



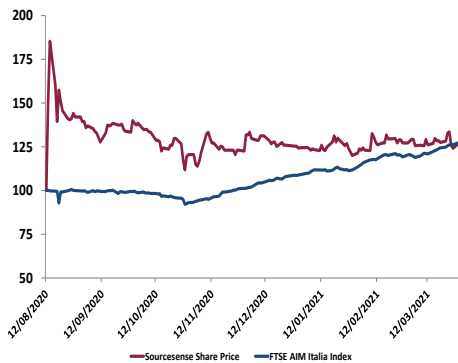
We initiate coverage of Sourcesense: **OUTPERFORM** rating, Target Price €3.69 per share.

OUTPERFORM

Current Share Price (€): 2.50

Target Price (€): 3.69

Sourcesense - Performance since IPO



Source: S&P Capital IQ - Note: 12/08/2020=100

Company data

ISIN number	IT0005417040
Bloomberg code	SOU IM
Reuters code	SOU.MI
Industry	ICT
Stock market	AIM Italia
Share Price (€)	2,51
Date of Price	31/03/2021
Shares Outstanding (m)	8,3
Market Cap (€m)	20,7
Market Float (%)	32,53%
Daily Volume	20000
Avg Daily Volume YTD	20.597
Target Price (€)	3,69
Upside (%)	47%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	IPO
Sourcesense - Absolute (%)	1%	3%	-15%
FTSE AIM Italia (%)	7%	18%	29%
1Y Range H/L (€)	3,61	1,95	
YTD Change (€) / %	0,07	3%	

Source: S&P Capital IQ

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Sourcesense and its subsidiaries are an Italian IT group mainly active in Italy and UK, which supplies IT services and solutions to its customers - usually large businesses and public institutions – and supports them in their digital evolution choices and in the process of designing, integrating and developing systems and platforms.

Open source solutions. Sourcesense business lines are conceived and structured in order to exploit most of the opportunities associated with open source software solutions. The Company manages 100 different technologies and is networked with partners, among which there are some of the most important players in open source software development: Atlassian, Liferay, Red Hat, Alfresco, Cloudera, MongoDB, etc. Customers include over 80 companies in Italy and over 35 abroad, among leaders in their reference markets (utility, telco, publishing, banking & insurance, fashion, etc.).

Increasing swap open source vs proprietary software. Open source solutions are expected to be increasingly used by companies investing in technology and software, due to their intrinsic ability to best respond to innovation need for new technology standards and digital environment.

Profitable business model, with high customer retention and recurring revenues. Partnerships, strengthened along many years, represent a key success factor for marketing and new customers acquisition. A potential customer looking for open source solutions developed by a leading provider becomes aware that Sourcesense is the gateway for the provision and a reliable supplier of related services. Sourcesense customers are usually large corporations and institutions, who are expected to drive the expansion of Italian ICT spending even for the following years as occurred over the past years. Customer loyalty is quite high and the implied low churn rate allows for continuity in the revenue stream.

Target Price €3.69 per share, OUTPERFORM recommendation

Sourcesense is a profitable and cash-generative business with recurring revenues. Its value assessment is supported by long run partnerships, market potential and financial fundamentals.

Our valuation indicates a Target Price per share of €3.69, with a potential upside of 47% on the current share price. As a consequence, we initiate the coverage of Sourcesense with an OUTPERFORM rating.

Consolidated key financials and estimates

€m	2018	2019	2020	2021E	2022E	2023E
Total Revenues	12.9	15.5	17.2	19.8	24.6	29.5
YoY %	na	20.2%	11.4%	14.9%	24.3%	19.6%
EBITDA	0.8	1.6	2.1	2.7	3.9	4.9
Margin	6.1%	10.2%	12.0%	13.4%	15.8%	16.6%
EBIT	0.7	1.0	1.2	1.7	3.0	4.3
Margin	5.2%	6.2%	7.0%	8.6%	12.3%	14.7%
Net Income	0.5	0.5	0.9	1.2	2.2	3.1
Trade Working Capital	3.9	4.6	4.8	5.1	6.4	7.3
Net (Debt) Cash	(1.8)	(1.0)	2.1	3.3	4.3	6.2
Equity	1.1	1.7	6.1	7.3	9.5	12.6

Source: Company data 2018-20A, EnVent Research 2021-23E

1. INVESTMENT CASE

Company

Sourcesense S.p.A. and its subsidiaries (“Sourcesense” or “Company”) are an Italian IT group mainly active in Italy and UK which supplies IT services and solutions to its customers - usually large businesses and public institutions – and supports them in their digital evolution choices and in the process of designing, integrating and developing systems and platforms.

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Consolidated key figures (FY2020):

- Total Revenues €17.2m, +11% YoY growth rate
- Employees 143 (average number)

Drivers

Industry drivers

Digital transformation of businesses. The digital transformation is unfolding in businesses, which become more and more data-driven and need to be organized in order to react immediately to changing market conditions. This asks for a new kind of IT consulting services, built on the drivers/pillars of current stage of digital transformation (Cloud Computing, Big Data and Analytics, Mobility and Social Business).

From Proprietary to Open Source software. ““Open source” does not mean something free of charge. Open source software programmers can charge money for the open source software they create or to which they contribute. But in some cases, because an open source license might require them to release their source code when they sell software to others, some programmers find that charging users money for software services and support (rather than for the software itself) is more lucrative. This way, their software remains free of charge, and they make money helping others install, use, and troubleshoot it” (Source: Opensource.com). Open source software was born and developed thanks to the idea that end users could be more attracted by the advantages of shared innovations and solutions rather than owning exclusive and specific solutions. Knowledge/innovations sharing better guarantees a company that once an innovation is introduced in business, this will more likely be adopted if technology, systems and processes have been implemented according to an “open source” approach. An increasing swap is expected from proprietary software to open source software (Source: Red Hat).

The cloud: a cutting-edge industry. Cloud services provide IT resources from remote sources and bring them directly to the user through internet. Cloud computing adoption has been increasing rapidly over the last years. However, despite the overall increased cloud investment, enterprise cloud adoption is maturing slowly and the average enterprise has achieved less than 20% public or private cloud adoption. As such, room for growth is still huge (Source: McKinsey). Cloud is another key driver for immediate sharing of innovations with respect to systems and solutions supplied by IT consultants.

Company drivers

Riding the wave. With its 5 business lines, Sourcesense aims at supporting its customers in accelerating business transformation and digitalization processes. Solutions and services supported through open source technology allow technology management in “Agile” mode.

Partnerships. The Company developed strategic partnerships with the world’s leading open source software vendors in order to support its customers with innovative and integrated solutions and services. The rank of partnership (e.g. platinum) often becomes a crucial marketing issue in order to attract new customers interested in partners’ technology and aware that Sourcesense is the “bridge” to access it for Italian market. Partnerships aim at providing services in different technical areas (Enterprise Information Management, Application Lifecycle Management & DevOps, Big Data Search & Analytics, Cloud Services). Some partnerships are exclusive for the Italian market with no risk of competition.

Growth of scalable Cloud Services and Enterprise Apps business units. Sourcesense is active in 5 business units. A clear strategy aiming at growth in Cloud Service and Enterprise Apps is based on the intrinsic scalable nature of these business units (currently the most profitable ones) and the chance to supply them with less/without geographical constraints.

Large company is the typical customer. Sourcesense customer portfolio is made of almost 80 companies and public institutions in Italy and 35 abroad. Most of them are large corporations, traditionally showing in Italy a stronger inclination to ICT capex/opex with respect to SMEs.

Long-lasting customer relationships giving way to stable and predictable sales and earnings. Despite most of the customers are large corporations and institutions, customer loyalty is quite high and the implied low churn rate allows for continuity in the revenue stream.

Capital-free business model. Sourcesense, as most IT consulting companies, is an asset-light business.

Industry experts, management-shareholders alignment of interests. Key managers are also shareholders, directly involved in the Company’s operations and execution of the growth strategy, leveraging on their 20 years IT background and industry expertise.

Challenges

Competition. IT consulting sector is quite fragmented and varied. Though Sourcesense occupies a sort of niche, due to its specific value proposition (based on open source technology), its size does not prevent or protect from decision of more traditional and probably “slower” actors in the market (such as traditional system integrators) to attack its niche and/or to attract Company’s most talented professionals with incomparable economic offers.

Acquisition and integration risk. Acquisitions could be value accretive or dilutive based on valuations paid and market trends. Higher than expected integration costs when consolidating acquisitions may impact margins. Given Sourcesense present size, larger acquisitions may be targeted in order to be material to the growth of the business, but these can carry a greater integration risk.

2. PROFILE

IT Consulting and digital solutions provider

IT Consulting relying on solutions based on open source software

Sourcesense operates through open source technologies to develop software applications, which take full advantage of cloud infrastructure using “Agile” methodology, a project management methodology that uses short development cycles (“sprint”) to focus on continuous improvement in the development of a product or a service.









A wide portfolio of services

Current business lines are Consulting, Solutions, Subscriptions, Cloud Services, Enterprise App. Customers include over 80 companies in Italy and over 35 abroad, among leaders in their reference markets (utility, telco, publishing, banking & insurance, fashion, etc.).

Sourcesense is an innovative SME, which is, according to Italian law, a status that allows tax incentives for investors.

2020 average workforce: 143 people

History and key developments

Sourcesense - History milestones		
2001	<ul style="list-style-type: none"> Establishment of Pro-netics S.r.l. (then Sourcesense S.p.A.) 	
2006	<ul style="list-style-type: none"> Opening of Milan office Growing presence in Italian northern regions 	
2010	<ul style="list-style-type: none"> Adoption of the “Agile” methodology 	
2012	<ul style="list-style-type: none"> Opening of UK office 	
2015	<ul style="list-style-type: none"> Significant turnover growth for both Italian and UK markets 	
2017	<ul style="list-style-type: none"> Joining the “Elite Project” of Borsa Italiana 	
2019	<ul style="list-style-type: none"> Group reorganization 	
2020	<ul style="list-style-type: none"> Sourcesense is recognized as innovative SME Sourcesense listing on AIM Italia Market (August) Acquisition of MMUL S.r.l. three months after IPO 	

Source: Company data

Key people

Name and role

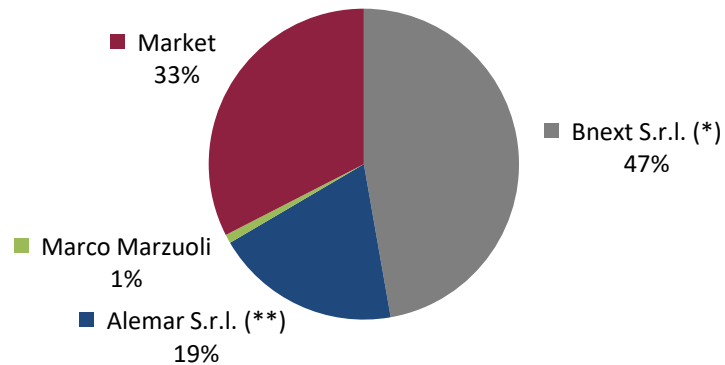
Marco Bruni
Chairman and CEO

Marco Marzuoli
Sales Director

Background

- Along with the development of Sourcesense, he founded other IT companies and worked as IT Officer for one of the United Nations agencies
- After an experience for a telecom company, in 2001 he founded Pro-netics S.r.l., then Sourcesense S.p.A.
- Degree in Computer Science from University of Pisa, in 1992 analyst in an IT company operating on Artificial Intelligence R&D
- In 2014 he joins Sourcesense as a Board Member and shareholder
- Account Manager from 2000 to 2006 of an American ICT multinational company and then General Manager and Sales Manager of a leading Italian ICT company from 2007 to 2013
- Degree in Computer Science from University of Pisa, IT analyst and then manager in a leading software provider company

