Production date: February 5, 2019 - h 18.30

CIRCLE | *Italy* | *FTSE AIM Italia* | *Engineering*

Rating: BUY | Target Price: € 4,10 | Initiation of Coverage | Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	14,00%	7,60%	1,07%	N/A
to FTSE AIM Italia	-6,97%	22,23%	36,44%	N/A
to FTSE STAR Italia	-6,97%	17,75%	25,53%	N/A
to FTSE All-Share	-7,18%	18,86%	26,26%	N/A
to EUROSTOXX	-8,40%	18,29%	29,68%	N/A
to MSCI World Index	-8,84%	16,83%	29,77%	N/A

Stock Data	
Price	€ 3,25
Target price	€ 4,10
Upside/(Downside) potential	26%
Bloomberg Code	CIRC IM EQUITY
Market Cap (€m)	€ 10,90
EV (€m)	€ 10,60
Free Float	20,24%
Share Outstanding	3.154.650
52-week high	€ 3,60
52-week low	€ 2,35
Average daily volumes (1m)	5.953

Key Financials (*€m*)	FY17A	FY18E	FY19E	FY20E
Sales	4,9	5,6	6,6	7,5
EBITDA	1,3	1,5	1,9	2,3
EBIT	1,0	1,2	1,5	1,9
Net Profit	0,8	0,8	1,1	1,3
EPS (€)	0,25	0,26	0,35	0,43
EBITDA margin	26,5%	26,3%	28,3%	30,2%
EBIT margin	21,2%	20,7%	23,0%	24,9%

Main Ratios	FY17A	FY18E	FY19E	FY20E
EV/EBITDA (x)	8,2	7,1	5,7	4,7
EV/EBIT (x)	10,2	9,1	7,0	5,7
P/E (x)	13,6	12,7	9,7	7,9

Alessio Rocchi
+39 02 87208 786
alessio.rocchi@integraesim.it

Mattia Petracca
+39 02 87208 765
mattia.petracca@integraesim.it

Stocks performance relative to FTSE AIM Italia

Company overview

Established in 2012 with a Management Buy Out operation, Circle is a management consulting company operating in the port and intermodal logistics sector, specializing in business process reengineering, and the development of solutions for automation and digitalization of the Supply Chain. Circle is based in Rozzano (MI) and has 45 employees, making use of two proprietary software: Milos, that allows the optimization of the processes in port field, and Sinfomar, that allows to connect in a single technological platform all the actors of the port community guaranteeing the interoperability between all the different systems of ICT.

Market

Circle's business is related to the digitization of the Supply Chain and is essentially linked to the trend of two sectors: the technological/digital and infrastructure sectors. Both are expected to grow worldwide in the coming years. In Italy, the digital market grew by 2.6% in 2018 and 3.0% in 2019. We also consider the impact that the digitization of the supply chain will have on the logistics and services sector, especially if connected by blockchain technology. Compared to the main competitors, Circle is able to operate in all sectors of the industry.

Valuation Update

We have based our valuation estimates on the multiples method and the DCF. Regarding the multiples valuation method, a group of companies operating in the same sector as Circle was used, but with greater market capitalization; for this reason, a 25% Market Cap discount was applied. The equity value resulting from this method is equal to approximately € 12 million. The equity value resulting from the DCF evaluation method is equal to € 13.6 million. The average between the two methods returns a value of € 12.8 million, for a target price of € 4.1 per share, BUY rating and MEDIUM risk unchanged.

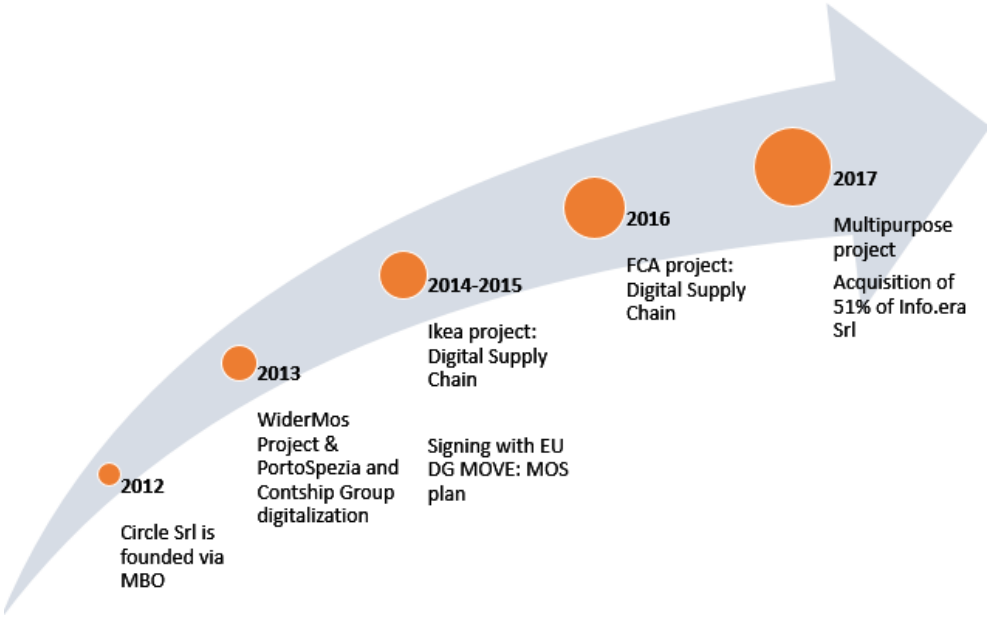
Summary

1. Company overview

1.1 Business activities

Established in 2012 with a Management Buy Out operation, Circle is a management consulting company operating in the port and intermodal logistics sector, specializing in business process reengineering the development of solutions for automation and digitalization of the Supply Chain. Circle is based in Rozzano (Milan) and has 45 employees (23 of them of Info.era).

Fig. 1 – Historical evolution



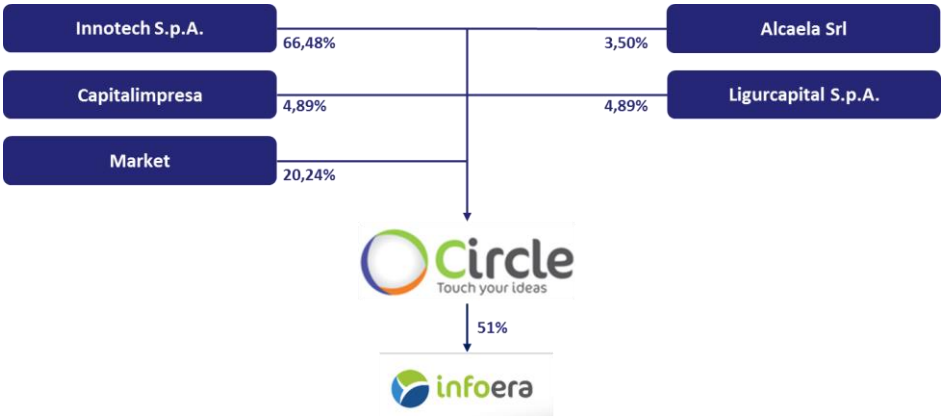
Source: Circle

1.2 The shareholders

In 2018 Circle changed its legal form, becoming a joint stock company. It is 66.48% controlled by the company Innotech Srl, owned (100%) by Luca Abatello, founder of the company and president of Info.era. The remaining shares are owned by Alcaela Srl for 3.50%, LigurCapital SpA for 4.89%, CapitalImpresa SpA for 4.89% while 20.24% owned by the market.

The company controls 51% of Info.era, mainly specialized in IT solutions for companies and institutional bodies, present on the market for more than 20 years, with a focus on the maritime and transport sector in general, with the aim of consolidating and expanding skills and technological solutions.

Fig. 2 – The structure of the group



Source: Circle

1.3 The business lines

Circle operates through three revenue lines:

- **Innovative & Smart Supply chain**. Consultancy services and software solutions to optimize flow management in the port, transport and logistics sectors;
- **Connecting EU,** or support to public actors and private companies in the implementation of projects and in obtaining funds through consultancy on European financing systems;
- **Specialized digital multichannel marketing,** which provides the service of analysis, definition, and use of digital communication tools.

The Company, operating in the "digital supply chain" market, uses the following proprietary software:

- **Milos®. T**he solution that allows the optimization of processes in the port, interport and intermodal transport sectors (i.e., it allows port and interport terminals, multimodal transport companies, companies in their logistics and customs management to accelerate their processes and procedures, reduce transit times, improve the visibility and traceability of goods along the entire transport chain). The software is structured in 4 basic modules:
  1. **Terminal automation**, consisting of a set of solutions for the automation and optimization of terminal operations;
  2. **Intermodal corridor management,** solutions developed to make interoperable the information systems of all actors involved in intermodal logistics processes;
  3. **Custom management**, which are essentially a set of solutions to digitize and automate customs procedures;
  4. **Port & Terminal connections,** consisting of two systems developed by Circle (Port Community System – PCS) and Terminal Operating System (TOS) for the connection between IT systems (PCS; TOS; Rail System, MTO System, Freight etc.).
- **Sinfomar®.** It is the software that allows to connect, in a single technological platform, all the actors of the port community of a port, guaranteeing the interoperability between the different ICT systems used by the single stakeholders to digitalize and to optimize all the relative operations to the management of the port processes. Sinfomar is a software owned by the company Info.era, of which Circle acquired 51% in November 2017. Sinfomar consists essentially of 6 modules:
  1. **Vessels**, which deals with the management and travel documentation of ships arriving, transiting, and departing;
  2. **Goods**, which concerns the management of goods entering and leaving ships, trains and trucks;

3. **Trains,** which allows the tracking of containers, goods and vehicles arriving and departing through ports data trains;
4. **Control and tracking of vehicles involved in intermodal transport;**
5. **People.** It focuses on classifying employees by category using precise credentials;
6. **Free zones**, i.e., the integrated and unified management of the practices that concern the processes and activities related to the free zone.

