

CIRCLE

FY19: strong growth driven by M&A and proprietary products

FY 2019 Results: FY 2019 Results: CIRCLE, “innovative SME” specialized in the provision of innovative technological solutions for the optimization and digitalization of the supply chain for the port and intermodal logistic sector, recently released as strong set of FY 19 results with revenues of Euro 6.1 m, recoding a yoy growth of +27% (Euro 6.2 m as of our estimates). Growth was primarily driven by a sharp increase in revenues from proprietary products (+80% vs. FY 18) and in particular MasterSPED from the software house Progetto Adele acquisition in August 2019 and Milos. Good performance also for the international projects business line where revenues increased by +21%. EBITDA adjusted for non-recurring items stood at Euro 1.5 m, + 15% vs FY18 and largely in line with our estimates (Euro 1.6 m). Non adjusted EBITDA came in at Euro 1.2 m (20% of revenues). Net profit stood at Euro 0.5 m (Euro 0.6 m in FY 2018 and Euro 0.7 m as of our estimates). Despite investments in the period for a total of Euro 2.6 m, including M&A activity for a total of Euro 1.8 m, Circle continued to be cash positive, and close the year with Net Cash of Euro 0.3 m vs. Euro 2.1 m at year end 2018.

Delivery on IPO strategies in FY19 and focus on new market segments going forward: In line with IPO strategies, the Group continued to focus on the development of new products, geographic expansion and growth through M&A. Management stated that given the uncertainty regarding the spread of the COVID-19 it is still difficult and premature to make any assumptions on the effect on FY20 financials. However, it also confirmed that the positive growth trend of FY 2019 continued in the first two months of 2020 and that despite the current sanitarian emergency the Group is fully operational thanks to a business model already adapted for smart working. Going forward, Management anticipated that the new industrial plan will focus on the development of market segments added in 2019 as well as adding new ones, in order to boost growth. Given the above, we fine-tuned our revenue forecast for FY20 while maintaining growth rates for FY21. We also slightly adjusted our EBITDA margin to factor in the current economic situation and a strategy focusing on increasing volumes in the short term with a gradual recovery in margins. The overall effect is an average decrease in revenues and Net Profit of -10% and -46% respectively. Finally, we also added FY22 to our explicit forecast horizon.

Valuation: We set a target price of Euro 4.49 per share, (Euro 4.91 p.s. previously), providing for a +57% upside on current stock price and obtained by weighting equally the DCF and the multiple comparison analysis. Peers de-rating since our last report (September 2019) was of -6%.

Sector: Technology

Target Price (Euro) **4.49** (4.91 pr)
Market Price (Euro) 2.86
Market Cap (Euro m) 10
EV (Euro m) 10
(as of 20 April 2020)

Share Data

Market	AIM ITALIA
Bloomberg/Reuters	CIRC:IM / CIRC.MI
ISIN	IT0005344996
N. of Shares	3,470,115
Free Float	23.67%
CEO	Luca Abatello

Aim Positioning

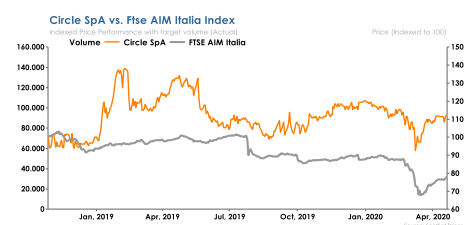
FY 2018	Company	AIM Italia
VoP (Eu m)	4.8	43.4
Yoy	18.3%	25.5%
EBITDA %	27.0%	14.2%
ND/EBITDA (x)	(1.6)	3.8
Market Data	Company	AIM Italia
Mkt Cap (Eu m)	9.7	44.9
Perf. YTD	-9.8%	-16.3%
Free Float	23.7%	33.6%
ADTT YTD (Eu k)	17,435	85,984

Performance

	1M	3M	6M
Absolute	4.4%	-4.0%	0.7%
Relative	-6.6%	10.8%	12.3%
52-week High/Low (Eu)	3.20 / 2.36		

