

Intred: robust FY18 and network expansion



April 1st at 11:00

Robust FY18 results above our expectations

In 2018, Intred reported revenue of €17.2mln (+19.4% yoy) and confirmed the average annual growth of the past years, standing well above its larger European rivals (CAGR 16-18 at +21% vs 1% Sector's average). Revenue growth has been driven by ultra-wideband connectivity which reached €8mln (65% yoy and weight to 47% of sales from 34% in 2017), whereas the traditional broadband and RDSL continued to decline in line with the Industry trend of customers' migration from ADSL to fiber optic connectivity. In fact, in 2018, in Italy FTTH accesses grew by 50% reaching 32% of total; FTTH, FTTC and data traffic increased by 30%. More than 95% of Intred revenue comes from recurring fees, thus visibility on future turnover remains high. The number of clients rose from 21,927 in 2017 to 26,268 in 2018 (+20% yoy) with stable breakdown (54% corporates; 29% households). In 2018 the adjusted EBITDA stood at €7.3mln with margin improving 310bps to 41.7% at the top of much larger European rivals (34.7% Sector's average). The EBITDA is also well above the €6.5mln target set by the PAS mechanism; thus no shares cancellation will occur. At the end of 2018, net cash was €6.6mln including IPO net proceeds for €9.5mln. Capex were €6.4mln for the network expansion which reached 1,950km at the end of 2018 from 1,700km a year earlier. Cash generation had been also fuelled by working capital optimization with a cycle that remains extremely favourable to cash generation. For the first time since 2002, the BoD approved a dividend distribution consisting of €0.02/share. Revenue, adjusted EBITDA and net income came in above our projections by 3%, 11% and 7% respectively.

Corporate strategy and our updated projections Main corporate strategy is to further expand its optical fibre network, proprietary or using third parties, in order to increase its territorial presence in areas already covered and to enter new neighbouring, less dense markets, where major competitors are not present and typically not focused on. The same could be said on customers target; Intred will keep addressing to PMIs whereas most of large rivals concentrate on large corporates and PA. The agreements with Telecom Italia (acquired IRU on 500km of turned off fiber) and Open Fiber (use of turned-off fiber optic to potentially activate an FTTH network up to 70k residential units), fit in this scenario. Given a higher 2018 compared to our projections and company guidance we have, on average in the 2019-2021 period, raised our top line and EBITDA estimates by 18% to reach €30mln revenue with an EBITDA margin of 41%; we increased capex to €28mln (from previous €15mln) and projected net working capital optimization ending with €2.8mln Free Cash Flow in 2021.

Valuation: DCF approach well appraises the long term duration of contracts and the aggressive capex plan

In the 2019E-2021E period we estimate an annual average FCF of €1.7 mln, including €10mln yearly capex. Using a perpetual growth rate of 2% and a WACC of 5.8% we head to an Equity Valuation of €75mln or €4.7/share leaving 20% upside to current price level. We raised our price target to €4.7, given the estimates increase and the fact that the stock reached our previous target of €3.9 (our report of October, 2nd). Our recommendation is BUY. The implicit average EV/EBITDA 2019-2020 is 8.2x vs 7.2x of its closest comparable and vs 5.5x of lower growing and profitable, much leveraged European Telecom players.

Target Price (€)	4.7	from	3.9
Recommendation			BUY
Price as of March, 29 th			3.95
Number of shares (mln)			15.85
Market capitalization (€mln)			62.6
Market segment			FTSE AIM ITALIA
Performance			from IPO
Absolute			+46%
Max / Min			3.95/2.27
Average daily volumes ('000)			17.6

(€ mln)	2017	2018E	2019E	2020E
Revenue	14.4	17.2	20.6	25.5
yoy change	25.9%	19.4%	19.6%	24.0%
Gross margin	8.0	9.9	11.6	14.5
margin (%)	54.3%	56.5%	55.8%	56.3%
EBITDA (Adj)	5.7	7.3	8.3	10.4
margin (%)	38.5%	41.7%	40.0%	40.5%
EBIT	3.5	4.7	5.2	6.7
margin (%)	23.9%	26.7%	24.9%	26.2%
EBT	3.5	4.6	5.2	6.8
Net income	2.5	3.2	3.8	4.9
margin (%)	17.2%	18.4%	18.1%	19.0%
Net debt/(cash)	4.1	(6.6)	(5.6)	(4.9)
Equity	9.4	22.6	26.1	30.6
Capex	5.5	6.4	10.0	10.0
Free Cash Flow	(1.6)	0.8	(0.7)	(0.4)

Source: Banca Profilo estimates and elaborations, Company data.

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SWOT analysis

STRENGTHS

- Capillary territorial presence in thriving areas, through a proprietary optical fibre network
- Proprietary wireless network dedicated to areas not adequately covered in XDSL
- Broad customer base, with a high loyalty rate (> 90% of clients are recurring)
- Strong brand awareness in the reference areas
- Remarkable expertise of sales force and technical department
- Experienced management team, with a consolidated know-how in the TLC industry

WEAKNESSES

- Low turnover in the customer base
- Geographical concentration in Brescia and in the neighbouring areas
- Lower investment capacity than the TLC players
- Lack of a commercial offer in the mobile segment
- Lower marketing expertise than big TLC players

OPPORTUNITY

- Geographical expansion in the province of Bergamo, Mantova and Monza Brianza, also through acquisitions
- Structural national delay in the development of the optical fibre infrastructure
- Lower access in Italy to the ultra-wideband services than in other European countries

THREATS

- Increasing competition with big Italian TLC players
- Regulatory uncertainty with reference to the NGN networks
- Potential entrance of new services or technologies

FY2018 results

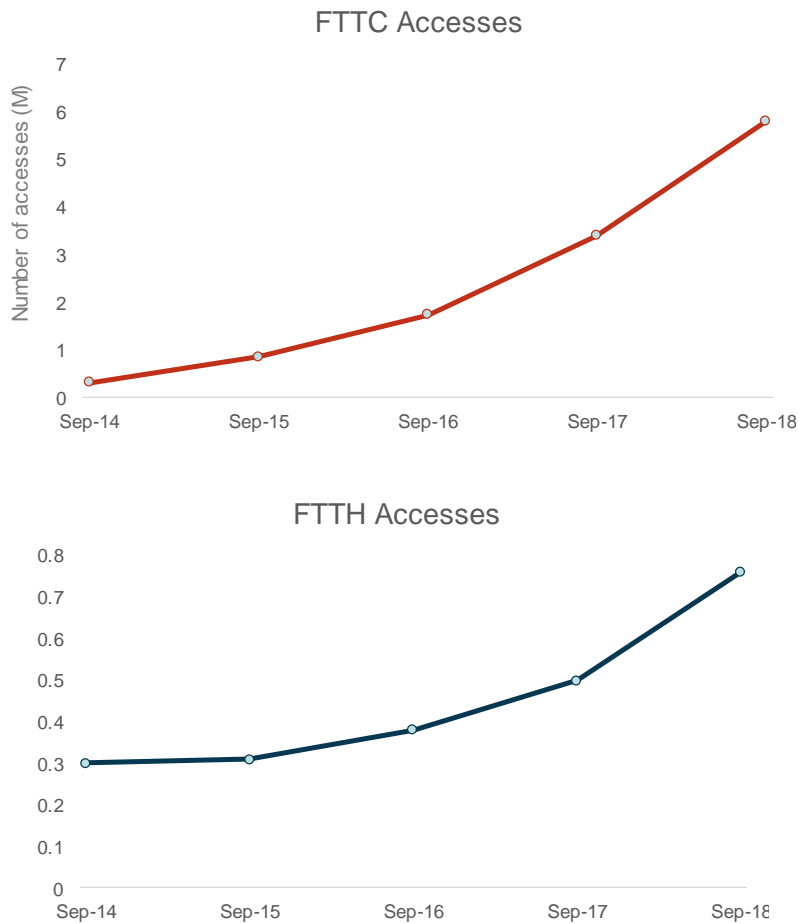
Main historical operating and financial data: focus on 2018

Intred confirmed double digit revenue growth in 2018 (+19.4% yoy)

In 2018 (numbers adjusted for IPO's fiscal credit and costs), Intred reported revenue of €17.2mIn, with an annual increase of 19.4% yoy. This growth confirms the average growth of the past years and stands well above Intred larger European rivals (+21% VoP CAGR 2016-2018 vs +1% as Sector's average).

As the trends showed in the past years, even in 2018, the increase in revenue has been mainly driven by ultra-wideband connectivity (FTTC and FTTH), which reached €8mIn (+65% yoy) but also by telephony (+14% yoy), while the traditional connectivity, broadband and RDSL, continued to decline in line with the Industry trend of customers' migration from ADSL to fiber optic connectivity. Intred growth in the FTTC and FTTH accesses is also well above the Industry trend in 2018 (+50% yoy in FTTH; +30% yoy in FTTC, FTTH and data traffic)).