1.4 The value chain

The Circle value chain involves essentially 3 different phases:

Examination of opportunities. It starts from the definition of the objectives (from the idea to the draft project). To do this, the partners are first sought and then coordinated on the different territorial technical tables. We continue with the identification of the EU project of co-financing and monitoring of opportunities, up to the actual development of the proposal after verification of actual feasibility;

Evaluation of project drafts. The design evaluation is carried out for the projects which have successfully passed the examination of the appropriateness. The activity which is prior to the official submission of the project proposal;

Presentation and management of the project, which concerns the life of the entire project. The presentation of the project proposal is followed by the Negotiation with the Project Management Authority. The model is created and pretested. We then proceed to the kick-off meeting in the presence of all partners. The launch is followed by the management of the project, especially with a view to financial sustainability.

Fig. 3 – The value chain

Source: Circle

2. The market

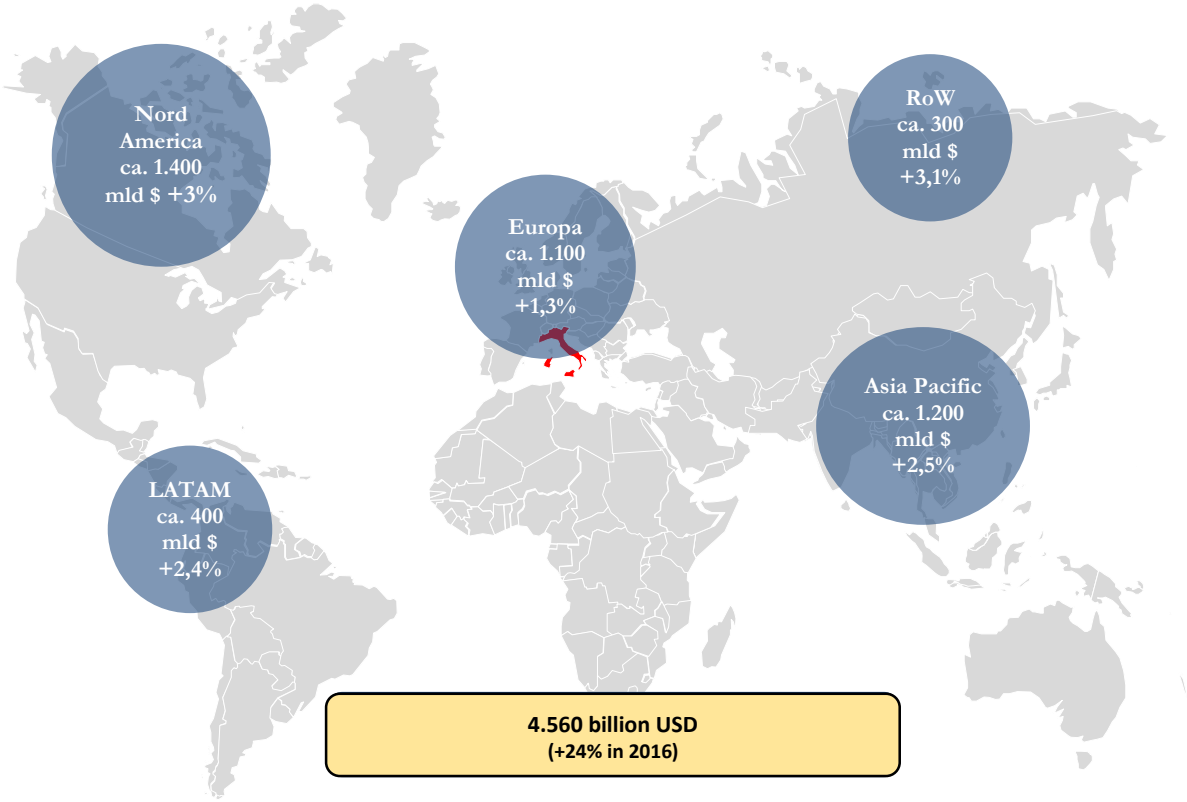
Circle's business is related to the digitization of supply chains and is essentially linked to the growth of two macro sectors: the technological/digital and infrastructure sectors.

2.1 The digital sector

Digitization is spreading in all areas of society and around the world. Those which were the first faint signs of a revolution announced now are strong and accompanying it. Digital innovation no longer has boundaries. More and more companies everywhere see digital as a new cornerstone of their business or service model, stimulated by new production, consumption, and citizenship practices.

This explains why in 2016 the global digital market continued to grow (+2.4% to $ 4,560 billion), despite geopolitical tensions, regional economic crises, and the slowdown in recovery. It also explains why the ICT market will continue to grow in the coming years, driven by the change triggered by the most innovative components: Cloud Computing, Mobile Business, Internet of Things (IOT), Big Data, Cybersecurity, and Social business, to which Blockchain, Open Data, and Cognitive Computing will soon be added. The current revolution goes under the name of "Digital Transformation" and calls on companies, administrations, and institutions to see, invest, and have a new and more open mind.

Fig. 4 – Breakdown of the digital market by geographical area

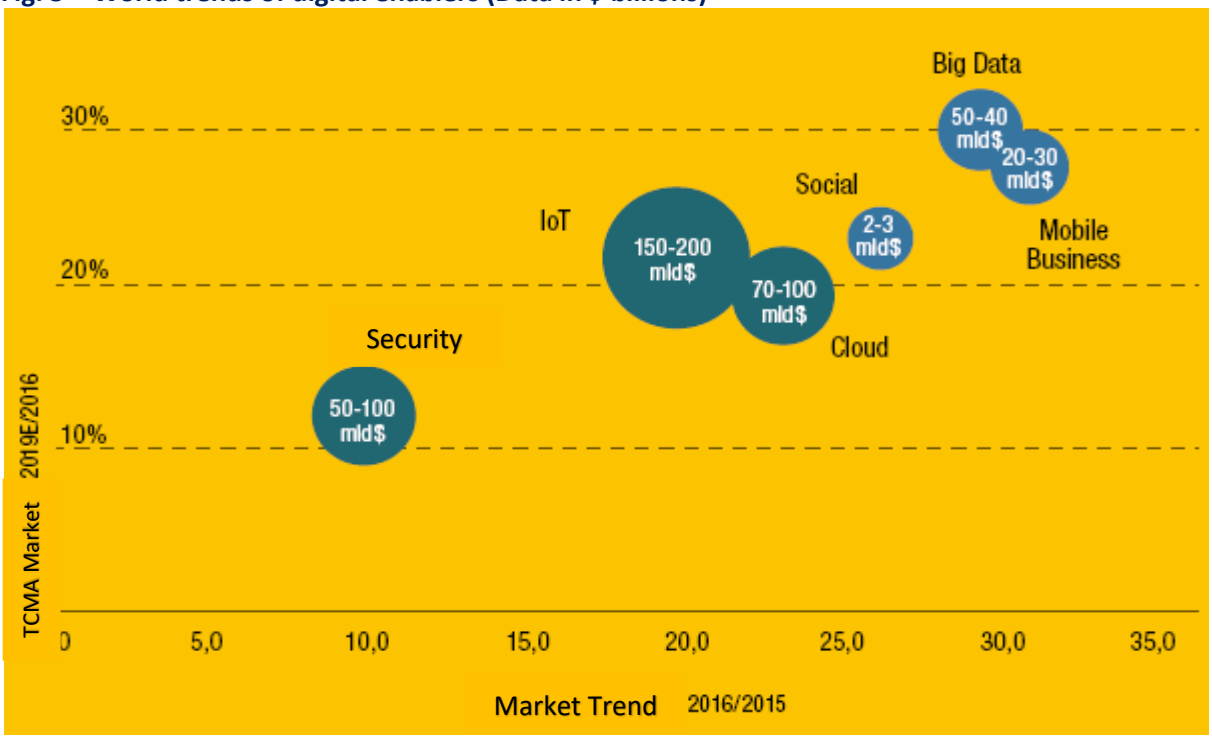


Source: Confindustria, The digital market in Italy, 2016

Digital Enablers continue to be the pillars on which the growth of technological investments in user companies is based: they are the enabling levers of digital transformation strategies and projects in all sectors and processes. Digital Enablers support ICT investments in all sectors.

The Digital Enabler market is destined to maintain a significant growth rate also in the medium term, with different characteristics and rationales depending on the technological strands considered, and in any case with double-digit growth rates also for the next three years. Big Data and Mobile Business solutions continue to represent the technologies that predict the most significant growth in the period 2016-2019F, with rates around 30% per year. Both, in fact, are important elements, on which companies are focusing to innovate models of sales and customer relations.

