

SG Company Società Benefit

Difficult 1H21 for the live events industry but better times ahead

1H21 - lower than expected revenues but a sharp increase in profitability thanks to Phygital. SG Company Società Benefit, Italian leader in the digital&live events market, reported 1H21 results below our expectation as the live events industry continued to be drastically affected by the persistent uncertainties regarding the pandemic. Net sales came in at Euro 3.2 m, vs. Euro 4.6 m in 1H 20 and Euro 14.5 m as of our forecast for the full year. Management highlighted that over the last 20 months the activities of the live events industry, which pre-covid represented c. 70-80% of the Group's revenues, has been completely blocked due to restrictions, and the recovery that was expected for 1H21 has been further delayed. On the bright side however, the Phygital proprietary platform launched in March 2020 as a response to the pandemic, showed very good results recording revenues of Euro 1.1 m. Gross Margin showed a sharp increase to 36.6% (26.0% in 1H20) thanks to the shift in product mix with higher weight of Phygital on behalf mainly of the MICE segment which decreased its total weight from 49% to 17%. In absolute terms Gross Margin stood at Euro 1.5 m, +13% vs. 1H20 despite the lower sales volumes. EBITDA (adjusted for Euro 0.1 m of extraordinary expenses) was of Euro -0.1 m, and showed, although being negative, an important improvement vs. 1H20 (Euro -2.0 m) thanks to Management's efforts to contain costs resulting in total savings of c. 1.0 m (personnel and G&A) and Euro 800k in Covid-19 related state-aid ("Ristori" law). Net Loss was of Euro 0.6 m (Euro 1.7 m in 1H20) and Net Debt stood at Euro 2.2 m, down from Euro 3.4 m in FY20 thanks mainly to the Capital increase in February of Euro 2.4 m.

New FY21 guidance and new financial resources in support of the industrial plan. Based on 1H21 results Management provided new FY21 guidance now assuming Gross Revenues of Euro 10 m, in line with FY20 (Euro 20 m pr. and Euro 17 m as of our estimates) and a positive EBITDA adj. Management confirmed the strategic guidelines of the industrial plan released in October 2020 based on (i) Integration of Martech solutions in core activities, (ii) Launch of Data Valorisation business line and (iii) Internationalization and stated that it will evaluate a revision of the industrial plan in 1Q22 when it will have more visibility on the development of the Covid related emergency. Management further underlined that M&A remains a key strategic growth pillar for the Group, especially considering the important amount of cash currently at hand (c. Euro 5.0 m), thanks also to a Euro 2.5 m of subsidized financial loan which the Group obtained in September with Invitalia, and the accreditation of non-repayable grant worth Euro 1.5 m to the 100% owned subsidiary Sinergie Srl. In addition, the board recently proposed a capital increase of a total of Euro 1.5 m to be closed within 31 March 2021 in support of the industrial plan, in particular through M&A.

Focus on Sustainability. After the transformation in Benefit Corporation in November last year, the Group is proceeding on its formal ESG path aiming at continuous progression towards the highest standards of purpose, responsibility, and transparency.

Estimates revision and Valuation. Based on 1H21 results and Management's guidance, we adjusted our estimates for 1H21 now assuming Net Revenues (not including grants) of Euro 9.5 (Euro 14.5 m pr.) and an EBITDA of Euro 0.1 m (Euro 0.3 m pr.) We also adjusted the BS to reflect recent development. We left our estimates for FY22-23 largely unchanged.

When updating our model to factor in our new estimates and up to date risk free rate and ERP we obtained a target price of Euro 0.63 p.s., in line with our previous one (Euro 0.62). Our new TP provides for an upside vs. current share price of c. 186%.

