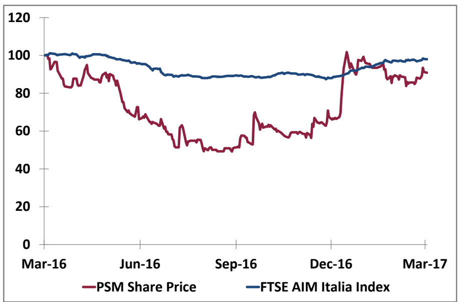
Turning point in the game of search

NOT RATED

Current Share Price (€): 1.75

Target Price (€): n.a.

PSM – 1Y Performance



Source: S&P Capital IQ - Note: 4/3/2016=100

Company data

Bloomberg code	PRM IM
Reuters code	PRSM.MI
Share Price (€)	1.75
Date of Price	06/03/2017
Shares Outstanding (m)	4.9
Market Cap (€m)	8.5
Market Float (%)	76.4%
Daily Volume	2,280
Avg Daily Volume YTD	9,777
Target Price (€)	n.a.
Upside (%)	n.a.
Recommendation	NOT RATED

Share price performance

	1M	3M	1Y
PSM - Absolute (%)	2%	36%	-9%
FTSE AIM Italia (%)	1%	11%	-2%
1Y Range H/L (€)		1.96	0.95
YTD Change (€) / %		-0.13	-7%

Source: S&P Capital IQ

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We are initiating coverage of PSM, a provider of Search Engine Optimization (SEO) and other web-related services to micro-businesses and Small and Medium-sized Enterprises (SMEs) in Italy. SEO consists in the optimization of the positioning of a website on search engines, through algorithms that ensure a high correspondence between research and content available on the web, compared to *organic* search results. PSM, listed on AIM Italia since July 2012, is among the three market leaders in Italy in digital marketing services to SMEs, a sub-segment of the larger digital marketing industry which continues to show strong growth potential given the low Internet penetration among SMEs.

Financial troubles leading to recovery actions

PSM's revenues kept growing over the years reaching €14.8m in 2014, but significant overdue trade receivables arose. A high sales network turnover and the introduction of a stricter customer collection policy then resulted in a 40% drop in sales and an operating loss in 2015. In H1 2016, PSM returned to growth (+50% vs. H1 2015) and to operating profit. In the last three years the overdue receivables balance has been kept to below €10m through securitizations and write-offs. PSM's actions to reduce its credit risk resulted in a progressive reduction of overdues from current operations and in legal actions to monetize the €8m balance as of June 2016.

Outlook

In its guidance for 2017-2022, Management foresees consolidated revenues reaching €20m with a target EBITDA of over €4m in 2017, roughly a 20% margin.
We deem the 2017 targets as challenging, but not out of reach as long as the 2016 revenue level will be close to the 2014 peak. The success of the Company's recovery plan is based on the right combination of two key assumptions: top-line growth and the recovery rate of overdue receivables.

Works in progress bring rating prudence

Our initial assessment on PSM's value is that the current market capitalization has a neutral nature. Management efforts to improve service offering to the marketplace, the risk management measures, improvement of internal organization and operating profitability, all appear able to compensate the financial risk carried by the receivables load, the source of excess debt. The inherent high subjectivity implied in any value assessment suggests to give time to the action plan to feed through the numbers and to better update the recovery expectations. We believe that the success rate of the recovery actions that the Company is pursuing is crucial and that FY16 or H1 2017 results could signal the end of a challenging period. We plan to express our rating as soon as there will be a meaningful outcome of the turnaround process with clear recovery of sales volumes and margins and reduction of working capital.

Key financials

€m	2014	2015	H1 2016
Revenues	**15.4**	**9.0**	**7.3**
EBITDA	**(0.4)**	**(2.9)**	**0.6**
Margin	*-2.6%*	*-32.1%*	*8.6%*
EBIT	**(1.6)**	**(4.2)**	**0.1**
Net Income/ (Loss)	**(4.2)**	**(6.5)**	**(1.4)**
Net Working Capital	**10.0**	**8.9**	**9.1**
Net (Debt) / Cash	**(7.4)**	**(10.6)**	**9.7**
Equity	**6.4**	**1.6**	**2.4**

Source: Company data

1. INVESTMENT CASE

Primi sui Motori (PSM)

Pioneer in SEO

- Among the main providers of Search Engine Optimization (SEO) services to microbusinesses and Small and Medium-sized Enterprises (SMEs) in Italy
- Pioneer in the web marketing industry, with a track record of over 15 years
- Over 5,000 customers
- Sales force of 120 digital consultants (at January 2017)

Mission

Filling the digital gap of Italian SMEs

To provide Italian micro-enterprises and SMEs with low-cost digital services to establish, build and increase online presence and visibility, in order to enhance business productivity.

Key milestones

- 2007 -> Establishment of PSM
- 2009 -> A professional investor acquires a 20% stake in PSM
  -> Highest turnover since inception: €8.7m (+191% vs 2008)
- 2012 -> IPO on AIM Italia
- 2013 -> Acquisition of three media agencies: 3ding Consulting, 2ThePoint PSM, Crearevalore
- 2014 -> Peak turnover: €14.8m

Drivers

Industry drivers

Nearly 4.5m of SMEs in Italy: the engine of growth

Internet for SMEs. Micro-enterprises and SMEs are the backbone of the economy, representing over 99% of Italian companies and generating 70% of total turnover (Source: ISTAT). Despite large businesses are usually the big online advertising spenders, microbusinesses and SMEs represent an unexploited segment to serve. Thus, PSM has significant growth opportunities through the development of their digital business.

Digital is disrupting the advertising market

Online advertising is replacing traditional media advertising. The market potential is still untapped and the level of penetration in the markets where web usage is more intense represents a reliable indicator of the market's growth potential.

Huge market potential with SMEs going digital

Internet penetration, especially among micro and small enterprises is still low: 30% of small enterprises in Italy did not have a website or homepage in 2015; 50% of micro-enterprises with less than 10 employees did not have a website in 2011; 85% of enterprises with 1 or 2 employees did not have a website in 2011 (Source: European Commission, *Digital Scoreboard*, 2016 and Eurisko reported by the BCG).

Increasing e-commerce sales. Consumers will continue to spend online. Online sales in Western Europe will increase from €319bn in 2013 to €525bn in 2018, at a 10.5% CAGR (Source: eMarketer, *Worldwide Retail Ecommerce Sales 2013–2018*, January 2015).

Local SEO to gain grounds. Local SEO helps businesses stand out in search engine results pages, by using ranking factors like name, address, phone number and customer reviews. Local search results are changing very rapidly and are expected to go stronger over the next few years, forcing businesses to focus on a local base, thus opening new opportunities for PSM.

Fragmented competition arena: room to increase market share. With few large players and some thousands of small local web agencies, also based on industry growth expectations, there is wide room for PSM to increase its market share (currently less than 1%) and figures like 2-3% are not unrealistic.

Company drivers

In the short-list of market leaders in Italy. PSM is in the short-list of market leaders in Italy for web presence and SEO digital products to SMEs and is positioned as the third player in terms of revenues. PSM has built a nationwide salesforce of over 100 digital consultants to reach its target customer base - micro-enterprises and SMEs - which have a significant growth potential. Going forward, PSM is enriching its offer with integrated digital services to build a complete product suite.

Long-lasting customer relationships. PSM’s digital consultants propose themselves as long-term coaches to assist SMEs in their online presence and marketing activities. SEO consultancy contracts usually last two years and recently new sales for present customers reached over 40% of total.

New digital services. Launch of new customized digital services for SMEs and large businesses, such as social networks applications to increase web visibility and business productivity.

Capital-free business model. PSM, as most digital service companies, is an asset-light business.

Economies of scale. Every new customer increases marginal profitability of the in-house developed SEO platform.

Challenges

Working capital dynamics and net debt position. PSM has cumulated, prior to 2014, substantial overdue receivables, due to customers who interrupted monthly payments for various reasons, ranging from financial troubles to service complaints. The subsequent payment terms changes put the receivables issue under control, but negatively impacted sales. The right balance between effective sales promotion tools and sound receivables management has been and will continue to be a major challenge for PSM.

Churn rate. PSM's accounting system has not yet been structured to calculate the churn rate of its customer base. According to its annual reports, the number of customers through the last years was consistently at the level of 5,000. The average salesmen turnover in the last four years was above 50%, a level sufficient to indicate that the balance of active customers might reflect material figures of contracts expired and not renewed and new contracts. Also, the size of overdue accounts is an indicator of a presumably high churn rate. As a consequence, sales growth and the financial recovery of the Company imply a high degree of success of customer retention and satisfaction. The growing follow-on business is a sign of better customer quality.

Competition from key peers Italiaonline and Axélero. These competitors have a healthy financial structure and a larger turnover that could help to extend their sales network and customer base, to further increase their market shares on the Italian market.

2. PROFILE

Nerd in the game of search

Helping Italian micro-enterprises and SMEs to grow their business online

Primi sui Motori SpA operates in the web marketing industry, providing Italian micro-enterprises and SMEs with online visibility and Search Engine Optimization services. PSM has developed a proprietary SEO platform. Through its subsidiaries, PSM also creates and manages websites and e-commerce platforms, provides social media solutions, develops customized mobile applications, as well as online/offline advertising campaigns for large businesses. The Company is headquartered in Modena, Italy, and is listed on the AIM Italia segment of the Italian stock exchange.

