

GPI

Strong organic growth and FY 2019 outlook confirmed

1H 2019 results: 1H 2019 results were characterized by good organic growth as revenues grew by +18% driven mainly by the Care business unit following the launch of the Regione Lazio contract (total value of Euro 72 m over 3 years) and the absence of acquisitions as Management concentrated on integration after a busy M&A period in 2017-2018. EBITDA was somewhat below our expectations, despite the positive effect from the adoption of IFRS 16, due to the shift in service mix and to seasonality of the business (average 1H weight of 34% over the last two years).

Management largely confirmed the outlook for year end with revenues above Euro 230 m and EBITDA margin of approx. 14% and intentions to continue to pursue a strategy based on external growth.

Technology update: GPI keeps relying on technology development as growth driver both in Italy - company's main market (official recognition in September of the GPI "Pay" solution as a Technology Partner "PagoPA" for public bodies) and abroad (contracts in China and Austria for the "Automation" business unit in October) with important cross-selling potential.

Change in estimates: Following 1H 2019 results, we fine-tuned our 2019-2020 forecasts to incorporate a higher top-line growth and investments in 2019, and a slightly lower EBITDA margin. Our estimates have also been adjusted to factor in the application of IFRS 16. Overall, we adjusted our forecasts with an average increase/cut in revenues, EBITDA and EPS of +2%, -2 % and -16% respectively.

Company Description: GPI Group is a leading Italian provider of highly specialized IT solutions and integrated services for the public and private health-and welfare industry, particularly in the E-health, E-welfare and wellbeing sectors. The Company was founded in 1988 in Trento (Trentino Alto Adige region) by Chairman and CEO Fausto Manzana and operates in the market with a unique business model based on the integration of software, services and technology. Over the last three years, the Group has registered important growth (2015-2018 CAGR of +32%) thanks to a strategy based on a mix of organic and external growth, with 20 acquisitions for a total value of 65 Eu m. With +1,900 customers (mostly in the public sector) and approx. 4,400 employees, GPI closed FY 2018 with 204 Eu m of revenues, +13% YoY and a Net Profit of 9.2 Eu m.

Valuation: Our outlook for GPI continues to be positive and we set a new target price of Euro 12.35 p.s. providing for an upside of 71%. At current price (Euro 7.20) the stock is trading at a significant discount to peers; -44% and -35% 19-20 EV/EBITDA and P/E respectively.

	Sales	YoY %	EBITDA	EBITDA %	EBIT	EBIT %	Group's Net Profit	Net Debt
2018A	203.7	+13.2%	26.7	13.1%	13.2	6.5%	9.2	61.5
2019E	236.6	+16.2%	32.0	13.5%	15.7	6.6%	8.4	75.0
2020E	249.4	+5.4%	34.6	13.9%	17.4	7.0%	9.8	64.8
2021E	261.5	+4.8%	36.8	14.1%	18.8	7.2%	10.7	52.4

Sector: Healthcare

Target Price (Euro)	12.35 (13.36 pr)
Market Price (Euro)	7.20
Market Cap (Euro m)	115
EV (Euro m)	195
<i>(as October 23rd, 2019)</i>	

Share Data

Market	MTA
Bloomberg	GPI.MI/GPI IM
ISIN	IT0005221517
N. of Shares	15,909,539
Free Float	36.4%
Main Shareholder	FM Srl (64.37%)
CEO	Fausto Manzana

Peer Comparison

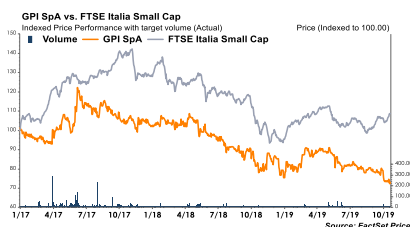
	EV/EBITDA (x)			P/E (x)		
	19E	20E	21E	19E	20E	21E
GPI	6.0	5.3	4.8	12.2	11.2	10.8
Peers	11.5	9.5	9.7	21.3	17.3	16.5
Discount	-48%	-44%	-51%	-43%	-35%	-34%

