

# TXT E-SOLUTIONS

Sector: Industrials

# OUTPERFORM

Price: Eu18.54 - Target: Eu22.10

## Strong Results, Estimates Up Thanks to Solid Organic Trends

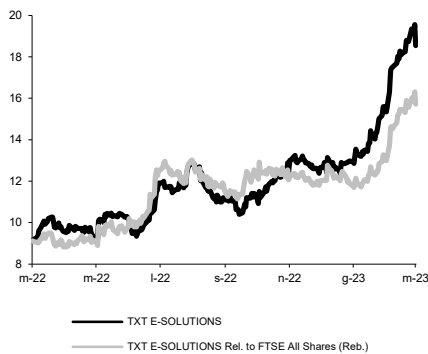
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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 19.40 to 22.10		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	3.8%	4.4%	

**Next Event 1Q23 Results**  
 Results Out 11 May 2023

### TXT E-SOLUTIONS - 12M Performance



### Stock Data

Reuters code:	TXTS.MI		
Bloomberg code:	TXT IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	20.9%	46.4%	103.3%
Relative	20.8%	34.4%	85.3%
12M (H/L)	19.56/9.08		
3M Average Volume (th):	29.64		

### Shareholder Data

No. of Ord shares (mn):	13
Total no. of shares (mn):	12
Mkt Cap Ord (Eu mn):	241
Total Mkt Cap (Eu mn):	241
Mkt Float - Ord (Eu mn):	121
Mkt Float (in %):	50.0%
Main Shareholder:	
Enrico Magni (Laserline)	29.6%

### Balance Sheet Data

Book Value (Eu mn):	122
BVPS (Eu):	9.96
P/BV:	1.9
Net Financial Position (Eu mn):	-29
Enterprise Value (Eu mn):	256

■ **4Q22 revenues and EBITDA stronger than expected.** On 9 March 2023 TXT approved FY22 results. In 4Q22, revenues were up 97% YoY to Eu58.4mn, 4.5% better than our forecast, thanks to the contribution of recent acquisitions but also organic growth of c.19% (vs. 17% expected). EBITDA was Eu8.7mn, up 51.5% YoY and 2.6% better than forecast. Margin dilution vs. 4Q21 was mainly due to the 4Q22 consolidation of Ennova (12% margin). Quarterly net profit was Eu6.7mn vs. Eu4.2mn expected: in 4Q22 TXT booked Eu1.2mn of non-recurring charges but also Eu4.6mn in extraordinary financial income, including Eu2.2mn for the revaluation of the stake in Banca del Fucino. YE22 debt was Eu38.3mn, in line with expectations. The board proposed a dividend of Eu0.18 per share.

■ **Management outlook.** In 2023 TXT expects to achieve revenues of over Eu250mn with an EBITDA margin exceeding 14%, assuming 10% organic growth (on a pro-forma 2022 revenue base of Eu205mn) and the contribution of new M&A deals (with a cash-out of about Eu30mn). As for the 2023 outlook, for the Aerospace & Aviation division TXT envisages a positive trend in line with 2022 (i.e. high single-digit organic growth), with healthy contributions from all segments and year-on-year growth expected to increase in the Civil Aviation, Automotive and Industry 4.0 segments. For the Fintech division, TXT expects greater organic growth thanks to the recent acquisition of major multiyear orders with an expected average annual value of over Eu20mn (at full-speed since 2024). In relation to the 2023 M&A plan, TXT plans to continue with its acquisition plan aimed at integrating emerging technologies, specialised digital skills and excellence in markets that are already proprietary or adjacent to the current ones. We also remind that management indicated that in 2023 the group is willing to monetise its minority stake in Banca del Fucino, bought for Eu14.3mn in 1Q21; encouragingly, the stake has been revalued to Eu16.5mn.

■ **Change in estimates.** Given the positive 4Q22 figures and encouraging management outlook, in this report we are raising our 2023/24 organic growth estimates (from +6.3%/+6.7% to +8.9%/+8.0%), while we are leaving our EBIT margin assumptions unchanged; we think our new assumptions, consistent with management indications (clearly, we do not include future M&A deals expected to be announced during the year), remain quite conservative. All in all, we are upgrading 2023 and 2024 net profit by 4.0% and 4.7% respectively (the change in EPS is +3.8%/+4.4% adjusting for the number of shares).