Figure 1: TLC industry trends in Italy, focus on FTTC and FTTH accesses (2014-2018)



Source: Company presentation on AGCOM data

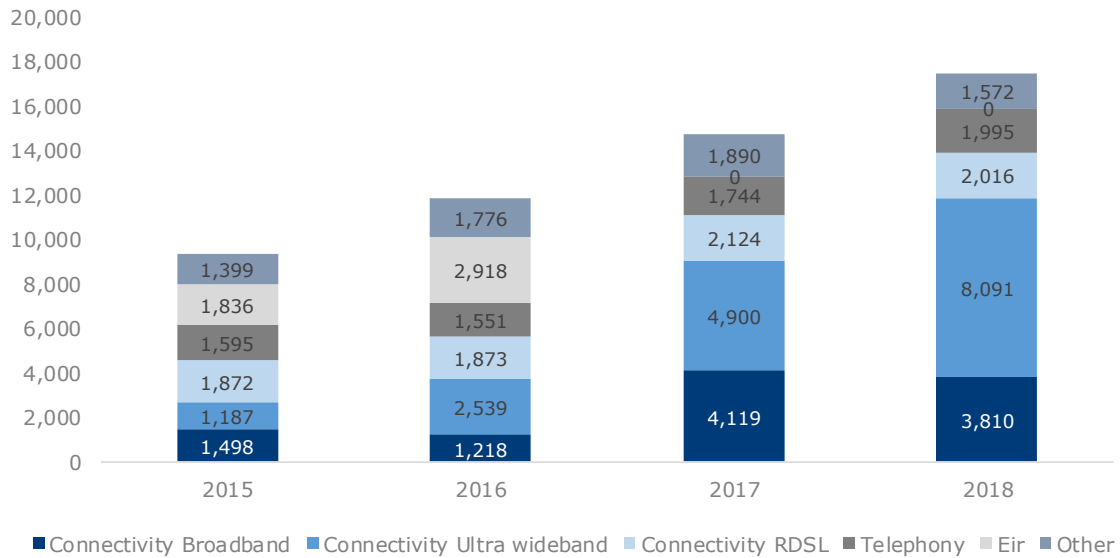
FTTH accesses in Italy +50% yoy in 2018

The TLC market in Italy accounts for 60% of the Communication Industry and it is worth €32.3bn. The accesses in FTTH have been growing by 50% in 2018 reaching about 700k. The FTTC accesses reached almost 6 mln in 2018 and, together with FTTH and data traffic increased by 30% yoy in the same year. These trends are mainly driver by the growing demand for online video content on the fixed network.

Driven by ultra-wide band (+65% yoy to 47% of sales) in line with market trends (FTTC and FTTH at 32% of total accesses)

In terms of revenue breakdown, ultra-wide band connectivity increased its weight from 34% to 47% of sales, while broadband and RDSL connectivity reduced their contribution from 43% to 34% of sales. This is again higher than the weight of FTTC and FTTH accesses in Italy that reached 32% of total accesses. More than 95% of revenue comes from recurring fees, thus visibility on future turnover remains high. The number of customers rose from 21,927 in 2017 to 26,268 in 2018 (+20.3% yoy). Revenue breakdown by customer has not changed with business at 54% of turnover and households at 29%; the churn rate was stable at some 4%.

Figure 2: Intred revenue breakdown by service (2015-2018)



Source: Banca Profilo elaborations on Company data.

Starting from 2018 and including comparison on 2017, the breakdown has been changed and calculated by type of connectivity.

EBITDA margin improving by 310bps to near 42% at the top of big players

In 2018, adjusted EBITDA (net of IPO costs and revenue, such as fiscal credit) stood at €7.3mln with margin improving by 310bps to 41.7%, at the top of much larger European rivals and well above the €6.5mln target of the Price Adjustment Share (PAS) mechanism, which set a gradual cancellation up to 15.6% of shares owned by historical shareholders.

Table 1: Profit & Loss 2015-2018

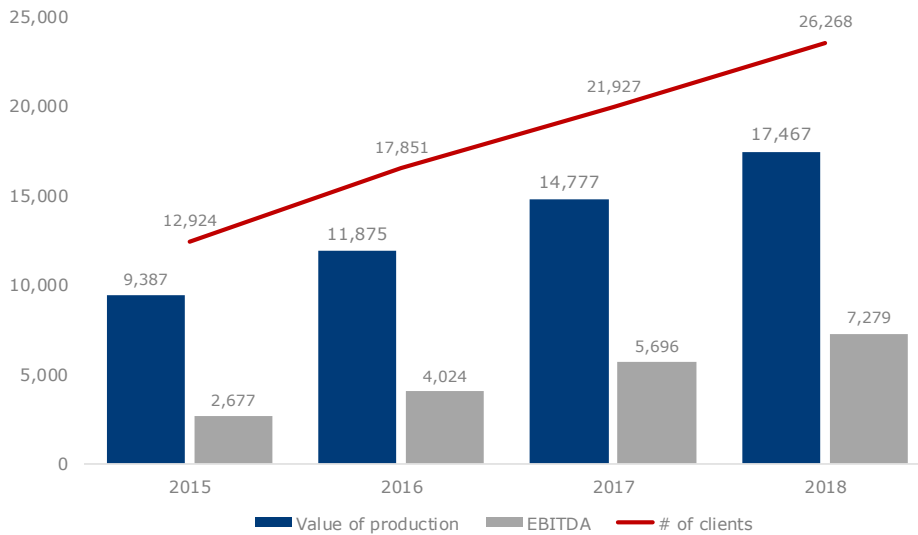
Profit & Loss (€/'000)	2015	2016	2017	2018 adjusted
Revenues	9,126	11,490	14,402	17,202
<i>yoy change</i>		25.9%	25.3%	19.4%
connectivity Broadband	1,498	1,218	4,119	3,810
<i>% on Revenues</i>	16%	11%	29%	22%
connectivity Ultra wideband	1,187	2,539	4,900	8,091
<i>% on Revenues</i>	13%	22%	34%	47%
connectivity RDSL	1,872	1,873	2,124	2,016
<i>% on Revenues</i>	21%	16%	15%	12%
telephony	1,595	1,551	1,744	1,995
<i>% on Revenues</i>	17%	13%	12%	12%
Eir	1,836	2,918	<i>n.a.</i>	<i>n.a.</i>
<i>% on Revenues</i>	20%	25%	<i>n.a.</i>	<i>n.a.</i>
microbusiness	173	276	<i>n.a.</i>	<i>n.a.</i>
<i>% on Revenues</i>	2%	2%	<i>n.a.</i>	<i>n.a.</i>
cloud and housing	447	402	419	418
<i>% on Revenues</i>	5%	3%	3%	2%
ancillary services and other	518	713	1,096	889
<i>% on Revenues</i>	6%	6%	8%	5%
other revenues	261	385	375	265
Value of production	9,387	11,875	14,777	17,467
<i>yoy change</i>		26.5%	24.4%	18.2%
raw materials	(74)	(180)	(311)	(122)
leases and rentals	(3,015)	(3,655)	(3,699)	(4,661)
service costs	(1,675)	(1,792)	(2,253)	(2,469)
labour costs	(1,696)	(1,942)	(2,327)	(2,590)
other operating costs	(250)	(282)	(491)	(345)
Production costs	(6,710)	(7,851)	(9,080)	(10,188)
<i>% on VdP</i>	-71%	-66%	-61%	-58%
Gross profit	4,373	5,966	8,024	9,870
<i>margin</i>	46.6%	50.2%	54.3%	56.5%
EBITDA	2,677	4,024	5,696	7,279
<i>margin</i>	28.5%	33.9%	38.5%	41.7%
D&A	(1,327)	(1,654)	(2,172)	(2,617)
amortization	(155)	(263)	(341)	(411)
depreciation	(1,172)	(1,391)	(1,831)	(2,206)
EBIT	1,350	2,370	3,524	4,662
<i>margin</i>	14.4%	20.0%	23.9%	26.7%
net financial expenses	(95)	(53)	(54)	(32)
EBT	1,255	2,317	3,470	4,631
taxes	(390)	(682)	(932)	(1,422)
<i>tax rate</i>	31%	29%	27%	31%
Net profit	865	1,635	2,538	3,209
<i>margin</i>	9.2%	13.8%	17.2%	18.4%

Source: Banca Profilo elaborations on Company data

FY18 results above our forecast, especially in EBITDA and net margin

Revenue and EBITDA came in above our projections by 3% and 11% respectively: we expected sales at €16.6mln or 15.5% yoy growth and EBITDA margin of 38.9%. Net income rose 26.4% yoy to €3.2mln, higher than our estimate at €3mln, and with a net margin close to 20% (18.4%).

Figure 3: Revenue and EBITDA trend (2015-2018)

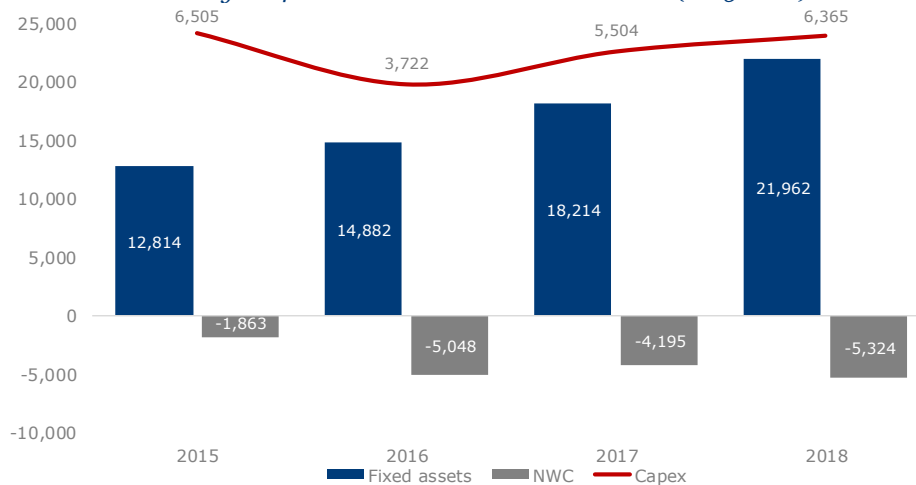


Source: Banca Profilo elaborations on Company data

Net cash at €6.6mln at the end of 2018 including €9.5mln IPO proceeds and €6.4mln capex

On the Balance Sheet side, at the end of 2018, net cash stood at €6.6mln (from net debt at €4.1mln at the end of 2017) and it included the net IPO proceeds (€9.5mln) and consequent increase of share capital to €10mln from €3.8mln in 2017. The capex were €6.4mln for the network expansion (some 75% in proprietary network, and the rest in the acquisition of the IRU), which grew 30% yoy from 1,700km at the end of 2017 to 1,950km at the end of 2018 (1,100km in 2016; 420km in 2014). Capex totalled €28mln since the Company foundation, including more than €15mln in the proprietary network.

