

CIRCLE	Italy	Euronext Growth Milan	Engineering
Rating: BUY (unch.)	Target Price: € 5,00 (prev €5.20)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	-5,90%	-7,14%	-4,62%	-10,00%
to FTSE Italia Growth	-6,18%	-3,35%	-16,21%	-18,46%
to Euronext STAR MILAN	-8,57%	-9,29%	-25,69%	-30,29%
to FTSE All-Share	-5,86%	-3,63%	-18,69%	-20,30%
to EUROSTOXX	-6,84%	-3,96%	-16,19%	-18,03%
to MSCI World Index	-9,23%	-5,69%	-22,45%	-20,13%

Stock Data

Price	€ 3,51
Target price	€ 5,00
Upside/(Downside) potential	42,3%
Bloomberg Code	CIRC IM EQUITY
Market Cap (€m)	€ 14,13
EV (€m)	€ 13,15
Free Float	37,62%
Share Outstanding	4.026.495
52-week high	€ 4,18
52-week low	€ 2,96
Average daily volumes (3m)	2.100

Key Financials (€m)	FY21A	FY22E	FY23E	FY24E
Revenues	7,1	8,2	10,7	12,8
VoP	9,3	11,0	13,9	16,1
EBITDA	1,4	2,2	3,0	3,7
EBIT	0,6	1,3	1,9	2,5
Net Profit	0,5	0,9	1,4	1,9
EBITDA margin	14,7%	19,5%	21,2%	23,1%
EBIT margin	6,6%	11,4%	13,7%	15,6%
Net Profit margin	5,9%	8,2%	10,1%	11,5%

Main Ratios	FY21A	FY22E	FY23E	FY24E
EV/EBITDA (x)	9,6	6,1	4,5	3,6
EV/EBIT (x)	21,4	10,5	6,9	5,3
P/E (x)	25,8	15,7	10,1	7,6

Mattia Petracca mattia.petracca@integraesim.it

Edoardo Luigi Pezzella edoardo.pezzella@integraesim.it

Stocks performance vs FTSE Italia Growth



1H22A Results

At the end of the first half of 2022, the value of production stood at € 5.22 million, 24.9% up compared to the value recorded in 1H21A, equal to € 4.18 million. EBITDA on 30 June 2022 amounted to € 0.86 million, an increase of 16.9% compared to the previous period, equal to € 0.74 million; on the other hand, there was a reduction in EBITDA margin, which went from 17.6% to 16.5%. The Group's EBIT, after amortization for a total of € 0.42 million, amounted to € 0.44 million, 47.2% up compared to 1H21A (€ 0.30 million). Net Income was also positive, 10.8% up from the first half of the year, equal to € 0.36 million, compared to € 0.32 million in 1H21A. Finally, in terms of Balance Sheet, there was a slight improvement in the NFP, which reached € 1.02 million cash positive, compared to € 0.98 million cash positive on 31 December 2021.

Estimates Update

In light of the results published in the half-yearly report for 1H22A, we confirm almost entirely our estimates for both the current year and the coming years. In particular, we estimate FY22E value of production equal to € 11.00 million and EBITDA of € 2.15 million, corresponding to a marginality of 19.5%. For subsequent years, we expect the value of production to increase up to € 17.65 million (CAGR 21A-25E: 17.4%) in 2025E, with EBITDA of € 4.20 million (corresponding to an EBITDA margin of 23.8%), up from € 1.37 million in 2021A (corresponding to an EBITDA margin of 14.7%). As for the estimated investments, we expect Capex 2022E-2025E to be equal to approx. € 4.15 million; finally, we estimate a cash positive NFP for FY25E equal to € 7.42 million.

Valuation Update

We have conducted the valuation of Circle equity value based on the DCF methodology and market multiples of a comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes a specific risk of 2.5%) provides an equity value of € 21.9 million. The equity value of Circle using market multiples is equal to € 18.4 million (with a 25% discount). The result is an average equity value of € 20.1 million. The target price is € 5.00 (prev. € 5.20), BUY rating and MEDIUM risk.

