

UPDATE

EQUITY RESEARCH

ISIM
INTEGRÆ

Circle

Euronext Growth Milan | Engineering | Italy

Production 31/03/2023, h. 6:30 pm

Published 03/04/2023, h. 7:00 am



Rating

BUY

unchanged

Target Price

€ 6,20

prev. € 5,00

Risk



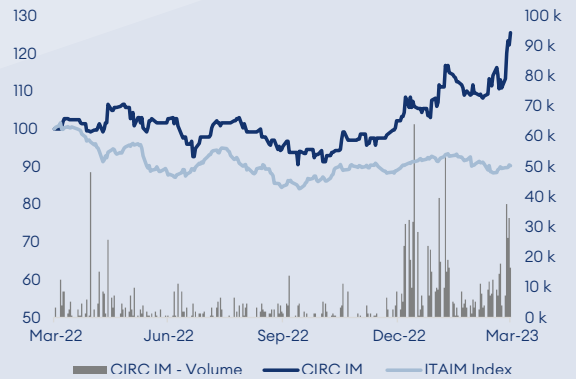
Medium

Upside potential

34,1%

Key Financials (€/mln)	FY22A	FY23E	FY24E	FY25E
Revenues	9,1	12,4	14,5	17,0
VoP	10,9	14,5	16,8	19,5
EBITDA	2,0	2,8	3,4	4,1
EBIT	1,0	1,8	2,4	3,0
Net Income	0,8	1,5	2,0	2,5
EBITDA margin	18,1%	19,0%	20,2%	21,0%
EBIT margin	9,2%	12,1%	14,0%	15,4%
Net Income margin	7,7%	10,3%	11,9%	12,8%

Stocks performance relative to FTSE Italia Growth



Stock Data

Price	€ 4,62
Target price	€ 6,20
Upside/(Downside) potential	34,1%
Ticker	CIRC IM
Market Cap (€/mln)	€ 18,60
EV (€/mln)	€ 15,68
Free Float	37,65%
Share Outstanding	4.026.495
52-week high	€ 4,88
52-week low	€ 3,27
Average daily volumes (3 months)	13.000

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Stock performance	1M	3M	6M	1Y
Absolute	14,93%	22,87%	31,62%	25,54%
to FTSE Italia Growth	14,75%	22,19%	25,21%	35,29%
to Euronext STAR Milan	15,75%	16,87%	12,90%	35,74%
to FTSE All-Share	16,35%	10,93%	1,12%	18,16%
to EUROSTOXX	13,12%	10,97%	1,58%	14,97%
to MSCI World Index	13,26%	17,02%	15,60%	35,15%

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	8,0 x	5,7 x	4,6 x	3,8 x
EV/EBIT	15,8 x	9,0 x	6,7 x	5,2 x
P/E	22,3 x	12,4 x	9,3 x	7,4 x

FY22A Results

The Value of Production came in at € 10.85 million, compared to a value of € 9.31 million recorded at the end of 2021, and to €11.00 million estimated in our previous report. EBITDA, equal to € 1.96 million, recorded an increase of 43.6%, compared to the € 1.37 million of the previous year, and slightly down on our previous estimate of € 2.15 million. The EBITDA Margin, equal to 18.1%, is higher than the figure for the previous year (14.7%), and slightly lower than our estimate (19.5%). The NFP Adjusted, including receivables from the European Union, on the other hand, was cash positive for an amount equal to € 2.92 million in FY22A (cash positive by € 2.48 million in FY21A).

Estimates Update

In light of the results published in the annual report for FY22A, we have adjusted our estimates for both the current year and the coming years. In particular, we estimate an FY23E Value of Production equal to € 14.50 million, and an EBITDA equal to € 2.75 million, corresponding to a margin of 19.0%. In the following years, we expect the Value of Production to rise to € 22.70 million (CAGR 22Y-26E: 20.3%) in FY26E, with EBITDA equal to € 5.00 million (corresponding to a margin of 22.0%), up from € 1.96 million in FY22A (corresponding to an EBITDA Margin of 18.1%).

