



OUTPERFORM

Current Share Price (€): 3.34

Target Price (€): 5.44

Sourcesense - 1Y Performance



Source: S&P Capital IQ - Note: 13/04/2021=100

Company data

ISIN number	IT0005417040
Bloomberg code	SOU IM
Reuters code	SOU.MI
Industry	ICT
Stock market	Euronext Growth Milan
Share Price (€)	3.34
Date of Price	13/04/2022
Shares Outstanding (m)	8.3
Market Cap (€m)	27.6
Market Float (%)	32.53%
Daily Volume	5,500
Avg Daily Volume YTD	51,390
Target Price (€)	5.44
Upside (%)	63%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Sourcesense - Absolute (%)	12%	-4%	33%
FTSE Italia Growth Index (%)	4%	-8%	19%
1Y Range H/L (€)		3.99	2.17
YTD Change (€) / %		0.37	12%

Source: S&P Capital IQ

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FY21 Sales, EBITDA and cash generation confirm growth trend. Company and sector outlook support our outperform rating

Overview: stock, sales and cash generation

Sourcesense stock gained 33% LTM, with a peak at €3.99 per share, vs +19% of the Italia Growth index. Sourcesense is currently trading at discount to peers and we consider the Company in the condition to reduce this gap. Sales growth is mostly pushed by the most scalable and profitable business lines, with positive impact on margins and cash generation. All of FY21 results exceeded our estimates.

FY21: Sales and margins growth almost doubled cash position

Consolidated sales were €21.2m, up 31% YoY including full year consolidation of MMUL. Cloud Services and Enterprise Apps, the most scalable and profitable business units, grew at 29% and 82% rate along the year. This positively affected margins, with EBITDA at €2.9m (13.1% margin vs 12.0% in 2020). Net Income at €1.4m (€0.9m in 2020). Margin growth, along with the improved TWC management (from 30% to 22% of sales) positively impacted cash dynamics, with year-end net cash at €4.1m, from €2.1m as of December 2020.

Business update and outlook

Sourcesense strategy focusing on most scalable and profitable business units, through both organic and external growth, is paying off. Apart from short term (hopefully) effects due to Russia-Ukraine war, the M/L run perspectives confirm positive, in line with industry trend which will be positively affected by Next Generation EU program, which for Italy is focused also on support to digital transition.

Target Price €5.44 per share (from €4.02) and OUTPERFORM rating confirmed

FY21 results along with our new estimates yield an updated valuation and an upgraded target price, from €4.02 to €5.44 per share, a 63% potential upside on current share price. Sourcesense currently trades at 1.0x 2022EV/Sales, a 48% discount to 1.8x peers median. With our new target price and revised estimates, the Company 2022E EV/Sales would be 1.5x, thus reducing to 20% the discount with respect to peers median.

CONSOLIDATED KEY FINANCIALS AND ESTIMATES

€m	2018	2019	2020	2021	2022E	2023E	2024E
Total Revenues	12.9	15.5	17.2	22.6	27.8	33.2	38.0
YoY %	na	20.2%	11.4%	30.9%	23.3%	19.3%	14.4%
EBITDA	0.8	1.6	2.1	2.9	4.1	5.1	6.1
Margin	6.1%	10.2%	12.0%	13.1%	14.9%	15.4%	16.0%
EBIT	0.7	1.0	1.2	1.9	3.0	4.1	5.2
Margin	5.2%	6.2%	7.0%	8.6%	10.6%	12.3%	13.7%
Net Income	0.5	0.5	0.9	1.4	2.1	2.9	3.7
Trade Working Capital	3.9	4.6	4.8	4.6	5.1	5.5	6.5
Net (Debt) Cash	(1.8)	(1.4)	2.1	4.1	5.9	8.4	11.0
Equity	1.1	1.7	6.1	7.5	9.7	12.6	16.3
KEY RATIOS							
TWC/Sales	32%	32%	30%	22%	19%	17%	18%
Operating cash flow before capex/EBITDA	nm	80%	74%	117%	76%	78%	66%
ROE	46%	33%	15%	19%	22%	23%	23%
Earnings per Share, basic (€)	nm	nm	0.11	0.17	0.26	0.35	0.45