Performance

	1M	3M	6M
Absolute	-10.7%	-13.5%	-12.2%
Relative	-13.3%	-16.9%	-20.1%
52-week High/Low (Eu)	9.80	/	7.18

IR TOP RESEARCH

Luisa Primi – l.primi@irtop.com
T +39 02 89056957



BUSINESS UPDATE

In 1H 2019, GPI's revenues reached Euro 110.5 m posting a +18% organic growth rate, exceeding our expectations for the full year. The result was obtained after recording a +34% boost in the Care division to Euro 57 m thanks to the ramp-up of the Lazio contract. The Software and the "Other" business units also showed positive trends with revenue growth of +3% and +15% respectively. With a total value of Euro 72 m over three years, the Lazio contract has on the one hand further strengthened GPI's leadership in the domestic care services market (approx. 28m of potential users) but, on the other incurred important startup costs in the last 12 months and contributed to a temporary change in product mix. This shift, coupled with the seasonality of the software business in favor of the second half of the year, contributed to profitability in the period below our expectations for the full year.

Going forward however, Management largely confirmed the outlook for FY 2019, with revenues above Euro 230m and an EBITDA margin of approx. 14% (previously >14%). Management also confirmed that the Company will continue to work on external growth strategies after a 1H 2019 that did not see any acquisitions as Management concentrated on integration and simplification of the group structure after an intensive M&A period in 2017-2019.

In July, Cerved confirmed its A3.1 credit rating of the Company.

In September the management structure changed with the appointment of Matteo Santoro as new general director (previously directed of the Care division), and with the entrance of Silvia Allegri as new CFO after Stefano Corvo resigned for personal reasons.

The Company has recently announced two new deals involving the Automation business. The first, worth approx. Euro 0.9 m, was signed with KIMAUTO, a Chinese company specialized for the supply of GPI's robot system. The second deal, worth approx. Euro 0.5 m, was signed with AKH, one of the biggest hospitals in Europe, and involves the installation of a Riedl system for the hospital's central pharmacy.

TECHNOLOGY UPDATE

GPI keeps relying on technology development as growth driver both in Italy – the Company's main market (official recognition in September of the GPI "Pay" solution as a Technology Partner "PagoPA" for public entities) and abroad with the contracts in China and Austria for the "Automation" business unit with important cross-selling potential.

1H 2019 RESULTS

GPI reported a substantial **increase in revenues of +18.4% to Euro 110.5 m** in 1H 2019 thanks mainly to the Lazio Region contract, which impacted the Care division (+34% yoy). The Software and the "Other" business units also showed positive trends with revenue growth of +3% and +15% respectively. The Care business unit increased its weight on total revenues to 52% (46% in 1H 2018). International revenues reached Euro 7.7 m (7% on total sales).

Eu m – IAS	1H 2018	1H 2019	Var % 18-19
Revenues	93.3	110.5	18.4%
EBITDA	9.6	9.6	0.7%
<i>Margin %</i>	10.2%	8.7%	
EBIT	3.2	1.8	-43.7%
<i>Margin %</i>	3.4%	1.6%	
EBT	2.5	0.1	-94.8%
Group's Net Profit	1.9	1.3	-31.5%

Source: Company Data

On the other hand, margins in the period considered were negatively affected by: i) a business mix with an higher weight on the Care sector, historically characterized by low single-digit margins; and ii) seasonality effects on the Software division, which realizes a more substantial performance in the second part of the year due to specific market features. As a result, **EBITDA Margin suffered from a small**

contraction going from 10.2% in 1H 2018 to 8.7% in 1H 2019, despite a positive effect of Euro 1.2 m from the adoption of IFRS 16 (net of which EBITDA margin would have been of 7.6%). We expect however that the gap should be almost entirely recovered in 2H thanks to positive seasonality effects in the Software division and the end of the initial phase of the Lazio contract. **EBIT at the end of the period stood at Euro 1.8 m**, down from Euro 3.2 m in 1H 2018 after higher D&As following IFRS 16 and investments. Group's **Net Profit reached Euro 1.3 m**, boosted by a positive fiscal impact of Euro 1.2 m.