IR TOP RESEARCH

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Key Figures (Euro m)	Revenue	Yoy %	EBITDA	EBITDA %	EBIT	EBIT %	Net Profit	Net Debt
2019A	6.1	+27%	1.2	20%	0.6	10%	0.5	(0.3)
2020E	8.2	+35%	1.5	19%	0.9	11%	0.7	(0.4)
2021E	9.4	+15%	1.9	21%	1.2	13%	1.0	(1.3)
2022E	10.9	+15%	2.4	22%	1.6	15%	1.3	(2.9)

KEY FIGURES

Profit&Loss Statement	2018A	2019A	2020E	2021E	2022E
Sales	3.6	4.3	6.0	6.9	7.9
Revenues (VoP)	4.8	6.1	8.2	9.4	10.9
EBITDA	1.3	1.2	1.5	1.9	2.4
EBIT	0.8	0.6	0.9	1.2	1.6
Financial Income (charges)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit (loss)	0.8	0.6	0.9	1.2	1.6
Taxes	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Group net profit (loss)	0.6	0.5	0.7	1.0	1.3
Balance Sheet					
Net working capital (NWC)	0.7	2.1	2.6	2.9	3.1
Net fixed assets	1.5	2.7	2.6	2.3	1.8
M/L Funds	(0.3)	(0.7)	(0.5)	(0.4)	(0.4)
Net Capital Employed	1.9	4.1	4.8	4.9	4.5
Net Debt (Cash)	(2.1)	(0.3)	(0.4)	(1.3)	(2.9)
Net Equity	4.0	4.4	5.2	6.1	7.4
Cash Flow					
EBIT	0.8	0.6	0.9	1.2	1.6
D&A	0.5	0.6	0.6	0.7	0.8
Tax	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Change in M/L Funds	(0.0)	0.4	(0.2)	(0.2)	0.0
Gross Cash Flow	1.1	1.4	1.2	1.6	2.1
Change in NWC	(0.4)	(1.4)	(0.5)	(0.2)	(0.2)
Operating Cash Flow	0.7	0.0	0.7	1.3	1.9
Capex	(1.2)	(1.7)	(0.6)	(0.5)	(0.3)
Change in other non-current asset	0.0	(0.0)	0.0	0.0	0.0
Financial Income (charges)	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	(0.5)	(1.7)	0.1	0.9	1.7
Dividend	0.0	0.0	0.0	0.0	0.0
Change in Equity	1.6	(0.0)	0.0	0.0	0.0
Change in Net debt (Cash)	1.1	(1.8)	0.1	0.9	1.7
Check	(0.0)	(0.0)	(0.0)	0.0	0.0
Per Share Data					
Current Price	€2.86				
Total shares out fully diluted (mn)	3,453				
EPS	0.15	0.12	0.17	0.22	0.29
DPS	0.0	0.0	0.0	0.0	0.0
FCF	(0.5)	(1.7)	0.1	0.9	1.7
Pay out ratio	0%	0%	0%	0%	0%
Ratios					
EBITDA margin	27.1%	19.9%	18.8%	20.5%	22.3%
EBIT margin	16.1%	9.9%	11.1%	12.6%	14.7%
Net Debt/Equity (Gearing)	-52.9%	-7.6%	-8.2%	-21.0%	-39.6%
Net Debt/EBITDA	-1.62	-0.28	-0.27	-0.67	-1.22
Interest cover EBIT	n.m.	n.m.	n.m.	n.m.	n.m.
ROE	15.7%	11.1%	14.4%	15.8%	17.5%
ROCE	49.7%	17.4%	22.7%	29.0%	42.0%
Free Cash Flow Yield	-16.5%	-60.8%	3.0%	30.4%	58.0%
Growth Rates					
Sales	16%	19%	39%	15%	15%
Revenues (VoP)	18.3%	26.9%	35.0%	15.0%	15.0%
EBITDA	34.4%	-6.9%	27.7%	25.4%	25.1%
EBIT	13.0%	-22.2%	51.4%	30.5%	34.2%
Net Profit	17.4%	-21.0%	51.3%	30.4%	34.2%

FY 2019 RESULTS

Circle recently released a strong set of FY 19 results with an increase in revenues of +27% yoy to Euro 6.1 m, (Euro 6.2 m as of our estimates). Growth was primarily driven by a sharp increase in revenues from proprietary products (+80% vs. FY 18) and in particular MasterSPED from the software house Progetto Adele acquisition in August 2019 and Milos after the introduction in the market of new modules. Progetto Adele contributed with additional revenues of Euro 1.1 m the five months considered. Good performance also of international projects (e.g. Fenix and DG Move) where revenues increased by +21%.