Source: Company data 2018-21A, EnVent Research 2022-24E

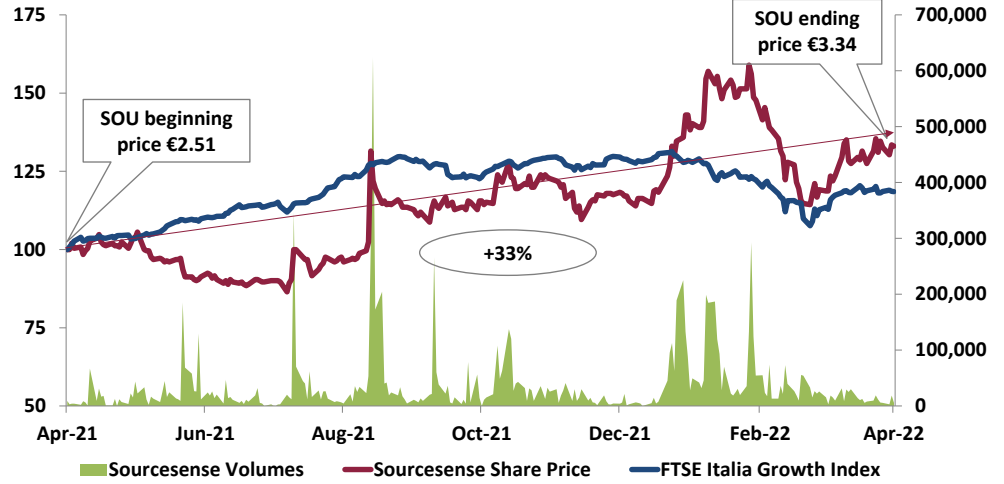
Market update

Trading price range €2.17-3.99 per share

Price substantially stable between March and July 2021, then sharp increase in August, rally from December until the Russia-Ukraine war in February 2022.

Better performance than Italia Growth index which gained 19%

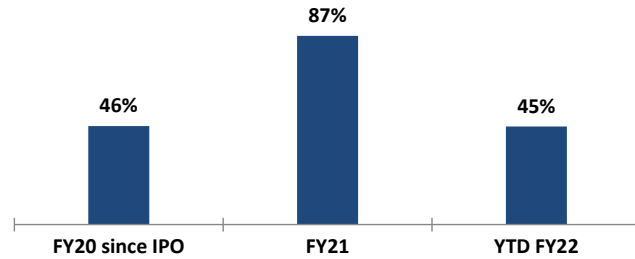
Sourcesense - 1Y share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 13/04/2021=100

Sourcesense - Liquidity analysis and velocity turnover

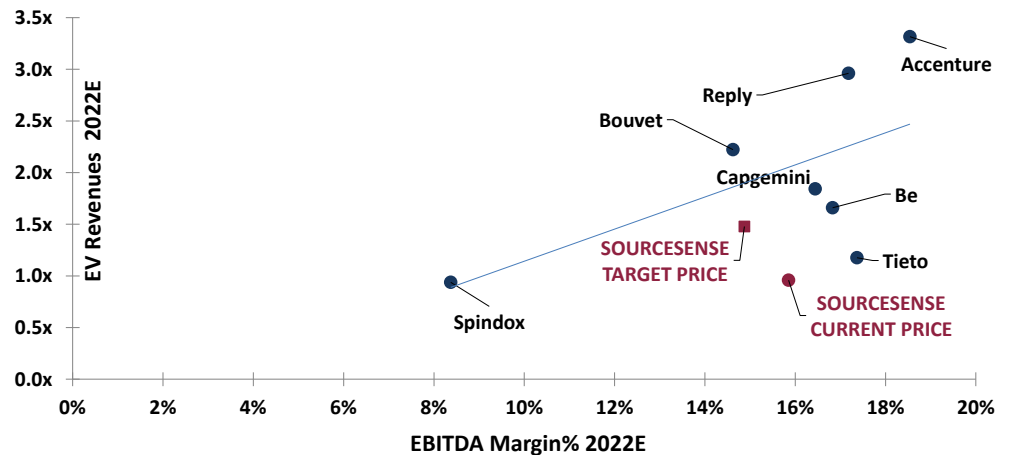
Velocity turnover in 2022 to date lower with respect to 2021 and in line with 2020 months after IPO



