EQUITY RESEARCH

EVISO SPA
ANALYSIS FOCUS

BUY
TP 3.9€ (vs 3.8€)
Up/Downside: 70%

An increasingly favourable market

The worst year in the history of Italy's liberalized electricity market (for non-producers) is behind us, making way for ideal conditions to generate strong growth for eVISO.

eVISO operates in a market characterized by :

Falling national energy demand: April 2023 recorded a consumption level of 23.4 TWh (-3% YoY), a level not seen for over two years (source: Terna). The period of crisis led to an increase in electricity generation from non-renewable sources, which in May 2023 returned to a level below that of renewables (as in June 2021). The drop in household energy consumption in Italy is enabling eVISO to increase its margins generated per Point of Delivery (POD) and reduce the risk of non-payment;

The price of electricity per MWh (PUN) is also **falling sharply** (source: GME), with an average price of €105/MWh recorded over the month of June 2023 (-61% YoY), a level not reached for over two years. Lower electricity prices helped reduce household energy bills by 56% in Q2 2023 compared with calendar H2 2022 (a period of energy crisis), having a favourable impact on the Group's receivables.

The composition of the energy bill (source: ARERA) has returned to the structure of Q3 2021 (pre energetic crisis). The share of raw materials in the energy bill has fallen in favour of the share of supply costs. This is also a positive factor for eVISO, enabling us to significantly improve the Working Capital dynamics.

As we now have better visibility, we are adjusting our EBITDA to €3.2m over the 2022/2023 period vs. €4m previously, due to a downward adjustment in volumes delivered to direct customers. Despite this downward revision, EBITDA for the second half of the year should still show a clear upturn compared with H1 (€0.2m). In addition, we expect better cash generation than anticipated, with FCF now expected at €0.5m for the year (vs. €-1.9m previously) thanks to a positive impact from WC, which will offset' capex of over €5m and the expected net loss. We expect eVISO to have lower sales volumes in the direct segment and stable sales volumes in the reseller segment this year, but for the period 2023-2027 we estimate a CAGR of 7.1% on direct sales volumes and 22.3% on reseller volumes, in a much improved market environment.

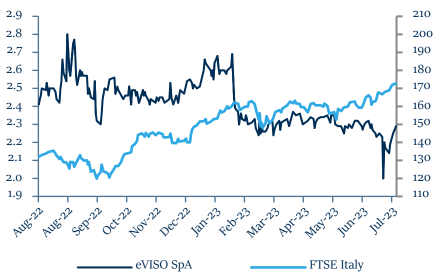
Following the improvement in cash generation expected this year and a slight improvement in estimates from 2024 onwards (EPS +2.8%), we are raising our target price to €3.9 (vs €3.8), as the potential remains very attractive. Buy confirmed.

Key data	
Price (€)	2.3
Industry	Technology Services
Ticker	EVS-IT
Shares Out (m)	24.662
Market Cap (m €)	56.5
Average trading volumes (k shares / day)	1.000

Ownership (%)	
O Caminho S.r.l.	52.7
Iscat S.r.l.	13.9
Pandora S.S.	12.2
Arca Fondi SGR	3.0
Free float	21.2

EPS (€)	06/23e	06/24e	06/25e
Estimates	-0.05	0.09	0.15
Change vs previous estimates (%)	na	2.81	2.13

Performance (%)	1D	1M	YTD
Price Perf	1.8	-0.9	-9.8
Rel FTSE Italy	1.3	-5.4	-26.9



TP ICAP Midcap Estimates	06/22	06/23e	06/24e	06/25e
Sales (m €)	208.1	225.4	213.0	250.1
Current Op Inc (m €)	3.2	1.0	4.1	5.8
Current op. Margin (%)	1.5	0.4	1.9	2.3
EPS (€)	-0.04	-0.05	0.09	0.15
DPS (€)	0.00	0.00	0.00	0.00
Yield (%)	0.0	0.0	0.0	0.0
FCF (m €)	5.2	0.5	3.9	5.2

Valuation Ratio	06/23e	06/24e	06/25e
EV/Sales	0.2	0.2	0.2
EV/EBITDA	15.0	6.7	4.6
EV/EBIT	47.6	10.7	6.7
PE	na	24.2	15.4

Consensus FactSet - Analysts:na	06/23e	06/24e	06/25e
Sales	259.5	240.3	282.9
EBIT	2.0	4.0	5.8
Net income	0.8	2.3	3.6