Sector: Technology

Target Price (Euro)	0.63 (0.62 pr)
Market Price (Euro)	0.22
Market Cap (Euro m)	5.4
EV (Euro m)	7.6

As of Nov.5th, 2021

Share Data

Market	Euronext Growth Milan
Bloomberg	SGC.IM
ISIN	IT0005337172
N. of Shares	24,690,176
Free Float	45.16%
Warrants Outstanding	11,796,371
Strike price war. (Eu)	0.66
Excerc. Period war.	Nov 20-25
CEO	Davide Verdesca

Financials

	2020A	2021E	2022E	2023E
Net Rev	9.0	9.5	24.5	30.8
YoY %	-71%	+6%	+158%	+26%
EBITDA adj	(3.4)	0.1	1.1	3.1
EBITDA %	n.m.	1%	4%	10%
EBIT	(3.8)	(0.5)	0.5	2.4
EBIT %	n.m.	n.m.	1.8%	7.9%
Net P/(L)	(3.1)	(0.7)	0.3	1.8
Net D/(C)	3.4	2.1	1.9	(0.2)
Net Equity	(1.1)	0.6	0.9	2.7

*Net Revenues = Gross Revenues – Rebated Costs (hotel, catering etc.)

Performance

	1M	6M	1Y
Absolute	-15%	-23%	-46%
Relative (FTSE Italia Growth)	+4%	+23%	+79%
52-week High/Low (Eu)	0.20	/	0.376

ESG Profile available

IR TOP RESEARCH

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KEY FINANCIALS

Profit&Loss Statement	2018A	2019A	2020A	2021E	2022E	2023E
Net Revenues	25,6	31,1	9,0	9,5	24,5	30,8
EBITDA adj	1,1	-2,1	-3,4	0,1	1,1	3,1
EBIT	0,9	-2,5	-3,8	-0,5	0,5	2,4
Financial Income (charges)	0,0	-0,2	-0,1	-0,1	-0,1	-0,1
Extraordinary items	-0,3	-1,6	-0,2	-0,1	0,0	0,0
Pre-tax profit (loss)	0,6	-4,3	-4,1	-0,7	0,4	2,4
Taxes	-0,3	0,6	1,0	0,0	-0,1	-0,6
Net profit (loss)	0,4	(3,7)	(3,1)	(0,7)	0,3	1,8

Balance Sheet						
Net working capital (NWC)	4,2	1,9	1,2	1,6	2,0	2,1
Net fixed assets	1,7	2,2	2,2	2,3	2,0	1,6
M/L Funds	-0,8	-0,9	-1,1	-1,1	-1,1	-1,1
Net Capital Employed	5,0	3,2	2,3	2,8	2,8	2,6
Net Debt	-0,4	1,1	3,4	2,1	1,9	-0,2
Minorities	0,5	0,1	0,0	0,0	0,0	0,0
Equity	5,0	2,0	(1,1)	0,6	0,9	2,7

Cash Flow						
Net Profit	0,4	-3,7	-3,1	-0,7	0,3	1,8
D&A	0,2	0,4	0,0	0,6	0,4	0,5
Other non cash items	0,3	0,0	0,3	0,0	0,0	0,0
Change in Working Capital	-2,7	2,3	0,6	-0,4	-0,4	-0,1
Cash Flow from Operations	-1,9	-0,9	-2,2	-0,5	0,4	2,1
Capex	-1,5	-0,9	0,0	-0,7	-0,1	-0,1
Operating Free Cash Flow	-3,4	-1,8	-2,2	-1,2	0,3	2,0
Change in Net Equity	2,0	0,3	-0,1	2,4	0,0	0,0
Free Cash Flow	-1,3	-1,5	-2,3	1,2	0,3	2,0

Per Share Data						
Current Price		0,22				
Total shares out mn		24,69				
EPS	0,0	(0,1)	(0,1)	(0,0)	0,0	0,1
FCF	(0,1)	(0,1)	(0,1)	0,1	0,0	0,1
Pay out ratio	0%	0%	0%	0%	0%	0%