History and key developments

PSM was set up in 2007 by Alessandro Reggiani, as a spin-off of the Internet and positioning business activities of Syner.it Informatica, an IT company founded in 1998 in Modena. Since the beginning, the Company's core business has been SEO. In 2009, after only two years, revenues grew from €1m to €8.7m. In the same year, Equilybra Capital Partners, an Italian PE fund, acquired 20% stake of PSM.
In 2012, the Company's shares were admitted to trading on AIM Italia. The IPO represented a partial exit of the PE fund Equilybra.
In 2013, PSM completed the acquisition of a majority stake in three Italian companies offering related services and targeting different customer segments.

Key acquisitions

Source: Company data

Portfolio

3ding Consulting
Acquired by PSM in 2013, 3ding Consulting Srl is a new media agency specialized in the development of web applications and mobile apps, both for process optimization (app workforce) and included in an integrated marketing strategy. 3ding Consulting offers also digital marketing consulting services, customized on customers' needs and business targets, plus other services such as content marketing, brand awareness and publishing management through a multi-channel approach (social networks, blogs, newsletters, forums).

Highlights:
- Over 400 customers, claiming 95% retention rate (Source: Company website)
- €1m sales with 10% EBITDA Margin in 2015

2ThePoint PSM

Acquired by PSM in 2013, 2ThePoint PSM Srl is a digital marketing and communication agency which offers a full suite of solutions in three main areas: web marketing and social media, 3D and digital tech, digital services for fairs & exhibitions. It has also a web academy for entrepreneurs and managers, called Learn2Earn.

PSM initially acquired 51%, with a put/call option to acquire the remaining 49%, which has been postponed until 2019.

Highlights:
- €1m sales with 4% EBITDA margin in 2015
- Not yet to break-even in 2015

Crearevalore

Acquired by PSM in 2013, Crearevalore Srl is a web marketing agency which offers SEO services and digital strategy consulting. PSM initially acquired 51% of Crearevalore, then increased its share to 75.71% and then to 99%.

Highlights:
- Over 450 customers (Source: Company website)
- €400k sales in 2015, with operating losses

Restructuring after 2015 slowdown

PSM's revenues increased almost steadily until 2014, while in 2015 they dropped by 40%, returning to 2009 levels, due to new stricter payment policies. In this scenario, the Company cumulated significant overdue receivables. Since then, PSM has started a restructuring process which is also included in its business model.

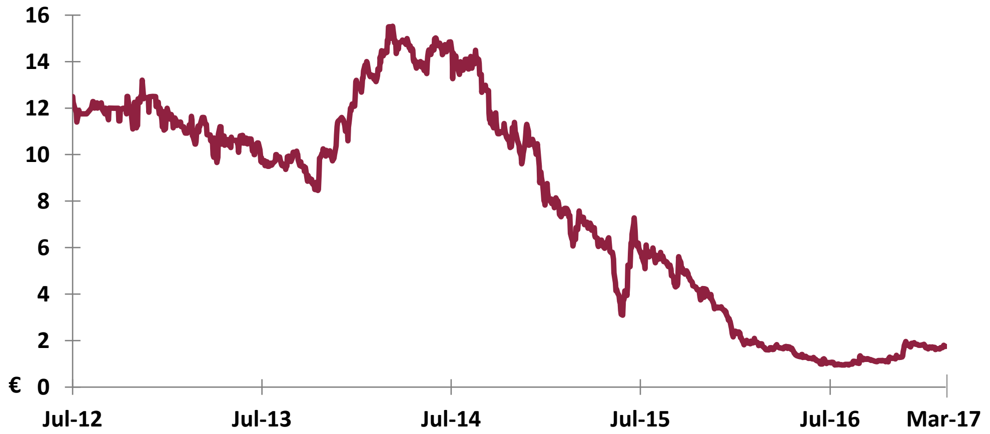
PSM's stock market performance on AIM Italia

Through its IPO on the AIM Italia market on July 26th, 2012, PSM raised approximately €3.5m through newly issued shares and vendor placement. The initial market cap of the IPO was €24.8m. Annual sales in 2012 were €10m.

PSM on AIM Italia	
Stock market	AIM Italia - MAC
ISIN code	IT0004822695
Bloomberg code	PRM IM
Reuters code	PRSM.MI
IPO date	26/07/2012
Money raised (€m)	3.5
Market Cap at IPO (€m)	24.8
Shares outstanding	4,863,138
Current Share Price (€)	1.75
Market Cap (€m)	8.5

Source: Company data and S&P Capital IQ, update: 06/03/2017

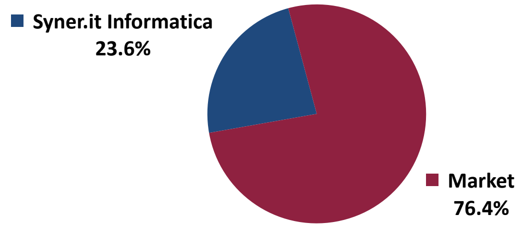
Share price performance since IPO



Source: S&P Capital IQ, update: 06/03/2017 – Historical prices adjusted in 2015 following a free rights issue

3. GROUP

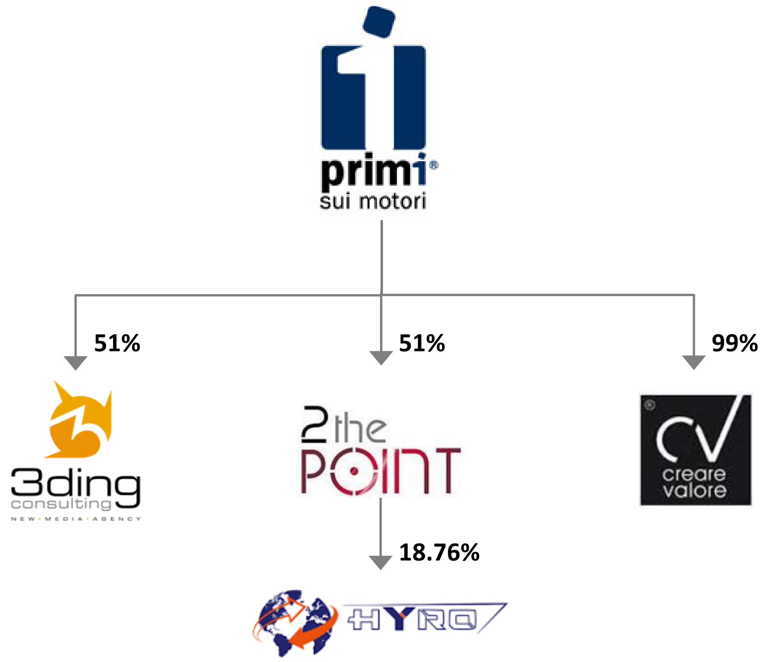
Shareholders



Source: Company data – Update: December 2016

Syner.it Informatica is owned by Alessandro Reggiani, founder of PSM.

Group structure



Source: Company data

4. MANAGEMENT

Name	Role	Background
Alessandro Reggiani	Shareholder (through Syner.it Informatica) - Chairman - CEO	- Founder and CEO of Primi sui Motori, created in 2007 as a spin-off of the Internet and positioning business activities of Syner.it Informatica - Founder of Syner.it Informatica in 1998 (software and IT service company)
Raffaella Agazzani	CFO	- 2016: CFO at PSM - Previously: Head of Administration and Finance at BBS (trade of consumer goods), several roles in Administration and Finance divisions of Italian companies, Financial Analyst at Antonveneta Abn Amro SGR
Alessandro Firpo	Business Development Manager	- 2016: Business Development Manager at PSM - Board member in several healthcare and movie distribution companies - Previously: Corporate Marketing and Communication Director for an international listed company in the healthcare service business, Sales Director at UTET, Einaudi and Garzanti (publishing companies)
Matteo Rocco	Resources Manager	- 2016: Resources Manager at PSM - Previously: Head for the Italian Market at Sim Credit, Head of Operations at MPS SIM, Manager at San Paolo Bank Suisse
Mario Piovano	Sales Manager - Special Projects	- 2016: Sales Manager at PSM - 2014-2016: Sales Manager at Glamoo - 2000-2014: several roles as Area Manager, Regional Manager and Sales Manager at Seat Pagine Gialle - Previously: ten years in Valeo Ricambi (producer of spare parts for the automotive industry)

Source: Company data

5. BUSINESS MODEL AND STRATEGY

SEO consultancy through a proprietary platform

Mission

Digital presence management

PSM's mission is to provide micro-enterprises and SMEs with low-cost digital services to establish, build and increase online presence and visibility and to enhance business productivity.

Digital services designed for micro-enterprises and SMEs

Search Engine Optimization (SEO)

The positioning on search engines is the meeting point for businesses and their online audience

SEO is the process of generating traffic from the *organic* search results, through the improvement and optimization of the search algorithms. The combined use of PSM's proprietary software and in-house know how of over 200 variables, both internal and external, supports the positioning of a website on search engines. Major search engines such as Google, Bing and Yahoo have primary search results, where web pages and other content are shown and ranked based on what is considered most relevant to users. The *organic* positioning on search engines is different from paid search ads (Search Engine Marketing).