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Description

eVISO SpA is a technology company operating in the raw materials sector. Based in Saluzzo (Piedmont), it was founded by Gianfranco Sorasio in December 2012 and listed on the EGM in December 2020. To date, the company deals with three core products: energy, gas and apples. The business unit with the highest turnover today is related to the purchase and sale of electricity (and gas) mainly to small and medium-sized companies in Northern Italy through a direct channel and throughout Italy through a reseller channel. By June 2022, the two business units had delivered 247 GWh (and 1.6 M Smc) and 380 GWh, respectively. eVISO is unique in the competitive environment and, thanks to its technological advancement, is able to integrate various activities that take place between the demand and supply of a given commodity, transforming variable costs for end users into fixed costs and offering unique speed and efficiency in the execution of ancillary and other services. To date, the business model is widely developed in the electricity sector, expanding in direct gas sales and being developed in the apple market, both spot and with 3/6/9/12 month delivery through the revolutionary proprietary SmartMele platform.

SWOT Analysis

Strengths

- Various proprietary tools able to forecast prices and cunsumptions, handle practices, analyze POD data and execute up to 1M orders every month
- Ability to adapt, analyse and revolutionise the Italian reseller market, the largest producer of energy data in Europe.
- Strong FCFO/EBITDA (95%) cash conversion, solid financial position (Rating Cerved A3.1) and massive capex et dette net negatif
- Scalability of business, applicability of same business model to various commodities / markets

Weaknesses

- Complexity of Added value based P&L can be difficult for a final client to be perceived and for salesforce to be able to commercially use it (EBITDA decreasing in % of sales in this market while commodity prices are rising actually hides an increasing Gross margin per POD handled by eVISO)
- Credit risk is one of the main risks for energy resellers, and recent years have been marked by high volatility (on which resellers have no controle); however, eVISO has been able to maintain a very low attrition rate in the acquisition of low-consumption PODs.
- Businesses whose margins are highly dependent on market dynamics (reduced pricing power) and which are closely linked to the State.

Opportunities

- Absence of deep technological development in the sector allows eVISO to leverage on market knowledge and technological-capability to simplify processes
- Scalable computation and pricing model which can be applied to various raw materials (such as Gold or other Fruits) caracterized by high traded volums, low concentration of main players, low consolidation of informations and price volatility.
- Development of new tools able to solve issues in businesses where eVISO is already active and consequently attract and retain more direct and reselling clients.
- Commercial development of the activity in new regions, direct sales are mainly active in Piedmont and Liguria, but sales to resellers already cover all Italy

Threats

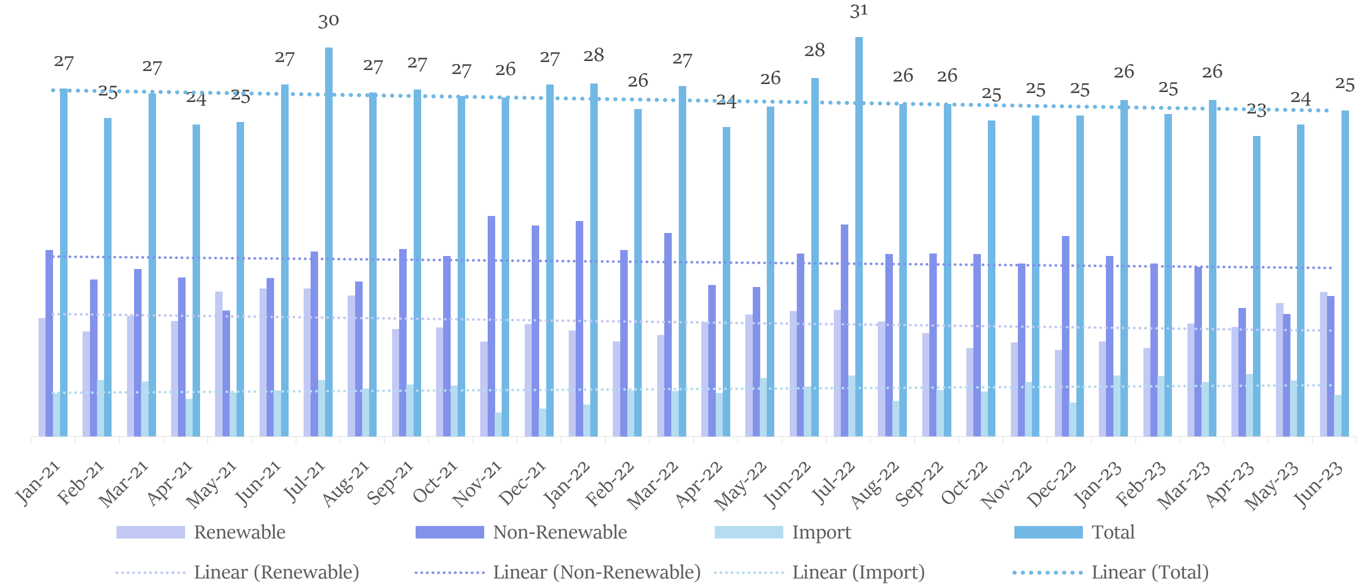
- Operating in one of the most competitive markets where market leader have an almost endless financial power
- Development of the same business model and tool on other commodities may be more complex, less disruptive and useful
- The extension of the national tax on additional profits from the energy sector, which now also affects non-producing retailers (like eVISO)
- Marginality is dependent on market price dynamics, which in the last year have reached price levels not seen in the last decade.

