PRISMI INNOVATIVE DIGITAL INDUSTRY

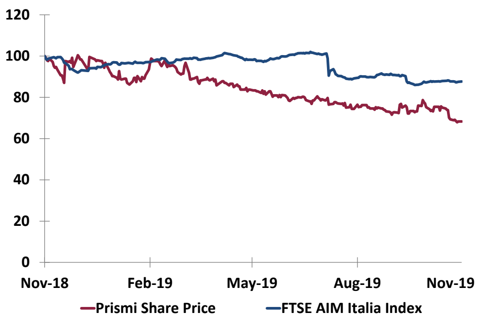
H1 2019 growth unable to counteract financial uses, more selectivity on customer contracts from now on

UNDERPERFORM

Current Share Price (€): 1.68

Target Price (€): 1.27

Prismi - 1Y Performance



Source: S&P Capital IQ - Note: 19/11/2018=100

Company data

ISIN number	IT0004822695
Bloomberg code	PRM IM
Reuters code	PRSM.MI
Share Price (€)	1.68
Date of Price	18/11/2019
Shares Outstanding (m)	12.6
Market Cap (€m)	21.1
Market Float (%)	74.9%
Daily Volume	26,160
Avg Daily Volume YTD	17,138
Target Price (€)	1.27
Discount (%)	-24%
Recommendation	UNDERPERFORM

Share price performance

	1M	3M	1Y
Prismi - Absolute (%)	-9%	-9%	-32%
FTSE AIM Italia (%)	1%	-2%	-12%
1Y Range H/L (€)		2.47	1.67
YTD Change (€) / %		-0.77	-31%

Source: S&P Capital IQ

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H1 2019: Moderate revenue growth, costs and interest bring losses. Receivables still driving up financial debt.

H1 2019 shows reduction in volumes driven by improved contract selection and schemes, slowing down revenue growth after two double-digit years, together with some non-recurring operating costs. Revenue growth flattened (+7% vs. 60% in H1 2018), reported EBITDA margin down from 19% to 13%; write-downs of overdue receivables €1m, provisions for tax and social security penalties €0.3m and financing cost €1.3m led to €2.2m net loss. In the six months, receivables grew to €34m, of which €9m overdue, vs. €22m LTM revenues and €5.8m consolidated equity. Financial debt increased to €27.5m, from €25.4m at 2018 year-end. Operations during the six months absorbed €4m cash.

Key indicators keep warning about financial risk

KPIs	2017	2018	H1 2019
Net Income (Loss) / Market Cap	-35%	-7%	-15%
DSO - total receivables	452	470	448
Tot. TWC & overdues / Revenues	124%	134%	141%
Net Debt / Revenues	1.3x	1.2x	1.2x
Net Debt / EBITDA	63.5x	12.9x	17.6x
Net Debt / Equity	8.1x	4.3x	4.7x

Source: EnVent Research on Company data - Note: H1 KPIs calculated on LTM economics

Full year 2019 targets not confirmed

Management has communicated of being unable to confirm the revenue and EBITDA targets for 2019 as set last February during the release of 2019-23 management targets. Management actions undertaken on the revenue side and on G&A cost cutting are expected to show their effects in the short/mid-term, together with the €20m securitization program which started in last May. After full year 2019 accounts we will assess the ramp-up delay on the business plan targets achievement.

Target Price €1.27 per share (from €2.53), rating UNDERPERFORM (from NEUTRAL)

We have revised our FY19 estimates after H1 fundamentals and management guidance for year-end. Given certain most critical indicators such as the level of cash use and the weight of financial position over other fundamentals, we see too subjective any extension of the projection period and leave 2020E economics mostly unchanged. The debt load generated by receivables implies financial risk, evidenced by relevant ratios, and squeezes down any equity value indicated by valuation models, despite EV/Revenues on the high-side within the industry, 17x EBITDA. The updated DCF yields a TP of €1.27 per share (1.8x implied EV/Revenues), 24% discount on current share price of €1.68 per share, from €2.53 of our prior note, assigning an UNDERPERFORM rating on the stock (from NEUTRAL).