Source: EnVent Research on S&P Capital IQ - Note: Velocity turnover on total shares: ratio of total traded shares to total ordinary shares in a given period

Peer group - Regression analysis and Sourcesense target positioning

Sourcesense target price closer to core of Consultants/System integrators peers vs current market price



Source: EnVent Research on S&P Capital IQ, April 2022

Investment case

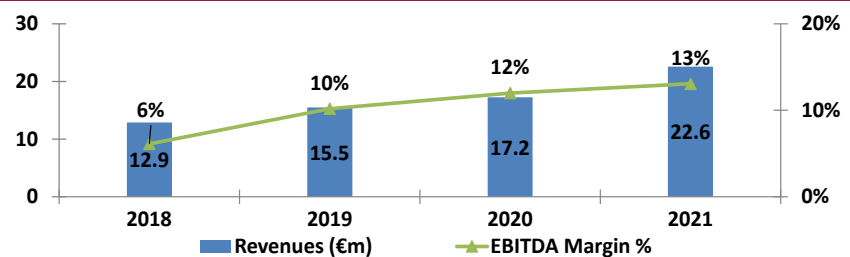
Sourcesense and its subsidiaries, listed on Euronext Growth Milan, are an Italian IT group mainly active in Italy and UK which supplies IT services and solutions to its customers - usually large businesses and public institutions - and supports them in their digital evolution choices and in the process of designing, integrating and developing systems and platforms. Sourcesense operates through open source technologies to develop software applications, which take full advantage of cloud infrastructure using “Agile” methodology, a project management methodology that uses short development cycles (“sprint”) to focus on continuous improvement in the development of a product or a service. The Company manages 100 different technologies. Sourcesense is networked with partners, among which there are some of the most important players in open source software development: Atlassian, Liferay, Red Hat, Alfresco, Cloudera, MongoDB, etc.

The business lines are Consulting, Solutions, Subscriptions, Cloud Services, Enterprise App. Customers include over 90 companies in Italy and over 40 abroad, among leaders in their reference markets (utility, telco, publishing, banking & insurance, fashion, etc.).

Sourcesense is an innovative SME, a status that allows tax incentives for investors.

Sourcesense strategy is to leverage on service and technical expertise to accelerate vertical and horizontal growth and enter additional markets as well as approach customers in new industries (energy, transportation). The management aims at exploiting opportunities related with the scalable, most profitable Cloud Service and Enterprise App business. M&A activity represents a core part of the expansion strategy.

Historical Revenues and EBITDA



Source: Company data

Industry and Company drivers

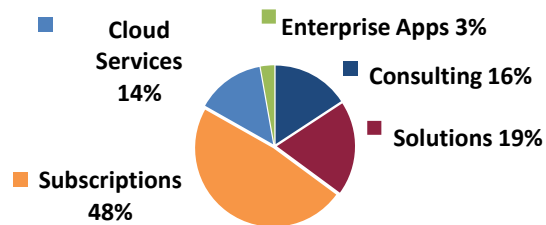
- Digital transformation of businesses
- From proprietary to open source software
- The cloud: a cutting-edge industry
- Strategic partnerships with the world’s leading open source software vendors
- Growth of scalable Cloud Services and Enterprise Apps business units
- Large company as typical customer and high customer loyalty/low churn
- Asset-light business