Fig. 5 – World trends of digital enablers (Data in $ billions)



Source: NetCunsulting Cube, 2017

The Big Data market includes middleware platforms, analytics, and related services (design, system integration, and managed service). These solutions are taking a pivotal role within organizations. The activities of understanding, managing, and manipulating large amounts of data no longer only concern marketing and risk management functions but also the most operational activities.

In marketing, Big Data analytics allows to better direct products and services towards the most specific targets, optimize the customer experience and improve competitiveness and operational efficiency. Strong growth is also the tendency to pool the insights deriving from the various divisions/functions to support overall and more effective business strategies. Other areas of adoption of Big Data solutions concern the area of Cybersecurity and IoT: in the first case for the analysis and prevention of threats, through the correlation of phenomena, behaviors, and events. In the case of IoT, Big Data platforms enable the exploitation of the flow of data from an increasing number of objects.

Mobile Business - i.e., mobile services used by companies in the workplace, ERP, CRM, SCM, and BI, customer relationship management (mobile payment, mobile commerce), mobile device management – will also represent one of the main areas of investment of companies in the coming years. Consequently, there will be the need to redesign corporate architectures in mobile first logic, to maximize employee productivity and efficiency, as well as the user experience.

The most consistent market of Digital Enablers is that of IoT, which is worth about $ 150-200 billion and continues to grow at rates around 20% per year. IoT technologies are the ones that most enable new business models and the innovation of production processes and customer relations.

IoT is a vast and very pervasive area within company ecosystems. The presence of many objects and sensors that produce and transmit data through different types of networks and their integration on Cloud and ICT platforms enable profound product/service and process innovations, often interrelated. E-health services, telemedicine, wellness, smart metering, and home automation, black-box services in the insurance sector, e-call/connected car services and automated driving are just a few examples of how companies can use IoT to innovate the offer. Energy efficiency, remote maintenance, asset management, security monitoring, geolocation, and tracking services are examples of process innovation. The adoption of all these processes also in the field of factories and warehouses, combined with product innovation, is giving rise to the Industry 4.0 model, which all companies, especially manufacturing companies, are taking a close look, also with the support of the initiatives of governments around the world.

Despite having slowed down growth, the Cloud continues to show growth rates of more than 20% in the world and is confirmed as a factor of digital transformation, thanks to the scalability and flexibility that it is able to offer. A selective approach is now emerging not only for the application/infrastructure resources to be managed in the Cloud, but also for the models that appear more suitable from time to time. Hybrid architectures are becoming more and more established, where applications coexist on public Cloud, with others on private Cloud and on premises, with the consequent need to equip themselves with tools to manage them in an optimized way.

Security solutions play a fundamental role in relation to all Digital Enablers. The adoption of platforms in this area is generally guided not only by the need to protect the company and its resources from generic threats, but also and above all by the dangers deriving from the greater openness of networks and systems towards a wider ecosystem. Although it is a mature market, which grows at a slower rate (on average 10% per year) than those of other enablers, for some components it has higher growth rates. Cybersecurity and digital identity management are in fact assuming an increasing weight in investment plans.

The Social Business platforms, despite having a market of still small size, between $ 2.5 and 3 billion, are becoming crucial for companies, especially B2C: they concentrate the functions to reduce the distances between companies and customers. Through them, it is possible to obtain valuable customer data (social listening, sentiment analysis, etc.) to:

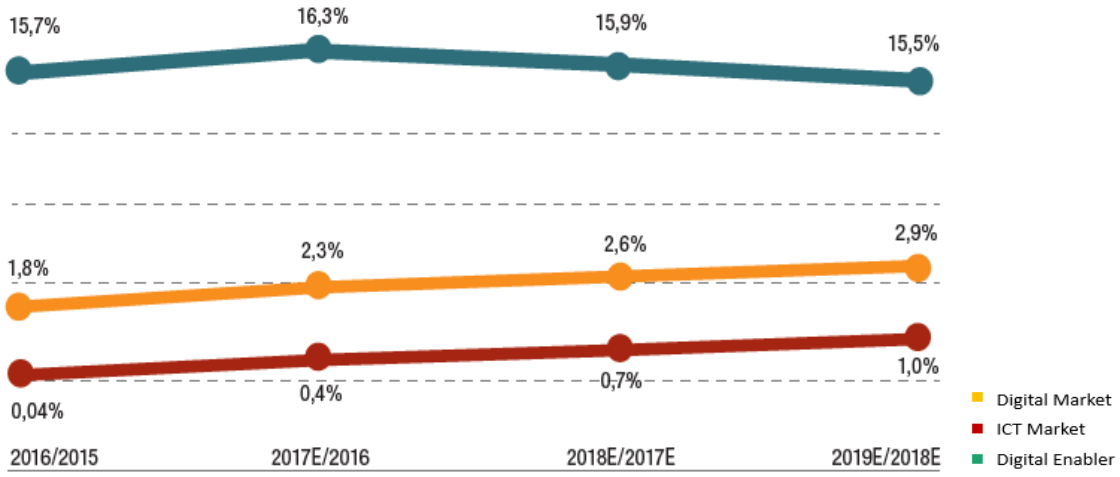
- increase their loyalty and improve brand awareness;
- develop promotional campaigns focused on specific targets and monitorable in real-time;
- provide users with a better customer experience (fast response times, continuous support) and optimize communication with partners and distribution channels.

More limited, but still growing, is the use of Social platforms aimed at increasing the effectiveness of internal processes (Social Intranet, Social HR etc.).

2.2 The Italian digital market

In 2016, the Italian digital market started up again, growing by 1.8% (to over € 66 billion) and strengthening a recovery started at the end of 2015 after years of continuous declines. Projections for the coming years show a further improvement in growth rates: between 2017 and 2018, the increase is expected to significantly exceed 2% (+2.3% in 2017 and +2.6% in 2018) and in 2019 it is expected to approach 3%. It is the effect of a profound change in demand in all the main user sectors, from finance to industry, to distribution to utilities.

Fig. 6 – Growth rates of the digital market in Italy



Source: NetCunsulting Cube, 2017

Investments attributable to the traditional ICT perimeter show a very low growth rate, substantially flat in 2016 and slightly higher between 2017 and 2019. It should be noted, however, that – compared to the previous year – the ICT market has been characterized by a varied recovery, which affected many hardware and software components (mainly PC laptops and servers, traditional application platforms) with positive repercussions on the demand for professional services, primarily System Integration and Consulting. More generally, technological investments are fueled by the ferment of initiatives and projects in which digital drives a redesign of processes across the entire company. Proof of this is the growing trend of the market as a whole associated with Digital Enabler: IoT, Cybersecurity, Cloud, Big Data, Web management platforms and Mobile Business.

The launch of projects related to each individual digital paradigm supports in most cases investments related to the implementation of other Digital Enablers, laying the foundations for a structural and continuous growth of the digital market. The ICT Services component is greatly impacted by the increasingly pervasive spread of Digital Enabler, although the performance of this segment is held back by the downward trend in professional rates. The adoption of Cloud architectures and the increasing mobility of business users is causing an increase:

- of the demand for connectivity, data transmission, and VAS services in the mobile sector
- the launch of initiatives related to Big Data, Social and IoT, which in turn leads to a growth in the demand for implementation and management services for new applications;
- the growing need to protect the company and its technological and business assets leads to an increase in investments in Cybersecurity.

The growth of the Software and ICT Solutions market is particularly relevant in contexts in which Big Data, IoT, and Mobile Business solutions are adopted, which are characterized by numerous areas of application depending on the business activities considered and the sectors to which the companies belong. Negative, in terms of segment spending dynamics, is the contribution of the cloud. The affirmation of the SaaS model involves, in fact, a gradual reduction of the expense for the purchase of licenses, even if now this is limited only to some specific application areas.

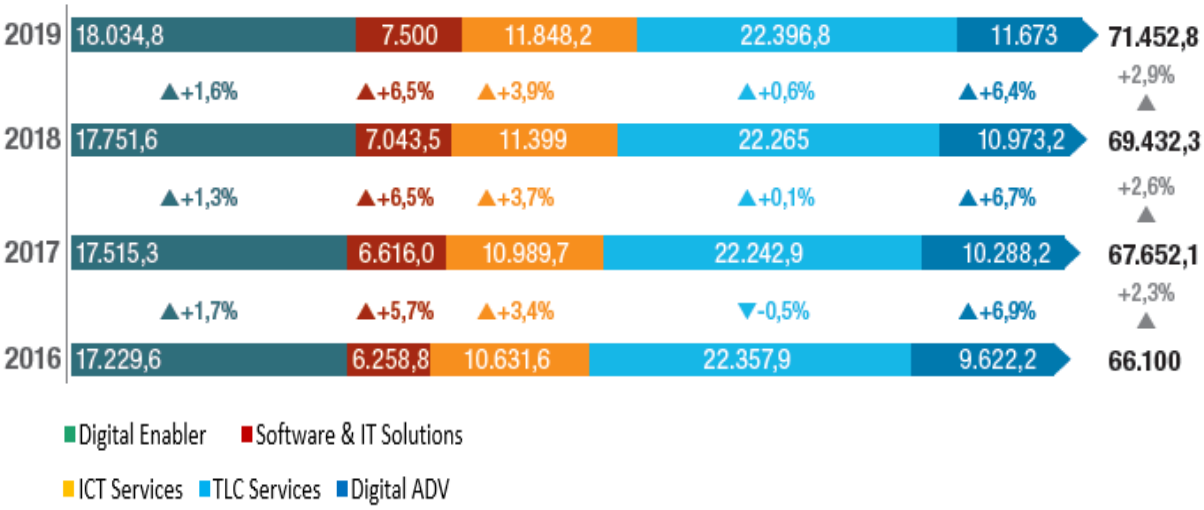
Finally, the Devices and Systems segment also appears to be attacked by the affirmation of the Cloud, although it seems clear that Cloud architectures will only rarely replace the entire physical infrastructure of companies. The impacts on the Devices and Systems market deriving from the adoption of the other paradigms are attributable to the increased demand for appliances and engineered systems (Big Data), control systems and connectivity services (IoT), mobile devices and transmission networks (Mobile Business), next-generation firewalls, router firewalls, access points (Security).

