

CONFINVEST FL

Record year and a proposed dividend of Euro 0.1 p.s.

Confinvest closes a record 2020 with strong growth in revenues and Ebitda. Confinvest, market dealer of physical investment gold, just announced a very strong set of FY20 results with revenues up by 51% and an EBITDA adj that almost doubled (+88%). More in detail, revenues came in at Euro 41.1 m, +51% vs. FY19 (Euro 27.3 m) thanks to increased volumes across all business lines. Our FY20 revenue estimates were of Euro 50.5 m implying 2H20 revenues of Euro 30.6 m vs. Euro 21.2 m recorded. The stronger estimated growth anticipated the go-live of the Conto Lingotto and did not predict the Covid related restrictions in the last two months of the year. EBITDA was of Euro 1.42 m and grew by +73% yoy (Euro 0.8 m in FY19) and with an EBITDA margin of 46% (on First Margin) in line with FY19. EBITDA adjusted was of Euro 1.54 m, and with an EBITDA margin of 50%. Compared to our estimates of an EBITDA of Euro 2.5 m, actual results fell short mainly due to the lower sales volumes. Net Profit was of Euro 0.8 m (+34% yoy, 27% of First Margin), after Euro 0.4 m of taxes. Net Cash increased significantly and stood at Euro 2.72 m at the end of December 2020 (Euro 0.9 m in FY19) thanks mainly to good operating cash flow. Net Cash adjusted for gold inventory in excess of the physiological needs required by the business (10 days) was of Euro 4.23 m (Euro 3.55 m in FY19).

Proposed dividend at a pay-out ratio of 85%. Management proposed a dividend of Euro 0.10 p.s. for a total of Euro 0.7 m to be paid on March 24th, and with a dividend yield of 2.3% and a pay-out ratio of 85% (69% in FY19).

Positive outlook confirmed. Management stated that it is currently very difficult to assess the future dynamics of the Covid emergency and any fluctuations in gold prices and what impacts they may have on the Company's operations. However, the strong results in FY20 confirm the validity of the multichannel strategy perused and the launch of Conto Lingotto, represented an important step in the delivery of this strategy. This new product saw over 2,000 registrations of account holders in the first two months after going live in November.

Estimate revisions. Based on the FY20 results we reviewed our FY21-22 estimates. We believe that the delay in revenues compared to our previous estimates in FY20 will be partially recovered already in FY21. We now assume a FY21 yoy growth of 60% (40% previously).

Valuation: Following the update of our DCF model to include our new estimates and up-to-date risk-free rate and ERP, our model points to a new target price of Euro 6.22 p.s. (Euro 6.12 p.s. previously) and provides for an upside of 52% vs. current market price (Euro 4.08 p.s.).

Sector: Fintech

Target Price (Euro)	6.22 (6.12 pr.)
Market Price (Euro)	4.08
Market Cap (Euro m)	28.6
EV (Euro m)	28.8
<i>(as of February 17th 2021)</i>	

Share Data

Market	AIM ITALIA
Bloomberg	CFV-IM
ISIN	IT0005379604
N. of Shares	7,000,000
Free Float	53.58%
CEO	Giacomo Andreoli

Aim Positioning

FY 2019	Company	AIM Italia
VoP (Eu m)	27.3	40
Yoy	85%	18%
EBITDA %	47%	14%
ND/EBITDA (x)	-1.1	2.2
Market Data	Company	AIM Italia
Mkt Cap (Eu m)	29	48
Perf. YTD	-7%	8%
Free Float	29%	31%
ADTT YTD (Eu k)	112,868	127,871

Credit Risk Profile

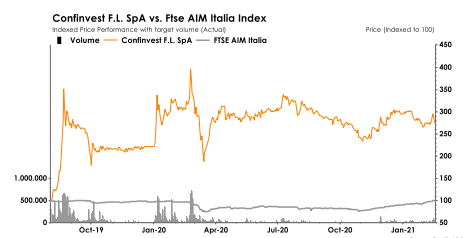
	CONFINVEST	Italian PMII Av
Wiserfunding Bond Rating Equivalent	BBB	B+