■ **OUTPERFORM, target Eu22.1 from Eu19.4.** Good delivery on the M&A strategy coupled with organic performance, confirmed by 4Q22 results, remain the pillars on which our view on the stock rests. Even after the positive recent stock performance, the valuation remains attractive, especially in relation to the expected growth rates. Our target revision is explained by our estimate upgrade and by rolling forward our valuation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	96	151	223	241	258
EBITDA Adj (Eu mn)	15	22	32	35	37
Net Profit Adj (Eu mn)	8	11	15	17	19
EPS New Adj (Eu)	0.675	0.934	1.202	1.380	1.518
EPS Old Adj (Eu)	0.675	0.781	1.158	1.322	
DPS (Eu)	0.000	0.180	0.221	0.254	0.279
EV/EBITDA Adj	7.2	7.6	8.0	6.9	6.0
EV/EBIT Adj	10.5	11.2	11.2	9.4	8.1
P/E Adj	27.5	19.8	15.4	13.4	12.2
Div. Yield	0.0%	1.0%	1.2%	1.4%	1.5%
Net Debt/EBITDA Adj	0.6	1.7	0.9	0.4	-0.1

**TXT E-SOLUTIONS – Key Figures**

<b>Profit &amp; Loss (Eu mn)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Sales	69	96	151	223	241	258
EBITDA	9	15	22	32	35	37
EBIT	3	10	14	23	26	28
Financial Income (charges)	3	1	2	-2	-2	-2
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	6	10	16	20	23	26
Taxes	-1	-2	-4	-6	-7	-7
Tax rate	19.8%	24.0%	26.0%	28.0%	28.0%	28.0%
Minorities & Discontinued Operations	-0	0	0	0	0	0
Net Profit	5	8	12	15	17	19
EBITDA Adj	9	15	22	32	35	37
EBIT Adj	4	10	15	23	26	28
Net Profit Adj	4	8	11	15	17	19
<b>Per Share Data (Eu)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Total Shares Outstanding (mn) - Average	12	12	12	12	12	12
Total Shares Outstanding (mn) - Year End	12	12	12	12	12	12
EPS f.d	0.383	0.675	0.934	1.202	1.380	1.518
EPS Adj f.d	0.383	0.675	0.934	1.202	1.380	1.518
BVPS f.d	7.313	7.942	8.934	9.956	11.116	12.380
Dividend per Share ORD	0.040	0.000	0.180	0.221	0.254	0.279
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	10.4%	0.0%	19.3%	18.4%	18.4%	18.4%
<b>Cash Flow (Eu mn)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Gross Cash Flow	10	13	20	24	26	28
Change in NWC	-16	-3	-13	-9	-4	-4
Capital Expenditure	-1	-1	-3	-4	-4	-4
Other Cash Items	0	-0	-6	0	0	0
Free Cash Flow (FCF)	-7	8	5	11	18	20
Acquisitions, Divestments & Other Items	-17	-25	-30	0	0	0
Dividends	0	-0	0	-2	-3	-3
Equity Financing/Buy-back	0	0	0	0	0	0
Change in Net Financial Position	-19	-31	-29	9	15	17
<b>Balance Sheet (Eu mn)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Total Fixed Assets	47	81	116	111	105	100
Net Working Capital	21	24	37	45	50	53
Long term Liabilities	-5	-3	-5	-5	-5	-5
Net Capital Employed	64	102	148	151	150	149
Net Cash (Debt)	22	-9	-38	-29	-14	3
Group Equity	85	93	109	122	136	152
Minorities	0	0	0	0	0	0
Net Equity	85	92	109	122	136	152
<b>Enterprise Value (Eu mn)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Average Mkt Cap	91	95	132	227	227	227
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	22	-9	-38	-29	-14	3
Enterprise Value	69	104	170	256	241	224
<b>Ratios (%)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
EBITDA Adj Margin	12.5%	15.1%	14.8%	14.3%	14.5%	14.5%
EBIT Adj Margin	5.5%	10.3%	10.1%	10.2%	10.7%	10.8%
Gearing - Debt/Equity	-25.8%	9.8%	35.0%	24.0%	10.4%	-1.8%
Interest Cover on EBIT	nm	nm	nm	9.5	11.7	13.9
Net Debt/EBITDA Adj	-2.6	0.6	1.7	0.9	0.4	-0.1
ROACE*	6.0%	11.6%	11.1%	15.3%	17.0%	18.6%
ROE*	5.4%	8.9%	11.3%	12.7%	13.1%	12.9%
EV/CE	1.3	1.3	1.4	1.7	1.6	1.5
EV/Sales	1.0	1.1	1.1	1.1	1.0	0.9
EV/EBITDA Adj	8.1	7.2	7.6	8.0	6.9	6.0
EV/EBIT Adj	18.4	10.5	11.2	11.2	9.4	8.1
Free Cash Flow Yield	-2.7%	3.4%	2.1%	4.6%	7.4%	8.3%
<b>Growth Rates (%)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Sales	16.4%	40.2%	56.4%	47.9%	8.0%	7.0%
EBITDA Adj	22.2%	69.6%	53.3%	43.0%	9.8%	7.0%
EBIT Adj	-12.2%	165.5%	52.2%	50.6%	12.4%	8.4%
Net Profit Adj	950.1%	66.3%	52.9%	22.7%	14.8%	10.0%
EPS Adj	893.2%	76.2%	38.4%	28.7%	14.8%	10.0%
DPS	nm	nm	nm	22.7%	14.8%	10.0%