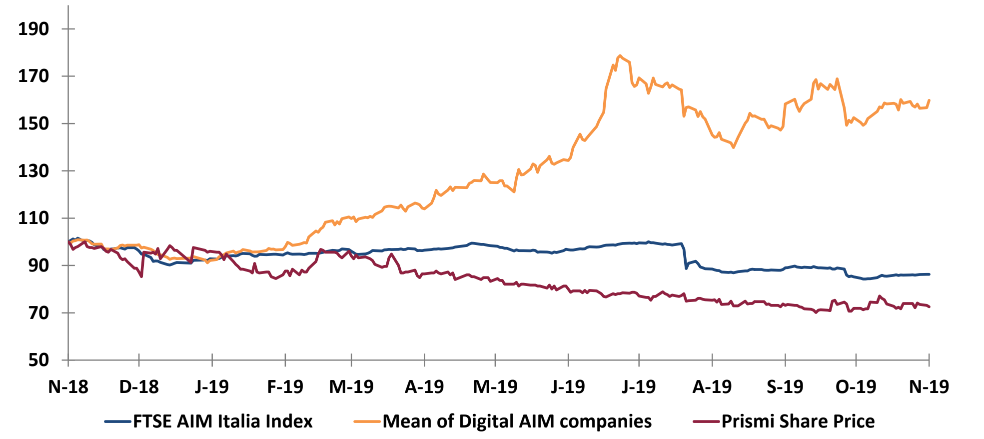
Key financials and estimates

€m	2017A	2018A	2019E	2020E
Revenues	**14.8**	**21.1**	**23.7**	**27.3**
EBITDA	**0.3**	**2.0**	**2.6**	**5.1**
Margin	*2.0%*	*9.3%*	*10.8%*	*18.7%*
EBIT	**(1.4)**	**0.3**	**0.8**	**3.6**
Margin	*-9.5%*	*1.2%*	*3.3%*	*13.1%*
Net Income (Loss)	**(3.4)**	**(1.6)**	**(0.8)**	**1.2**
Net Working Capital	**18.3**	**30.1**	**33.9**	**32.0**
Net (Debt) Cash	**(19.1)**	**(25.4)**	**(27.7)**	**(24.7)**
Equity	**2.4**	**5.8**	**7.3**	**8.5**

Source: Company data 2017-18A; EnVent Research 2019-20E

Market update

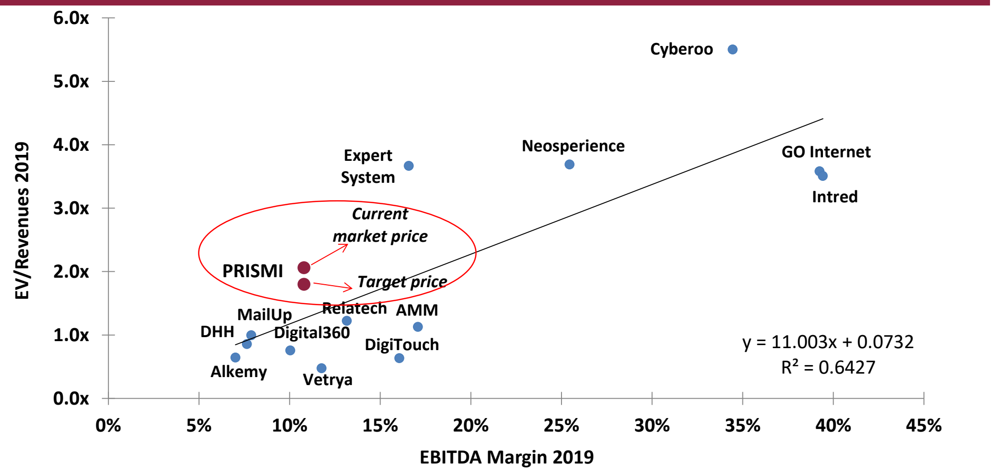
AIM Italia Digital companies - 1Y Market performance



Source: EnVent Research on S&P Capital IQ - Note: 05/11/2018=100

Prismi below AIM Italia Digital companies and the AIM Italia index

AIM Italia Digital companies - Regression analysis and Prismi target positioning

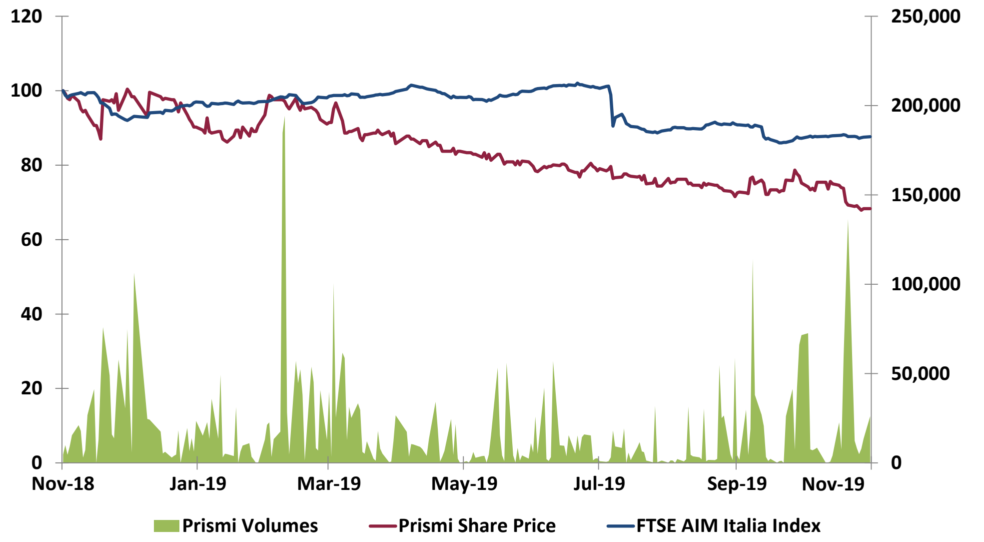


Source: EnVent Research on S&P Capital IQ, November 2019

Current EV/Revenues inconsistent with EBITDA for overweight of financial debt added to market cap