- Industry experts, management-shareholders alignment of interests

Challenges

- Competition
- Acquisition and integration risks subsequent to M&A

2021 Sales breakdown - Business lines



Source: Company data

Business update

- First sustainability report as of 31st December 2021. The report was recently approved by the Company Board of Directors and is compliant to United Nations 2030 Agenda for Sustainable Development targets
- Scouting for new M&A targets in the most profitable business lines

Industry outlook

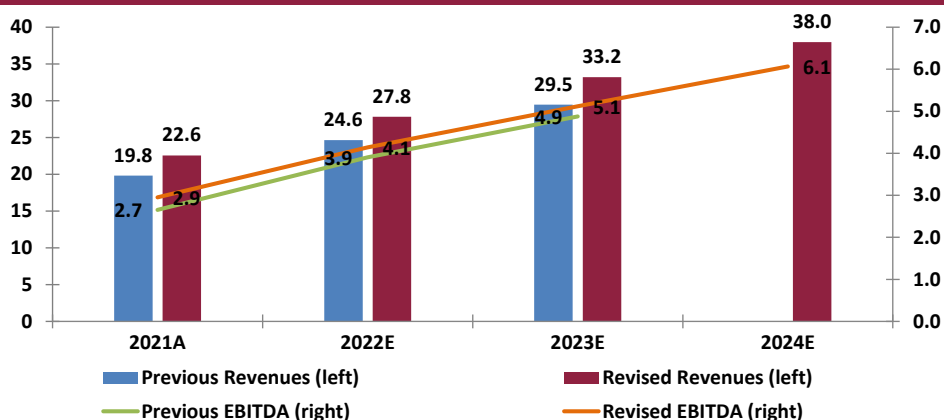
Last available estimates regarding Italian ICT sector showed an expected +5.5% YoY growth rate in 2021. Along 2022-24E, the expected yearly CAGR was almost 5.0%, with all ICT subsectors estimated to grow, apart from Network Services whose observed dropping trend is forecasted to continue after 2021 (Anitec-Assinform/NetConsulting Cube, October 2021). Next Generation EU programme for Italy will play a key role for the sector, due to the direct and indirect support offered to the digital transition. The consequences of the Russia-Ukraine war may partially change this scenario. ICT market will probably slow down, as a consequence of the crisis's impact on trade, supply chains, capital flows, and energy prices. International Data Corporation (IDC) in March 2022 revised its original ICT global market growth forecast for 2022 downwards from 5%, assuming three scenarios: rapid diplomatic solution (4% growth), short-lived conflict (3.5% growth), prolonged war (2% growth).

Estimates revision

Apart from Russia-Ukraine war consequences, the sector M/L term expected trend confirms positive. This, along with the Company FY21 results and portfolio evolution, induces us to update and improve our previous 2022-23 estimates. FY21 exceeded our expectations with respect to all the Company KPIs'. We expect that the operational leverage observed in 2021 will keep fueling EBITDA as well as cash generation. We also noticed a positive evolution in the trade working capital dynamic and consequently updated also our DSO and DPO estimates.

Change in estimates

Previous vs. Revised Revenues and EBITDA estimates (€m)



Source: EnVent Research

€m	Revised				Previous			Change %		
	2021A	2022E	2023E	2024E	2021E	2022E	2023E	2021A	2022E	2023E
Revenues	22.6	27.8	33.2	38.0	19.8	24.6	29.5	14%	13%	13%
EBITDA	2.9	4.1	5.1	6.1	2.7	3.9	4.9	11%	6%	5%
<i>Margin</i>	13%	15%	15%	16%	13%	16%	17%			
EBIT	1.9	3.0	4.1	5.2	1.7	3.0	4.3	13%	-3%	-6%
<i>Margin</i>	9%	11%	12%	14%	9%	12%	15%			
Net Income (Loss)	1.4	2.1	2.9	3.7	1.2	2.2	3.1	17%	-3%	-6%
Net (Debt) Cash	4.1	5.9	8.4	11.0	3.3	4.3	6.2			

