Initiation Coverage

NET INSURANCE

Fair Value: €7.49

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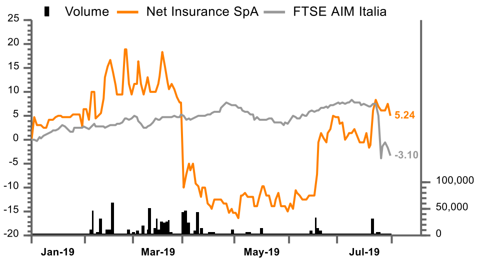


Market Data:	
Current Price (€)	4.42
Fair Value (€)	7.49
Market Cap (€mn)	67.5
52 Wk High (€)	5.18
52 Wk Low (€)	3.38
Free Float (%)	43.2%
Avg. Daily Trading 90d	3211
Price Change 1w (%)	-0.90
Price Change 1m (%)	0.45
Price Change YTD (%)	5.24
P/E 2019E	5.0x
P/E 2020E	4.1x
P/BV 2019E	1.0x
P/BV 2020E	0.8x

Archimede lever will lift NET value!

Overview. Net Insurance (NET) is an insurance company specialized in the insurance of salary or pension backed loans (CQ). In 2018, NET merged with Archimede SPAC, a Special Purpose Acquisition Company promoted by Andrea Battista, Andrea Rosmarini and Matteo Carbone that raised €47mn. The aim of the new entity is to reinforce its position within the CQ market while leveraging business connections and experience of the new management to develop the bancassurance and broker channels. Furthermore, "a pervasive insurtech" approach will be adopted in order to streamline operations and enhance company's offer and profitability.

Business development. The new management team - lead by Andrea Battista – is showing significant skills in developing new partnerships. So far, it has signed: i) 3 bancassurance partnerships with Cassa di Risparmio di Bolzano, Banca Popolare di Puglia e Basilicata and IBL Assicura; ii) a partnership with Vitanuova, a specialized retail broker; and iii) a partnership with Yolo, an Italian insurtech startup.

Mister X. The top management also efficiently dealt with the €26.6mn *"Mister X"* fraud related to the subtraction of government bonds. Indeed, in less than 4 months, an agreement for the completely recovery, by the end of 2020, of all the subtracted funds was reached. The first tranche of €6.3mn was already cashed-in on July 29th, 2019.

Snapshot of the Market. The CQ sector may benefit from the lower capital charge for CQ loans (from 75% to 35%) which is expected to free up resources of almost €1bn. The Italian non-life bancassurance channel presents interesting growth opportunities as it is still underdeveloped with respect to other European countries (6% in Italy vs an average European market-share of ca. 11% in 2016). The increasing demand of real-time/on-demand policies will further drive investments in insturtech technologies/companies. According to FinTech Global's data, global investment in insurtech companies almost doubled in 2018 (+92% YoY) reaching $3.2bn.

FY18 Financial Results. FY18 financial results showed a significant improvement both in terms of GWP (€62.3mn, +6.7% YoY) and profitability (CoR at 78%, - ca.9pp YoY) mainly as a result of the growing business and lower Loss Ratio. FY18 adjusted net income stood at €6.7mn (+91.4% YoY). The group's Solvency Ratio improved considerably to 163% mainly thanks to Archimede's capital injection.

Future Estimates. We project GWP to grow at 22.6% CAGR 2018-'23, reaching €172.2mn in 2023. We assume bancassurance will account for ca. 30% of total FY23 GWP, whereas the Insurtech channel is supposed to be the fastest growing channel (+70.5% CAGR 2019-'23), reaching €2.5mn of FY23 GWP. NET's CoR is expected to improve starting from 2020 mainly thanks to bancassurance higher profitability and the adoption of more efficient underwriting/selecting criteria, standing at 82% by the end of 2023. Net Income is expected to increase at 36.4% CAGR 2018-'23 – also benefiting from the recovery of subtracted sums - reaching €19.4mn in 2023.

Valuation. We think that NET represents an interesting opportunity given its substantial undervaluation mainly related to the company's historical poor management. We believe the market is lagging the company prospect changes brought by the Archimede business combination. Our valuation - based on both DDM and the Warranted Equity Method - returns an average equity value of €122mn or €7.5ps, showing a potential upside of 69% on the current market price. In our valuation we explicitly valued also the potential contribution of treasury shares, given their current high level of 11.88%.

€ Million	Gross Written Premiums	Underwriting Result*	Combined Ratio	EBIT	Net Income	EPS
2017A	58.4	8.9	86.5%	11.0	-17.5	n.m.
2018A	62.3	11.4	77.7%	10.3	4.1	0.27
2019E	82.8	12.7	87.5%	6.6	13.4	0.88
2020E	114.4	21.1	88.4%	8.5	16.4	1.07
2021E	133.8	31.0	84.9%	17.5	12.3	0.81
2022E	152.2	37.4	84.1%	21.9	15.3	1.00
2023E	172.2	45.5	82.2%	27.8	19.4	1.27

Source: Company data, KT&Partners' estimates
**Underwriting result is calculated as net earned premiums minus net insurance benefits and claims*

Contents

Net Insurance – Key Figures

Current price (€)	Fair Value (€)	Sector	Free Float (%)
4.42	7.49	Insurance	43.2%

Per Share Data	2018A	2019E	2020E	2021E	2022E	2023E
Total shares issued (mn)	17.3	17.3	17.3	17.3	17.3	17.3
Total shares outstanding (mn)	15.3	15.3	15.3	15.3	15.3	15.3
EPS	0.3	0.9	1.1	0.8	1.0	1.3
BV Per Share	3.5	4.4	5.3	5.8	6.6	7.5
Dividend per share (ord)	-	-	0.18	0.27	0.24	0.40
Dividend pay out ratio (%)	-	-	20%	25%	30%	40%
Income Statement (EUR million)						
Gross Written Premium (GWP)	62.3	82.8	114.4	133.8	152.2	172.2
Underwriting Result	11.4	12.7	21.1	31.0	37.4	45.5
Financial Result	0.1	3.0	3.3	4.5	5.3	6.9
Operating Income	10.3	6.6	8.5	17.5	21.9	27.8
Net Income	4.1	13.4	16.4	12.3	15.3	19.4
Net Income Adj.	6.7	4.9	6.0	12.3	15.3	19.4
Balance Sheet (EUR million)						
Investments	178.0	175.1	196.0	213.2	239.5	275.0
Intagible assets	0.9	1.7	2.5	3.3	4.1	4.9
Deferred acquisition costs	-	-	-	-	-	-
Insurance technical reserves	299.5	291.5	311.0	335.2	365.2	402.4
Senior or subordinated debt	14.7	14.7	14.7	14.7	14.7	14.7
Shareholder's Equity	53.8	67.2	81.0	89.2	100.8	114.0
Ratios (%)						
Loss ratio	58.5%	59.5%	53.4%	49.4%	48.1%	47.2%
Commission ratio	3.1%	9.0%	17.0%	19.0%	21.0%	21.4%
General expenses ratio	16.2%	19.0%	18.0%	16.5%	15.0%	13.6%
Combined ratio	77.7%	87.5%	88.4%	84.9%	84.1%	82.2%
Solvency ratio	162.9%	171.3%	180.1%	179.4%	181.1%	182.1%
ROE	11.3%	22.2%	22.1%	14.5%	16.1%	18.0%
ROE Adj.	18.4%	8.1%	8.1%	14.5%	16.1%	18.0%
Valuation						
P/E	16.5x	5.0x	4.1x	5.5x	4.4x	3.5x
P/BV	1.3x	1.0x	0.8x	0.8x	0.7x	0.6x
P/Premiums	1.1x	0.8x	0.6x	0.5x	0.4x	0.4x
Dividend yield (%)	-	-	4.0%	6.1%	5.5%	9.1%
Growth rates (%)						
GWP	6.7%	32.9%	38.2%	16.9%	13.8%	13.1%
Underwriting Result	29.0%	10.7%	66.8%	46.5%	20.8%	21.8%
Operating Income	-6.7%	-35.7%	28.1%	106.2%	25.2%	26.8%
Net Income	-23.4%	327.6%	122.0%	75.0%	124.5%	126.4%
Net Income Adj.	91.4%	-26.7%	22.7%	104.1%	24.5%	26.4%

Investment Case

Net Insurance (NET) is an insurance company specialized in the insurance of salary or pension backed loans, generating in 2018 €62.3mn (+6.7% YoY) in GWP (gross written premium) and a CoR (Combined Ratio) of 78%. In 2018, NET merged with Archimede SPAC, a Special Purpose Acquisition Company promoted by Andrea Battista, Andrea Rosmarini and Matteo Carbone, that raised €47mn in order to setup the first Italian non-life "innovative" insurance player. At the end of 2018, when the business combination had only a marginal impact on the company, NET enjoyed a leading position in a growing market with an under-optimized structure in terms of capital, business scale, offer and distribution model. Andrea Battista, through Archimede SPAC, brought an outstanding management team and fresh capital which allowed the group to restore capital above regulatory requirements.

In our opinion, Archimede and NET were a perfect match. Archimede founders were among the most respected personalities in the Italian insurance sector with a substantial track record in value creation and Insurtech. In particular, Andrea Battista led, together with J.C. Flower, the first private equity transaction in the Italian insurance sector (Eurovita), while Matteo Carbone is among the most distinguished worldwide experts in Insurtech and insurance innovation. NET, on the other side, was a specialized insurance player with a leading position in the CQS/CQP insurance sector, representing an ideal "starting shell" for the bancassurance and insurtech project pursued by Archimede promoters.

NET now boasts a strong and experienced management team led by Andrea Battista which in less than 12 months was able to raise €47mn through Archimede SPAC, identify NET as a target and complete the business combination. On the business side, the management team was also able to sign: i) 3 important bancassurance partnerships with Cassa di Risparmio di Bolzano, Banca Popolare di Puglia e Basilicata (BPPB) and IBL Assicura; ii) a partnership with Vitanuova, a specialized retail broker; and iii) a partnership with Yolo, an Italian Insurtech startup. The top management execution skills were also significantly tested with a €26.6mn fraud related to the subtraction of government bonds. In this case, in less than 4 months the fraud was detected, tackled and an agreement for the completely refund, by the end of 2020, of all the subtracted funds was reached. The management is now undertaking legal action against the previous management and auditors. The positive conclusion of these legal action could represent a potential upside for the company.

On June 19th, NET presented an updated and detailed business plan. We expect, similarly to the company, a significant topline growth with 22.6% CAGR 2018-23' in GWP, reaching €172.2mn in 2023, boosted by the bancassurance business and the new partnership. Our top-line growth is slightly higher than company guidance which we consider very conservative for the final part of the plan. Potential upside to the current plan could be represented by a stronger contribution of IBL Banca to the bancassurance business and insurtech. We also expect a substantial reduction in the Loss Ratio on the back of the increasing incidence of the bancassurance business – which presents high profitability and low technical risk – the implementation of the "tele-underwriting" procedure and the adoption of more selective underwriting and pricing criteria. Loss Ratio improvement, along with business expansion, will drive total underwriting result to €45.5mn in 2023 (+31.8% CAGR2018-'23). We expect NET's Combined Ratio to improve starting from 2020 thanks to the reduction in the loss and general expense ratio, despite a deterioration of the commission ratio following the development of the new distribution channels. We expect the Combined Ratio to be around 82% in 2023. Looking at the bottom line, we expect remarkable growth of net income which will also be positively affected by the recovery of the subtracted bonds in FY19 and FY20. Net income is projected to grow at a CAGR2018-'23 of 36.4%, reaching €19.4mn by the end of 2023.

Looking at the company valuation, we note that NET holds ca. 12% of Treasury Shares. We believe that treasury shares have an impact on fair value, therefore we presented two different valuation scenarios based on a DDM and Warranted Equity (Gordon Model) methods:

- **Hypothesis 1:** we assumed the sale of all treasury shares at the current market price of €4.4ps, with a cash-in of ca. €9mn (added to NET's Equity Value). We therefore estimated the fair value dividing Equity Value for the total ca. 17.3mn issued shares.

- **Hypothesis 2:** we assumed the cancellation of Treasury Shares (no impact on Equity Value) and estimated the fair value dividing the Equity Value by ca. 15.3mn outstanding shares.

Our estimate of NET's fair value is in the range of:

- HP1 – Sale of treasury Shares: €127mn or €7.3ps;
- HP2 – Cancellation of Treasury Shares: €117mn or €7.7ps;

Taking the average of the two different scenarios we derive a fair value per share of €7.5 with a 69% potential upside. Our peer analysis based on **DFV Deutsche Familienversicherung AG** multiples comparison confirms the substantial discount of NET ranging from 49% on a P/BV18 to 84% on P/E21.