The increase in the Italian digital market appears to be supported by the development trend of Software and ICT Solutions components, and ICT Services. The ICT software and solutions market is expected to grow between 2016 and 2019 at an average annual growth rate of 6.2%. The ICT Services segment, whose average annual increase between 2016 and 2019 is 3.7%, benefits in turn from the recovery of the ICT Software and Solutions market, which has a positive impact on the trend of both System Integration and Outsourcing services, in particular on the application maintenance component. However, the largest increase is found in Cloud Computing services.

The Devices and Systems market is expected to grow at an average annual rate of 1.5%, a good recovery compared to the previous year's estimates. In support of this trend, the trends of mobile devices - smartphones, laptops, and tablets - and of the infrastructure component, especially in the field of IoT and fixed telecommunications networks, should be highlighted.

Network Services should have contracted again in 2017 and then returned to growth in 2018 and closed the period under review with a slightly increasing overall trend (+0.6%), corresponding to an average annual growth rate of 0.1%. The Digital Content and Advertising sector, while continuing to grow well above the market average (+6.7% is the average growth rate between 2016 and 2019), begins to show signs of maturity that are reflected in the decline in the price of a wide range of content, especially those that are in the news and electronic publishing segment.

Fig. 7 – Breakdown of the digital market in Italy 2016-2019F



Source: NetCunsulting Cube, 2017

2.3 The supply chain

The supply chain is a transversal process that goes through marketing, sales, product development, production, and distribution, which traditionally have high functional barriers.

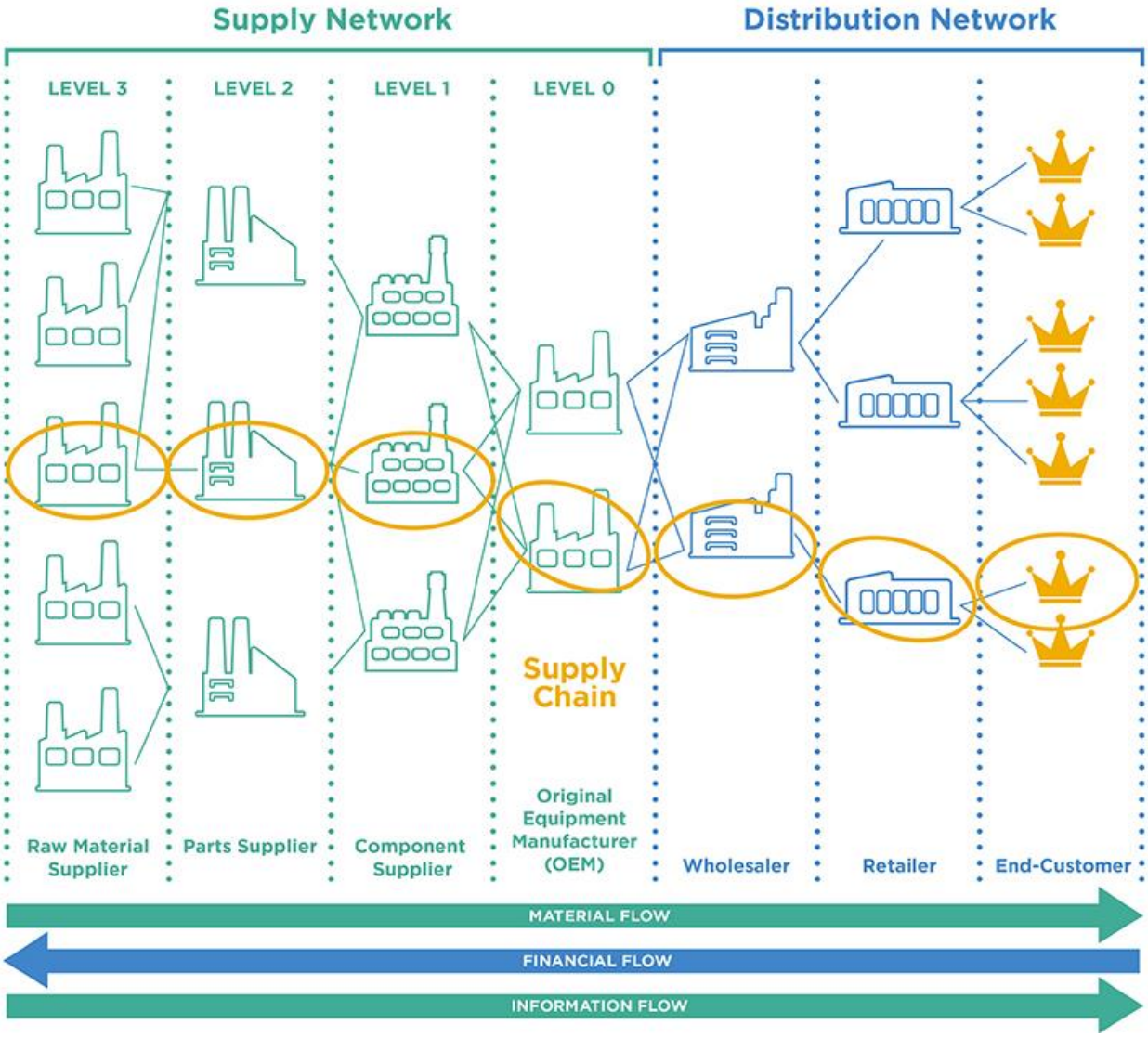
The digitization of the supply chain allows to break down these barriers and to evolve towards a completely integrated ecosystem, transparent for all the actors involved, from the suppliers of raw materials, components and parts to the internal functions, to the transporters and, finally, to the customers.

Customers, in fact, require availability of products and faster delivery times and punish those who do not meet the demands. The digital supply chain is based on a series of processes that allow event-driven management modes such as:

- Inventory and positioning on the online shelf for each reference even during opening hours;
- Online management of incoming and outgoing stocks of the entire supply chain;
- Electronic tracking of materials;
- Identification of out-of-stock;
- Automatic material planning throughout the day.

All this makes it possible to adapt to changing conditions and to react in real time to interruptions in the supply chain and often to anticipate them, completely modeling the network and creating "what-if" scenarios.

Fig. 8 – The supply chain



Source: processed by Integrae SIM.

The development of these event-driven scenarios allows a great deal of potential to be captured along the entire value chain:

- Increased product availability
- Reduced stock breakage
- Reduction of order to delivery cycle time
- Reduced levels of networked stock

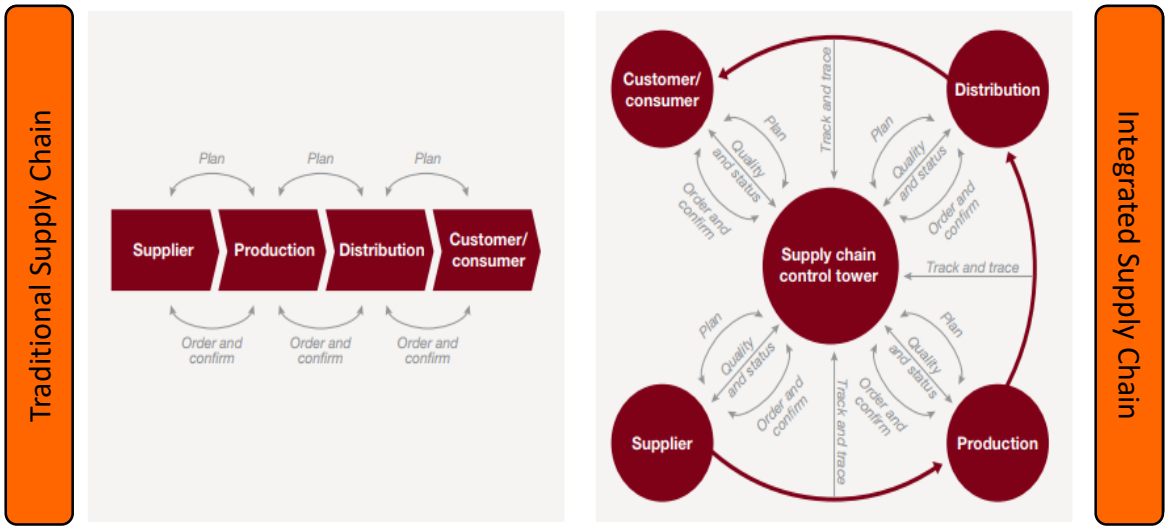
We consider relevant the impact that the digitization of the supply chain will have on the logistics and services sector, especially if connected to blockchain technology. We are convinced that early adoption will continue with pilot projects in the next 3-7 years, while in less than 10 years we believe that there will be mass adoption along entire production chains.