EV/Revenues implied in Target Price still at premium with respect to peers

Prismi - 1Y Share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 19/11/2018=100

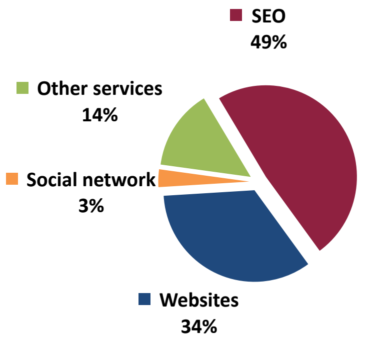
Prismi's shares in the last 12 months traded in the range €1.67-2.47, with beginning price at €2.46 and ending at €1.68, 32% drop

In the same period, the FTSE AIM Italia Index decreased by 12%

H1 2019: Flattened revenue growth, higher costs and financial interest led to a substantial loss. Financial debt still increasing.

Swapping growth for quality of revenues

Revenues by service, H1 2019



Source: Company data

Income statement analysis

H1 2019 consolidated revenues were €11.3m, up 7% compared to the same period a year earlier. Reduction in volumes, according to management, linked to a better contract selection and to changes in the customer payment scheme from 37 to 31 installments with an higher advanced payment, which had as effect a slowdown in revenue growth after two double-digit years. Other income of €0.6m includes mainly out-of-period revenues. On the revenue mix side, we note that the subsidiary Wellnet, which provides digital marketing services, received in H1 2019 orders worth €2.7m (+75% on H1 2018) and generated revenues for €2.4m (+63% on H1 2018) starting to become material at Group level. Wellnet has gained orders from prominent customers and is close to break-even. Reported EBITDA was €1.5m (12.6% margin), vs. €2m in H1 2018 (18.7% margin; -26%). EBITDA after all operating charges was €0.8m (6.6% margin; down by 48%). Personnel cost increased by 19%, from €3.4m to €4.0m, G&A increased by 58%, other operating costs more than doubled. Write-downs of overdue receivables were €1m; a provision for penalties and interest related to tax and social security debts was accrued for €0.35m.

A 73% rise in financing costs, mainly driven by interest on bonds issued in recent years, further contributed to a net loss of €2.2m. The Company explained €0.3m non-recurring costs before EBITDA and €2m one-off or extraordinary costs after EBITDA as the main contributors to the period loss.

Revenues +7%

Consolidated Profit and Loss

€m	H1 2018	H1 2019
Revenues	10.5	11.3
Other income	0.3	0.6
Total Revenues	**10.8**	**11.8**
YoY %	*57.1%*	*9.6%*
Cost of sales	(5.1)	(5.5)
Personnel	(3.4)	(4.0)
G&A	(0.4)	(0.6)
Other operating costs	(0.4)	(1.0)
EBITDA	**1.5**	**0.8**
Margin	*13.8%*	*6.6%*
D&A	(0.1)	(0.3)
Write-down of overdue receivables and provisions	(0.8)	(1.3)
EBIT	**0.6**	**(0.9)**
Margin	*5.5%*	*-7.2%*
Interest	(0.8)	(1.3)
EBT	**(0.2)**	**(2.2)**
Margin	*-1.6%*	*-18.4%*
Income taxes	(0.3)	(0.1)
Net Income (Loss)	**(0.5)**	**(2.2)**
Margin	*-4.5%*	*-18.8%*

Interest-driven loss

Source: EnVent on Company data

Reported EBITDA and EBITDA calculated by EnVent Research as per international practice

Reconciliation (€m)	H1 2018	H1 2019
Reported EBITDA	**2.0**	**1.5**
Non-recurring costs	(0.1)	(0.5)
Other charges	(0.4)	(0.2)
EBITDA as per EnVent Research	**1.5**	**0.8**

Source: EnVent Research

Balance sheet analysis

In the first six months of 2019, the overall stock of receivables kept growing from €31.4m to €34.0m, of which €9.0m overdue (vs. €8.3m as of December 2018). TWC expanded 29%, due to an increase in trade receivables (+21%) and a decrease in payables (-8%). Last 12 months TWC was 77% as a percentage of revenues, from 62% at year-end 2018. Including overdue and long-term receivables this ratio reached 151% in June 2019, vs. 142% at December 2018. Intangible assets included the capitalized leasing cost of the new Company headquarter in Modena. Net financial debt increased to €27.5m as of June 2019, from €25.4m at year-end 2018.

