TXT E-SOLUTIONS

OUTPERFORM

Sector: Industrials

Price: Eu16.36 - **Target: Eu22.00**

Excellent Organic Growth in 3Q23, Positive View Confirmed

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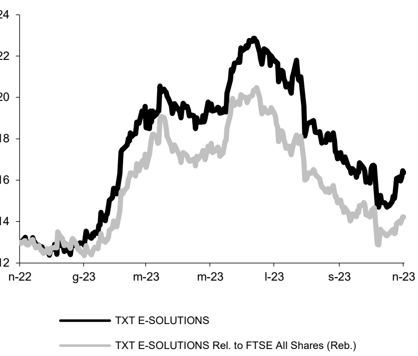
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 24.00 to 22.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-5.2%	-3.6%	-4.0%

Next Event FY23 Results
Results Out March 2024

TXT E-SOLUTIONS - 12M Performance



Stock Data			
Reuters code:			TXTS.MI
Bloomberg code:			TXT IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.2%	-12.3%	25.8%
Relative	-2.0%	-11.7%	10.7%
12M (H/L)			22.85/12.38
3M Average Volume (th):			19.76

Shareholder Data	
No. of Ord shares (mn):	13
Total no. of shares (mn):	12
Mkt Cap Ord (Eu mn):	213
Total Mkt Cap (Eu mn):	213
Mkt Float - Ord (Eu mn):	106
Mkt Float (in %):	50.0%
Main Shareholder:	
Enrico Magni (Laserline)	29.6%

Balance Sheet Data	
Book Value (Eu mn):	110
BVPS (Eu):	9.00
P/BV:	1.8
Net Financial Position (Eu mn):	-38
Enterprise Value (Eu mn):	239

- **3Q23 organic revenue growth at 15%, stronger than expected.** In 3Q23, revenues came to Eu52.1mn, 2.1% better than our estimates and up 74.3% YoY; like-for-like organic growth was 15% YoY, higher than our 13.5% forecast. EBITDA came to Eu7.5mn, 2.2% better than expected and up 72.4% YoY, with a 14.4% margin, broadly in line with 3Q22. Net debt was Eu45.8mn as at end-September 2023, Eu6.9mn higher than at the end of June because operating cash flow was offset by cash-out for M&A (Eu5.4mn) and the ongoing buyback (Eu3.4mn cash-out in 3Q23). As at end-September, treasury shares amounted to 11% of the capital.
- **Looking at the different business segments**. On top of the developments at Software Engineering (where revenues were up 13.4% at constant perimeter, driven in particular by the Aerospace & Defence market), quarterly organic growth was linked to the Digital Advisory division, which grew 43% organically thanks to the start-up and consolidation of operations on major tenders won in previous months. The Smart Solutions division also grew, albeit at a less frenetic pace (c.4%) but 2024 prospects remain good. Management expects to close further extraordinary deals by the end of the year to strengthen its Smart Solutions portfolio.
- **Management outlook.** For 4Q23 and 2024, management expects to maintain robust organic growth rates, which along with efficiencies in the organisational structure, will take annual margins above 14%. At the Smart Solutions division, the contribution from newly acquired Embedded Graphics will be consolidated from 4Q23. At the Digital Advisory division, after 4 quarters of very strong growth, the activity linked to HSPI's multi-year public tenders is expected to normalize from 4Q23, with growth remaining in double digits in 2024. Finally, for the Software Engineering segment, support for growth is expected to continue in areas such as Fintech, Industrial & Automotive, Aerospace, Defence & Aviation, the Public Sector and Telco & Gaming.
- **Change in estimates.** We have trimmed our 2023 organic growth estimate from 11% to 10%, mainly because we expect the ongoing integration of Ennova, consolidated since 4Q22, to be focused on margins rather than on fostering top-line growth. We are marginally improving our 2023/24 EBITDA margin forecasts. Below this line, we are slightly increasing financial charges. All in all, we are changing 2023 and 2024 EPS by -5.2% and -3.6% respectively.
- **OUTPERFORM, target Eu22.0 from Eu24.0.** Quarterly results were appreciable, especially in terms of organic revenue growth. After the recent stock performance, the valuation is very attractive, especially in relation to the expected growth rates. Our target revision is explained by assuming a 50bp higher risk-free rate.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	96	151	222	244	263
EBITDA Adj (Eu mn)	15	22	31	35	38
Net Profit Adj (Eu mn)	8	11	14	16	18
EPS New Adj (Eu)	0.675	0.934	1.176	1.324	1.479
EPS Old Adj (Eu)	0.675	0.934	1.241	1.374	1.540
DPS (Eu)	0.000	0.180	0.216	0.243	0.272
EV/EBITDA Adj	7.2	7.6	7.6	6.4	5.4
EV/EBIT Adj	10.5	11.2	11.2	9.1	7.6
P/E Adj	24.2	17.5	13.9	12.4	11.1
Div. Yield	0.0%	1.1%	1.3%	1.5%	1.7%
Net Debt/EBITDA Adj	0.6	1.7	1.2	0.7	0.2