Company Overview

Founded in 2000 by the Amato Family, Rocchi Family and Prealpina Investimenti Srl, NET is currently among the leaders in the credit insurance market, offering protection to banks and other financial companies against the risks related to salary or pension-backed loans (CQS/CQP). The company is also active in the life insurance sector, through the offering of term insurance to the private sector, mainly related to the company core business (CQS/CQP), as well as other property and casualty coverage. Over the years, NET has been able to establish long-lasting business partnerships with the major banks and insurance companies and some of these - like Unicredit, Ubi Banca, SwissRe and Axa - also acquired significant stakes in the company.

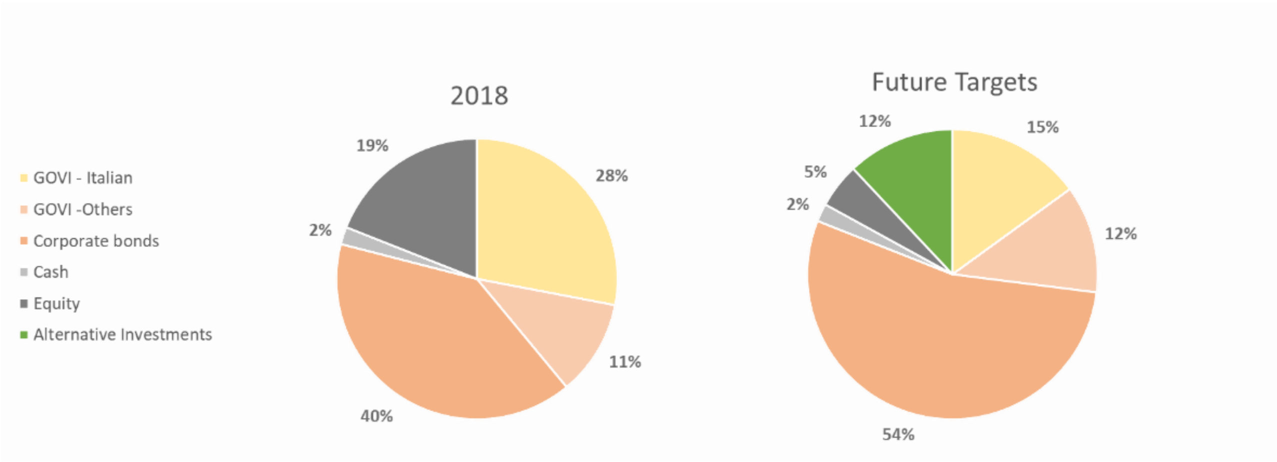
In 2018, NET merged with Archimede SPAC, a Special Purpose Acquisition Company promoted by Andrea Battista, Andrea Rosmarini and Matteo Carbone, that raised €47mn in order to setup the first Italian non-life "innovative" insurance player. Archimede was the first Italian SPAC dedicated to the insurance sector and the first with a disclosed target. In less than 12 months, Archimede's founders were able to establish the SPAC, raise money, identify the target, negotiate the transaction and complete the business combination. This was a remarkable achievement in an otherwise unremarkable year for the Italian SPAC ecosystem.

Archimede promoters' plan for creating value with NET was based on the following 4 pillars: 1) recapitalization and consolidation of the company's core business; 2) offering expansion; 3) distribution expansion into high-growth segments such as bancassurance and retail-brokers; and 4) "a pervasive insurtech" approach in order to streamline operations and enhance company's offer and profitability. The execution of the plan started at the beginning of 2019 with the entrance of the new management team.

Consolidation and optimization of the current business

At the outset, the new management team performed a substantial review of the underwriting and pricing process, aiming at a better selection of the insured portfolio. The optimization process was also characterized by substantial divestments in companies considered non-core such as Vivibanca and Dynamica Retails. The optimization processes also repositioned the investment portfolio towards corporate credit, increasing its weight from 40% in 2018 to a targeted 54%; alternative investments will be also added to the company asset allocation with a 12% weight. Equities and Italian government bonds are being substantially lowered: equities will be reduced by 14% to 5% and Italian government bonds will be reduced by 13% to a target exposure of 15%.

Chart 1: Asset Allocation



Source: NET' Business Plan

From a business point of view, the new management, leveraging its competence and reputation, aims to revamp historical distribution agreements, start new relationships and seize cross-selling opportunities.

Offering expansion

In addition to CQ products, NET is developing a wide range of non-life and protection products aimed at individuals and small business which will be distributed through both bancassurance and retail brokers channels. More in detail, NET's offer envisages 4 main product lines:

1. **People.** This product line entails the distribution of multi-risk policies addressed to family or house protection, along with policies for the protection against injury and illness or pets' insurance products;

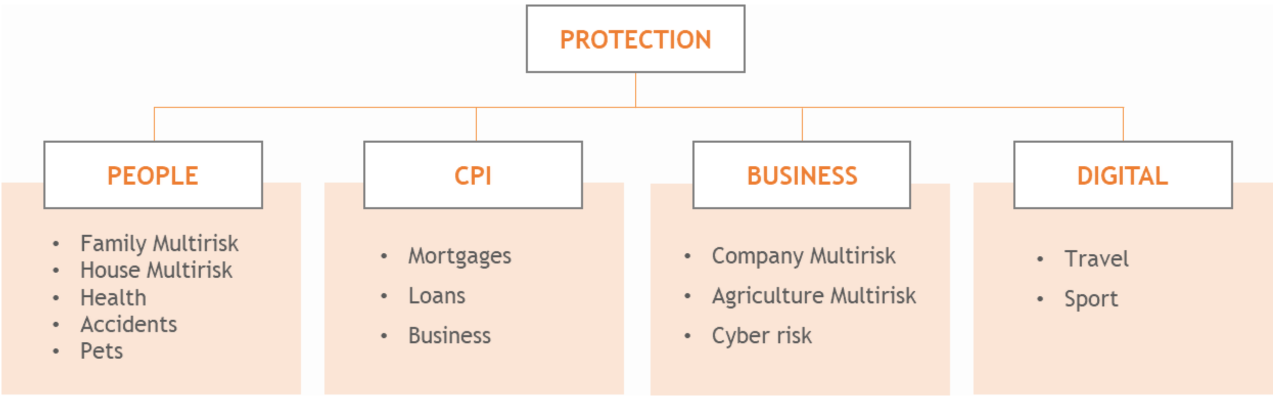
2. **CPI.** NET's CPI offer is dedicated to both mortgages and loans counterparties: i) the lender is covered for credit risk; ii) the borrowing firm is covered in the case of "key man" death or total permanent disability. The Group has already launched the distribution of 3 CPI products through branches of Sparkasse and the same policies will be sold by leveraging on BPPB's channels;

3. **Business.** This product line covers **traditional risk** (i.e. civil liability, fire, theft, legal protection, cargo protection etc.), **agriculture risk** and **cyber risk.** We note that until now, agriculture insurance policies have been distributed through the brokers channels even though the group aims to expand this offer to the bancassurance channel;

4. **Digital.** Leveraging digital channels, NET will offer push or on-demand travel and sport insurance products which will enable policyholders to underwriter insurance policies anywhere and at any time. The company has already launched, also thanks to the partnership with the digital platform ENDU and the insurtech startup Yolo, several policies addressed to cover sport risks (i.e. Instant bike, ENDU restart, ENDU race and so on and so forth).

NET aims to invest, over the 2019-2023 period, up to €2mn in training programs (classroom training or e-learning training) for its distribution channels. The training activity will be carried out through Net Insurance Business Academy (NIBA) and the e-learning platform Edulife. Furthermore, in order to meet the increasing demand of training from the CQ sector, NET, in partnership with Edulife, will carry out e-learning programs for CQ operators and agents, in particular with regard to the process and risk assessment themes.

Figure 1: NET's Offer



Source: NET' Business Plan

Distribution expansion into high-growth segments such as bancassurance and retail-brokers

Italian non-life insurance distribution is still centered on agent networks and according to the NET management team, there is a significant growth opportunity for «new» channels such as banks (2x), brokers (5x) and direct (3x). The main banking players have already built a non-life offer generating high growth rates (20-50%) and highly attractive profitability (CoR around 70%).

Figure 2: Expansion into Bancassurance and Retail-Brokers Distribution Channels

	Lines of Business						
Distributor	MOTOR TPL	HOME Fire & other damages, General TPL	PERSONAL INJURY Accident - Sickness	PROTECTION Lending - Mortgages	SURETYSHIP	ASSISTANCE	LEGAL EXPENSES
UniCredit	✓	✓	✓	✓	✓	✓	
Intesa Sanpaolo	✓	✓	✓	✓	✓	✓	✓
BNL Gruppo BNP Paribas		✓	✓	✓	✓		
UBI Banca	✓	✓		✓		✓	✓
Banca Mediolanum		✓	✓			✓	✓
BPER: Banca	✓	✓		✓			✓
sella.it Banca Online	✓	✓				✓	✓

Rank	COMPANIES (ANIA 2016)	GWP 2016 (k €)	VARIATION 2016/2015 (%)	COMBINED RATIO 2016
18	Intesa Sanpaolo Assicura	392.498	+38,0 ✓✓	65,0% ✓✓
29	Cargeas Assicurazioni	217.822	+4,0 ✓	71,0% ✓✓
31	CreditRas Assicurazioni SpA	200.580	+46,9 ✓✓	75,4% ✓
32	AXA MPS	187.013	+5,2 ✓	81,1% ✓
40	Posteassicura GruppoAssicurativoPostevita	118.769	+27,7 ✓✓	73,3% ✓✓
45	Arca Assicurazioni	104.433	+1,5 ✓	64,8% ✓✓
53	Avipop società del gruppo Aviva	76.987	+25,7 ✓✓	72,0% ✓✓
74	BCC Assicurazioni	34.631	+7,9 ✓	105,0% ✗✗
76	Chiara Assicurazioni una Società del Gruppo helvetia	32.785	-0,4 ✗	81,2% ✓
77	Credem CredemAssicurazioni	32.126	+2,3 ✓	66,8% ✓✓

Source: Archimede's Presentation

Currently small-mid sized banks are looking for insurance solutions to offer to their clients and implement their bancassurance business. In our opinion, NET has an excellent proposition and a strong management team, with consolidated relationships and a track-record in building bancassurance agreements, for capitalizing on this demand. So far, the management has shown significant execution skills in developing bancassurance partnerships:

1. On December 7th, 2018, NET signed a 10-year strategic partnership with ***Cassa di Risparmio di Bolzano S.p.A.*** which at that time was an Archimede shareholder. The distribution agreement concerns a network of 100 branches and is focused on non-motor casualty and started in May 2019. The offer will be enriched in 2H2019 with protection policies for SMEs and householders;

2. In February 2019, **Banca Popolare di Puglia e Basilicata** (sale launch was scheduled for mid-July). The strategic partnership lasts 5 years and it secures NET the exclusive distribution of protection policies;

3. In June 2019, **IBL Assicura.** The agreement foresees the distribution – by the end of 2019 - of protection policies through the 53 branches of the bank and exclusive agents. IBL Assicura is part of IBL Banca which is the Italian leader in the CQS/CQP segment. It was one of the main Archimede shareholders and it is currently the NET's main shareholder.

NET is also aiming to expand the insurance offer developed for the bancassurance segment to retail-brokers. In fact, in April 2019, NET signed a partnership for the distribution of accident and home products with **Vitanuova**, an insurance broker which boasts a network of 300 agents.

The "pervasive insurtech" approach

Archimede was established in order to bring digital innovation to the Italian insurance world. It counts on the presence in its promoters team of Matteo Carbone, a globally-regarded thought leader in insurtech and insurance Iinnovation. For this reason, insurtech and digital transformation are a core element in NET's new strategic plan. NET management considers insurtech to be a key profitability enhancer, particularly in risk selection, pricing and distribution. In order to expand its digital distribution, on December 21st, 2018 NET signed a strategic partnership with Yolo and also acquired a 8.15% stake in the insurtech startup, for a total consideration of €0.86mn.