Current trade receivables increased more than revenues

Consolidated Balance Sheet

€m	H1 2018	2018	H1 2019
Current trade receivables	9.7	15.5	18.8
Trade payables	(2.8)	(3.1)	(2.9)
Trade Working Capital	7.0	12.4	16.0
Long-term and overdue trade receivables	16.6	15.9	15.2
Other assets (liabilities)	(1.5)	1.8	0.3
Net Working Capital	**22.1**	**30.1**	**31.4**
Intangible assets	1.5	1.7	3.3
Goodwill	2.8	2.8	2.8
Fixed assets	0.2	0.3	0.3
Financial investments	0.3	0.3	0.3
Non-current assets	**4.8**	**5.1**	**6.8**
Provisions	**(1.4)**	**(4.0)**	**(4.9)**
Net Invested Capital	**25.6**	**31.2**	**33.4**
Cash and cash equivalents	(1.7)	(1.2)	(2.9)
Bonds	21.0	26.1	28.5
Bank debt	0.6	0.4	0.4
Leasing debt	0.0	0.0	1.4
Other financial debt	0.6	0.1	0.1
Net Debt (Cash)	**20.5**	**25.4**	**27.5**
Equity	**5.0**	**5.8**	**5.8**
Sources	**25.6**	**31.2**	**33.4**

Source: EnVent on Company data

P&L breakeven, working capital and capex still draining cash

Consolidated Cash Flow

€m	H1 2018	H1 2019
EBIT	**0.6**	**(0.9)**
Current taxes	(0.3)	(0.1)
D&A	0.1	0.3
Write-down of overdue receivables	0.6	1.0
Cash flow from P&L operations	**1.1**	**0.4**
Trade Working Capital	(2.3)	(3.6)
Long-term and overdue trade receivables	(3.6)	(0.3)
Other assets and liabilities	1.4	2.4
Capex	(0.4)	(2.0)
Operating cash flow after working capital and capex	**(3.8)**	**(3.1)**
Interest	(0.8)	(1.3)
Paid-in capital	3.2	2.3
Equity adjustments	0.0	(0.1)
Net cash flow	**(1.4)**	**(2.2)**
Net (Debt) Cash - Beginning	(19.1)	(25.4)
Net (Debt) Cash - End	(20.5)	(27.5)
Change in Net (Debt) Cash	**(1.4)**	**(2.2)**

Source: EnVent on Company data

Ratio analysis

KPIs	H1 2018	2018	H1 2019
ROE	neg.	neg.	neg.
Net Income (Loss) / Market Cap	-20%	-7%	-15%
ROS (EBIT/Revenues)	5%	1%	-7%
ROIC (NOPAT/Invested Capital)	5%	1%	-5%
DSO - total receivables	371	470	448
DPO	69	77	60
TWC / Revenues - last 12m	37%	59%	72%
Tot. TWC & overdues / Revenues	126%	134%	141%
Net Debt / Revenues	1.1x	1.2x	1.2x
Net Debt / EBITDA	6.9x	12.9x	17.6x
Net Debt / Equity	4.1x	4.3x	4.7x
Debt / (Debt+Equity)	80%	81%	83%
Cash flow from P&L operations / EBITDA	71%	105%	49%
FCF / EBITDA	neg.	neg.	neg.

Source: EnVent on Company data - Note: H1 KPIs calculated on LTM economics

Overdue receivables

As of June 2019 overdue receivables were 9% higher than at December 2018, mainly caused by a 50%-increase in receivables up to 180 days overdue. The provision for doubtful receivables was expanded by 26% to €2.7m.

Aging of overdue trade receivables

€m / Days	180	360	540	720	>720	Total	Avg. DSO on sales
2013	1.2	1.0	1.3	1.2	5.0	**9.5**	408
2014	0.9	0.7	0.7	1.1	5.2	**8.6**	327
2015	0.9	0.5	0.5	0.4	5.7	**8.0**	490
2016	0.5	0.5	0.6	0.5	5.9	**8.0**	358
2017	1.0	0.4	0.3	0.4	6.2	**8.3**	452
2018	1.1	0.6	0.7	0.3	5.6	**8.3**	470
H1 2019	1.6	0.8	0.5	0.7	5.4	**9.0**	452

Source: Company data - Note: not consolidated figures

Period facts

€12m Bond issuance program

January 2019: PRISMI 85 2019-27 bond program approved up to €12m, 5% coupon. So far, four tranches have been issued for a total of €5.25m.

Securitization of trade receivables up to €20m

February 2019: Prismi approved the Business Plan 2019-23 and a securitization agreement without recourse up to €20m.