\*Excluding extraordinary items

Source: Intermonte SIM estimates

## TXT e-solutions in Brief

### Company description

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

### Strengths /Opportunities

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

### Management

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

**Next BoD renewal:** April 2023  
**BoD independent members:** 4/7

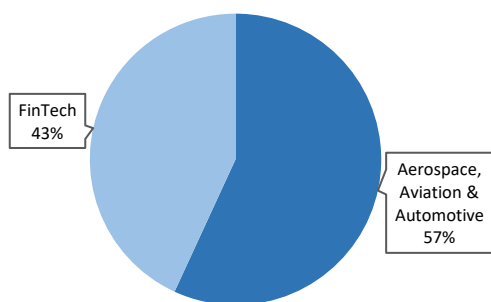
### Shareholders

Laserline SpA	30%
Managers	11%
Treasury Shares	10%
Market	50%

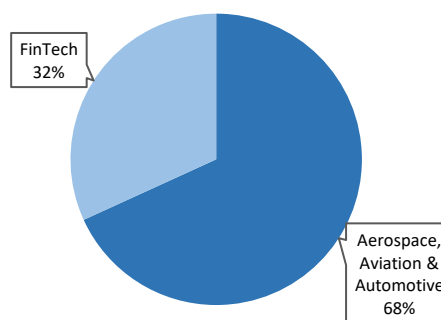
### Weaknesses /Threats

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

### TXT e-solutions: Revenue Breakdown (2022A)



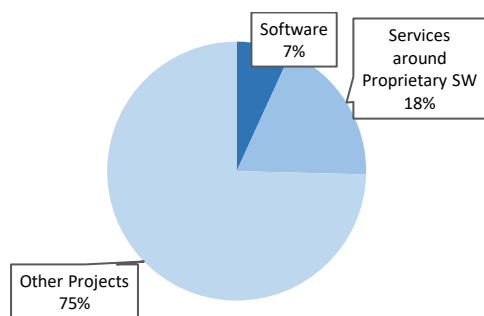
### TXT e-solutions: EBITDA Breakdown (2022A)



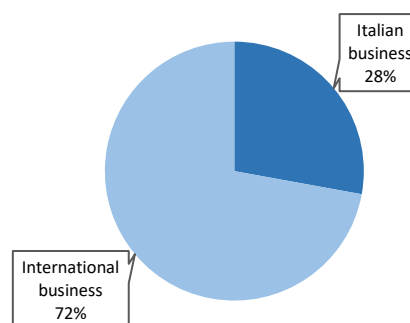
Source: Company Data & Intermonte SIM

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### TXT e-solutions: Revenue Breakdown (2022A)



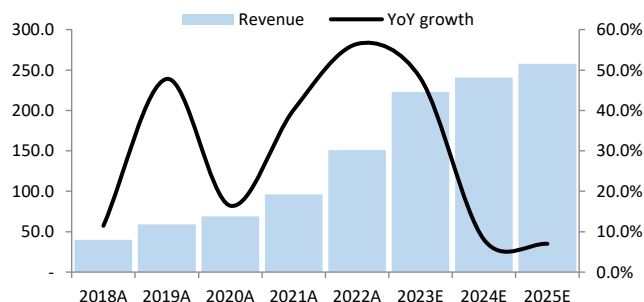
### TXT e-solutions: International vs. Domestic Revenue (2022A)