Archimede SPAC

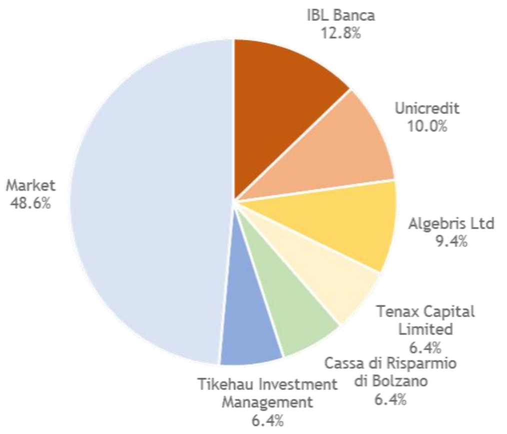
Founded in February 2018 by Andrea Battista[1], Archimede was the first Italian SPAC dedicated to the insurance market which aimed to set up the first Italian non-life "innovative" insurance player. It was listed on the AIM Italian market on 18th June 2018, raising €47.0mn against a demand of more than €60mn.

Archimede was also the first Italian SPAC, which since its early stage had outlined its intentions to acquire an identified target (Net Insurance). The strategy pursued by Archimede's promoters aimed to:

1. acquire and recapitalize the target company and consolidate its core business;
2. provide the target company with scalable operations and distinctive products which were also suitable for bancassurance distribution;
3. develop the non-life retail broker distribution channel;
4. adopt "a pervasive insurtech" solution in order to enhance offer's effectiveness and more in general the whole insurance value chain efficiency.

To sum up, the main levers of Archimede's plan – along with strong governance and a world class management team - were: i) the development of exclusively innovative and high growth distribution channels (i.e. bancassurance, retail broker and digital channels); ii) an innovative insurance product offering; and iii) a pervasive insurtech approach.

Chart 2: Archimede's Shareholder Structure



Source: Company Data

Furthermore, Archimede's plan envisaged an efficient capital management discipline in order to preserve a solvency ratio well above the regulatory minimum (at least 100%).

Achimede's capital comprised 4.7mn ordinary shares and 0.1mn special shares - without voting rights - attributed to its promoters Andrea Battista (51k), Giampiero Rosmarini (47.5k) and Matteo Carbone (1.5k).[2] At the time of the IPO, Archimede also issued 0.47mn warrants (1 warrant for each 10 subscribed shares).[3] Among Archimede's shareholders there were top-tier institutional investors like: IBL Banca (12.8%), Unicredit (10%), Algebris Ltd (9.4%), Tenax Capital Limited (6.4%), Cassa di Risparmio di Bolzano (6.4%) and Tikehau Investment Management (6.4%).

[1] Andrea Battista was also Archimede's main promoter and he boasts more than 20 years of experience in the insurance sector. Other promoters were: Giampiero Rosmarini (an Italian manager with longstanding experience in the banking sector) and Matteo Carbone (an insurance industry strategist with a focus on innovation).

[2] The promoters' total investment amounted to €1.0mn (Andrea Battista invested an additional amount of €0.15mn in ordinary shares).

[3] 0.47mn additional warrants were allocated free of charge to whom was still Archimede's shareholder at the business combination date.

Net Insurance's History

From foundation to the IPO…

Founded in 2000, NET immediately started operating in the credit insurance market, offering protection to banks and other financial companies against the risks related to salary or pension-backed loans. The founders were able to identify an under-covered niche where the company soon became one of the main players.

In 2008, NET Insurance entered the life insurance market by establishing Net Insurance Life which offers mainly term insurance policies strictly related to the company's core business (CQS/CQP), only being pure-risk covers in a residual way.

In 2013, Net Insurance listed on the AIM Italia market raising ca. €13.0mn and achieving a market capitalization of ca. €136mn.

Since its foundation, NET has built commercial partnerships with both large and small financial institutions (commercial banks and insurers) which also acquired minority stakes in the company in order to reinforce their business relationship. Among these there are reputable names like Unicredit, UBI Banca, SwissRe and Axa.

…issuance of a subordinated debt (Tier II) in 2016…

Over the years, NET's risk profile increased due to heavy investments in equities. In 2015, the write-offs of Veneto Banca, Banca Etruria, Methorios Capital and Kant Kapital's stakes, along with a negative contribution from technical activities, led to significant losses for the group. The following year, NET issued a subordinated bond (Tier II) for a total amount of €15.0mn, with the aim of restoring its capital structure and setting its solvency ratio above the minimum requirement.

….the Business Combination in 2018…

The year 2018 was a turning point in the history of NET as it saw the business combination - through a reverse merger - with Archimede S.p.A. on December 31st.

In order to accelerate the closing of the business combination and the implementation of the new business plan, Andrea Battista was appointed as CEO of the "new" NET on October 18th, 2018.

The merger followed the acquisition by Archimede from historical shareholders of a 30% minus one share stake of NET at a share-exchange ratio of 2.131, for a total consideration of €9.3mn plus accrued interest. The reverse merger allowed NET to restore its capital which - along with the skills of the new management – represents a key element for revitalizing the company and turning it into the first Italian non-life "innovative" insurance player. The aim of the new entity is to reinforce its position within the CQ market while leveraging business connections and experience of the new management for developing the bancassurance and broker segments.

…till today…

On December 7th, 2018 NET signed a 10-year strategic partnership with ***Cassa di Risparmio di Bolzano S.p.A.*** which at that time was an Archimede shareholder. The distribution of the first non-motor covers in more than 100 branches of the aforementioned commercial bank took place, earlier than scheduled, in May 2019. This offering will be enriched in 2H 2019 with protection policies for SMEs and householders.

On December 21st, 2018 NET acquired a 8.15% stake in the insurtech startup **Yolo** - for a total consideration of €0.86mn – and signed an agreement with it in order to expand its digital distribution.

After the business combination, NET signed two bancassurance agreements with:

i. ***Banca Popolare di Puglia e Basilicata*** in February 2019 (sale launch is scheduled for mid-July). The strategic partnership lasts 5 years and it secures NET the exclusive distribution of protection policies;
ii. **IBL Assicura** in June 2019 (sale launch is scheduled within the end of the year). The agreement foresees the distribution – by the end of 2019 - of protection policies through the 53 branches of the bank and exclusive agents.

In line with its strategic goal of developing the brokerage distribution channel, in April 2019, NET signed a partnership for the distribution of accident and home products with Vitanuova, an insurance broker which boasts a network of 300 agents.

On May 23th, 2019, NET signed a partnership with *Federazione Italiana Giuoco Calcio* and *Associazione Italiana Arbitri* for the sponsorship of the Italian football referees with the aim of increasing the visibility to the brand. Moreover, NET will develop a range of products specifically addressed to the football world network.

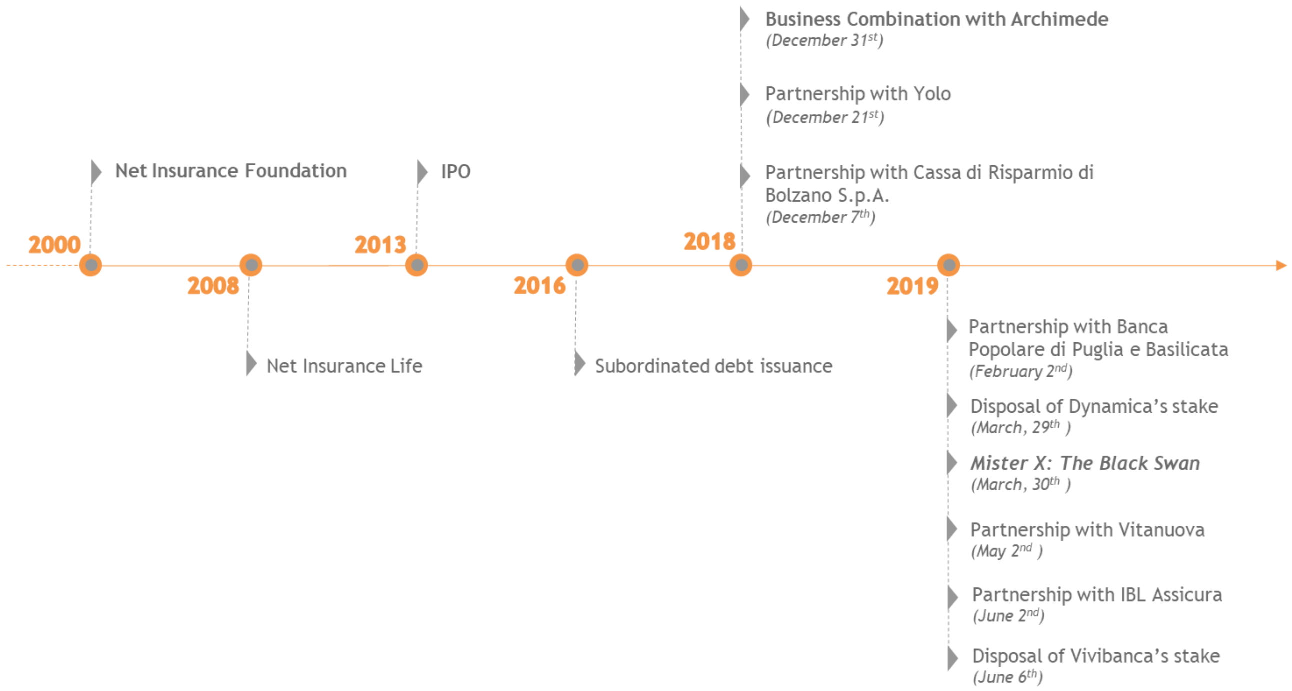
During the first half of 2019, Net Insurance Life sold its stake in Dynamica Retail S.p.A (20%) whereas the Group sold its 6.93% stake in ViviBanca. The total cash-in of the sales was of €6.5mn.

…Mister X: the black Swan…

At the end of March 2019, the Group announced that it had been victim of a fraud ("Mister X") which involved the subtraction of €26.6mn of government bonds. The new management team showed a great ability in immediately carrying out the necessary actions on the management and organizational structure, in addition to legal activities aimed at the identification of responsibilities and the recovery of the misappropriated sums. This unpredictable and unexpected event is now being efficiently addressed and the business was highly resilient to the stress scenario, showing a Solvency Ratio which remains above the regulatory requirement.

On July 21st, the Group announced a plan which envisages the recovery of the total subtracted sums by the end of 2020. The first tranche of €6.3mn was already cashed-in on July 29th, 2019.

Figure 3: Timeline



Source: Company Data

Ownership

Following the conversion[4] of:

i. Archimede's shares (ordinary and special) and warrants into NET's shares (ordinary and special) and warrants; and
ii. the first tranche of special shares owned by Archimede's promoters into NET ordinary shares

the capital of the new entity is divided into: 17.319mn ordinary shares (of which 2.057mn are treasury shares), 0.149mn special shares[5] and 1.975 warrants that could be converted into 1.975 ordinary shares at the strike price of €4.69.

After the business combination, NET is a "public company," since it presents a wide and diversified shareholder base. Indeed, no shareholder owns more than 20% of NET and nobody has a stake that gives him/her control of the voting rights in the AGM. NET has a peculiar ownership structure since about 12% of the company share are treasury shares and NET itself is the company main shareholder.

[4] Share-exchange ratio of 2.131

[5] The special shares owned by Archimede's promoters could be converted into seven ordinary shares of Net Insurance. The first tranche (30%) was already converted seven days after the business combination took place. The remaining part of the shares (n. 0.149mn) will be converted under the following conditions:

- 30% of the special shares will be converted if, within 48 months from the business combination, Net Insurance's price will exceed €5.4 (reference price +15%) for more than 15 days in a 30-day period;
- 30% of the special shares will be converted if, within 48 months from the business combination, Net Insurance's price will exceed €6.1 (reference price +30%) for more than 15 days in a 30-day period;
- 10% of the special shares will be converted if, within 48 months from the business combination, Net Insurance's price will exceed €7.0 (reference price +50%) for more than 15 days in a 30-day period.

Among NET's shareholders, there are top-tier institutional investors and a significant share capital (27.4%) is held by banks/financial institutions which in most cases have also signed a strategic partnership with NET (i.e Unicredit, Swiss Re, IBL Banca, *Cassa di Risparmio di Bolzano, Banca Popolare di Puglia e Basilicata etc.*). Funds with a stake above 3% hold 12.6% of the capital. The management and the promotors of Archimede have a 3.4% stake, whereas NET's founding shareholders have a share of 11.6%. The remaining share (33.7%) – excluding treasury shares - is held by the market. We note that IBL Banca – leader in the CQ Italian market – owns an 9.7% stake in NET.