1. Economics & Financials

Table 1 – Economics & Financials

INCOME STATEMENT (€/mIn)	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenues	5,42	7,13	8,15	10,70	12,75	14,25
Other Revenues	2,04	2,18	2,85	3,20	3,30	3,40
Value of Production	7,46	9,31	11,00	13,90	16,05	17,65
COGS	0,39	0,36	0,40	0,50	0,60	0,65
Services	2,65	3,60	4,05	5,15	5,95	6,60
Use of asset owned by others	0,20	0,21	0,25	0,25	0,30	0,30
Employees	3,41	3,67	4,00	4,85	5,30	5,65
Other Operating Expenses	0,16	0,11	0,15	0,20	0,20	0,25
EBITDA	0,66	1,37	2,15	2,95	3,70	4,20
<i>EBITDA margin</i>	<i>8,9%</i>	<i>14,7%</i>	<i>19,5%</i>	<i>21,2%</i>	<i>23,1%</i>	<i>23,8%</i>
Extraordinary Items	(0,64)	0,00	0,00	0,00	0,00	0,00
EBITDA Adjusted	1,30	1,37	2,15	2,95	3,70	4,20
<i>EBITDA Adjusted margin</i>	<i>17,4%</i>	<i>14,7%</i>	<i>19,5%</i>	<i>21,2%</i>	<i>23,1%</i>	<i>23,8%</i>
D&A	0,62	0,82	0,90	1,05	1,20	1,45
EBIT	0,04	0,55	1,25	1,90	2,50	2,75
<i>EBIT margin</i>	<i>0,5%</i>	<i>5,9%</i>	<i>11,4%</i>	<i>13,7%</i>	<i>15,6%</i>	<i>15,6%</i>
Financial Management	(0,01)	0,07	0,00	0,00	0,00	0,00
EBT	0,03	0,61	1,25	1,90	2,50	2,75
Taxes	0,00	0,07	0,35	0,50	0,65	0,70
Net Income	0,03	0,55	0,90	1,40	1,85	2,05

BALANCE SHEET (€/mIn)	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Fixed Asset	2,87	3,35	3,15	3,05	2,95	2,90
Account Receivable	2,24	4,20	4,55	5,40	6,25	6,75
Inventories	0,07	0,05	0,05	0,05	0,05	0,05
Account Payable	1,35	2,27	2,55	3,25	3,75	4,15
Operating Working Capital	0,96	1,98	2,05	2,20	2,55	2,65
Other Receivable	2,06	3,00	2,95	3,00	3,15	3,15
Other Payable	1,30	1,39	1,45	1,55	1,65	1,80
Net Working Capital	1,72	3,58	3,55	3,65	4,05	4,00
Severance Indemnties & Other Provisions	0,78	0,90	0,95	1,00	1,00	1,10
NET INVESTED CAPITAL	3,81	6,03	5,75	5,70	6,00	5,80
Share Capital	0,23	0,27	0,27	0,27	0,27	0,27
Reserves	4,17	6,19	6,74	7,64	9,05	10,90
Net Income	0,03	0,55	0,90	1,40	1,85	2,05
Equity	4,43	7,01	7,91	9,32	11,17	13,22
Cash & Cash Equivalents	0,89	1,91	2,17	3,62	5,17	7,42
Short Term Debt	0,27	0,93	0,00	0,00	0,00	0,00
M/L Term Debt	0,00	0,00	0,00	0,00	0,00	0,00
Net Financial Position	(0,62)	(0,98)	(2,17)	(3,62)	(5,17)	(7,42)
SOURCES	3,81	6,03	5,75	5,70	6,00	5,80

CASH FLOW (€/mIn)	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
EBIT	0,04	0,55	1,25	1,90	2,50	2,75
Taxes	0,00	0,07	0,35	0,50	0,65	0,70
NOPAT	0,04	0,48	0,90	1,40	1,85	2,05
D&A	0,62	0,82	0,90	1,05	1,20	1,45
Change in receivable	0,60	(1,96)	(0,35)	(0,85)	(0,85)	(0,50)
Change in inventories	(0,04)	0,02	0,00	0,00	0,00	0,00
Change in payable	0,31	0,93	0,28	0,70	0,50	0,40
Change in others	(0,48)	(0,85)	0,11	0,05	(0,05)	0,15
<i>Change in NWC</i>	<i>0,38</i>	<i>(1,86)</i>	<i>0,04</i>	<i>(0,10)</i>	<i>(0,40)</i>	<i>0,05</i>
Change in provisions	0,10	0,12	0,05	0,05	0,00	0,10
OPERATING CASH FLOW	1,15	(0,44)	1,88	2,40	2,65	3,65
Capex	(0,83)	(1,30)	(0,70)	(0,95)	(1,10)	(1,40)
FREE CASH FLOW	0,32	(1,74)	1,18	1,45	1,55	2,25
Financial Management	(0,01)	0,07	0,00	0,00	0,00	0,00
Change in Debt to Bank	(0,39)	0,66	(0,93)	0,00	0,00	0,00
Change in Equity	(0,03)	2,04	0,00	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	(0,11)	1,03	0,25	1,45	1,55	2,25