Blockchain technologies have the potential to transform and revolutionize entire sectors. In those of logistics and services, in particular, the impacts will be mainly at the supply chain level, with applications for tracking complex processes, guaranteeing compliance, and ensuring origin and quality (quality origin assurance).

At the moment the main applications of Blockchain are in the Finance sector, but in the long term the use of blockchain technologies for the production and logistics supply chains will be normal and daily. In the short term, some structural problems of scalability, flexibility, data confidentiality, efficiency, governance, and interoperability must be overcome.

Moreover, in accordance with its basic concepts the blockchain is particularly suitable for processes that involve many companies, and therefore also those of supply chain management. However, it is necessary to consider the extreme complexity of today's production and supply networks.

Fig. 9– The evolution of the supply chain



Source: PWC, Industry 4.0 - How digitization makes the supply chain more efficient, agile, and customer-focused

2.4 The infrastructure sector

Infrastructure investments are of fundamental importance for the most advanced and developing economies (roads, electricity, clean water made available to all).

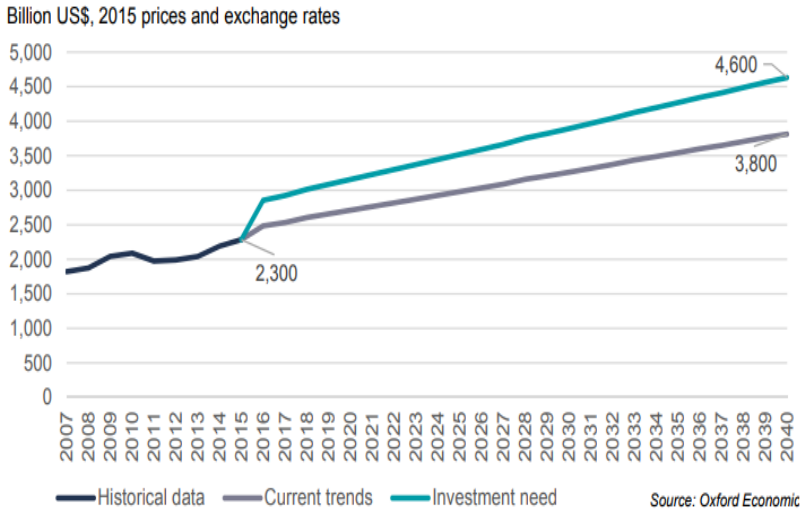
Infrastructure investments can have a profoundly transformative impact on citizens' lives and on business prospects. In more mature economies, by keeping pace with demand and building new and up-to-date infrastructure, investment is an integral part of efforts to support economic growth.

According to Oxford Economics (Global Infrastructure Outlook, 2017), global infrastructure investments will be around $ 94 trillion between 2016 and 2010. To meet this investment need, the world will have to increase the share of GDP devoted to infrastructure to 3.5%, compared to the 3.0% forecast according to current trends.

In general, the demand for infrastructure will be higher than expected investments. The ability to bridge the gap between market developments and the demand for investment will therefore depend on the growth capacity of gross domestic product globally.

Future infrastructure investment needs are obviously linked to the rate at which an economy grows. As incomes and populations grow, businesses require more energy to support their production processes. At the same time, the need for infrastructure to move people and goods is growing.

Fig. 10 – Infrastructure expenditure (Data 2007 – 2040)

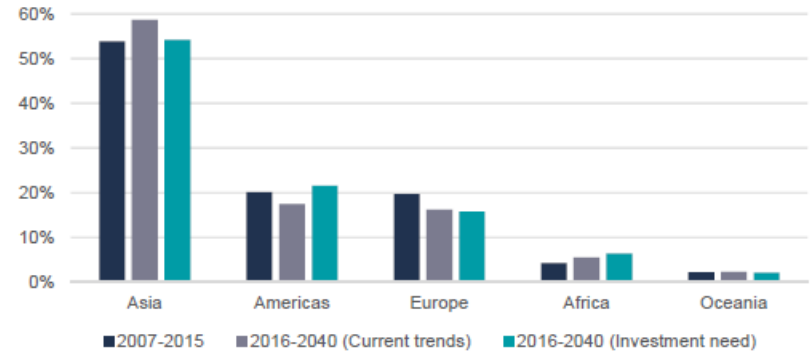


Source: Oxford Economics, Global Infrastructure Outlook (2017)

The last decade has seen growth rates in Asia surpass other regions of the world. GDP forecasts (Oxford Economics' Global Economic Model source) suggest that the growth rate in Asia is expected to slow down slightly in the period up to 2050, from an average of 5.3% in the last decade, to an average of 3.7%. However, the region is expected to account for almost half of global GDP by 2040, with obvious implications for the need of infrastructure investments.

Growth in Europe is expected to increase slightly until 2040 but remain weaker than other regions at around 1.3% per year. At 4.2% per year, Africa is expected to achieve the fastest average GDP growth rate in the next 25 years, although it will represent only 4.6% of the world economy in 2040.

Fig. 11 – Breakdown of investments 2007 – 2040 by region



Source: Oxford Economics, Global Infrastructure Outlook (2017)

2.5 Competitive positioning

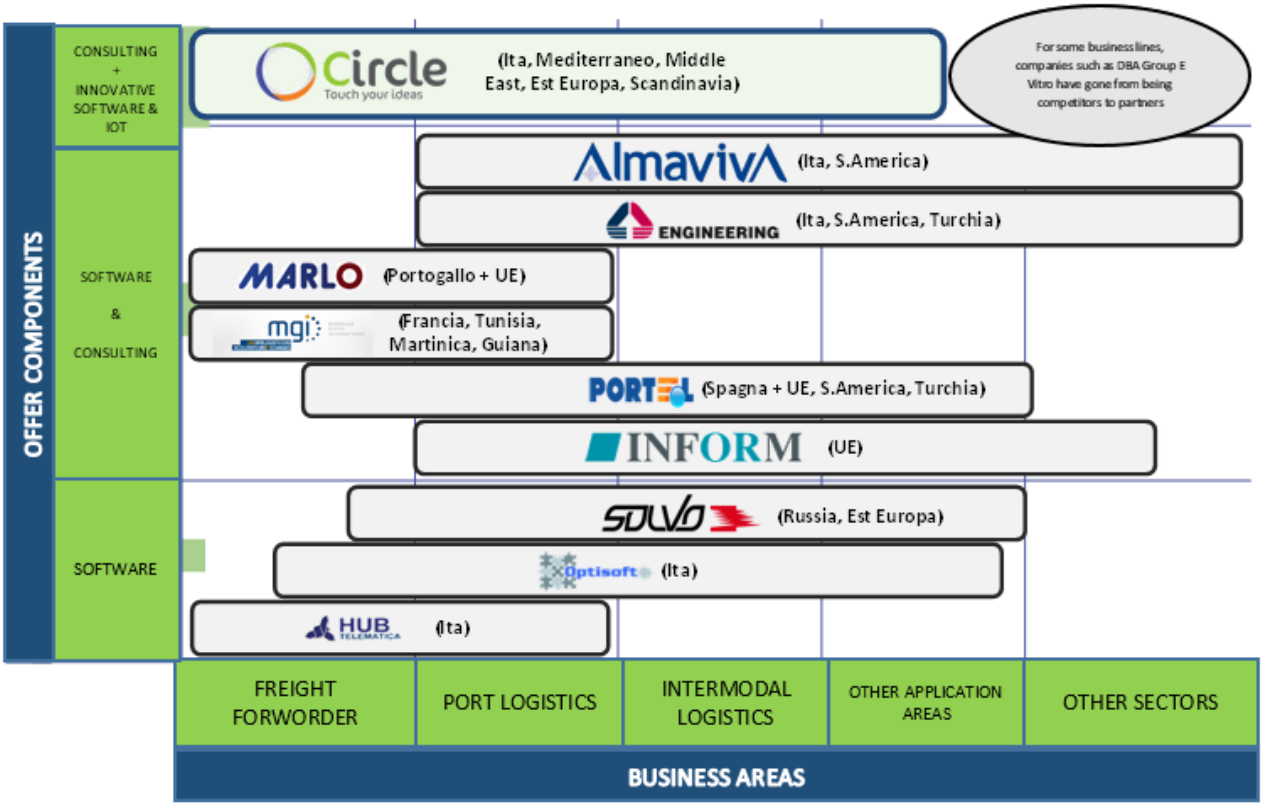
Unlike competitors, Circle is able to operate in all sectors of the industry. Below are the competitors:

- **Almaviva (Italy):** is the consolidated partner of the main central administrations of the State, accompanies the processes of digitization and technological innovation of the country. It offers the market a complete range of IT services based on certified technological infrastructures that guarantee continuity of service, privacy and data security;
- **Engineering (Italy):** is one of the main players in the outsourcing and cloud computing market. Engineering has a consolidated presence in all vertical markets and operates through 4 business units (Public Administration and Healthcare, Telco & Utilities, Industry and Services, Finance) supported by transversal centers of expertise and the Research & Innovation Department;
- **Marlo (Norway):** is a company specialized in consulting and releasing technological solutions for customers operating in the transport and logistics sector (i.e., port and maritime transport, intermodal solutions, and logistics);
- **MGI (France):** it is a player specialized in offering IT solutions to the service of the logistics in the field of the port and airport transports. It provides 4 types of services: Innovative artificial intelligence solutions for the development of Cargo and Port Community systems; audit/consulting (review of logistics processes); project management support; training;
- **Portel (Spain):** founded in 1995, Portel operates in the port sector, acting as a single interlocutor for the Spanish maritime port system in order to facilitate the exchange of information between the parties involved in a transport operation. The company operates through 3 business lines: software, IT solutions, and consulting;
- **Inform (Germany):** is a company specializing in the provision of IT solutions and software for the optimization and advanced management of both production and planning business processes within the decision-making process. The company operates globally with more than 600 analysts and engineers serving more than 1,000 customers distributed on a global scale who are provided with turnkey solutions and support 24/24 hours and 7/7 days;
- **Solvo (Russia):** Solvo specializes in Supply Chain Execution. The core business is the development of software for logistics management: Warehouse management software (customized solutions aimed at different sectors for any type of warehouse) and Terminal operating software for the management of both maritime and land container terminals;
- **Optisoft (Italy):** Optisoft S.r.l. was founded in 1994 on the initiative of some freelancers specializing in the development of system software and the creation of optimization algorithms. The systems that Optisoft has developed, and markets are Travel and LimesOS. Optisoft boasts, among its customers, companies with a national and international profile (i.e., IBM, Almaviva TSF, Reply Group, Dalmine, Selex ES SpA, Marconi Communications, Eli Lilly, Maggioli Group, JMAC, SET), large groups that require consultancy and expertise in the Internet environment;
- **Hub Telematica (Italy):** HuB Telematica is a company that deals with verticalized telematic services in the transport sector and that has as reference partners the association of Genoese shippers, Spediporto and the Association of Maritime Agents of Genoa. HuB is the direct expression of the community of Freight Forwarders and Shipping Agents of the port of Genoa, founded with the aim of spreading IT and telematic services in shipping and logistics, at local and national level;
- **DBA Group (Italy):** is a technology consultancy company, specializing in network connectivity and solutions to support the life cycle of infrastructures. Founded in 1991, DBA

Group has developed over time, methods, experiences, and know-how in the provision of Engineering and Project & Construction Management services in the civil, plant and infrastructure sectors. Since 2005, the services already offered have been complemented by Asset & Lifecycle Management, related to the automation of the life cycle management processes of works and infrastructures, through the development of applications and web-based software platforms;

- **Vitrociset (Italy):** the company designs, manufactures and manages complex, safe and mission critical systems, guaranteeing the highest standards of quality, safety, and reliability. The offer is aimed at highly competitive and extremely diversified markets, from defense to security, from logistics to transport, to space and smart cities. The products and services were created to respond in a timely manner to even the most specific needs, creating value for customers and ensuring full operational compatibility with pre-existing and forthcoming systems.

Fig. 12 – The competitors



Source: Circle

3. Economics & Financials

Fig. 13 – Economics & Financials (Data in €/000)

CONSOLIDATED INCOME STATEMENT	FY2017 A	FY2018 E	FY2019 E	FY2020 E	FY2021 E	F2022 E
Revenues	3.080	4.000	4.900	5.700	6.800	8.200
Other Revenues	972	900	700	900	700	500
VoP	**4.052**	**4.900**	**5.600**	**6.600**	**7.500**	**8.700**
Cost of production	(189)	(310)	(340)	(370)	(380)	(400)
Third parties work	(629)	(700)	(750)	(900)	(1.000)	(1.200)
Use of assets owned by others	(111)	(120)	(130)	(150)	(170)	(190)
Recurrent Depreciation	(9)	(10)	(10)	(12)	(14)	(15)
Employees	(1.748)	(1.900)	(2.300)	(2.500)	(2.800)	(3.200)
Other operating expenses	(402)	(560)	(600)	(800)	(870)	(900)
Total Cost	**(3.087)**	**(3.600)**	**(4.130)**	**(4.732)**	**(5.234)**	**(5.905)**
EBITDA	**965**	**1.300**	**1.470**	**1.868**	**2.266**	**2.795**
EBITDA Margin	**23,8%**	**26,5%**	**26,3%**	**28,3%**	**30,2%**	**32,1%**
D&A	(281)	(260)	(310)	(350)	(400)	(420)
Intangible Amortization	(204)	(238)	(288)	(328)	(378)	(398)
Tangible Amortization	(18)	(18)	(18)	(18)	(18)	(18)
Non Recurrent Depreciation	(59)	(4)	(4)	(4)	(4)	(4)
EBIT	**684**	**1.040**	**1.160**	**1.518**	**1.866**	**2.375**
EBIT Margin	**16,9%**	**21,2%**	**20,7%**	**23,0%**	**24,9%**	**27,3%**
Financial Management	(0,1)	(1,0)	(1,0)	(1,0)	(1,0)	(1,0)
EBT	**684**	**1.039**	**1.159**	**1.517**	**1.865**	**2.374**
EBT Margin	**16,9%**	**21,2%**	**20,7%**	**23,0%**	**24,9%**	**27,3%**
Taxes	(154)	(260)	(323)	(423)	(520)	(662)
Net Income	**530**	**779**	**836**	**1.094**	**1.345**	**1.712**
Net Income Margin	**13,1%**	**15,9%**	**14,9%**	**16,6%**	**17,9%**	**19,7%**

tax rate=30%

CONSOLIDATED BALANCE SHEET	FY2017 A	FY2018 E	FY2019 E	FY2020 E	FY2021 E	F2022 E
Account receivable	1.232	1.400	1.650	2.000	2.400	2.800
Account payable	(627)	(800)	(900)	(1.000)	(1.200)	(1.400)
Inventories	59	60	60	60	60	60
Operating Working Capital	**664**	**660**	**810**	**1.060**	**1.260**	**1.460**
Other Receivable	410	130	130	130	130	130
Other Payable	(799)	(820)	(840)	(860)	(880)	(900)
Net Working Capital	**275**	**(30)**	**100**	**330**	**510**	**690**
Intangible Asset	780	1.250	1.240	1.100	850	610
Tangible Asset	46	50	50	50	50	50
Financial Asset	15	15	15	15	15	15
Fixed Asset	**842**	**1.315**	**1.305**	**1.165**	**915**	**675**
Gross Capital	**1.117**	**1.285**	**1.405**	**1.495**	**1.425**	**1.365**
Severance Indemnities & Other Provision	(345)	(360)	(370)	(390)	(400)	(400)
NET INVESTED CAPITAL	**772**	**925**	**1.035**	**1.105**	**1.025**	**965**
Cash and Cash Equivalent	(1.597)	(1.700)	(2.426)	(3.450)	(4.874)	(6.646)
Short-Term Payable to Banks	604	0	0	0	0	0
Short-term Net Financial Position	**(992)**	**(1.700)**	**(2.426)**	**(3.450)**	**(4.874)**	**(6.646)**
Medium-Long-Term Payable to Banks	0	0	0	0	0	0
Net Financial Position	**(992)**	**(1.700)**	**(2.426)**	**(3.450)**	**(4.874)**	**(6.646)**
Share Capital	120	165	165	165	165	165
Reserves and Retained Profits	1.114	1.681	2.460	3.296	4.390	5.734
Net Profit	530	779	836	1.094	1.345	1.712
Equity	**1.764**	**2.625**	**3.461**	**4.555**	**5.899**	**7.611**
TOTAL SOURCES	**772**	**925**	**1.035**	**1.105**	**1.025**	**965**

CONSOLIDATED CASH FLOW	FY2017 A	FY2018 E	FY2019 E	FY2020 E	FY2021 E	F2022 E
EBITDA		**1.300,0**	**1.470,0**	**1.868,0**	**2.266,0**	**2.795,0**
Taxes		(259,8)	(323,4)	(423,2)	(520,3)	(662,3)
GROSS CASH FLOW		**1.040,3**	**1.146,6**	**1.444,8**	**1.745,7**	**2.132,7**
Change in receivable		(171,6)	(254,0)	(354,0)	(404,0)	(404,0)
Change in payable		172,8	100,0	100,0	200,0	200,0
Change in inventories		(1,3)	0,0	0,0	0,0	0,0
CHANGE IN OPERATING WORKING CAPITAL		**(0,1)**	**(154,0)**	**(254,0)**	**(204,0)**	**(204,0)**
Other Changes		316,4	30,0	40,0	30,0	20,0
CHANGE IN NET WORKING CAPITAL		**316,3**	**(124,0)**	**(214,0)**	**(174,0)**	**(184,0)**
OPERATING CASH FLOW		**1.357**	**1.023**	**1.231**	**1.572**	**1.949**
Investments		(729,7)	(296,0)	(206,0)	(146,0)	(176,0)
FREE CASH FLOW FROM OPERATIONS (FCFO)		**627**	**727**	**1.025**	**1.426**	**1.773**
Financial Management		(1,0)	(1,0)	(1,0)	(1,0)	(1,0)
Change in ML Term Debt		0,0	0,0	0,0	0,0	0,0
Change in Equity		82,4	0,0	0,0	0,0	0,0
FREE CASH FLOW TO EQUITY (FCFE)		**708**	**726**	**1.024**	**1.425**	**1.772**

Source: Circle and Integrae SIM estimates. 2018 is pro-forma

3.1 2018E

Our estimates indicate that, during 2018, the value of production increase by 21% YoY to € 4.9 million. The growth is mainly due to the positive contribution of the leading Milos software and to the positive responses from the market following IPO. Consistent with the investment plan approved at that time, new modules of the software in question were in fact released, with a focus on the railway, international, customs, and IoT exploitation components.