Valuation Update

We conducted our valuation of the equity value of Circle based on the DCF method and multiples of a sample of comparable companies. The DCF method (including, for prudential purposes, a specific risk of 2.5% in the calculation of the WACC) returned an equity value of € 24.7 million. Using market multiples, the equity value of Circle was € 25.2 million (including a 25.0% discount). The result is an average equity value of approximately € 25.0 million. The target price is € 6.20, BUY rating and MEDIUM risk.

Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

CONSOLIDATED INCOME STATEMENT (€/mln)	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenues	7,13	9,06	12,40	14,50	16,95	19,80
Other Revenues	2,18	1,79	2,10	2,30	2,55	2,90
Value of Production	9,31	10,85	14,50	16,80	19,50	22,70
COGS	0,36	0,43	0,55	0,60	0,70	0,85
Services	3,60	3,85	5,15	5,90	6,80	7,90
Use of asset owned by others	0,21	0,17	0,25	0,25	0,30	0,35
Employees	3,67	4,31	5,60	6,45	7,35	8,25
Other Operating Expenses	0,11	0,12	0,20	0,20	0,25	0,35
EBITDA	1,37	1,96	2,75	3,40	4,10	5,00
<i>EBITDA Margin</i>	<i>14,7%</i>	<i>18,1%</i>	<i>19,0%</i>	<i>20,2%</i>	<i>21,0%</i>	<i>22,0%</i>
D&A	0,82	0,97	1,00	1,05	1,10	1,10
EBIT	0,55	1,00	1,75	2,35	3,00	3,90
<i>EBIT Margin</i>	<i>5,9%</i>	<i>9,2%</i>	<i>12,1%</i>	<i>14,0%</i>	<i>15,4%</i>	<i>17,2%</i>
Financial Management	0,07	(0,03)	0,00	0,00	0,00	0,00
EBT	0,61	0,97	1,75	2,35	3,00	3,90
Taxes	0,07	0,13	0,25	0,35	0,50	0,70
Net Income	0,55	0,83	1,50	2,00	2,50	3,20

CONSOLIDATED BALANCE SHEET (€/mln)	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Fixed Asset	3,35	3,82	4,35	4,95	5,65	6,35
Account Receivable	4,20	5,63	7,10	8,00	8,80	9,00
Inventories	0,05	0,04	0,05	0,05	0,05	0,05
Account Payable	2,27	2,56	3,25	3,75	4,15	4,80
Operating Working Capital	1,98	3,11	3,90	4,30	4,70	4,25
Other Receivable	1,50	1,66	1,61	1,51	1,36	1,26
Other Payable	1,39	2,13	2,80	3,20	3,55	4,10
Net Working Capital	2,08	2,64	2,71	2,61	2,51	1,41
Severance Indemnities & Other Provisions	0,90	1,06	1,35	1,55	1,65	1,80
NET INVESTED CAPITAL	4,53	5,39	5,71	6,01	6,51	5,96
Share Capital	0,27	0,27	0,27	0,27	0,27	0,27
Reserves	6,19	7,21	8,04	9,54	11,54	14,04
Net Income	0,55	0,83	1,50	2,00	2,50	3,20
Equity	7,01	8,31	9,81	11,81	14,31	17,51
Cash & Cash Equivalents	1,91	2,34	3,20	4,55	6,40	10,05
Short Term Debt	0,93	0,52	0,25	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	(0,98)	(1,82)	(2,95)	(4,55)	(6,40)	(10,05)
Other Financial Receivable	1,50	1,10	1,15	1,25	1,40	1,50
Net Financial Position Adjusted	(2,48)	(2,92)	(4,10)	(5,80)	(7,80)	(11,55)
SOURCES	4,53	5,39	5,71	6,01	6,51	5,96