Chart 3: NET's Shareholder Structure Pre-BC

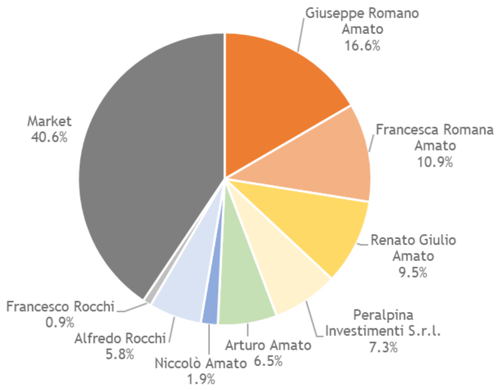
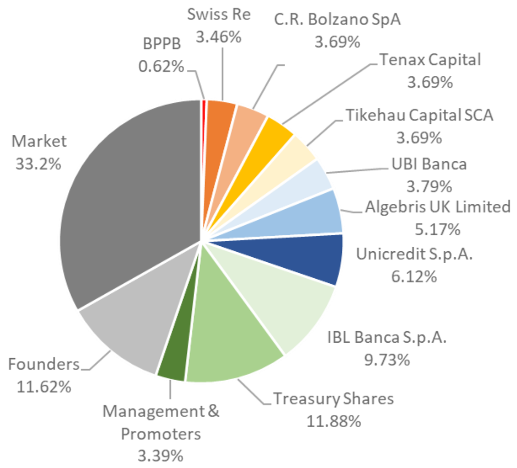


Chart 4: NET's Shareholder Structure Post-BC



Source: Company Data

Governance and Management Team

After the business combination, NET is run by a highly experienced board of directors and top management which represent a prerequisite for the successful implementation of the group's strategy.

Following the discovery of the insurance fraud, the new management team showed a high commitment in independently reviewing all the fundamental processes in order to demonstrate to stakeholders the quality of NET's business and to identify any improvements in procedures and controls. Furthermore, NET appointed three renowned law firms (Trevisan, O'Melveny and Freshfield) to undertake legal actions for the successful recovery of misappropriated funds. Up to date, Andrea Battista (NET's current CEO and Archimede's promoter) acquired 18.9k NET's ordinary shares for a total consideration of €72.4k with the aim of showing its enduring and unchanged confidence in the success of NET's new strategic plan.

The Board of Directors is led by Luisa Todini and five out nine (56%) of its members are independent. Matteo Carbone – one of Archimede's promoters - is the chairman of the Innovation advisory Board and he oversees the adoption of the Insurtech strategy through the whole value chain. He has proven experience in the Insurtech sector, ranking among top Insurtech influencers.

Matteo Carbone is also the founder and director of the IoT Insurance Observatory.

Andrea Battista (CEO)

After graduating *summa cum laude* in Economics at LUISS University, Andrea Battista started his career as analyst at McKinsey & Company. After that he worked in a range of managerial and leadership roles in the insurance sector:

- **2001**: appointed director of the Life Business Unit of Cattolica Group;
- **2006**: became General Director of Duomo Assicurazioni;
- **2009**: was appointed Aviva Group's CEO;
- **2013**: collaborated with the US firm J.C. Flowers to identify and execute the first private equity transaction in the Italian insurance sector with life insurer Eurovita;
- **2014:** designated CEO of Eurovita Assicurazioni and remained in charge until August 2017, after which he continued to collaborate with the company as senior advisor.

In February 2018, Andrea Battista founded the SPAC Archimede and in October 2018 he was appointed as CEO of NET.

Luigi di Capua (CFO)

Luigi di Capua graduated in Economics from Bocconi University and started his career in the insurance sector in 2008 as head of risk management at Poste Vita Group. After that, he was first appointed CRO at Eurovita Assicurazioni (2014) and then became CRO at Poste Vita Group (2017). He joined NET in January 2019 as Chief Financial Officer.

Fabio Pittana (COO)

Following the business combination, Fabio Pittana became COO at NET. After graduating in Statistics at Cattolica University, he worked for eight years at Banca IMI. From 1999 to 2005, he worked at Arca Group where he held the role of Arca Vita's director and Arca Inlinea's managing director. In 2015, Fabio Pittana joined BNPP Cardif Vita S.p.A. where he remained until 2018.

Stefano Longo (Chief Business Officer)

After completing his studies in Scienze Industriali, Stefano Longo started his career in the insurance market (INA, La Previdente Assicurazioni, Cattolica Assicurazioni).

In 2018, he joined Aviva Group as CEO of Avipop Assicurazioni and Avipop Vita. Later, he also became CEO of Eurovita Assicurazioni and bancassurance Director of Aviva Group. From 2015 to 2017, he was senior advisor at Eurovita Assicurazioni.

Since Q4 2018, he has worked at NET, where he is responsible for banks, brokers and business development.

Rosella Vignoletti (Chief Marketing Officer)

Rossella Vignoletti graduated in Languages and Modern Literature at the University of Milano and entered the insurance sector in 1999 when she started to work for Allianz. In 2010, she joined Aviva Group, at the beginning as Communication Manager and subsequently as Head of Marketing & Communication. She has been working at NET as Chief Marketing Officer since Q1 2019.

Market Overview

Salary and Pension Backed Loans Market

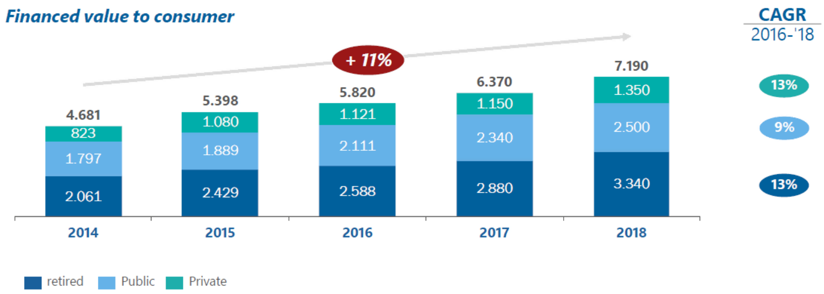
Salary or pension backed loans (CQS or CQP) – popular in Italy but rare elsewhere in Europe - are personal loans to workers on permanent/temporary employment contracts or to pensioners with repayment directly debited from salaries or pensions (up to 1/5) with an amortization period of maximum ten years.

By law, a salary/pension-backed loan requires an insurance policy to cover life risk and unemployment risk, thus guaranteeing the lender (a bank or other financial intermediary) of principal repayment.

The repayment process – directly carried out by the employer or the pension institution - along with the embedded insurance coverage which lower CQ's risk-profile, makes this asset class one of the most attractive segments within the consumer credit market.

The Italian CQ market has been growing at a CAGR of 11% since 2014, amounting to €7.2bn in 2018 (+13% YoY). This increase is mainly due to the financing in favour of retirees – which represent about half of the total CQ loans – and to the significant increase (+13% CAGR 2014-'18) of loans to private sector employees (19% of total CQ financing in 2018).

Chart 5: Financed Value to Consumer in Italy



Source: NET's Business Plan

The recent amendment to Capital Requirement Regulation (CRR)[6] provides for lower capital requirements for pension and salary-backed loans given their low credit risk (lower probability of default and lower loss given default) and their importance in supporting the real economy. Specifically, the capital charge for these loans would fall from 75% to 35%. According to industry sources,[7] this would allow Italian lenders to reduce the current capital needed to back salary and pensions-secured loans to about €0.6bn-€0.7bn while freeing up resources of almost €1bn. Changes in regulation will drive competition as banks already operating within the segment will aim to increase their market share while other banks will may be interested in entering the market.

For example, two years ago, Banca Mediolanum strengthened its credit business by acquiring Eurocqs, a CQ company based in Rome, which in 2018

[6] Regulation (EU) 2019/876 of 20 May 2019 amending CRR and Regulation (EU) 648/2012 ("CRR II") will for the most part be applicable as of 28 June 2021.
[7] Reuters: "Italian banks urge EU to relax rules on salary-secured loans".

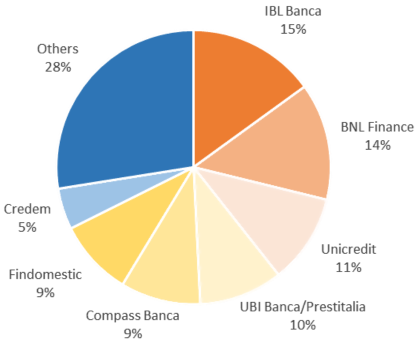
had a market share of 5.4% with a total financed value to consumers of ca. €70mn, up from €30mn in 2017. In the first quarter of 2019, Eurocqs increased its market share to 5.9%, experiencing an 80% growth in consumer financing.

In February 2019, IBL, the CQ market leader, increased its stake in Finanziaria Familiare, from 9.9% to 70%, with the aim of increasing its market share from 15% to 20% over the 2019-2021 period. In mid-July 2019, Banca Sella acquired 100% of Nephis, a financial agency specialized in the distribution of CQ products.

On the demand side, the protracted level of low interest rates will provide customers with continued access to credit at favourable terms.

The CQ market is subject to a consolidation process with specialized commercial banks acquiring an increasingly dominant role. In particular, more than half of Italian CQ loans (59%) are granted by five banks.[8] In 2018, IBL – the market leader - had a lion's share of 15% (€801mn of CQ loans), followed by BNL Finance (14%), Unicredit (11%), UBI BANCA/Prestitalia (10%) and Compass Banca (9%).

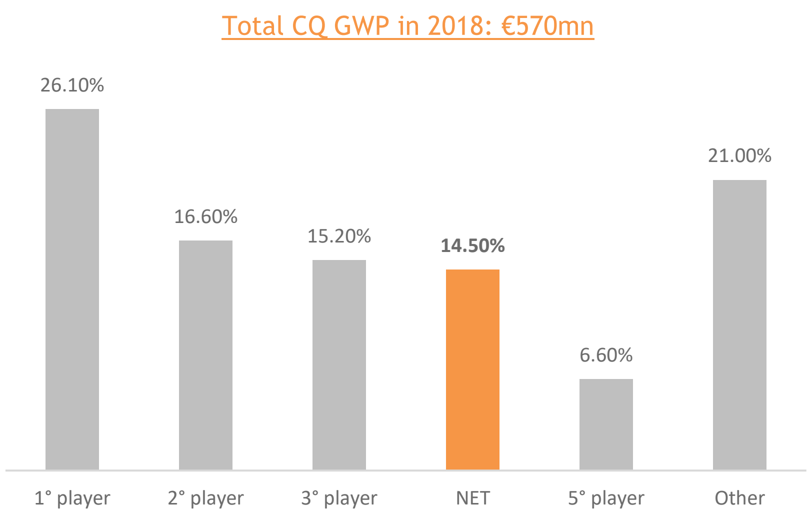
Chart 6: CQ Italian market players



Source: Assofin

According to Business Intelligence's data, in 2018, Italian gross written premiums related to salary/pension-backed loans grew by 16% YoY, reaching €570mn. NET is the 4th largest player within the Italian CQ market with €83mn of GWP in 2018.

Chart 7: CQ GWP in 2018 and NET's Market Share



Source: Business Intelligence

[8] Source: Assofin. CQ data provided by Assofin do not coincide with data reported in the graph 5 as a number of banks and financial companies are not associated to Assofin.

Bancassurance

Over the past twenty years, in all advanced countries, major banking groups have shown a growing interest in expanding into the insurance business as part of a broader trend of integration in the financial sector.

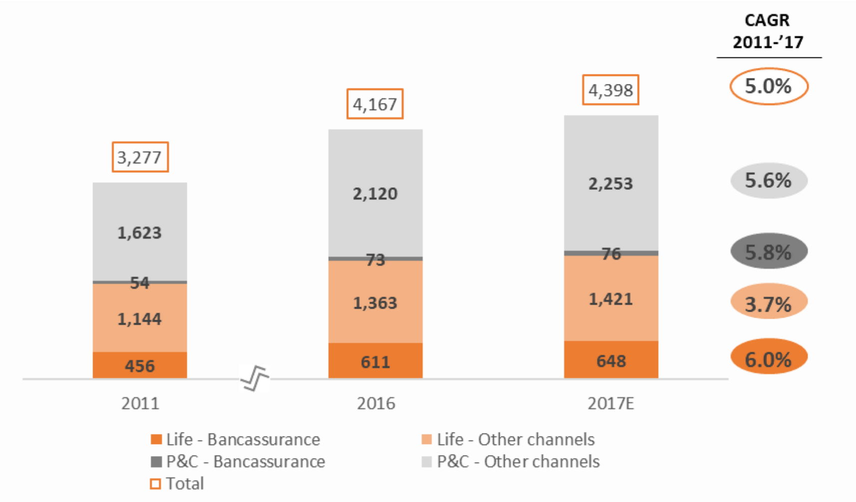
Bancassurance refers to selling insurance products by:

- signing simple agreements to distribute insurance products through established distribution channels of banks;
- creating a new insurance company controlled by a bank or jointly-owned by a bank or an insurer;

On one side, insurance firms aim to acquire new market share by leveraging the relationship that banks have developed with customers over time. On the other side, banks have increasingly looked for non-interest income - which bancassurance offers - in order to face a low interest rate environment/shrinking net interest margins.