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TXT E-SOLUTIONS – Key Figures

Profit & Loss (Eu mn)	2020A	2021A	2022A	2023E	2024E	2025E
Sales	69	96	151	222	244	263
EBITDA	9	15	22	31	35	38
EBIT	3	10	14	21	25	27
Financial Income (charges)	3	1	2	-1	-2	-2
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	6	10	16	20	23	25
Taxes	-1	-2	-4	-6	-6	-7
Tax rate	19.8%	24.0%	26.0%	28.0%	28.0%	28.0%
Minorities & Discontinued Operations	-0	0	0	0	0	0
Net Profit	5	8	12	14	16	18
EBITDA Adj	9	15	22	31	35	38
EBIT Adj	4	10	15	21	25	27
Net Profit Adj	4	8	11	14	16	18
Per Share Data (Eu)	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Total Shares Outstanding (mn) - Average	12	12	12	12	12	12
Total Shares Outstanding (mn) - Year End	12	12	12	12	12	12
EPS f.d	0.383	0.675	0.934	1.176	1.324	1.479
EPS Adj f.d	0.383	0.675	0.934	1.176	1.324	1.479
BVPS f.d	7.313	7.942	8.934	8.999	10.107	11.343
Dividend per Share ORD	0.040	0.000	0.180	0.216	0.243	0.272
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	10.4%	0.0%	19.3%	18.4%	18.4%	18.4%
Cash Flow (Eu mn)	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Gross Cash Flow	10	13	20	24	27	29
Change in NWC	-16	-3	-13	-8	-6	-4
Capital Expenditure	-1	-1	-3	-3	-4	-4
Other Cash Items	0	-0	-6	-11	0	0
Free Cash Flow (FCF)	-7	8	5	14	17	20
Acquisitions, Divestments & Other Items	-17	-25	-30	0	0	0
Dividends	0	-0	0	-2	-3	-3
Equity Financing/Buy-back	0	0	0	0	0	0
Change in Net Financial Position	-19	-31	-29	-0	14	17
Balance Sheet (Eu mn)	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Total Fixed Assets	47	81	116	108	102	96
Net Working Capital	21	24	37	45	51	55
Long term Liabilities	-5	-3	-5	-5	-5	-5
Net Capital Employed	64	102	148	148	148	146
Net Cash (Debt)	22	-9	-38	-38	-24	-7
Group Equity	85	93	109	110	124	139
Minorities	0	0	0	0	0	0
Net Equity	85	92	109	110	124	139
Enterprise Value (Eu mn)	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Average Mkt Cap	91	95	132	200	200	200
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	22	-9	-38	-38	-24	-7
Enterprise Value	69	104	170	239	225	207
Ratios (%)	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
EBITDA Adj Margin	12.5%	15.1%	14.8%	14.1%	14.4%	14.5%
EBIT Adj Margin	5.5%	10.3%	10.1%	9.6%	10.1%	10.4%
Gearing - Debt/Equity	-25.8%	9.8%	35.0%	34.8%	19.6%	5.2%
Interest Cover on EBIT	nm	nm	nm	15.3	11.2	12.4
Net Debt/EBITDA Adj	-2.6	0.6	1.7	1.2	0.7	0.2
ROACE*	6.0%	11.6%	11.1%	14.4%	16.7%	18.6%
ROE*	5.4%	8.9%	11.3%	13.1%	13.9%	13.8%
EV/CE	1.3	1.3	1.4	1.6	1.5	1.4
EV/Sales	1.0	1.1	1.1	1.1	0.9	0.8
EV/EBITDA Adj	8.1	7.2	7.6	7.6	6.4	5.4
EV/EBIT Adj	18.4	10.5	11.2	11.2	9.1	7.6
Free Cash Flow Yield	-3.1%	3.9%	2.4%	6.4%	7.9%	9.4%
Growth Rates (%)	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Sales	16.4%	40.2%	56.4%	47.3%	10.0%	7.7%
EBITDA Adj	22.2%	69.6%	53.3%	41.0%	11.9%	8.6%
EBIT Adj	-12.2%	165.5%	52.2%	41.1%	15.6%	10.6%
Net Profit Adj	950.1%	66.3%	52.9%	20.0%	12.7%	11.7%
EPS Adj	893.2%	76.2%	38.4%	25.8%	12.7%	11.7%
DPS	nm	nm	nm	20.0%	12.7%	11.7%