CONSOLIDATED CASH FLOW (€/mln)	FY22A	FY23E	FY24E	FY25E	FY26E
EBIT	1,00	1,75	2,35	3,00	3,90
Taxes	0,13	0,25	0,35	0,50	0,70
NOPAT	0,86	1,50	2,00	2,50	3,20
D&A	0,97	1,00	1,05	1,10	1,10
Change in receivable	(1,44)	(1,47)	(0,90)	(0,80)	(0,20)
Change in inventories	0,01	(0,01)	0,00	0,00	0,00
Change in payable	0,29	0,69	0,50	0,40	0,65
Change in others	0,58	0,72	0,50	0,50	0,65
Change in NWC	(0,56)	(0,07)	0,10	0,10	1,10
Change in provisions	0,16	0,29	0,20	0,10	0,15
OPERATING CASH FLOW	1,43	2,72	3,35	3,80	5,55
Capex	(1,43)	(1,53)	(1,65)	(1,80)	(1,80)
FREE CASH FLOW	(0,00)	1,18	1,70	2,00	3,75
Financial Management	(0,03)	0,00	0,00	0,00	0,00
Change in Financial Debt	(0,01)	(0,32)	(0,35)	(0,15)	(0,10)
Change in Equity	0,47	0,00	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	0,42	0,87	1,35	1,85	3,65

Source: Circle and Integrae SIM estimates

Company Overview

Founded in Genoa in 2012, Circle SpA is the innovative SME at the head of CIRCLE Group, specialized in the analysis and development of products for the innovation and digitalization of port sectors and intermodal logistics, and in international consultancy on the Green Deal and the energy transition. Forming part of the Group, in addition to Circle, are the software houses Info.era, Progetto Adele and Cargo Start, acquired respectively at the end of 2017, in July 2019 and in December 2022, and the consultancy companies Circle Connecting EU and Magellan Circle.

The synergies between the individual components of CIRCLE Group have made it possible to expand the portfolio of solutions offered in the field of IoT, Optimization, Digital Twin, Big Data and Process Automation, and to strengthen related software products, including: Milos® (suite for all intermodal logistics players, such as inland terminals, port terminals, ports, marine terminal operators, and shipping agencies), Port Community System Sinfomar, Master SPED® and Master TRADE® solutions (respectively for shipping and logistics, and for commerce and industry), and Star Tracking® (for airport-to-airport tracking). Completing the offer in the Supply Chain field are so-called “federative services” that help customers migrate towards a more efficient and cloud-based digital business model. Through Circle Connecting EU, Circle supports public and private entities in identifying their positioning at the European level (in terms of strategic communications and advocacy) and funding opportunities (e.g. the EU Funding Accelerator). Thanks to the joint venture and acquisition of Magellan Circle, a Portuguese company active in the field of advocacy in relation to European institutions, Circle has expanded its presence in Brussels and its services aimed at leveraging Next Generation EU project and funding opportunities.

FY22A Results

TABLE 2 – ACTUAL VS ESTIMATES FY22A

€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
FY22A	10,85	1,96	18,1%	1,00	0,83	(1,82)
FY22E	11,00	2,15	19,5%	1,25	0,90	(2,17)
Change	-1,3%	-8,8%	-1,5%	-20,4%	-7,4%	N/A

Source: Integrae SIM

Commenting on the annual results in a press release, Luca Abatello, CEO and President of Circle SpA stated: “2022 was a complex but very satisfying year, as we already had the opportunity to anticipate to you when presenting the highlights a couple of weeks ago. The Group has consolidated its growth along the two main axes of development of proprietary software products and innovative projects. Moreover, a fundamental contribution came from Milos® Federative Services, as the basis of the Connect for Agile Growth business plan. On the European front, we completed the integration of Magellan Circle, and signed a record number of projects since we have been operating, amounting to over € 3.5 million. All these elements led to a strong increase in margins, with a consolidated EBITDA of € 2 million, up 44% on 2021. The prospects for the future are very good. Indeed, at the end of the 2022 and the beginning of 2023, we signed numerous contracts, also thanks to the Transition Plan 4.0. This lays the foundations for a 2023 of further significant growth, also considering the integration of the newly acquired Cargo Start. Furthermore, we are getting to the heart of the Next Generation EU and Energy Transition plans, which will see their peak in the second half of 2023, and, subsequently, in the two-year period 2024-2025.”

The Value of Production stands at € 10.85 million, compared to a value of € 9.31 million recorded at the end of 2021, and to the € 11.00 million estimated in our previous report.

The growth compared to 2021 was attributable above all to the increase in revenues from proprietary software products, also offered as SaaS (Software as a Service) on the cloudplatform, which saw a 25.0% increase, confirming the significant growth trend already evident in the previous year.