Ratios						
EBITDA margin	4,3%	n.s.	n.s.	1,2%	4,4%	10,0%
EBIT margin	3,6%	n.s.	n.s.	n.s.	1,8%	7,9%
Net Debt/Equity	-8,4%	54,7%	-303,5%	336,0%	200,9%	-5,9%
Net Debt/(Net Debt + Equity)	-9,1%	35,3%	149,1%	77,1%	66,8%	-6,3%
Net Debt/EBITDA	-0,37	n.s.	n.s.	18,67	1,72	-0,05
Interest cover EBIT	462,00	n.s.	n.s.	n.s.	6,96	37,22
ROE	7,6%	-184,7%	278,6%	-108,6%	31,9%	65,6%
ROCE	23,6%	-99,1%	-212,9%	-18,1%	19,3%	114,9%
Free Cash Flow Yield	n.m.	n.m.	n.m.	22,8%	4,6%	37,2%

Growth Rates						
Net Revenues	2%	21%	-71%	6%	158%	26%
EBITDA	-53%	-288%	-62%	103%	856%	185%
EBIT	-59%	-372%	-52%	87%	190%	435%
Net Profit	-73%	-1071%	16%	78%	143%	508%

1H21 Results

	1H21	1H20	1H19	20A	19A
Gross Revenues	4.0	5.6	17.5	10,0	37,4
yoy	-18%	-68%	+10%	-73%	12%
Net Revenues	3.2	4.6	14.3	9,0	31,1
yoy	-30%	-68%	+17%	-71%	21%
EBITDA adj	(0.1)	(2.0)	(1.7)	(3,4)	(2,1)
margin	-3%	-43%	-11%	-38%	-7%
EBIT adj	(0.4)	(2.1)	(1.8)	(3,8)	(2,5)
margin	-13%	-46%	-13%	-43%	-8%
Pre tax profit	(0.6)	(2.2)	(2.2)	(4,1)	(4,3)
Net Profit/ (Loss)	(0.6)	(1.7)	(1.8)	(3,1)	(3,7)

Company data

Euro m	1H21	1H20	1H19	20A	19A
Net Working Capital (NWC)	1.8	1.2	2.5	1.2	1.9
Fixed net assets	2.4	2.2	1.5	2.2	2.2
Funds	(1.0)	(1.1)	(0.9)	(1.1)	(0.9)
Net Capital Employed	3.2	2.3	3.1	2.3	3.2
Net Financial Position (Cash)	2.2	3.4	0.5	3.4	1.1
Total Equity	1.0	(1.1)	2.6	(1.1)	2.0
Sources	3.2	2.3	3.1	2.3	3.2

Company data
Estimate Revision

Euro m	20A	21E Old	21E New	22E Old	22E New	23E Old	23E New
Gross Revenues	10,0	17,0	10,0	29,0	29,0	36,1	36,1
yoy	-73%	70%	-10%	70%	190%	25%	25%
Net Revenues	9,0	14,5	9,5	24,6	24,5	30,8	30,8
yoy	-71%	62%	6%	70%	158%	25%	26%
EBITDA adj	(3,4)	0,3	0,1	1,1	1,1	3,1	3,1
margin	n.m.	2%	1%	4%	4%	10%	10%
EBIT	(3,8)	(0,1)	(0,5)	0,5	0,5	2,4	2,4
margin	(0,4)	n.m	n.s.	0,0	0,0	0,1	0,1
Pre tax profit	(4,1)	(0,2)	(0,7)	0,4	0,4	2,4	2,4
Net Profit	(3,1)	(0,2)	(0,7)	0,3	0,3	1,8	1,8

Euro m	20A	21E Old	21E New	22E Old	22E New	23E Old	23E New
Net Working Capital	1,2	3,3	1,6	3,4	2,0	3,3	2,1
Fixed net assets	2,2	1,8	2,3	1,5	2,0	1,1	1,6
Funds	(1,1)	(1,1)	(1,1)	(1,1)	(1,1)	(1,1)	(1,1)
Net Capital Employed	2,3	4,0	2,8	3,8	2,8	3,3	2,6
					0		0
Net Debt/ (Cash)	3,4	2,8	2,1	2,4	1,9	0,0	(0,2)
Total Equity	(1,1)	1,1	0,6	1,4	0,9	3,2	2,7
Sources	2,3	4,0	2,7	3,8	2,8	3,3	2,6