Figure 4: Balance Sheet structure and trend (2015-2018)



Source: Banca Profilo elaborations and estimates on Company data

The working capital cycle still very

Cash generation had been also fuelled by working capital optimization, which cycle remains extremely favourable to cash generation: 85% of clients pay in 30 days; 14%

favourable to cash generation

in 60 days and only 1% in 90 days. The Company can also easily and promptly stop the service in case of non-paying customers.

Table 2: Balance Sheet 2016-2018

Balance Sheet (€/000)	2015	2016	2017	2018 adjusted
Fixed assets	12,814	14,882	18,214	21,962
immaterials	2,632	2,940	3,735	4,857
materials	10,174	11,842	14,379	16,991
financials	8	100	100	114
Operating Working Capital	(651)	(651)	(905)	(1,965)
accounts receivables	2,162	3,188	3,582	3,097
accounts payables	(2,813)	(3,839)	(4,487)	(5,062)
other receivables	3,388	581	1,675	1,629
other payables	(4,600)	(4,978)	(4,964)	(4,988)
Net Working Capital	(1,863)	(5,048)	(4,195)	(5,324)
Funds	(398)	(450)	(503)	(575)
Net Invested Capital	10,553	9,384	13,516	16,063
Equity	5,268	6,905	9,439	22,650
share capital	3,810	3,810	3,810	10,000
reserves	593	1,460	3,091	9,442
net profit	865	1,635	2,538	3,209
Net debt (cash)	5,286	2,479	4,077	(6,587)
Liquidità	(464)	(1,906)	(1,088)	(9,651)
Debiti verso banche m/l.t.	5,750	4,385	5,165	3,064
Tot. Fonti	10,554	9,384	13,516	16,063

Source: Banca Profilo elaborations on Company data

€520k of cash-flows only due to accelerating capex for network expansion

In 2018, excluding the capital injection from the listing process, Intred reported €520k Free Cash Flows.

For the first time since 2002, the BoD approved a dividend distribution proposal to shareholders, consisting of €0.02/share or total dividend of €317k equal to a 10% payout on 2018 net income, still limited by the needing of investing in network expansion.

Table 3: Intred Cash Flows 2016- 2018

Cash-flow (€/000)	2015	2016	2017	2018 adjusted
Net Income		1,635	2,538	3,209
D&A		1,654	2,172	2,617
Operating cash-flows		3,289	4,710	5,825
Change in working capital		1	254	1,059
Capex		(3,722)	(5,504)	(6,365)
Cash-flows from activities		(432)	(540)	520
Change in other activities/liabilities		3,185	(1,107)	70
Change in other funds		52	53	72
Change in equity		2	(4)	10,003
Total cash-flows		2,807	(1,598)	10,664
Initial NFP		5,286	2,479	4,077
Final NFP	5,286	2,479	4,077	(6,587)

Source: Banca Profilo elaborations and estimates on Company data

Strategy and estimates update

Corporate strategy

Develop the proprietary fibre network and keep the first mover competitive advantage

Intred sees its reference market to grow further in the next six years, showing significant opportunities to cover new geographical areas in a limited competition scenario by other local territorial and focused players. Indeed, this is a crucial moment to grow before the intensification of the price competition. Moreover, in this Industry it's key to be a first mover, leveraging on the customer loyalty and gaining a competitive advantage over competitors.

Become leader in the optical fiber connection market mostly in peripheral areas and for PMIs far from rivals' interest

Therefore, main corporate strategy is to further develop its optical fibre network, in order to increase its territorial presence in areas already covered (Brescia, where the Company expects to reach a market share around 15%, Mantova and Bergamo) and to enter new neighbouring less dense markets where major competitors are not present and typically do not focus on. The same could be said on customers target; Intred addresses typically to PMIs whereas most of large players concentrate on big corporates and PA.

External growth currently on hold searching for optimal targets. Focus on extending proprietary network.

To reach this goal, Intred will keep expanding both its proprietary network ("Make option") and using third parties network ("Use option"), developing mostly ultra-wideband connectivity and disinvesting from broadband connectivity. The Company expects to increase its presence in neighbouring areas, together with its market share in the province of Brescia (with a target of 15%-16% from current 8%), obtaining a competitive advantage from positioning its infrastructure before other players.

This expansion strategy could be also implemented through M&A operations. Few targets have been studied but with no positive and concrete ending. Thus, Intred accelerated the acquisition of competitors' network in strategic areas to quickly expand and penetrate in Lombardia.

The higher visibility that the Company will reach through its network expansion, should also lead Intred to be more accredited by larger business clients.

Use of IPO proceeds mostly for fiber network expansion

Within this market scenario and Company strategic guidelines, in November Intred signed an agreement with Telecom Italia to acquire the IRU (for 15 years) of some 500km of turned off fiber optic network which will allow to potentially extend its reach to further 90 towns in Lombardia, especially in Milan, Monza and Brianza, Lecco and Bergamo. The total investment will be about €3mln including the acquisition of the IRU and additional new-generation equipment. According to management, in the 1Q19 a first tranche of about 350km will be active, the rest throughout 2019. Effects on top line will be negligible towards the end of 2019 and much higher in 2020 and 2021.

Agreements with Telecom Italia and Open Fiber

In addition, in February Intred signed an agreement with Open Fiber for the use of turned-off fiber optic with recurring costs (opex no capex) of some €3mln in 5 years to potentially activate an FTTH network on 70k residential units in the same time-frame in the city of Brescia. The Company's goal is to reach 5,000-7,000 homes in 5 years, with expected revenue starting from 2020.

Our updated estimates 2019E-2021E

Estimates update to include beating results

Given a higher 2018 compared to our projections, we updated our estimates and valuation model to include these beating results.

We expect Intred to outpace its reference market thanks to its

We expect Intred to keep outpacing its reference market growth, given: i) its strategic positioning in faster growing market segments and geographic areas; ii) an increase of covered provinces; iii) a persisting commercial push; iv) improved visibility

faster growing positioning

following the IPO process, which has been opening new opportunities with new clients; and v) opportunistic M&A deals.

Management guides for persisting double digit growth, €20-25m capex in two years and basically stable EBITDA marginality

According to management guidance, the Company will continue to grow at this pace this year and the two following ones fuelled by increasing demand for ultra wideband for the access of more and more video content. The planned €20-25m capex in 2019 and 2020 will allow for network extension and market penetration with effects on revenue growth mainly starting from 2020. EBITDA margin is seen at around 40% due to little dilution deriving from acceleration of investments and personnel hiring.

2019-2021E estimates: revenue and EBITDA raised by 19-18% respectively on average; capex increased by over €10m

As a consequence, on average in the 2019-2021 period we:

- raised our top line estimates and EBITDA by 19% and 18% respectively;
- increased capex from €15m to €28m, in line with the acceleration of network expansion from the end of 2018 and according to management guidance of €20-25m planned capex in the next two years.
- projected net working capital optimization, in line with the recent trend.

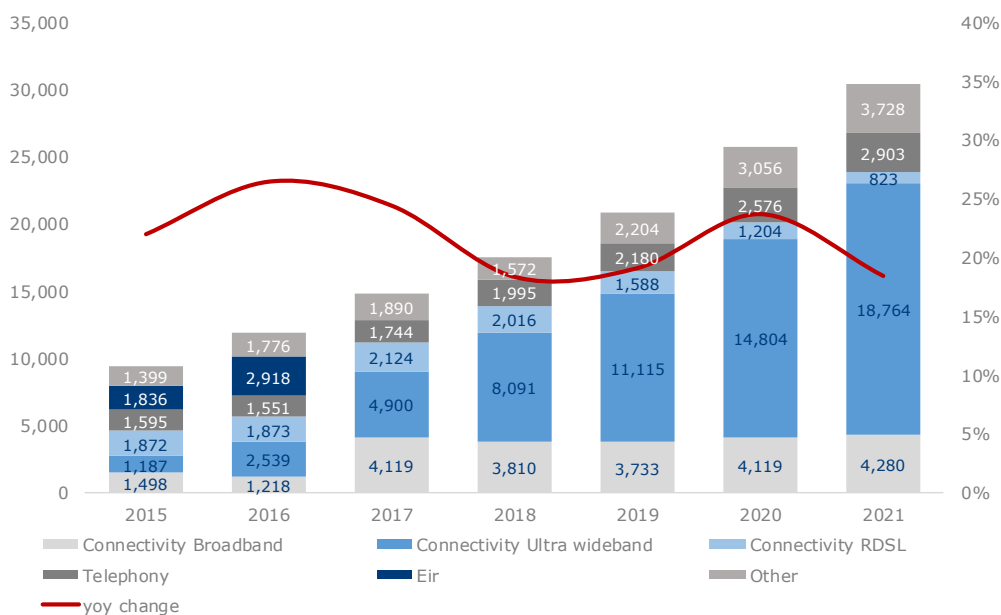
We end up with a slight improvement of terms of cash flows in the three year period, compared to our previous projections.