Revenue and EBITDA breakdown by business unit

Eu m – IAS	Software		Care		Other	
	1H 2018	1H 2019	1H 2018	1H 2019	1H 2018	1H 2019
Revenues	39.9	41.2	42.7	57	10.6	12.2
EBITDA	7.3	7.3	1.1	1.5	1.1	0.8
EBITDA Margin %	18.3%	17.7%	2.6%	2.6%	10.4%	6.6%
EBITDA Margin % Adj.¹	18.5%	18%	3%	3.2%	n/a	n/a

Source: Company Data

¹ Calculated on revenues net of the amount collected on behalf of partners of temporary consortiums (RTI)

Net Debt grew to Euro 80.8 m, vs. Euro 61.5 in FY 2018. On a pro-forma basis, adjusting for the Euro 7.7 m effect from the adoption of IFRS 16, FY 2018 Net Debt would have been of Euro 69.2 m. The increase, of Euro 11.6 m, in the period considered was mainly attributed to capex (Euro 8.5 in 1H 2019) and NWC absorption related to the increase in revenues and the Lazio contract.

Eu m – IAS	FY 2018	1H 2018	1H 2019
Net Working Capital (NWC)	32.2	19.5	37.0
Fixed net assets	105.2	107.8	115.1
Funds	(7.4)	(8.8)	(7.4)
Net Capital Employed	130.1	118.5	114.6
Net Debt (Cash)	61.5	57.2	80.8
Group's Equity	67.3	60.0	62.4
Minority Interest	1.3	1.3	1.4
Sources	130.1	118.5	144.6

Source: Company Data

ESTIMATES 2019-2021

Following 1H 2019 results we have fine-tuned our FY 19 forecasts to incorporate a higher top-line growth and a slightly lower EBITDA margin although we expect that part of the EBITDA loss should be recovered in 2H 2019 thanks to the seasonality of the software business. We also included the impact of IFRS 16 in our projections and we left revenue growth and margins expansion unchanged for 2020-2021. Overall, we adjusted our forecasts with an average increase/decrease in revenues, EBITDA and EPS of +2%, -2 % and -16 % respectively.

Considering Management's M&A track record (13 acquisitions over the last 3 years), and the amount of cash at hand (approx. 50 m although total Net Debt level and covenants must be kept in mind), we also believe that the Company will continue to growth through acquisitions, in particular aimed at strengthening the Company's position in international markets (software). Our estimates do not however include any transactions.

KEY FINANCIALS

Eu m – IAS/IFRS	18A	19E Old	19 New	20E Old	20E New	21 Old	21 New
Revenues	203.7	232.2	236.6	244.8	249.4	256.7	261.5
	yoy	13.2%	14.0%	16.2%	5.4%	5.4%	4.9%
EBITDA	26.7	32.5	32.0	35.3	34.6	37.7	36.8
	margin	13.1%	14.0%	13.5%	14.4%	13.9%	14.1%
EBIT	13.2	18.5	15.7	20.4	17.4	22.0	18.8

	margin	6.5%	8.0%	6.6%	8.3%	7.0%	8.6%	7.2%
Pre-tax profit		12.8	16.1	13.3	18.5	15.5	20.2	17.0
Net Profit		9.2	10.2	8.4	11.6	9.8	12.7	10.7
	yoy	20%	11%	-9%	15%	16%	9%	9%

Eu m – IAS/IFRS	18A	19E Old	19 New	20E Old	20E New	21 Old	21 New
Net working capital (NWC)	32.4	44.0	45.3	50.1	51.4	55.1	56.5
Net fixed assets	105.2	100.3	111.2	93.0	101.6	84.9	91.2
Funds	(7.4)	(8.5)	(8.6)	(9.0)	(9.2)	(9.5)	(9.8)
Net Capital Employed	130.1	135.8	147.9	134.1	143.8	130.5	137.9
Net financial Debt (Cash)	61.5	61.1	75.0	52.0	64.8	40.8	52.4
Total Equity	67.3	73.1	71.3	80.0	77.2	87.3	83.3
Sources	130.1	135.8	147.9	134.1	143.8	130.5	137.9

Source: Company data for FY 2018 and IR Top Research's estimates for FY 2019-2021

VALUATION

Following our estimates revision and the periodical update of risk-free rate and equity risk premium parameters as well as peer multiples, we derived a new target price of Euro 12.35 p.s. (from Euro 13.36 previously).