MATERIAL ESG ISSUES	HIGHLIGHTS
<p>Governance</p> <ul style="list-style-type: none"> • Ethics and integrity in business management • Protection of intellectual property 	<p>The Board of Directors is made up of 6 members, of which 1 independent and 3 non-executive members. Among them there are 5 male and 1 female components</p> <p>Already ISO 9001 certified and is working to obtain the ISO 50001 certification for quality standards on energy efficiency</p> <p>The Company complies with a Code of Ethics which has the purpose of identifying, describing, and spreading ethical principles driving the Group's whole activity.</p> <p>SG is a Benefit Corporation since November 2020, and as such committed to pursuit its corporate mission through a responsible, transparent and sustainable path.</p>
<p>Economic Value</p> <ul style="list-style-type: none"> • Generation e distribution of value • Investments, innovation, R&D, digitalization 	<p>In FY20 SG Company Società Benefit S.p.a. generated revenues of Euro 9.0 m (-71% yoy)</p> <p>Creation of a proprietary platform (DYHM) for the management of digital events</p> <p>Integration of MarTech solutions across all business lines</p>
<p>People and Social Value</p> <ul style="list-style-type: none"> • People • Suppliers • Territory and community 	<p>Focus on the management, training and development of human resources. The Company aims at achieving diversity, equal opportunities, corporate welfare, and work life balance. Health and safety on the job are among the key pillars</p> <p>Responsible management and sustainable supply chain</p> <p>Relations and development with the territory and local communities. Open Innovation: projects with start-ups, universities and research centres</p>
<p>Clients: services and solutions</p> <ul style="list-style-type: none"> • Quality and safety of services and products • Partnerships • Environmental impact e social services 	<p>Ability to accomplish high quality services, reliability with guarantees of security of direct customers e endings. Management of customer satisfaction e the ability to respond in an appropriate way to specific needs. Privacy and data security.</p> <p>Strategic partnerships to widening commercial offering and client base.</p> <p>Focus on environmental and social impact for the management of logistics and location. Environmental impact of the online event management and for the optimization of waste.</p>
<p>Environment</p> <ul style="list-style-type: none"> • Efficient energy management and reduction of emissions • Sustainable management of resources and circular economy 	<p>Throughout its core activities, the Company focuses on efficiently managing its resources by:</p> <ul style="list-style-type: none"> • Reduction of energy consumption • Shifting to renewable energy both for its production processes and events management • Selecting locations easily accessible by public transports • Planning a reduction in plastic use • Favouring recyclable products and gadgets

VALUATION

We updated our valuation model to factor in our new estimates and up to date risk free rate and ERP we obtained a target price of Euro 0.63 p.s., in line with our previous one (Euro 0.62). Our new TP provides for an upside vs. current share price of c. 186%.

DCF Valuation

Our DCF model returns an Equity value of Euro 15.5 m for SG, or Euro 0.63 p.s.

<i>DCF Valuation</i>		
WACC		7.10%
<i>Euro m</i>		
Sum of PV 2021-25 FCFs	4.5	25%
Discounted terminal value	13.2	75%
Enterprise Value	17.7	100%
Net Debt (1H21)	2.2	
Equity Value	15.5	
Shares Outstanding (millions)	24.69	
Price per share (Euro)	0.63	

SG COMPANY SOCIETA' BENEFIT SNAPSHOT

GROUP PROFILE

Founded in 2000, SG Company Società Benefit S.p.a. is a registered innovative SME, and a key player in the Italian Entertainment & Communication industry. The Company acts as holding company for a group specialized in M.I.C.E. (i.e. Meetings, Incentives, Conferencing, Exhibitions), Events and Communication, and with the mission to assist large corporations as strategic consultant in events creations and live communication. In a highly fragmented reference market populated by players with an artisan footprint, the Group distinguishes itself for its industrial consultancy driven approach, aimed at creating tailor made solutions for clients. The Group also operates in the concept event business and has successfully managed concept events such as Milano Food Week, Milano Wine Week, Obecity, Sneakerness, DigitaDesignDays. The Group, headquartered in Milan, focuses on the Enterprise segment and has a well-diversified client portfolio of c. 75 multinational high-standing loyal clients.