Source: EnVent Research

Financial projections

FY21 highest growth for Enterprise Apps and Subscriptions service lines (+82% and + 51% respectively), lowest for Consulting (+2%). The swap trend between Consulting vs more scalable and value added Enterprise Apps and Cloud explains the decreasing incidence of Services and Personnel costs on Total Revenues. 2021 Materials dynamic consistent with Subscriptions growth

Consolidated Profit and Loss

€m	2018	2019	2020	2021	2022E	2023E	2024E
Sales	12.1	14.5	16.1	21.2	26.5	31.8	36.6
Capitalization of R&D costs	0.1	0.5	0.6	1.2	1.2	1.3	1.3
Other income	0.7	0.5	0.5	0.1	0.1	0.1	0.1
Total Revenues	12.9	15.5	17.2	22.6	27.8	33.2	38.0
YoY %	na	20.2%	11.4%	30.9%	23.3%	19.3%	14.4%
Materials	(3.9)	(4.8)	(6.5)	(10.2)	(11.9)	(14.0)	(15.7)
Services	(2.1)	(2.2)	(2.2)	(2.4)	(2.9)	(3.5)	(4.0)
Personnel	(5.8)	(6.6)	(6.4)	(7.0)	(8.7)	(10.5)	(12.1)
Other operating costs	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Operating costs	(12.1)	(13.9)	(15.2)	(19.6)	(23.7)	(28.1)	(31.9)
EBITDA	0.8	1.6	2.1	2.9	4.1	5.1	6.1
Margin	6.1%	10.2%	12.0%	13.1%	14.9%	15.4%	16.0%
D&A	(0.1)	(0.6)	(0.9)	(1.0)	(1.2)	(1.1)	(0.9)
EBIT	0.7	1.0	1.2	1.9	3.0	4.1	5.2
Margin	5.2%	6.2%	7.0%	8.6%	10.6%	12.3%	13.7%
Interest	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Write-down of equity investments	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0
EBT	0.4	0.8	1.1	1.9	3.0	4.1	5.2
Margin	3.4%	5.5%	6.6%	8.5%	10.6%	12.2%	13.6%
Income taxes	0.1	(0.3)	(0.2)	(0.5)	(0.8)	(1.1)	(1.4)
Net Income (Loss)	0.5	0.5	0.9	1.4	2.1	2.9	3.7
Margin	3.9%	3.5%	5.3%	6.3%	7.6%	8.8%	9.8%

Source: Company data 2018-21, EnVent Research 2022-24E

Note: 2018-21 trade receivables write down impact EBITDA

Consolidated Balance Sheet

€m	2018	2019	2020	2021	2022E	2023E	2024E
Trade receivables	6.1	7.6	8.8	9.4	10.6	11.7	13.4
Trade payables	(2.2)	(3.0)	(4.0)	(4.8)	(5.5)	(6.2)	(7.0)
Trade Working Capital	3.9	4.6	4.8	4.6	5.1	5.5	6.5
Other assets (liabilities)	(0.6)	(1.2)	(1.0)	(1.6)	(1.6)	(1.6)	(1.6)
Net Working Capital	3.3	3.3	3.8	2.9	3.5	3.9	4.9
Intangible assets	0.7	0.8	1.2	1.5	1.6	1.9	2.4
Goodwill	0.2	0.2	0.4	0.5	0.5	0.5	0.5
Property, plant and equipment	0.0	0.0	0.1	0.1	0.2	0.3	0.4
Equity investments and financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	0.9	1.0	1.7	2.1	2.3	2.7	3.3
Provisions	(1.3)	(1.3)	(1.5)	(1.6)	(2.0)	(2.4)	(2.8)
Net Invested Capital	2.9	3.0	4.0	3.5	3.8	4.2	5.3
Financial debt	2.4	1.8	1.3	2.1	1.6	1.6	1.6
Lease liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	(0.6)	(0.5)	(3.4)	(6.2)	(7.5)	(10.1)	(12.6)
Net Debt (Cash)	1.8	1.4	(2.1)	(4.1)	(5.9)	(8.4)	(11.0)
Equity	1.1	1.7	6.1	7.5	9.7	12.6	16.3
Sources	2.9	3.0	4.0	3.5	3.8	4.2	5.3