Shareholders

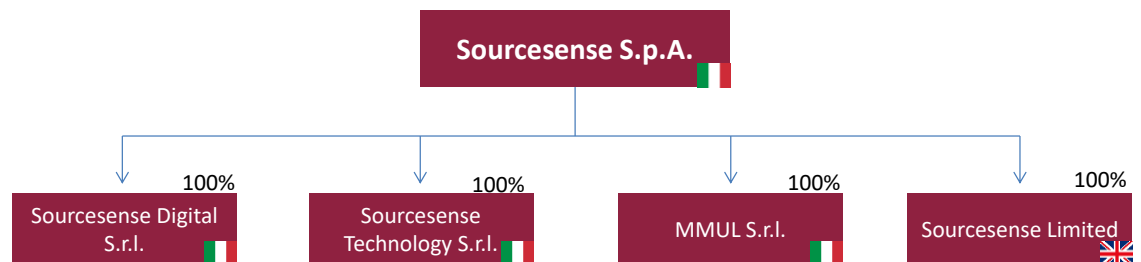


Source: Company data

(*) Company entirely owned by Marco Bruni

(**) Company entirely owned by Marco Marzuoli

Group Structure

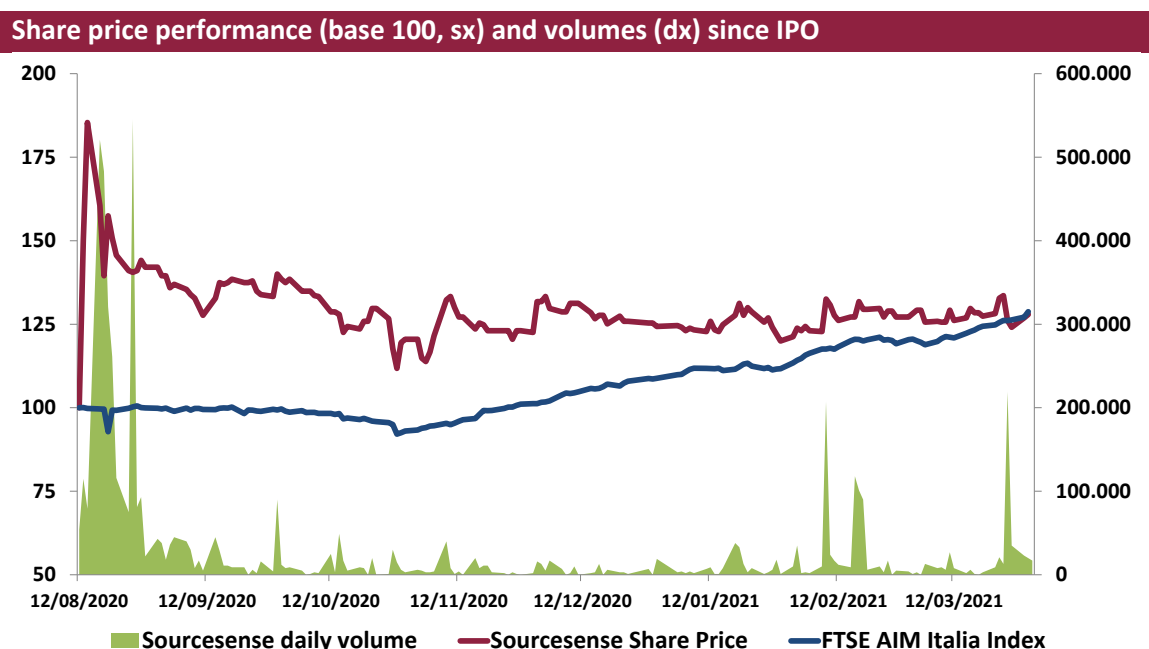


Sourcesense IPO and stock market performance on AIM Italia

Sourcesense on AIM Italia	
Stock market	AIM Italia
Bloomberg code	SOU IM
Reuters code	SOU.MI
IPO date	12/08/2020
Offer Price (€)	1.30
Money raised (€m)	3.5
Market Cap at IPO (€m)	10.8
Free float at IPO	32.5%
Ordinary shares - ISIN number	IT0005417040
Shares outstanding	8,275,500
Current Share Price (€)	2.51
Current Market Cap (€m)	20.7

Source: Company data and S&P Capital IQ, update 31/03/21

Note1: IPO figures include greenshoe option effect



Source: S&P Capital IQ, update 31/03/21

Sourcesense certifications:

- ISO/IEC 27001 (Information Security)
- ISO/IEC 27017 (IT Security for cloud providers)
- ISO/IEC 27018 (protection of personally identifiable information)

On March 24th 2021, the Company Board of Directors decided to propose to shareholders:

- the issuance of 8,275,500 equity warrants, with a free assignment of 1 warrant each share to all shareholders and which will be listed on AIM. 2 warrants will entitle the holder to subscribe 1 new share. Exercise periods will last until 2024. Strike price will be decided just before the listing of new warrants (May 2021) and will change according to exercise period; and

- a stock option plan for employees and managers which may determine the issuance of 0.25m new shares

Service portfolio

Open source approach

“By design, open source software licenses promote collaboration and sharing because they permit other people to make modifications to source code and incorporate those changes into their own projects. They encourage computer programmers to access, view, and modify open source software whenever they like, as long as they let others do the same when they share their work.” (Source: Opensource.com)

Open source software was born and developed thanks to the idea that end users could be more attracted by the advantages of shared innovations and solutions rather than owning exclusive and specific solutions.

This sharing of knowledge better guarantees a user company that once an innovation is introduced in business, this will more likely be adopted and become part of company’s value proposition if technology, systems and processes have been implemented according to an open source approach. If this agile and immediate response to innovation is not technologically and methodologically turned into an endogenous, flexible and efficient flow, companies risk to be rapidly and completely offset by more innovative competitors taking advantage of that innovation.

Exploiting open source software potentials

What the Company does....

Sourcesense business lines are conceived and structured in order to exploit most of the opportunities associated with open source software solutions. The Company manages 100 different technologies. Sourcesense is networked with partners, among which there are some of the most important players in open source software development: Atlassian, Liferay, Red Hat, Alfresco, Cloudera, MongoDB, etc.

Typically, customers looking for open source solutions become aware of the partnership between partner and the Company.

Consulting

Strategic business line, usually a key success factor for new customers’ acquisitions. Once a customer has represented its need, after a pre-assessment from Sourcesense, a joint working group is made to conceive, realize and implement the solution for customer needs.

67 people were involved in Consulting at IPO.

Solutions

Customers ask to the Company to realize a solution in order to satisfy one or more specific needs.

At time of listing, 44 people were involved in this business line.

Subscriptions

Customers are guaranteed to exploit all possible innovations related to open source technologies supplied by the Company partners via this business line. Customers do not subscribe in order to use software, but in order to receive services such as software innovations/update and to be supported with extra services (security for example).

This business unit represents a key success factor for the Company marketing goals and a crucial tool to boost also other business line activities.

At time of listing, 3 people were involved in this business line.

Cloud Services

This business line represents the tool to offer cloud platforms services (Software As A Service or SAAS) related to Sourcesense portfolio.

Along with the technical solution requested by customers, they increasingly outsource also the management of this solution to Sourcesense, and this occurs thanks to Cloud Services business unit. Since almost 1/10 of a typical project is dedicated to the realization of the application and 9/10 to the management of the service to be supplied, long run relationships with customers are easy and recurrent.

The Company cloud services can be either i) customized according to each customer specific needs/requests; or ii) general and scalable, exploitable for additional needs.

Especially for general solutions exploitable and easily scalable and replicable for more customers, cloud services do not request to be close to buyers and offer the chance to easily access new markets.

At time of listing, 22 employees worked in Cloud service business unit.

Enterprise Apps

Thanks to this business line, customers are induced to adopt solutions through applications bought on a virtual/digital marketplace. Along with downloading, customers can receive subsequent updates.

1 FTE employee involved with Enterprise Apps business unit at IPO.

3. INDUSTRY OVERVIEW

A once in a generation transformation

We are currently experiencing unprecedented changes in the ICT sector in recent years. According to industry analysts this phase is mainly based on four technological pillars:

- Cloud Computing
- Big Data and Analytics
- Mobility
- Social Business

The wave of innovation that these technologies are determining is unprecedented in the history of ICT in terms of speed, breadth and depth.

Along with awareness of the enormous potential of technology, this created strong consensus within companies to support IT projects and investments.

Currently, the four pillars are complemented by innovation accelerators (Artificial Intelligence, Internet of Things and Blockchain solutions) which are driving companies to integrate innovation and data to gain a competitive advantage and digitally transform their business.

The “Digital Determined” enterprise

Companies started to be classified according to four parameters - organisational, strategic, financial and platform – and consequently grouped in two alternative clusters: Digitally Determined and Digitally Distraught. The former is made of firms taking full advantage of digital transformation projects, while the latter is made of companies shaken by the impact that digital transformation is having on traditional business and therefore more reluctant or unable to adapt themselves in such a competitive and dynamic scenario.

Focus on open source software

“Open source software is software with source code that anyone can inspect, modify, and enhance. "Source code" is the part of software that most computer users don't ever see; it's the code computer programmers can manipulate to change how a piece of software -a "program" or "application"- works. Programmers who have access to a computer program's source code can improve that program by adding features to it or fixing parts that don't always work correctly.

Some software has source code that only the person, team, or organization who created it - and maintains exclusive control over it- can modify. People call this kind of software "proprietary" or "closed source" software. Only the original authors of proprietary software can legally copy, inspect, and alter that software. And in order to use proprietary software, computer users must agree (usually by signing a license displayed the first time they run this software) that they will not do anything with the software that the software's authors have not expressly permitted. Microsoft Office and Adobe Photoshop are examples of proprietary software.

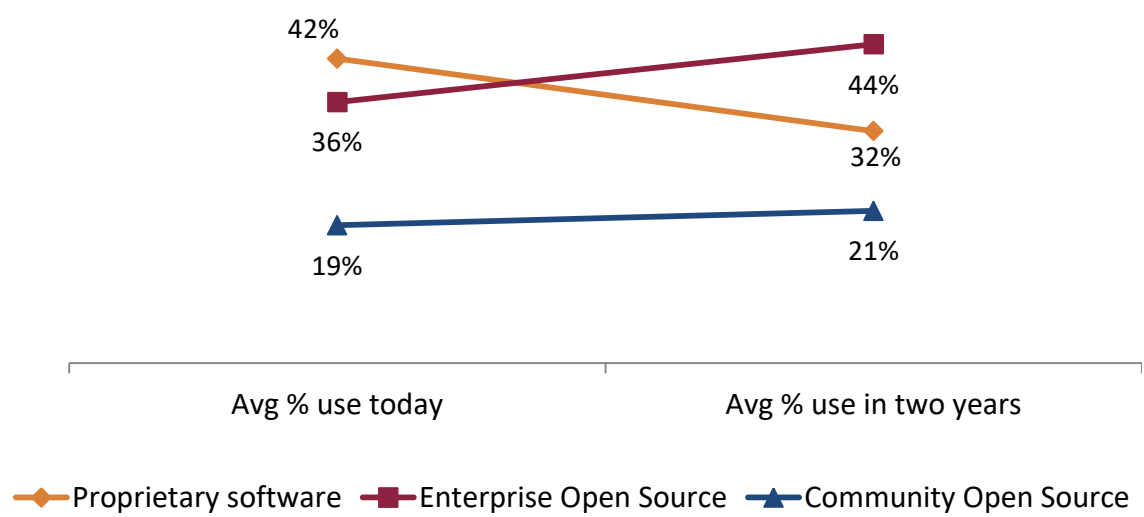
Open source software is different. Its authors make its source code available to others who would like to view that code, copy it, learn from it, alter it, or share it. LibreOffice and the GNU

Image Manipulation Program are examples of open source software. As they do with proprietary software, users must accept the terms of a license when they use open source software, but the legal terms of open source licenses differ dramatically from those of proprietary licenses. Open source licenses affect the way people can use, study, modify, and distribute software. In general, open source licenses grant computer users permission to use open source software for any purpose they wish. Some open source licenses -what some people call "copyleft" licenses- stipulate that anyone who releases a modified open source program must also release the source code for that program alongside it. Moreover, some open source licenses stipulate that anyone who alters and shares a program with others must also share that program's source code without charging a licensing fee for it." (Source: Opensource.com)

Open source software is expected to be increasingly used by companies that invest in technology and software, due to its intrinsic ability to best respond to innovation need for new standards and solutions. Opens Source software, along with all solutions and services which can be implemented with it, is able to transfer innovation as soon as it becomes available.

According to a RedHat survey in early 2020 among 950 IT managers from leading companies in different countries, 95% of them consider open source software as increasingly important, with the majority expecting to use it even more in the following 12 months. Professionals also expected a sharp reduction in the use of proprietary software vs opens source over the following 24 months.

Opens source vs proprietary software in 2020-22



Source: "The State of Enterprise Open Source" 2020 – A Red Hat® Report

The main reason for this expected increasing swap between open source and proprietary software is that the latter is perceived as very expensive, in terms of investment required to acquire licences, and very often ties the user to the technology provider (vendor lock-in).

4. MARKET TRENDS AND OUTLOOK

Italian ICT overview

Italian companies' innovation efforts are aimed at redesigning their business model and exploiting data. Customers play as a crucial driver: end consumers become more demanding in terms of new experiences and new standards, and companies unable to organize themselves and their processes in order to follow and satisfy these increasing needs risk to be crowded out by competitors.

Medium and large organizations are expected to drive the expansion of Italian ICT spending even for the following years as occurred over the past years. Technologies such as Cloud, Big Data and Analytics coupled with innovations accelerators such as Artificial Intelligence and the Internet of Things (IoT) accelerated digital transformation of business processes and changed the way companies approach the creation, delivery and use of ICT products and services in Italy, in opposition to a few years ago when Italian companies usually acted as “followers” and strategically choose to wait for the most innovative technologies to become mature before adopting them.

Since time-to-market adoption of innovations became crucial not only to compete but also to survive, Italian companies put aside their wait-and-see tactics and innovation rate regarding new technologies has eventually matched what observed in those regions and countries historically more innovative, such as North America, Germany, France and UK.