EBITDA adjusted for non-recurring items stood at Euro 1.5 m, +15% vs FY18 and largely in line with our estimates (Euro 1.6 m). Non-recurring costs of Euro 0.3 m, were related to market development and international expansion. Non adjusted EBITDA came in at Euro 1.2 m (20% of revenues). Net profit stood at Euro 0.5 m (Euro 0.6 m in FY 2018 and 0.7 m as of our estimates).

Despite investments in the period for a total of Euro 2.6 m, including M&A activity for a total of Euro 1.8 m (cash impact of Euro 0.5 m), Circle continued to be cash positive, and close the year with Net Cash of Euro 0.3 m vs. Euro 2.1 m at year-end 2018. Principal investment areas were product development, internationalization and development of new market segments, in line with IPO strategies.

OUTLOOK AND ESTIMATES

Management confirmed that the positive growth trend of FY 2019 continued in the first two months of 2020, during which the Group continued to work on the product portfolio with the release of two new upgrades (TOS Multipurpose and MTO). Thanks to a business model already adapted for smart working, the Group is fully operational despite the current sanitarian emergency and Management underlined that, although it is still difficult and premature to assess short-term potential effects on FY 2020 financial, the overall growth trend in digitization is likely to touch also the port and intermodal logistic sector and accelerate the modernization processes in favour new IT solutions. This could mitigate any negative impacts deriving from the reduction of industrial production. Management further anticipated the new industrial plan will focus on the development of the market segments added in 2019 as well as adding new ones, in order to boost revenues and create synergies in terms of cross and upselling opportunities.

Given the above, we fine-tuned our revenue forecast for FY20 while maintaining growth rates for FY21. We also slightly adjusted our EBITDA margin to factor in the current economic situation and a strategy focusing on increasing volumes in the short term, with a gradual recovery in margins. The overall effect is an average decrease in revenues and EPS of -10% and -46% respectively. Finally, we also added FY22 to our explicit forecast horizon. We stress that our forecast does not include any potential opportunities arising from further M&A activity, which according to Management should be a key strategic pillar for the Group in the next years.

OUTLOOK AND ESTIMATES

Euro m – OIC	19A	20E Old	20E New	21E Old	21E New	22E New
Revenues (VoP)	6.1	8.9	8.2	10.8	9.4	10.9
yoy	+26.9%	+43.1%	+35.0%	+22.1%	+15.0%	+15.0%
EBITDA	1.2	2.1	1.5	2.6	1.9	2.4
margin	19.9%	23.5%	18.8%	24.2%	20.5%	22.3%
EBIT	0.6	1.2	0.9	2.1	1.2	1.6
margin	9.9%	14.1%	11.1%	19.2%	12.6%	14.7%
Pre tax profit	0.6	1.2	0.9	2.1	1.2	1.6
Net Profit	0.5	1.1	0.7	1.9	1.0	1.3

Euro m – OIC	19A	20E Old	20E New	21E Old	21E New	22E New
Net Working Capital (NWC)	2.1	1.8	2.6	1.6	2.9	3.1
Fixed net assets	2.7	0.8	2.6	0.5	2.3	1.8
Funds	(0.7)	(0.4)	(0.5)	(0.4)	(0.4)	(0.4)
Net Capital Employed	4.1	2.2	4.8	1.7	4.9	4.5
Net Financial Position (Cash)	(0.3)	(3.8)	(0.4)	(6.4)	(1.3)	(2.9)
Equity	4.4	6.1	5.2	8.1	6.2	7.4
Sources	4.1	2.2	4.8	1.7	4.9	4.5

Source: Group data (OIC) for FY 2019, IR Top Research estimates for FY 2020-2022

VALUATION

We set a target price of Euro 4.49 per share, (Euro 4.91 p.s. previously), providing for a +57% upside on current stock price and obtained by weighting equally the DCF and the multiple comparison analysis. Peers de-rating since our last report (September 2019) was of -6%. At our target price, Circle would be trading at an FY20-21 EV/EBITDA multiple of 9.8x and 7.8x respectively.