Lower electricity consumption and prices

According to the report published monthly by Terna, Italy's **national energy demand** is **gradually falling**, from an annual demand of 318.1 TWh in 2021 to 316.8 TWh consumed in 2022, and the fall has continued in the first half of 2023, where the average monthly fall was around 4.6% compared with the first half of 2022, so that annual consumption in 2023 should be 302.2 TWh.

Energy production from renewable sources returned in May above production from non-renewable sources, which has not happened since May 2021. Consumption in April 2023 was at its lowest level of the last three years, at 23.4 TWh.

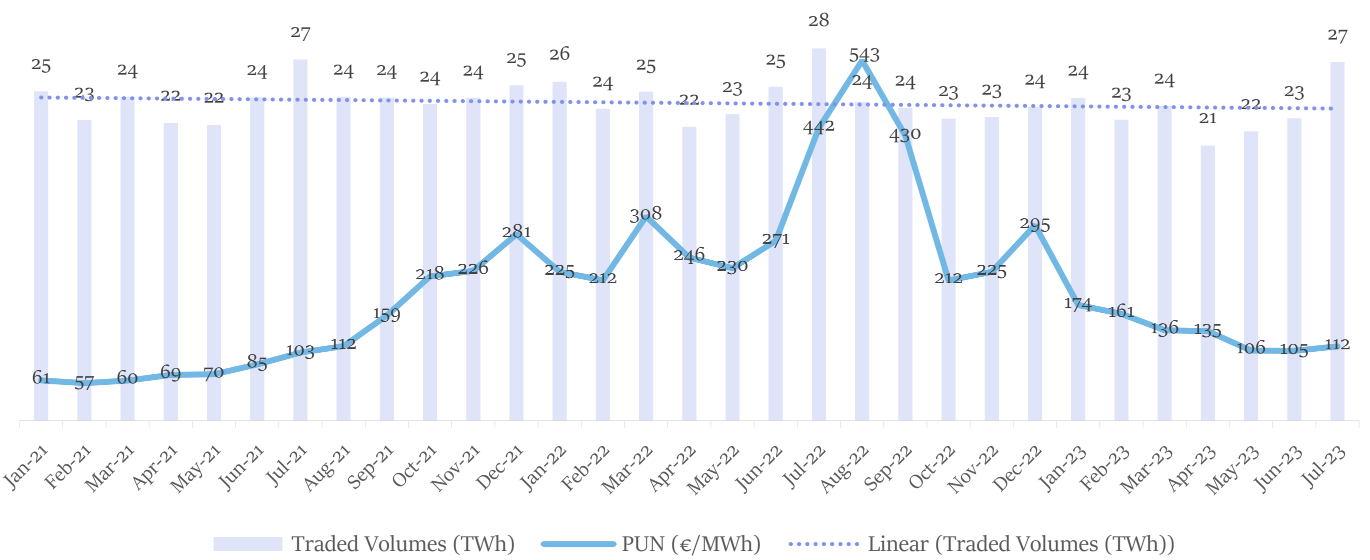
Monthly national Energy requirements and production sources January 2021 - June 2023



Source: Terna

The drop in domestic demand is also a consequence of the sharp rise in the **price per MWh**, which peaked in August 2022 and led businesses in particular to consume less. The price recorded by the PUN (Single National Electricity Price) over the course of 2023 fell steadily until June, reaching 105€/MWh, a low point not reached since July 2021, and then rose slightly in July, due to the month's historically high consumption. The average price for 2023 is now 133€/MWh (down 57% from 306€/MWh in 2022).