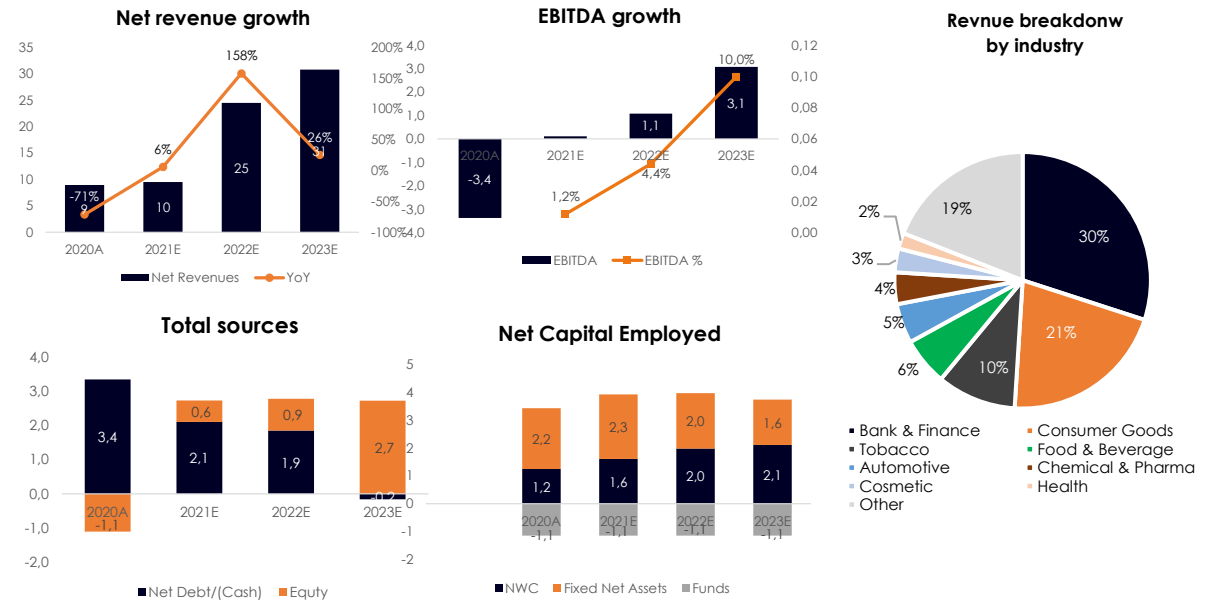
Management

Davide Verdasca – Chairman and CEO
 Francesco Merone – CFO
 Luigi Spinolo – Non executive Board Member
 Davide Mantegazza - Non executive Board Member
 Silvia Pugi - Non executive Board Member
 Carlo Altomonte – Independent Board Member

Shareholders

DL Srl	40.50%
Zeus Capital Alternative Sif	8.91%
Lombard Intenrational Assurance SA	5.43%
Market	45.16%

SG Company Società Benefit in charts



Investment Thesis

- Good reputation and track record based on over 20 years of experience in the market and a highly qualified team of professionals capable of innovating in terms of format and content.
- Growth driven by markets with high expected growth rates over the next years (MarTech, Live Events and Video).
- Scale internationally thanks to the partnership with Nexthing and new platform offering. With the launch of Phygital in March 2020, the Group has shown great ability to respond quickly to new market demands thanks to its internal know-how and flexible structure.
- Leverage on current client base for the development of new business areas. The Group can rely on a portfolio of loyal high profile clients such as A2A, ABI Eventi, Allianz, BlackRock, Medtronic, Vodafone, Eolo, Wind3, PWC, Bayer, Basf, Ferrari, Mediolanum, Sisley, LVMH, Daikin, BMW, Dainese, Enel, Eolo, CheBanca!, Youtube, Generali, Lavazza, Vorwerk, Google, L'Oréal, Luxottica, Pandora e Sky, TIM, Siemens, DAZN.
- Well diversified client base in terms of industry. Over the years since listing the Group has been able to significantly diversify the industry risk by targeting new markets.
- Innovative SME and Benefit Corporation with a an outlined ESG path.