Source: Circle and Integræ SIM estimates

1.1 1H22A Results

Table 2 – 1H22A vs 1H21A

(€/mln)	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H22A	5,22	0,86	16,5%	0,44	0,35	(1,02)
1H21A	4,18	0,74	17,6%	0,30	0,32	(0,98)*
Change	25,0%	16,9%	-1,1%	47,1%	7,7%	N/A

Source: Integrae SIM

*NFP as of 31/12/2021

Through a press release, Luca Abatello, CEO and Chairman of Circle SpA, commenting on the half-yearly results, stated: *"The year opened with a very satisfactory start, followed by a slowdown linked to the consequences of the war in Ukraine, pressing inflation and rising energy costs that are putting pressure on the Italian production system. In this complex scenario, we are pleased to have recorded significant growth rates, with an increase in the Value of Production of 25% and the growth of EBIT of 47%. With the launch of the Global Milos Supply Chain Visibility for Manufacturing & Distribution suite and further innovative Federation Services, our offer is now complete and representative of all the main players and segments of the Supply Chain and their needs. I would also like to highlight the great growth of the Group's skills, with a particular focus on Artificial Intelligence and Machine Learning applied to the multimodal component. Concerning the Next Generation EU, the Energy Transition, and, the release of the economic resources made available by the PNRR for digitization, I would like to emphasize the ability of Circle to achieve important results, with participation in some crucial projects for the coming years".*

At the end of the first half of 2022, the value of production stood at € 5.22 million, 24.9% up compared to the value recorded in 1H21A, equal to € 4.18 million. This growth is certainly due to the development of innovative federative services implemented by the Group, as well as the opportunities deriving from the PNRR, the Next Generation EU, and the sector megatrends related to new technologies to support digitization. Specifically, proprietary software products, also offered in SaaS (Software as a Service) mode on the cloud platform, recorded an increase of 35.0%, while Milos® federative services grew by 149.0%.

EBITDA on 30 June 2022 amounted to € 0.86 million, an increase of 16.9% compared to the previous period, equal to € 0.74 million; on the other hand, there was a reduction in EBITDA margin, which went from 17.6% to 16.5%. It should also be noted that during 1H22A, concerning non-recurring costs relating to the relocation and unification of the Headquarters in Piazza Borgo Pila in Genoa, the Group reports an EBITDA Adjusted, in light of this extraordinary item, equal to € 0.92 million, corresponding to an EBITDA Adjusted margin of 17.6%.

The Group's EBIT, after amortization for a total of € 0.42 million, amounted to € 0.44 million, 47.2% up compared to 1H21A (€ 0.30 million). Consequently, there was also growth in EBIT margin, which was equal to 8.4%, compared to 7.1% in the previous period.

Net Income was also positive, 10.8% up from the first half of the year, equal to € 0.36 million, compared to € 0.32 million in 1H21A.

Finally, in terms of the Balance Sheet, there was a slight improvement in the NFP, which reached € 1.02 million cash positive, compared to € 0.98 million cash positive on 31 December 2021. As far as Capex is concerned, the Group, in line with its growth logic oriented towards particular investments, has focused on the evolution of the services offered by the Milos® TOS, MTO, Optimisation, Global Supply Chain Visibility, MasterSped® suites as

well as the development of further innovative federative services aimed at interoperability with shipping lines.