Source: Company data 2018-21, EnVent Research 2022-24E

Consolidated Cash Flow

€m	2019	2020	2021	2022E	2023E	2024E
EBIT	1.0	1.2	1.9	3.0	4.1	5.2
Current taxes	(0.3)	(0.2)	(0.5)	(0.8)	(1.1)	(1.4)
D&A	0.6	0.9	1.0	1.2	1.1	0.9
Provisions	0.1	0.2	0.1	0.4	0.4	0.4
Cash flow from P&L operations	1.3	2.0	2.6	3.7	4.4	5.0
Trade Working Capital	(0.7)	(0.2)	0.2	(0.6)	(0.4)	(1.0)
Other assets and liabilities	0.7	(0.2)	0.6	0.0	0.0	0.0
Operating cash flow before capex	1.3	1.5	3.4	3.2	4.0	4.0
Capex	(0.7)	(1.5)	(1.5)	(1.3)	(1.4)	(1.5)
Operating cash flow after working capital and capex	0.6	0.0	2.0	1.8	2.6	2.5
Interest	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Write-down of equity investments	(0.0)	(0.0)	0.0	0.0	0.0	0.0
Equity investments and financial assets	0.0	0.0	(0.0)	0.0	0.0	0.0
Paid-in Capital	0.0	3.5	0.0	0.0	0.0	0.0
Net cash flow	0.5	3.4	2.0	1.8	2.6	2.5
Net Debt Beginning	(1.8)	(1.4)	2.1	4.1	5.9	8.4
Net Debt End	(1.4)	2.1	4.1	5.9	8.4	11.0
Change in (Net Debt) Cash	0.5	3.4	2.0	1.8	2.6	2.5

Source: Company data 2019-21, EnVent Research 2022-24E

Ratio analysis

	2018	2019	2020	2021	2022E	2023E	2024E
ROE	46%	33%	15%	19%	22%	23%	23%
ROS (EBIT/Sales)	5%	7%	7%	9%	11%	13%	14%
DSO	150	157	163	132	120	110	110
DPO	106	123	135	113	110	105	105
TWC/Sales	32%	32%	30%	22%	19%	17%	18%
NWC/Sales	27%	23%	24%	14%	13%	12%	13%
Net Debt/EBITDA	2.3x	0.9x	cash	cash	cash	cash	cash
Net Debt/Equity	1.6x	0.8x	cash	cash	cash	cash	cash
Net Debt/(Net Debt+Equity)	0.6x	0.4x	cash	cash	cash	cash	cash
Operating cash flow before capex/EBITDA	nm	80%	74%	117%	76%	78%	66%
Per-capita sales (€k)	101	110	113	151	169	177	186
Per-capita costs (€k)	48	50	45	50	56	58	61
Earnings per Share, basic (€)	nm	nm	0.1	0.2	0.3	0.4	0.5

Source: Company data 2018-21, EnVent Research 2022-24E

Valuation

We have updated our DCF and market multiples models.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.0% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, April 2022)
- Market return: 12.5% (3Y average. Source: Bloomberg, April 2022)
- Market risk premium: 11.5%
- Beta: 0.9 (average of industry peers excluding Spindox, which was listed in July 2021. Source: Bloomberg)
- Cost of equity: 11.4%
- Cost of debt: 2.5%
- Tax rate: 24% IRES

- 35% debt/(debt + equity) as target capital structure
- WACC calculated at 8.1%, according to above data
- Perpetual growth rate after explicit projections 3.0%
- Terminal Value assumes EBITDA margin at 16%