Revenue CAGR 18-21E at 19%; high visibility on 2019

We now project a 21% revenue 2018-2021E CAGR to reach €30.2m in 2021 (from our previous estimate of €23.5m), mainly driven by the ultra-wideband services (+30% overtaking 60% of total turnover).

It's important to highlight that the Company has a high visibility on 2019 numbers, based on contracts average duration and recurring fees; first three months already show the growth path experienced in 2018.

Figure 5: Intred revenue trend by service 2015-2021E



Source: Banca Profilo elaborations and estimates on Company data

EBITDA raising to €12.5m with margin at 41% in 2021

In 2019E-2021E, we expect the Company to improve the EBITDA to €12.5m or margin at 40.9% (€9.9m and 41.6% respectively in our previous projections) as the results of 1.7% decrease of the incidence of leases and rentals (25.4% on average in the three year period) and some 0.6% raise of the incidence of cost of services on revenue combined with an increasing weight of labour costs (by 1% to 15.8% of VoP), in line with management guidance to increase hirings starting from this year. We are now more conservative on rents and leases than in our previous estimates (23% the weight on sales, originally estimated in 2021), due to the acceleration of network expansion in a "make" or "use" more balanced mix than originally expected.

Table 4: Intred Profit & Loss 2015-2021E

Profit & Loss (€/000)	2015	2016	2017	2018 adjusted	2019E	2020E	2021E
Revenues	9,126	11,490	14,402	17,202	20,571	25,508	30,248
<i>yoy change</i>		25.9%	25.3%	19.4%	19.6%	24.0%	18.6%
connectivity Broadband	1,498	1,218	4,119	3,810	3,733	4,119	4,280
<i>% on Revenues</i>	16%	11%	29%	22%	18%	16%	14%
connectivity Ultra wideband	1,187	2,539	4,900	8,091	11,115	14,804	18,764
<i>% on Revenues</i>	13%	22%	34%	47%	54%	58%	62%
connectivity RDSL	1,872	1,873	2,124	2,016	1,588	1,204	823
<i>% on Revenues</i>	21%	16%	15%	12%	8%	5%	3%
telephony	1,595	1,551	1,744	1,995	2,180	2,576	2,903
<i>% on Revenues</i>	17%	13%	12%	12%	11%	10%	10%
Eir	1,836	2,918	n.a.	n.a.	n.a.	n.a.	n.a.
<i>% on Revenues</i>	20%	25%	n.a.	n.a.	n.a.	n.a.	n.a.
microbusiness	173	276	n.a.	n.a.	n.a.	n.a.	n.a.
<i>% on Revenues</i>	2%	2%	n.a.	n.a.	n.a.	n.a.	n.a.
cloud and housing	447	402	419	418	911	1,385	1,945
<i>% on Revenues</i>	5%	3%	3%	2%	4%	5%	6%
ancillary services and other	518	713	1,096	889	1,043	1,420	1,533
<i>% on Revenues</i>	6%	6%	8%	5%	5%	6%	5%
other revenues	261	385	375	265	250	250	250
Value of production	9,387	11,875	14,777	17,467	20,821	25,758	30,498
<i>yoy change</i>		26.5%	24.4%	18.2%	19.2%	23.7%	18.4%
raw materials	(74)	(180)	(311)	(122)	(292)	(361)	(427)
leases and rentals	(3,015)	(3,655)	(3,699)	(4,661)	(5,384)	(6,558)	(7,612)
service costs	(1,675)	(1,792)	(2,253)	(2,469)	(3,059)	(3,784)	(4,480)
labour costs	(1,696)	(1,942)	(2,327)	(2,590)	(3,288)	(4,067)	(4,815)
other operating costs	(250)	(282)	(491)	(345)	(463)	(552)	(682)
Production costs	(6,710)	(7,851)	(9,080)	(10,188)	(12,485)	(15,321)	(18,017)
<i>% on VdP</i>	-71%	-66%	-61%	-58%	-60%	-59%	-59%
Gross profit	4,373	5,966	8,024	9,870	11,624	14,504	17,296
<i>margin</i>	46.6%	50.2%	54.3%	56.5%	55.8%	56.3%	56.7%
EBITDA	2,677	4,024	5,696	7,279	8,336	10,437	12,480
<i>margin</i>	28.5%	33.9%	38.5%	41.7%	40.0%	40.5%	40.9%
D&A	(1,327)	(1,654)	(2,172)	(2,617)	(3,158)	(3,700)	(4,134)
amortization	(155)	(263)	(341)	(411)	(578)	(745)	(879)
depreciation	(1,172)	(1,391)	(1,831)	(2,206)	(2,581)	(2,955)	(3,255)
EBIT	1,350	2,370	3,524	4,662	5,178	6,736	8,347
<i>margin</i>	14.4%	20.0%	23.9%	26.7%	24.9%	26.2%	27.4%
net financial expenses	(95)	(53)	(54)	(32)	59	51	59
EBT	1,255	2,317	3,470	4,631	5,237	6,787	8,405
taxes	(390)	(682)	(932)	(1,422)	(1,459)	(1,892)	(2,343)
<i>tax rate</i>	31%	29%	27%	31%	28%	28%	28%
Net profit	865	1,635	2,538	3,209	3,778	4,896	6,063
<i>margin</i>	9.2%	13.8%	17.2%	18.4%	18.1%	19.0%	19.9%

Source: Banca Profilo elaborations and estimates on Company data

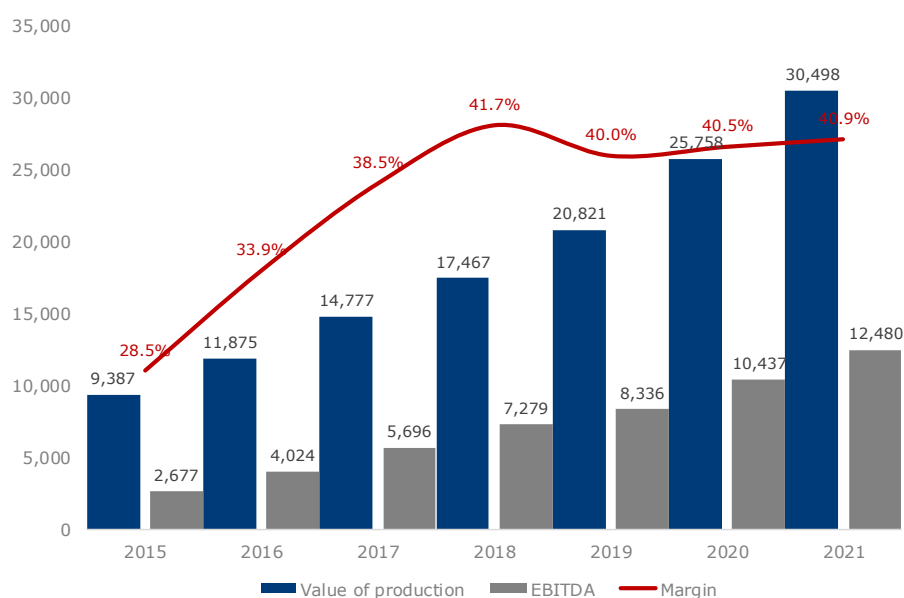
D&A estimated at 14% of VoP in line with planned network expansion

For the 2018E-2021E period, we estimated increasing D&A from €2.6mln in 2018 to €4.1mln in 2021. The increase in D&A follows the planned expansion of proprietary network during the next three years, with cumulated capex estimated at €28mln (compared to €15mln in our previous forecast).

Net income at €6m in 2021E including dividend distribution

With regards to net financial expenses, we projected a 1% interest on net cash. Finally, the tax rate, at 31% in 2018, is projected at 28% in the following years, leading to a net income of about €6m in 2021E (vs previous €4.9m). In our estimates, we forecast a dividend distribution during the three year period using the 10% payout approved in 2018.

Figure 6: Revenue and EBITDA 2015-2021E



Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet projections: €28m cumulated capex and net working capital optimization

Regarding our Balance Sheet projections (2019E-2021E), we have included:

- €28m of cumulated capex (vs our previous estimate of €15m) for the development of the proprietary network, of which 75% material investments and the rest intangibles, mostly the rights of use on third party's fibre, with an annual average of €9m (vs previous €5m); this is in line with management guidance of €20-25m of capex in two years.
- almost €4 m of cumulated operating working capital optimization (vs our previous €1m cash absorption) in three years (or yearly average €1.3m vs €-0.4 respectively), continuing the virtuous path began in 2019;
- €9.5m of capital increase following the IPO and its net proceeds.