1.2 FY22E – FY25E Estimates

Table 3 – Estimates Updates FY22A-25E

€/mln	FY22E	FY23E	FY24E	FY25E
VoP				
New	11,0	13,9	16,1	17,7
Old	11,0	13,9	16,0	17,7
Change	0,0%	0,0%	-0,1%	0,1%
EBITDA				
New	2,2	3,0	3,7	4,2
Old	2,1	2,9	3,7	4,2
Change	0,5%	0,4%	0,0%	-0,1%
EBITDA %				
New	19,5%	21,2%	23,1%	23,8%
Old	19,5%	21,2%	23,1%	23,8%
Change	0,5%	0,4%	-0,1%	-0,1%
EBIT				
New	1,3	1,9	2,5	2,7
Old	1,2	1,9	2,5	2,8
Change	1,5%	-1,0%	0,0%	-0,6%
Net Income				
New	0,9	1,4	1,9	2,0
Old	0,9	1,4	1,9	2,1
Change	-2,5%	-2,5%	-1,3%	-1,2%
NFP				
New	(2,2)	(3,6)	(5,2)	(7,4)
Old	(2,2)	(3,7)	(5,3)	(7,5)
Change	N/A	N/A	N/A	N/A

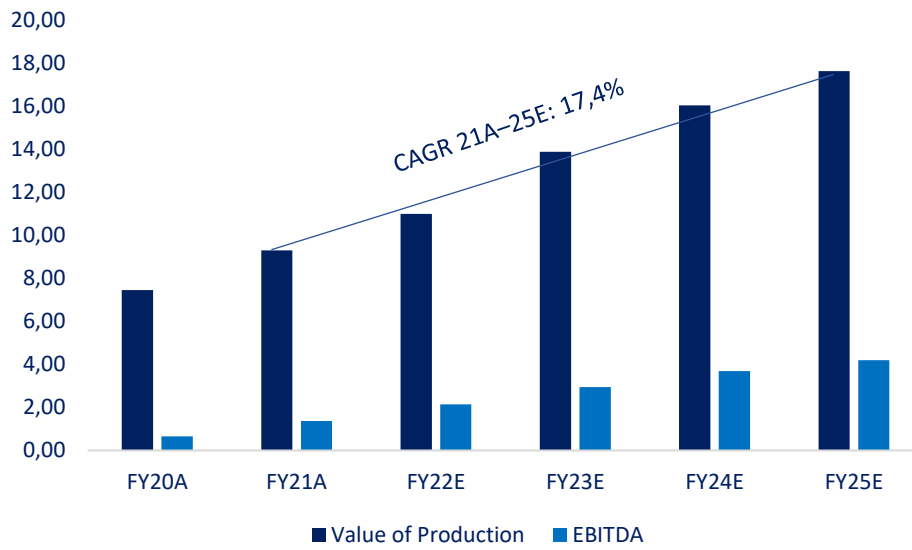
Source: Integrae SIM

In light of the results published in the half-yearly report for 1H22A, we confirm almost entirely our estimates for both the current year and the coming years.

In particular, we estimate FY22E value of production equal to € 11.00 million and EBITDA of € 2.15 million, corresponding to a marginality of 19.5%. For subsequent years, we expect the value of production to increase up to € 17.65 million (CAGR 21A-25E: 17.4%) in 2025E, with EBITDA of € 4.20 million (corresponding to an EBITDA margin of 23.8%), up from € 1.37 million in 2021A (corresponding to an EBITDA margin of 14.7%).

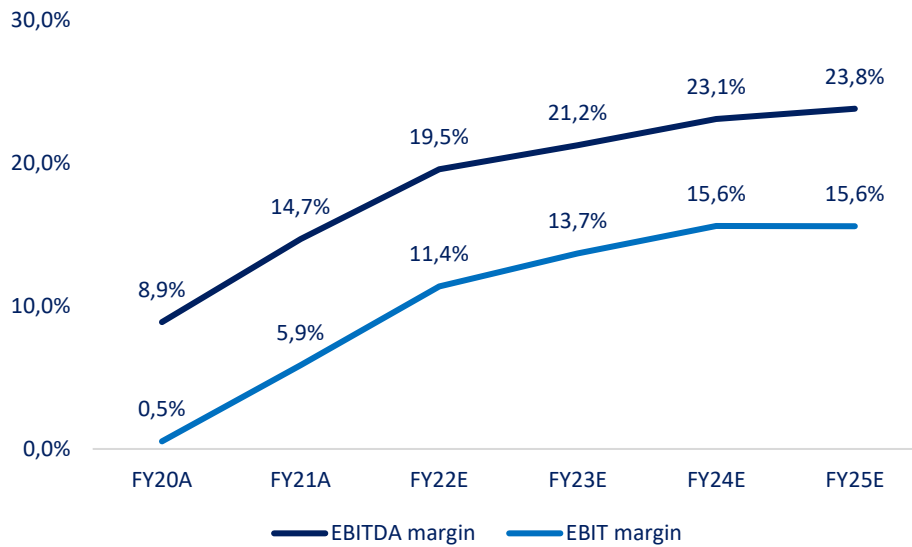
As for the estimated investments, we expect Capex 2022E-2025E to be equal to approx. € 4.15 million; finally, we estimate cash positive NFP for FY25E equal to € 7.42 million.