EBITDA, amounting to € 1.96 million, recorded an increase of 43.6%, compared to the € 1.37 million of the previous year, and slightly down on our previous estimate of € 2.15 million. The EBITDA Margin, equal to 18.1%, is higher than the figure for the previous year (14.7%), and slightly lower than our estimate (19.5%).

EBIT, after depreciation, amortization and write-downs of € 0.97 million, came in at € 1.00 million (€ 0.55 million in FY21A), compared to our estimate of € 1.25 million. The EBIT Margin was 9.2%, compared to a FY21A figure of 5.9%, and to our estimate of 11.4%.

Net Income stands at € 0.83 million (€ 0.55 million in FY21A), in line with the € 0.90 million

of our previous estimate.

NFP showed an improvement from a cash positive € 0.98 million in FY21A to a cash positive € 1.82 million in FY22A. The NFP Adjusted, on the other hand, including receivables from the European Union structurally deferred due to EU rules, was cash positive for an amount equal to € 2.92 million in FY22A (cash positive by € 2.48 million in FY21A).

FY23E – FY26E Estimates

TABLE 3 – ESTIMATES UPDATES FY23E-26E

€/mln	FY23E	FY24E	FY25E	FY26E
VoP				
New	14,50	16,80	19,50	22,70
Old	13,90	16,05	17,65	N/A
Change	4,3%	4,7%	10,5%	N/A
EBITDA				
New	2,75	3,40	4,10	5,00
Old	2,95	3,70	4,20	N/A
Change	-6,8%	-8,1%	-2,3%	N/A
EBITDA %				
New	19,0%	20,2%	21,0%	22,0%
Old	21,2%	23,1%	23,8%	N/A
Change	-2,3%	-2,8%	-2,8%	N/A
EBIT				
New	1,75	2,35	3,00	3,90
Old	1,90	2,50	2,75	N/A
Change	-7,9%	-6,0%	9,2%	N/A
Net Income				
New	1,50	2,00	2,50	3,20
Old	1,40	1,85	2,05	N/A
Change	6,9%	7,9%	22,2%	N/A
NFP Adjusted				
New	(4,10)	(5,80)	(7,80)	(11,55)
Old	N/A	N/A	N/A	N/A
Change	N/A	N/A	N/A	N/A

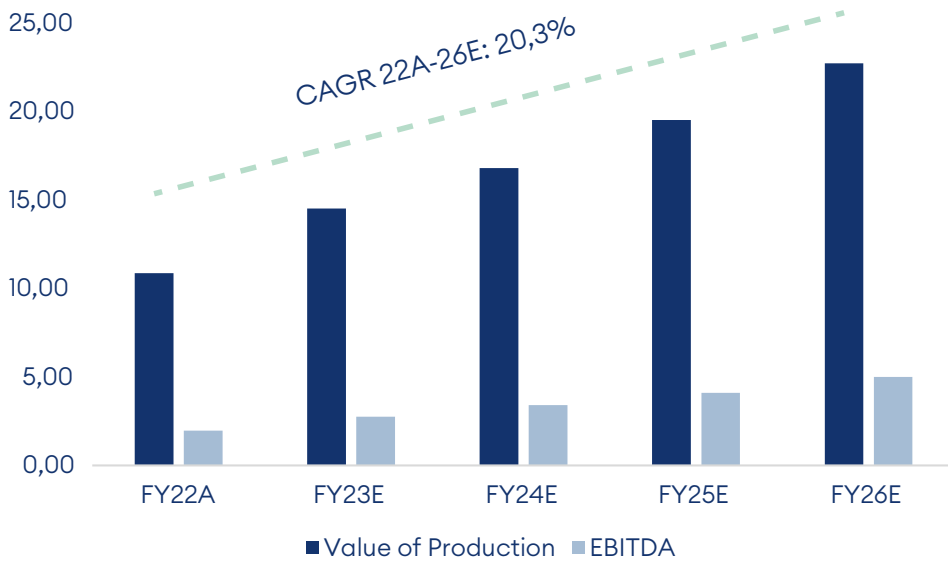
Source: Integrae SIM

In light of the results published in the annual report for FY22A, we have adjusted our estimates for both the current year and the coming years.