The Cloud plays a leading role

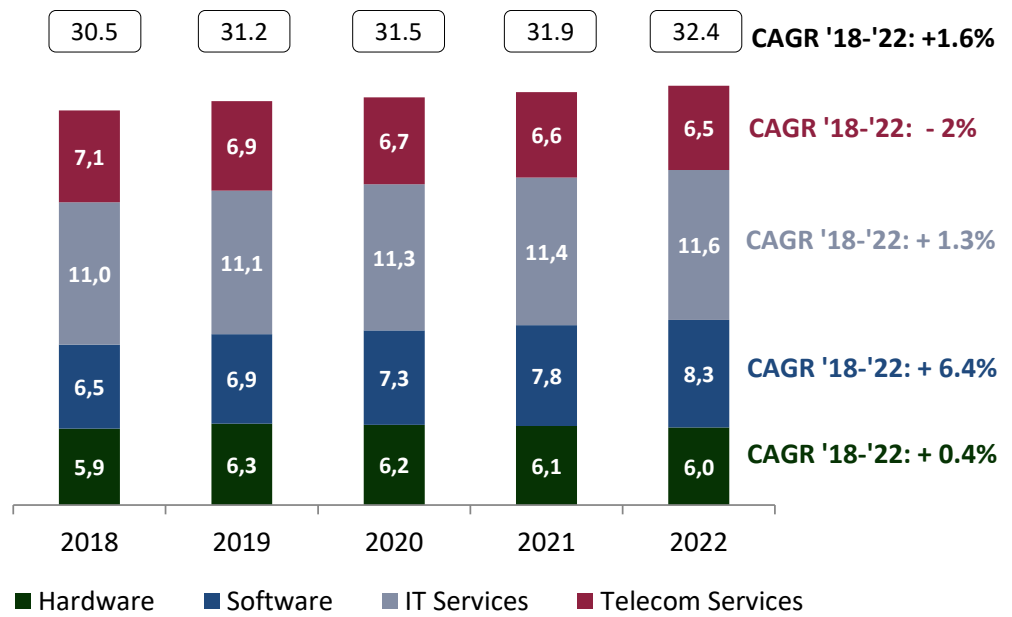
Cloud solutions have been and are expected to confirm as one of the most relevant topics of Italian medium and large companies ICT opex/capex budget.

Democratization of access to new technologies

Current wave of Digital Transformation and its pillars/technologies have also allowed a wider adoption of new technologies by small and medium-sized companies and public institutions in order to increase productivity and competitiveness on the market. All of this confirms a trend that has been underway over the last years: the significant shift of ICT investments from traditional solutions and services towards more innovative and value-added solutions to support business.

Italian companies spent over €31 billion for ICT in 2019 (+.2.3% vs 2018). Estimates for 2020 and subsequent years available before Covid-19 pandemic forecasted a total expenditure of €31.5 billion in 2020.

Italian ICT expenditure 2018-2023E, €bn (estimates before Covid)

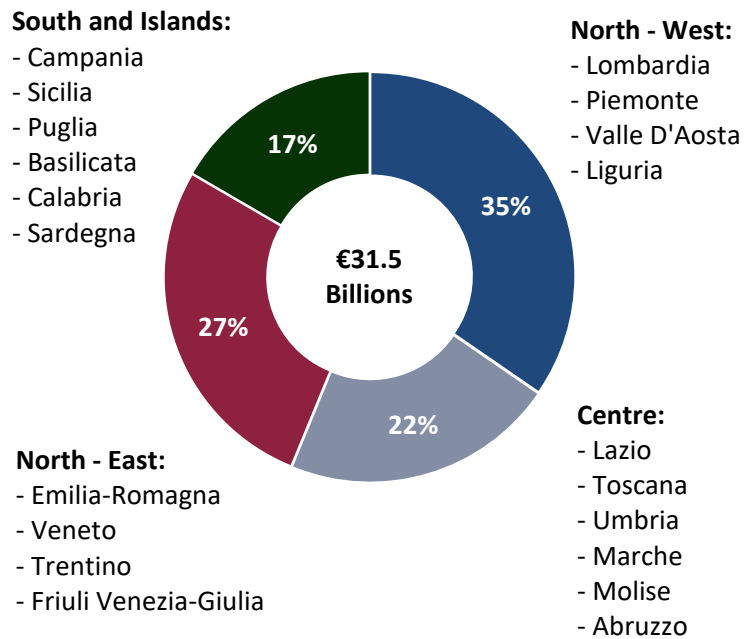


Source: Assintel Report 2020

The different perspectives between IT and telecommunications

Looking at the two main components, IT and Telecommunications, both historical figures and projections reveal the consolidation of a trend: along with a confirmed downturn in business spending on Telecommunications, fixed and mobile, the Information Technology market subsectors (hardware, software and IT services) were expected to confirm in 2020 and following years the growth already experienced in 2019.

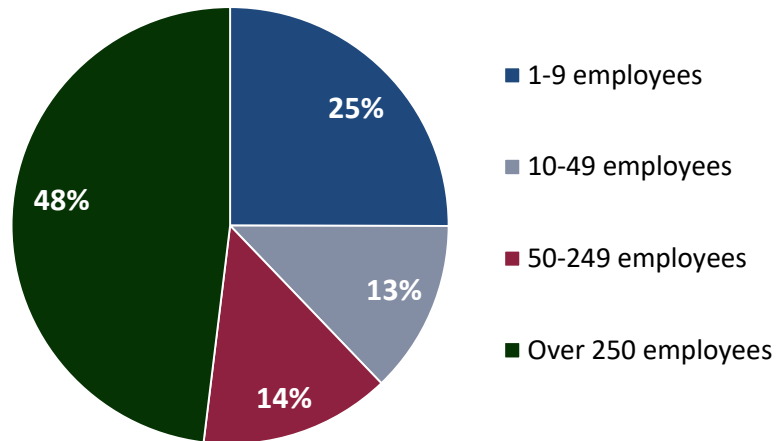
Italian 2019 ICT expenditure breakdown by geographic area



Source: Assintel Report 2020

Coherently with GDP breakdown, Italian north regions are the most active in terms of ICT opex/capex.

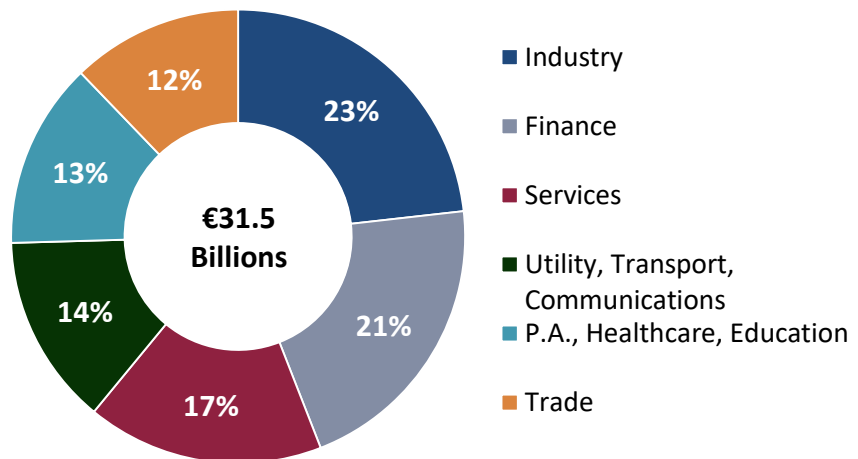
Italian 2019 ICT expenditure breakdown by company size



Source: Assintel Report 2020

Large companies and institutions (over 250 employees) are the most active with almost 50% of total ICT expenditure.

Italian 2019 ICT expenditure breakdown by sector



Source: Assintel Report 2020

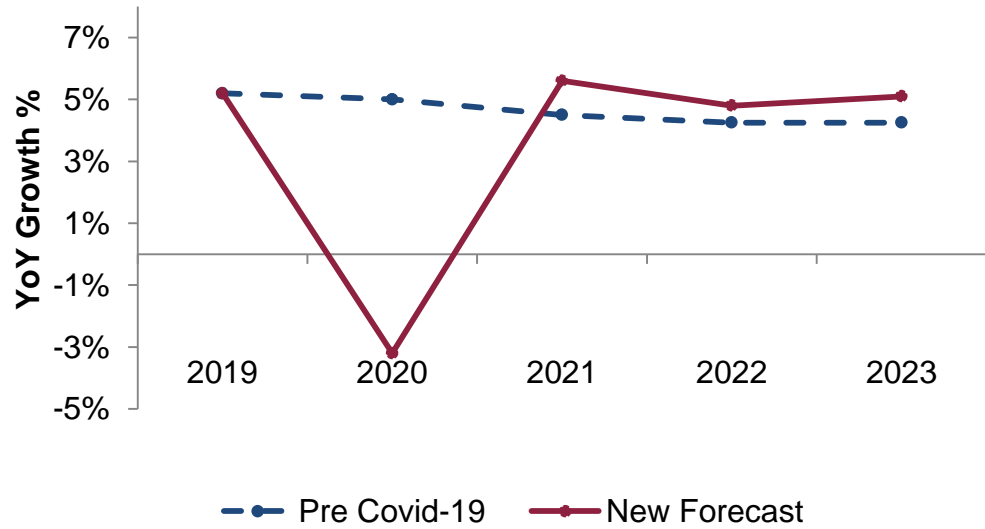
The breakdown by sector shows manufacturing and financial sectors as the main contributors to ICT spending, with a share of roughly 40%. With respect to manufacturing companies, it seems that the boost for digitalization originated by government incentives (Industry 4.0 plan which allowed faster and stronger depreciation to reduce gross income subject to taxes for specific capex related to digitalization) is still having effect. Similarly, the financial sector, particularly the banking sector, continues to invest in fintech innovations and tools.

Industry outlook and Covid-19 impact

Though Covid-19 emergency had impact also on ICT market, differently from other industries which were severely and uniformly affected, some ICT segments and investments were pushed by pandemic. IT investments in some areas, such as cloud and smart working support, strongly increased.

There is a general consensus on the fact that, after the impact in 2020 and 2021, the “wave” previously described will return to its M/L term growth path.

Covid-19 expected impact on world ICT expenditure



Source: IDC’s Worldwide Black Book: Live Edition (May 2020)

5. BUSINESS MODEL AND STRATEGY

Exploiting open source software potentials

Supply/Value chain

How the Company works

Sourcesense business units usually act in an integrated way, in order to exploit all potential synergies. To achieve this goal, the value chain is organized through the following macro units:

- Research&Development
- Products and services development
- Communication&Marketing
- Market overview and pre-sale activities
- Sales
- Post sale activity

Research&Development

The chance to be always at the frontier of innovation is a key driver in the choice of open source solutions for customers, but this requests to address and drive customer choices and therefore to continuously look for new solutions and software updates, which are preliminary selected, than tested and benchmarked before being eventually offered to customers.

Products and services development

This area is concerned with the implementation of new solutions which will be offered via the Solutions, Cloud Services and Enterprise Apps business lines.

Communication&Marketing

Sourcesense is involved with marketing activities of its own services and solutions, while open source software marketing is directly managed by the Company partners. Sourcesense brand recognition and customer awareness are stimulated via press releases, interviews, activity on social media, webinar.

Market overview and pre-sale activity

Opportunities are pursued via first contacts through the Company sales managers and meetings scheduled not only to understand customer needs but also to introduce preliminary options and proposals. Calls for general government and local authorities tenders are monitored through specific tools and evaluated by internal teams in order to understand relevance and suitability with Sourcesense service/solutions portfolio.

Sale

Market is scouted through the four Company sites (Rome, Milan, London and Cosenza) by a Sales Director and four Sales Managers who operate according to geographical criteria.

Post-Sale

Technical staff, under the supervision of the Head of Operational Excellence stimulates and manages customers feedback and follow up.

Revenue model

Consulting

This business line, which requires close contact and interface with customers, is people intensive, and revenue growth is proportional to cost growth. Customers are invoiced according to man-days made available by the Company for the provision of consulting services.

Solutions

Differently from Consulting, Solutions business line is a scalable model, and offers the chance to reuse solutions for many customers with the same human resources. Revenues growth is consequently nonlinear with respect to costs increase. Customers are invoiced through revenues report based on project WIP.

Subscriptions

The Company acts as a reseller and this business line revenues are based on the mark up applicable to a price list defined by the vendor according to the level of partnership with vendor itself. Subscriptions are based on a “Buy only if sell” solution, with a revenue growth proportional to costs.

Cloud Services

Thanks to the opportunity to sell several homogeneous service packages, cloud services represent a scalable business unit. Customers are billed a fixed subscription plus a variable fee depending on the use (software as a service model).

Enterprise Apps

Even this service line is scalable and customers are charged via a monthly/yearly fee. Part of the fee is held back by the involved partner.