Websites and e-commerce

- Creation of websites and portals
- Creation of e-commerce platforms and e-shops

Services:
- SEO
- Websites and e-commerce
- Social network
- Mobile apps
- Local SEO

Social network

- Facebook Engagement services
- Online social presence services
- Consulting services related to social network marketing strategy, aimed at increasing the number of profiled fans

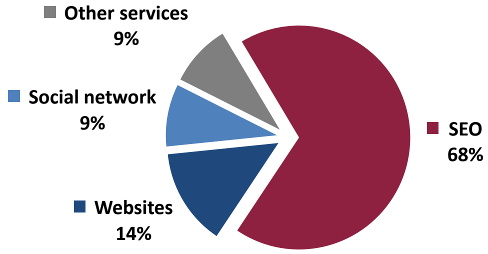
Mobile apps

Development of standard applications for mobile devices

Local SEO (under development)

Optimization of Google Local Search and Google My Business channels-

Sales by service, 2016



Source: Company data

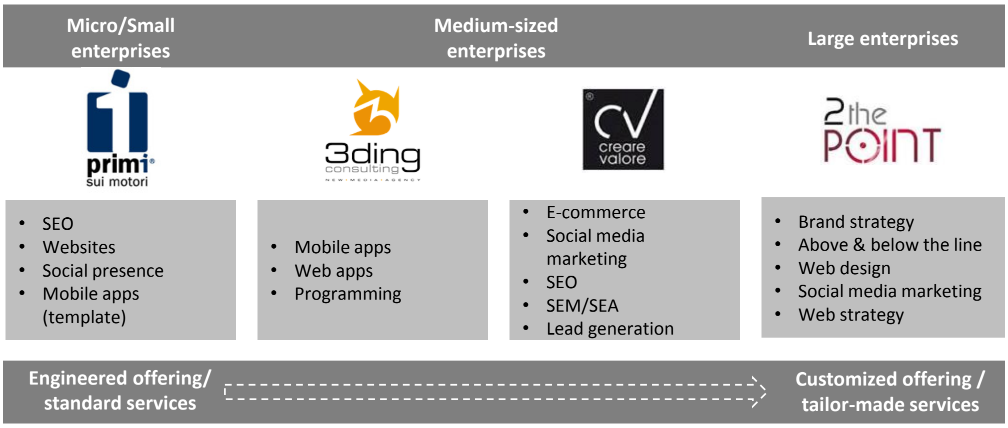
Standard service for SEO and tailor-made solutions for other services

Business model:
- Average revenue per account of €4,000
- Monthly recurring payments
- Salesforce composed of over 100 digital consultants, a distinctive sales model for a digital company

The SEO business is PSM's main revenue stream.

PSM's offer of SEO services through its internally developed proprietary platform is highly standardized. Other services, such as websites and e-commerce creation, social media marketing and mobile apps, mainly provided by Group companies, have a higher degree of customization and can be tailored upon customer's needs.

Offering structure



Source: Company data

Market logics and the buyer's decision process

The decision-maker in a micro-enterprise/SME is typically the business owner, which in most cases has to deal with a limited budget for web marketing activities. The key facilitating factors influencing the buying of SEO services decisions are:

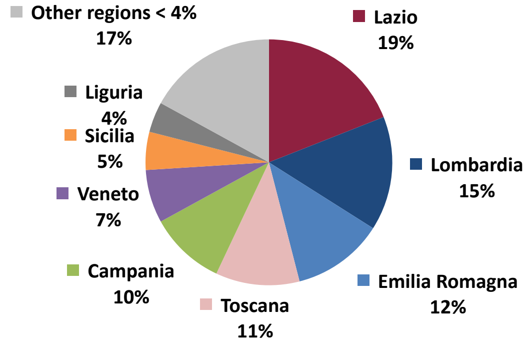
- SEO is a marketing channel, especially for web-based businesses, as it can provide substantial traffic growth and brand visibility and also helps to develop brand awareness, ensuring long-term business establishment in the online marketplace
- Pricing is usually a highly cost-effective marketing option
- Timing for websites to rank on search engines

Sales channels

PSM has built a sales network that covers all the Italian regions. The sales force is structured hierarchically with salesmen, area managers, sales coordinator: 120 digital consultants covering small areas (as at January 2017), of which 16 area managers supervising a region or a multiregional area and 2 sales coordinators (North, Centre and South). Most of the salesmen have exclusive sale agreements. The average fee is worth about 20% of the contract value.

Microbusinesses and SMEs: target customers

Sales force by geography, 2016

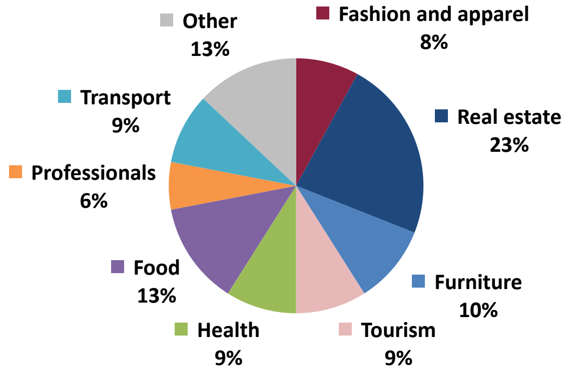


Source: Company data

Customers

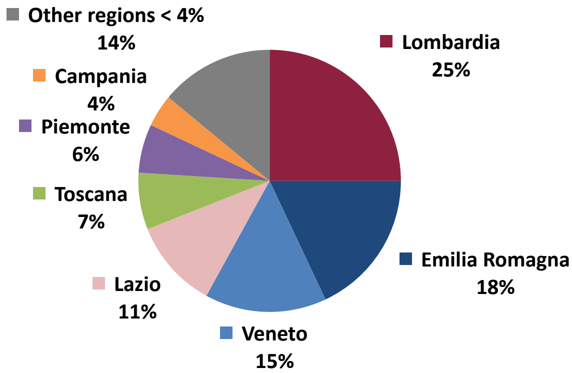
The customer base of PSM at the end of 2015 included around 5,000 customers. Customers are mainly micro-enterprises and SMEs, but other Group companies also address to larger customers, such as medium-sized and large companies. Most customers are retailers, based in Northern/Centre of Italy.

Customers by industry, 2016



Source: Company data

Sales by geography, 2016



Source: Company data

From first contact to after-sale services

PSM's salesmen, after visiting the enterprises to understand their business, give customers a comprehensive digital check-up, which consists of an initial SEO audit. The sales model consists of seven main phases:

1. First customer contact: through telemarketing, inbound marketing, word of mouth and cross-selling
2. Pre-sale: sales representatives enter in contact with the customer to understand its needs
3. Meeting: sales representatives meet the customer to deepen the understanding of its needs and show its current positioning on search engines
4. Contract signing
5. Delivery of the service
6. Reporting: e-mail marketing and caring calls for the entire period covered by the contract
7. After-sale assistance: Dedicated team of 20 people focused on customer care, which offers 24/7 dedicated phone assistance and technical services

24-month contracts

PSM, as common in the industry, adopts a 24-month plan with monthly payments. Among its main competitors, Axélero has similar payment terms, with 24/48 monthly installments, while Italiaonline (formerly SEAT PagineGialle) usually offers 1-year contract with two installments.

Working capital issue

The fast growth until 2012 resulted in significant working capital investment, with DSO over 1 year at 2012 year-end. As of 2014 year-end, overdue receivables were €8.8m and consolidated net financial debt was €7.4m. The size of the overdue balance made evident that customer selection is the key risk factor for PSM.

Credit risk management

Since 2013, PSM has introduced a procedure for credit protection and management:

- Prevention: selection and screening of customers
- Early reminders for overdue payments
- Monitoring: an internal Credit committee meets once per month to monitor the performance of credit collection
- Credit collection: an internal team manages credit collection for overdue receivables of less than 60 days; over 60 days, the recovery is entrusted to credit collection companies and law firms (in case of judicial process)
- The sales force is also involved in the process: salesmen are aware and updated about their customers’ overdue receivables

6. MARKET AND TRENDS

Italian micro/SMEs: addressable market with huge potential

Micro/SMEs are over 99% of Italian companies

Out of the total 6m enterprises, individual undertakings and agricultural cooperatives based in Italy, nearly 4.5m are enterprises, of which over 99% are SMEs, generating around 70% of total turnover (Source: ISTAT). Micro-enterprises and SMEs, PSM's target customers, are the backbone of the economy. Despite that large businesses are usually the main online advertising spenders, micro/SMEs represent a profitable and unexploited segment to serve, thus, PSM has great growth opportunities in sustaining the development of SMEs' digital business.

Exhibit 6.1

Enterprises in Italy, 2014

Company category	Staff headcount	Number	%
Micro enterprise	0-9	4,065,829	95.4%
Small enterprise	10-49	174,032	4.1%
Medium-sized enterprise	50-249	20,639	0.5%
Large enterprise	>250	3,378	0.1%
Total		**4,263,878**	**100.0%**

Source: ISTAT, Statistiche nazionali sulla struttura delle imprese, 2014 (category definition by the European Commission); Unioncamere for the total number of enterprises, individual undertakings and agricultural cooperatives based in Italy at the end of 2014

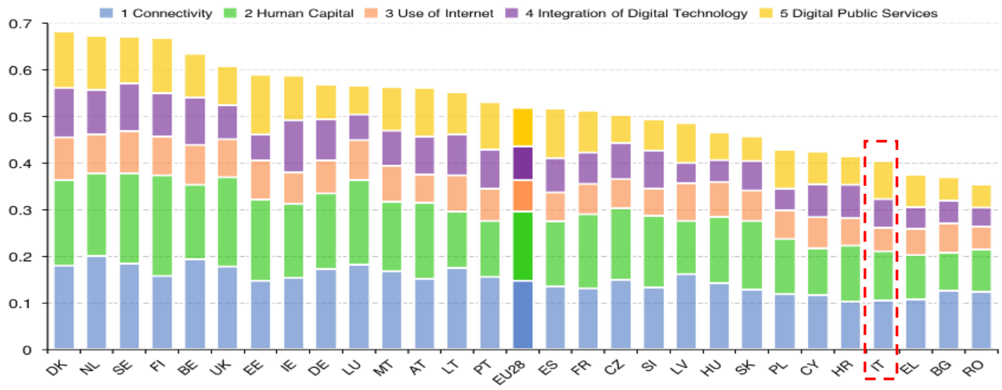
Regular Internet use up

Thanks to its availability from any location and to the rise in access speeds, Internet is a universal infrastructure that opens up new business opportunities and sales & marketing channels. The number of people using Internet at least once per week increased to over 70% in 2014 in the EU (European Commission, *Digital Agenda Targets Progress report - Digital Agenda Scoreboard*, 2015).