DCF Valuation

€m	2021	2022E	2023E	2024E	Perpetuity
Revenues	22.6	27.8	33.2	38.0	39.0
EBITDA	2.9	4.1	5.1	6.1	6.2
<i>Margin</i>	13.1%	14.9%	15.4%	16.0%	16.0%
EBIT	1.9	3.0	4.1	5.2	4.7
<i>Margin</i>	8.6%	10.6%	12.3%	13.7%	12.2%
Taxes	(0.5)	(0.8)	(1.1)	(1.4)	(1.3)
NOPAT	1.4	2.1	2.9	3.7	3.4
D&A	1.0	1.2	1.1	0.9	1.5
Provisions	0.1	0.4	0.4	0.4	0.0
Cash flow from operations	2.5	3.7	4.4	5.0	4.9
Trade Working Capital	0.2	(0.6)	(0.4)	(1.0)	(1.2)
Capex	(1.5)	(1.3)	(1.4)	(1.5)	(1.5)
Other assets and liabilities	0.6	0.0	0.0	0.0	0.0
Unlevered free cash flow	1.9	1.8	2.6	2.5	2.2
WACC	8.1%				
Long-term growth (G)	3.0%				
Discounted Cash Flows		1.7	2.2	2.0	
Sum of Discounted Cash Flows	5.9				
Terminal Value					44.3
Discounted TV	35.1				
Enterprise Value	41.0				
Net (Debt) Cash as of 31/12/2021	4.1				
Equity Value	45.0				
Equity Value per share (€)	5.44				
DCF - Implied multiples	2021	2022E	2023E	2024E	
EV/Revenues	1.8x	1.5x	1.2x	1.1x	
EV/EBITDA	13.9x	9.9x	8.0x	6.8x	
EV/EBIT	21.2x	13.9x	10.1x	7.9x	
P/E	31.7x	21.2x	15.4x	12.1x	

Source: EnVent Research

Market multiples

Within the wide IT consulting arena, we have reviewed and selected some traditional system integrator players and some innovative actors in the IT consultant arena. Though most of the selected peers are not specifically or exclusively focused on open source software, they show one or more of the following key factors driving also Sourcesense business model:

- Digital services/solutions provision in line with most updated technology innovation
- Cloud platforms for digital services/solutions provision
- Larger corporations and public institutions as typical customers

We have then applied to our Sourcesense 2022-23 estimates the median multiples of this Consultants/System Integrators cluster, using data from 2Y analyst consensus.

Company	EV/REVENUES			EV/EBITDA			EV/EBIT			P/E		
	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E
International IT consultants/system integrators												
Accenture plc	5.3x	3.3x	3.0x	31.7x	17.9x	16.3x	35.1x	21.9x	19.7x	46.0x	29.6x	26.4x
Be Shaping The Future S.p.A.	1.5x	1.7x	1.5x	12.6x	9.9x	8.8x	16.9x	15.8x	13.6x	30.4x	26.5x	22.7x
Bouvet ASA	2.8x	2.2x	2.0x	20.8x	15.2x	13.7x	22.1x	18.1x	16.0x	29.5x	24.7x	21.8x
Capgemini SE	2.3x	1.8x	1.7x	17.3x	11.2x	10.3x	20.3x	14.3x	13.0x	32.0x	18.6x	16.5x
Reply S.p.A.	4.3x	3.0x	2.7x	28.2x	17.2x	15.7x	30.2x	21.0x	19.0x	44.3x	30.2x	27.5x
TietoEVRY Oyj	1.4x	1.2x	1.1x	10.7x	6.8x	6.3x	14.1x	8.7x	8.0x	11.2x	9.9x	8.9x
Spindox S.p.A.	1.6x	0.9x	0.8x	19.6x	11.2x	8.7x	26.2x	14.0x	10.5x	41.2x	22.7x	16.2x
Mean	2.7x	2.0x	1.8x	20.1x	12.8x	11.4x	23.6x	16.3x	14.2x	33.5x	23.2x	20.0x
Median	2.3x	1.8x	1.7x	19.6x	11.2x	10.3x	22.1x	15.8x	13.6x	32.0x	24.7x	21.8x
Sourcesense - Current Price and Consensus Estimates	0.9x	1.0x	0.8x	6.8x	6.0x	4.8x	10.6x	7.9x	5.5x	17.3x	12.6x	8.9x