Source: Company Data & Intermonte SIM

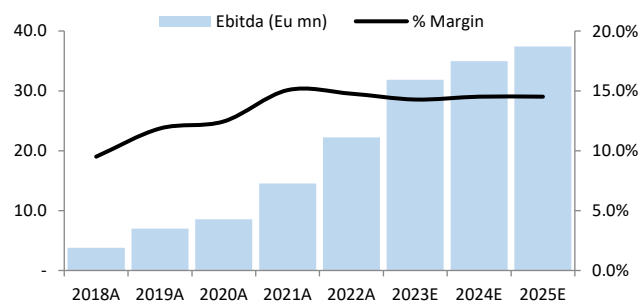
Source: Company Intermonte SIM

### TXT e-solutions: Revenue Evolution (2018A-2025E)



Source: Company data & Intermonte SIM Estimates

### TXT e-solutions: EBITDA and Margin Evolution (2018A-2025E)



Source: Company data & Intermonte SIM Estimates

## 4Q/FY22 Results

### TXT e-solutions: FY22 Organic trends

Sector	% on revenues	2022 Performance
Aerospace & Defence - Civil Aviation	12.3%	Organic Growth of 18%
Aerospace & Defence - Defence	18.4%	Positive growth
Industrial, Automotive & Telco	26.2%	Double-digit organic growth
Fintech	28.9%	Organic Growth >20%
Public Sector	14.2%	Organic Growth >40%

Source: Company data

### TXT e-solutions: 4Q/FY22 Results

(Eu mn)	4Q21A	4Q22A	4Q22E	A/E %	2H21A	2H22A	2021A	2022A
<b>Revenue</b>	<b>29.6</b>	<b>58.4</b>	<b>55.9</b>	<b>4.5%</b>	<b>52.7</b>	<b>88.2</b>	<b>96.4</b>	<b>150.8</b>
YoY growth	41.6%	97.0%	88.5%		43.7%	67.5%	40.2%	56.4%
Organic	25.6%	19.0%	17.1%		25.5%	16.7%	13.2%	18.0%
Scope	16.0%	78.0%	71.4%		18.2%	50.8%	27.0%	38.4%
<b>EBITDA IFRS</b>	<b>5.8</b>	<b>8.7</b>	<b>8.5</b>	<b>2.6%</b>	<b>8.9</b>	<b>13.1</b>	<b>14.5</b>	<b>22.3</b>
YoY growth	136.1%	51.5%	47.6%		96.0%	47.6%	69.6%	53.3%
EBITDA IFRS margin %	19.4%	15.0%	15.2%		16.8%	14.8%	15.1%	14.8%
- D&A	(1.5)	(2.8)	(2.4)		(2.6)	(4.6)	(4.6)	(7.1)
-Restructuring/Non Recurring cost	(0.0)	(1.2)	(0.0)		(0.0)	(1.2)	(0.4)	(1.2)
<b>EBIT</b>	<b>4.2</b>	<b>4.7</b>	<b>6.1</b>	<b>-21.8%</b>	<b>6.2</b>	<b>7.3</b>	<b>9.6</b>	<b>13.9</b>
YoY growth	-2009.5%	12.0%	43.2%		485.0%	18.7%	204.1%	44.9%
EBIT margin %	14.3%	8.1%	10.9%		11.7%	8.3%	10.0%	9.2%
- Financial income/(charges)	0.4	3.9	(0.4)		0.4	3.7	0.7	2.3
<b>Pre-tax profit</b>	<b>4.6</b>	<b>8.7</b>	<b>5.7</b>	<b>52.0%</b>	<b>6.6</b>	<b>11.0</b>	<b>10.3</b>	<b>16.2</b>
- Income tax	(0.9)	(2.0)	(1.5)		(0.9)	(2.5)	(2.5)	(4.2)
Tax rate %	19.4%	23.2%	26.5%		12.8%	23.0%	24.0%	26.0%
<b>Net income from cont. op.</b>	<b>3.7</b>	<b>6.7</b>	<b>4.2</b>	<b>58.6%</b>	<b>5.8</b>	<b>8.5</b>	<b>7.8</b>	<b>12.0</b>
YoY growth	235.2%	79.4%	13.1%		190.6%	47%	66.3%	53%
Net profit margin %	12.5%	11.4%	7.5%		11.0%	9.6%	8.1%	8.0%
<b>Net debt/(cash)</b>	<b>9.1</b>	<b>38.3</b>	<b>38.7</b>		<b>9.1</b>	<b>38.3</b>	<b>9.1</b>	<b>38.3</b>