Monthly national energy price per MWh and energy traded January 2021 - July 2023



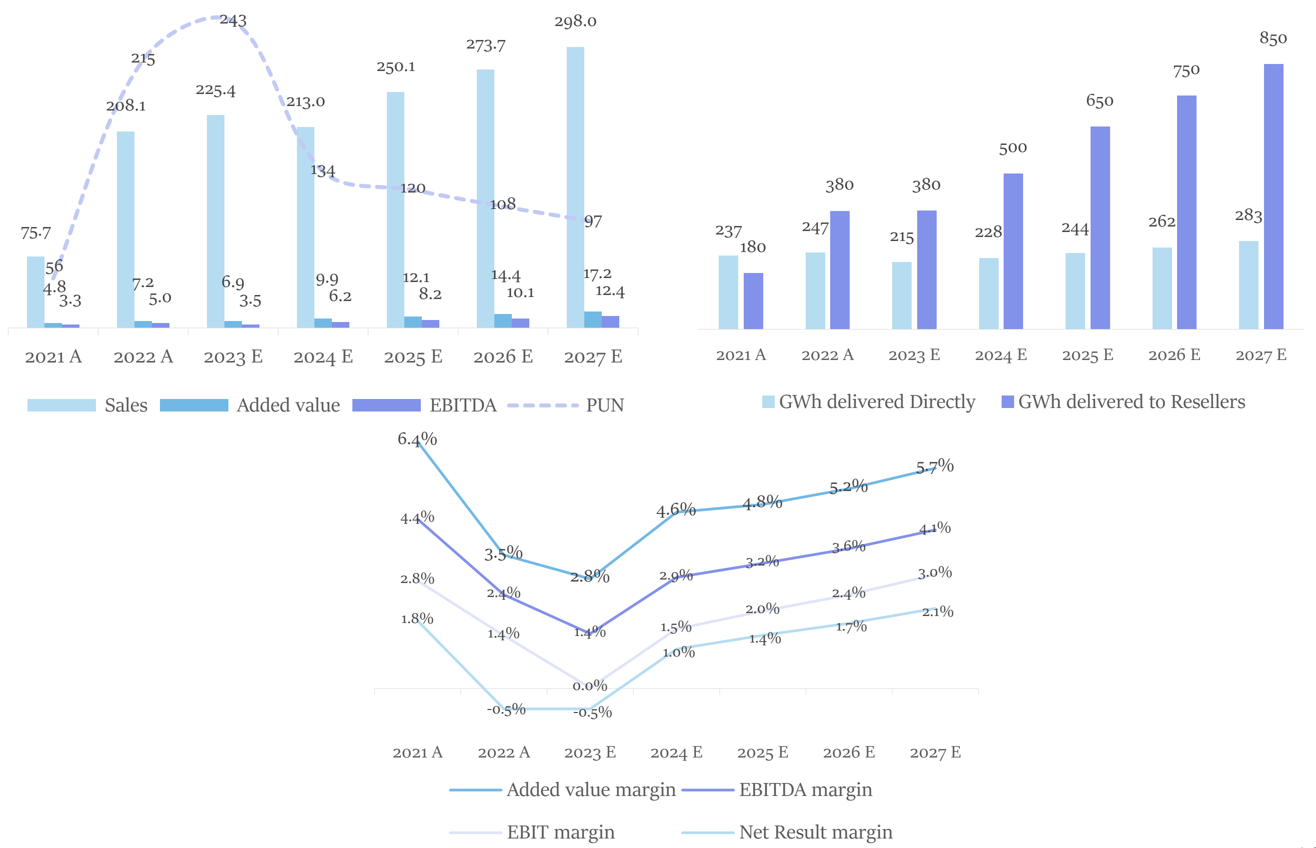
Source: GME

The reduction in consumption per POD (Point of Delivery) will enable eVISO to optimise the margin generated on customers. eVISO has significantly increased the number of low consumption PODs it supplies (both directly and indirectly) over the last two years, which has enabled it to reduce its credit risk on the one hand and, on the other, to increase Value Added (before staff costs) due to the fixed component paid by each customer. According to our estimates, in June 2024, the company will be able to present a Value Added/Sales of around 4.6%, i.e. +63% of what we forecast for June 2023, thanks also to an expected average level of PUN of around €134/MWh (vs €253/MWh YoY), a conservative forecast given that the average price over the last three months has been €108/MWh.

In addition, eVISO's competitors who do not have positive cash flow will be hit harder by the rise in interest rates on bank loans, which will lead the market to maintain higher prices, allowing eVISO to generate a potentially better-than-expected margin level or, in the case of an aggressive commercial policy, to gain additional market share. In terms of volumes delivered, we expect a decline in energy delivered to the direct segment this year and a stable situation for energy delivered to the reseller segment. We then expect growth to resume from 2024 onwards. For the period 2023-2027, we forecast a CAGR for volumes delivered to resellers and direct customers of 22.2% and 7.1% respectively.

Assuming a slight gradual decline in the NUP over the next few years, eVISO could be in a position in 2027, according to our estimates, to approach the pre-crisis margin levels presented in 2021, when the average PUN was €56/MWh.