Strategy: leverage on service and technical expertise, vertical and horizontal growth to enter additional geographies

Strategy pillars

- **Italian market consolidation** – Market share increase through organic growth in most profitable business lines
- **M&A** – scout for opportunistic targets in order to accelerate growth
- **International expansion** – new European and extra European markets

Italian market consolidation

Coherently with last years evolution, the Company Management mostly aims at exploiting all business opportunities related with the scalable, most profitable Cloud Service and Enterprise App business. Along with industries and sectors traditionally part of its portfolio, Sourcesense

will strengthen its presence in recently approached fashion and entertainment industries and will approach new ones (energy, transports).

M&A strategy

M&A activity represents a core part of the expansion strategy following IPO in order to boost growth and consolidate most profitable business lines. As of today, after IPO Sourcesense successfully completed the 100% acquisition of MMUL S.r.l., an Italian company based in Rho (Milan) active in the implementation and management of innovative Cloud solutions.

New European Markets

Management is committed to penetrate new markets in Europe, such as France, Austria and Switzerland.

6. COMPETITION

IT Consultants Arena

Industry players competing within the digital transformation

The IT consulting industry is quite varied. Depending on the services offered, the kind of technical area and the specific customers' needs supported, it is quite difficult to create an homogeneous cluster to be analyzed.

When looking at Sourcesense and its business model, probably the proper criterium is to consider customer need. There are certainly differences between a more traditional system integrator (such as Accenture or Cap Gemini) and Sourcesense, but probably the choice is driven by opportunistic and analyzed pros and cons of one option vs the alternative one, given the chance for both of them to satisfy user need.

Competition drivers

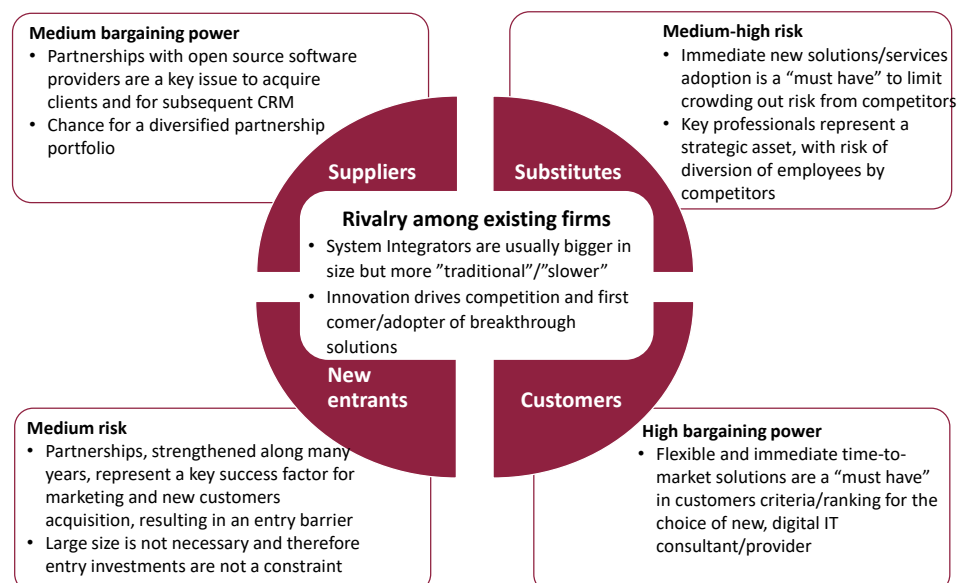
All the dominant drivers of current digitalization wave are key factors for the choice of the IT consulting provider by all kind of organizations (large, small, public, private):

- support an increasing digital liaison with customers
- integrated solutions
- cost savings, flexible and time-to-market adoption of process/product innovations. A minimum delay represents a serious risk to be definitively and completely crowded out by competitors in the relation with end users/consumers, increasingly demanding in terms of digital innovation.

With respect to this general overview, it is worth to mention that regarding open source software, a competitive advantage and a potential barrier for new entrants is represented by long term relationships and partnerships created with providers of this kind of software and related services.

Competitive forces

Rapid technological change as a crucial issue



Source: EnVent Research

Competition overview and performance indicators

Profiles of key competitors in Italy

In order to have as much comparability as possible, and to assess minimally biased economic and financial trends and ratios, we focused on the following criteria:

- Exclusion of Italian “branches” of international consulting groups (Accenture, Cap Gemini, Indra)
- Exclusion of multi-cloud service providers without a strong overlapping with services and solutions supplied by Sourcesense (Wiit, Reevo)
- Inclusion of main Italian system integrator players or similars (Engineering, Reply, Almaviva, Lutech, Cedacri, Maticmind, Be Shaping The Future, Kauri, DGS, Filippetti, VEM Sistemi, Spindox, Novanext, SB Italia, Altea, Gruppo Euris, SMC)
- Inclusion of digital solutions providers based on Artificial Intelligence and Big Data (Relatech, Neoesperience, Expert Systems and Maps)

Italian System Integrators/IT Consulting providers

Engineering. One of the main players in the field of digital transformation of public and private companies and organizations that designs, develops and manages innovative solutions for business areas where digitalization is generating major changes, such as digital finance, smart government and e-health, augmented cities, digital industry, smart energy and utilities and digital media and communications.

2019 Sales: €1.2bn

2019 Employees: 11.323

Reply. Made up of a network of highly specialised companies, which support major industrial groups in the definition and development of business models enabled by new technological and communication paradigms, such as Artificial Intelligence, Big Data, Cloud Computing, Digital Communication, Internet of Things, Mobile and Social Networking, to optimise and integrate processes, applications and devices.

2019 Sales: €1.2bn

2019 Employees: 8.157

Almaviva. Provides ICT services and solutions based on cloud computing. It offers ICT services, such as software development, ICT outsourcing, application and infrastructure management and service assurance; cloud computing solutions, including cloud hosting, cloud application services, virtualization and security consolidation and IT infrastructure; and AlmaToolBox, a solution for DevOps integration, consisting of a mix of methods, IT tools and change management actions.

2019 Sales: €867m

2019 Employees: 44,090

Lutech. Provides IT system integration solutions and services. Offers next-gen IT infrastructure

and VAR solutions, and proprietary solutions.

2019 Sales: €424m

2019 Employees: 2,749

Cedacri. Provides outsourcing services to banks, financial institutions, industrial companies and service companies in Italy.

2019 Sales: €326m

2019 Employees: 2,363

Maticmind. An Italian System Integrator operating in the ICT sector, able to design, integrate and manage innovative technological solutions, thanks to its specialized skills in Networking, Security, Unified Communications & Collaboration, Datacenter & Cloud and Application. Customers in the public and private sectors.

2019 Sales: €292

2019 Employees: 741

Be Shaping The Future (Be). Supports leading banks and insurers in managing the complexities of business evolution: redesign of business models, aligning them with regulatory and market requirements, and exporting successful models to high profitability sectors.

2019 Sales: €149m

2019 Employees: 1,266

Corvallis. Provides consultancy, software integration, application and outsourcing services.

2019 Sales: €136m

2019 Employees: 1,519

DGS. Cyber Security, Digital Solutions and Management Consulting.

2019 Sales: €111m

2019 Employees: 442

Gruppo Filippetti. Multi-disciplinary technology provider of solutions in the areas of digital transformation.

2019 Sales: €68m

2019 Employees: 323

Vem Sistemi. Offers IP-based networking technology integration services, with a holistic view ranging from cybersecurity, mobility, collaboration, data centre, building automation and custom application software development.

2019 Sales: €58m

2019 Employees: 200

Spindox. A company active in the digital transformation sector offering services in the fields of consultancy, ICT services, technology, and research. Today, Spindox invests particularly in the fields of artificial intelligence and operations research.

2019 Sales: €51m
2019 Employees: 652

Novanext. Advanced solutions in Networking, Data Center, Security, Collaboration, Cloud and IoT, integrating the best technologies on the market.

2019 Sales: €35m
2019 Employees: 130

SB Italia (SBI). Designs, implements and manages IT solutions to support companies in their Digital Transformation projects. It is a value-based system integrator, characterized by having in-house the main competences necessary for the design and delivery of projects.

2019 Sales: €29m
2019 Employees: 137

Gruppo Euris. Provides IT services and develops customized, innovative and high added value software solutions. The core business -supporting the customer in identifying and managing cutting-edge solutions- is translated into a verticalized product line managed by specialist Business Units. Get Connected is a subsidiary whose business is quite similar to Sourcesense.

2019 Sales: €27m
2019 Employees: 358

Altea Federation. Business transformation enabled by new technological and communication paradigms.

2019 Sales: €17m
2019 Employees: 221

SMC Treviso. Open source development technologies. Platinum Partner of Liferay, an advanced platform for creating enterprise portals. Has Open Square Digital Lake, a complete IT solution for medium and large companies and has contributed to the birth of RIOS, the Italian Open Source Network.

2019 Sales: €16m
2019 Employees: 136

Artificial Intelligence and Big Data solutions providers

Expert Systems. Develops and sells cognitive computing software products based on artificial intelligence (AI) algorithms to read and understand written language in Italy and internationally.

2019 Sales: €32m
2019 Employees: 231

Relatech. Digital solutions such as digital customer experience, big data, artificial intelligence, blockchain, cybersecurity and IoT. It operates RePlatform, a cloud based customizable platform for the digital transformation businesses.

2019 Sales: €18m

2019 Employees: 217

Maps. Designs and implements innovative solutions to support the decision-making processes of companies, both public and private.

2019 Sales: €14m

2019 Employees: 120

Neoesperience. Digital Experience Platforms: the behaviours and life and consumption habits of end users are collected and processed in order to improve the level of knowledge and loyalty of the company's customers, enabling the latter to gain greater visibility, higher revenues and cost savings.

2019 Sales: €14m

2019 Employees: 88

Doxee. Provider of Customer Communications Management (CCM), Digital Customer Experience and Dematerialization solutions through the use of digital technologies such as machine learning and natural language processing.

2019 Sales: €15m

2019 Employees: 102

Source: EnVent Research on publicly available information

Competition 5 years growth trend and operating profit

Italian players within the IT consulting arena - Financial performance											
Company	Status	Sales 2019 (€m)	YoY '18 on '19	CAGR '16-19	Sales per capita 2019 (€/000)	EBITDA % 2019	EBIT % 2019	Delta D&A	EBITDA % Avg. 4Y	EBITDA % Min 4Y	EBITDA % Max 4Y
Engineering	Private	1,219	7%	11%	108	13%	5%	8%	11%	9%	13%
Reply	Public	1,183	14%	15%	145	16%	13%	3%	14%	14%	16%
Almaviva	Private	867	8%	6%	20	12%	7%	5%	9%	5%	12%
Lutech	Private	424	33%	36%	154	10%	2%	8%	10%	10%	10%
Cedacri	Private	326	9%	6%	138	24%	12%	11%	18%	14%	24%
Maticmind	Private	292	26%	22%	394	9%	8%	1%	9%	7%	10%
Be	Public	149	2%	3%	113	17%	8%	9%	15%	12%	17%
Corvallis	Private	136	-12%	3%	90	9%	-1%	10%	11%	9%	13%
DGS	Private	111	23%	29%	252	12%	10%	2%	12%	8%	18%
Gruppo Filippetti	Private	68	8%	nd	209	10%	6%	4%	10%	8%	11%
VEM Sistemi	Private	58	24%	15%	290	21%	20%	1%	20%	19%	22%
Spindox	Private	51	22%	17%	79	5%	3%	3%	5%	4%	6%
Novanext	Private	35	27%	17%	268	2%	1%	1%	3%	2%	4%
Expert System	Public	32	10%	11%	137	17%	-9%	26%	7%	-10%	17%
SB Italia	Private	29	18%	19%	211	13%	9%	4%	13%	13%	15%
Gruppo Euris	Private	27	2%	15%	75	0%	-4%	4%	6%	0%	11%
Relatech	Private	18	36%	30%	83	26%	21%	5%	17%	9%	26%
Altea Federation	Public	17	19%	31%	79	-3%	-4%	0%	5%	-3%	9%
Maps	Private	16	9%	10%	132	24%	12%	12%	20%	14%	25%
SMC Treviso	Public	16	11%	10%	116	11%	9%	2%	11%	9%	14%
Doxee	Public	15	13%	18%	152	32%	15%	18%	23%	13%	32%
Sourcesense	Public	14	19%	16%	110	11%	7%	4%	6%	4%	11%
Neoesperience	Public	14	63%	50%	159	26%	8%	18%	33%	26%	39%
Mean			17%	18%	153	14%	7%	7%	13%	8%	16%
Median			14%	16%	137	12%	8%	4%	11%	9%	14%