Source: Company data and Intermonte SIM estimates

### TXT e-solutions: Divisional Breakdown

Revenue (Eu mn)	4Q21A	4Q22A	4Q22E	A/E %	2H21A	2H22A	2021A	2022A
<b>Aerospace, Aviation &amp; Automotive</b>	<b>16.8</b>	<b>37.5</b>	<b>37.0</b>	<b>1.4%</b>	<b>30.7</b>	<b>53.5</b>	<b>54.0</b>	<b>85.7</b>
YoY growth	67.7%	122.7%	119.7%		54.1%	74.5%	32.4%	58.9%
Organic	34.5%	5.6%	6.8%		37.3%	5.9%	20.1%	9.6%
Scope	33.3%	117.1%	112.9%		16.8%	68.6%	12.4%	49.2%
<b>FinTech</b>	<b>12.8</b>	<b>20.8</b>	<b>18.8</b>	<b>10.6%</b>	<b>22.0</b>	<b>34.7</b>	<b>42.4</b>	<b>65.0</b>
YoY growth	17.5%	63.0%	47.4%		31.3%	57.8%	51.4%	53.4%
Organic	17.5%	36.5%	30.7%		11.5%	31.8%	3.1%	28.7%
Scope	0%	26%	17%		20%	26%	48%	25%
<b>Revenue</b>	<b>29.6</b>	<b>58.4</b>	<b>55.9</b>	<b>4.5%</b>	<b>52.7</b>	<b>88.2</b>	<b>96.4</b>	<b>150.8</b>
YoY growth	41.6%	97.0%	88.5%		43.7%	67.5%	40.2%	56.4%
Organic	25.6%	19.0%	17.1%		25.5%	16.7%	13.2%	18.0%
Scope	16.0%	78.0%	71.4%		18.2%	50.8%	27.0%	38.4%
<b>EBITDA</b>	<b>4.5</b>	<b>6.4</b>	<b>6.0</b>	<b>6.5%</b>	<b>6.7</b>	<b>9.7</b>	<b>9.9</b>	<b>15.2</b>
YoY growth	486.0%	41.4%	32.8%		199.4%	44.3%	94.4%	53.3%
EBITDA margin %	26.8%	17.0%	16.2%		21.9%	18.1%	18.3%	17.7%
<b>FinTech</b>	<b>1.2</b>	<b>2.3</b>	<b>2.5</b>	<b>-6.6%</b>	<b>2.1</b>	<b>3.4</b>	<b>4.6</b>	<b>7.1</b>
YoY growth	-25.3%	88.1%	101.3%		-5.8%	57.9%	33.2%	53.5%
EBITDA margin %	9.8%	11.3%	13.3%		9.8%	9.8%	10.9%	10.9%
<b>EBITDA</b>	<b>5.8</b>	<b>8.7</b>	<b>8.5</b>	<b>2.6%</b>	<b>8.9</b>	<b>13.1</b>	<b>14.5</b>	<b>22.3</b>
YoY growth	136.0%	51.5%	47.6%		95.9%	47.6%	69.6%	53.3%
EBITDA margin %	19.4%	15.0%	15.2%		16.8%	14.8%	15.1%	14.8%

Source: Company data and Intermonte SIM estimates

## Change in Estimates

Given the positive 4Q22 figures and encouraging management outlook, in this report we are raising our 2023/24 organic growth estimates (from +6.3%/+6.7% to +8.9%/+8.0%), while we are leaving our EBIT margin assumptions unchanged; we think our new assumptions, consistent with management indications (clearly, we do not include future M&A deals expected to be announced during the year), remain quite conservative. All in all, we are upgrading 2023 and 2024 EPS by 4.0% and 4.7% respectively.