Performance

	1M	3M	6M
Absolute	-5.99%	5.70%	-10.23%
Relative	-13.29%	-14.00%	-25.73%
52-week High/Low (Eu)	5.99 / 2.79		

IR TOP RESEARCH

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Key Figures (Eu m)	Sales	Yoy %	First Margin	EBITDA	EBITDA %*	EBIT	Net Profit	Net Debt
2019A	27.3	+85%	1.8	0.8	47%	0.8	0.6	(0.9)
2020A	41.1	+51%	3.1	1.4	46%	1.2	0.8	(2.7)
2021E	65.8	+60%	5.3	3.2	60%	3.0	2.1	(3.5)
2022E	85.6	+30%	6.8	4.7	68%	4.4	3.1	(4.1)

*On first margin

KEY FIGURES

Profit&Loss Statement	2017A	2018A	2019A	2020A	2021E	2022E
Revenues	11.0	14.7	27.3	41.1	65.8	85.6
First Margin	0.9	0.8	1.8	3.1	5.3	6.8
EBITDA	0.5	0.3	0.8	1.4	3.2	4.7
EBIT	3.7	0.2	0.8	1.2	3.0	4.4
Financial Income (charges)	(0.1)	(0.1)	(0.2)	(0.0)	(0.1)	(0.1)
Pre-tax profit (loss)	0.2	0.1	0.6	1.2	2.9	4.3
Taxes	(0.1)	(0.1)	0.1	(0.4)	(0.8)	(1.2)
Net profit (loss) Group	0.1	0.1	0.6	0.8	2.1	3.1
Balance Sheet						
Net working capital (NWC)	2.7	1.8	3.1	1.8	2.1	3.0
Net fixed assets	1.9	2.1	2.3	2.4	2.7	2.8
M/L Funds	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
Net Capital Employed	4.6	3.9	5.4	4.1	4.8	5.8
Net Debt	1.6	0.8	(0.9)	(2.7)	(3.5)	(4.1)
Equity	3.0	3.1	6.3	6.9	8.2	9.9
Cash Flow						
EBIT	3.7	0.2	0.8	1.2	3.0	4.4
D&A	0.0	0.1	0.1	0.2	0.2	0.3
Tax	(0.1)	(0.1)	0.1	(0.4)	(0.8)	(1.2)
Change in M/L Funds	0.0	0.0	0.0	0.0	0.0	0.0
Gross Cash Flow	3.6	0.2	0.9	1.0	2.4	3.5
Change in NWC	0.4	0.9	(1.3)	1.4	(0.4)	(0.9)
Operating Cash Flow	4.0	1.2	(0.4)	2.4	2.0	2.6
Capex	(0.2)	(0.3)	(0.4)	(0.3)	(0.6)	(0.4)
Financial Income (charges)	(0.1)	(0.1)	(0.2)	(0.0)	(0.1)	(0.1)
Free Cash Flow	3.7	0.8	(0.9)	2.1	1.3	2.1
Dividend	0.0	0.0	0.0	(0.4)	(0.7)	(1.5)
Change in Equity	(2.6)	0.0	2.6			
Change in Net debt	1.1	0.8	1.7	1.6	0.6	0.6
Per Share Data						
Total shares out (mn) average	7.0					
EPS	0.01	0.01	0.09	0.12	0.30	0.44
DPS	n.m.	n.m.	0.1	0.1	0.2	n.m.
FCF	0.5	0.1	n.m.	0.3	0.2	0.3
Pay out ratio	0%	0%	69%	85%	70%	70%
Ratios						
EBITDA margin	56.0%	38.0%	46.5%	46.0%	59.9%	68.1%
EBIT margin	419.7%	28.4%	42.8%	39.6%	56.6%	64.4%
Net Debt/Equity (Gearing)	52.7%	25.3%	-14.5%	-39.6%	-42.2%	-41.4%
Net Debt/EBITDA	3.3	2.5	-1.1	-1.9	-1.1	-0.9
Interest cover EBIT	31.9	2.5	4.8	152.6	29.8	44.1
ROE	2.3%	2.1%	9.6%	11.9%	25.2%	31.4%
ROCE	82%	8%	13%	39%	79%	97%
Growth Rates						
Revenues	-31%	34%	85%	51%	60%	30%
EBITDA	-68%	-35%	156%	73%	122%	48%
EBIT	138%	-93%	216%	62%	144%	48%
Net Profit	-94%	-6%	840%	34%	153%	50%

Confinvest closes a record 2020 with strong growth in revenues and Ebitda. In spite of a social-economic context characterized by the Covid pandemic, Confinvest managed to post record results in FY20 thanks to its flexible business model able to adapt to a new environment.