In particular, we estimate an FY23E Value of Production equal to € 14.50 million, and an EBITDA equal to € 2.75 million, corresponding to a margin of 19.0%. In the following years, we expect the Value of Production to rise to € 22.70 million (CAGR 22Y-26E: 20.3%) in FY26E, with EBITDA equal to € 5.00 million (corresponding to a margin of 22.0%), up from € 1.96 million in FY22A (corresponding to an EBITDA Margin of 18.1%).

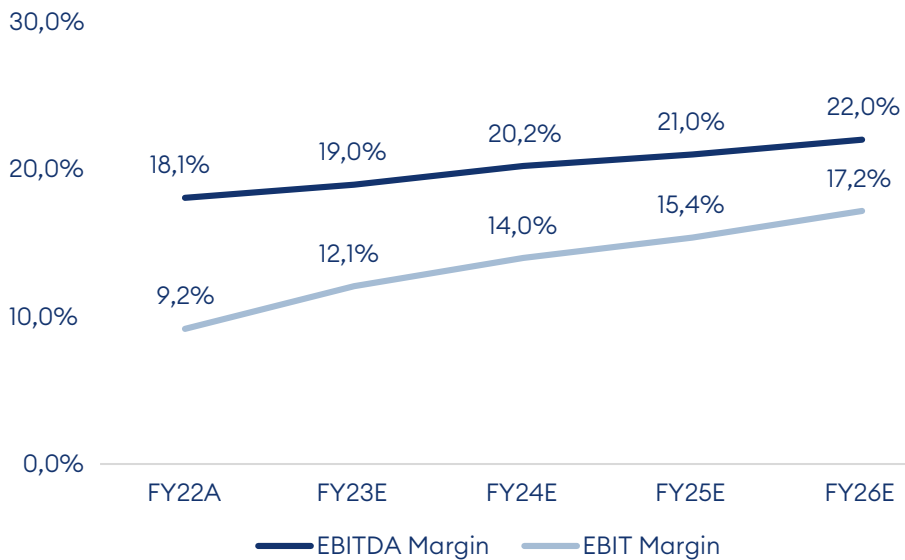
Regarding estimated investments, we expect a Capex 2023E-2026E equal to approximately € 6.78 million. Finally, we estimate an NFP Adjusted (including receivables from the European Union structurally deferred due to EU rules) for FY26E as cash positive equal to € 11.55 million.