As a distribution channel of a variety insurance products, bancassurance has recorded 6% CAGR[9] growth in global GWP over the period 2011 to 2017, outperforming other channels in both the life and non-life segments.

Chart 8: World Insurance Premiums (€bn)



Source: McKinsey

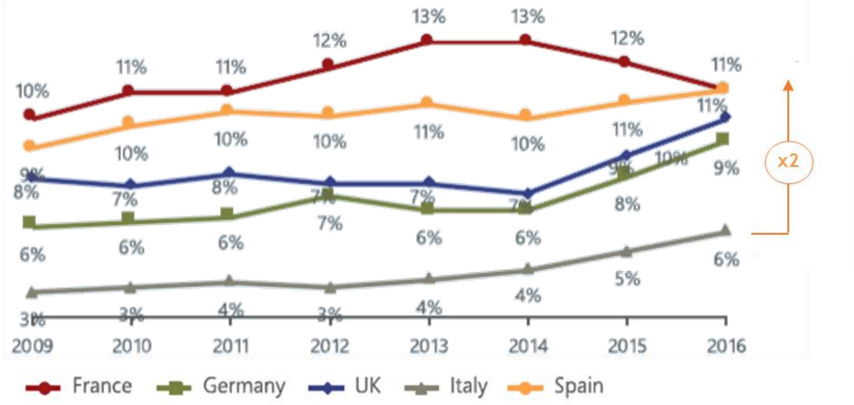
Digitalization and analytics are expected to fuel bancassurance growth by enabling:

- **Insurance products personalisation.** Bancassurers can leverage their available and sophisticated analytics to: i) develop more relevant and timely offers for customers; and ii) differentiate prices and make more competitive proposals based on a more accurate risk assessment;
- **Superior customer experience.** In order to provide customers with a better experience and streamline operations, banks need to digitalize their processes;
- **Omnichannel customer engagement.** Bancassurers can increase sales by harnessing all channels: secure site, public site and mobile app.

[9] McKinsey & Company: "Bancassurance: It's time to go digital"

As is the case in many European countries, bancassurance is the main life distribution channel in Italy. In contrast, banks still have a modest share/penetration in the non-life segment, especially in Italy (6.1% and 6.6% of total non-life premiums in 2017 and 2018[10], respectively) where there remains plenty of room for growth.

Chart 9: Bancassurance's Market Share by European Countries (2009-2016)

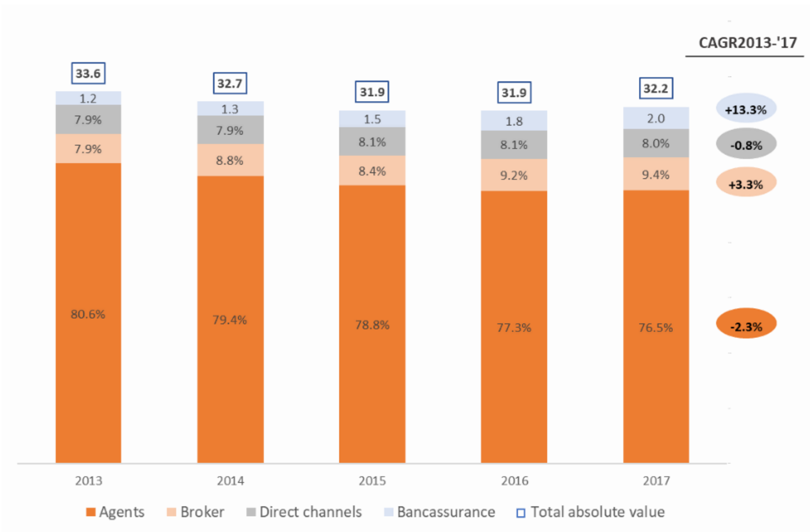


Source: NET's Business Plan

In the past, few banks focused on marketing of non-life insurance products as they offered a lower average sales price and commission with respect to life insurance products, which among other things, better fit with the bancassurance framework being related to credit-life products. More recently, banks have started to recognize the potential of non-life products as a source of non-interest income.

According to ANIA data, during the period 2013-2017, intermediaries like agents and, to a lesser extent, brokers, were the largest Italian distribution channels of non-life products, while bancassurance was the fastest growing (+13.3% CAGR).

Chart 10: Italian Non-Life Market by Distribution Channel

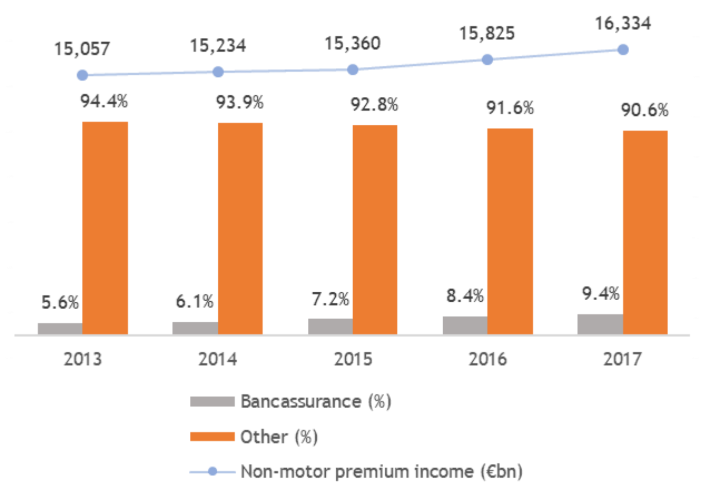


Source: ANIA

[10] Source ANIA. Bancassurance's market share includes premiums income earned through bank and postal branches

By excluding non-life motor and land vehicles insurance premiums, non-life income generated by the bancassurance channel accounted for 9.4% or €1.5bn in 2017 (+16.2 CAGR 2013-'17).

Chart 11: Non-Life premiums (ex. non-motor and land vehicles) by Channel

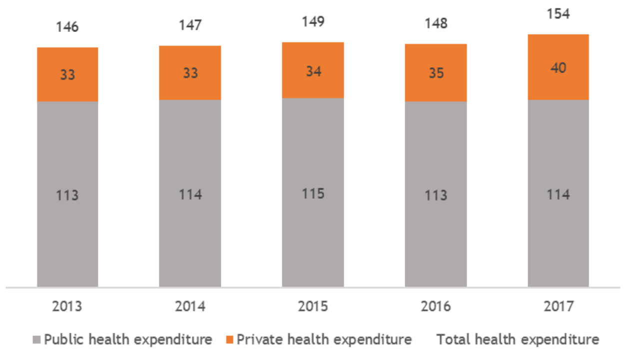


Source: ANIA – Italian Insurance 2017-2018

The non-life bancassurance distribution channel is and will be fuelled by increasing demand for non-life (non-motor) and protection products from households and firms. By way of illustration, the Italian population is subject to an ongoing aging process (over-65s accounting for 22% of the population in 2017). Consequently, medical expenditure has risen at a CAGR of 4.9% over the 2013-2017 period, reaching €154bn in 2017.[11] According to the latest RBM-Censis'[12] report, in 2017, private healthcare expenditure accounted for 22% (€40bn) of total medical treatment expenses and only 4% of the costs were covered by insurance policies, well below the 13% share covered by insurers in France (one of the European countries which presents a public healthcare's share similar to that of Italy). Bancassurance can take advantage of good opportunities for growth by leveraging the increasing need to underwrite health insurance policies which integrate and fill gaps in the national healthcare system and reimburse, partially or totally, medical expenses.

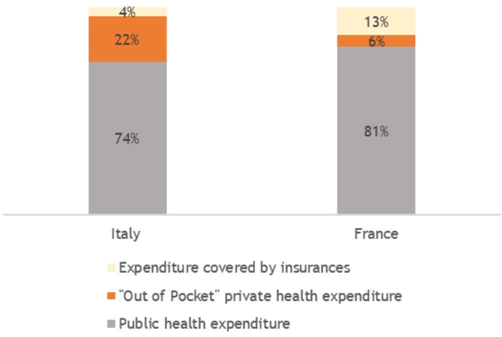
[11] "VIII Rapporto RBM-Censis"
[12] "VIII Rapporto RBM-Censis"

Chart 12: Italian Health Expenditure



Source: VIII Rapporto RBM-Censis

Chart 13: 2017 Italian vs France Health Expenditure



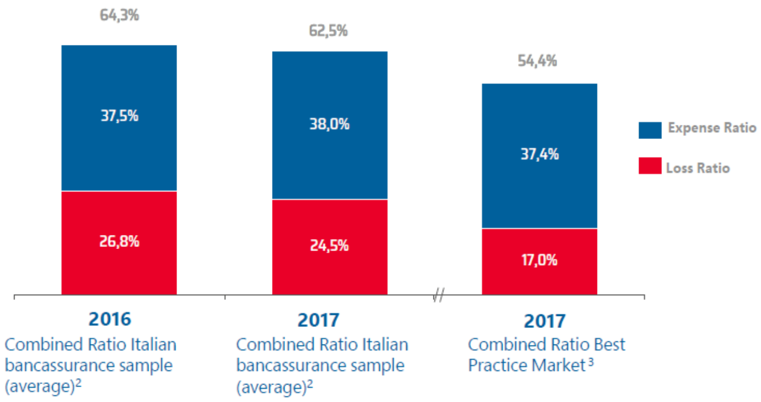
Source: PWC – "The Italian Insurance Market 2017"

Another relevant area of expansion and profitability is represented by the home security segment. Indeed, over the past years, investments in home security systems, from video surveillance to intrusion detection and fire protection systems, have grown to €2.5bn in 2017 (+7.2% with respect to 2016). As a result of the increasing investments for home protection, we expect an increasing demand also for insurance products related to this segment.

Bancassurance is also attractive in terms of profitability as it presents a lower Combined Ratio than other distribution channels. Looking at profitability of an Italian bancassurance sample,[13] we note that the average gross Combined Ratio of the sample was 62.5% in 2017. We believe there is margin of improvement as the profitability of the best market player was ca. 8pp lower in 2017.

Chart 14: Bancassurance Profitability

COR - Data% on premiums[1] - non-motor



1. Gross of Reinsurance
2. Bancassurance sample consisting of Mediolanum, AXA, Caregas, Creditras, Arca, BCC, Intesa, Credem, Chiara Assicurazioni and Poste Assicura
3. Intesa Sanpaolo Assicura

Source: NET's Business Plan

[13] The sample comprises the main Italian bancassurers like Mediolanum, AXA, Caregas, Creditras, Arca, BCC, Intesa, Credm, Chiara Assicurazioni and Poste Assicura.

Insurtech

Insurtech, namely the adoption of digital technologies within the insurance industry, is changing every stage of insurance's value chain, from the product creation/distribution to claims management and back-office processes (i.e. payments, renewals and invoicing). Indeed, insurers are increasingly looking to integrate digital technologies into their operations in order to improve operational efficiency, boost productivity and profitability, while tailoring products and services to better meet the evolving demands of the emerging digital economy.

Consumers want more control over their specific coverage, revealing a preference for self-management of policies through digital channels. Furthermore, several insurtech firms are already engaged in real-time/on-demand coverage, enabling consumers to activate and terminate insurance coverage at any time through a mobile app.

The main investment areas of insurtech are:

- Big Data analytics and Artificial Intelligence (AI). Given the massive volume of data available from internal and external systems, Big Data analytics and AI technology can be used to analyse customer behaviour, combine structured and unstructured data, and improve customer personalization;

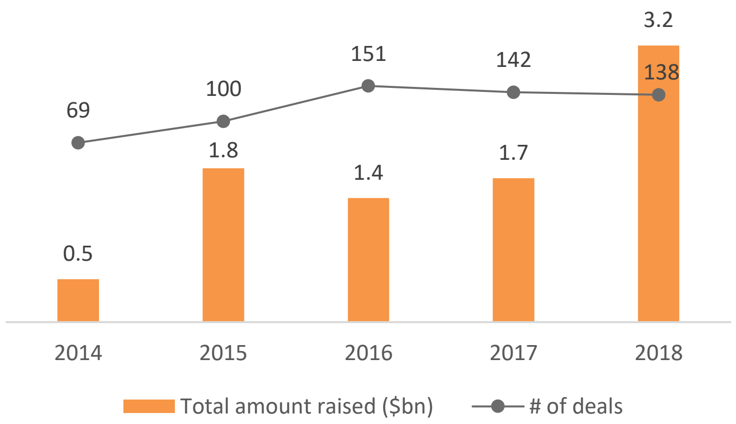
- Internet of Things (IoT) can provide insurers with useful customers real-time data, helping them to develop and offer the right coverage at the right time. For example, tailored motor coverage can be developed by using data sent to insurers directly from clients' cars;

- Blockchain enables insurers to transform their operations by ensuring faster verifiable data exchanges, visibility for all parties and secure transactions. In Europe, for example, AXA is offering flight-delay policies over a blockchain platform whereas the Asian life insurer, AIA Hong Kong, launched a blockchain-enabled bancassurance platform which enables users to share policy data and digital document in real time, thus streamlining operations and improving transparency.