We valued GPI Group through two different approaches:

- market multiples comparison
- Discounted Cash Flow (DCF) model.

RELATIVE VALUATION (MARKET MULTIPLES)

GPI operates in the market with a unique business model and we have not been able to find a peer that applies to GPI's complete offer. We have therefore created a peer group of companies providing IT solutions and services for healthcare (78% of FY 2018 EBITDA). We have also included two companies Capita and WNS that, as GPI operate in the market with an integrated offer (technology-enabled business services), they do however both operate in various industries, and not exclusively in healthcare. We apply a 10% discount on peers for the lower liquidity of the stock. Our **relative valuation yields a valuation of 11.24 Eu p.s.** (fully diluted).

Company	Country	Market Cap	Revenues 2018A	yoy	EBITDA % 2018 A
WNS	US	2,783	699	8%	19%
Capita	GB	3,314	4,429	-7%	5%
Cegedim	FR	361	468	2%	16%
Exprivia	IT	44	591	n.a.	4%
NEXUS	DE	512	136	15%	19%
NextGen Healthcare	US	927	457	1%	13%
Allscripts Healthcare Solutions	US	1,664	1,483	12%	10%
CompuGroup Medical	DE	3,031	717	23%	24%
Reply	IT	2,125	1,036	17%	13%
HMS Holdings Corp.	US	2,613	507	10%	25%
Peers Mean		1,895	645	10%	15%
GPI	IT	115	202	13%	11%

Source: FactSet data as of October 23rd, 2019 for peers and IRTop Research estimates for GPI

	EV/EBITDA			P/E		
	19E	20E	21E	19E	20E	21E
WNS	15.3	13.5	10.2	20.6	19.1	17.3
Capita	8.2	7.2	6.3	13.3	11.6	10.5
Cegedim	5.9	5.3	4.8	22.0	14.7	13.1
Exprivia	6.5	5.3	n.a.	46.3	9.1	n.a.
NEXUS	14.3	12.5	10.7	35.7	30.7	26.1
NextGen Healthcare	10.8	8.3	6.7	18.7	16.0	14.1
Allscripts Healthcare Solutions	8.4	7.4	6.8	16.3	14.6	13.1
CompuGroup Medical	17.8	15.4	15.0	27.6	23.2	23.2
Reply	12.2	10.8	9.7	20.6	18.5	16.5
HMS Holdings Corp.	15.2	13.7	12.9	25.3	24.8	21.8
Peers Mean	11.5	9.5	9.7	21.3	17.3	16.5
GPI	6.0	5.3	4.8	12.2	11.2	10.8
Discount/Premium to peers	-48%	-44%	-51%	-43%	-35%	-34%

Source: FactSet data as of October 23rd, 2019 for peers and IRTop Research estimates for GPI

DISCOUNTED CASH FLOW

Our DCF model is based on the assumptions below and **yields a valuation of Euro 13.46 p.s.**

WACC assumptions:

- Risk-free interest rate: 2.33% (24 months average of the Italian 10y BTP yield)
- Perpetual growth: 1%
- Market risk premium: 6.50%
- Beta: 1.4
- WACC: 7.87%

+ Sum of PV 2019-2022 FCFO (Eu m)	53.6	18.0%
+ Discounted Terminal Value (Eu m)	244.7	82.0%
= Enterprise Value (Eu m)	298.3	100%
- Net financial Debt (Cash) FY 2019E	75.0	
- Minorities (Eu m) FY 2019E	1.5	
+ Cash in Warrant conversion	22.5	
= Equity Value (Eu m)	244.3	
÷ Number of outstanding shares fully diluted	18.2	
= TP per share (Eu)	13.46	

VALUATION SUMMARY

Our outlook for GPI remains positive with a new target price of Euro 12.35 p.s. (previously Euro 13.36), providing for an upside to the current share price of 71%. and obtained by weighting equally a DCF and a multiple comparison analysis. At our target price GPI would be trading at 8.5x and 7.9x EV/EBITDA 2019 and 2020 respectively. At current price (Euro 7.20) the stock is trading at a significant discount to peers; -44% and -35% 19-20 EV/EBITDA and P/E respectively.