CHART 1 - VOP AND EBITDA FY22A-26E



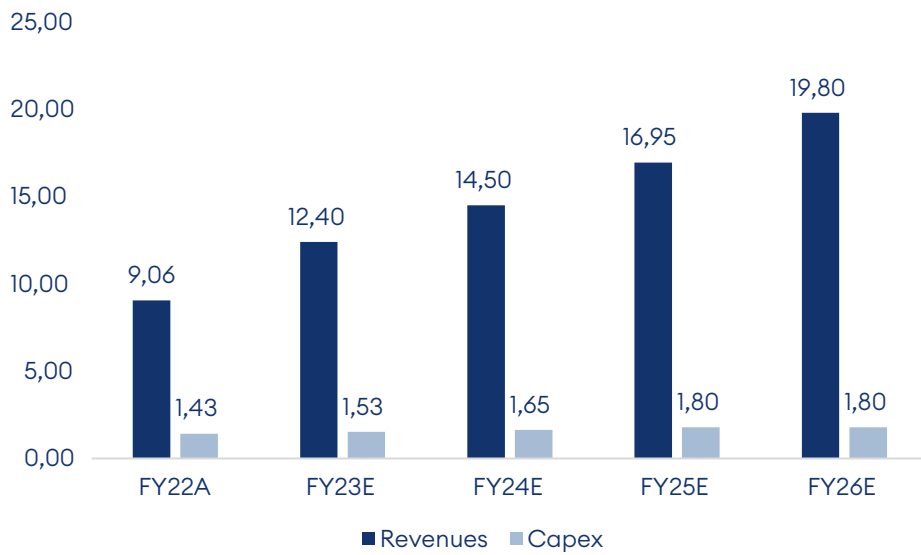
Source: Integrae SIM

CHART 2 - MARGIN FY22A-26E



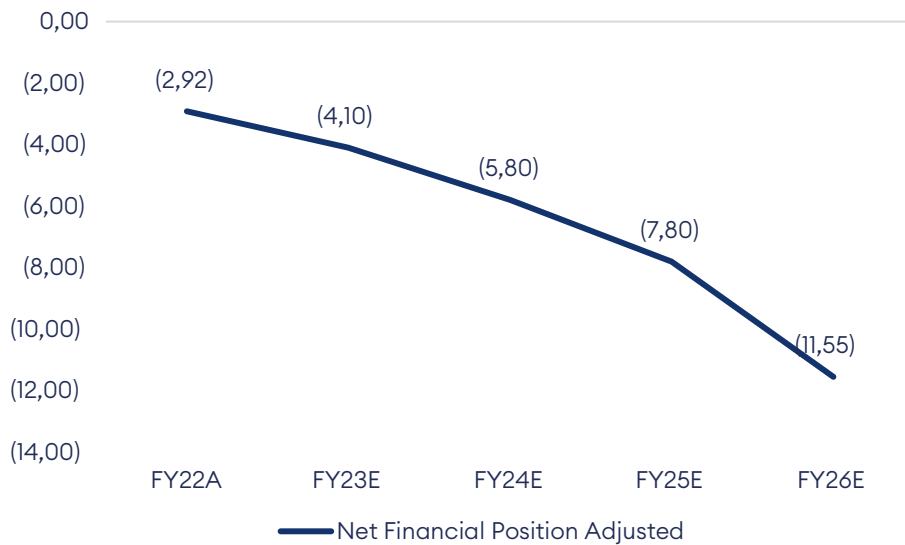
Source: Integrae SIM

CHART 3 – CAPEX FY22A-26E



Source: Integrae SIM

CHART 4 – NFP ADJUSTED FY22A-26E



Source: Integrae SIM

Valuation

We conducted our valuation of the equity value of Circle based on the DCF method and multiples of a sample of comparable companies.

DCF Method

TABLE 4 – WACC

WACC			13,72%
D/E 5,26%	Risk Free Rate 3,51%	β Adjusted 0,86	α (specific risk) 2,50%
K_d 1,00%	Market Premium 9,73%	β Relevered 0,90	K_e 14,41%

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%. The result is therefore a WACC of 13.72%.

TABLE 5 – DCF VALUATION

DCF	% of EV
FCFO actualized	5,3 24%
TV actualized DCF	16,5 76%
Enterprise Value	21,8 100%
NFP Adjusted (FY22A)	(2,9)
Equity Value	24,7

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is an *equity value of € 24.7 million*.

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mln	Growth Rate (g)	WACC						
		12,2%	12,7%	13,2%	13,7%	14,2%	14,7%	15,2%
	2,5%	31,0	29,5	28,1	26,9	25,7	24,7	23,7
	2,0%	29,9	28,5	27,3	26,1	25,0	24,0	23,1
	1,5%	28,9	27,6	26,4	25,4	24,4	23,4	22,6
	1,0%	28,0	26,8	25,7	24,7	23,8	22,9	22,1
	0,5%	27,2	26,0	25,0	24,1	23,2	22,4	21,6
	0,0%	26,4	25,3	24,4	23,5	22,7	21,9	21,2
	-0,5%	25,7	24,7	23,8	22,9	22,2	21,4	20,7

Source: Integrae SIM

Market multiples

Our panel is made up of companies operating in the same sector as Circle, but many with larger capitalizations. These companies were the same used to calculate Beta for the DCF method. The panel consists of:

TABLE 7 – MARKET MULTIPLES

Company Name	EV/EBITDA			EV/EBIT			P/E		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Capgemini SE	9,1 x	8,3 x	7,5 x	10,1 x	9,1 x	8,4 x	18,1 x	16,1 x	12,3 x
Reply S.p.A.	12,5 x	11,4 x	10,5 x	15,1 x	13,6 x	12,3 x	21,8 x	19,6 x	17,8 x
Computacenter Plc.	7,4 x	7,0 x	6,8 x	9,9 x	9,5 x	8,9 x	13,8 x	13,3 x	12,5 x
Accenture Plc.	15,8 x	14,2 x	13,0 x	19,4 x	17,3 x	15,5 x	24,7 x	22,8 x	20,8 x
PSI Software AG	9,1 x	7,9 x	7,0 x	13,7 x	11,1 x	9,5 x	21,4 x	17,1 x	15,2 x
Peer median	9,1 x	8,3 x	7,5 x	13,7 x	11,1 x	9,5 x	21,4 x	17,1 x	15,2 x

Source: *Infinancials*

TABLE 8 – MARKET MULTIPLES VALUATION

€/mln	FY23E	FY24E	FY25E
Enterprise Value (EV)			
EV/EBITDA	25,1	28,4	30,9
EV/EBIT	23,9	26,0	28,4
P/E	32,2	34,3	38,1
Equity Value			
EV/EBITDA	29,2	34,2	38,7
EV/EBIT	28,0	31,8	36,2
P/E	32,2	34,3	38,1
Equity Value post 25% discount			
EV/EBITDA	21,9	25,6	29,0
EV/EBIT	21,0	23,9	27,1
P/E	24,1	25,7	28,6
Average	22,3	25,1	28,2

Source: *Integrae SIM*

Using EV/EBITDA, EV/EBIT and P/E market multiples, the equity value of Circle is approximately € 33.6 million. To this value, we have applied a discount of 25.0%. Therefore, the result is a **equity value of € 25.2 million**.

Equity Value

TABLE 9 – EQUITY VALUE

Average Equity Value (€/mln)	25,0
Equity Value DCF (€/mln)	24,7
Equity Value multiples (€/mln)	25,2
Target Price (€)	6,20

Source: Integrae SIM

The result is an average equity value of approximately € 25.0 million. **The target price is therefore € 6.20 (prev. € 5.00). We confirm a BUY rating and MEDIUM risk.**

TABLE 10 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	11,2 x	8,0 x	6,5 x	5,4 x
EV/EBIT	22,1 x	12,6 x	9,4 x	7,3 x
P/E	30,0 x	16,6 x	12,5 x	10,0 x

Source: Integrae SIM

TABLE 11 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	8,0 x	5,7 x	4,6 x	3,8 x
EV/EBIT	15,8 x	9,0 x	6,7 x	5,2 x
P/E	22,3 x	12,4 x	9,3 x	7,4 x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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The table below, shows INTEGRAE SIM's recommendation, target price and risk issued during the last 12 months:

Date	Price	Recommendation	Target Price	Risk	Comment
05/04/2022	3,68	Buy	5,20	Medium	Update
12/05/2022	3,74	Buy	5,20	Medium	Breaking News
04/07/2022	3,79	Buy	5,20	Medium	Breaking News
08/08/2022	3,76	Buy	5,20	Medium	Breaking News
11/08/2022	3,72	Buy	5,20	Medium	Breaking News
08/09/2022	3,65	Buy	5,20	Medium	Breaking News
14/09/2022	3,60	Buy	5,20	Medium	Breaking News
03/10/2022	3,51	Buy	5,00	Medium	Update
19/10/2022	3,48	Buy	5,00	Medium	Breaking News
15/11/2022	3,48	Buy	5,00	Medium	Breaking News
16/11/2022	3,48	Buy	5,00	Medium	Breaking News
22/12/2022	3,59	Buy	5,00	Medium	Breaking News
29/12/2022	3,68	Buy	5,00	Medium	Breaking News
10/01/2023	3,99	Buy	5,00	Medium	Breaking News
12/01/2023	4,02	Buy	5,00	Medium	Breaking News
19/01/2023	3,88	Buy	5,00	Medium	Breaking News
03/02/2023	4,12	Buy	5,00	Medium	Breaking News
09/02/2023	4,30	Buy	5,00	Medium	Breaking News
22/02/2023	4,01	Buy	5,00	Medium	Breaking News
16/03/2023	4,09	Buy	5,00	Medium	Breaking News

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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)

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