While existing insurance companies are trying to adapt their service to a changing market, a growing number of insurtech startups are entering the market. Some commercial insurers have decided to partner with insurtech companies/startups by financing their innovation. Competition also arises from big-tech companies such as Google and Amazon which have recently invested in the insurtech sector. In 2016, Google Capital was one of the investors in Oscar Health – a New York-based health insurance provider – which raised $4bn. This round, led by Fidelity Investments, was the largest insurtech deal in 2016 and the third largest to date.

According to FinTech Global's data, global investment into insurtech companies almost doubled in 2018 (+92% YoY) reaching $3.2bn, whereas the number of transactions slightly decreased to 138 from 141 in 2017. Since 2014, insurtech companies have raised more than $8.5bn in funding.

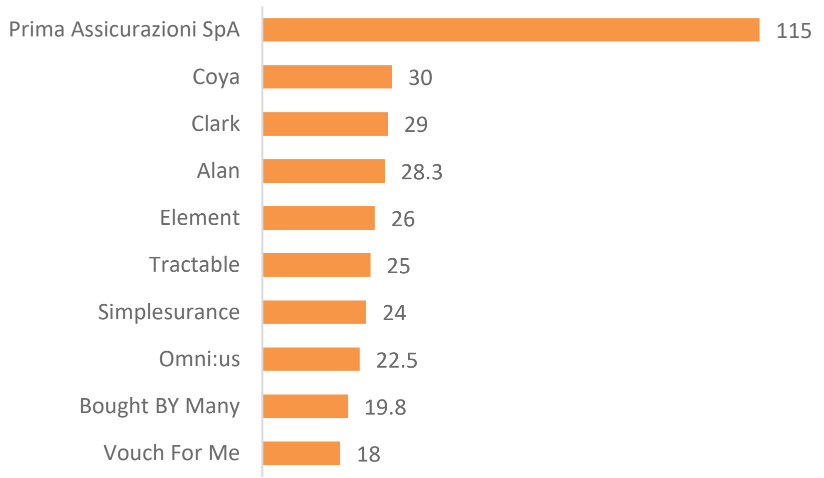
Chart 15: Global Amount Invested in Insurtech Companies



Source: *FinTech Global*

31% of 2018 deals were completed in Europe. In 2H 2018, Prima Assicurazioni - an Italian online insurance company - closed the largest insurtech transaction deal in Europe, raising $115mn from Goldman Sachs Private Capital Investing and Blackstone Group among others.

Chart 16: Top 10 European Insurtech Deals in 2018 ($mn)



Source: *FinTech Global*

Among the main Italian insurtech startups, there are:

- **Axieme** and **Darwinsurance -** active in the peer-to-peer insurance segment, enabling policyholders to share the risk of an accident or damage along with other policyholders which share a similar risk profile, and to receive a bonus if, during the insurance period, the claims from the community were low;

- **Coverholder** - a fully digital managing general agent for brokers and insurance agents that allows them to achieve high levels of autonomy in the construction of personalized insurance policies. In this way the intermediaries reconquer their time in order to invest it in more productive activities and add value in client advisory on insurance policies. Among Coverholder's investors we found Velocity, an English private equity fund and Digital Magics;

- **Neosurance,** which offers AI and machine learning solutions to enable the sale of "push" tailored micro size policies. In 2017, AXA signed an agreement with Neosurance to launch the first "instant insurance" product in the world. By gathering contextual data related to the customer at a given time, the intelligent system can identify the potential specific insurance needs for that customer and send a notification to their smartphone. Since 2016, Neosurance has raised about €1mn over 3 rounds. In May 2019, NET, in partnership with Neosurance, launched an instant bike product;

- **Prima Assicurazioni,** which provides online insurance cover for cars, motorcycles and vans, enabling its 250k users to save time and directly manage all aspects of their policies;

- **Yolo** which provides on-demand policies for travel, smartphones protection, sports and so on. In 2019, it closed a €5 million Series A investment round led by Neva Finventures (Intesa Sanpaolo Group) and Barcamper Ventures (Primomiglio SGR). This latest capital increase followed the two previous rounds (in 2017 and 2018) led by Barcamper Ventures for a total amount of €3mn.

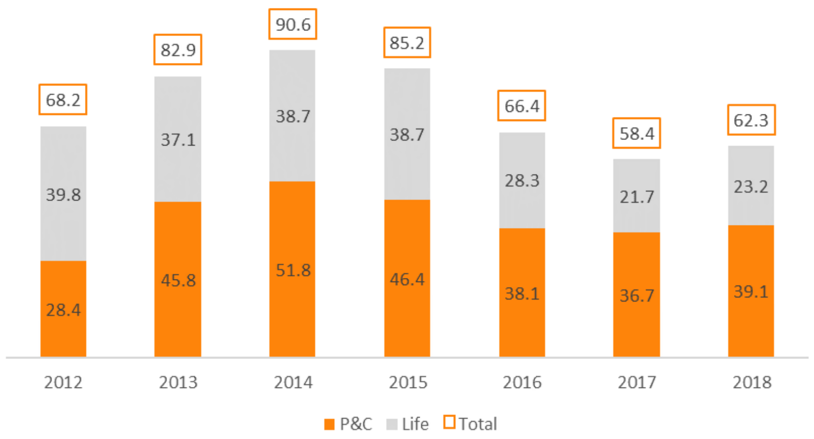
Historical Financials

Gross Written Premiums

After peaking at €90.6mn in FY14, NET's total gross written premiums decreased to €58.4mn in FY17 (-8.9% CAGR 2014-'17) due to: i) a negative trend both in the P&C and life segments; and ii) an increasing refund of premiums. After three years of contraction, in 2018, NET registered a recovery of total gross written premiums which totaled €62.3mn (+6.7% YoY), reflecting the positive performance of both the P&C and Life segments.

With reference to the lines of business, the greatest contribution in terms of gross written premiums comes from the P&C segment. In 2018, non-life gross written premiums amounted to €39.1mn (62% of the total in FY18), growing at a CAGR 2012-18 of 5.5%. Over the same period, Life gross written premiums decreased at a CAGR of 8.6%, reaching €23.2mn in FY18.

Chart 17: Gross Written Premiums' Breakdown by Insurance segment

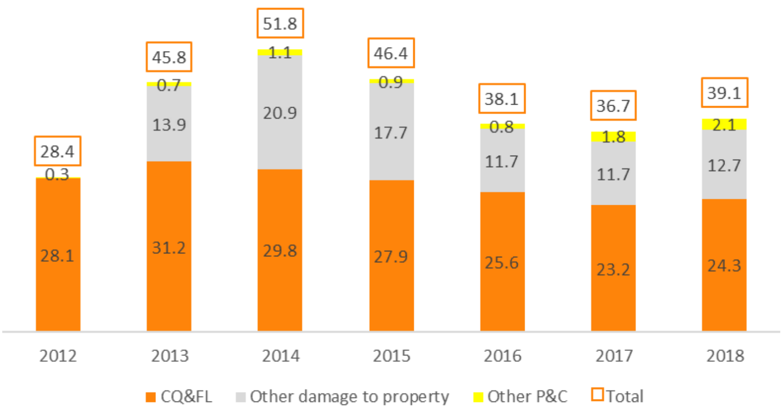


Source: Company data

Within the P&C business unit, the CQ[14] segment represents the bulk of NET's gross written premiums (ca. 62% of the total in FY18), followed by the agricultural insurance segment (33% of the total in FY18).

[14] Including the Financial Losses segment.

Chart 18: P&C Gross Written Premiums' Breakdown



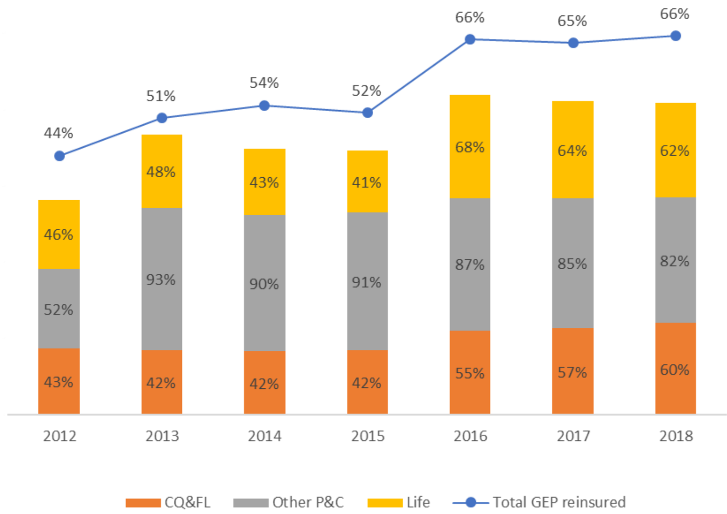
Source: Company data

The negative trend recorded by NET's core business (CQ[15]) over the 2013-2017 period was mainly the result of the early redemption of loans by policyholders.

Reinsurance share

Over the past years, NET has ceded increasing share of its Gross Earned Premiums (GEP). Indeed, the total amount ceded to reinsurers went from 44% in FY12 to 66% in FY18. In fact, the group has retained an ever-decreasing share of CQ earned premiums, from ca. 60% in FY12 to ca. 40% in FY18. Looking at the other P&C segment, over the 2012-2018 period the amount of GEP reinsured was on average ca. 80%, mainly as a result of the high level of risk shown by the agriculture segment. Finally, Life's reinsured share showed a path similar to the CQ segment having gone from ca. 46% in FY12 to ca. 62% in FY18.

Chart 19: Gross Earned Premiums' Ceded to Reinsurers



Source: Company data

[15] Including the Financial Losses segment.

Underwriting Result and Loss Ratio

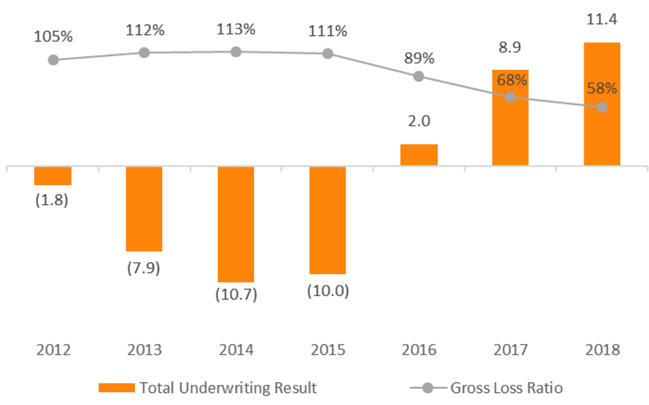
NET's total underwriting result[16] showed a negative sign until 2016 when - despite the contraction in gross written premiums - the Loss Ratio[17] went from 111% in FY15 to 89% in FY16, decreasing even further in FY17 to 68%, implying an underwriting result of €8.9mn. This positive trend continued in FY18: the Loss Ratio was equal to 58%, whereas the underwriting result was €11.4mn. This was the result of both:

i. the above-mentioned recovery on gross written premiums;

ii. lower costs for claims.

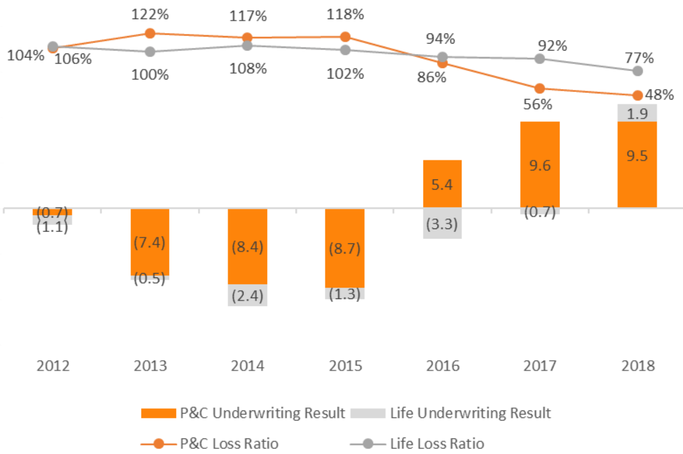
NET's technical result enhancement is also the consequence of the implementation of new selecting/underwriting and pricing criteria (i.e. "Multicheck", G.A.R.F and "tele-underwriting" procedures) that the group intends to continue in the coming years in order to lower its risk profile.