*Excluding extraordinary items Source: Intermonte SIM estimates

TXT e-solutions in Brief

Company description

TXT e-solutions is an international IT group, an end-to-end provider of consultancy, software services and solutions for: 1) the aerospace, aeronautics, and automotive sector, where it offers specific products and engineering services; 2) the fintech sector, where it focuses on software testing and quality services. Listed on the STAR segment of the Milan Stock Exchange since 2000, TXT has its head office in Milan

Management

Chairman: Enrico Magni
CEO: Daniele Misani
CFO: Eugenio Forcinito

Next BoD renewal: April 2026
BoD independent members: 4/7

Shareholders

Laserline SpA	30%
Managers	16%
Treasury Shares	7%
LVO Global AM	3%
Market	43%

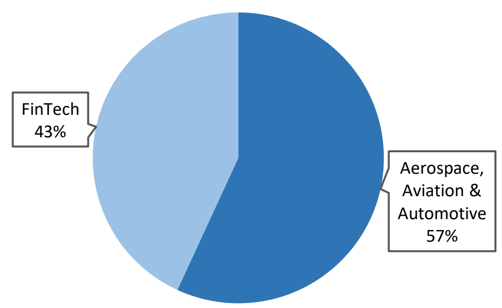
Strengths /Opportunities

- Multi-year experience in the digital domain
- Proprietary software portfolio
- Highly specialised workforce
- Solid M&A track record
- Strong balance sheet
- Geographical expansion & product diversification

Weaknesses /Threats

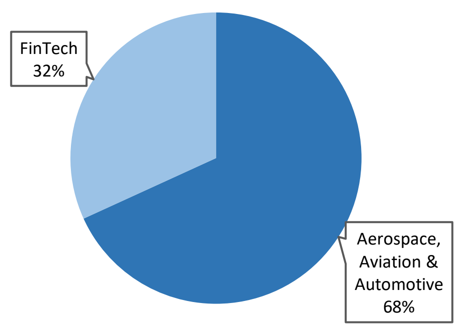
- High level of competition in the digital sector
- Business cyclicality, especially in the civil aviation sector
- Limited company size
- New entrants to the sector and fierce competition
- Execution risk following the intended M&A operations and potential delays in integrating the acquired companies

TXT e-solutions: Revenue Breakdown (2022A)



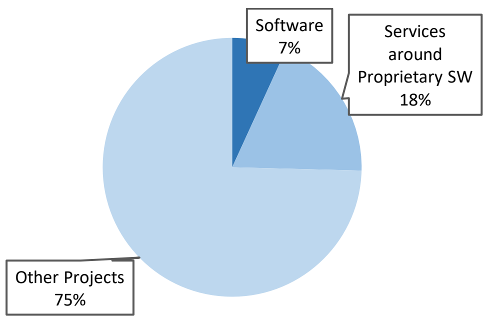
Source: Company Data & Intermonte SIM

TXT e-solutions: EBITDA Breakdown (2022A)



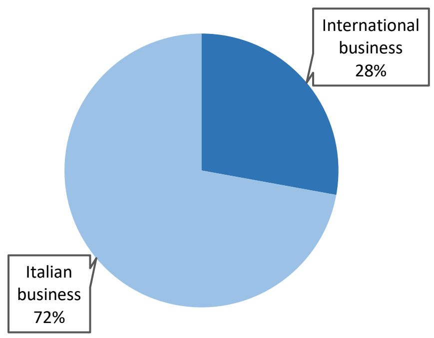
Source: Company Data & Intermonte SIM

TXT e-solutions: Revenue Breakdown (2022A)