Table 5: Intred Balance Sheet evolution 2015-2021E

Balance Sheet (€/000)	2015	2016	2017	2018 adjusted	2019E	2020E	2021E
Fixed assets	12,814	14,882	18,214	21,962	28,804	35,104	38,970
immaterials	2,632	2,940	3,735	4,857	6,788	8,553	9,681
materials	10,174	11,842	14,379	16,991	21,901	26,436	29,174
financials	8	100	100	114	114	114	114
Operating Working Capital	(651)	(651)	(905)	(1,965)	(4,327)	(5,274)	(5,858)
accounts receivables	2,162	3,188	3,582	3,097	3,420	3,633	3,382
accounts payables	(2,813)	(3,839)	(4,487)	(5,062)	(7,747)	(8,907)	(9,240)
other receivables	3,388	581	1,675	1,629	1,645	1,662	1,678
other payables	(4,600)	(4,978)	(4,964)	(4,988)	(4,988)	(4,988)	(4,988)
Net Working Capital	(1,863)	(5,048)	(4,195)	(5,324)	(7,670)	(8,601)	(9,168)
Funds	(398)	(450)	(503)	(575)	(650)	(735)	(831)
Net Invested Capital	10,553	9,384	13,516	16,063	20,484	25,768	28,971
Equity	5,268	6,905	9,439	22,650	26,111	30,634	36,213
share capital	3,810	3,810	3,810	10,000	10,000	10,000	10,000
reserves	593	1,460	3,091	9,442	12,333	15,738	20,150
net profit	865	1,635	2,538	3,209	3,778	4,896	6,063
Net debt (cash)	5,286	2,479	4,077	(6,587)	(5,628)	(4,865)	(7,241)
Liquidità	(464)	(1,906)	(1,088)	(9,651)	(7,440)	(6,092)	(7,989)
Debiti verso banche m/l.t.	5,750	4,385	5,165	3,064	1,812	1,227	747
Tot. Fonti	10,554	9,384	13,516	16,063	20,484	25,768	28,971

Source: Banca Profilo elaborations and estimates on Company data

Cumulated Free Cash Flow ~ €1.6mln

According to our economics and financial projections, the Company is expected to generate €1.6mln of aggregated Unlevered Free Cash Flows in three years at a yearly average of €0.5mln, in line with our previous estimates given the compensation between higher capex and larger net working capital cash generation.

Table 6: Intred Free Cash Flow evolution 2015-2021E

Cash-flow (€/000)	2015	2016	2017	2018 adjusted	2019E	2020E	2021E
Net Income		1,635	2,538	3,209	3,778	4,896	6,063
D&A		1,654	2,172	2,617	3,158	3,700	4,134
Operating cash-flows		3,289	4,710	5,825	6,937	8,596	10,196
Change in working capital		1	254	1,059	2,363	947	584
Capex		(3,722)	(5,504)	(6,365)	(10,000)	(10,000)	(8,000)
Cash-flows from activities		(432)	(540)	520	(701)	(457)	2,780
Change in other activities/liabilities		3,185	(1,107)	70	(16)	(16)	(17)
Change in other funds		52	53	72	75	85	96
Change in equity		2	(4)	10,003	(317)	(373)	(484)
Total cash-flows		2,807	(1,598)	10,664	(959)	(762)	2,376
Initial NFP		5,286	2,479	4,077	(6,587)	(5,628)	(4,865)
Final NFP		5,286	2,479	4,077	(5,628)	(4,865)	(7,241)

Source: Banca Profilo elaborations and estimates on Company data

Estimates risks

Key risks relate to intense competition from big national players, which could invest in the areas covered by Intred. We also highlight the risk of uncertain regulatory frame related to the new generation networks (NGN) and the evolution of new technologies or services, such as GPON and 5G frequencies. However, visibility on future results, especially 2019, remains very high with 95% of revenue deriving from recurring fees and 85% of anticipated invoices paid within 30 days.

Valuation

DCF approach well appraises contracts duration; capex plan

Given the average long term duration of the commercial contracts, the consequent control over cash-flows and the significant amount of capex, a DCF method well adapts as a valuation approach.

Sample of listed comparables: Retelit and big EU players

For what concerns the relative market multiples approach, there is only one listed company (Retelit) active in the specific business of Intred, which shows a similar incidence of revenue from data services, providing also its own fibre network infrastructure. Thus, we also included in our analysis big European and diversified players, even if they show a higher incidence of revenue from voice services, mainly in the mobile segment, not offered by Intred.

Our Sample for a relative approach on market multiples includes: the Italian Retelit and Telecom Italia, the French Iliad and Orange, the German Deutsche Telekom, the Spanish Telefonica and the English BT Group and Vodafone.

M&A transactions multiples

Finally we add an average of M&A multiples derived from comparables transactions over the past three years.

DCF

DCF assumptions: €2.8mIn yearly FCF on average

Given the 2018 numbers above our expectations and consequent increase of our estimates of 2019-2021, we run again the DCF model.

We use our projections of unlevered FCFs for the 2019E-21E explicit period: €5.8mIn. Considering the positive trend of the market and the business model based on strong investments with a 2 year payback, our projected FCFs have a considerable uptrend.

In order to assess the Terminal Value, we factor in:

- an unlevered FCF of €2.8mIn, as the last year's cash flow (vs previous €2.7mIn, which was the FCF expected in the last year, 2021E);
- 2% perpetual growth rate.

Table 7: unlevered FCFs

Free Cash Flow (€ 000)	2016	2017	2018	2019E	2020E	2021E	TV
EBIT	2,370	3,524	4,662	5,178	6,736	8,347	
taxes	(660)	(982)	(1,299)	(1,443)	(1,877)	(2,326)	
NOPAT	1,710	2,542	3,363	3,735	4,859	6,021	
D&A	1,654	2,172	2,617	3,158	3,700	4,134	
Operating NWC change	3,185	(853)	1,129	2,346	930	567	
Other funds	52	53	72	75	85	96	
capex	(3,722)	(5,504)	(6,365)	(10,000)	(10,000)	(8,000)	
Free Cash Flow	2,879	(1,590)	816	(685)	(425)	2,818	2,818

Source: Banca Profilo estimates and elaborations

WACC assumptions: 5.8%

We use a 5.8% WACC (vs previous 6.5%), derived from:

- 4% risk free rate, as implicitly expected by consensus on the 30Y Italian BTP yield curve (4.5% in our previous research);
- 5% market risk premium;
- 0.8 re-levered beta, coming from the average betas of peers in our Sample;
- D/E target at 30%.

Table 8: FCFs and WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	5.8%
risk free rate (30Y)	4.0%
equity risk premium	5.0%
beta	0.8
KE	7.8%
cost of debt	1.4%
tax rate	31%
KD	1.0%
Target financial structure	
D/D+E	30%
E/D+E	70%

Source: Banca Profilo estimates and elaborations

DCF valuation:
€4.7/share

The DCF method leads us to an Enterprise Value of €68.1mIn (vs previous €56mIn) and an Equity Value of €74.8mIn or €4.7/share.

Table 9: DCF valuation

DCF Valuation	2018	2019E	2020E	2021E	TV
Free Cash Flows (€ 000)		(685)	(425)	2,818	2,818
years		1	2	3	
discount factor		0.95	0.89	0.85	
NPV Cash flows (€ 000)		(648)	(380)	2,381	
Sum of NPVs (€ 000)		(648)	(1,028)	1,353	
Terminal Value (€ 000)					79,085
NPV Terminal Value (€ 000)					66,839
Enterprise Value (€ 000)					68,192
Net debt (cash) end of 2018 (€ 000)					(6,587)
Equity Value (€ 000)					74,779
number of shares (mln)					15.85
Per share value (€)					4.7

Source: Banca Profilo estimates and elaborations

Intred competitive arena: strategic positioning and competitive advantages

Intred core business:
fibre network, data and voice services

We look at Intred competitive national environment focusing on its core business of providing fibre network infrastructure and offering data and voice services.

Strong hold of Brescia district with 1,500 km of fibre network and over 26,300 clients

Intred is a local telecommunication player with a strong presence in the province of Brescia (a thriving area with 1,265k people, of which quite 200k in the city – the 17th most populated city in Italy) and in neighbouring areas. The Company provides broadband and ultra-wideband connectivity, wireless, landline, cloud and ancillary services through a proprietary network of optical fibre extending over 1,900 km. At the end of 2018 the client base was about 26,300 units including Corporates (54% of revenue), Wholesale (13%), Households (29%) and Public Administration (4%).

Over 50% of revenue from corporates

47% of turnover in ultra-wideband offering

In this competitive arena, the presence in a fast growing market through a proprietary infrastructure is key to a success story. In fact, Intred is extremely well positioned in the ultra-wideband services market, which increased its contribution to total revenue to 47% in 2018 from 34% in 2017.