### TXT – Change in estimates

	NEW ESTIMATES			OLD ESTIMATES			% CHANGE		
	2022A	2023E	2024E	2022E	2023E	2024E	2022A	2023E	2024E
<b>Revenue</b>	<b>150.8</b>	<b>223.0</b>	<b>240.9</b>	<b>148.3</b>	<b>216.5</b>	<b>231.0</b>	<b>1.7%</b>	<b>3.0%</b>	<b>4.3%</b>
YoY growth	56.4%	47.9%	8.0%	53.8%	46.1%	6.7%			
Organic	18.0%	8.9%	8.0%	15.8%	6.3%	6.7%			
Scope	38.4%	39.0%	0.0%	38.0%	39.7%	0.0%			
<b>EBITDA</b>	<b>22.3</b>	<b>31.8</b>	<b>35.0</b>	<b>22.0</b>	<b>31.0</b>	<b>33.9</b>	<b>1.0%</b>	<b>2.6%</b>	<b>3.1%</b>
YoY growth	53.3%	43.0%	9.8%	51.8%	40.9%	9.2%			
EBITDA margin %	14.8%	14.3%	14.5%	14.9%	14.3%	14.7%			
<b>EBIT</b>	<b>13.9</b>	<b>22.8</b>	<b>25.7</b>	<b>15.2</b>	<b>22.0</b>	<b>24.6</b>	<b>-8.7%</b>	<b>3.6%</b>	<b>4.3%</b>
YoY growth	44.9%	64.1%	12.4%	58.7%	44.7%	11.6%			
EBIT margin %	9.2%	10.2%	10.7%	10.3%	10.2%	10.7%			
<b>Pre-tax profit</b>	<b>16.2</b>	<b>20.4</b>	<b>23.5</b>	<b>13.2</b>	<b>19.6</b>	<b>22.4</b>	<b>22.4%</b>	<b>4.0%</b>	<b>4.7%</b>
- Income tax	(4.2)	(5.7)	(6.6)	(3.7)	(5.5)	(6.3)			
Tax rate %	26.0%	28.0%	28.0%	28.0%	28.0%	28.0%			
<b>Net income from cont. op.</b>	<b>12.0</b>	<b>14.7</b>	<b>16.9</b>	<b>9.5</b>	<b>14.1</b>	<b>16.1</b>	<b>25.8%</b>	<b>4.0%</b>	<b>4.7%</b>
YoY growth	52.9%	22.7%	14.8%	21.6%	48.4%	14.1%			
Net profit margin %	8.0%	6.6%	7.0%	6.4%	6.5%	7.0%			
<b>EPS adj.</b>	<b>0.934</b>	<b>1.202</b>	<b>1.380</b>	<b>0.781</b>	<b>1.158</b>	<b>1.322</b>	<b>19.7%</b>	<b>3.8%</b>	<b>4.4%</b>
YoY growth	38.4%	28.7%	14.8%	15.7%	48.4%	14.1%			
<b>Net cash/(debt)</b>	<b>(38.3)</b>	<b>(29.3)</b>	<b>(14.1)</b>	<b>(38.7)</b>	<b>(27.5)</b>	<b>(10.1)</b>			
<b>FCF (ex. acq)</b>	<b>5.0</b>	<b>11.2</b>	<b>17.9</b>	<b>5.3</b>	<b>11.2</b>	<b>17.3</b>			

Source: Intermonte SIM estimates

## Appendix – M&A History

### 2023 Main Deals

- On 26 January 2023, TXT announced an agreement for the investment in the capital of LAS LAB Srl. The investment involves a capital increase in LasLab reserved for TXT, consisting of Eu0.3mn, which grants TXT a 33.0% stake in LasLab, an innovative start-up established from the spin-off of the technological platform developed by Loan Agency Services Srl, leader among active non-banking operators in the credit management supporting services.