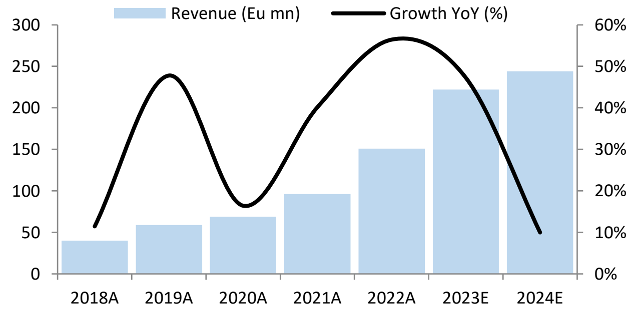
Source: Company Data & Intermonte SIM

TXT e-solutions: International vs. Domestic Revenue (2022A)



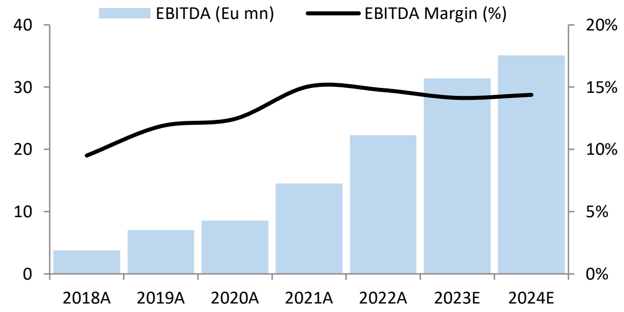
Source: Company Intermonte SIM

TXT e-solutions: Revenue Evolution (2018A-2024E)



Source: Company data & Intermonte SIM Estimates

TXT e-solutions: EBITDA and Margin Evolution (2018A-2024E)



Source: Company data & Intermonte SIM Estimates

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3Q23 Results

TXT e-solutions: 3Q23 Results

(Eu mn)	3Q22A	3Q23A	3Q23E	A/E %	9M22A	9M23A
Revenue	**29.8**	**52.1**	**51.0**	***2.1%***	**92.4**	**159.4**
YoY growth	*29.6%*	*74.4%*	*70.8%*		*38.4%*	*72.5%*
Organic	*13.9%*	*14.9%*	*13.5%*		*17.6%*	*14.4%*
Scope	*15.6%*	*59.6%*	*57.3%*		*20.8%*	*58.1%*
EBITDA IFRS	**4.3**	**7.5**	**7.3**	***2.2%***	**13.5**	**21.4**
YoY growth	*40.3%*	*72.4%*	*68.7%*		*54.5%*	*58.2%*
EBITDA IFRS margin %	*14.5%*	*14.4%*	*14.4%*		*14.6%*	*13.4%*
- D&A	(1.7)	(2.4)	(2.5)		(4.3)	(7.4)
-Restructuring/Non Recurring cost	-	-	-		(0.1)	-
EBIT	**2.6**	**5.1**	**4.8**	***6.0%***	**9.2**	**14.0**
YoY growth	*33.5%*	*96.2%*	*85.0%*		*70.9%*	*53.1%*
EBIT margin %	*8.7%*	*9.8%*	*9.4%*		*9.9%*	*8.8%*
- Financial income/(charges)	(0.3)	(1.1)	(1.0)		(1.6)	(0.1)
Pre-tax profit	**2.3**	**4.0**	**3.8**	***4.9%***	**7.5**	**13.9**
- Income tax	(0.5)	(1.0)	(1.1)		(2.2)	(4.1)
Tax rate %	*22.3%*	*24.9%*	*28.0%*		*30.0%*	*29.7%*
Net income from cont. op.	**1.8**	**3.0**	**2.8**	***9.4%***	**5.3**	**9.8**
YoY growth	*-12.0%*	*66.1%*	*51.8%*		*29.1%*	*84%*
Net profit margin %	*6.1%*	*5.8%*	*5.4%*		*5.8%*	*6.1%*
Net debt/(cash)	**13.0**	**45.8**	**45.0**		**13.0**	**45.8**