The importance of proprietary infrastructure:

More than €15mIn of investments so far with 2 year repayment period

A matter of "Make" or "Use" strategy

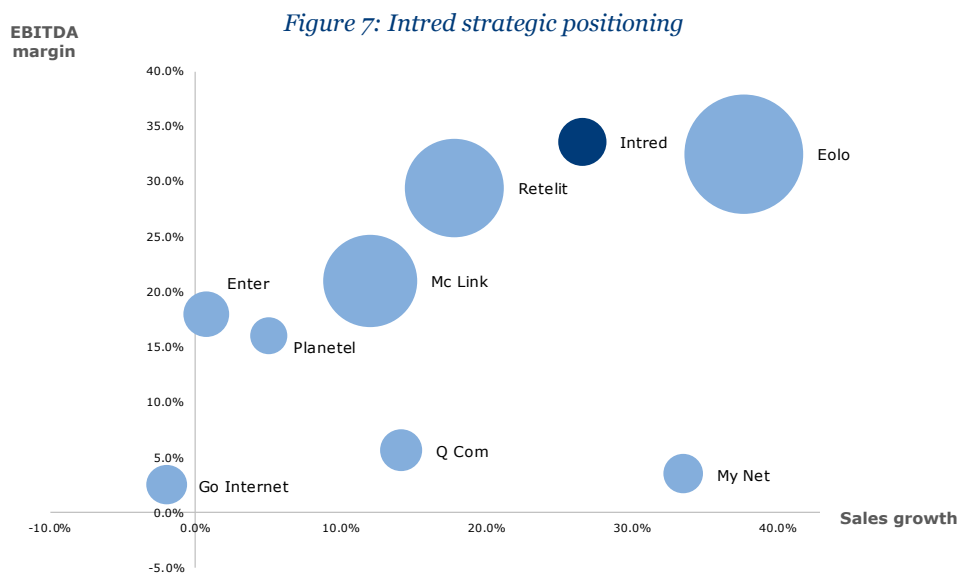
Benchmarking analysis: local rivals and big listed TLC companies

Moreover, the presence of a proprietary optical fibre network is key to drive revenue and profitability. Indeed, Intred has invested €28mIn since its foundation in infrastructure, including more than €15mIn in proprietary network, which is now capillary in its reference territory, reducing significantly the costs for renting third parties' network. The network uses Cisco System and Huawei components, the most used in the market. The investment, studied and realized, only under certain conditions, has typically a 2 year payback. After this period, the significant initial investment has been repaid and the Company is able to leverage the network to connect other clients at very lower costs, ensuring a significant improve in profitability for the following years. Indeed, the following add-ons capex can be sustained with lower resources, compared to a stable level of revenue. The other operators without a developed and extended proprietary network, have to rent the network from third parties, which take in part of the margins.

Intred is able to decide where and how to invest, through an ad-hoc analysis of feasibility, based on a "Make" or "Use" option. The option "Use" is chosen when potential customers to be connected are few and too far from Intred closest infrastructure point.

We rolled out a benchmarking analysis both on local rivals and big TLC listed European players.

The Italian scenario of companies with a size and a core business similar to Intred includes: Eolo S.p.A.; My Net S.r.l.; Retelit S.p.A.; Q Com S.p.A.; Mc Link S.p.A.; Planetel S.r.l.; Enter S.r.l.; Go Internet S.p.A.



Source: Banca Profilo elaborations on Company data

*Eolo (MI)
€72mIn turnover*

Eolo S.p.A., founded in 1999, is an Italian company focused on telecommunication services. It is specialized in broadband and ultra-broadband wireless radio connections, both for privates and corporates. Eolo can count on more than 300k customers in Italy and about 300 employees. Its headquarter is located in the province of Milan, in a 13,000 sqm area. In 2016/2017 Eolo generated €71.6mIn in revenue.

*My Net (MN)
€8mIn turnover*

My Net S.r.l., founded in 2000, is an Italian company located in Mantova and active in the telecommunication industry only for business users (from private ADSL

networking lines to ultra-broadband corporate networks until 10 Gbit/s) mainly in the North of Italy. My Net can count on 60 professionals and a small property network. My Net generated €8mIn revenue in 2016.

Retelit (MI)
 €60mIn turnover
 12,500 km of own fibre network

Retelit S.p.A., founded in 1999 and listed on Milan Stock Exchange since 2000, is a provider of data and infrastructure services to the telecommunications market. The company's fibre optic infrastructure covers over 12,500 km connecting 9 Metropolitan Areas Network and 15 Data Centers across Italy. Retelit network is present also in main European cities (London, Frankfurt, Amsterdam and Paris). Services range from ultra-broadband fibre optic internet connection to the Cloud and network and VPN services to colocation solutions, with over 10,500 sqm of equipped and secure fibre optic connected spaces. Retelit's turnover was €60mIn in 2017.

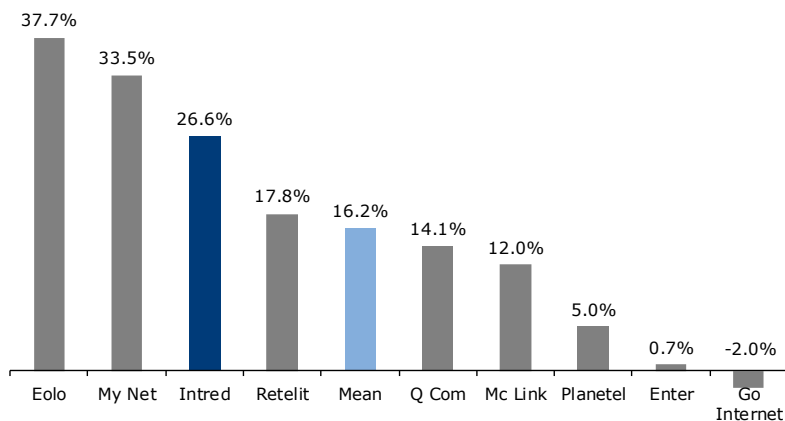
Q Com (BG)
 €9mIn turnover

Q Com S.p.A., founded in 1997, is an Italian company located in Bergamo active in 5 different areas: telecom (VoIP); connectivity (FTTH, ADSL, etc.); datacenter (hosting, cloud, mailbox); web (sites, web marketing); security (cloud backup, secure mail, etc.); IT solutions (infrastructure and wiring, videoconferences, etc.). In 2016, the Company had €8.9mIn revenue.

Mc Link (TN)
 €43mIn turnover
 540 km of own fibre network

Mc Link S.p.A., founded in 1992, is a Group of 3 companies: Simple Solutions (consulting on optimization and productivity services); Big TLC (a network of about 540 km in the province of Bergamo, a PoP in 94 municipalities and over 100 HiperLAN sites); BBC (technical and commercial call center services in the TLC sector). In 2016, Mc Link generated revenue for €43.5mIn.

Figure 8: Main Italian and local players in the Industry – (pro-forma) revenue YoY growth 2015-2016



Source: Banca Profilo elaborations on Company data, Factset

Planetel (BG)
 €7mIn turnover

Planetel S.r.l., is an independent landline operator with a range of voice, Internet and data services (broadband and integrated services for medium and large corporates). The company is located in Bergamo and can counts on 120 employees. In 2016 Planetel generated revenue for €6.9mIn.

Enter (MI)
 €10mIn turnover

Enter S.r.l., founded in 1996, is a company active in the telecommunication industry with a focus on network, datacenter, cloud, workspaces, energy, logistics, educational resources and production systems. In 2016 the company generated sales of €10.4mIn.

Go Internet (PG)
 €8mIn turnover

Go Internet S.p.A., founded in 2002, engages in broadband telecommunications services. It provides broadband wireless access, Internet connections and telephone services using voice-over-Internet protocol. In 2016 the company's turnover was €8.1mIn.

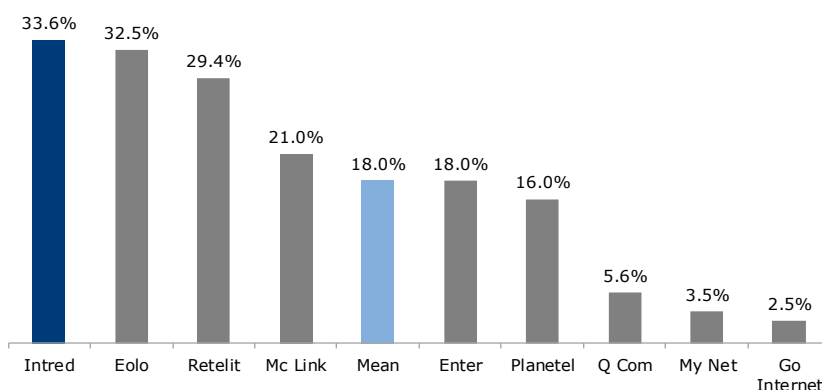
Intrede has grown faster than peers

In the 2015-2016 period, Intred was in the top three for revenue growth (+26.6%) outpacing the mean (16.2%).

Intred shows the highest EBITDA margin

With respect to the EBITDA margin, Intred performed the highest EBITDA margin vs peers' in 2016 (33.6%).

Figure 9: Main Italian and local players in the Industry – EBITDA margin 2016



Source: Banca Profilo elaborations on Company data, Factset

Benchmarking analysis: large European TLC players

Moving to the listed players active in the TLC Industry, we selected the following: the Italian Retelit and Telecom Italia, the French Iliad and Orange, the German Deutsche Telekom, the Spanish Telefonica and the English BT Group and Vodafone. Most show a worldwide presence and their business includes also mobile voice and data services.

Telecom Italia (ITA)

Telecom Italia S.p.A. engages in the provision of telecommunication and Internet services, digital contents, and cloud services. It operates through the following business segments: Domestic, Brazil, and Other Operations. The Domestic segment includes operations in Italian voice and data operations on fixed and mobile networks for retail and wholesale customers; the international wholesale through Telecom Italia Sparkle; and products and services for information technology through the Olivetti group. The Brazil segment includes mobile and fixed telecommunications operations in Brazil. The Other Operations segment includes finance companies and other minor companies not strictly related to the core business. The company was founded in 1994 and is headquartered in Rome, Italy. In 2017, Telecom Italia generated revenue for €20 bn.