Method	Weight	Price (Eu)
Multiple analysis	50%	11.24
DCF	50%	13.46
Target Price	100%	12.35

GPI ON BORSA ITALIANA (MTA)

SHARES (as of October 23rd, 2019)

Code: GPI

Bloomberg: GPI IM

Reuters: GPI.MI

ISIN: IT0005221517

Ordinary Shares: 15,909,539

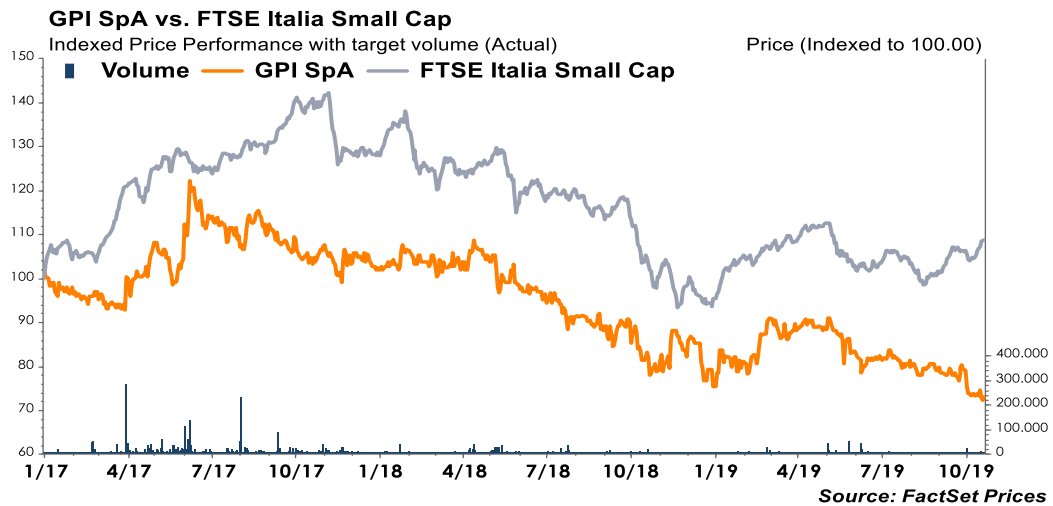
Price: Euro 7.20

Performance from IPO: -22.1%

Capitalization: Euro 115 m

Free Float: 36.4%

Auditing firm: KPMG SpA



BUSINESS COMBINATION WITH CFP1

Date: December 29th 2016

Capital raised: 51.1 Eu m

Price: 10.3 Eu (1st day of trading)

Capitalisation: 51.2 Eu m

WARRANT GPI (as of October 23rd, 2019)

Code: WGPI

ISIN: IT0005221475

Strike Price: 9.50 E

Issued Warrants: 2,555,000

Exercise ratio: 1:1 (shares: warrants)

Exercise Period: starting from the full month after the Effective Date of the Relevant Transaction (29/12/2016) and up to the Decline Term.

Decline Term = the first of the following dates:

- the fifth year after the Effective Date of the Relevant Transaction (29/12/2016)
- the last Open Stock Exchange Day of the month in which the Acceleration Communication is published (when the Monthly Average Price is higher than Price Threshold of 13.30 Eu)