Digital divide

Italy is still behind with regards to Internet use and integration of digital technology, compared to other EU countries, according a recent study by the European Commission.

Digital performance in Europe



Source: European Commission, *Digital Agenda Scoreboard - Use of Internet*, 2016

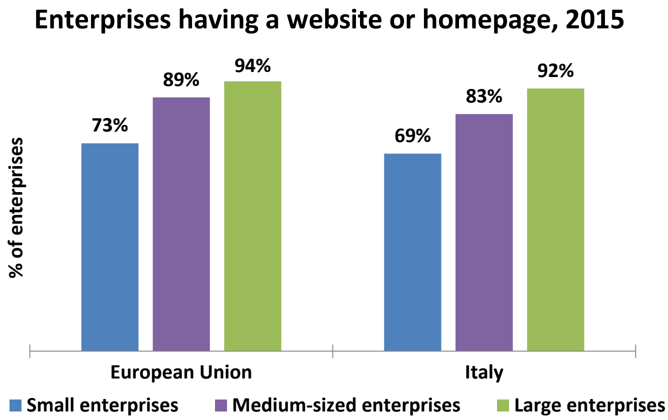
Note: The "Use of Internet" indicator encompasses online content, communication and transactions; the "Integration of Digital Technology" indicator refers to business digitization and e-commerce.

The website: the starting point for connecting businesses with their online audience

97% of enterprises in Italy had an Internet connection in 2013 (Source: Eurostat, *Mobile connection to Internet*, 2013).
Internet penetration is still low: 30% of small enterprises in Italy did not have a website or homepage in 2015.

A large opportunity: 30% of small enterprises still do not have a website

Exhibit 6.2

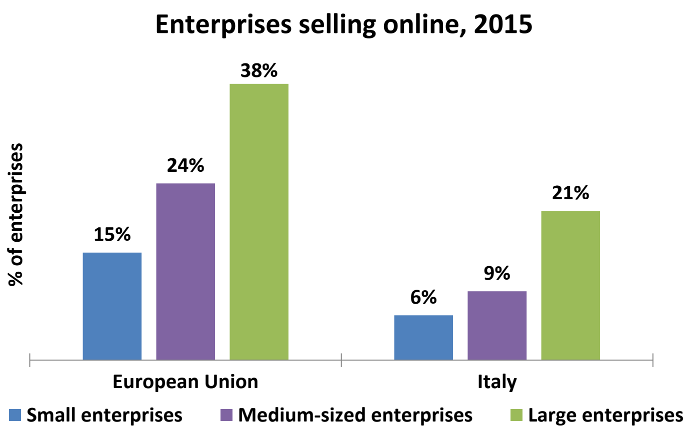


Source: European Commission, *Digital Scoreboard*, 2016

Internet penetration among micro-enterprises is lower: based on Eurisko data reported by the BCG, 50% of micro-enterprises with less than 10 employees and 85% of enterprises with 1 or 2 employees did not have a website in 2011.
In addition, according to the European Commission, in 2015 only 35% of small enterprises and 43% of medium-sized enterprises in Italy had a website with sophisticated functionalities (product catalogues, price lists, personalized content in the website for regular/repeated visitors).
In Italy in 2015 less than 10% of SMEs sold online (vs. 20% of large companies). E-sales for Italian small enterprises in 2015 accounted for 3% of their total turnover and 15% for medium-sized enterprises (Source: European Commission, Digital Scoreboard, 2016).

E-commerce: a missed opportunity for SMEs, with great untapped potential

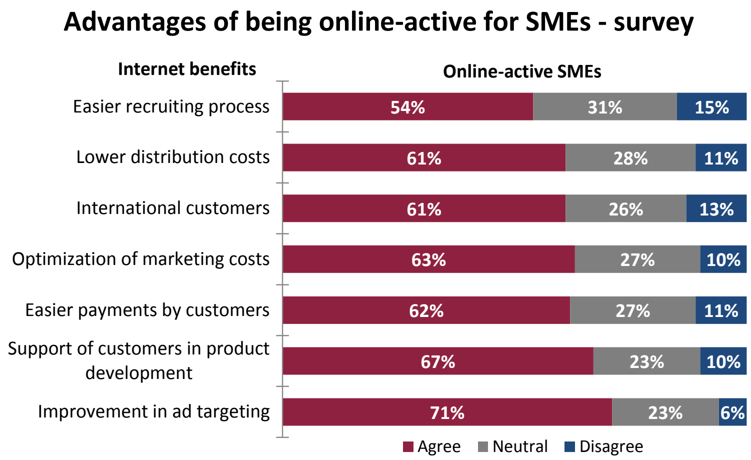
Exhibit 6.3



Source: European Commission, *Digital Scoreboard*, 2016

According to a BCG Report, online-active SMEs having a website and a web marketing/e-commerce platform reported a YoY revenue growth of 1.2% between 2008-2010, vs. a negative trend for online SMEs (-2.4%), having a web page, and offline companies (-4.5%), without a web page. In addition, 65% of online-active SMEs reported higher productivity thanks to Internet use (vs. 28 and 25% of online and offline SMEs). Online-active SMEs also reported a higher share of revenues generated abroad, equal to around 15%, vs. 8% and 4% of online and offline SMEs (Source: The BCG, *Fattore Internet*, 2011).
In addition to these advantages, SMEs reported that customer acquisition is cheaper and performance of digital advertising can be measured by proper indicators.

Exhibit 6.4



Source: The BCG, *Fattore Internet*, 2011

According to the BCG, SMEs have started the first phase of digitalization related to their online presence and online activities carried out by online-active SMEs are:

1. digital marketing activities linked to web 2.0: creation of a blog and presence on social networks
2. advertising on search engines (66% of SMEs respondents to the survey)
3. optimization of ranking on search engines (63% of SMEs)
4. e-mail marketing (54% of SMEs)
5. creation and development of corporate pages on social networks (51% of SMEs)
6. online orders (47% of SMEs) and payments (37% of SMEs)

The second step of the digitalization process for SMEs will consist in the full implementation of e-commerce.

The digital marketing industry in Italy

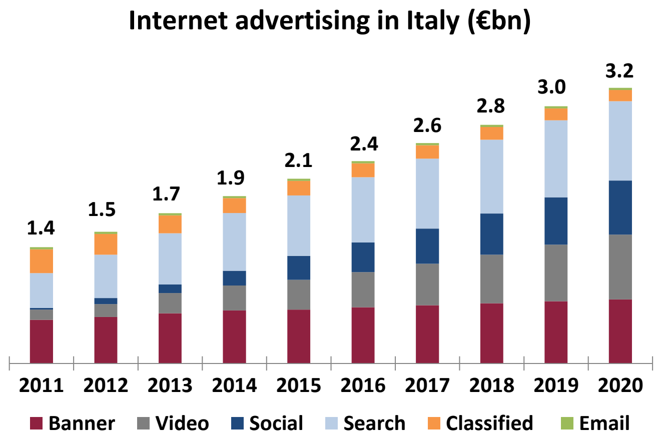
The Italian digital marketing industry was worth around €3.7bn in 2015, of which:

- €2.1bn Internet advertising (Source: PwC, *Entertainment & Media outlook in Italy 2016-2020*)
- €1.6bn digital marketing services (Source: Statista, *Digital advertising expenditure in Italy from 2008 to 2015*, based on data from UPA;

ASSOCOM; Dentsu Aegis Network; Nielsen)

Italy's Internet advertising is the fourth largest market in Europe (behind the UK, France and Germany). The market was worth €2.1bn in 2015, up 10% from 2014, and is expected to grow at a 8% CAGR to reach €3.2bn in 2020 (Source: PwC, Entertainment & Media outlook in Italy 2016-2020).

Exhibit 6.5



Source: PwC, *Entertainment & Media outlook in Italy 2016-2020*

Social, Video and Search are driving market growth, at a CAGR 2015-2020 of 18%, 17% and 6% respectively.