Source: Company data and Intermonte SIM estimates

TXT e-solutions: Divisional Breakdown

Revenue (Eu mn)	3Q22A	3Q23A	3Q23E	A/E %	9M22A	9M23A
Smart Solutions	**9.7**	**10.1**	**10.2**	***-0.4%***	**27.4**	**29.7**
YoY growth		*3.8%*	*4.0%*			*8.8%*
Organic		*3.8%*	*4.0%*			*7.1%*
Scope		*0.0%*	*0.0%*			*1.7%*
Digital Advisory	**4.4**	**7.8**	**7.3**	***6.3%***	**13.1**	**22.2**
YoY growth		*75.4%*	*64.8%*			*69.2%*
Organic		*44.2%*	*40.0%*			*38.0%*
Scope		*31%*	*25%*			*31%*
Software Engineering	**15.7**	**34.2**	**33.6**	***1.9%***	**51.9**	**107.4**
YoY growth		*118.0%*	*114.1%*			*106.9%*
Organic		*13.4%*	*12.0%*			*12.2%*
Scope		*105%*	*102%*			*95%*
Revenue	**29.8**	**52.1**	**51.0**	***2.1%***	**92.4**	**159.4**
YoY growth	*29.6%*	*74.4%*	*70.8%*		*38.4%*	*72.5%*
Organic	*14.0%*	*14.9%*	*13.5%*		*17.7%*	*14.4%*
Scope	*15.6%*	*59.6%*	*57.3%*		*20.8%*	*58.1%*

EBITDA	3Q22A	3Q23A	3Q23E	A/E %	9M22A	9M23A
Smart Solutions	**2.4**	**2.3**	**1.8**	***24.4%***	**5.0**	**5.5**
YoY growth		*-5.7%*	*-24.2%*			*9.9%*
EBITDA margin %	*24.7%*	*22.5%*	*18.0%*		*18.3%*	*18.5%*
Digital Advisory	**(0.1)**	**1.0**	**1.1**	***-16.0%***	**1.0**	**3.1**
YoY growth		*-988.8%*	*-1157.8%*			*195.3%*
EBITDA margin %	*-2.4%*	*12.3%*	*15.5%*		*7.9%*	*13.7%*
Software Engineering	**2.0**	**4.3**	**4.4**	***-2.4%***	**7.5**	**12.8**
YoY growth		*109.1%*	*114.2%*			*71.6%*
EBITDA margin %	*13.0%*	*12.5%*	*13.0%*		*14.4%*	*12.0%*
EBITDA	**4.3**	**7.5**	**7.3**	***2.2%***	**13.5**	**21.4**
YoY growth	*40.3%*	*72.4%*	*68.7%*		*54.5%*	*58.2%*
EBITDA margin %	*14.5%*	*14.4%*	*14.4%*		*14.6%*	*13.4%*

Source: Company data and Intermonte SIM estimates

Change in Estimates

TXT – Change in estimates

	NEW ESTIMATES			OLD ESTIMATES			% CHANGE		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	**222.0**	**244.2**	**262.8**	**226.0**	**252.5**	**270.2**	***-1.8%***	***-3.3%***	***-2.7%***
YoY growth	*47.3%*	*10.0%*	*7.7%*	*49.9%*	*11.7%*	*7.0%*			
Organic	*9.9%*	*8.3%*	*7.7%*	*11.0%*	*9.9%*	*7.0%*			
Scope	*37.3%*	*1.7%*	*0.0%*	*38.9%*	*1.9%*	*0.0%*			
EBITDA	**31.4**	**35.1**	**38.1**	**31.4**	**35.6**	**38.8**	***0.0%***	***-1.3%***	***-1.6%***
YoY growth	*41.0%*	*11.9%*	*8.6%*	*41.0%*	*13.3%*	*9.0%*			
EBITDA margin %	*14.1%*	*14.4%*	*14.5%*	*13.9%*	*14.1%*	*14.4%*			
EBIT	**21.4**	**24.7**	**27.3**	**21.4**	**25.2**	**28.0**	***0.0%***	***-1.8%***	***-2.3%***
YoY growth	*53.7%*	*15.6%*	*10.6%*	*53.8%*	*17.6%*	*11.2%*			
EBIT margin %	*9.6%*	*10.1%*	*10.4%*	*9.5%*	*10.0%*	*10.4%*			
Pre-tax profit	**20.0**	**22.5**	**25.1**	**21.1**	**23.4**	**26.2**	***-5.2%***	***-3.6%***	***-4.0%***
- Income tax	(5.6)	(6.3)	(7.0)	(5.9)	(6.5)	(7.3)			
Tax rate %	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*			
Net income from cont. op.	**14.4**	**16.2**	**18.1**	**15.2**	**16.8**	**18.8**	***-5.2%***	***-3.6%***	***-4.0%***
YoY growth	*20.0%*	*12.7%*	*11.7%*	*26.7%*	*10.8%*	*12.0%*			
Net profit margin %	*6.5%*	*6.6%*	*6.9%*	*6.7%*	*6.7%*	*7.0%*			
EPS adj.	**1.176**	**1.324**	**1.479**	**1.241**	**1.374**	**1.540**	***-5.2%***	***-3.6%***	***-4.0%***
YoY growth	*25.8%*	*12.7%*	*11.7%*	*32.8%*	*10.8%*	*12.0%*			
Net cash/(debt)	**(38.3)**	**(24.2)**	**(7.2)**	**(28.9)**	**(16.0)**	**1.8**			
FCF (ex. acq)	**13.5**	**16.7**	**20.0**	**11.5**	**15.7**	**21.0**			