Projections and margins for the main P&L indicators



Source: TP ICAP Midcap

Favourable working capital effects

By analysing the composition of the 4 main cost items on a bill (the simulation was based on the ARERA quarterly tables applied to the protected domestic market, simulating average household consumption of 2.7 MWh per year), the last 10 quarterly periods can be divided into three phases

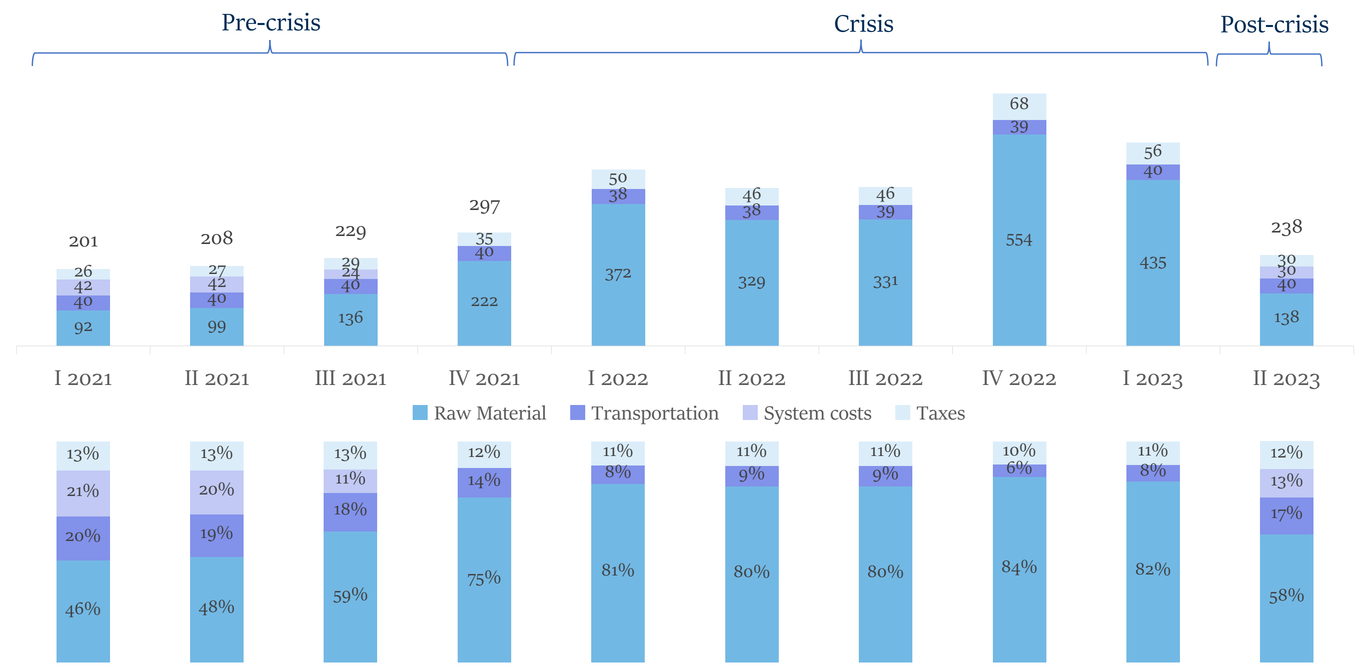
-The pre-crisis phase (January 2021 - December 2021): during which the impact of the raw material price on the total gradually increased from 46% to 75%, and at the end of which system costs were zero. The average annualised price per MWh during this period was 234€ (a family consuming 2.7 MWh in one year would have spent an average of 53€ per month);

-Energy crisis (January 2022-March 2023): over this period, the impact of the cost of raw materials on the bill was between 75% and 84%, and despite system charges being set to zero, the average annualised price per MWh was 496€ (the same family over this period more than doubled its expenditure, which amounted to more than 110€ per month) ;

-Post-crisis (April 2023-June 2023): over this period, the sharp fall in the cost of raw materials resulted in an average annualised price of 238€ (back to pre-crisis levels), supply charges were reintroduced and the impact of the cost of raw materials on the total bill fell to 58%.

While the cost of raw materials has shown unprecedented levels of volatility, transport costs have remained stable in absolute terms, reducing their impact on the total during the crisis, taxes have remained stable in relative terms at between 10% and 12% of the total cost in the invoice, and finally, system charges have been reduced to zero from October 2021 to the end of March 2023.