More in detail, revenues came in at Euro 41.1 m, +51% vs. FY19 (Euro 27.3 m) thanks to an increase in volumes from the traditional business, the development of new products (Gold Plan and vaulting) and the successful implementation of its multichannel strategy, leading to an important increase in e-commerce sales (10% on total sales vs 5% in FY19). Our estimates assumed FY20 revenue growth of 85% to Euro 50.5 m. This implied revenues in 2H20 of Euro 30.6 m vs. Euro 21.2 m recorded. The stronger estimated growth anticipated the go-live of the Conto Lingotto (which we assumed at the beginning of 2H, whereas it actually took place in the later part) and did not predict the Covid related restrictions in the last two months of the year.

In terms of products, physical gold coin trading remains the greater source of revenues for the Company, with a 64% share over total sales, while gold bullion trading (LBMA certified) accounts for the remaining 36%. Revenues are mainly concentrated in Italy, with only 6% coming from Austria and Switzerland and accounting for Euro 2.3 m. The banking channel represents approx. 6% of revenues, in line with FY19 result, while the e-commerce segment doubled its quota, going from 5% in FY19 to 10% in FY20. The direct channel remains the Company's most relevant, accounting for 84% of total revenues (slightly decreasing when compared to FY19 share of 88%).

First Margin, real sales proxy for a market dealer, stood at Euro 3.08 m, +75% yoy vs. Euro 1.76 m in FY19 and Euro 4.0 m as of our estimates. First margin on sales stood at 7.5%, up by 100 bps vs. prior year.

EBITDA was of Euro 1.42 m and grew by +73% yoy (Euro 0.8 m in FY19) and with an EBITDA margin of 46% (on First Margin) in line with FY19. EBITDA adjusted for stock option/grants related costs of c. 0.12 m was of Euro 1.54 m, +88% yoy and with an EBITDA margin of 50%. Compared to our estimates of an EBITDA of Euro 2.5 m, actual results fell short mainly due to the lower sales volumes and a slightly lower contribution margin (8% as of our estimates).

Confinvest recorded an EBIT of Euro 1.22 m (+62% yoy, 40% of First Margin) after D&As of Euro 198 k mainly related to its tech platform established in 2020. Net profit was of Euro 0.8 m (+34% yoy, 27% of First Margin), after Euro 0.4 m of taxes.

Inventory, which we recall is made up by physical gold, presented a Book Value (FIFO) of Euro 2.17 m. Management underlined that the market value of the stock (calculated with LBMA's spot prices at 31/12/2020 of 49.51 €/g) was of Euro 2.23 m, with the difference between book and market value representing a potential marginality buffer.

Net Cash increased significantly and stood at Euro 2.72 m at the end of December 2020 (Euro 0.9 m in FY19). The increase was mainly to be attributed to good operating cash flow. Net Cash adjusted for gold inventory in excess of the physiological needs required by the business (10 days) was of Euro 4.23 m (Euro 3.55 m in FY19).

Proposed dividend at a pay-out ratio of 85% (70% in FY19). Management proposed a dividend of Euro 0.10 p.s. for a total of Euro 0.7 m to be paid on March 24th, and with a dividend yield of 2.3% and a payout ratio of 85% (69% in FY19).