Source: EnVent Research

Note 1: Lutech '18-'19 YoY% and '16-19' Sales CAGR affected by acquisitions

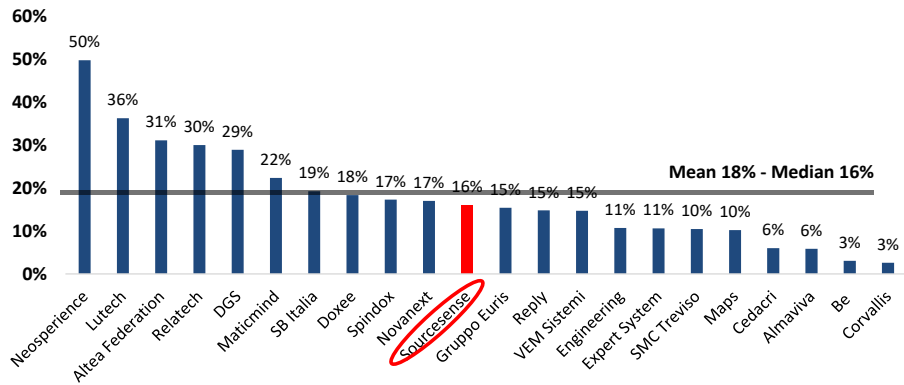
Note 2: Sourcesense and consolidated figures just for 2018 and 2019 (no consolidated figures before 2018)

Note 3: For Doxee available data since 2018

Note 4: EBITDA and EBIT margin with respect to sales

Sales CAGR 2016-19 (%)

The Company 2018-19 Sales CAGR is in line with 2016-19 industry trend, despite lack of intense M&A activity of other peers (Lutech)

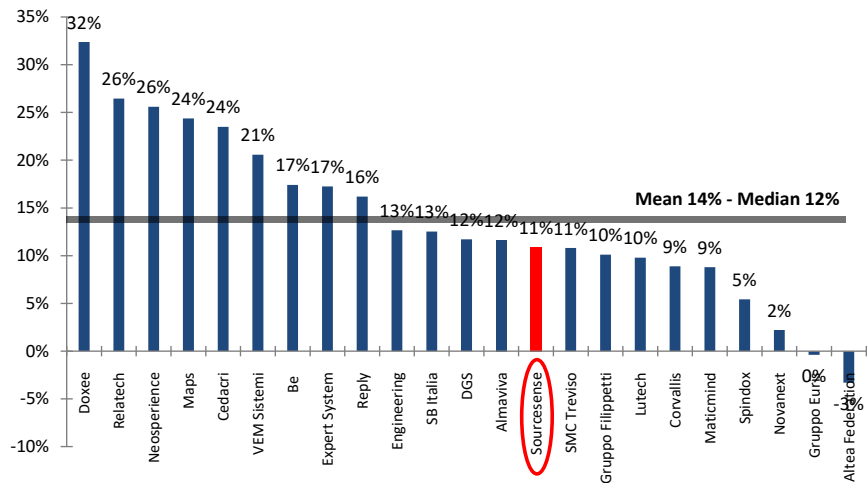


Source: EnVent Research on AIDA

Note 1. Data not available for CAGR estimates relatively to Gruppo Filippetti

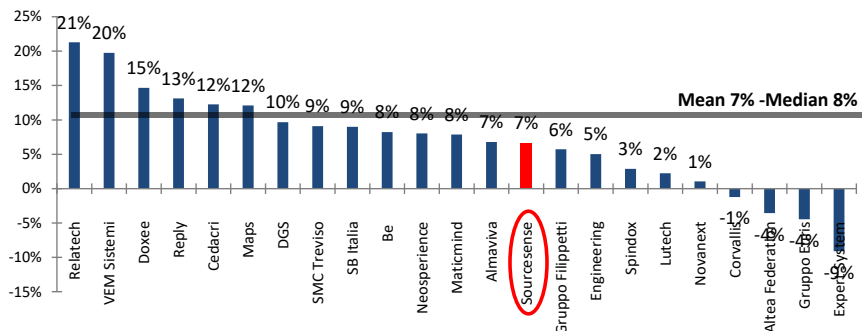
Note 2: Sourcesense and consolidated figures just for 2018 and 2019 (no consolidated figures before 2018)

EBITDA margin 2019 (%)



Source: EnVent Research on AIDA

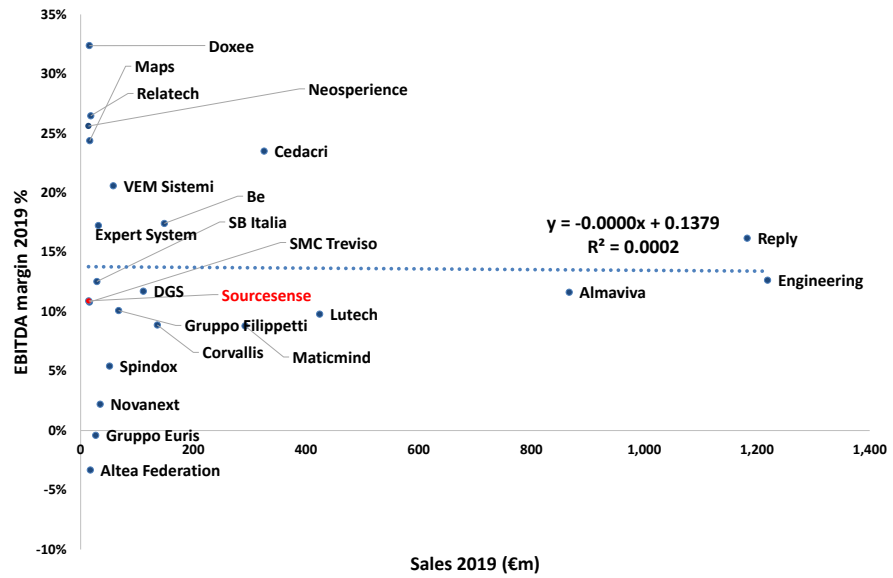
EBIT margin 2019 (%)



Source: EnVent Research on AIDA

Sales vs EBITDA margin 2019

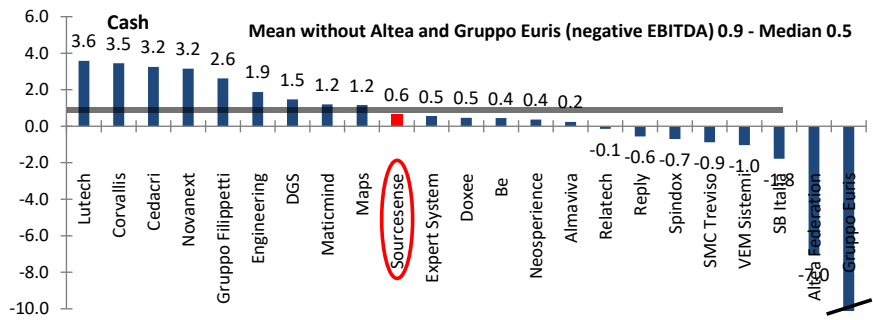
No correlation between size and marginality: the regression line between Sales 2019A and EBITDA margin 2019A shows null value for both R2 and slope coefficient



Source: EnVent Research on AIDA

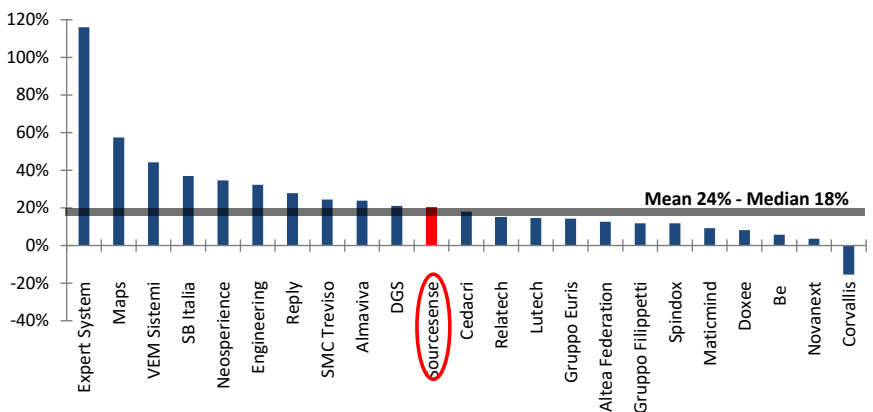
Net debt/EBITDA 2019

No debt business



Source: EnVent Research on AIDA

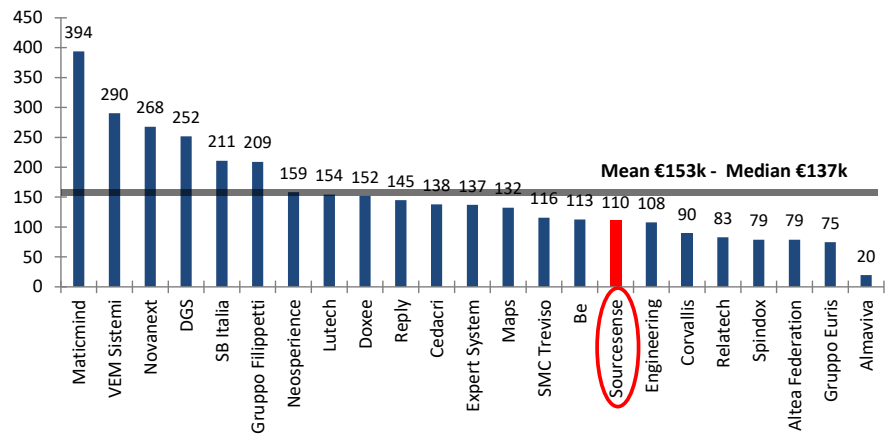
NWC/Revenues 2019 (%)



Source: EnVent Research on AIDA

The Company sales per capita are still below average industry figures

Sale per capita 2019 (€k)



Source: EnVent Research on AIDA

Key takeaways

- Wide range of revenues (10-1,200 €m)
- 2016-2019 average sales CAGR around 18%
- EBITDA margin stable (2019 and 4y average mean and median values are 14-12% and 13-11% respectively)
- EBITDA and EBIT margins uncorrelated with size/turnover
- Financial debt profile is not an issue, with most companies slightly exposed to debt
- Though smaller than peers, Sourcesense operating margins (EBITDA and EBIT) and debt profile are consistent with the industry, with growth room for sales per capita

7. MARKET METRICS

Market value of comparable companies

Within the wide IT consulting arena, we have reviewed and selected the listed companies whose characteristics match the below factors in order to identify a cluster of industry players to a certain extent comparable to Sourcesense.

Selection criteria

One or more of the following key factors:

- Digital services/solutions provision in line with most updated technology innovation
- Cloud platforms for digital services/solutions provision
- Larger corporations and public institutions as typical customers

Industry players segmentation

We have clustered the analyzed companies in two peer groups, in an attempt to detect performance consistencies and to understand key market metrics:

- **International IT consultants/system integrators** – this cluster includes listed traditional system integrator players and more innovative actors in the IT consultant arena
- **Italian provider of AI/Big Data solutions or other digital solutions/applications**– a restricted panel of Italian SME listed on AIM active in providing most innovative digital solutions to their customers

Profiles – International IT consultants/system integrators

Accenture

International professional services company, provides strategy, consulting, interactive, technology and operations services worldwide. The company also provides outsourcing services.

2020 Total Revenues: € 37.1bn

Comparability: low

Be Shaping the Future (Be)

2020 Total Revenues: €179m

Comparability: average

Bouvet

Information technology, digital communication, and enterprise management services in Norway, Sweden, and internationally. The company designs, develops, and provides advisory services on IT solutions and digital communication.

2020 Total Revenues: €229m

Comparability: average

Cap Gemini

A global professional services company with advanced digital, cloud and security capabilities, providing strategy & consulting, interactive, technology and operations services, supported by

the world's largest network of advanced technology and intelligent operations centres.2019
2020 Total Revenues: €15.9bn
Comparability: low

Devoteam

Technology and management consulting and cloud solutions. It offers transformation management, agile IT, cyber security, digital workplace, data as a service, business process excellence, and customer experience services.

2020 Total Revenues: €760m

Comparability: average

Reply

2020 Total Revenues: €1.3bn

Comparability: average

TietoEVRY

Information technology services software. Segments: Digital Experience, Hybrid Infra, Industry Software, Product Development Services, EVRY, and Other Operations.