€1.6bn marketplace

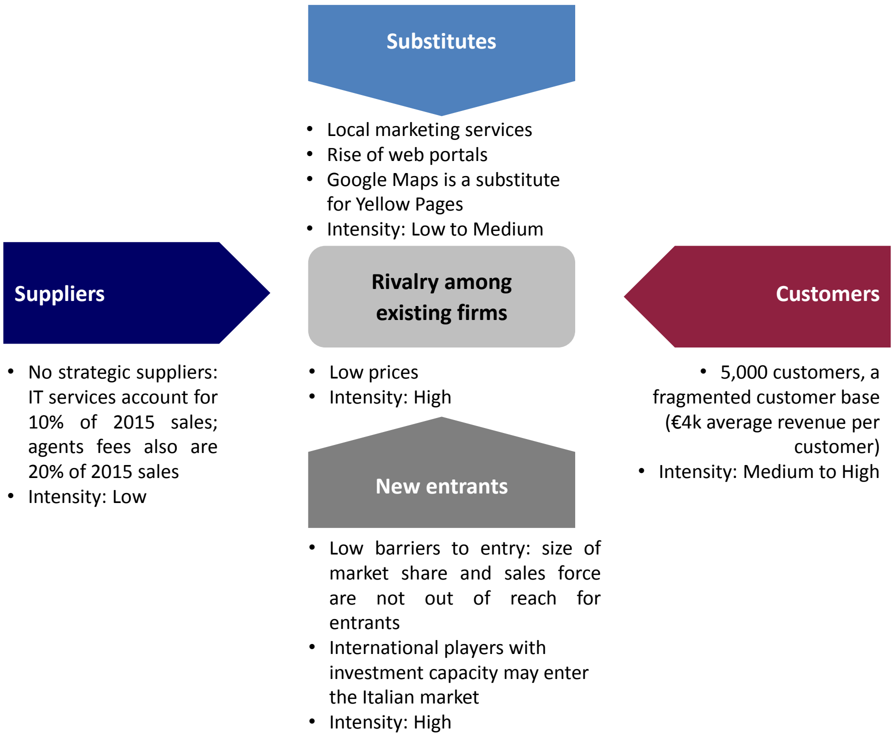
The market of digital marketing services - PSM's reference market - is expected to grow double-digit in the next years, thanks to new products offered (local SEO, social media, web reputation, mobile apps) and the increasing penetration of those already well-established (websites, SEO).

7. COMPETITION

Intense rivalry among providers of digital services to SMEs

PSM competes in the Italian web marketing industry, especially in the digital marketing services to SMEs, where the breadth of products and services provided is wide and diversified and the industry players have different business models. Competition is intense on pricing, driven by low cost offers. Suppliers have no power and substitute products/services do not constitute a significant threat. Barriers to entry are low and customer power is average-low.

Competitive forces



Source: EnVent Research

The main competitive factors in the industry are:

- Product/service reliability and performance
- Visibility and reputation
- Pricing
- Integrated solution offering
- Customer service
- Sales network of digital consultants technically skilled for door-to-door promotion

PSM's positioning in the web marketing industry

PSM competes directly with industry operators offering SEO services and other digital value-added marketing solutions to SMEs. Its main competitors in Italy are

Italiaonline and Axélero. Smaller competitors are local web agencies, which do not have an established organization with a comparable structured sales network and do not have access to financial resources, potential partnerships and economies of scale as larger players. The number of small local web agencies has been estimated in around 4,000 by the Management of Axélero, as reported in the Company presentation issued in April 2016.

Direct competitors' profiles and key financials

Key financials

€m	2015				2016E		
Company	Sales	EBITDA	*Margin*	Market share	Sales	EBITDA	*Margin*
Italiaonline	374.9	26.3	*7%*	*3.1%* *	396.0	65.5	*17%*
axélero	20.0	5.2	*26%*	*1.3%*	46.9	12.0	*26%*
Primi sui Motori	8.6	-3.2	*neg.*	*0.5%*	12.0	1.0	*8%*

Source: EnVent Research on Companies' Financial statements (2015) and Equity Research consensus (2016E) – For PSM 2016E financials, Management's guidance in the low case - Market shares calculated on total digital marketing services market of €1.6bn in 2015

* Italiaonline's market share refers only to the web agency business, whose 2015 sales were around €50m

Italiaonline, listed on the Italian Stock Exchange, is the result of the merger between the Internet company Italiaonline and the Internet and directory service provider SEAT Pagine Gialle (the historical incumbent in the industry).

- Leading operator in the Italian digital service market for enterprises
- Sales force of over 1,000 people, the largest network of Internet consultants for large and small businesses in Italy
- Total customers at December 2015 230k
- Average revenue per account €1,300

Business areas:

- Digital (53% of 2015 revenues at €375m): directory (Tuttocittà, Pagine Gialle, Pagine Bianche); web agency (web and mobile sites, SEO, e-commerce) with €50m revenues in 2015
- Print (30% of 2015 revenues): Pagine Gialle, Pagine Bianche
- Other (17% of 2015 revenues)

Market shares:

- Online advertising (online directories, banners, SEM, ad campaigns on social networks): 7% in 2015
- Web agency (website design and optimization): 3% in 2015

Axélero, listed on AIM Italia, develops digital marketing and communication solutions to improve online visibility of SMEs and SoHos (Small Office Home Office).

- Second operator in the Italian digital service market for enterprises, by revenues and sales force
- Sales force of over 400 people at June 2016
- Target customers include large accounts and Public Administration
- Market share still negligible (around 1%)

In December 2016, Axélero signed a partnership with Banca Generali to offer digital consultancy services to the Private Bank's clients through its network of around 1,800 financial advisors.

Among the smaller web agencies which populate the competitive arena, **Optimized Group** is a web agency specialized in SEO and SEM with 2015 revenues of €1m, part of **DigiTouch** Group since June 2016.

8. FINANCIAL ANALYSIS

Troubled waters, trying to get back on the right path

Revenue and cost recognition and cash-in dynamics

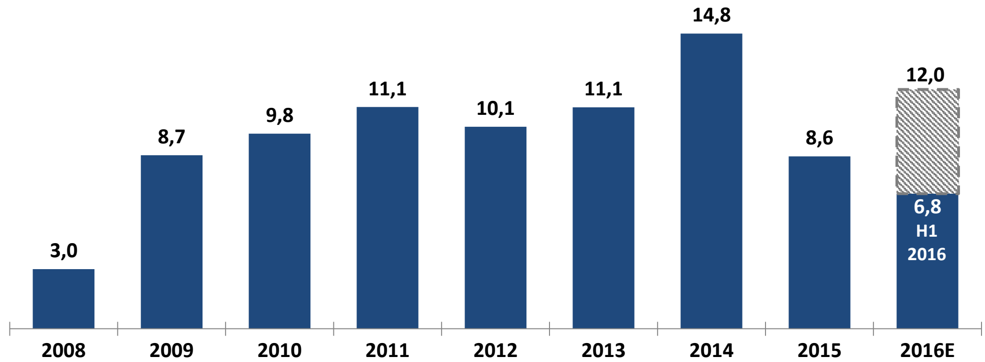
Immediate revenue recognition and 24-month collection

PSM's contracts are structured on a 24-month installment plan. Revenues are fully recognized at contract signing, since sales network fees and other selling costs (call center) are entirely sustained at contract signing. Monthly customers' payments generate a large time misalignment between accounting revenue and cost recognition, immediate, while cash proceeds are diluted in the following two years. Thus, PSM has a structurally abnormal working capital generation with a significant need of finance to fund operations.

Recent history

PSM's revenues increased until 2014, despite a slowdown in 2012 and 2013. In 2015, sales dropped by over 40% compared to 2014. Major decrease factors were: sales network inefficiencies and turnover and the introduction of shorter payment terms for customers, compared to previous terms (24-month payment schedule). Since July 2015, after the negative impact on its revenues, the Company has reintroduced the 24-month payment term and within the end of 2015 paid all fees due to the network. Moreover, during 2015 and continuing in 2016 over 50% of the salesforce was replaced and the total grew to over 100 people, by over 50% more than the beginning figures of 2015. The impact is visible in the H1 2016 sales, worth 80% of the full 2015 sales.

Net sales (€m)



Source: Company data - FY2014 and FY2015 consolidated financial statements – 2016E Management estimates

<u>Income Statement analysis</u>

In FY2015 PSM reported €8.6m consolidated net sales (-41% YoY). Other income of €0.4m refers to operating non-recurring revenue. Sales are mainly generated by the monthly fees paid for SEO services, which account for around 65% of 2015 net sales. The customer retention strategy commenced in 2014 resulted in higher renewals and customer follow-on revenue in 2015, with over 40% of revenues coming from additional sales to existing customers. Examining 2015 consolidated

Cost of sales promptly adjusted

revenues, Primi Sui Motori contributed for 72% of total, 3ding Consulting and 2ThePoint PSM respectively for 11%, and Crearevalore for 5%.

Cost of sales was €4.5m in 2015, an increase as a percentage of revenues compared to prior year, from 45% to 49%. Cost of sales mainly includes: fees paid to the salesforce for €1.8m, consulting services for €0.9m, call center costs for €0.6m, IT services for €0.8m. The rest of operating costs are mainly represented by G&A and overheads. Other operating costs are net of R&D capitalized internal projects for around €50k. Personnel costs decreased from €4.4m in 2014 to €3.7m in 2015, despite it increased as a percentage of revenues, from 29% to 41%, linked to the decreased turnover. The reduction was made possible by a layoff procedure carried out in the beginning of 2015, which allowed to reduce headcount from 133 to 101 employees. Headcount at June 2016 was 100.

2015 operating loss due to reduced sales volume, bottom line affected by heavy non–cash items

PSM recorded 2015 consolidated EBITDA of -€2.9m, compared to -€0.4m in 2014. The negative margin is attributable also to Crearevalore, in addition to PSM.

After D&A of €1.2m and goodwill, EBIT was negative for €4.2m. Consolidated EBT (loss) was -€7.4m, after a write-down of overdue receivables of €1.7m, interest of €1.5m and write-down of marketable securities for €0.1m. Net loss for the period was €6.5m, gross of deferred tax assets of €0.9m.

H1 2016 returns to growth and to operating profit

The first six months of 2016 recorded a significant revenue growth with respect to H1 2015, substantially recovering 2014 level. Gross of write-down of overdue receivables, H1 shows operating breakeven after years of operating losses.