Bond repayment and new issuance

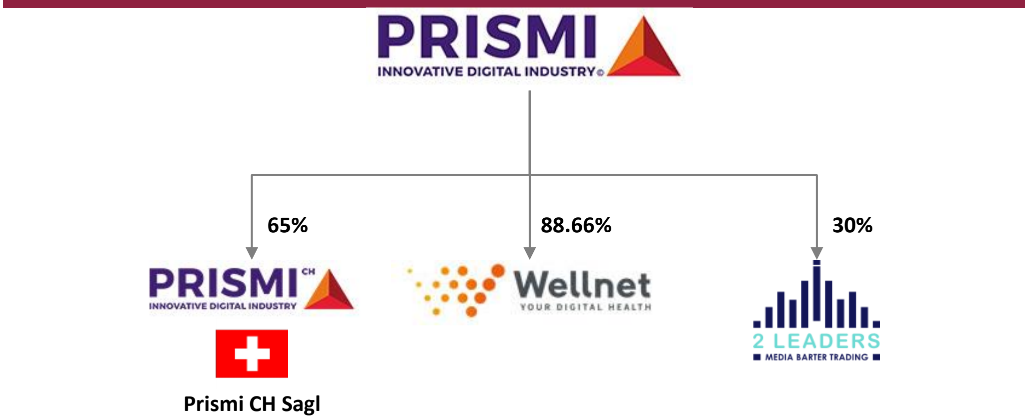
May 2019: PRISMI 5% 2019-21 bond approved up to €1m, 5% coupon, subscribed for €0.53m, of which €0.14m by cash and €0.39m through conversion of PRISMI 5% 2017-19 bond whose expiry date was May 2019. Outstanding €0.16m of PRISMI 5% 2017-19 bond was reimbursed.

Warrants, first exercise period

May 2019: During the exercise period ended May 2019, PRISMI 2018-20 warrants holders exercised 3,846,836 warrants and 1,923,418 shares were issued, in the ratio 1 new ordinary share/2 warrants for a total of €2.4m.

July 2019: Merger of InGrandiMenti Srl, 100% subsidiary, in Prismi SpA, which is expected to cut on G&A costs.
The updated group structure is:

Prismi - Group structure



Source: Company data - Update: November 2019

€7m bond issuance program

July 2019: PRISMI 3.5% 2019-20 bond approved up to €7m, 3.5% coupon. So far a first tranche worth €2m has been issued.

Management guidance

While the outlook for the second half of 2019 is to deliver an improvement from the same period in 2018, management has communicated of being unable to confirm the revenue and EBITDA targets for 2019 as set last February. In H1 2019, total revenues accounted for 43% of the Company's original full year-target of €27.2m and reported EBITDA accounted for only 28% of their original full year-target of €5.3m.

Estimates revision

Following the analysis of H1 2019 accounts and management guidance, we have revised our FY19 estimates to account for the flattened revenue growth and higher personnel cost and have aligned other P&L and B/S items to H1 2019 results.

Waiting for year-end accounts, we have left our revenue assumptions for 2020E unchanged, while profitability has been slightly realigned.

Down this year, back to the recovery path in one year

Management actions undertaken on the revenue side and on G&A cost cutting, which will show their effects in the short/mid-term, together with the securitization program recently approved which started only in last May and that is expected to lighten balance sheet critical items, show that Company's operations are progressing. The ramp-up delay on the business plan targets achievement could be limited to one year.

Wellnet towards the role of engine of the group

The strong growth of orders from prominent customers of the subsidiary Wellnet, which provides digital marketing services, anticipates a change in mix of revenues and profitability.

Change in estimates

	Revised		Previous		Change % (Rev. vs. Prev.)	
€m	2019E	2020E	2019E	2020E	2019E	2020E
Revenues	23.7	27.3	24.8	27.3	-5%	0%
EBITDA	2.6	5.1	4.6	5.4	-45%	-5%
Margin	*11%*	*19%*	*19%*	*20%*		
EBIT	0.8	3.6	3.2	4.0	-76%	-11%
Margin	*3%*	*13%*	*13%*	*15%*		
Net Income (Loss)	(0.8)	1.2	0.9	1.5	-190%	-17%
Net (Debt) Cash	(27.7)	(24.7)	(22.5)	(18.3)		
Net Debt / EBITDA	*10.9x*	*4.8x*	*4.9x*	*3.4x*		

Source: EnVent Research

Financial projections

Consolidated Profit and Loss

€m	2017A	2018A	2019E	2020E
Revenues	13.9	20.0	22.5	26.8
Other income	0.9	1.2	1.1	0.5
Total Revenues	**14.8**	**21.1**	**23.7**	**27.3**
YoY %	*17.0%*	*42.6%*	*12.0%*	*15.4%*
Cost of sales	(7.4)	(10.2)	(10.9)	(12.5)
Personnel	(5.4)	(7.0)	(8.1)	(8.1)
G&A	(0.6)	(1.3)	(1.1)	(1.1)
Other operating costs	(1.1)	(0.6)	(1.0)	(0.5)
EBITDA	**0.3**	**2.0**	**2.6**	**5.1**
Margin	*2.0%*	*9.3%*	*10.8%*	*18.7%*
D&A	(0.6)	(0.4)	(0.4)	(0.5)
Write-down of overdue receivables and provisions	(1.1)	(1.3)	(1.3)	(1.0)
EBIT	**(1.4)**	**0.3**	**0.8**	**3.6**
Margin	*-9.5%*	*1.2%*	*3.3%*	*13.1%*
Interest	(1.8)	(1.9)	(1.8)	(1.8)
EBT	**(3.2)**	**(1.7)**	**(1.0)**	**1.8**
Margin	*-21.8%*	*-7.9%*	*-4.3%*	*6.6%*
Income taxes	(0.2)	0.1	0.2	(0.6)
Net Income (Loss)	**(3.4)**	**(1.6)**	**(0.8)**	**1.2**
Margin	*-22.9%*	*-7.6%*	*-3.4%*	*4.5%*