	Country	Market Cap (Eu m)	2018 revenue (Eu m)	Revenue % change 2018/2017	2019E revenue (Eu m)	2018 EBITDA margin	2019E EBITDA margin
DBA Group	Italy	13	49.0	+8%	56.7	9%	7%
DHH	Italy	10	6.3	+11%	6.9	8%	8%
Digital Value	Italy	192	298.1	+15%	328.5	8%	8%
Esautomotion	Italy	22	18.5	+19%	18.8	27%	22%
Expert System	Italy	102	28.7	+12%	33.1	16%	16%
Finlogic	Italy	45	29.5	+32%	34.9	14%	14%
MailUp	Italy	66	40.2	+47%	60.6	9%	7%
Neosperience	Italy	45	8.6	+64%	15.0	39%	25%
Powersoft	Italy	44	33.5	+10%	36.6	16%	17%
Prismi	Italy	17	21.2	+42%	24.9	13%	14%
Relatech	Italy	49	14.4	+24%	19.3	14%	12%
Vetrya	Italy	30	59.4	+1%	73.1	13%	9%
Websolute	Italy	13	12.8	0%	14.2	13%	18%
AIM peers' average		50	47.7	22%	55.6	15%	14%
Datalogic	Italy	690	631.0	+4%	612.5	16%	14%
Exprivia	Italy	38	591.0	+276%	540.8	4%	5%
Generix Group France	France	128	76.6	+9%	80.0	11%	15%
Piteco	Italy	112	19.4	+18%	24.0	34%	43%
PSI Software	Germany	311	199.2	+7%	225.2	13%	11%
Reply	Italy	2,450	1,035.8	+17%	1,182.5	13%	14%
Sesa	Italy	745	1,539.9	+14%	1,813.8	4%	5%
TXT e-solutions	Italy	88	40.0	+11%	59.1	10%	11%
Small & Mid Cap peers' average		570	516.6	+45%	567.2	13%	15%
CIRCLE	Italy	10	4.8	+18%	6.2	27%	26%

	EV/EBITDA (x)		P/E (x)	
	20 E	21E	20E	21E
DBA Group	4.6	3.2	36.5	8.5
DHH	6.4	n.d.	21.4	n.d.
Digital Value	4.3	2.8	10.7	9.1
Esautomotion	2.5	1.7	8.6	6.9
Expert system	15.4	10.5	n.s.	49.9
Finlogic	6.5	5.0	12.9	9.5
MailUp	10.3	7.1	32.0	19.9
Neosperience	6.4	3.8	16.2	9.8
Powersoft	7.2	6.7	12.3	10.5
Prismi	7.1	4.5	15.2	9.8
Relatech	14.4	11.5	27.6	22.4
Vetrya	3.0	2.5	6.7	5.2
Websolute	3.5	2.4	8.1	6.3
AIM peers' average	7.0	5.2	17.3	14.0
Datalogic	8.4	6.8	16.9	13.3
Exprivia	7.7	n.a.	n.a.	n.a.
Generix Group France	10.7	8.5	30.1	22.4
Piteco	12.7	11.1	18.5	16.7
PSI Software	12.7	10.0	29.5	20.2
Reply	12.1	10.6	21.9	19.0
Sesa	6.5	5.8	15.9	14.5
TXT e-solutions	7.9	5.4	37.6	22.7
Small & Mid Cap peers' average	9.8	8.3	24.3	18.4
CIRCLE	2.6	1.3	8.2	5.1
<i>Discount/Premium to AIM peers</i>	-63%	-75%	-53%	-63%
<i>Discount/Premium to Small & Mid Cap peers</i>	-74%	-85%	-66%	-72%
Discount/Premium to peers	-69%	-80%	-59%	-68%

Source: PMI Capital for Circle and AIM peers data as of April 20th, 2020. FactSet data as of April 20th, 2020 for Small & Mid Cap peers.