2020 Total Revenues: €2.8bn

Comparability: average

Profiles - Italian providers of AI/Big Data or other digital solutions/applications**Expert System**

2020 Total Revenues: €35m

Comparability: low/average

Maps

2020 Total Revenues: €17m

Comparability: low/average

Doxee

2020 Total Revenues: €23m

Comparability: low/average

Neoesperience

2020 Total Revenues: €18m

Comparability: low/average

Relatech

2020 Total Revenues: €22m

Comparability: low/average

Source: EnVent Research on S&P Capital IQ and companies' financial statements

Key data comparison

No correlation
between size and
marginality

Company	Total Revenues 2020 (€m)	YoY '20 on '19	Tot Rev. CAGR 2017-20	Tot. Rev. CAGR 2020-23E	2019 Total Revenues per capita (€k)	EBITDA % 2020	EBITDA % Avg. 5Y	EBITDA % Min 5Y	EBITDA % Max 5Y
Sourcesense S.p.A.	17	11%	16%		118	12%	9%	6%	12%
International IT consultants/system integrators									
Accenture plc	37,080	-6%	7%	8%	78	16%	16%	16%	16%
Be Shaping The Future S.p.A.	179	17%	11%	9%	115	16%	15%	12%	17%
Bouvet ASA	229	6%	12%	13%	139	14%	11%	9%	14%
Capgemini SE	15,848	12%	8%	6%	64	12%	13%	12%	13%
Devoteam SA	760	0%	14%	6%	101	12%	11%	10%	12%
Reply S.p.A.	1,270	5%	12%	11%	148	14%	14%	13%	16%
TietoEVRY Oyj	2,790	61%	22%	2%	72	10%	11%	10%	13%
Mean		14%	12%	8%	102	13%	13%	12%	14%
Median		6%	12%	8%	101	14%	13%	12%	14%
Italian providers of AI/Big Data solutions or other digital solutions/applications									
Expert System S.p.A.	35	-8%	3%	24%	164	-5%	4%	-8%	14%
Maps S.p.A.	17	2%	11%	25%	135	20%	20%	13%	24%
Doxee S.p.A.	23	9%	19%	12%	205	25%	17%	9%	25%
Neosperience S.p.A.	18	15%	39%	27%	183	26%	26%	22%	31%
Relatech S.p.A.	22	5%	25%	27%	95	24%	17%	9%	24%
Mean		5%	19%	23%	156	18%	17%	9%	24%
Median		5%	19%	25%	164	24%	17%	9%	24%
Mean		10%	15%	14%	125	15%	15%	11%	18%
Median		6%	12%	11%	125	15%	14%	11%	16%
Mean wo extremes		7%	14%	14%	123	16%	15%	11%	18%

Source: EnVent Research on S&P Capital IQ and companies' financial statements

Note1: Sourcesense revenues CAGR, EBITDA margin 5Y average, 5Y min/max along 2018-20 (no consolidated figures before 2018)

Note2: 2020 total revenues YoY% growth for TietoEVRY Oyj is the effect of the merge between Tieto and EVRY (December 2019)

Note3: 2020 salesforce data not available yet for most of the peers

Summary: Sourcesense vs. peers

Compared to the selected peers, Sourcesense has:

- Size not comparable to peers included in IT consultants group, more similar to Italian providers of AI/Big Data solutions
- Sales CAGR more in line with the more innovative and faster growing AI/Big Data cluster
- EBITDA margin in line with IT consultants/system integrators peers, below AI/Big Data providers who probably account for large R&D capitalized costs
- Per-capita total revenues in line with higher AI/Big Data cluster

Comparability of selected peers

Key takeaways:

- Lack of fully comparable companies, especially as per business mix and service offering
- Some of the listed players are global, larger in size/sales and with longer operating histories

Market multiples

Company	EV/REVENUES			EV/EBITDA			EV/EBIT			P/E		
	2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E
Sourcesense S.p.A.	1.0x			8.7x			14.9x			22.1x		
International IT consultants/system integrators												
Accenture plc	3.6x	3.6x	3.3x	21.8x	19.1x	17.9x	24.2x	23.7x	21.8x	31.7x	32.9x	30.1x
Be Shaping The Future S.p.A.	1.1x	1.0x	1.0x	6.7x	6.2x	5.7x	13.0x	10.9x	9.2x	23.8x	17.4x	15.2x
Bouvet ASA	2.9x	2.3x	2.0x	20.8x	15.0x	13.7x	22.1x	18.2x	16.4x	30.3x	24.6x	22.2x
Capgemini SE	1.7x	1.8x	1.7x	13.9x	11.6x	10.7x	16.8x	14.9x	13.6x	22.3x	18.2x	15.9x
Devoteam SA	0.9x	1.0x	1.0x	7.5x	8.7x	8.0x	9.7x	10.2x	9.2x	18.7x	18.8x	17.1x
Reply S.p.A.	2.7x	2.7x	2.5x	19.2x	16.7x	15.0x	20.6x	20.6x	18.2x	28.8x	30.2x	26.6x
TietoEVERY Oyj	1.5x	1.4x	1.4x	15.2x	8.0x	7.6x	22.9x	10.6x	10.0x	33.7x	11.6x	10.8x
Mean	2.0x	2.0x	1.8x	15.0x	12.2x	11.2x	18.5x	15.6x	14.0x	27.0x	22.0x	19.7x
Median	1.7x	1.8x	1.7x	15.2x	11.6x	10.7x	20.6x	14.9x	13.6x	28.8x	18.8x	17.1x
Italian providers of AI/Big Data solutions or other digital solutions/applications												
Expert System S.p.A.	3.2x	3.9x	2.8x	neg	neg	neg	neg	neg	neg	neg	neg	neg
Maps S.p.A.	1.7x	1.2x	1.0x	8.5x	5.0x	4.1x	34.6x	8.9x	7.1x	21.6x	10.2x	7.6x
Doxee S.p.A.	1.2x	1.6x	1.4x	4.9x	7.4x	5.5x	9.4x	16.9x	10.6x	15.5x	25.8x	16.4x
Neosperience S.p.A.	2.4x	2.2x	1.7x	9.3x	8.4x	5.6x	55.3x	28.4x	11.8x	152.1x	46.0x	16.7x
Relatech S.p.A.	3.6x	2.7x	2.3x	14.9x	10.5x	8.5x	22.6x	14.4x	11.5x	29.2x	20.7x	17.1x
Mean	2.4x	2.3x	1.8x	9.4x	7.8x	5.9x	30.4x	17.1x	10.3x	54.6x	25.7x	14.4x
Median	2.4x	2.2x	1.7x	8.9x	7.9x	5.6x	28.6x	15.6x	11.1x	25.4x	23.3x	16.5x

Source: EnVent Research on S&P Capital IQ, March 2021

Note1: Mean and Median do not consider negative values

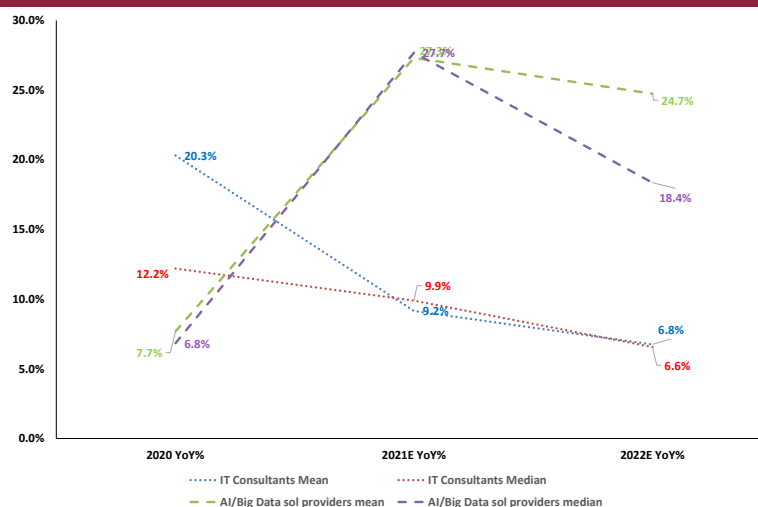
Note2: 2020 multiples based on stock prices at year end and 2020A financials

Expert System in July 2020 announced a new strategy focused on internationalization coupled with a new business plan which shows need for opex/capex to access US market along 2021-2022 years determining negative expected EBITDA for both years.

Some expected trends “behind” market multiples

Listed Comparables total revenues expected growth

2020-2022E listed Comparables total revenues growth rate



2021-2022E total revenues growth around 9-10% and 7% respectively for IT cluster, 28% and 18-25% for AI/Big Data cluster

Source: EnVent Research on S&P Capital IQ, March 2021

Note: Mean and Median do not consider negative values

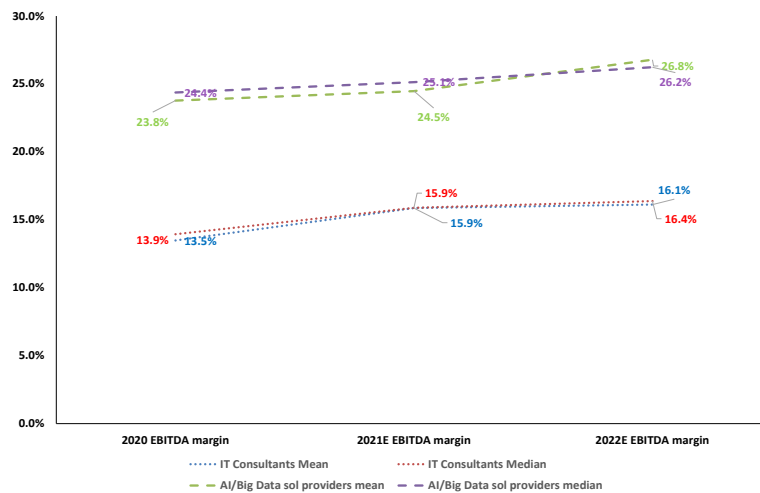
AI and Big Data providers are expected to grow more than IT Consultants cluster. But we have to consider two further issues:

- Size is definitely smaller for observed AI/Big providers peers and this may affect percentage growth along with a stronger innovation rate of this cluster
- Open source vs proprietary software expected swap may create conditions for a stronger growth of those IT Consultants leveraging on this kind of software for the supply of their services and solutions

Listed Comparables Marginality Overview and Trends

2020-2022E EBITDA margin

....EBITDA margin
2022E 16-16.5% for IT listed peers vs 26-27% for AI/Big Data solutions providers (excluding Expert System) on average....

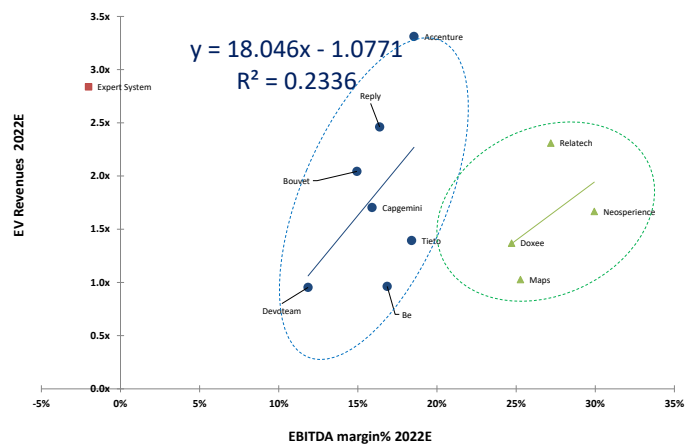
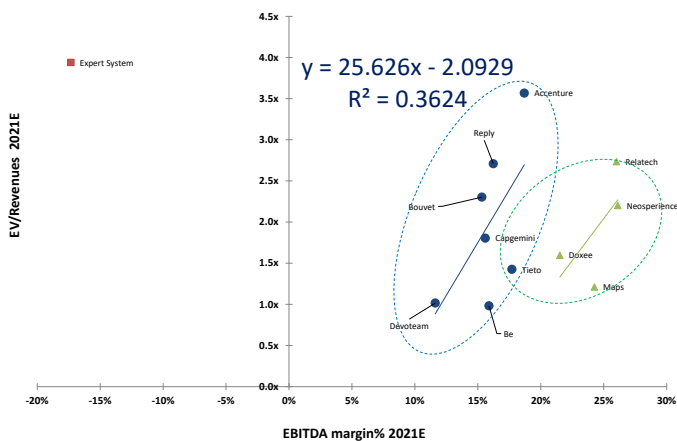


Source: EnVent Research on S&P Capital IQ, March 2021
Note: Mean and Median do not consider negative values

....EV/Revenues vs EBITDA margin relation different between clusters....

EV/Revenues vs EBITDA margin regression shows a positive relation for both clusters along 2021E and 2022E, though the small sample size of the AI/Big data solutions providers does not allow to consider the observed trends and outcome statistically significant. This positive slope confirms that increasing EBITDA margin are associated with higher EV/Revenues.

2021E-2022E EV/Revenues vs EBITDA margin



Source: EnVent Research on S&P Capital IQ, March 2021

....IT Consultants show higher EV/Revenues for a given EBITDA margin and higher EV/Revenues increase for a given EBITDA margin change. IT Consulting cluster more suitable for Sourcesense

Keeping in mind the sample size issue previously highlighted, regression lines show that for the IT Consultants cluster:

- the same EBITDA margin seems to be associated with a higher EV/Revenues; and
- the same increase of EBITDA margin is associated with a higher increase of EV/Revenues

These evidences are probably due to the fact the EBITDA figures and margins for AI/Big data players are affected by larger capitalization and imply a different (lower) cash generation and multiple generated by a given amount of revenues. As a consequence, the IT cluster and its multiples probably suit better for Sourcesense.

R2 for the IT cluster is not strong, though 2021E figures regression approaches 40%.