Source: Intermonte SIM estimates

Appendix – M&A History

2023 Main Deals

- On 11 July 2023, TXT signed an asset purchase agreement (APA) for the purchase of the Embedded Graphics (EG) business from Presagis, a company entirely owned by Canadian group CAE Inc. Closing is foreseen in 3Q23 and will be subject to the fulfilment of certain conditions precedent established in the APA. The investment involves a portfolio of software and services designed for onboard systems in the Aerospace & Defence market, namely human-machine interfaces (HMI) for safety-critical and mission-critical systems. The main product family offered by the EG business is VAPS XT, a modular software that was launched on the market in 2011. The main assets of the investment include the technology associated with the proprietary solution and the contracts with leading players in the Aerospace & Defence market: The business has around thirty employees in Canada, USA and UK, all specialist technical resources and expert commercial professionals, and will supplement PACE's team of specialists. The business acquired will be integrated with the PACE offer, increasing opportunities for cross-selling/ up-selling as well as the synergies linked to specialist value-added services.
- On 13 April 2023 TXT undertook to subscribe to a capital increase in the Simplex start-up reserved for TXT equal to Eu3mn against which TXT comes to hold 15% of Simplex. This start-up aims to bring digital innovation to the insurance sector, with a main focus on the Protection sectors and Wealth Management, through a smart solution that allows the optimization and total control of sales processes and the consequent drastic reduction of transaction costs. As part of the investment project, TXT will play a key role in the implementation, in the maintenance and technological evolution of Simplex's Insurtech platform through a contract for the supply of services and software licenses worth more than Eu2mn for the next five years, excluding expected extensions.
- On 26 January 2023, TXT announced an agreement for the investment in the capital of LAS LAB Srl. The investment involves a capital increase in LasLab reserved for TXT, consisting of Eu0.3mn, which grants TXT a 33.0% stake in LasLab, an innovative start-up established from the spin-off of the technological platform developed by Loan Agency Services Srl, leader among active non-banking operators in the credit management supporting services.