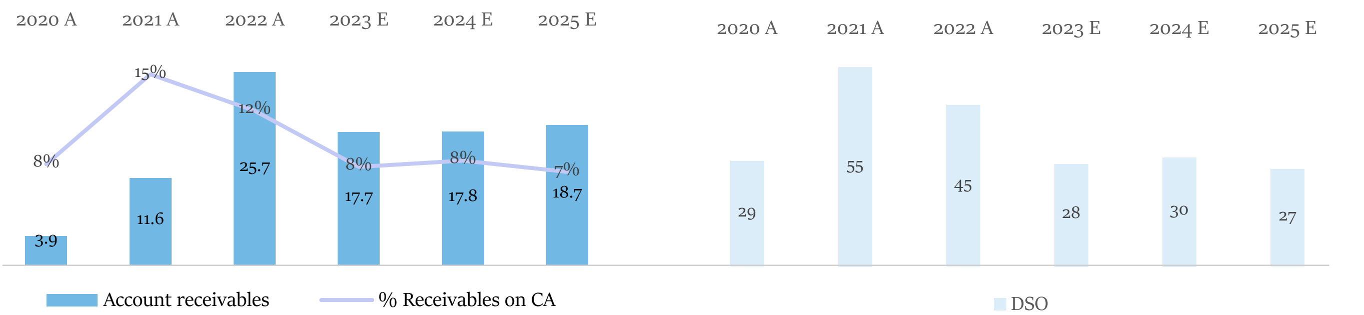
Breakdown of Energy bill by source



Source: ARERA

The new price level, which has returned to pre-crisis levels, will enable eVISO to benefit from working capital that is much less dependent on trade receivables, thanks to an invoice value that has been more than halved compared with the crisis period. At the same time, eVISO has improved its collection of trade receivables, enabling it to reduce its DSO.

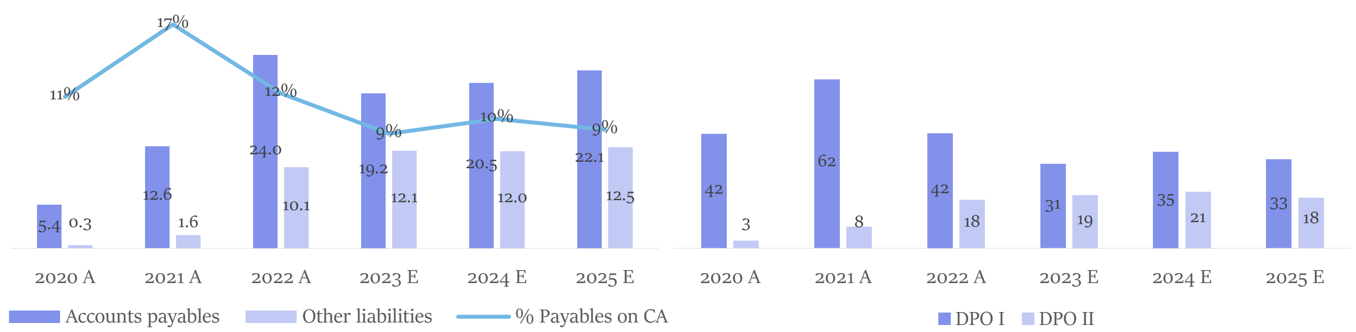
Dynamics of receivables and DSO 2020-2025



Source: eVISO, TP ICAP Midcap

The sharp fall in prices will also lead to a fall in trade payables, but this will be less pronounced than the fall in receivables thanks to the help of the reintroduction of system costs in the invoice, which have a longer DPO than the costs of purchasing raw materials from wholesalers. The growth in other liabilities, combined with eVISO's ability to request advances from customers, will continue to provide eVISO with slightly increasing indirect financing, which will help it to manage its working capital and consequently cash flow.