SG COMPANY SOCIETÀ BENEFIT S.P.A. ON EURONEXT GROWTH MILAN

SHARES (as of November 5th, 2021)

Code: SGC
 Bloomberg: SGC IM
 Reuters: SGC.MI
 ISIN: IT0005337172
 Shares: 24,690,176
 Price: Euro 0.22
 Performance from IPO: -89%
 Capitalisation: Euro 5.4 m
 Free Float: 45.16%
 NomAd: Banca Profilo
 Auditing firm: BDO Italia SpA
 (EY SpA for the period 2021-2023)

IPO

Trading Market: Euronext Growth Milan
 Date: July 26th, 2018
 Price: 2.00
 Capital raised: Euro 3.0 m
 Capitalisation: Euro 23.0 m

WARRANT 2018-2025 (as November 5th, 2021)

Alphanumeric Code: WSGC25
 ISIN: IT0005347593
 Issued warrants: 11,796,371 (5,750,000 First Tranche, 6,046,371 Second Tranche)
 Exercise ratio: 1 new instrument every 1 warrants held
 Outstanding warrants: n. 11,796,371

WARRANT EXERCISE PERIOD AND STRIKE PRICE

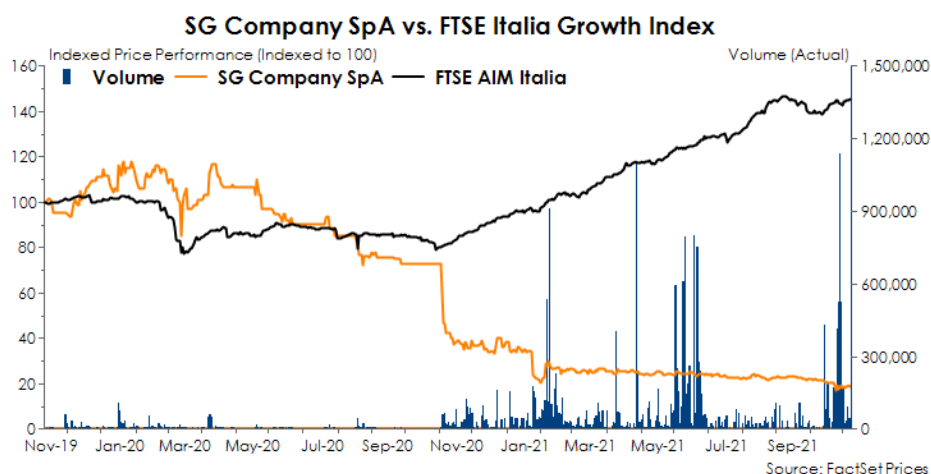
Period	from	To	Strike Price (Euro)	Converted (n. of Warrant)
First	1/11/19	30/11/19	3.00	-
Second	1/11/20	30/11/20	1.50	-
Third	1/11/21	30/11/21	0.66	-
Fourth	1/11/22	30/11/22	0.66	-
Fifth	1/11/23	30/11/23	0.66	-
Sixth	1/11/24	29/11/24	0.66	-
Seventh	1/11/25	28/11/25	0.66	-

OWNERSHIP

Shareholder	Number of Shares	%
DL S.r.l.	10,000,000	40.50%
Zeus Capital Alternative Sif	2,200,000	8.91%
Lombard International Assurance S.A.	1,340,250	5.43%
Market	11,149,926	45.16%
Total	24,690,176	100.00%

Source: Company data as of November 5th, 2021

STOCK PERFORMANCE



Source: FactSet Prices

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UPDATES

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Date	Target Price	Market Price	Validity Time
8 November 2021	0.63	0.22	12 months
23 June 2021	0.62	0.28	12 months

VALUATION METHODOLOGY (HORIZON: 12M)

IRTop obtained a fair value using a Discounted Cash Flow model.

Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IRTop premises.

RESEARCH TEAM:

Luisa Primi, (Senior Analyst. AIAF Associated)

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