A clear signal of turnaround: sales up by 50% in H1 2016, gross profit margin better than 2014 (full year) and return to operating profit

In H1 healthy P/L, only overdue receivables keep being a question mark

Consolidated Profit and Loss

€m	2014	2015	H1 2015	H1 2016
Net sales	14.8	8.6	4.6	6.8
Other income	0.6	0.4	0.2	0.5
Revenues	**15.4**	**9.0**	**4.8**	**7.3**
YoY %	-	*-41.2%*	-	*53.0%*
Cost of sales	(6.9)	(4.5)	(2.4)	(3.0)
Gross Profit	**8.5**	**4.6**	**2.3**	**4.3**
Margin	*55.4%*	*50.7%*	*48.7%*	*58.6%*
Personnel	(4.4)	(3.7)	(2.1)	(2.2)
G&A	(2.1)	(2.2)	(1.0)	(0.9)
Other operating costs	(2.4)	(1.6)	(0.6)	(0.5)
EBITDA	**(0.4)**	**(2.9)**	**(1.4)**	**0.6**
Margin	*-2.6%*	*-32.1%*	*-29.3%*	*8.6%*
D&A	(0.9)	(0.9)	(0.6)	(0.4)
Goodwill amortization	(0.3)	(0.3)	0.0	(0.2)
EBIT	**(1.6)**	**(4.2)**	**(2.0)**	**0.1**
Margin	*-10.5%*	*-45.9%*	*-41.8%*	*1.1%*
Write-down of overdue receivables	(1.4)	(1.7)	(1.0)	(0.6)
Interest	(1.8)	(1.5)	(0.9)	(0.8)
Depreciation of marketable securities	0.0	(0.1)	(0.1)	0.0
EBT	**(4.9)**	**(7.4)**	**(3.9)**	**(1.3)**
Margin	*-31.6%*	*-82.3%*	*-82.4%*	*-18.1%*
Income taxes	0.6	0.9	0.2	(0.0)
Net Income (Loss)	**(4.2)**	**(6.5)**	**(3.7)**	**(1.4)**
Margin	*-27.4%*	*-72.3%*	*-78.6%*	*-18.6%*

Source: Company data

<u>Reconciliation of reported EBITDA to adjusted EBITDA as per international practice</u>

Reconciliation (€m)	2014	2015	H1 2015	H1 2016
EBITDA reported	**0.7**	**(1.7)**	**(1.1)**	**0.9**
Contingent operating charges	(1.1)	(1.2)	(0.2)	(0.1)
Non-recurring personnel cost	0.0	0.0	(0.1)	(0.1)
Adjusted EBITDA	**(0.4)**	**(2.9)**	**(1.4)**	**0.6**

Source: EnVent Research

Balance sheet analysis

In presence of significant overdues, receivables are broken down between current and slow moving.

Illiquid invested capital

Invested capital other than receivables includes goodwill, capitalized R&D expenses, patents, trademarks and software user licenses. Goodwill refers to the acquisition of 2ThePoint PSM and other consolidation differences. Financial investments include the shareholding on a start-up, plus financial receivables.

Net debt of €10.6m as of December 31st, 2015 decreased to €9.7m as of June 30th, 2016, substantially thanks to funds coming from a share capital increase approved in 2015. Equity as of December 31st, 2015 was €1.6m (prior year €6.4m), reduced by previous year losses. Other liabilities as of June 2016 include around €3.5m of certain 2014 and 2015 overdue taxes and social contributions. A related deferred payment plan has recently been agreed and, an additional part, in the course of finalization with the tax and social security authorities. In order to fund recurring operations, the Company obtained a new credit line (€500k) in 2016.

Consolidated Balance Sheet

€m	2014	2015	H1 2016
Current trade receivables	7.4	6.1	6.9
Trade payables	(4.1)	(3.3)	(3.4)
Trade Working Capital	3.2	2.9	3.5
Overdue trade receivables	8.8	8.0	8.1
Other assets and liabilities	(2.1)	(2.0)	(2.5)
Net Working Capital	**10.0**	**8.9**	**9.1**
Intangible assets	2.0	1.5	1.5
Goodwill	2.8	2.5	2.3
Fixed assets	0.2	0.2	0.2
Financial investments	0.3	0.3	0.2
Non-current assets	**5.2**	**4.5**	**4.2**
Provisions	**(1.4)**	**(1.2)**	**(1.2)**
Net Invested Capital	**13.8**	**12.2**	**12.1**
Cash and cash equivalents	(1.6)	(0.5)	(1.3)
Bonds	5.6	8.2	8.2
Bank debt	3.1	1.9	1.6
Other financial debt	0.3	1.0	1.3
Net Debt / (Cash)	**7.4**	**10.6**	**9.7**
Shareholders' equity	5.8	1.1	2.0
Minorities	0.6	0.5	0.4
Equity	**6.4**	**1.6**	**2.4**
Sources	**13.8**	**12.2**	**12.1**

Source: Company data

Overdue receivables

Starting from 2011, with the receivables higher than revenues, PSM had accrued a provision of €1m for doubtful accounts. From 2012, the Company adopted stricter measures to manage the credit risk and overdue receivables. Credit collection was outsourced to a specialized firm, for older receivables, while maintaining internally the management of more recent overdues (below 60 days). At year-end 2015 the provision for doubtful receivables reached €2.2m.

Provision for doubtful receivables

In order to reduce the average DSO, since 2013 the Company has substituted, for new customer contracts, the cash order payment method (Ri.Ba.) with the direct debit method (formerly RID, today SDD - SEPA Direct Debit), which allows the bank to debit customer at billing. As a result, the rate of success of the recovery actions within six months on new overdues is estimated by the management at 70-80%.

Securitization

Starting from 2014, PSM has carried out securitizations of its receivables, with an initial true-sale transaction without recourse for €5.2m on a revolving basis (until June 2015), whose net proceeds were €4m and cost €1.2m.

In 2015 PSM completed several securitization transactions, of which some deriving from the revolving securitization started in 2014, plus others completed in June and October 2015 by transferring trade receivables amounting to a total book value of €3.1m and receiving €2.2m in cash. In H1 2016 PSM signed a new securitization agreement without recourse to sell €3.8m trade receivables to receive €2.6m in cash. Other assets in H1 2016 Balance Sheet include long-term receivables for €1.2m (net of a provision for doubtful accounts for €150k) related to the securitization of trade receivables that will be cashed-in within the end of the securitization agreement. The pending receivables with recourse, amounting to just over €1.2m, are still subject to credit risk. Overall, over 2014-H1 2016, PSM transferred over €12m receivables and sustained securitization charges for €2m.

Securitization	**2014**	**2015**	**H1 2016**
Receivables transferred	5,208,637	3,088,583	3,764,681
Cash-in	4,051,298	2,164,225	2,573,758
Securitization expense	1,157,339	614,715	293,799
% expense	*22%*	*20%*	*8%*
Receivables pending with recourse	0	327,192	897,124

Source: Company data

Aging of overdue trade receivables

€m / Days	180	360	540	720	>720	Total	Avg. DSO on total sales
2012	1.5	1.2	1.2	1.2	2.3	**7.4**	381
2013	1.2	1.0	1.3	1.2	5.0	**9.5**	408
2014	0.9	0.6	0.7	0.7	5.6	**8.6**	327
2015	0.9	0.5	0.5	0.4	5.7	**8.0**	490

Source: Company data – Note: the table refers only to PSM SpA, thus the figures shown are not consolidated (2014 consolidated overdue receivables were €8.8m, vs. €8.6m only considering PSM SpA)

Details of Bonds issued at June 2016

Financial instrument	Issue size	Subscribed	Converted	Outstanding	Expiry	Rate
Primi sui Motori 9% 2013-2016	2.6	2.6	1.4	1.2	08/08/2016	9%
Bond PSM 7% 2014-2017	3.0	3.0	1.8	1.3	09/05/2017	7%
Bond PSM 7% 2015-2020	6.4	2.1	1.3	0.8	09/07/2020	7%
Convertible bond PSM 2015-2021	9.9	5.0		5.0	06/12/2021	7%
Total	**21.9**	**12.6**	**4.4**	**8.2**		

Source: Company data – Note: The bond Primi sui Motori 9% 2013-2016 was fully reimbursed in August 2016

Details of capital increases

Capital increase	Date	Approved	Shares subscribed	Price (€)	Amount subscribed (€)
IPO	2012	*275,000 shares*	159.866	22,0	3.517.052
Newly issued shares			*127.929*	*22,0*	*2.814.438*
Vendor placing			*31.937*	*22,0*	*702.614*
Share capital increase	2012		31.223	22,0	686.906
Share capital increase	2013	*144,894 shares*	76.818	21,0	1.613.178
Share capital increase	2013		9.762	21,0	205.002
Warrant exercise PSM 2012-2015	2014		27.293	24,0	655.032
Warrant exercise PSM 2012-2015	2014		8.980	24,0	215.520
Share capital increase	2014	*173,830 shares*	21.992	22,5	494.820
Share capital increase	2014		900	22,5	20.250
Warrant exercise PSM 2012-2015	2015		107.250	16,0	1.716.000
Warrant exercise PSM 2012-2016	2015		40	11,5	460
Share capital increase	2016	*2,813,709 shares*	1.022.310	1,74	1.778.819
Share capital increase	2016		12.410	1,74	21.593
Share capital increase	2016		579.511	1,74	1.008.349
Total (not including vendor placing)					**11.230.368**

Source: Company data – Note: the number of shares subscribed in 2016 does not include non-cash underwritings