EBITDA grows by 35% YoY and reaches € 1.3 million. Thanks to the reduction in G&A costs, the EBITDA margin grows to 26.5%. Despite the growth in intangible amortization, Ebit continues to grow by 52% YoY to more than € 1 million (Ebit margin at 21.2% against 16.9% in 2017). After paying taxes of € 0.26 million (average tax rate of about 25%), net profit grows by 21.7% YoY to € 0.78 million.

Regarding the balance sheet, we note that commercial working capital remains constant, going from € 0.664 million to € 0.660 million. Cash and cash equivalents amounted to € 1.7 million.

In the last three years, the Company has shown a significant growth in Operating Cash Flow, equal to approximately €1.36 million in 2018. Although with greater operating profitability, the dynamics of working capital absorbed resources in the last two years, while in 2018 it generated resources for a value of € 0.316 million.

After investments of approximately € 0.73 million, the free operating cash flow for 2018 amounts to € 0.627 million.

3.2 Estimates for 2018-2022E

We estimate a CAGR 2018-22F of the value of production equal to 15%, thanks mainly to the growth of core revenues (innovative & supply chain), which at the end of the plan, will result in an increase of 67%. In particular, we highlight the obtaining of a tender for the "MoS Implementation Plan 2019-2022" for the Autostrade del Sole, alongside the European Commission, in order to identify priority areas and organize and manage the related forums, seminars and events. Thanks to the low dynamics of fixed costs, we estimate an EBITDA CAGR of 21% and EBIT of 23%. EBITDA margin and EBIT margin are expected to reach in 2022F 32.1% (from 26.5% in 2018) and 27.3% (from 21.2% in 2018) respectively.

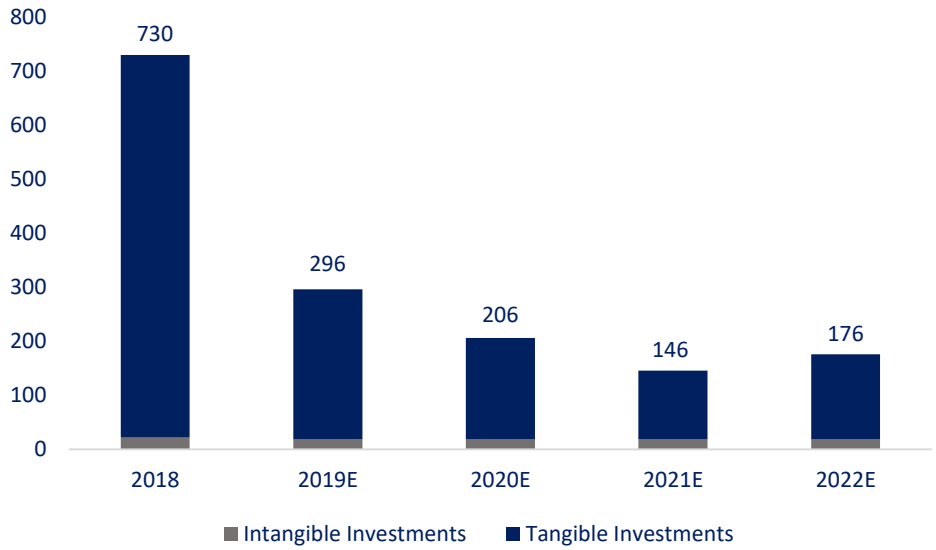
Net profit is expected to grow at a CAGR of 22% and reach € 1.7 million in 2022F (from € 0.78 million in 2018).

At the end of 2018, the NFP reported cash for approximately € 1.7 million. We estimate that at the end of the plan it could reach € 6.6 million. Regarding cash flow, we estimate that in 2018F the group is able to generate cash (FCFO) for over € 0.6 million after investments of € 0.73 million, while on average from 2019 to 2022F we estimate a cash generation of about € 1.2 million (with a maximum of € 1.8 million in 2022F) against average investments of € 0.3 million.

We believe that the intangible investments for the period are directed towards:

- the development and further strengthening of the product portfolio, as well as the development of commercial activity on synergistic customers and the development of all opportunities arising from European projects;
- the further development of information systems;
- internationalization, or the strengthening of foreign markets through dedicated resources and the development of synergies with industrial and vertical partners.

Fig. 14 – Investments



Source: estimates by Integrae SIM.

The cash generated by the company far exceeds the planned investments (€ 5.5 million of cash against € 1.55 million of investments). We therefore believe it is possible that in the coming years the growth of Circle can also take place for external lines, an aspect for which the company is working through a considerable scouting activity on the Mediterranean market.

4. The valuation

4.1 The models adopted

We have conducted the valuation of Circle based on the DCF methodology and market multiples of a comparable Companies sample.

4.2 The DCF model

The results of the application of the DCF model for the purposes of the Company's equity value calculation are, as known, a function of the estimates. In addition to the equity value, what is important for the comparability of results is the quality of the same, in turn a function of numerous variables, including the visibility of the business.

Therefore, we believe that the DCF model can capture some aspects of the life of the company that the other two models would not be able to approximate.

We have assumed the parameters of the previous table based on the following assumptions:

- the risk-free rate is the average gross return of Rendistato (Bank of Italy);
- the premium market is that calculated by Prof. A. Damodaran for Italy, equal to 8.4%;
- The unlevered Beta was determined based on the average 5-year Beta for the same sample of comparable securities used to determine the equity value with the multiples methodology, equal to 0.66x. We specify that the choice of the time period and the frequency of the observations (weekly) was chosen according to the maximization of the significance of the linear regression, expressed by the R2 parameter. The unlevered Beta resulting from linear regression (0.66x) was corrected based on the following formula: Beta Adjusted = 0.66*0.67+1*0.33 (See E.J. Elton, M.J. Gruber, S.J. Brown, W.N. Goetzmann – Modern Portfolio Theory and Investment Analysis – John Wiley & Sons, 2009), and subsequently leveraged, thus equaling 0.96x;
- the growth rate "g" used for the calculation of the Terminal Value is conservatively equal to 1%;
- The Alfa, i.e., specific additional risk, is typical of equity investments in companies characterized by small-scale operations. As we are dealing with small sizes, the small cap risk premium applied was equal to 2.5%, the average value of those suggested by the main studies carried out in this field (Massari Zanetti, 'Valutazione Finanziaria' (Financial Valuation'), McGraw-Hill, 2004, page 145, A. Damodaran, Cost of Equity and Small Cap Premium in Investment Valuation, Tools and Techniques for Determining the Value of Any Assets, III edition 2012, Guatri Bini, 'Nuovo Trattato sulla Valutazione delle Aziende' (New Insights on Corporate Valuation), 2009, page 236);

With our estimates and assumptions represented above, the result is a WACC of 9.23%.

The input data is as follows:

Fig. 15 – Input data

Wacc calculation	
Risk Free Rate	2,58%
Market Premium	7,27%
Tax Rate (Ires + IRAP)	27,90%
Beta Unlevered	0,70
Beta Adjusted	0,91
D/E (average)	33,33%
Beta Relevered	0,87
Ke	11,71%
Kd	2,50%
Wacc	**9,23%**

Source: Estimates Integrae SIM

Fig. 16 – Output data

FCFO actualized	*3.245*
TV actualized DCF	*8.710*
Enterprise Value	***11.954***
NFP (2018F)	*(1.700)*
Equity Value	***13.654***

Source: estimates by Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 13.65 million**.

Fig. 17 – Sensitivity analysis (data in €/mln)

		WACC						
		7,7%	**8,2%**	**8,7%**	**9,2%**	**9,7%**	**10,2%**	**10,7%**
	2,5%	19,83	18,19	16,83	15,67	14,67	13,81	13,05
	2,0%	18,53	17,13	15,94	14,92	14,04	13,26	12,58
	1,5%	17,44	16,22	15,18	14,27	13,48	12,78	12,16
TV	**1,0%**	16,51	15,44	14,52	13,71	12,99	12,35	11,79
	0,5%	15,72	14,77	13,94	13,20	12,55	11,97	11,45
	0,0%	15,02	14,17	13,42	12,75	12,16	11,62	11,14
	-0,5%	14,41	13,64	12,96	12,35	11,80	11,31	10,86

Source: Estimates Integrae SIM

4.3 Multiples

Our sample is made up of companies operating in the same sector as Circle, but with a greater capitalization. These companies with multiples for the period 2019-21F (Source: Infinancials), the same used for the calculation of the Beta.