Chart 20: Total Underwriting Result and Gross Loss Ratio



Source: Company data

Chart 21: Underwriting Result and Gross Loss Ratio by BU



Source: Company data

By looking at the non-life insurance business, the Gross Loss Ratio was well above 100% over the 2012-2015 period mainly due to:

i. NET's high exposure to the credit segment;

ii. deteriorating credit conditions in the years following the 2008 financial crisis and the Italian sovereign debt crisis, resulting in a rising number of payment defaults.

In 2016, P&C's underwriting result turned positive for the first year, reaching €5.4mn. The positive result reflected the reduction in claims paid along with a higher recovery rate for CQ. Since then, the P&C underwriting result grew at a CAGR 2016-18 of 33.2% (€9.5mn in FY18), whereas the P&C Gross Loss Ratio decreased from 86% in FY16 to 48% in FY18.

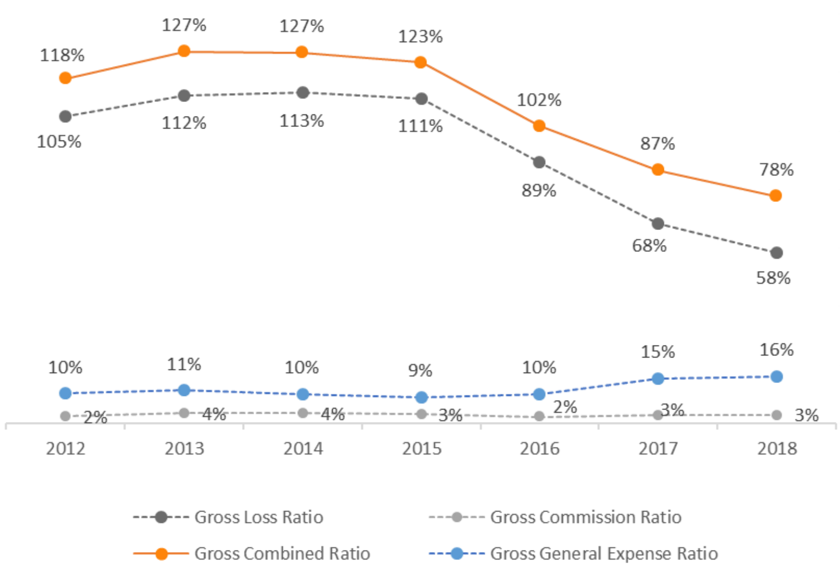
The life business was also characterized by a Gross Loss Ratio above 100% over the 2012-2015 period. In the following three years, Life's Gross Loss Ratio progressively decreased, reaching 77% in FY18. At the end of 2018, Life's underwriting result came in at €1.9mn.

[16] Underwriting result is here derived as the difference between net earned premiums and net benefits and claims.
[17] Calculated on Earned premiums, gross of re-insurance

Combined Ratio

After peaking at 127% in FY13 and FY14, the group's Gross Combined Ratio has progressively improved, mainly thanks to the reduction in the Loss Ratio, amounting to 78% in FY18 (-9pp YoY). We also point out that over the 2012-2018 period, NET's commission ratio remained stable at an average value of 3%, whereas the general expenses incidence on GEP increased from 10% in FY12 to 16% in FY18.

Chart 22: Combined Ratio



Source: Company data

The table below provides a split of NET's Gross Combined Ratio by business unit.

Table 1: Combined Ratio's Breakdown

	2012	2013	2014	2015	2016	2017	2018
Gross Loss Ratio	105%	112%	113%	111%	89%	68%	58%
P&C	104%	122%	117%	118%	86%	56%	48%
Life	106%	100%	108%	102%	94%	92%	77%
Gross Commission Ratio	2%	4%	4%	3%	2%	3%	3%
P&C	1%	12%	15%	13%	10%	13%	16%
Life	8%	2%	1%	1%	0%	1%	2%
Gross General Expense Ratio	10%	11%	10%	9%	10%	15%	16%
P&C	8%	14%	13%	12%	11%	17%	18%
Life	8%	5%	4%	3%	3%	4%	4%
Gross Combined Ratio	118%	127%	127%	123%	102%	87%	78%

Source: Company data

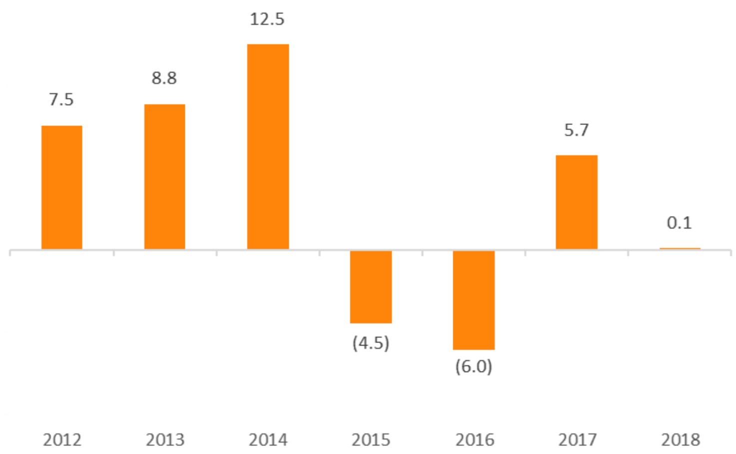
Net Financial Result

NET's investment result amounted to €12.5mn in 2014 before falling to -€4.5mn in 2015 and to -€6.0mn in 2016. Net Income from other financial instruments was down mainly due to the impairment of the following investments: i) Veneto Banca; ii) Banca Etruria; iii) Methorios and iv) Kant

Capital. Following the financial assets' devaluation, in 2016, NET issued a €15.0mn subordinated bond which allowed the group to strengthen its capital structure.

The FY17 financial result rose to €5.7mn, benefiting from strong global financial market performance, whereas the following year, NET's financial result dropped to €0.1mn as a result of worsening market conditions and the increase in the Bund-Btp spread which negatively affected the Group's exposure to Italian government bonds.

Chart 23: Net Financial Result



Source: Company data

Net Income attributable to the Group

Over the 2012-2016 period, NET's net income result was negatively affected by:

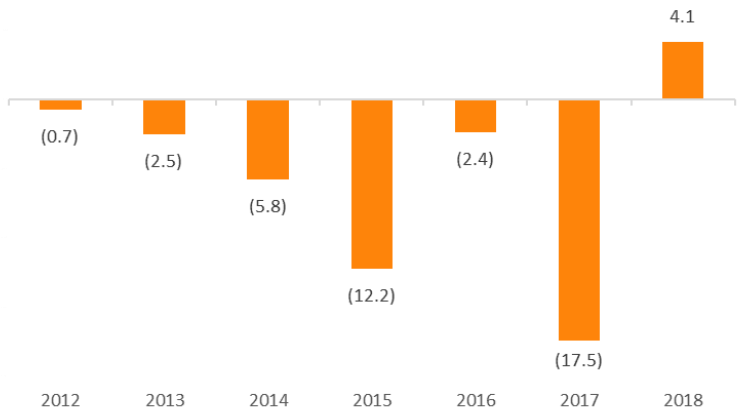
i) a high Loss Ratio up to 2015;

ii) the impairment of equity investments over the 2013-2016 period.

In 2017, NET recorded a loss of €17.5mn following the fraud of €26.6mn. Adjusting for the "Mister X" event, FY17 Net Income amounted to €3.5mn, mainly benefiting from: i) a significant underwriting result improvement as a consequence of a relevant reduction in the Loss Ratio; and ii) the positive contribution from financial investments.

NET closed FY18 with a net income of €4.1mn (€6.7mn by adjusting for extraordinary expenses, mainly related to the business combination with Archimede).

Chart 24: Net Income



Source: Company data

Investment segments

Looking at the main investment categories, fixed income instruments has always held the major weight. In 2018, fixed income instruments accounted for 78% of total financial investments, whereas the previous year their incidence was lower (68%) following the misappropriation of government bonds.

As for the ownerships in controlled and associated companies and joint ventures, in FY17, NET wrote down its stake in Techub Srl, which was declared bankrupt in July 2017.

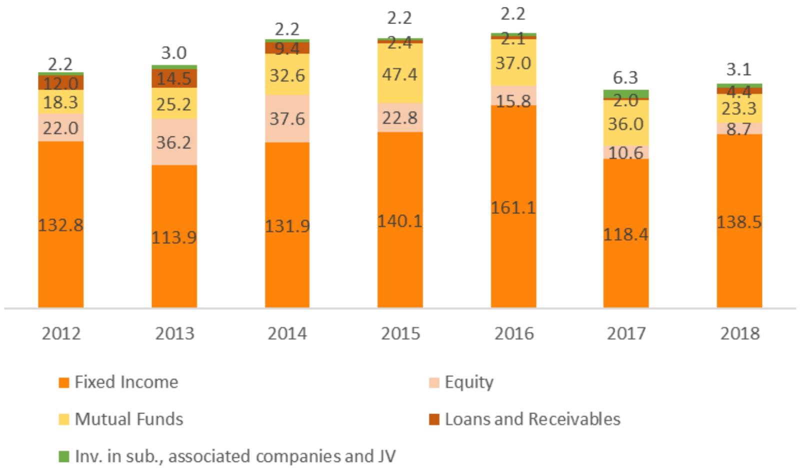
Net Insurance's exposure to equities has been high over the past years and it started to decrease following the impairment - between 2015 and 2017 - of its stakes in Veneto Banca, Banca Etruria, Methorios Capital and Kant Kapital.

In the first half of 2019, the Group also sold its:

- 20% stake in Dynamica Retail S.p.A - the remaining 19.86% will be sold over the coming years - for a total amount of €3.1mn minus dividend paid by Dynamica;
- 6.93% stake in ViviBanca for a total consideration of €3.4mn.

With the new 2019-2023 business plan, the Group has announced its aim to lower its risk profile by reducing its exposure to Italian government bonds and equities in favor of corporate bonds and holdings in insurtech companies.

Chart 25: Asset allocation

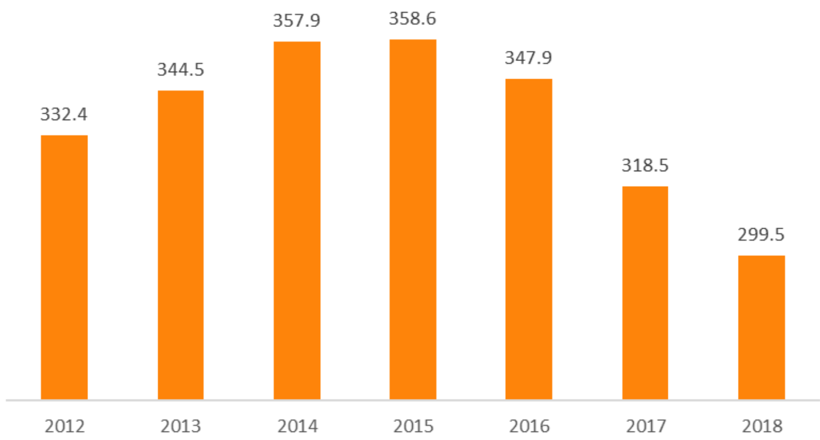


Source: Company data

Insurance provisions

Technical reserves peaked at €358.6mn in FY15 before starting to decrease, reaching €299.5mn in FY18 mainly as consequence of a reduction in provisions for unearned premiums which followed premiums' negative trend.

Chart 26: Technical reserves



Source: Company data

Capital Structure

In October 2016 - following the €12.2mn loss recorded in 2015 mainly due to the write-off of financial assets' – NET issued a 10-year 7% subordinated bond (Tier II) for a total amount of €15.0mn in order to strengthen its capital structure.

In 2017, shareholder equity worsened after the insurance fraud which led NET's Solvency Ratio below capital requirement levels (61.6%).

Thanks to the capital injection from the business combination with the SPAC Archimede, at the end of 2018 NET's solvency ratio was restored to 163%, exceeding again the capital requirement despite the negative change in AFS provision for €4.9mn.

The business combination with Archimede provided an injection of fresh capital that will support NET in expanding its operations and acquiring new business.