Key Figures – Euro k

	FY 2020	FY 2019	YoY
Revenues	41,130	27,284	50%
First Margin	3,084	1,764	74%
Contribution Margin	3,059	1,703	79%
	<i>On First Margin</i>	<i>99%</i>	<i>97%</i>
EBITDA	1,419	820	73%
	<i>margin</i>	<i>46%</i>	<i>46%</i>
EBIT	1,221	755	62%
	<i>margin</i>	<i>44%</i>	<i>43%</i>
Net Profit	820	611	34%

	FY 2020	FY 2019	YoY
Net Working Capital (NWC)	1,763	3,115	-
Fixed net assets	2,397	2,316	-
Funds	(14)	(6)	-
Net Capital Employed	4,146	5,425	-
Net Debt (Cash)	(2,722)	(920)	-
Equity	6,868	6,346	-
Sources	4,146	5,426	-

Source: Company Data

Confirmed positive outlook

Management stated that it is currently very difficult to assess the future dynamics of the Covid emergency and any fluctuations in gold prices and what impacts they may have on the Company's operations. However, the strong results in FY20 confirm the validity of the multichannel strategy pursued and the launch of Conto Lingotto, represented an important step in the delivery of this strategy. We recall that the Conto Lingotto aims to involve an important number of users in Italy thanks to a targeted multi-channel advertising campaign. The launch in the Italian market will allow the expansion of the catchment area of Confinvest and to increasingly expand the base of banks with which the Company will be able to collaborate with this innovative solution. This new product saw over 2,000 registrations of account holders in the first two months after going live in November.

Estimate Revision. Based on the FY20 results we reviewed our FY21-22 estimates. We believe that the delay in FY20 revenues compared to our previous estimates will be partially recovered already in FY21. We now assume a FY21 yoy growth of 60% (40% previously). We also adjusted our assumptions for working capital to incorporate FY20 actual performance.

Estimates - Consolidated Income Statement – Euro m

	2020A	2021 Old	2021 New	2022 Old	2022 New
Sales	41.1	70.7	65.8	91.9	85.6
yoy	51%	40%	60%	30%	30%
First Margin	3.1	5.7	5.3	7.3	6.8
yoy	75%	40%	71%	30%	30%
Contribution Margin	3.1	5.1	5.1	6.7	6.7
On First Margin	99%	91%	98%	91%	98%
EBITDA	1.4	3.8	3.2	5.4	4.7
margin	46%	68%	60%	73%	68%
EBIT	1.2	3.6	3.0	5.1	4.4
margin	40%	64%	57%	69%	66%
Net Profit	0.8	2.6	2.1	3.6	3.1

Source: Company Data

Estimates - Consolidated Balance Sheet – Euro m

	2020A	2021 Old	2021 New	2022 Old	2022 New
Net Working Capital (NWC)	1.8	5.2	2.1	6.9	3.0
Fixed net assets	2.4	2.7	2.7	2.8	2.8
Funds	(0.014)	(0.0)	(0.037)	(0.1)	(0.1)
Net Capital Employed	4.1	7.9	4.8	9.7	5.8
Net Debt (Cash)	(2.7)	(1.5)	(3.5)	(2.0)	(4.1)
Equity	6.9	9.3	8.2	11.6	9.9
Sources	5.4	7.9	4.8	9.7	5.8

Source: Company Data

VALUATION

As there are no suitable peers for Confinvest and as we believe that some aspects of the business will only be captured when using a longer timeframe, we have chosen to use a DCF model for our valuation. Following the upgrade of our estimates, DCF rollover and the update of risk-free rate and ERP, our DCF model pointed at a target price of Euro 6.22 p.s., providing for an upside of 52% on current stock price. The target price does not consider a potential dilution for the incentive plans to Managers and employees which would have a total effect of approx. 1.5% on our valuation.