### 2022 Main Deals

- On 21 November, TXT announced a binding agreement for the purchase of 100% of the capital of **TLogos**, a consultancy company founded in 2011 and specialising in providing consultancy for IT security projects in complex arenas, such as the space sector. The company, which has 15 specialist employees, is expected to generate pro-forma revenues of Eu1.6mn in 2022, with an EBITDA margin of 35%. TLogos also boasts a significant revenue backlog from contracts already acquired, with strong growth prospects both in its reference sector and in other sectors already covered by the TXT group, which in turn will benefit from an enhanced high-value-adding cybersecurity offer. Closing is foreseen by 31 December 2022. The companies have agreed a payment of Eu3.3mn for 100% of TLogos (Enterprise Value), while the Equity Value is Eu5.0mn (a net cash position of Eu1.7mn is expected), to be made at closing, of which Eu3.75mn (75%) in cash and Eu1.25mn (25%) in TXT shares. Good news on the stock, both from a strategic point of view, and for the attractive multiple paid (below 6x EV/EBITDA on 2022).
- On 14 November 2022, the Group announced an accord for the acquisition of 100% of **PGMD**; the aim is to strengthening TXT's consultancy offering in the digitalisation of ICT processes in specific sectors such as healthcare. PGMD, founded in 2006, has a specialised workforce of 25 (employees/external professionals) and 2022 revenues (proforma) are expected at circa Eu2.8mn, with an EBITDA margin of 22%. The company is well positioned in digitalisation of public and private healthcare, has a solid backlog from existing multi-year contracts and strong growth prospects. PGMD is being acquired at an Enterprise Value of Eu3.5mn, of which Eu3.0mn (~85%) in cash and Eu0.5mn (~15%) in ordinary treasury shares. The accords contain retention and earn-out provisions for the 3 selling managers with expiry on approval of the 2024 financial statement. The multiple paid (5.7x 2022 EV/EBITDA) appears reasonable.
- On 4 November 2022, TXT announced it had signed an agreement for the investment in the share capital of **ProSim Training Solutions**, a Dutch-based software house specialized in the development and marketing of proprietary solutions for the civil aviation training market. The agreement consists of an initial capital increase in ProSimTS reserved to TXT for Eu0.5mn, which will obtain 40% of the capital. The agreement also includes the provision of technologies and loans for financing the growth of ProSim-TS, plus further investment rounds which, if executed, will enable TXT to increase its ownership of ProSim-TS up to 100%. This new venture will combine unique TXT software engineering capabilities with cutting-edge proprietary pilot training products developed by ProSim-TS, with the aim of ensuring a wider choice of innovative products for professional pilot training, a more comprehensive range of certified devices, and extended delivery capabilities.
- On 3 October 2022 TXT acquired 100% of the share capital of **Soluzioni Prodotti Sistemi** ("SPS"), a company founded in Rome in 2009 and with offices in Bari and Milano, which employs over 100. The company's business consists of managing innovative projects for the development of application, IoT and Artificial Intelligence solutions; over the years, SPS has conducted a constant growth process with a 2018-2021 revenue CAGR of 23%, reaching consolidated revenues of Eu9.5mn in 2021, with an adjusted EBITDA margin of 15%. The consideration for the purchase of 100% of SPS ("Enterprise Value") was agreed between the parties at Euro 6.4 million paid at the closing, of which Euro 4.8 million (75%) in cash and Euro 1.6 million (25%) in TXT treasury shares. TXT will consolidate SPS results from October 2022.
- **DM Management & Consulting.** On 19 July 2022, TXT announced it had signed a contract for the acquisition of 100% of capital of DM Management & Consulting Srl ("DM"). TXT will consolidate results from 20 July 2022. Founded in Parma in 2011, DM was a pioneer in 2013 in the launch of the MES (Manufacturing Execution Systems) / MOM (Manufacturing Operations Management) platform, which has been developed in subsequent years through investments in R&D. In 2021 DM reported ARR of c.Eu0.5mn (on adj. revenues from sales of Eu1.2mn) and an EBITDA margin of 25% with an expected CAGR of 30% for the 2022-2024 period, thanks to group synergies. The consideration for the acquisition of 100% of DM ("Enterprise Value") was agreed by the parties at Eu1.7mn paid at closing, of which Eu1.4mn (82%) in cash and Eu0.3mn (18%) in TXT treasury shares. The acquisition of DM strengthens and expands the offering of Group proprietary digital solutions for industry.