Source: EnVent Research on S&P Capital IQ, 13/04/2022

Multiples application

Multiples - IT Consultants/System Integrators		€m	Multiple	EV (€m)	Net (Debt)/Cash (€m) 31/12/21	Equity Value (€m)
Sourcesense						
2022E	Total revenues	27.8	Median 1.8x	51.3	4.1	55.3
2023E	Total revenues	33.2	Median 1.7x	56.9	4.1	61.0
<i>Mean</i>						58.2
2022E	EBITDA	4.1	Median 11.2x	46.4	4.1	50.5
2023E	EBITDA	5.1	Median 10.3x	52.8	4.1	56.8
<i>Mean</i>						53.6
2022E	EBIT	3.0	Median 15.8x	46.7	4.1	50.8
2023E	EBIT	4.1	Median 13.6x	55.2	4.1	59.2
<i>Mean</i>						55.0
2022E	Earnings	2.1	Median 24.7x			52.5
2023E	Earnings	2.9	Median 21.8x			63.8
<i>Mean</i>						58.2
Mean						56.2

Source: EnVent Research

As to the opportunity to use market multiples for our target price estimation, the following issues have to be duly considered:

- Lack of fully comparable companies, especially as per business mix and service offering
- Some of the listed players are global, larger in size/sales

Target Price

We consider DCF as the most suitable methodology target price estimation. Our valuation of Sourcesense is €5.44 per share, with a potential upside of 63% on the current share price. Thus, we confirm an OUTPERFORM recommendation on the stock.

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

Sourcesense Price per share	€
Target Price	5.44
Current Share Price (13/04/2022)	3.34
Premium (Discount)	63%

Source: EnVent Research

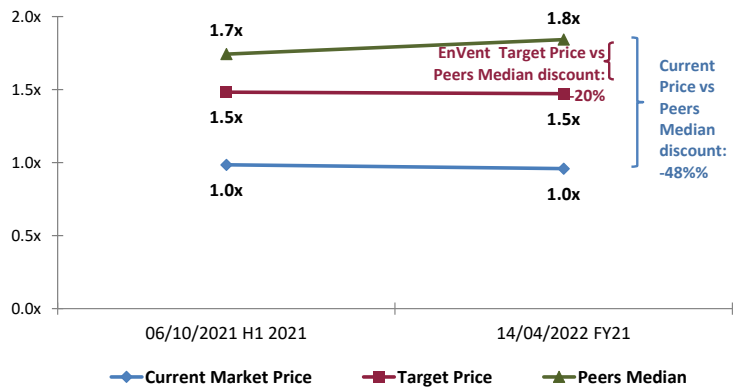
Sourcesense Share Price vs. EnVent Target Price



Source: EnVent Research on S&P Capital IQ, 13/04/2022

With EnVent updated estimates and Target Price, the implied 2022E EV/Revenues is more consistent to peers median vs 2022E EV/Revenues based on Current Sourcesense share price and consensus estimates

Sourcesense implied EV/Revenues vs. industry median multiples



Source: EnVent Research on S&P Capital IQ, 13/04/2022

Note: EV/Revenues refers to multiples estimated for the year end following the research update

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DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Date	Recommendation	Target Price (€)	Share Price (€)
22/04/2021	OUTPERFORM	3.69	2.51
22/07/2021	OUTPERFORM	3.69	2.51
06/10/2021	OUTPERFORM	4.02	2.83
21/02/2022	OUTPERFORM	4.02	3.40
14/04/2022	OUTPERFORM	5.44	3.34

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