Fig. 18 – Comparables – Forecast multiples

	EV/EBITDA				EV/EBIT			
	2018	2019E	2020E	2021E	2018	2019E	2020	2021
CAD IT S.p.A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exprivia SpA	6,5	5,7	5,3	N/A	12,6	9,9	8,8	N/A
Capgemini SE	8,7	8,1	7,6	7,7	10,3	9,5	8,9	8,7
Reply S.p.A.	12,8	11,3	10,0	9,0	13,9	12,2	11,0	10,1
Computacenter Plc	6,5	6,0	5,8	5,3	8,3	7,6	7,1	7,0
Indra Sistemas, S.A.	6,9	6,3	6,0	5,8	9,9	8,6	8,0	7,4
Be Think, Solve, Execute S.p.A.	6,5	5,8	5,5	N/A	9,8	8,4	7,9	N/A
Generix Group France SA	11,1	8,8	N/A	N/A	20,4	13,6	N/A	N/A
PITECO SpA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PSI Software AG	10,8	9,5	8,8	N/A	13,9	12,0	10,9	N/A
DBA Group S.p.A.	4,2	3,4	2,7	N/A	7,6	5,5	3,8	N/A
Peer median	**6,9**	**6,3**	**5,9**	**6,7**	**10,3**	**9,5**	**8,4**	**8,0**

Source: Estimates Integrae SIM

Fig. 19 – Evaluation by comparative method

Dati in €/000	2018E	2019E	2020E	2021E
Ebitda	**1.300**	**1.470**	**1.868**	**2.266**
Ebit	**1.040**	**1.160**	**1.518**	**1.866**
NFP (2018E)	**- 1.700**	**- 2.426**	**- 3.450**	**- 4.874**

Market Multiples	**2018E**	**2019E**	**2020E**	**2021E**
EV/EBITDA	6,9x	6,3x	5,9x	6,7x
EV/EBIT	10,3x	9,5x	8,4x	8,0x

Enterprise Value (EV)	**2018E**	**2019E**	**2020E**	**2021E**
EV/EBITDA	8.905	9.320	10.975	15.216
EV/EBIT	10.743	11.032	12.751	15.003

Equity Value	**2018E**	**2019E**	**2020E**	**2021E**
EV/EBITDA	10.605	11.746	14.425	20.090
EV/EBIT	12.443	13.458	16.201	19.877

Equity Value post discount	**2018E**	**2019E**	**2020E**	**2021E**	
EV/EBITDA	7.954	8.809	10.818	15.068	
EV/EBIT	9.332	10.093	12.151	14.907	
Media	**8.643**	**9.451**	**11.485**	**14.988**	**11.974**

The average equity value calculated through the multiples methodology is equal to € 15.9 million. To this, we applied a 25% discount, reaching a **value of about € 12 million.**

The judgment on the reasonableness of the discount was calculated with regard to the lower liquidity compared to the comparables that presumably will characterize the post-listing security. In this regard, the study conducted by W.L. Silber (Discount on restricted stock: the impact of liquidity on stock prices in Financial Analysis Journal, vol. 47, 1997, pp. 60-64, most recently confirmed by J.D. Finnerty, the impact of transfer restriction on stock prices, Working paper, Analysis Group/Economics, Cambridge, October 2002, which identified an average discount varying between 15% and 25% for securities with capitalization between $ 0.3 and $ 1 billion). The liquidity discount, unlike the minority discount, is not necessarily incorporated into market prices (T. Onesti, Minority Discounts and Liquidity Discounts, Cedam, 2001). The greater discount (equal to 40%) applied, derives from the small size of the company compared to the comparables indicated.

It should be noted that this study, which has found great application in the United States, has also recently been recalled by Italian journalistic science as a tool for the evaluation of the discount for "lack of marketability" for listed securities characterized by limited volumes of trade, such as to make price formation less efficient (so-called thinly traded securities) (see Landa, Zacchini, Onesti, La valutazione della Aziende, Giappichelli 2013, p.531 et seq.).

Therefore, we start the coverage with BUY rating, target price € 4.1 per share and risk medium.

Disclosure Pursuant to Article 69 Et seq. of Consob (Italian Securities Exchange Commission) Regulation No. 11971/1999

Analyst/s certification

The analysts who have produced the following analyses hereby certify that the opinions expressed herein reflect their own opinions, and that no direct and/or indirect remuneration has been, nor shall be received by them) as a result of the above opinions, or shall be correlated to the success of investment banking operations. INTEGRAE SPA is comprised of the following analysts who have gained significant experience working for INTEGRAE and other intermediaries: Alessio Rocchi and Mattia Petracca. Neither the analysts nor any of their relatives hold administration, management or advising roles for the Issuer. Alessio Rocchi and Mattia Petracca. Neither the analysts nor any of their relatives hold administration, management or advising roles for the Issuer. Alessio Rocchi is Integrae SIM's currently Head of Equity Research. Mattia Petracca is currently a financial analyst.

Disclaimer

This publication was produced by INTEGRAE SIM SpA. INTEGRAE SIM SpA is licensed to provide investment services pursuant to Italian Legislative Decree n. 58/1998, released by Consob, with Resolution n. 17725 of March 29th 2011.

INTEGRAE SIM SpA performs the role of corporate broker for the financial instruments issued by the company covered in this report.

INTEGRAE SIM SpA is distributing this report in Italian and in English, starting from the date indicated on the document, to approximately 300 qualified institutional investors by post and/or via electronic media, and to non-qualified investors through the Borsa Italiana website and through the leading press agencies.

Unless otherwise indicated, the prices of the financial instruments shown in this report are the prices referring to the day prior to publication of the report. INTEGRAE SIM SpA will continue to cover this share on a continuing basis, according to a schedule which depends on the circumstances considered important (corporate events, changes in recommendations, etc.), or useful to its role as specialist.

The list of all recommendations on any financial instrument or issuer produced by Integrae SIM Research Department and distributed during the preceding 12-month period is available on the Integrae SIM website.

The information and opinions contained herein are based on sources considered reliable. INTEGRAE SIM SpA also declares that it takes all reasonable steps to ensure the correctness of the sources considered reliable; however, INTEGRAE SIM SpA shall not be directly and/or indirectly held liable for the correctness or completeness of said sources.

The most commonly used sources are the periodic publications of the company (financial statements and consolidated financial statements, interim and quarterly reports, press releases and periodic presentations). INTEGRAE SIM SpA also makes use of instruments provided by several service companies (Bloomberg, Reuters, JCF), daily newspapers and press in general, both national and international. INTEGRAE SIM SpA generally submits a draft of the analysis to the Investor Relator Department of the company being analyzed, exclusively for the purpose of verifying the correctness of the information contained therein, not the correctness of the assessment. INTEGRAE SIM SpA has adopted internal procedures able to assure the independence of its financial analysts and that establish appropriate rules of conduct for them. Integrae SIM S.p.A. has formalised a set of principles and procedures for dealing with conflicts of interest. The Conflicts Management Policy is clearly explained in the relevant section of Integrae SIM's web site (www.integraesim.it). This document is provided for information purposes only. Therefore, it does not constitute a contractual proposal, offer and/or solicitation to purchase and/or sell financial instruments or, in general, solicitation of investment, nor does it constitute advice regarding financial instruments. INTEGRAE SIM SpA does not provide any guarantee that any of the forecasts and/or estimates contained herein will be reached. The information and/or opinions contained herein may change without any consequent obligation of INTEGRAE SIM SpA to communicate such changes. Therefore, neither INTEGRAE SIM SpA, nor its directors, employees or contractors, may be held liable (due to negligence or other causes) for damages deriving from the use of this document or the contents thereof. Thus, Integrae SIM does not guarantee any specific result as regards the information contained in the present publication, and accepts no responsibility or liability for the outcome of the transactions recommended therein or for the results produced by such transactions. Each and every investment/divestiture decision is the sole responsibility of the party receiving the advice and recommendations, who is free to decide whether or not to implement them. Therefore, Integrae SIM and/or the author of the present publication cannot in any way be held liable for any losses, damage or lower earnings that the party using the publication might suffer following execution of transactions on the basis of the information and/or recommendations contained therein.

This document is intended for distribution only to professional clients and qualified counterparties as defined in Consob Regulation no. 16190 of 29.10.2007, as subsequently amended and supplemented, either as a printed document and/or in electronic form.

Rating system (long term horizon: 12 months)

The BUY, HOLD and SELL ratings are based on the expected total return (ETR – absolute performance in the 12 months following the publication of the analysis, including the ordinary dividend paid by the company), and on the risk associated with the share analyzed. The degree of risk is based on the liquidity and volatility of the share, and on the rating provided by the analyst and contained in the report. Due to daily fluctuations in share prices, the expected total return may temporarily fall outside the proposed range

Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 22.5%	ETR >= 25%	ETR >= 30%
HOLD	-20% < ETR < 22,5%	-20% < ETR < 25%	-15% < ETR < 30%
SELL	ETR <= -25%	ETR <= -20%	ETR <= -15%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

The methods that INTEGRAE SIM SpA prefers to use for evaluating the company under analysis are those which are generally used, such as the market multiples method which compares average multiples (P/E, EV/EBITDA, and other) of similar shares and/or sectors, and traditional financial methods (RIM, DCF, DDM, EVA etc). For financial securities (banks and insurance companies) Integrae SIM SpA tends to use methods based on comparison of the ROE and the cost of capital (embedded value for insurance companies).

The estimates and opinions expressed in the publication may be subject to change without notice. Any copying and/or redistribution, in full or in part, directly or directly, of this document is prohibited, unless expressly authorized.

Conflict of interest

On the Integrae SIM website you can find the archive of the last 12 months regarding conflicts of interest between Integrae SIM and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Integrae SIM.