Iliad (FR)

Iliad SA engages in providing Internet access and telecommunication services. The Company offers fixed and mobile telephony services, prepaid phone cards and internet access providing and hosting services. Iliad was founded by Xavier Niel in 1987 and is headquartered in Paris, France. In 2017, Iliad's turnover was €5 bn.

BT Group (UK)

BT Group Plc provides communication solutions and services: landlines services, broadband, mobile and TV products and services as well as networked IT services. The Company has following customer-facing lines of business: Consumer; EE; Business and Public Sector; Global Services; Wholesale and Ventures; Technology, Service and Operations and Openreach. The Consumer segment provides consumer landline voice and broadband services. BT Group was founded in 2001 and it is headquartered in London. In 2017, BT Group generated sales of €24 bn.

Telefónica (SP)

Telefonica SA engages in the provision of communication, information, and entertainment solutions. It operates through the following brands: Telefónica, Movistar, O2, and Vivo. The Company was founded in 1924 and it is headquartered in Madrid, Spain. In 2017, Telefónica generated revenue for €52 bn.

Vodafone Group (UK) **Vodafone Group Plc** engages in the provision of telecommunications services. It focuses on small and medium sized enterprises; large and multinational corporates; and carrier services. It also intends to invest in the growth areas of communications, such as cloud and hosting, internet of things, security, and fixed connectivity. The Company was founded in 1984 and it is headquartered in Newbury (UK). In 2017, Vodafone Group generated revenue for €40 bn.

Orange (FR) **Orange SA** is a telecommunication services company, which operates mobile and internet services. It provides telecommunication services to multinational companies, under the brand Orange Business Services. The Company was founded in 1999 and it is headquartered in Paris. In 2017, Orange’s turnover was €41 bn.

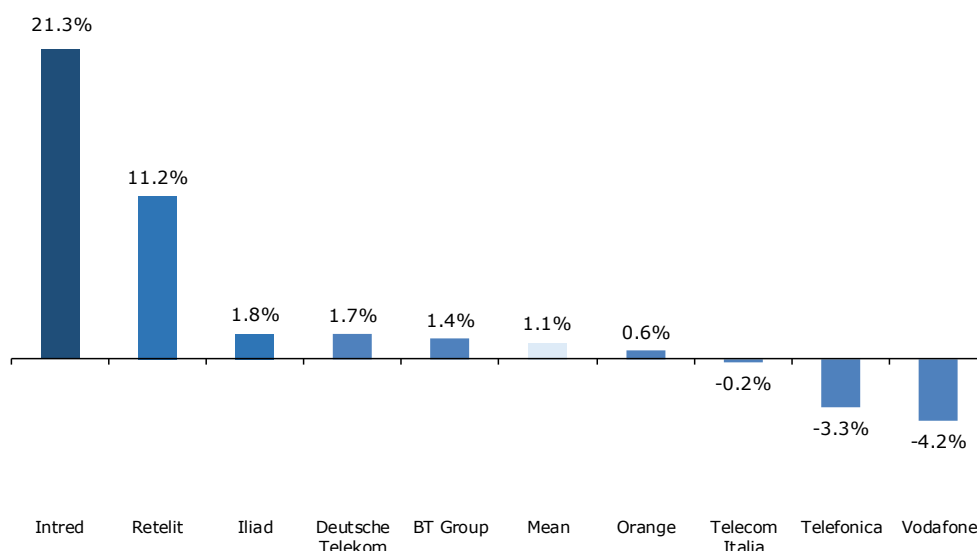
Deutsche Telekom (DE) **Deutsche Telekom AG** engages in the provision of telecommunication and information technology services. The company was founded in 1995 and it is headquartered in Bonn. In 2017, Deutsche Telekom generated revenue for €75 bn.

CityFibre Infrastructure (UK) **CityFibre Infrastructure Plc** enables gigabit connectivity through designing, building, owning, and operating fibre optic network infrastructure throughout the United Kingdom. The company was founded by Greg Mesch in 2011 and is headquartered in London, the United Kingdom. In 2017, sales accounted for €35mIn.

Bredband2i Skandinavien (SEK) **Bredband2 i Skandinavien AB** provides communication services. It offers internet, telephone, data centers, virtual private network, and mobile broadband services to residential and business customers. The Company was founded in 1989 and is headquartered in Stockholm, Sweden. In 2017, Bredband2 i Skandinavien generated revenue for €527mIn.

QSC AG (DE) **QSC AG** offers information technology and telecommunications services for small and medium enterprises. It operates through the following business units: Telecommunications, Outsourcing, Consulting, and Cloud. The Company was founded in 1997 and it is headquartered in Cologne. In 2017, QSC generated sales of €358mIn.

Figure 10: Main listed players in the Industry –revenue CAGR 2016- 2018

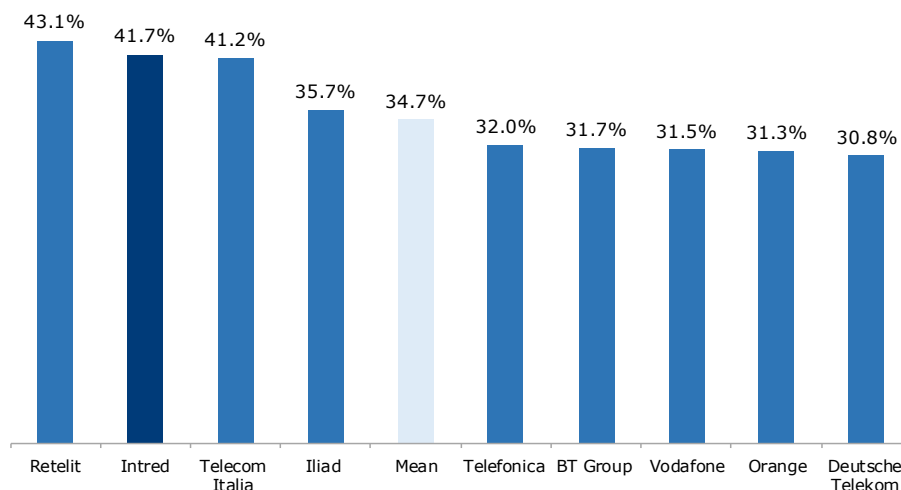


Source: Banca Profilo elaborations on Company data, Factset

Intred has grown faster than peers In the 2016-2018 period, we can appreciate how Intred is positioned at the top for revenue growth at 21.3% CAGR, outpacing peers’ average (1.1%).

Intred second to Retelit only on EBITDA margin With respect to the EBITDA margin, Intred is performing the second highest EBITDA margin vs peers' in 2018 at 41.7% and well above peers' average (34.7%).

Figure 11: Main listed players in the Industry – EBITDA margin 2018



Source: Banca Profilo elaborations on Company data, Factset

Analysis of listed peer group and market multiples

Sample mean EV/EBITDA 2019E-2020E at 5.4x; Retelit at 6.8x

Our sample of comparables shows a mean EV/EBITDA 2019E-2020E of 5.5x-5.2x and a mean P/E 2019E-2020E at 14.4x-14.3x respectively. We choose the EV/EBITDA multiple for its relative valuation, considering the different financial structure and the strong investments in proprietary infrastructure. The closest comparable Retelit is trading at 7.2x and 6.4x the EV/EBITDA 2019E and 2020E respectively. Multiples are as of March, the 29th.

Table 10: Market multiples

Company	EV/EBITDA		P/E	
	2019E	2020E	2019E	2019E
29/03/2019				
Retelit	7.2x	6.4x	23.5x	17.3x
Telecom Italia	5.1x	5.1x	9.4x	8.8x
Iliad	5.2x	4.7x	15.1x	13.5x
Orange	5.1x	5.0x	18.0x	19.7x
Deutsche Telekom	5.7x	5.4x	11.7x	15.7x
Telefonica	5.7x	5.6x	12.4x	11.6x
BT	4.5x	4.4x	10.8x	10.5x
Vodafone	5.4x	5.2x	14.6x	17.3x
Mean	5.5x	5.2x	14.4x	14.3x
Intred	6.7x	5.4x	7.5x	6.0x

Source: Factset, Banca Profilo estimates. All numbers calendarised

Source: Banca Profilo estimates and elaborations on Factset, as of March, 29th

Intred EV/EBITDA 2019E-2020E at 6.8x

Intred trades at an average EV/EBITDA of 6.8x, showing a 13% premium on the mean but 11% discount on Retelit. Compared to the Sample's mean, Intred shows much higher top line historical and perspective growth and EBITDA margin. Intred growth and marginality are more in line with those of Retelit. Finally, Retelit and Intred are

the only cash positive companies; the rest of comparable players show a leveraged financial structure with an average Net debt / market capitalization at 1x.

Table 11: Sample benchmarking

Company	Sales growth			EBITDA margin		
	2018	2019E	2019E	2018	2019E	2019E
Retelit	-0.8%	27.7%	10.5%	43.1%	42.1%	42.9%
Telecom Italia	-4.5%	0.0%	-0.1%	41.2%	40.8%	41.0%
Iliad	-1.9%	6.6%	5.2%	35.7%	34.4%	35.6%
Orange	0.7%	0.5%	0.7%	31.2%	31.5%	31.9%
Deutsche Telekom	1.0%	4.3%	2.6%	30.8%	31.0%	31.5%
Telefonica	-6.4%	-0.3%	1.1%	32.0%	32.5%	32.6%
BT	-1.5%	-1.6%	0.5%	31.7%	31.8%	32.0%
Vodafone	-3.8%	-0.6%	1.4%	31.5%	31.5%	32.4%
Mean	-2.1%	4.6%	2.7%	34.7%	34.5%	35.0%
Intred	18.2%	19.2%	23.7%	41.7%	40.0%	40.5%

Source: Banca Profilo estimates and elaborations, Factset, as of March, 29th

Mean EV/EBITDA from M&A transactions

Finally, transaction multiples on similar players over the past three years show an average EV/EBITDA of 10.2x, well above market multiples.