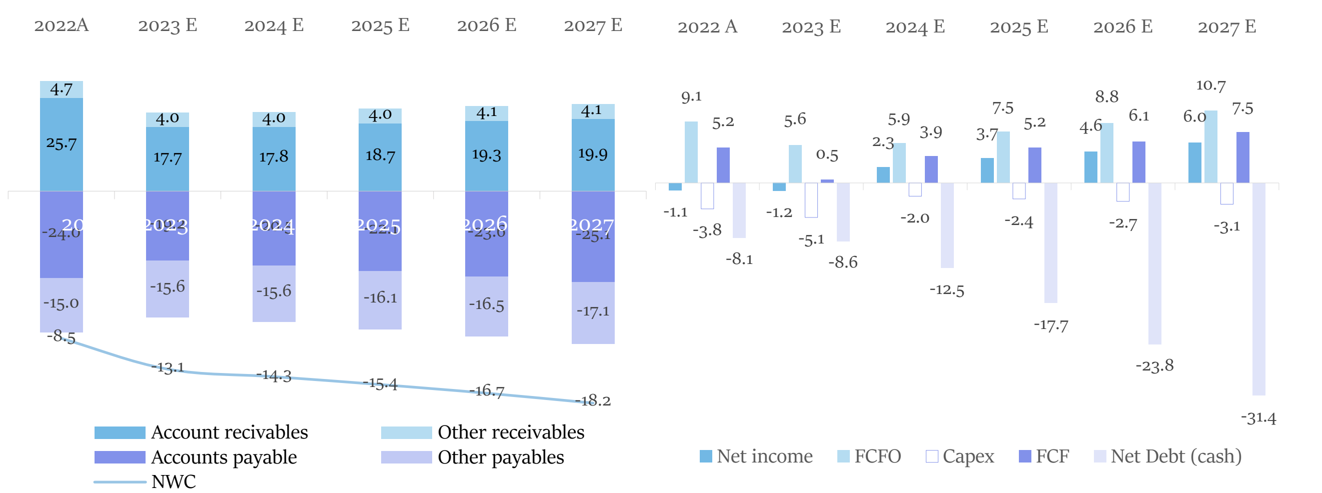
Dynamics of supplier debt and DPO 2020-2025 (DPO II: especially guarantees collected from clients)



Source: eVISO, TP ICAP Midcap

Finally, we note that eVISO's cash generation this year should be €0.5m, according to our estimates. The expected negative net profit will be offset by strong cash generation from Working Capital of around €4.6m, while investments in the construction of eVISO's new headquarters in Saluzzo will bring capital expenditure to over €5m (€1m intangible and €4m tangible) compared to €3.8m last year. For June 2024, we expect FCF to touch €4m, and then rise till €7.5m in June 2027 (keeping capex between €2m and €3.2m).

Expected growth in Net Working Capital and cash generation



Source: TP ICAP Midcap

The balance sheet at the end of June this year will highlight eVISO's ability to adapt to an unprecedented market environment, with a PUN in excess of €800/MWh at the peak of the crisis (in August 2022). Despite a first half with EBITDA barely above zero, eVISO returned to growth in the second half and, according to our estimates, will close with €3m of EBITDA generated. eVISO should generate €0.5m FCF, thanks to an absolutely unique management of working capital and despite investments of more than €5m, most of which was devoted to the construction of the new headquarters in Saluzzo.

We have no doubt that, in a less volatile market environment, the company will be able to meet our expectations. We estimate EBITDA for 2024 to be more than double that of this year (€6.5m compared with an estimated €3.2m for 2023) and cash flow generation (FCF) of around €4m (compared with an estimated €0.5m for this year).

FINANCIAL DATA

Income Statement	06/20	06/21	06/22	06/23e	06/24e	06/25e
Sales	47.8	75.7	208.1	225.4	213.0	250.1
Changes (%)	12.8	58.3	174.9	8.3	-5.5	17.4
Gross profit	30.3	44.4	43.9	46.6	86.2	108.3
% of Sales	63.3	58.6	21.1	20.7	40.5	43.3
EBITDA	**2.4**	**3.3**	**5.0**	**3.2**	**6.5**	**8.5**
% of Sales	5.0	4.4	2.4	1.4	3.1	3.4
Current operating profit	**1.7**	**2.2**	**3.2**	**1.0**	**4.1**	**5.8**
% of Sales	3.5	2.9	1.5	0.4	1.9	2.3
Non-recurring items	0.0	0.1	0.3	1.0	0.4	0.4
EBIT	1.7	2.1	2.8	0.0	3.7	5.3
Net financial result	0.1	0.4	0.2	0.6	0.4	0.2
Income Tax	0.4	0.4	3.7	0.6	0.9	1.4
Tax rate (%)	25.7	24.6	142.7	-118.8	27.9	27.9
Net profit, group share	**1.2**	**1.3**	**-1.1**	**-1.2**	**2.3**	**3.7**
EPS	0.05	0.05	na	na	0.09	0.15

Financial Statement	06/20	06/21	06/22	06/23e	06/24e	06/25e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Tangible and intangible assets	2.8	12.6	14.6	17.5	17.0	16.7
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	1.1	4.9	4.6	4.6	4.6	4.6
Working capital	-0.6	-0.3	-8.4	-13.0	-14.1	-15.3
Other Assets	0.0	0.0	0.0	0.0	0.0	0.0
Assets	3.3	17.2	10.8	9.1	7.6	6.0
Shareholders equity group	2.9	19.8	18.3	17.1	19.4	23.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
LT & ST provisions and others	0.4	0.3	0.6	0.6	0.6	0.6
Net debt	-0.0	-3.0	-8.1	-8.6	-12.5	-17.7
Other liabilities	0.0	0.2	0.1	0.1	0.1	0.1
Liabilities	3.3	17.2	10.8	9.1	7.6	6.0
Net debt excl. IFRS 16	-0.0	-3.0	-8.1	-8.6	-12.5	-17.7
Gearing net	-0.0	-0.2	-0.4	-0.5	-0.6	-0.8
Leverage	-0.0	-0.9	-1.6	-2.7	-1.9	-2.1