As of June 24th, 2019, outstanding n. 2,368,380 warrants

GPI SPA – 4.3% 2016-2023

Listing Market: ExtraMOT PRO

ISIN: IT0005187320

N. issued bonds: 15,000

Nominal value of each bond: 1,000 Eu

Issued Value: 15 Eu m

GPI SPA – 3% 2017-2022

Listing Market: ExtraMOT PRO

ISIN: IT0005312886

N. issued bonds: 400

Nominal value of each bond: 50,000 Eu

Issued Value: 20 Eu m

KEY FIGURES

Profit&Loss Statement	2016A	2017A	2018A	2019E	2020E	2021E
Revenues	136.2	179.9	203.7	236.6	249.4	261.5
EBITDA	20.1	25.9	26.7	32.0	34.6	36.8
EBIT	14.8	15.5	13.2	15.7	17.4	18.8
Financial Income (charges)	(2.5)	(2.2)	(0.3)	(2.4)	(1.9)	(1.8)
Pre-tax profit (loss)	12.2	13.2	12.8	13.3	15.5	17.0
Taxes	(5.7)	(5.4)	(3.3)	(4.7)	(5.4)	(5.9)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Group's Net profit (loss)	6.2	7.6	9.2	8.4	9.8	10.7
Balance Sheet						
Net working capital (NWC)	20.9	19.7	32.2	45.3	51.4	56.5
Net fixed assets	58.8	104.8	105.2	111.2	101.6	91.2
M/L Funds	(8.5)	(9.4)	(7.4)	(8.7)	(9.2)	(9.8)
Net Capital Employed	71.2	115.1	130.1	147.9	143.8	137.9
Net Debt	9.9	51.0	61.5	75.0	64.8	52.4
Minorities	0.9	1.1	1.3	1.5	1.8	2.2
Group's Equity	60.4	62.9	67.3	71.3	77.2	83.3
Cash Flow						
Net Profit	6.5	8.2	9.5	8.7	10.1	11.0
Non cash items	9.3	9.9	10.2	15.3	15.4	16.3
Change in Working Capital	(14.2)	(5.7)	(12.5)	(13.1)	(6.1)	(5.1)
Cash flow from operations	1.6	12.4	7.2	10.9	19.4	22.2
Capex	(7.8)	(6.8)	(11.7)	(8.5)	(7.5)	(7.5)
Operating free cash flow	(6.2)	5.6	(4.5)	2.4	11.9	14.7
Acquisitions	(16.5)	(41.5)	(1.0)	(1.5)	0.0	0.0
Dividend	(1.8)	(4.7)	(4.8)	(4.7)	(4.2)	(4.9)
Other (equity)	52.4	(0.5)	(0.2)	0.3	0.3	0.3
Free Cash flow	27.9	(41.1)	(10.5)	(3.5)	8.0	10.1
Per Share Data						
Current Price	7.20					
Total shares outstanding (m)	15.9					
Total shares out fully diluted (m)	18.3					
EPS	0.39	0.48	0.58	0.53	0.61	0.67
DPS	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
FCF	1.8	(2.6)	(0.7)	(0.2)	0.5	0.6
Pay out ratio	-29%	-62%	51%	50%	50%	50%
Ratios						
EBITDA margin	14.8%	14.4%	13.1%	13.5%	13.9%	14.1%
EBIT margin	10.9%	8.6%	6.5%	6.6%	7.0%	7.2%
Net Debt/Equity	16.4%	81.1%	91.3%	105.2%	84.0%	62.9%
Net Debt/(Net Debt + Equity)	14.1%	44.8%	47.7%	51.3%	45.6%	38.6%
Net Debt/EBITDA	0.49	1.97	2.30	2.35	1.87	1.42
Interest cover EBIT	6.02	6.93	44.19	6.59	9.01	10.24
ROE	10.3%	12.1%	13.7%	11.8%	12.7%	12.8%
ROCE	28.8%	18.1%	12.7%	13.8%	15.9%	17.9%
Free Cash Flow Yield	24.4%	n.m.	n.m.	n.m.	7.0%	8.9%
Growth Rates						
Revenues	52%	32%	13%	16%	5%	5%
EBITDA	150%	29%	3%	20%	8%	6%
EBIT	501%	5%	-15%	19%	11%	8%
Net Profit	1625%	22%	22%	-9%	16%	9%

Source: Company data (IAS/IFRS) for FY 2018 and IRTop Research estimates for FY 2019-2021

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	Target Price	Market Price	Validity Time
October 24 th , 2019	12.35	7.20	12 months
June 25 th , 2019	13.36	8.46	12 months

VALUATION METHODOLOGY (HORIZON: 12M): IR Top obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models. Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IR Top premises.

RESEARCH TEAM

Luisa Primi, (Senior Analyst, AIAF Associated)
Andrea Praga, (Analyst)
Chiara Cardelli, (Researcher)

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

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