Table 12: M&A transactions multiples

TRANSACTION MULTIPLES							
Completed Date	Target Company	Bidder Company	EQUITY (mln)	EV (mln)	Currency	EV/EBITDA	EBITDA margin
Within 30/06/2018	Linkem	Go Internet	19	62	EUR	8.3X	9%
11/01/2018	Eolo	Searchlight Capital	324	376	EUR	10.2X	37%
24/08/2017	Entanet	CityFibre	33	33	EUR	15.3X	5%
31/07/2017	Mc-link	F2i	56	74	EUR	8.1X	21%
27/07/2017	Infracom	F2i	62	132	EUR	6.0X	21%
20/12/2016	Metroweb	Enel Open Fiber		714	EUR	13.6X	61%
Mean						10.2X	

Source: Banca Profilo elaborations on Factset, Bloomberg and Mergermarket data

Valuation, target price and recommendation

We raise our target price on Intred to €4.7/share from previous €3.9/share, which has been recently reached, leaving a 20% potential upside on current price (as of March, 29th). The implicit mean EV/EBITDA 2019E-2020E multiple is then 8.2x. Our recommendation is BUY.

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**Intred
"ID Card"**

Recommendation

BUY

Target Price

4.7 €

Upside

20%

Company Overview

Intred S.p.A. is a local reference player in the telecommunication market. It provides fibre network infrastructure and offers data and voice services. The Company, founded in 1996, operates with a strong presence in Brescia and other neighbouring thriving areas, ensuring a unique service and a capillary territorial coverage, mainly based on ultra-wideband connectivity. Intred can rely on a constantly expanding optical fibre proprietary network, covering about 1,950 km, which guarantees an excellent territorial presence. The proprietary infrastructure, started in 2010, has given a strong impulse to Company growth, both in terms of revenue and profitability. Intred initiated its activity focusing on corporate business, considered more profitable and suitable for repaying initial infrastructure investments. In 2012 the Company entered the retail segment with its own brand "EIR", in order to expand its reference market and offer high quality services to residential clients, leveraging on investments already sustained for the proprietary fibre network. Thanks to this strategy, combined with the come into operation of the infrastructure capex, in 6 years the Company has quintupled the number of its clients up to 26,268 and increased the fragmentation of its customer base. Client retention rate is above 90% and contracts last on average 3 years, providing an efficient control of cash-flows. Intred is controlled by Daniele Peli, one of the 3 founders, and by his wife Marisa Prati, respectively with a 46.2% and 23.1% stake; First Capital has a 10% and the free float is 20%.

SWOT Analysis

Strengths

- Capillary territorial presence in thriving areas, through a proprietary optical fibre network
- Proprietary wireless network dedicated to areas not adequately covered in XDSL
- Broad customer base, with a high loyalty rate (around 93% of clients are recurring)
- Strong brand awareness in the reference areas
- Remarkable expertise of sales force and technical department
- Experienced management team, with a consolidated know-how in the TLC industry

Opportunities

- Geographical expansion in the province of Bergamo, Mantova, and Monza Brianza, also through acquisitions
- Structural national delay in the development of the optical fibre infrastructure
- Lower access in Italy to the ultra-wideband services than the other European countries

Weaknesses

- Low turnover in the customer base
- Geographical concentration in Brescia and in the neighbouring areas
- Lower investment capacity than TLC players
- Lack of a commercial offer in the mobile segment
- Lower marketing expertise than big TLC players

Threats

- Increasing competition from big Italian TLC players
- Regulatory uncertainty with reference to the NGN networks
- Potential entrance of new services or technologies

Main catalysts

- ✔ Profitability improvement driven by the development of the proprietary infrastructure with high visibility on future results
 Better strategic positioning in the covered areas than competitors thanks to investments sustained before other players
 Geographical expansion also through M&A
 Remedy shares mechanism based on 2018 EBITDA in order to protect new shareholders
 The stock is PIR (Piani Individuali di Risparmio) eligible

Main risks

- ⚠ Increasing competition in the area from big players
 Development of new technologies able to overwhelm current ones



Intred

"ID Card"

Recommendation

Target Price

Upside

BUY

4.7 €

20%

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Main Financials

(€ mln)	2016	2017	2018 adjusted	2019E	2020E	2021E
Revenue	11.9	14.8	17.5	20.8	25.8	30.5
yoy change	26.5%	24.4%	18.2%	19.2%	23.7%	18.4%
Gross margin	6.0	8.0	9.9	11.6	14.5	17.3
Gross margin (%)	50.2%	54.3%	56.5%	55.8%	56.3%	56.7%
EBITDA	4.0	5.7	7.3	8.3	10.4	12.5
yoy change	50.3%	41.6%	27.8%	14.5%	25.2%	19.6%
EBITDA margin (%)	33.9%	38.5%	41.7%	40.0%	40.5%	40.9%
EBIT	2.4	3.5	4.7	5.2	6.7	8.3
EBIT margin (%)	20.0%	23.9%	26.7%	24.9%	26.2%	27.4%
EBT	2.3	3.5	4.6	5.2	6.8	8.4
Margin (%)	19.5%	23.5%	26.5%	25.2%	26.4%	27.6%
Net income	1.6	2.5	3.2	3.8	4.9	6.1
Margin (%)	13.8%	17.2%	18.4%	18.1%	19.0%	19.9%
Net debt (cash)	2.5	4.1	(6.6)	(5.6)	(4.9)	(7.2)
Shareholders Equity	6.9	9.4	22.7	26.1	30.6	36.2
Operating Working Capital	(0.7)	(0.9)	(2.0)	(4.3)	(5.3)	(5.9)
Capex and acquisitions	(3.7)	(5.5)	(6.4)	(10.0)	(10.0)	(8.0)
Free Cash Flow	2.9	(1.6)	0.8	(0.7)	(0.4)	2.8

The 2018 numbers are adjusted for IPO costs and revenues.

Breakdown by business unit

(€ mln)	2016	2017	2018 adjusted	2019E	2020E	2021E
Connectivity Broadband	1.2	4.1	3.8	3.7	4.1	4.3
Connectivity Ultra-Wideband	2.5	4.9	8.1	11.1	14.8	18.8
Connectivity RDSL	1.9	2.1	2.0	1.6	1.2	0.8
Telephony	1.6	1.7	2.0	2.2	2.6	2.9
Eir*	2.9	n.a.	n.a.	n.a.	n.a.	n.a.
Microbusiness*	0.3	n.a.	n.a.	n.a.	n.a.	n.a.
Hosting and Housing	0.4	0.4	0.4	0.9	1.4	1.9
Ancillary services and other	0.7	1.1	0.9	1.0	1.4	1.5

* Revenue breakdown has been changed into connectivity type

Solvability Ratios

	2016	2017	2018 adjusted	2019E	2020E	2021E
Net debt (cash) / EBITDA	0.6x	0.7x	-0.9x	-0.7x	-0.5x	-0.6x
Net debt (cash) / Equity	0.4x	0.4x	-0.3x	-0.2x	-0.2x	-0.2x
Net debt (cash) / Net Invested Capital	0.3x	0.3x	-0.4x	-0.3x	-0.2x	-0.2x

Financial and Operative ratios

	2016	2017	2018 adjusted	2019E	2020E	2021E
Days of receivables	83	74	54	49	42	33
Days of payables	123	114	119	124	129	135
Net Working Capital / VoP	-42.5%	-28.4%	-30.5%	-36.8%	-33.4%	-30.1%
Tax rate	29.4%	26.9%	30.7%	27.9%	27.9%	27.9%
ROIC	18.2%	18.8%	20.9%	18.2%	18.9%	20.8%
ROE	23.7%	26.9%	14.2%	14.5%	16.0%	16.7%
Capex/Sales	-32.4%	-38.2%	-37.0%	-48.6%	-39.2%	-26.4%
D&A to capex	44%	39%	41%	32%	37%	52%

Source: Factset, Banca Profilo estimates and elaborations

Company Description

Company Sector	Telecoms
Price (€) as of March, 29th	3.95
Number of shares (mln)	15.9
Market Cap (€ mln)	62.6
Reference Index	FTSE AIM ITALIA
Main Shareholders	Daniele Peli and Marisa Pra
Main Shareholder stake	46% and 23%
Free Float	20%
Daily Average Volumes ('000)	17.6
Sample of comparables	Retelit, Telecom Italia, Iliad, Orange, Telefonica, DT, BT Group, Vodafone

TLC: data of peers

	2018	2019E	2020E
Revenue Growth (yoy)	-2.1%	4.6%	2.7%
EBITDA Margin	34.7%	34.5%	35.0%
net debt / equity	0.8x		

Average data

TLC: multiples of peers

	2019E	2020E
Retelit		
EV / EBITDA	7.2x	6.4x
P/E	23.5x	17.3x
Sample mean		
EV / EBITDA	5.5x	5.2x
P/E	14.4x	14.3x

INTRED: multiples

	2019E	2020E
EV / EBITDA	6.7x	5.4x
P/E	7.5x	6.0x

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