Chart 1 – VoP and EBITDA FY20A-25E



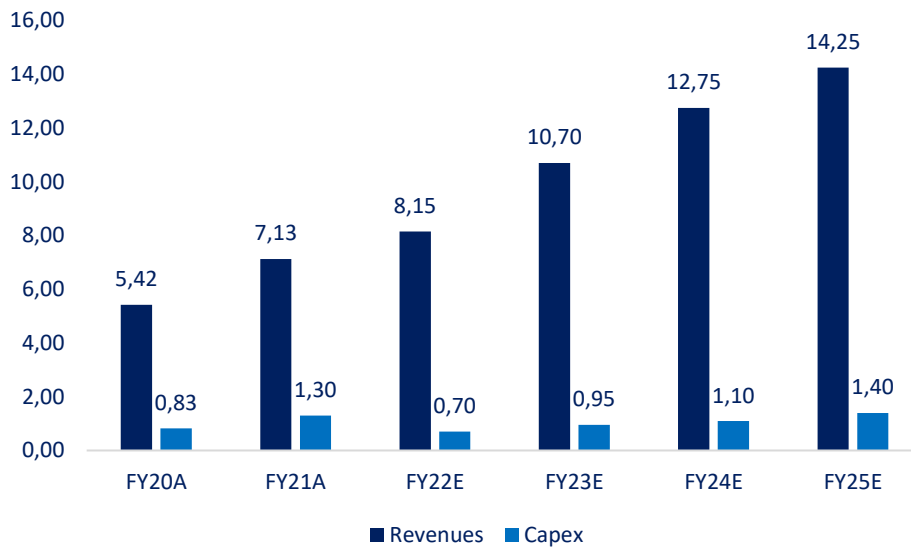
Source: Integrae SIM

Chart 2 – Margin FY20A-25E



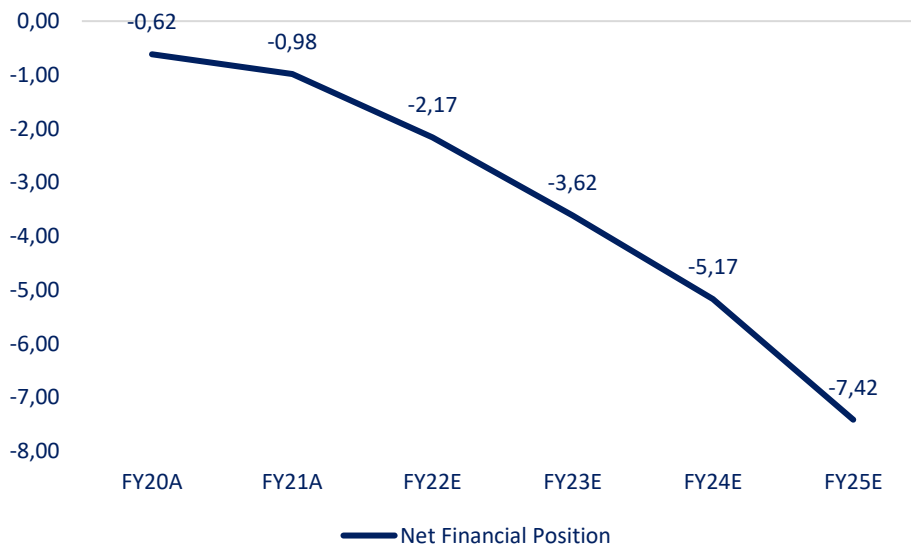
Source: Integrae SIM

Chart 3 – Capex FY20A-25E



Source: Integrae SIM

Chart 4 – NFP FY20A-25E



Source: Integrae SIM

2. Valuation

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

2.1 DCF Method

Table 4 – WACC

WACC		11,85%
Risk Free Rate	2,18% α (specific risk)	2,50%
Market Premium	9,08% Beta Adjusted	0,9
D/E (average)	11,11% Beta Relevered	1,0
Ke	13,09% Kd	1,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. This results in a WACC of 11.85%.