Cash flow statement	06/20	06/21	06/22	06/23e	06/24e	06/25e
CF after elimination of net borrowing costs and taxes	1.9	2.7	4.4	1.0	4.8	6.4
ΔWCR	-1.0	-0.0	4.7	4.6	1.1	1.2
Operating cash flow	0.8	2.7	9.1	5.6	5.9	7.5
Net capex	-2.1	-3.0	-3.8	-5.1	-2.0	-2.4
FCF	-1.3	-0.3	5.2	0.5	3.9	5.2
Acquisitions/Disposals of subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.9	-0.1	-0.1	0.0	0.0	0.0
Change in borrowings	3.1	0.2	3.3	0.0	0.0	0.0
Dividends paid	0.0	-0.3	-0.4	0.0	0.0	0.0
Repayment of leasing debt	0.0	0.0	0.0	0.0	0.0	0.0
Equity Transaction	-0.3	7.9	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Change in net cash over the year	2.8	7.8	2.9	0.0	0.0	0.0

ROA (%)	34.8%	7.7%	na	na	30.9%	60.8%
ROE (%)	39.4%	6.7%	na	na	12.0%	15.9%
ROCE (%)	57.0%	11.0%	17.4%	5.9%	21.1%	25.0%

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This Report may mention evaluation methods defined as follows:
1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

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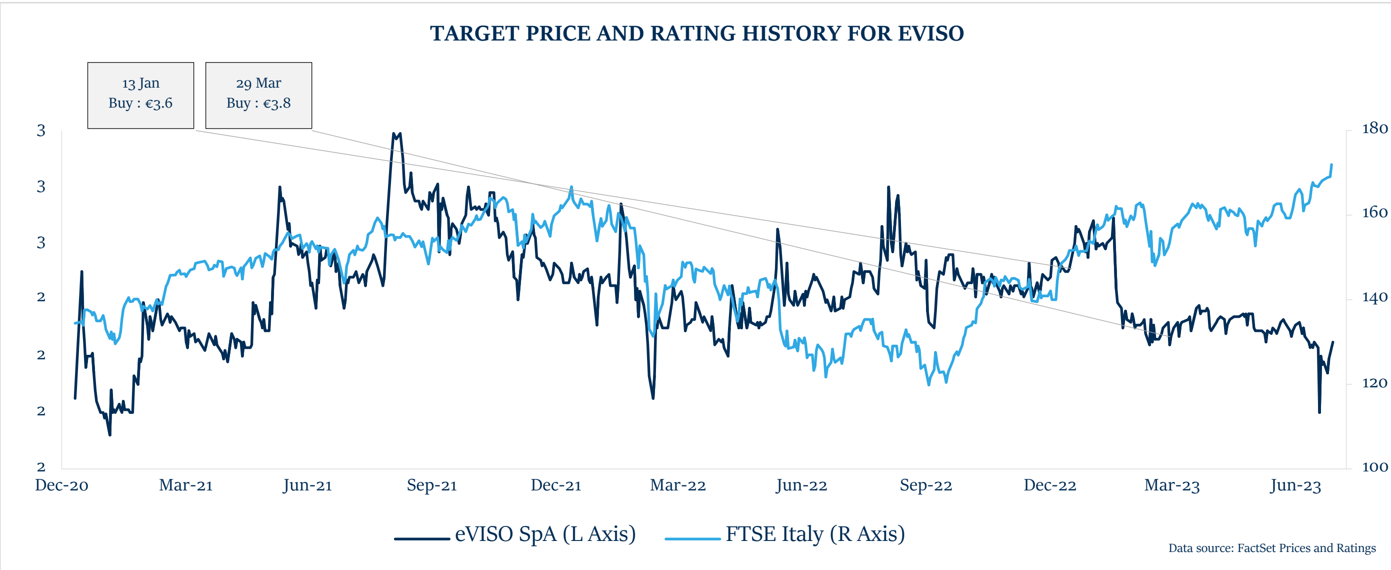
G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: eVISO SpA

History of investment rating and target price – eVISO SpA



Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	80%	65%
Hold	17%	44%
Sell	3%	25%
Under review	1%	100%

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