- Ennova.** On 29 June 2022, TXT signed a binding agreement for the purchase of a 78.56% stake in Ennova. Ennova (based in Turin) was formed in 2010 by Turin Polytechnic business incubator as a start-up developing services and solutions for the management of the entire life cycle of the digital transformation of companies. During its history, Ennova has posted constant, rapid growth, with revenues going from Eu18mn in 2015 to Eu40mn in 2017, then exceeding Eu60mn in 2021. 2021 adjusted EBITDA came to Eu5.3mn, and should rise further in 2022. The current Ennova offer is focused on three main business units: (i) the Technology business unit focused on the development of proprietary platforms for the digitalisation of client processes in various markets, (ii) the Advanced Caring business unit which manages the outsourcing of high-tech customer care operations for Telcos and utility sector clients through the use of innovative proprietary platforms based on artificial intelligence, and (iii) the Tech on Site business unit, which guarantees national coverage with specialist resources and software platforms for the telecommunications and gaming industries. The price paid for the acquisition of 78.56% of Ennova, represented by the shares held by non-employee shareholders, was agreed at Eu8.9mn to be paid in cash at closing. On October 3, 2022, TXT announced the purchase of a stake representing 21.44% of the share capital of Ennova from its minority shareholders and managers, reaching 100% of the capital of Ennova. The consideration for the purchase of 21.44% of Ennova was agreed between the parties in Eu6.4mn, of which Eu 4.9mn (75%) paid in cash and Eu1.5mn (25%) by transfer of TXT ordinary treasury shares. The agreement provides for two earn-out clauses to the selling shareholders who will continue to hold strategic managerial roles in Ennova.

### Main 2021 Deals

- TeraTron.** On 29 July 2021 TXT signed a contract for the acquisition of 100% of the capital of German company TeraTron, which it started to consolidate in its accounts from 1 August 2021. TeraTron, which has been active for over 20 years, is a leader in innovative IoT solutions for digitalisation, automation and security, mainly in the Automotive, Industrial (Industry 4.0), and Healthcare markets, and also boasts a growing presence in other sectors with strong innovative and technological content. The client portfolio is international and includes multi-year relationships with companies such as Audi, BMW, HILTI, John Deere, Porsche, Volkswagen and Volvo. In 2019 and 2020, TeraTron reported revenues of Eu9.2mn and Eu7.6mn respectively, with EBITDA of Eu1.8mn and Eu1.4mn. For 2021, it should have generated Eu9mn in revenues, with profitability of c.Eu2mn. The outlay for the acquisition of TeraTron was mutually agreed at Eu10.1mn in cash at closing: this acquisition not only further diversified TXT's business in the Automotive&Industrial area, it also continued its internationalisation, strengthening its presence in Germany, integrating the PACE aerospace offering with TeraTron in manufacturing and automotive. As well as broadening its offering with new proprietary software and hardware solutions, thanks to TeraTron TXT will be able to increase its international client base.
- Novigo Consulting and LBA Consulting.** On 29 November 2021, TXT announced it had bought 100% of the capital of Novigo Consulting Srl and LBA Consulting Srl, active in the management of digital payments and consumer credit. For 2021 (pro-forma) total revenues are expected at Eu5.5mn and total EBITDA at ~Eu1.7m. TXT started to consolidate the businesses from 1 December 2021. The outlay for 100% of LBA was Eu2.73mn, paid in cash at closing, plus an adjustment of the amount due in TXT shares on approval of 2021 accounts by LBA. The multiple paid was ~5.2x 2021 EBITDA. The outlay for 100% of Novigo was ~Eu3.5mn, paid at closing, of which ~Eu2.45mn in cash and ~Eu1.05mn in TXT treasury shares. The multiple paid for Novigo was ~5.1x 2021 EBITDA.
- Quence.** On 28 December TXT announced the acquisition of 100% of the capital of Quence Srl, an Italian company specialising in software engineering with the offer of Data Intelligence, SW Application Lifecycle Management (ALM), SW Quality Assurance & Testing and Data Intelligence services. The newly-acquired company has over 25 domestic and international clients (c.10% of the business) in the banking, financial and insurance arenas. YE21 revenues are expected to have reached Eu2.7mn, with a 15.1% EBITDA margin and a 15% EBIT margin. TXT started to consolidate Quence's results in its Fintech division as of 1 January 2022. Eu2.0mn will be paid for the purchase at closing, of which Eu1.4mn in cash and the remaining Eu0.6mn through the transfer of TXT treasury shares at the market price at the end of trading the day before the closing date. The deal went through at ~5.0x 2021 EBITDA.

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	TXT E-SOLUTIONS		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	22.10	Previous Target (Eu):	19.40
Current Price (Eu):	18.54	Previous Price (Eu):	15.34
Date of report:	13/03/2023	Date of last report:	13/02/2023



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

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

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

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

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

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

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OUTPERFORM:	48.76 %
NEUTRAL:	28.10 %
UNDERPERFORM	02.48 %
SELL:	00.00 %

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OUTPERFORM:	49.02 %
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UNDERPERFORM	00.00 %
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