Cash absorption until 2015 due to operating losses

Current operations cash flow neutral in H1 2016

Consolidated Cash flow

€m	2015	H1 2016
EBIT	**(4.2)**	**0.1**
D&A	0.9	0.4
Goodwill amortization	0.3	0.2
Cash flow from operations	**(2.9)**	**0.6**
Trade Working Capital	0.4	(0.7)
Overdue trade receivables	0.8	(0.1)
Writedown of overdue receivables	(1.7)	(0.6)
Other assets and liabilities	0.6	0.5
Capex	(0.5)	(0.3)
Goodwill	0.0	0.0
Cash flow minus capex and investments	**(3.3)**	**(0.5)**
Interest	(1.5)	(0.8)
Depreciation of marketable securities	(0.1)	0.0
Capital increase	1.8	2.2
Net cash flow	**(3.2)**	**0.8**
Net (Debt) / Cash - Beginning	(7.4)	(10.6)
Net (Debt) / Cash - End	(10.6)	(9.7)
Change in Net (Debt) / Cash	**(3.2)**	**0.8**

Source: Company data

Ratio analysis

KPIs	2014	2015	H1 2016
ROE	-66.1%	-163.0%	-133.8%
Net Income (Loss) / Market Cap	-14%	-63%	-39%
ROS (EBIT/Revenues)	-10.5%	-45.9%	1.1%
ROIC (NOPAT/Invested Capital)	-11.8%	-32.0%	1.3%
DSO - current receivables	149	213	152
DSO - total receivables	327	490	328
DPO	109	119	114
TWC / Revenues	21.1%	33.8%	27.7%
Tot. TWC (overdue included) / Revenues	78.2%	120.3%	97.3%
Net Debt (Cash) / EBITDA	n.m.	n.m.	7.8x
Net Debt (Cash) / Equity	1.2x	6.5x	4.0x
Debt / (Debt+Equity)	54%	87%	80%
Cash flow from operations / EBITDA	n.a.	n.m.	100%
FCF / EBITDA	n.a.	n.m.	n.m.

Source: Company data

9. CORPORATE STRATEGY

Recovery plan

A huge market potential albeit a bad-debt burden

On the operations side, PSM is aware of its growth opportunities and intends to improve its positioning in the web marketing industry for the Italian SME universe, where Internet penetration and opportunities of digitalization show an unexploited potential and there is room to gain market share also through consolidation of the competitive arena.

Actions

In 2015 PSM started a process of business restructuring, to recover profitability.

- Cuts in overhead and fixed costs
- Bond rescheduling
- Outsourcing of repetitive work to external service providers

These actions resulted in:

- Higher customer retention rates and consequent follow-on business to existing customers (over 40% of total revenues)
- Flexibility to deliver higher volumes
- Production cost reduction and no production queues

In 2016 major actions have been:

- Optimization of the sales network
- Hiring of experienced managers whose mission was to develop the sales network and increase sales volumes, plus strengthen and improve the efficiency of the financial structure
- Accounting and financial management of overdue receivables and cash shortage

2017-2021 strategic guidelines

In November 2016, the Management of PSM announced its FY16 pre-closing figures: consolidated revenues in the range of €12-13m, with an EBITDA margin between 8-10%.

BP announced in February 2017

In February 2017, the Management of PSM announced some highlights regarding the 2017-2021 business plan.

Strategic guidelines:

- Sales force further expansion
- Addition of local SEO services designed to help local businesses stand out in the Search Engine Results Pages, by using local ranking factors such as name, address, phone number and customer reviews
- Focus on the customer segment of the “Top Spenders”
- Launch of a teleselling project, which follows the launch of the project .Best in H2 2016

Management financial highlights

In its guidance for 2017-2021, Management foresees consolidated revenues up to €20m in 2017. EBITDA is targeted at over €4m in 2017, with around 20% margin.

BP 2017-2021 (€m)	2017E	2021E
Revenues	**20.0**	**29.5**
EBITDA	**4.2**	**7.8**
Margin	*21%*	*26%*

Source: Company data

Based on Management's estimates, PSM could reach a market share of 2-3% in the next four years.

10. OUTLOOK

Will 2017 be the year of the turning point?

As we initiate our coverage, we view the PSM present picture that shows still a stretched financial situation, an operating breakeven in H1 2016, and management which is currently working on both operating and financial restructuring, through actions that seem to tackle the overdue receivables issue with better results. However, the amounts involved of outstanding financial debt, close to €10m at June 30th, 2016, and overdue receivables, over €8m at the same date, imply that the Company's value is and will be impacted by the expected success and timing of the recovery actions on receivables. In February 2017, PSM announced a capital increase for maximum €4m to be launched within December 2018 and a new program of corporate bonds for maximum €9.5m to be issued in more tranches until 2023. The corporate bond is intended to finance working capital needs and has been structured with a monthly reimbursement plan consistent with the Company's monthly cash flow needs. The proceeds of the bond issue will cover 90% of the credit collection of the 60 days prior to each installment expiry date. The "PSM 90 2017-2023" bonds, expected to be listed on ExtraMOT PRO, have 56 months duration and 5.5% fixed annual coupon. A first tranche of €2.18m was issued on February 23rd.

PSM management is confident that a substantial portion of pending receivables could be monetized in the short/mid-term and that the revised customers' contractual terms have substantially reduced the risk of continuous generation of additional overdues. This dynamic is only beginning to manifest its benefits and could impact future performance, even materially. Consequently, when long dated working capital items will release part, or all, of their cash employed, the Company's financial position is expected to benefit and revert closer to industry standards.

When looking at the forecasted figures represented by the PSM management in their February 7th announcement, that envisages target revenues of €20m in 2017 and almost €30m after a four-year period with an EBITDA of €4m to almost €8m in the same period, we have considered that:

- these targets, *per se*, do not look out of reach, given the market position and historical trends of the Company
- however, if put in relation with the described issues, the operating profit targets and especially the implied cash flow performance are based on material assumptions on the recovery of overdue receivables and short-term revenue growth
- the value performance of PSM is, and will be, heavily driven by the interaction of the said two major recovery effects
- within the interaction, a substantial absorption of slow-moving working capital items is crucial along the forecast horizon, to support with immediate cash the operating profit generation, that is structurally unable

of being quickly converted in cash, due to the 24-month revenue collection timing

- alternatively, the revenue and margin growth should be conversely sufficient to compensate any delay or failure in the overdue receivables recovery, so as to ensure a level of gross income and cash flow adequate to re-build the shareholders' value lost due to the troubled performance of the recent past

Valuation and rating

Market metrics critique

We have compared key data of PSM with other digital companies listed on AIM Italia, in order to evaluate the consistency of metrics and other indicators by available market data. It is common understanding among analysts that when the financial debt load is higher than the industry range or than a level that does not imply an excessive financial risk, one of the predictable consequences could be that calculations of enterprise values, market multiples or DCF formula components might be distorted by the excess weight of financial debt and its originating items such as poor quality of earnings or deteriorating balance sheet items.

In the PSM case, we note that major distortions are represented by illiquid/slow moving assets (overdue receivables), and limited operating cash flow contribution from operations, again consequence of overdue receivables. From a value assessment point of view, we notice that the initial IPO capitalization of over €20m has dropped to under €10m, *de facto* reflecting losses on receivables and corresponding increase of financial debt. When one calculates Enterprise Value as sum of capitalization and financial debt, the resulting figure should be read in two ways, in our view:

- the right valuation of a debt-free enterprise (or with debt aligned to working capital) with a market position and service capabilities similar to PSM
- a value put "on hold", that incorporates a partial adjustment for the credit risk, but at the same time is confident of a better future performance.

The inherent market sentiment, in our perception, is that any adjustment to the enterprise value for the excess debt could be compensated by expectations of recovery and continuation of the performance improvement of H1 2016. A due warning is that subjectivity is inevitable in any quantification assumption.

The following chart shows how the Enterprise Value (EV) leads to multiples consistent with the reference segments illustrated in the annex dedicated to comparable companies profiles and analyses, assuming the success of PSM management actions and plan guidelines or at least a satisfactory combination of overdue receivables collection together with profitable operations.

Implied multiples and target performance

Current EV based on capitalization	
Market Cap (€m) - 2.3.2017	8.8
Net Debt (€m) - H1 2016	9.7
Minorities (€m) - H1 2016	0.4
Enterprise Value (€m)	18.9

Current capitalization implied multiples	2016E - high	2016E - low	2016 dummy	2017E	2021E
Current Enterprise Value (€m)	18.9	18.9	18.9	18.9	18.9
Revenues (€m)	13.0	12.0	13.6	20.0	29.5
EBITDA (€m)	1.3	1.0	1.0	4.2	7.8
EBITDA Margin	*10%*	*8%*	*7%*	*21%*	*26%*
EV/Revenues	1.5x	1.6x	1.4x	0.9x	0.6x
Operating peers and Digital AIM Italia companies	*1.3x*	*1.3x*	*1.3x*	*1.1x*	*n.a.*
EV/EBITDA	14.5x	19.7x	18.9x	4.5x	2.4x
Operating peers and Digital AIM Italia companies	*3.9x*	*3.9x*	*3.9x*	*4.3x*	*n.a.*

Source:

- 2016E(high and low) - 2017E-2021E key financials as estimated by the Company
- 2016 dummy assumes for H2 2016 the same results as in H1 2016
- Net debt and minorities from H1 2016 financial statements
- Market cap at 02/03/2017 from S&P Capital IQ data

Subjective values, waiting for recovery actions outcome

Considering the level of the uncertainties involved and the materiality of the figures to which these uncertainties are referred, we would not deem sufficiently reliable the application of the usual analytical or market valuation methodologies, although suitable in principle, given the high subjectivity of any assumption on short-term cash flows and income, or on any normalized net or operating profits. As an example of sensitivity, a 70% recovery on overdues would reduce the financial debt to a level backed by billable revenues, so minimizing the financial risk and presumably boosting value. Conversely, a recovery limited to 10/20% could call for a substantial capital injection, if not altogether raising questions about the ability of the Company to continue as a going concern.