Key trends and issues deriving from this analysis on listed peers:

- Smaller size does not prevent from having average (or higher) industry marginality
- With respect to more innovative and capex driven AI/Big Data peers, more “traditional” IT Consultants show on average:
 - lower EBITDA margin
 - higher expected EV/Revenues for any given expected EBITDA margin
 - lower expected sales growth
- EBITDA margin 2022E is around 16-16.5% for the IT Consultants cluster

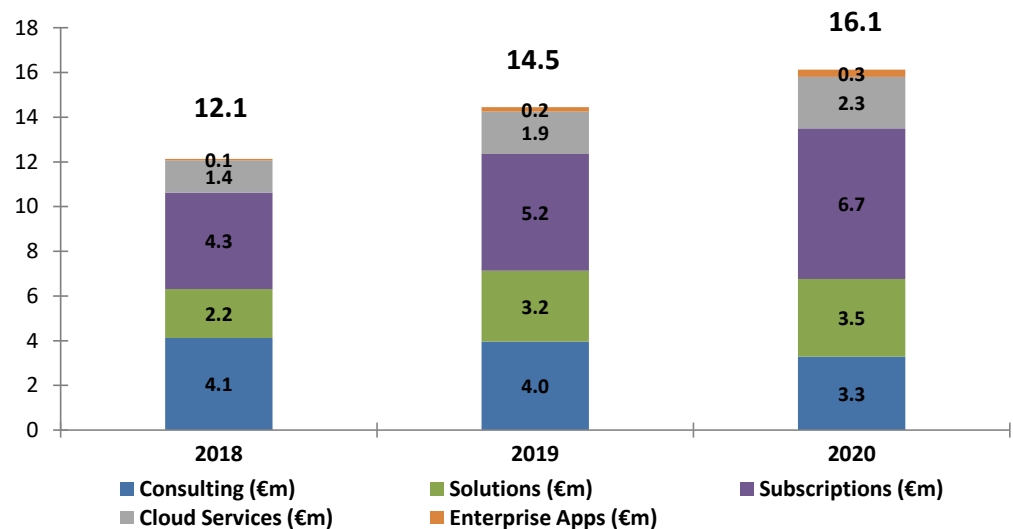
8. FINANCIAL ANALYSIS AND PROJECTIONS

Solid growth, healthy ratios, quality financials

Over the last two years (consolidated figures are not available previously to 2018), revenues for Sourcesense grew at a double-digit rate. This growth is mainly due to an acceleration in the Cloud Services, Solutions and Enterprise Apps business units offsetting a decrease of Consulting unit revenues

Source: Company data

Sourcesense - 3Y Consolidated sales performance: breakdown by business units (€m)



Source: Company data

**Sound P&L metrics:
2020 Per-capita sales
around €113k (2020
per capital total
revenues are €121k),
12% EBITDA margin
with sound YoY
growth,
7% EBIT margin**

Sourcesense reported consolidated sales of €16.1m in 2020A, +11.6% YoY and EBITDA of €2.1m (vs. €1.6m in 2019, over +31% YoY). 2020A total revenues are €17.2 considering also capitalization of R&D costs and other income (€15.5 in 2019, +11.4%).

The 100% acquisition of MMUL S.r.l., finalized in December 2020 will affect P&L starting from 2021 while the cash out for the acquisition is considered in 2020PF Net Debt, apart from a possible earn out of maximum €0.24m in 2021 depending on target sales.

Materials and services were in the region of 54% of sales, growing from 2019 (when they accounted for almost 49%). Personnel costs of € 6.4m are slightly lower than in 2019, while the percentage share of sales is decreasing more (from 46% to 40%). The combined effect of materials, services and personnel evolution is probably deriving from the Mid/Long term strategic decision to boost growth in more scalable and less people intensive Cloud Services and Enterprise Apps business units vs a deceleration of Consulting services.

Per- capita sales were in the region of 113k (110k in 2019).

EBITDA was €2.1m (12.0% margin on total revenues), from €1.6m in 2019 (10.2% margin), +31.2% YoY. We consider write down of trade receivables impacting EBITDA.

EBIT was €1.2m (7.0% margin on total revenues), after €0.9m D&A, +26% YoY.

Net Income is of €0.9m (5.3% margin), +66.4% YoY.

Low working capital needs
Low-risk balance sheet

On the balance sheet side, 2020 Trade Working Capital was 30% of sales (32% in 2019). Non-current assets are mainly made of capitalized R&D, but their amount is not material.

At year-end 2020 net cash was €2.1m, from €1.0m of net debt as of year-end 2019, mainly due to IPO cash in. IPO funds also concur to the equity amount of €6.1m and ROE ratio of 15%.

EBITDA conversion into cash flow before capex over 100%

The slight difference between operating cash flow before capex and EBITDA depends on a decrease of other current liabilities. 2020 capital expenditure was €1.5m, mainly consisting of intangible assets.

Long-term industry relationships drive visibility of revenues

Market trend assumptions

Along with the recovery for all IT industry expected after Covid-19 pandemic, also the forecasted swap of proprietary software vs open source software will impact on Sourcesense performances in the future. The Company revenues grew at 12% rate in 2020 after a +19% in 2019vs2018, and we expect that through M&A activity, internationalization allowed by use of IPO proceeds, and refocusing on fast growing, more profitable and more scalable Cloud services and Enterprise apps business units, revenues growth may be even stronger in the next years.

Key growth drivers

- Long-term relationships with large corporations and institutions, based on service quality, performance and reliability, are key indicators of continuity in the revenue stream, also signaled by a very low churn rate, according to Management
- M&A
- Internationalization in other markets different from Italy and UK
- Focusing on more scalable, fast growing, more profitable Cloud services and Enterprise apps business units

Estimates

Assumptions

Revenues	- 2020PF-2023E: 20% sales CAGR - Other income stable - Capitalization of R&D as 4% of sales (as in 2020)
Operating charges	- Materials and services from 54% of sales in 2019 slowly decreasing to 51% in 2023 - Personnel from 40% of sales in 2020 to 37% in 2023 - Other operating costs stable as 0.1€m
Income taxes	- Corporate tax (IRES): 24%

	- Regional tax (IRAP): 3.90%
Working capital	- DSO and DPO adjusting to 140 and 120 to in 2023 (163 and 135 in 2020) - Other assets (liabilities) consistent with 2020 level
Capex	- R&D costs capitalization (4% of sales) and equipment (almost stable with respect to 2020 at €0.1m)
Financial debt	- Stable M/L debt
Equity	- No dividend distribution

Source: EnVent Research

Consolidated projections

Consolidated Profit and Loss

€m	2018	2019	2020	2021E	2022E	2023E
Sales	12.1	14.5	16.1	18.5	23.2	27.8
Capitalization of R&D costs	0.1	0.5	0.6	0.7	0.9	1.1
Other income	0.7	0.5	0.5	0.5	0.5	0.5
Total Revenues	12.9	15.5	17.2	19.8	24.6	29.5
YoY %	<i>na</i>	20.2%	11.4%	14.9%	24.3%	19.6%
Materials	(3.9)	(4.8)	(6.5)	(7.2)	(8.8)	(10.6)
Services	(2.1)	(2.2)	(2.2)	(2.6)	(3.0)	(3.6)
Personnel	(5.8)	(6.6)	(6.4)	(7.2)	(8.8)	(10.3)
Other operating costs	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Operating costs	(12.1)	(13.9)	(15.2)	(17.2)	(20.7)	(24.6)
EBITDA	0.8	1.576	2.1	2.7	3.9	4.9
<i>Margin</i>	6.1%	10.2%	12.0%	13.4%	15.8%	16.6%
D&A	(0.1)	(0.6)	(0.9)	(0.9)	(0.9)	(0.5)
EBIT	0.7	1.0	1.2	1.7	3.0	4.3
<i>Margin</i>	5.2%	6.2%	7.0%	8.6%	12.3%	14.7%
Interest	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)
Write-down of equity investments	0.0	(0.0)	(0.0)	0.0	0.0	0.0
EBT	0.4	0.8	1.1	1.7	3.0	4.3
<i>Margin</i>	3.4%	5.5%	6.6%	8.5%	12.3%	14.7%
Income taxes	0.1	(0.3)	(0.2)	(0.5)	(0.8)	(1.2)
Net Income (Loss)	0.5	0.5	0.9	1.2	2.2	3.1
<i>Margin</i>	3.9%	3.5%	5.3%	6.2%	8.9%	10.6%

Operating profitability towards the mean/median of more comparable listed peers

Net income margin more than doubled in 2020-23E

Source: Company data 2018-20 - EnVent Research 2021-23E

Consolidated Balance Sheet

€m	2018	2019	2020	2021E	2022E	2023E
Trade receivables	6.1	7.6	8.8	9.6	11.6	13.0
Trade payables	(2.2)	(3.0)	(4.0)	(4.5)	(5.2)	(5.7)
Trade Working Capital	3.9	4.6	4.8	5.1	6.4	7.3
Other assets (liabilities)	(0.6)	(1.6)	(1.0)	(1.0)	(1.0)	(1.0)
Net Working Capital	3.262	3.0	3.8	4.1	5.4	6.3
Intangible assets	0.7	0.8	1.4	1.2	1.4	2.0
Goodwill	0.2	0.2	0.1	0.1	0.1	0.1
Right-of-use assets	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	0.0	0.0	0.1	0.2	0.3	0.4
Equity investments and financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	0.9	1.0	1.7	1.5	1.7	2.5
Provisions	(1.3)	(1.3)	(1.5)	(1.7)	(2.0)	(2.4)
Net Invested Capital	2.9	2.7	4.0	4.0	5.1	6.4
Financial debt	2.4	1.5	1.3	0.6	0.6	0.6
Lease liability	0.0	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	(0.6)	(0.5)	(3.4)	(3.9)	(4.9)	(6.8)
Net Debt (Cash)	1.8	1.0	(2.1)	(3.3)	(4.3)	(6.2)
Equity	1.1	1.7	6.1	7.3	9.5	12.6
Sources	2.9	2.7	4.0	4.0	5.1	6.4

Source: Company data 2018-20 - EnVent Research 2021-23E

Since 2020, debt-free company

Consolidated Cash Flow

€m	2019	2020	2021E	2022E	2023E
EBIT	1.0	1.2	1.7	3.0	4.3
Current taxes	(0.3)	(0.2)	(0.5)	(0.8)	(1.2)
D&A	0.6	0.9	0.9	0.9	0.5
Provisions	0.1	0.2	0.2	0.4	0.3
Cash flow from P&L operations	1.3	2.0	2.4	3.4	4.0
Trade Working Capital	(0.7)	(0.2)	(0.3)	(1.3)	(0.8)
Other assets and liabilities	1.0	(0.6)	0.0	0.0	0.0
Operating cash flow before capex	1.6	1.2	2.1	2.1	3.2
Capex	(0.7)	(1.5)	(0.8)	(1.1)	(1.3)
Operating cash flow after working capital an	0.9	(0.3)	1.2	1.1	1.9
Interest	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)
Write-down of equity investments	(0.0)	(0.0)	0.0	0.0	0.0
Equity investments and financial assets	0.0	0.0	0.0	0.0	0.0
Paid-in Capital	0.0	3.5	0.0	0.0	0.0
Net cash flow	0.8	3.1	1.2	1.0	1.9
Net Debt Beginning	(1.8)	(1.0)	2.1	3.3	4.3
Net Debt End	(1.0)	2.1	3.3	4.3	6.2
Change in (Net Debt) Cash	0.8	3.1	1.2	1.0	1.9

Source: Company data 2019-20 - EnVent Research 2021-23E

Target cash flow in the €2m region

		Ratio analysis					
		2018	2019	2020	2021E	2022E	2023E
Consistency of ratios	ROE	46%	33%	15%	17%	23%	25%
	ROS (EBIT/Sales)	5%	7%	7%	9%	13%	16%
	DSO	150	157	163	155	150	140
	DPO	106	123	135	135	130	120
	TWC/Sales	32%	32%	30%	28%	28%	26%
	NWC/Sales	27%	21%	24%	22%	23%	23%
	Net Debt/EBITDA	2.3x	0.6x	cash	cash	cash	cash
	Net Debt/Equity	1.6x	0.6x	cash	cash	cash	cash
	Net Debt/(Net Debt+Equity)	0.6x	0.4x	cash	cash	cash	cash
	Operating cash flow before capex/EBITDA	na	102%	57%	78%	54%	65%
	Per-capita sales (€k)	101	110	113	136	146	158
	Per-capita costs (€k)	48.5	50.4	44.7	53.0	55.6	58.4
	Earnings per Share (€)	n.a.	n.a.	0.1	0.1	0.3	0.4

Source: Company data 2018-20 - EnVent Research 2021-23E

9. VALUATION

An Italian IT consultant moving forward

Value drivers

- In a high-tech fast-growing industry, know-how and innovation are value drivers. Sourcesense relies on more flexible and “reactive” open source technology solutions. Growth will be sustained through organic sales and acquisitions
- Both endogenous and exogenous growth will probably strengthen the observed swap between more people intensive and less scalable Consulting to more scalable and more profitable Cloud Services and Enterprise Apps business units
- Entry barriers are medium-high, depending on the niche service offered, the importance of technological know-how and the long term partnerships with open source software providers, which are a key issue for marketing activity and new customers acquisition
- Revenue visibility from long-term relationships with large corporations and institutions business
- Revenue model made of variable costs, lean organization and cost structure, low risk balance sheet with no issues on working capital and financial debt profile

Use of market data

- Market trends, industry and competition analyses tell that along 2021-22E total revenues growth forecasts vary between 7%-10% for more traditional IT Consultants competitors, to 18-25% for Italian AI and Big Data solutions providers
- Within the wider ICT industry, we have identified several companies that could represent benchmarks for applying the same industry logics attributable to Sourcesense. The peer groups include diversified companies, with discrepancies on size, stage of development, business mix and market capitalization. We have focused our market multiples analysis on the more traditional IT Consultants competitors, more exposed to the same market logics
- With respect to the more suitable panel of competitors, we believe that Sourcesense is potentially able to grow at faster rate, given its current size, its focus on acquisitions and higher expected growth rate of open source software solutions providers

Industry benchmarks

Valuation

The valuation of Sourcesense has been performed through Discounted Cash Flows applied to our 2021-23E financial projections, market multiples, regression analysis.