Source: Company data 2017-18A; EnVent Research 2019-20E

Consolidated Balance Sheet

€m	2017A	2018A	2019E	2020E
Current trade receivables	7.3	15.5	17.3	16.5
Trade payables	(2.6)	(3.1)	(3.0)	(3.3)
Trade Working Capital	4.7	12.4	14.3	13.2
Long-term trade receivables	5.4	7.6	8.3	7.5
Overdue trade receivables	8.3	8.3	9.0	9.0
Other assets (liabilities)	(0.0)	1.8	2.3	2.3
Net Working Capital	**18.3**	**30.1**	**33.9**	**32.0**
Intangible assets	1.3	1.7	2.8	2.9
Goodwill	2.8	2.8	2.8	2.8
Fixed assets	0.2	0.3	0.2	0.2
Financial investments	0.4	0.3	0.3	0.3
Non-current assets	**4.6**	**5.1**	**6.1**	**6.2**
Provisions	**(1.4)**	**(4.0)**	**(5.0)**	**(5.0)**
Net Invested Capital	**21.4**	**31.2**	**35.0**	**33.2**
Net Debt (Cash)	**19.1**	**25.4**	**27.7**	**24.7**
Equity	**2.4**	**5.8**	**7.3**	**8.5**
Sources	**21.4**	**31.2**	**35.0**	**33.2**

Source: Company data 2017-18A; EnVent Research 2019-20E

Consolidated Cash Flow

€m	2017A	2018A	2019E	2020E
EBIT	**(1.4)**	**0.3**	**0.8**	**3.6**
Current taxes	(0.2)	0.1	0.2	(0.6)
D&A	0.6	0.4	0.4	0.5
Write-down of overdue receivables	1.5	1.4	1.0	1.0
Cash flow from P&L operations	**0.5**	**2.1**	**2.4**	**4.5**
Trade Working Capital	(0.4)	(7.7)	(1.9)	1.1
Long-term trade receivables	(5.4)	(2.3)	(0.7)	0.8
Overdue trade receivables	(1.6)	(1.4)	(1.7)	(1.0)
Other assets and liabilities	(0.8)	0.8	0.5	0.0
Capex	(1.1)	(0.9)	(1.4)	(0.6)
Operating cash flow after working capital and capex	**(8.9)**	**(9.4)**	**(2.9)**	**4.8**
Interest	(1.8)	(1.9)	(1.8)	(1.8)
Paid-in capital	3.6	4.9	2.3	0.0
Equity adjustments	0.0	0.2	0.0	0.0
Net cash flow	**(7.1)**	**(6.3)**	**(2.4)**	**3.1**
Net (Debt) Cash - Beginning	(12.0)	(19.1)	(25.4)	(27.7)
Net (Debt) Cash - End	(19.1)	(25.4)	(27.7)	(24.7)
Change in Net (Debt) Cash	**(7.1)**	**(6.3)**	**(2.4)**	**3.1**

Source: Company data 2017-18A; EnVent Research 2019-20E

Ratio analysis

KPIs	2017A	2018A	2019E	2020E
ROE	neg.	neg.	neg.	16%
Net Income (Loss) / Market Cap	-35%	-7%	-4%	6%
ROS (EBIT/Sales)	neg.	1%	3%	13%
ROIC (NOPAT/Invested Capital)	neg.	1%	2%	8%
DSO - total receivables	452	470	460	368
DPO	87	77	70	70
TWC / Revenues	32%	43%	59%	51%
Tot. TWC (overdues included) / Revenues	132%	142%	140%	111%
Net Debt (Cash) / Revenues	1.3x	1.2x	1.2x	0.9x
Net Debt (Cash) / EBITDA	63.5x	12.9x	10.9x	4.8x
Net Debt (Cash) / Equity	8.1x	4.3x	3.8x	2.9x
Debt / (Debt+Equity)	0.9x	0.8x	0.8x	0.7x
Cash flow from P&L operations / EBITDA	neg.	105%	95%	89%
FCF / EBITDA	neg.	neg.	neg.	95%

Source: EnVent Research

Valuation

The financial debt generated by overdue and slow moving trade receivables implies a high financial risk and makes impracticable comparisons with other listed digital companies, disabling the assessment of Company's value through market multiples. We confirm reliance on the DCF method. Despite the non-conservative assumptions maintained for our 2020 estimates, the size of financial debt squeezes down the equity value. H1 fundamentals do not permit to formulate different assumptions or to extend the projection period to properly calculate intrinsic values.