Accordingly, we are not, for the time being, in a position to assign a rating based on the information available. We will reconsider our conclusions after the publication of the 2016 year-end financials and of additional information on the revenues and recovery actions trends.

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

ANNEX: PEER GROUP ANALYSIS

Selection criteria of industry players

- Business mix with specialization in SEO
- Digital offering designed for SMEs and SoHos

The selected peers have been segmented in three groups:

- **Operating peers -** listed companies which operate in the same business and serve the same target market (small businesses), better comparable as per business model, technology and target market: Axélero, Italiaonline, Solocal
- **International industry players -** large and diversified industry players operating internationally, with specialization on digital services for small businesses and a more articulated product suite. Established businesses with high operating margins (20-30% EBITDA margin): Wix.com, Web.com, Endurance, GoDaddy
- **AIM Italia peers -** Italian companies listed on AIM, comparable as per digital products business model, size, geographical scope and stock market liquidity: Axélero, DigiTouch, Expert System, MailUp, Softec, Triboo

Key data comparison

The following chart shows a sample of key data and financial metrics of the selected Operating peers.

Operating peers (2016E)	axélero	Italiaonline	Solocal	*Avg.*
EV/Revenues	1.3x	0.5x	1.4x	***1.1x***
EV/EBITDA	3.9x	2.4x	5.1x	***3.8x***
EV/EBIT	8.4x	11.8x	6.9x	***9.1x***
P/E	11.7x	146.1x	2.3x	***n.m.***
Market Cap (€m)	39.7	271.3	119.9	
Net (Debt)/Cash + Min. (€m)	-6.7	110.9	-1,043.3	
Enterprise Value (€m)	46.4	160.4	1,163.2	
Revenues (€m)	46.9	396.0	808.3	
EBITDA (€m)	12.0	65.5	229.6	
EBITDA Margin	*26%*	*17%*	*28%*	***24%***
EBIT Margin	*12%*	*3%*	*21%*	***12%***
Net Income Margin	*7%*	*0.5%*	*7%*	***7%***

Source: EnVent Research on S&P Capital IQ data – Market caps at 31/12/2016; 2016E key financials as estimated by the respective Research Analysts - Disregarded data is dot-bordered and in grey.

Data relative to low profitability, excess debt or loss-making companies have been disregarded as considered non-meaningful, to avoid unreliable multiples.

Main similarities and differences

Among the selected Operating peers, Axélero is the closest one, in terms of size, business model and stock market liquidity, while Italiaonline and Solocal are much larger in size. Operating profitability in the industry sample is in the range of 20-30% on revenues.

Market multiples

Comparables	EV/REVENUES 2015	EV/REVENUES 2016E	EV/REVENUES 2017E	EV/REVENUES 2018E	EV/EBITDA 2015	EV/EBITDA 2016E	EV/EBITDA 2017E	EV/EBITDA 2018E
Primi sui Motori	**2.5x**	**n.a.**	**n.a.**	**n.a.**	**neg.**	**n.a.**	**n.a.**	**n.a.**
Operating peers								
axélero	2.9x	1.3x	1.1x	1.0x	11.3x	3.9x	3.7x	3.4x
Italiaonline	0.2x	0.5x	0.5x	0.5x	3.5x	2.4x	2.8x	2.5x
Solocal	1.5x	1.4x	1.5x	1.5x	5.5x	5.1x	5.3x	5.2x
Mean	**1.6x**	**1.1x**	**1.0x**	**1.0x**	**6.8x**	**3.8x**	**3.9x**	**3.7x**
International industry players								
Wix.com	3.9x	8.6x	5.9x	4.6x	neg.	n.m.	n.m.	19.2x
Web.com	2.6x	2.1x	2.1x	2.0x	12.6x	9.3x	8.1x	7.4x
Endurance	3.5x	2.9x	2.7x	2.6x	13.5x	11.9x	9.6x	9.0x
GoDaddy	1.9x	2.1x	1.8x	1.5x	23.4x	8.9x	7.4x	6.0x
Mean	**3.0x**	**3.9x**	**3.1x**	**2.7x**	**16.5x**	**10.0x**	**8.4x**	**10.4x**
AIM Italia Digital companies								
axélero	2.9x	1.3x	1.1x	1.0x	11.3x	3.9x	3.7x	3.4x
DigiTouch	1.3x	0.7x	0.6x	0.5x	7.0x	3.6x	3.5x	3.4x
Expert System	3.0x	2.3x	1.9x	1.7x	neg.	n.m.	13.4x	7.9x
MailUp	1.3x	0.8x	0.7x	0.6x	8.0x	6.1x	4.9x	4.1x
Softec	1.0x	n.a.	n.a.	n.a.	neg.	n.a.	n.a.	n.a.
Triboo	1.0x	2.0x	1.9x	1.8x	5.4x	6.8x	6.7x	6.1x
Mean	**1.7x**	**1.4x**	**1.2x**	**1.1x**	**7.9x**	**5.1x**	**6.4x**	**5.0x**
Mean w/out extremes	**1.6x**	**1.4x**	**1.2x**	**1.1x**	**7.5x**	**5.0x**	**5.1x**	**4.5x**
Median	**1.3x**	**1.3x**	**1.1x**	**1.0x**	**7.5x**	**5.0x**	**4.9x**	**4.1x**

Source: EnVent Research on S&P Capital IQ data, update: 02/03/2017

Profile of selected listed companies

Operating peers

Axélero. Internet company listed on AIM Italia. Develops digital marketing and communication solutions to improve the online visibility of SMEs and SoHos.
2015 revenues: €20m
Comparability: High

Italiaonline. Listed on the Italian Stock Exchange. Provides digital advertising services such as solutions to manage Web presence; Website and e-commerce services. Formerly known as Seat Pagine Gialle.
2015 revenues: €377m
Comparability: Average-high

Solocal. France-based, provides digital local communication services such as local search and programmatic advertising services, including display advertising, hosting and SEO, digital marketing technologies, such as Websites and their contents, Web

design turnkey solutions, transactional tools of PagesJaunes Resto and PagesJaunes Doc. Also offers publishing, distribution and sale of advertising spaces in the PagesJaunes and PagesBlanches directories and phone directory. Solocal has a partnership with Facebook France to develop a local online communication solution for SMEs and microbusinesses.
2015 revenues: €878m
Comparability: Average-low

International industry players

Wix.com. Web development platform based in Israel. The cloud-based platform empowers businesses, organizations, professionals and individuals to take their businesses, brands and workflow online. Wix.com is early in its lifecycle, given that, although founded in 2006, the majority of revenue growth has occurred since 2011, so it is growing faster compared to its peers (+34% CAGR 15-18E) and is still yet to generate profits (operating losses in FY2014-2015).
2015 revenues: €187m
Comparability: Low (as per size)

Web.com. US technology company providing value-added services such as web hosting, website design, social media management and sales-lead generation. Web.com is a do-it-for-me service focused on helping its small business customers sell and market their products, which helps the company drive ARPU growth.
2015 revenues: €500m
Comparability: Low (as per size)

Endurance. US provider of cloud-based solutions for small businesses. Products include domain name registrations and value-added solutions such as SEO and SEM tools and website analytics. Endurance is growing quickly through acquisitions, so it could be difficult to assess organic growth trends. At the end of 2015, acquired Constant Contact, a provider of an e-mail marketing platform.
2015 revenues: €683m
Comparability: Low (as per size)

Go Daddy. US technology company dedicated to small businesses and Registrar with more than 14m customers and 61m domain names under management at the end of 2015. Its offering includes value-added business applications for e-mail marketing, domains and website builder, workspace.
2015 revenues: €1.5bn
Comparability: Low (as per size)

AIM Italia peers

DigiTouch. Digital advertising and marketing firm specialized in a diverse range of Ad Tech market segments. Business units: mobile advertising, performance

advertising, data profiling, verticals (mortgages, automotive).
2015 proforma revenues: €26m
Comparability: Average-high

Triboo. Digital advertising company. Core business is brand awareness services and performance advertising. Also publishing products.
2015 revenues: €34m
Comparability: Average-low

Softec. Provides digital marketing solutions in the segments: Agency, Performance, Social and Platform.
2015 revenues: €7m
Comparability: Average-low

DHH. Established in July 2015, DHH is a tech company whose mission is to create the Internet service platform of the emerging markets of Europe to provide SMEs with a comprehensive multi-suite of digital solutions aimed at establishing, building and increasing online presence and visibility. DHH is an aggregator of web hosting companies located in Slovenia, Italy, Croatia and Serbia offering domain & hosting services.
2015 proforma revenues: €4m
Comparability: Average-low

Expert System. Developer of multilingual semantic analysis platforms dedicated to big data intelligence and information management.
2015 revenues: €20m
Comparability: Low

MailUp. Specialized in digital direct marketing, has developed a platform of cloud computing (Software as a Service - SAAS) used by small, medium and large companies for the assisted creation, fast sending and monitoring of email and SMS.
2015 proforma revenues: €19m
Comparability: Low

Vetrya. Development and implementation of innovative solutions and services dedicated to broadband telecommunications networks, multimedia content delivery platforms in multi-mode screen, media asset management, mobile entertainment, mobile payment, digital advertising, big data, Internet TV, IoT.
2015 revenues: €37m
Comparability: Low

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