DCF model

Our DCF model yields a fair value of Euro 6.22 per share and was run using our FCF estimates of for the 2020E-24E explicit period and based on the following assumptions:

Ke calculation	
Perpetual growth rate	1.0%
Risk free rate (BTP 10Y 24 months average)	1.40%
β unlevered	0.83
Equity risk premium	6.68%
Ke	7.94%
Gearing ratio	0%

DCF Valuation		
<i>Euro '000</i>		
Sum of PV 2020-24 FCFs	9.0	22.1%
Discounted terminal value	31.8	77.9%
Enterprise Value	40.8	100.0%
Net Cash (FY20)	2.7	
Equity Value	43.5	
N. of outstanding shares (m)	7.00	
Fair Value p.s.	6.22	

CONFINVEST IN BRIEF - DRIVING THE DIGITAL GOLD EVOLUTION

Company profile

Confinvest F.L., founded in 1983, is an innovative SME and leader in the **trading of physical investment gold** (coins and bullion). The Company operates as a **gold dealer** in the retail market, where counterparties of the transactions are banks, privates (HNWI), corporates and other gold dealers. In Italy, Confinvest act as market maker with gold price quotations issued by the Company representing the official source. The current development strategy includes a **new digital solution (Conto Lingotto)**: a proprietary platform to offer the mass market the opportunity to invest liquidity in gold smartly and innovatively. Physical gold is an alternative Asset Class for a growing market that is estimated to amount to 1,000 Eu b. With its new value proposition Confinvest intends to play the role of **market innovator** and **first mover**. The Conto Lingotto was released in August 2020. In 2020 Confinvest recorded revenues of Euro 41.1 million, +50% vs. FY19 and an EBITDA of 1.4 m, 46% of First Margin. 94% of FY20 revenues were realized in Italy.

Innovation

The opportunity offered by the PSD2 and OPEN BANKING with API Economy has spurred Confinvest to develop CONTO LINGOTTO, an innovative platform for digital gold, that will allow clients to make investments in gold directly online through a proprietary APP, or through digital services offered in partnership with traditional financial system and Fintech operators. The Conto Lingotto concept has been designed to offer, to a large target group of customers, the opportunity to invest easily and quickly in physical gold, thanks to a digital and innovative user experience. Clients can make gold investments directly online as the platform is developed to provide all users with an innovative and smart solution to diversify their liquidity. The customer can access a Conto Lingotto account via an application for mobile devices or via a PC web interface. The Conto Lingotto solution can be customized and integrated (white label) for all the distribution network partners, and in particular Banks and Fintechs which will be able to offer clients to:

Reference Market

Over the the last 20 years, the price of gold increased from about 247 Eu/oz (January 1999) to an all-time high in September 2020. The World Gold Council estimates that the global stock market in 2018 amounted to 33.5 Eu b, while the European gold market is about 4.6 Eu b. Management estimates that the Italian physical gold market in 2018 amounted to approx. 0.4 Eu b. Italian cash deposits (approx. 1,000 Eu b) are an unallocated asset and represent a new potential market for Confinvest. The digital transformation of the financial sector, the APIs and the concept of Open Banking, together with the adoption of the PSD2 are changing the banking industry, allowing for the development of new sales channels, new partnerships, and new services.

Strategic guidelines

(i) R&D investments in the technology on which the new business model is based; (ii) development and launch of "Conto Lingotto", (iii) New partnerships with banks and Fintech companies to boost revenues by targeting a large potential pool of retail clients, (iv) Regional development through the opening of new direct points of sales or through the partnerships/franchises in selected strategic areas, and (v) internationalization.

Opportunities

Digital transformation: digital transformation, that is involving the financial sector, is a strong opportunity for the business model evolution.

First mover: Confinvest is the first Italian player to launch innovative gold investment services (based on technology).

Business model evolution: the business model is based on a mass market channels.

Italian bank accounts: the high cash holdings on bank deposit represent a potential investment in gold.

Track record: the Company has a track record of trading physical gold of over 35 years and acts as market maker for the Italian market.

Main Risks

Macroeconomic situation and evolution of the reference market

Reduction of the volatility of the gold price a reduction in the volatility of the gold price would reduce the number of transactions for Confinvest.

Competition risk Potential competitors on the digital channel could reduce profits for Confinvest.

Timing of integration Risk of delay in the timing of integration with bank platforms or in the development of the property Application.