Discounted Cash Flows

We have applied the DCF model to our projections with the following assumptions:

- Risk free rate: 2% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, November 2019)
- Market return: 13.4% (3Y average. Source: Bloomberg, November 2019)
- Market risk premium: 11.4%
- Beta: Unlevered Beta 0.7; Re-levered 1.5 (Median Beta of selected comps. Source: Bloomberg, November 2019)
- Cost of equity: 19.1%
- Cost of debt: 5% (Source: Recent rate of issued corporate bonds)
- Tax rate: 24% (IRES)
- 70% debt/(debt + equity) as target capital structure
- WACC 10%
- Perpetual growth rate after explicit projections: 3%
- Terminal Value assumes a 19% EBIT margin

DCF Valuation

€m		2017A	2018A	2019E	2020E	Perpetuity
Revenues		**14.8**	**21.1**	**23.7**	**27.3**	**28.1**
EBITDA		**0.3**	**2.0**	**2.6**	**5.1**	**5.3**
Margin		*2.0%*	*9.3%*	*10.8%*	*18.7%*	*18.7%*
D&A		(0.6)	(0.4)	(0.4)	(0.5)	(0.5)
Writedown of overdue receivables and provisions		(1.1)	(1.3)	(1.3)	(1.0)	0.0
EBIT		**(1.4)**	**0.3**	**0.8**	**3.6**	**4.8**
Margin		*-9.5%*	*1.2%*	*3.3%*	*13.1%*	*17.0%*
Taxes		0.4	(0.1)	(0.2)	(1.0)	(1.3)
NOPAT		**(1.0)**	**0.2**	**0.6**	**2.6**	**3.4**
D&A		0.6	0.4	0.4	0.5	0.5
Writedown of overdue receivables		1.5	1.4	1.0	1.0	0.0
Cash flow from P&L operations		**1.1**	**1.9**	**2.0**	**4.1**	**3.9**
Trade Working Capital		(0.4)	(7.7)	(1.9)	1.1	(0.3)
Long-term trade receivables		(5.4)	(2.3)	(0.7)	0.8	0.0
Overdue trade receivables		(1.6)	(1.4)	(1.7)	(1.0)	0.0
Other assets and liabilities		(0.8)	0.8	0.5	0.0	0.0
Capex		(1.1)	(0.9)	(1.4)	(0.6)	(0.5)
Free cash flow		**(8.3)**	**(9.6)**	**(3.3)**	**4.4**	**3.2**
WACC	10%					
Long-term growth (G)	3%					
Discounted Cash Flows				**(3.3)**	**4.0**	
Sum of Discounted Cash Flows	**0.7**					
Terminal Value						**47.1**
Discounted TV	**42.9**					
Enterprise Value	**43.6**					
Net Debt as of 30/06/2019	(27.5)					
Minorities as of 30/06/2019	(0.1)					
Equity Value	**16.0**					

DCF - Implied multiples	**2018A**	**2019E**	**2020E**
EV/Revenues	2.1x	1.8x	1.6x
EV/EBITDA	22.1x	17.1x	8.5x
EV/EBIT	167.2x	55.9x	12.2x

Source: EnVent Research

Current EV based on capitalization	
Market Cap (€m) - 18/11/2019	21.1
Net Debt (€m) - 30/06/2019	27.5
Minorities (€m) - 30/06/2019	0.1
Enterprise Value (€m)	**48.7**

Current market price - Implied multiples		2018A	2019E	2020E
EV/Revenues		2.3x	2.1x	1.8x
EV/EBITDA		24.7x	19.1x	9.5x
EV/EBIT		186.7x	62.4x	13.6x
Premium	*12%*			

Source: EnVent Research

Target Price

The DCF valuation model on updated estimates yields a Target Price of €1.27 per share, from €2.53 of our prior note, a discount of 24% on the current share price. As a consequence, we assign an UNDERPERFORM recommendation on the stock, from NEUTRAL.

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

Prismi Price per Share	€
Target Price	1.27
Current Share Price (18/11/2019)	1.68
Premium (Discount)	**-24%**

Source: EnVent Research

Investment case

Nerd in the game of search

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
- Salesforce of 198 digital consultants (as of April 2019)

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 Primi Sui Motori
- 2009 -> A professional investor acquires a 20% stake in Primi Sui Motori
  -> 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
- 2017 -> Re-branding from Primi Sui Motori to Prismi; Acquisition of Wellnet and merger into it of 3ding Consulting and 2ThePoint
- 2018 -> Acquisition of the remaining 49% of the subsidiary InGrandiMenti that makes Prismi the sole owner of the web agency specialized in the training of LinkedIn sales navigators
  -> Peak turnover: €20m
- 2019 -> Merger of InGrandiMenti into Prismi

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, Prismi 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 become more important over the next few years, forcing businesses to focus on a local base and creating new opportunities for Prismi.

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 Prismi to increase its market share that is currently less than 1%. We deem expansion of 2-3% market share not to be unrealistic.