2022 Main Deals

- On 21 November, TXT announced a binding agreement for the purchase of 100% of the capital of **TLogos**, a consultancy company founded in 2011 and specialising in providing consultancy for IT security projects in complex arenas, such as the space sector. The company, which has 15 specialist employees, is expected to generate pro-forma revenues of Eu1.6mn in 2022, with an EBITDA margin of 35%. TLogos also boasts a significant revenue backlog from contracts already acquired, with strong growth prospects both in its reference sector and in other sectors already covered by the TXT group, which in turn will benefit from an enhanced high-value-adding cybersecurity offer. Closing is foreseen by 31 December 2022. The companies have agreed a payment of Eu3.3mn for 100% of TLogos (Enterprise Value), while the Equity Value is Eu5.0mn (a net cash position of Eu1.7mn is expected), to be made at closing, of which Eu3.75mn (75%) in cash and Eu1.25mn (25%) in TXT shares. Good news on the stock, both from a strategic point of view, and for the attractive multiple paid (below 6x EV/EBITDA on 2022).
- On 14 November 2022, the Group announced an accord for the acquisition of 100% of **PGMD**; the aim is to strengthening TXT's consultancy offering in the digitalisation of ICT processes in specific sectors such as healthcare. PGMD, founded in 2006, has a specialised workforce of 25 (employees/external professionals) and 2022 revenues (proforma) are expected at circa Eu2.8mn, with an EBITDA margin of 22%. The company is well positioned in digitalisation of public and private healthcare, has a solid backlog from existing multi-year contracts and strong growth prospects. PGMD is being acquired at an Enterprise Value of Eu3.5mn, of which Eu3.0mn (~85%) in cash and Eu0.5mn (~15%) in ordinary treasury shares. The accords contain retention and earn-out provisions for the 3 selling managers with expiry on approval of the 2024 financial statement. The multiple paid (5.7x 2022 EV/EBITDA) appears reasonable.
- On 4 November 2022, TXT announced it had signed an agreement for the investment in the share capital of **ProSim Training Solutions**, a Dutch-based software house specialized in the development and marketing of proprietary solutions for the civil aviation training market. The agreement consists of an initial capital increase in ProSimTS reserved to TXT for Eu0.5mn, which will obtain 40% of the capital. The agreement also includes the provision of technologies and loans for financing the growth of ProSim-TS, plus further investment rounds which, if executed,

will enable TXT to increase its ownership of ProSim-TS up to 100%. This new venture will combine unique TXT software engineering capabilities with cutting-edge proprietary pilot training products developed by ProSim-TS, with the aim of ensuring a wider choice of innovative products for professional pilot training, a more comprehensive range of certified devices, and extended delivery capabilities.

- On 3 October 2022 TXT acquired 100% of the share capital of **Soluzioni Prodotti Sistemi** (“SPS”), a company founded in Rome in 2009 and with offices in Bari and Milano, which employs over 100. The company’s business consists of managing innovative projects for the development of application, IoT and Artificial Intelligence solutions; over the years, SPS has conducted a constant growth process with a 2018-2021 revenue CAGR of 23%, reaching consolidated revenues of Eu9.5mn in 2021, with an adjusted EBITDA margin of 15%. The consideration for the purchase of 100% of SPS ("Enterprise Value") was agreed between the parties at Euro 6.4 million paid at the closing, of which Euro 4.8 million (75%) in cash and Euro 1.6 million (25%) in TXT treasury shares. TXT will consolidate SPS results from October 2022.
- **DM Management & Consulting.** On 19 July 2022, TXT announced it had signed a contract for the acquisition of 100% of capital of DM Management & Consulting Srl ("DM"). TXT will consolidate results from 20 July 2022. Founded in Parma in 2011, DM was a pioneer in 2013 in the launch of the MES (Manufacturing Execution Systems) / MOM (Manufacturing Operations Management) platform, which has been developed in subsequent years through investments in R&D. In 2021 DM reported ARR of c.Eu0.5mn (on adj. revenues from sales of Eu1.2mn) and an EBITDA margin of 25% with an expected CAGR of 30% for the 2022-2024 period, thanks to group synergies. The consideration for the acquisition of 100% of DM (“Enterprise Value”) was agreed by the parties at Eu1.7mn paid at closing, of which Eu1.4mn (82%) in cash and Eu0.3mn (18%) in TXT treasury shares. The acquisition of DM strengthens and expands the offering of Group proprietary digital solutions for industry.
- **Ennova**. On 29 June 2022, TXT signed a binding agreement for the purchase of a 78.56% stake in Ennova. Ennova (based in Turin) was formed in 2010 by Turin Polytechnic business incubator as a start-up developing services and solutions for the management of the entire life cycle of the digital transformation of companies. During its history, Ennova has posted constant, rapid growth, with revenues going from Eu18mn in 2015 to Eu40mn in 2017, then exceeding Eu60mn in 2021. 2021 adjusted EBITDA came to Eu5.3mn, and should rise further in 2022. The current Ennova offer is focused on three main business units: (i) the Technology business unit focused on the development of proprietary platforms for the digitalisation of client processes in various markets, (ii) the Advanced Caring business unit which manages the outsourcing of high-tech customer care operations for Telcos and utility sector clients through the use of innovative proprietary platforms based on artificial intelligence, and (iii) the Tech on Site business unit, which guarantees national coverage with specialist resources and software platforms for the telecommunications and gaming industries. The price paid for the acquisition of 78.56% of Ennova, represented by the shares held by non-employee shareholders, was agreed at Eu8.9mn to be paid in cash at closing. On October 3, 2022, TXT announced the purchase of a stake representing 21.44% of the share capital of Ennova Sfrom its minority shareholders and managers, reaching 100% of the capital of Ennova. The consideration for the purchase of 21.44% of Ennova was agreed between the parties in Eu6.4mn, of which Eu 4.9mn (75%) paid in cash and Eu1.5mn (25%) by transfer of TXT ordinary treasury shares. The agreement provides for two earn-out clauses to the selling shareholders who will continue to hold strategic managerial roles in Ennova.