VALUATION SUMMARY

Weighting the two approaches equally we set a new target price of CIRCLE of Euro 4.49 p.s.

Method	Weight	Price (Eu)
Multiple analysis	50%	5.58
DCF	50%	3.40
Target Price	100%	4.49

IPO

Trading Market: AIM Italia – Borsa Italiana SpA
Date: October 26th, 2018
Price: 2.40
Capital raised: Euro 1,532,160
Capitalisation: Euro 7.57 m

SHARES (as of April 20th, 2020)

Code: CIRC
Bloomberg: CIRC:IM
Reuters: CIRC.MI
ISIN: IT0005344996
Shares: 3,470,115
Share Capital: Euro 233,000
Price: Euro 2.86
Performance from IPO: +19%
Capitalization: Euro 10 m
Free Float: 23.67%
NomAd and Specialist: Integrae Sim SpA
Auditing firm: BDO Italia SpA

CIRCLE is owned by the co-founder, and CEO Luca Abatello, who holds 63.05% of outstanding shares. The share capital subscribed and paid up is Euro 233,000, mad up by 3,470,115 ordinary shares without nominal value. Innotech, LigurCapital, CapitalImpresa and Alcalega have a **lock-up agreement** with the NomAd pm their shares **for 30 months from the IPO date**.

Shareholder	N° of shares	%
Innotech Srl ¹	2,187,966	63.05%
LigurCapital SpA ²	169,851	4.89%
CapitalImpresa SpA ²	169,851	4.89%
Alcalega Srl ³	121,407	3.50%
Market	821,040	23.67%
Total	3,470,115	100.00%

Source: Company data as of April 21th, 2020

¹ 100% Luca Abatello

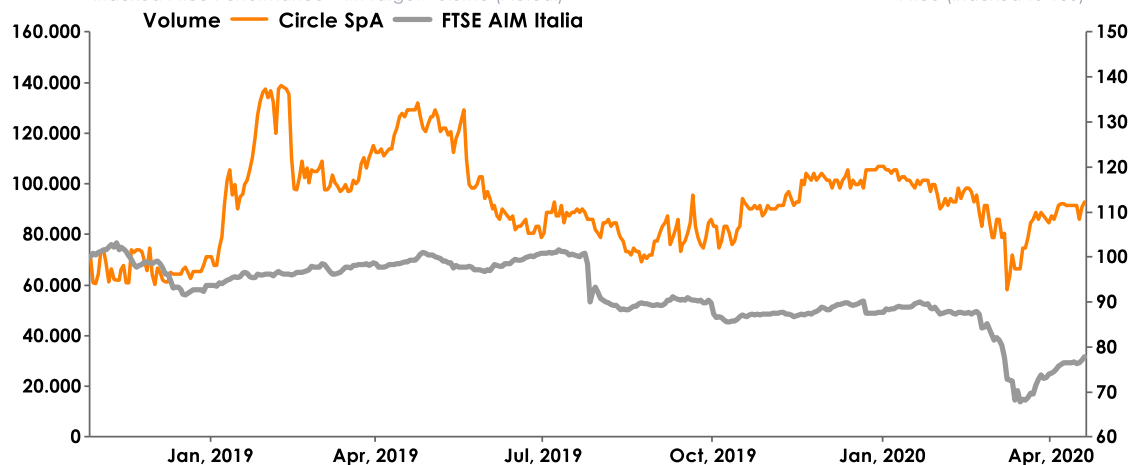
² Funds

³ Related to Alexio Picco, CIRCLE's co-founder, Director and Head of the business unit Connecting EU

Circle SpA vs. Ftse AIM Italia Index

Indexed Price Performance with target volume (Actual)

Price (Indexed to 100)



Source: FactSet Prices

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	Date	Target Price	Market Price	Validity Time
	April 21 st , 2020	4.49	2.86	12 months
	September 26 th , 2019	4.91	2.57	12 months
	March 21 st , 2019	4.86	2.96	12 months
	November 15 th , 2018	3.71	2.50	12 months

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

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