Company drivers

Among the market leaders in Italy. Prismi is one of the leaders in the Italian market for web presence and SEO digital products to SMEs and is positioned as the third player in terms of revenues. Prismi has built a nationwide salesforce of nearly 200 digital consultants to reach its target customer base - micro-enterprises and SMEs - which have significant growth potential. Going forward, Prismi is enriching its offer with integrated digital services to build a complete product suite.

Long-lasting customer relationships. Prismi'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.

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

Capital-free business model. Prismi, 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. Prior to 2014, Prismi accumulated substantial overdue receivables from customers who interrupted monthly payments for reasons ranging from financial troubles to service complaints. Changes to the payment terms changes brought the receivables issue under control but negatively impacted sales. The right balance between effective sales promotion tools and sound receivables management has been and continues to be a major challenge for Prismi.

Churn rate. Prismi'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 over the last years was consistently at the level of 5,000. 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.

Annex

Bonds

€m

Financial instrument	Issue size	Subscribed	Converted	Outstanding	Expiry	Rate
Bond Primi sui Motori 9% 2013-2016	2.6	2.6	1.4	0.0	08/08/2016	9.0%
Bond PSM 7% 2014-2017	3.0	3.0	1.8	0.0	09/05/2017	7.0%
Bond PRISMI 5% 2017-2019	1.0	1.0	-	0.0	08/05/2019	5.0%
Bond PSM 7% 2015-2020	6.4	2.1	1.8	0.3	09/07/2020	7.0%
Convertible bond PSM 2015-2021	9.9	9.9	-	9.9	06/12/2021	7.0%
Bond PSM 90 2017-2023	9.5	9.4	-	5.4	23/04/2023	5.5%
Bond PRISMI 85 2018-2024	10.5	10.5	-	8.3	23/04/2024	5.0%
Bond PRISMI 85 2019-2027	12.0	5.3	-	5.1	23/07/2024	5.0%
Bond PRISMI 5% 2019-2021	1.0	0.5	-	0.5	03/05/2021	5.0%
Bond PRISMI 3.5% 2019-2020	7.0	2.0	-	2.0	25/12/2020	3.5%
Total	**62.9**	**46.2**	**4.9**	**31.6**		

Source: Company data - Update: November 2019

Capital increases

Capital increase	Date	Approved	Shares subscribed	Price (€)	Capital raised (€m)
IPO	2012	*275,000 shares*	159,866	22.0	3.5
Newly issued shares			*127,929*	*22.0*	*2.8*
Vendor placing			*31,937*	*22.0*	*0.7*
Share capital increase	2012		31,223	22.0	0.7
Share capital increase	2013	*144,894 shares*	76,818	21.0	1.6
Share capital increase	2013		9,762	21.0	0.2
Warrant exercise PSM 2012-2015	2014		27,293	24.0	0.7
Warrant exercise PSM 2012-2015	2014		8,980	0.0	0.0
Share capital increase	2014	*173,830 shares*	21,992	22.5	0.5
Share capital increase	2014		900	0.0	0.0
Warrant exercise PSM 2012-2015	2015		107,250	16.0	1.7
Warrant exercise PSM 2012-2016	2015		40	11.5	0.0
Share capital increase	2016	*2,813,709 shares*	1,022,310	1.74	1.8
Share capital increase	2016		12,410	1.74	0.0
Share capital increase	2016		579,511	1.74	1.0
Share capital increase	2017	*2,300,000 shares*	1,116,999	1.74	1.9
Share capital increase	2017		637,983	1.74	1.1
Bond conversion into shares	2017		33,138	1.51	0.0
Bond conversion into shares	2017		33,138	1.51	0.0
Bond conversion into shares	2017		33,240	1.50	0.0
Bond conversion into shares	2017		132,960	1.50	0.2
Bond conversion into shares	2017		71,026	1.41	0.1
Bond conversion into shares	2017		118,090	1.27	0.1
Bond conversion into shares	2018		38,117	1.31	0.0
Bond conversion into shares	2018		38,738	1.29	0.0
Share capital increase	2018	*4,017,552 shares*	2,614,301	1.24	3.2
Share capital increase	2018		724,962	2.40	1.7
Warrants exercise PRISMI 2018-20	2019		1,923,418	1.24	2.4
Bond conversion into shares	2019		140,000	2.50	0.4
Total (not including vendor placing)					**22.5**

Source: Company data - Update: November 2019 - Note: the number of shares subscribed does not include non-cash underwritings

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Date	Recommendation	Target Price (€)	Share Price (€)
06/03/2017	NOT RATED	n.a.	1.75
28/07/2017	NEUTRAL	1.94	1.70
08/03/2018	UNDER REVIEW	n.a.	1.21
19/11/2018	NEUTRAL	2.05	2.46
26/11/2019	NEUTRAL	2.53	2.39
16/04/2019	NEUTRAL	2.53	2.16
18/11/2019	UNDERPERFORM	1.27	1.68

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