Main 2021 Deals

- **TeraTron.** On 29 July 2021 TXT signed a contract for the acquisition of 100% of the capital of German company Teratron, which it started to consolidate in its accounts from 1 August 2021. TeraTron, which has been active for over 20 years, is a leader in innovative IoT solutions for digitalisation, automation and security, mainly in the Automotive, Industrial (Industry 4.0), and Healthcare markets, and also boasts a growing presence in other sectors with strong innovative and technological content. The client portfolio is international and includes multi-year relationships with companies such as Audi, BMW, HILTI, John Deere, Porsche, Volkswagen and Volvo. In 2019 and 2020, TeraTron reported revenues of Eu9.2mn and Eu7.6mn respectively, with EBITDA of Eu1.8mn and Eu1.4mn. For 2021, it should have generated Eu9mn in revenues, with profitability of c.Eu2mn. The outlay for the acquisition of TeraTron was mutually agreed at Eu10.1mn in cash at closing: this acquisition not only further diversified TXT’s business in the Automotive&Industrial area, it also continued its internationalisation, strengthening its presence in Germany, integrating the PACE aerospace offering with TeraTron in manufacturing and automotive. As well as broadening its offering with new proprietary software and hardware solutions, thanks to TeraTron TXT will be able to increase its international client base.

- **Novigo Consulting and LBA Consulting.** On 29 November 2021, TXT announced it had bought 100% of the capital of Novigo Consulting Srl and LBA Consulting Srl, active in the management of digital payments and consumer credit. For 2021 (pro-forma) total revenues are expected at Eu5.5mn and total EBITDA at ~Eu1.7m. TXT started to consolidate the businesses from 1 December 2021. The outlay for 100% of LBA was Eu2.73mn, paid in cash at closing, plus an adjustment of the amount due in TXT shares on approval of 2021 accounts by LBA. The multiple paid was ~5.2x 2021 EBITDA. The outlay for 100% of Novigo was ~Eu3.5mn, paid at closing, of which ~Eu2.45mn in cash and ~Eu1.05mn in TXT treasury shares. The multiple paid for Novigo was ~5.1x 2021 EBITDA.
- **Quence.** On 28 December TXT announced the acquisition of 100% of the capital of Quence Srl, an Italian company specialising in software engineering with the offer of Data Intelligence, SW Application Lifecycle Management (ALM), SW Quality Assurance & Testing and Data Intelligence services. The newly-acquired company has over 25 domestic and international clients (c.10% of the business) in the banking, financial and insurance arenas. YE21 revenues are expected to have reached Eu2.7mn, with a 15.1% EBITDA margin and a 15% EBIT margin. TXT started to consolidate Quence's results in its Fintech division as of 1 January 2022. Eu2.0mn will be paid for the purchase at closing, of which Eu1.4mn in cash and the remaining Eu0.6mn through the transfer of TXT treasury shares at the market price at the end of trading the day before the closing date. The deal went through at ~5.0x 2021 EBITDA.

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	**TXT E-SOLUTIONS**		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	22.00	Previous Target (Eu):	24.00
Current Price (Eu):	16.36	Previous Price (Eu):	21.00
Date of report:	13/11/2023	Date of last report:	07/08/2023

Intermonte

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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As at 30 September 2023 Intermonte's Research Department covered 114 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	24.79 %
OUTPERFORM:	52.99 %
NEUTRAL:	20.51 %
UNDERPERFORM	01.71 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (48 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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