Discounted Cash Flows

Main metrics and assumptions:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, March 31st 2021)

- Market return: 12.7% (3Y average. Source: Bloomberg, March 31st 2021)
- Market risk premium: 11.1%
- Beta: 0.9 (IT cluster average of 0.8 plus a minimum increase considering the Company different profile)
- Cost of equity: 11.6%
- Cost of debt: 2.5%
- Tax rate: 24% IRES
- 35% debt/(debt + equity) as target capital structure
- WACC calculated at 8.2%, according to above data
- Perpetual growth rate after explicit projections: 3.0% High Case and 2.0% Low Case
- Terminal Value assumes the IT listed peers average 2022E EBITDA margin of rounded 16.5% for High Case and a 15% EBITDA margin Low Case

DCF Valuation - High Case

€m	2019	2020	2021E	2022E	2023E	Perpetuity
Revenues	15.5	17.2	19.8	24.6	29.5	30.3
EBITDA	1.6	2.1	2.7	3.9	4.9	5.0
<i>Margin</i>	<i>10.2%</i>	<i>12.0%</i>	<i>13.4%</i>	<i>15.8%</i>	<i>16.6%</i>	<i>16.5%</i>
EBIT	1.0	1.2	1.7	3.0	4.3	3.5
<i>Margin</i>	<i>6.2%</i>	<i>7.0%</i>	<i>8.6%</i>	<i>12.3%</i>	<i>14.7%</i>	<i>11.6%</i>
Taxes	(0.3)	(0.3)	(0.5)	(0.8)	(1.2)	(1.0)
NOPAT	0.7	0.9	1.2	2.2	3.1	2.5
D&A		0.9	0.9	0.9	0.5	1.5
Provisions		0.2	0.2	0.4	0.3	0.0
Cash flow from operations		1.9	2.4	3.4	4.0	4.0
Trade Working Capital		(0.2)	(0.3)	(1.3)	(0.8)	(0.9)
Capex		(1.5)	(0.8)	(1.1)	(1.3)	(1.5)
Other assets and liabilities		(0.6)	0.0	0.0	0.0	0.0
Unlevered free cash flow		(0.4)	1.2	1.1	1.9	1.6
WACC	8.2%					
Long-term growth (G)	3.0%					
Discounted Cash Flows			1.1	0.9	1.5	
Sum of Discounted Cash Flows	3.5					
Terminal Value						32.0
Discounted TV	25.2					
Enterprise Value	28.8					
Net (Debt) Cash as of 31/12/20	2.1					
Minorities as of 31/12/20	0.0					
Equity Value	30.8					
DCF - Implied multiples		2020	2021E	2022E	2023E	
EV/Revenues		1.7x	1.5x	1.2x	1.0x	
EV/EBITDA		13.9x	10.8x	7.4x	5.9x	
EV/EBIT		23.8x	16.8x	9.5x	6.6x	
P/E		33.9x	25.3x	14.1x	9.9x	

Source: EnVent Research

DCF Valuation - Low Case

€m	2019	2020	2021E	2022E	2023E	Perpetuity
Revenues	15.5	17.2	19.8	24.6	29.5	30.1
EBITDA	1.6	2.1	2.7	3.9	4.9	4.5
<i>Margin</i>	<i>10.2%</i>	<i>12.0%</i>	<i>13.4%</i>	<i>15.8%</i>	<i>16.6%</i>	<i>15.0%</i>
EBIT	1.0	1.2	1.7	3.0	4.3	3.0
<i>Margin</i>	<i>6.2%</i>	<i>7.0%</i>	<i>8.6%</i>	<i>12.3%</i>	<i>14.7%</i>	<i>10.0%</i>
Taxes	(0.3)	(0.3)	(0.5)	(0.8)	(1.2)	(0.8)
NOPAT	0.7	0.9	1.2	2.2	3.1	2.2
D&A		0.9	0.9	0.9	0.5	1.5
Provisions		0.2	0.2	0.4	0.3	0.0
Cash flow from operations		1.9	2.4	3.4	4.0	3.7
Trade Working Capital		(0.2)	(0.3)	(1.3)	(0.8)	(0.9)
Capex		(1.5)	(0.8)	(1.1)	(1.3)	(1.5)
Other assets and liabilities		(0.6)	0.0	0.0	0.0	0.0
Unlevered free cash flow		(0.4)	1.2	1.1	1.9	1.3
WACC	8.2%					
Long-term growth (G)	2.0%					
Discounted Cash Flows			1.1	0.9	1.5	
Sum of Discounted Cash Flows	3.5					
Terminal Value						20.8
Discounted TV	16.4					
Enterprise Value	19.9					
Net (Debt) Cash as of 31/12/20	2.1					
Minorities as of 31/12/20	0.0					
Equity Value	22.0					
DCF - Implied multiples		2020	2021E	2022E	2023E	
EV/Revenues		1.2x	1.0x	0.8x	0.7x	
EV/EBITDA		9.6x	7.5x	5.1x	4.1x	
EV/EBIT		16.5x	11.7x	6.6x	4.6x	
P/E		24.2x	18.0x	10.1x	7.1x	

Source: EnVent Research

Valuation based on market multiples

We have applied mean and median market multiples of the IT Consultants cluster using data which derive from 2Y analysts consensus, to encompass a portion of the short-term expected growth, considering the observed and previously described differences with the AI and Big Data providers cluster.

Application of market multiples

Multiples - IT Consultants		€m	Multiple	EV (€m)	Net (Debt)/ Cash (€m)	Minorities	Equity Value (€m)
					31/12/20		
Sourcesense							
2020	Total revenues	17.2	<i>Mean</i> 2.0x	35.2	2.1	0.0	37.3
			<i>Median</i> 1.7x	30.0	2.1	0.0	32.1
2021E	Total revenues	19.8	<i>Mean</i> 2.0x	39.1	2.1	0.0	41.2
			<i>Median</i> 1.8x	35.7	2.1	0.0	37.8
2022E	Total revenues	24.6	<i>Mean</i> 1.8x	45.2	2.1	0.0	47.2
			<i>Median</i> 1.7x	42.0	2.1	0.0	44.0
<i>Mean</i>							39.9
2020	EBITDA	2.1	<i>Mean</i> 15.0x	31.0	2.1	0.0	33.1
			<i>Median</i> 15.2x	31.5	2.1	0.0	33.5
2021E	EBITDA	2.7	<i>Mean</i> 12.2x	32.3	2.1	0.0	34.4
			<i>Median</i> 11.6x	30.7	2.1	0.0	32.8
2022E	EBITDA	3.9	<i>Mean</i> 11.2x	43.8	2.1	0.0	45.9
			<i>Median</i> 10.7x	41.8	2.1	0.0	43.9
<i>Mean</i>							37.3
2020	EBIT	1.2	<i>Mean</i> 18.5x	22.3	2.1	0.0	24.4
			<i>Median</i> 20.6x	24.9	2.1	0.0	26.9
2021E	EBIT	1.7	<i>Mean</i> 15.6x	26.6	2.1	0.0	28.7
			<i>Median</i> 14.9x	25.5	2.1	0.0	27.5
2022E	EBIT	3.0	<i>Mean</i> 14.0x	42.7	2.1	0.0	44.8
			<i>Median</i> 13.6x	41.3	2.1	0.0	43.4
<i>Mean</i>							32.6
2020	Earnings	0.9	<i>Mean</i> 27.0x				24.6
			<i>Median</i> 28.8x				26.2
2021E	Earnings	1.2	<i>Mean</i> 22.0x				26.8
			<i>Median</i> 18.8x				22.9
2022E	Earnings	2.2	<i>Mean</i> 19.7x				43.0
			<i>Median</i> 17.1x				37.4
<i>Mean</i>							30.1

Source: EnVent Research

Valuation area derived from regression analysis

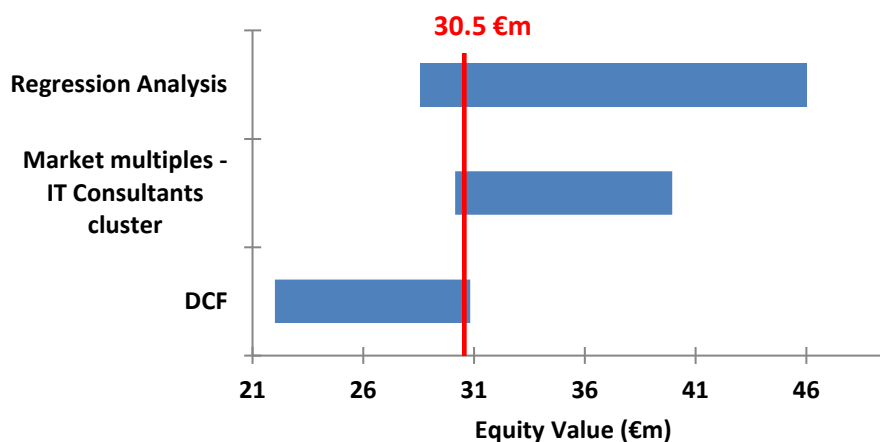
The regression analysis combining the embedded values implied by EV/Revenues of peers and EBITDA margin helps to visualize a suitable value area for Sourcesense. Regression linear relationships built on 2020, 2021E and 2022E for the analyzed IT Consultants cluster show weak R2, which depends also on poor sample size. Though this, the estimated equity values for Sourcesense confirm DCF and market multiple ranges.

Application of regression analysis

Regression Analysis		€m	Multiple	EV (€m)	Net (Debt)/ Cash (€m)	Minorities	Equity Value (€m)
					31/12/20		
SourceSe							
2020	Total revenues	17.2	1.7x	29.9	2.1	0.0	32.0
2021E	Total revenues	19.8	1.3x	26.5	2.1	0.0	28.6
2022E	Total revenues	24.6	1.8x	43.9	2.1	0.0	46.0

Source: EnVent Research

Valuation summary and Target Price



Source: EnVent Research

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

	€
Target Price	3.69
Current Share Price (03/31/2021)	2.51
Premium (Discount)	47%

Annex

Market Multiples and Sourcesense implicit multiple according to Target Price

Company	EV/REVENUES			EV/EBITDA			EV/EBIT			P/E		
	2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E
International IT consultants/system integrators												
Accenture plc	3.6x	3.6x	3.3x	21.8x	19.1x	17.9x	24.2x	23.7x	21.8x	31.7x	32.9x	30.1x
Be Shaping The Future S.p.A.	1.1x	1.0x	1.0x	6.7x	6.2x	5.7x	13.0x	10.9x	9.2x	23.8x	17.4x	15.2x
Bouvet ASA	2.9x	2.3x	2.0x	20.8x	15.0x	13.7x	22.1x	18.2x	16.4x	30.3x	24.6x	22.2x
Capgemini SE	1.7x	1.8x	1.7x	13.9x	11.6x	10.7x	16.8x	14.9x	13.6x	22.3x	18.2x	15.9x
Devoteam SA	0.9x	1.0x	1.0x	7.5x	8.7x	8.0x	9.7x	10.2x	9.2x	18.7x	18.8x	17.1x
Reply S.p.A.	2.7x	2.7x	2.5x	19.2x	16.7x	15.0x	20.6x	20.6x	18.2x	28.8x	30.2x	26.6x
TietoEVRY Oyj	1.5x	1.4x	1.4x	15.2x	8.0x	7.6x	22.9x	10.6x	10.0x	33.7x	11.6x	10.8x
Mean	2.0x	2.0x	1.8x	15.0x	12.2x	11.2x	18.5x	15.6x	14.0x	27.0x	22.0x	19.7x
Median	1.7x	1.8x	1.7x	15.2x	11.6x	10.7x	20.6x	14.9x	13.6x	28.8x	18.8x	17.1x
Sourcesense: 2020 historical multiple, 2021-22E according to EnVent estimates	1.0x	1.4x	1.2x	8.7x	10.7x	7.3x	14.9x	16.6x	9.3x	22.1x	25.0x	14.0x

Source: EnVent Research and S&P Capital IQ, March 2021

Note: 2020 multiples based on stock prices at year end and 2020A financials

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