Difficulty in changing the attitudes of traditional savers

IPO

Date: August 1st, 2019
Capital raised: Euro 3.0 m
Price: Euro 1.50
Capitalisation: Euro 10.5 m

SHARES (as of February 17th, 2021)

Code: CFV
Bloomberg: CFV:IM
ISIN: IT0005379604
Shares: 7,000,000
Price: Euro 4.08
Performance from IPO: +172%
Capitalisation: Euro 28.5 m
Free Float: 53.58%
NomAd: Integrae SIM
Global Coordinator: Integrae SIM

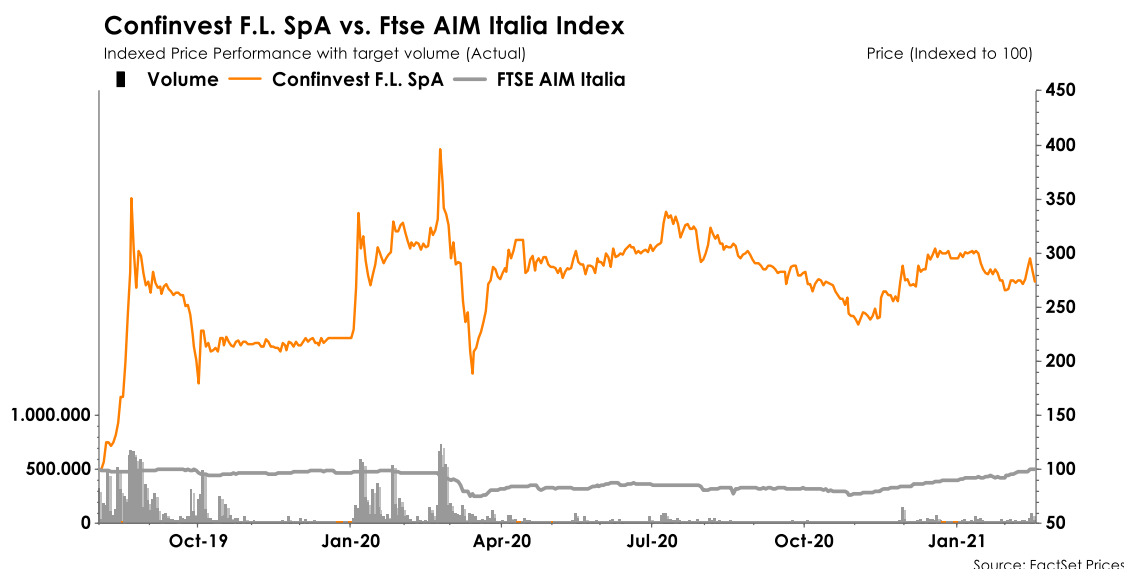
STOCK OPTION

In April 2020 the shareholders' meeting approved an incentive plan for employees and managers. The plan included a 2020-2022 Stock Option for a maximum of 500,000 option rights (conversion rate 1:1), and a stock option grant to employees for a maximum of 35,000 rights (conversion 1:1). In May the holders of 468,000 stock option rights communicated the renunciation of rights. There are hence currently 82,000 stock option rights and 35,000 stock option grants outstanding, for a total possible capital increase of 117,000 shares.

OWNERSHIP

Shareholder	n. of shares	%
Luciano Renato Avanzini	866,300	12.38%
Franco Buganè	866,300	12.38%
Sovereign S.r.l. (Giacomo Andreoli)	620,850	8.87%
Roberto Binetti	447,893	6.40%
Gabriele Villa	447,857	6.40%
Other 8 shareholders (<4%)	1,750,800	25.01%
Market	2,000,000	28.57%
Total	7,000,000	100.00%

STOCK PERFORMANCE



DISCLAIMER

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Date	Target Price	Market Price	Validity Time
18 February 2021	6.22	4.08	12 months
30 September 2020	6.12	4.16	12 months
7 April 2020	6.07	4.51	12 months
16 October 2019	3.53	3.21	12 months

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

Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IR Top premises.

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No other people or companies participated or anyhow contributed to the Research. Neither the members of the research team, nor any person closely associated with them have any relationships or are involved in circumstances that may reasonably be expected to impair the objectivity of the Research, including interests or conflicts of interest, on their part or on the part of any natural or legal person working for them, who was involved in producing the Research.

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