Table 5 – DCF Valuation

DCF Equity Value		21,9
FCFO actualized	6,7	32%
TV actualized DCF	14,2	68%
Enterprise Value	20,9	100%
NFP (FY21A)	(1,0)	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 21.9 million**.

Table 6 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		10,3%	10,8%	11,3%	11,8%	12,3%	12,8%	13,3%
Growth Rate (g)	2,5%	28,7	27,0	25,5	24,2	23,0	21,9	20,9
	2,0%	27,4	25,9	24,5	23,3	22,2	21,2	20,3
	1,5%	26,3	24,9	23,7	22,6	21,5	20,6	19,8
	1,0%	25,3	24,1	22,9	21,9	20,9	20,1	19,3
	0,5%	24,4	23,3	22,2	21,2	20,4	19,6	18,8
	0,0%	23,6	22,6	21,6	20,7	19,8	19,1	18,4
	-0,5%	22,9	21,9	21,0	20,1	19,4	18,7	18,0

Source: Integrae SIM

2.2 Market multiples

Our panel is made up of companies belonging to the same sector as Circle. These companies are the same ones used for the calculation of Beta for the DCF method. The Panel is composed of:

Table 7 – Market Multiples

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Capgemini SE	10,3	9,1	8,3	11,0	10,2	9,3
Reply SpA	12,4	11,3	10,3	15,0	13,6	12,3
Computacenter Plc	6,4	6,1	5,9	8,5	8,1	7,8
Be Shaping the Future SpA	11,2	9,9	N/A	16,7	14,3	N/A
PSI Software AG	7,0	5,9	5,3	10,7	8,5	7,3
Peer median	10,3	9,1	7,1	11,0	10,2	8,6

Source: Infinancials

Table 8 – Market Multiples Valuation

€/mln	FY22E	FY23E	FY24E
Enterprise Value (EV)			
EV/EBITDA	22,6	27,4	26,8
EV/EBIT	14,1	20,3	22,2
Equity Value			
EV/EBITDA	24,9	29,7	29,0
EV/EBIT	16,3	22,5	24,4
Equity Value post 25% discount			
EV/EBITDA	18,6	22,2	21,8
EV/EBIT	12,2	16,9	18,3
Average	15,4	19,6	20,0

Source: Integrae SIM

The equity value of Circle using the average of market multiples EV/EBITDA and EV/EBIT is equal to € 24.5 million. To this value, we have applied a 25% discount. **Therefore, as a result, the equity value is € 18.4 million.**

2.3 Equity Value

Table 9 – Equity Value

Average Equity Value (€/mln)	20,1
Equity Value DCF (€/mln)	21,9
Equity Value multiples (€/mln)	18,4
Target Price (€)	5,00

Source: Integrae SIM

The result is an average equity value of € 20.1 million. **The target price is, therefore, € 5.00 (prev. €5.20). We confirm BUY rating and MEDIUM risk.**

Table 10 – Target Price Implied Valuation Multiples

Multiples	FY22E	FY23E	FY24E
EV/EBITDA	8,9x	6,5x	5,2x
EV/EBIT	15,3x	10,1x	7,6x

Source: Integrae SIM

Table 11 – Current Price Implied Valuation Multiples

Multiples	FY22E	FY23E	FY24E
EV/EBITDA	6,1x	4,5x	3,6x
EV/EBIT	10,5x	6,9x	5,3x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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Date	Price	Recommendation	Target Price	Risk	Comment
05/10/2021	3,84	Buy	5,10	Medium	Update
21/02/2022	3,58	Buy	5,10	Medium	Flash Note
05/04/2022	3,68	Buy	5,20	Medium	Update
12/05/2022	3,74	Buy	5,20	Medium	Flash Note
04/07/2022	3,79	Buy	5,20	Medium	Flash Note
08/08/2022	3,76	Buy	5,20	Medium	Flash Note
11/08/2022	3,72	Buy	5,20	Medium	Flash Note
08/09/2022	3,65	Buy	5,20	Medium	Flash Note

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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 the risk associated to 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 >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
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 value 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 the 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).

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