reputation of Copernico's network might increase competitors willingness to attract its best financial advisors with generous offers.

Exposure to Italy. Copernico only operates in Italy. Therefore, any event affecting the Italian economy would likely impact the Company and its bottom line. The main concerns are the volatile Italian market and the unstable political outlook. Furthermore, the Italian tax system has historically experienced frequent changes and could get more stringent over time on private wealth. This would subsequently negatively affect investment management and asset management revenues and profitability.

Regulatory environment. The Company operates in a highly regulated market, where its products are strongly impacted by changes in the current legislation. Risk of non-compliance with the existing regulation is potential, with the related chance to incur inspections and penalties should the Company not comply with rules concerning transparency, conflict of interest, anti-money laundering, market abuse and consumer protection.

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15/04/2020	NEUTRAL	6.13	6.65
27/10/2020	NEUTRAL	5.64	5.50

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