FY2018 Financial Results

FY18 financial results showed a consolidation of NET's core business both in terms of premium inflow and profitability. The key financial results are the following:

- Gross written premiums at €62.3mn, up by 6.7% YoY;
- Gross Loss Ratio at 58%, down by 10pp YoY;
- Gross Combined Ratio at 78%, down by 9pp YoY;
- Net income at €4.1mn (€6.7mn by adjusting for extraordinary expenses related to the business combination)
- Solvency Ratio of 163%

In FY18, NET gross written premiums totaled €62.3mn thanks to the positive inflows from both the P&C and Life segments. Indeed, non-life inflow increased by 6.7% for a total amount of €39.1mn, whereas gross written premiums collected by the life business amounted to €23.2mn, increasing by 7.0% YoY.

The Group's Gross Loss Ratio improved to 58% (-10pp YoY), implying a FY18 technical result of €11.4mn, up by 29.0% YoY. As a result of the growing business and the lower incidence of claims on GEP, FY18 Gross Combined Ratio decreased to 78%.

The Net Investment Income Ratio went from 9.0% in FY17 to 2% in FY18. The negative performance of this indicator is attributable to a fall in the absolute value of the net investment result, which amounted to €0.107mn (-98.1% YoY). Net income from financial investments was primarily affected by a negative net realized result which went from €4.4mn in FY17 to -€0.46mn in FY18.

Despite the lower contribution from the net investment result and the negative impact of una-tantum expenses related to the business combination, net income came in at €4.1mn. Instead, FY18 adjusted net income amounted to €6.7mn (+91.4% with respect to FY17 adjusted net income).

With regard to capital structure, Archimede's capital injection allowed NET's equity book value to increase by 24.7% to €67.1mn, despite the negative change in AFS provisions of €4.9mn. Consequently, the group's Solvency Ratio improved considerably to 163%, consistent with capital requirements.

Table 2: Consolidated Income Statement

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Gross Written Premiums	**68,239**	**82,917**	**90,578**	**85,155**	**66,444**	**58,395**	**62,289**
of which CQ&FL	*28,097*	*31,219*	*29,811*	*27,854*	*25,596*	*23,168*	*24,349*
of which Other P&C	*296*	*14,556*	*22,027*	*18,564*	*12,513*	*13,569*	*14,773*
of which Life	*39,846*	*37,142*	*38,740*	*38,737*	*28,335*	*21,658*	*23,167*
Gross Earned Premiums	86,947	81,946	96,825	92,327	73,031	64,051	65,299
Reinsurers' share	(38,530)	(41,966)	(51,866)	(48,206)	(47,919)	(41,655)	(43,266)
Net Earned Premiums	**48,417**	**39,980**	**44,959**	**44,121**	**25,112**	**22,396**	**22,033**
Claims paid and change in insurance provisions	(91,377)	(91,932)	(109,450)	(102,608)	(65,159)	(43,737)	(38,175)
Reisurers' share	41,155	44,047	53,748	48,457	42,077	30,216	27,588
Net insurance benefits and claims	**(50,222)**	**(47,885)**	**(55,702)**	**(54,151)**	**(23,082)**	**(13,521)**	**(10,587)**
Underwriting Result	**(1,805)**	**(7,905)**	**(10,743)**	**(10,030)**	**2,030**	**8,875**	**11,446**
Loss ratio	***105%***	***112%***	***113%***	***111%***	***89%***	***68%***	***58%***
Net acquisition and administration costs	(6,076)	(3,329)	(5,741)	869	3,874	(3,584)	(1,260)
of which commissions	*(2,090)*	*(2,888)*	*(3,492)*	*(2,912)*	*(1,651)*	*(1,770)*	*(2,010)*
Commission ratio	***2.4%***	***3.5%***	***3.6%***	***3.2%***	***2.3%***	***2.8%***	***3.1%***
of which general expenses	(8,957)	(9,380)	(9,748)	(8,346)	(7,429)	(9,898)	(10,566)
General expenses ratio	***10.3%***	***11.4%***	***10.1%***	***9.0%***	***10.2%***	***15.5%***	***16.2%***
of which ceding commision	4,971	8,939	7,499	12,127	12,954	8,084	11,316
Combined ratio	***118%***	***127%***	***127%***	***123%***	***102%***	***87%***	***78%***
Financial Result	7,548	8,841	12,478	(4,469)	(6,049)	5,738	107
Operating Result	**(333)**	**(2,393)**	**(4,006)**	**(13,630)**	**(145)**	**11,029**	**10,293**
Other income (expenses)	(680)	281	(1,602)	471	(1,791)	(31,705)	(4,039)
EBT	**(1,013)**	**(2,112)**	**(5,608)**	**(13,159)**	**(1,936)**	**(20,676)**	**6,254**
Income taxes	(282)	419	179	(918)	437	(3,190)	2,154
Net Income	**(731)**	**(2,531)**	**(5,787)**	**(12,240)**	**(2,373)**	**(17,485)**	**4,100**
Net Income Adjusted	**(731)**	**(2,531)**	**(5,787)**	**(12,240)**	**(2,373)**	**3,500**	**6,700**

Source: Company data

Table 3: Consolidated Balance Sheet

€ thousand	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Intangible assets	5,743	5,643	5,666	5,594	4,520	602	876
Tangible assets	10,818	12,258	16,560	16,998	16,522	16,076	15,777
Amounts ceded to reinsurers from insurance provisions	146,094	152,472	153,741	194,386	214,115	197,297	187,378
Investments	187,362	192,865	213,596	214,806	218,149	173,295	178,021
Receivables and other assets	50,957	66,763	71,310	60,120	50,263	51,416	58,132
Cash and cash equivalent	25,217	37,184	23,600	19,298	9,216	4,431	2,472
Total Assets	**426,191**	**467,186**	**484,473**	**511,200**	**512,785**	**443,116**	**442,655**
Insurance provisions	332,393	344,480	357,888	358,566	347,889	318,474	299,469
Financial liabilities	0	0	0	0	14,612	14,640	14,669
Payables and other liabilities	47,567	68,412	77,556	115,652	114,150	91,059	74,704
Total liabilities	**379,959**	**412,892**	**435,444**	**474,219**	**476,651**	**424,173**	**388,843**
Share capital and reserves	46,963	56,826	54,816	49,221	38,504	36,430	49,713
Result of the period	(731)	(2,532)	(5,787)	(12,240)	(2,371)	(17,487)	4,100
Shareholders' equity	**46,232**	**54,294**	**49,029**	**36,981**	**36,133**	**18,943**	**53,813**

Source: Company data

Group Strategy

NET's strategic plan is based on **four pillars:**

1. ***NET's existing business consolidation***. The CQ business will undergo a restructuring process with the primary aim of enhancing its technical performance. The process will be carried on by:

    i. adopting more demanding selection criteria which also implies reserves optimization;

    ii. cutting non-business-related costs.

    On the asset side, the group's asset allocation strategy will be revised in order to optimize investment portfolio performance.

    In addition, the more resilient capital position and new management's track-record/networking represent key elements to further develop the existing business. Indeed, these levers could facilitate not only the revamping of relationships with existing partners but also the conclusion of CQ's agreements with new distributors.

    From an organizational point of view, the group will develop the industrial/service core-competences with the aim of setting-up a shared-service center i.e. for analytics, claims management and credit collection.

2. ***Non-life bancassurance development***. Nowadays, bancassurance is one of the fastest-growing distribution channels with highly attractive levels of CoR. In order to take advantage of this trend, the group will develop an **open** and **independent non-life bancassurance platform**. NET will leverage the deep knowledge of the banking sector of its new management/owners and existing agreements with banks (today mainly focused on CQ products) in order to set up new agreements for the distribution of innovative non-life insurance products.

    NET's bancassurance offering is mainly composed of insurance products addressed to retail/family protection with some multi-risk coverage dedicated to SMEs.

    Furthermore, to support the development of the bancassurance platform, the plan envisages:

    i. the creation of a dedicated commercial/channel assistance business unit;

    ii. the formation of services and processes, starting from the existing ICT platform and structure of the target;

    iii. the adoption of a digital approach.

    After the business combination, NET immediately started implementing the new business plan by signing two bancassurance agreements with *Banca Popolare di Puglia e Basilicata* and IBL Banca.

3. ***Non-life retail brokers development***. The group's strategy also foresees the development of the brokerage distribution channel. As for bancassurance, distribution capacity will be built up by signing collaboration agreements with well-known and renowned brokers. The selection of brokers will be carried out by hiring or partnering with some specialists.

The insurance products that will be distributed through brokers are addressed to both personal line protection and to SMEs. We point out that agriculture insurance products are currently distributed through the brokers channel.

4. ***Disruption, Digital Innovation & Insurtech***. Technology is seen as a key driver of the success of future insurance companies. The adoption of digital technology represents a valuable strategic advantage to retain current clients and acquire new ones.

Future Financials

Deconstructing Forecasts

Our financial projections over the 2019-2023 period take into consideration the new business model and strategic guidelines announced by the new management after the business combination. FY19 and FY20 estimates also include the total recovery of misappropriated sums from "Mister X" fraud.

It is worth underlining that we breakdown our projections into:

- **existing business** which includes the CQ and Life segments;
- **"new business"** which entails the distribution of insurance policies through bancassurance, brokers (within which is **included the existing business related to agriculture products**) and digital channels.

Starting from the top line, we expect GWP to amount to €172.2mn by the end of 2023, growing at a CAGR 2018-'23 of 22.6%, mainly thanks to the positive contribution from the bancassurance, broker and insurtech channels.

The "new business" – which comprises revenue coming from the existing agriculture insurance segment - is forecasted to generate €27.2mn GWP in 2019, reaching €79.9mn in 2023. We assume bancassurance will account for ca. 70% of the new business by the end of 2023 and for ca. 30% of total FY23 GWP. The insurtech channel is supposed to be the fastest growing channel (+70.5% CAGR2019-'23), reaching €2.5mn of GWP by the end of the forecast period.

Looking at NET's existing business (CQ and Life segments), we assume GWP to grow at +14.2% CAGR 2018-'23, benefitting from:

i. management ability to sign new partnerships;
ii. changes in the CRR regulation which will underpin CQ volumes.

We assume the CQ business will record a growth of 16.9% CAGR2018-'23, reaching €53.1mn in 2023, whereas the life segment is projected to reach €39.2mn in 2023, growing at the slower pace of 11.1% CAGR2018-'23.

The share of GEP ceded to reinsurers is expected to decrease from 65% in 2019 to 48% in 2023 as NET will:

- lower the CQ reinsured premiums;
- reassure only bancassurance's "excess risks";
- keep stable the share of agro premiums ceded to reinsurers (80%-90%).

We expect NET's Gross Loss Ratio to grow in 2019 amounting to ca. 60% as the result of a higher incidence of claims related to previous years. Starting from 2020, the increasing incidence of the bancassurance business – which presents a high profitability and a low technical risk – along with the implementation of the "tele-underwriting" procedure and the adoption of more selective underwriting and pricing criteria, will lead to a considerable improvement in NET's Gross Loss Ratio. The group's Gross Loss Ratio is projected to reach 47% by the end of 2023. Loss Ratio improvement along with business expansion, will drive total underwriting results to increase to €45.6mn in 2023 (31.8% CAGR 2018-'23).

The increase in FY19 Loss Ratio, along with a deterioration in FY19 commission and general expenses ratio, will lead to growth in the group's FY19 Gross Combined Ratio of 88%, (+10pp YoY). In the following years, we assume NET's Gross Combined Ratio to continuously improve thanks to loss and general expense reduction and despite a worsening in the commission ratio following the development of the new distribution channels. We expect the Gross Combined Ratio to be around 82% by the end of the forecast period.

From 2019 onwards, we expect a solid result from investments mainly thanks to portfolio value expansion (we estimated total investments in line with net technical provision and equity growth) and higher investment yields following the revised asset allocation that should reduce the volatility in net investment income results. In detail, the net investment income ratio will rise to 3.6% in 2019, reaching 5.0% in 2023 and implying a FY23 financial result of €6.9mn.

Looking at the bottom line, we expect a remarkable growth of net income which will also positively affected by the recovery from subtracted funds in FY19 and FY20. Net income is projected to grow at a CAGR2018-'23 of 36.4% reaching €19.4mn by the end of 2023. Adjusting for the recovery of subtracted sums, adjusted net income is expected to increase at the lower pace of 23.7% CAGR 2018-'23. This will translate into an adjusted ROE of ca. 8% for FY19 and FY20. In the following three years, we expect an adjusted ROE in the range of 14%-18%.

Table 4: Consolidated Income Statement 2018A-2023E

	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	CAGR18-'23
Gross Written Premiums	**62,289**	**82,801**	**114,414**	**133,762**	**152,196**	**172,207**	**22.6%**
of which CQ&FL	*24,349*	*30,595*	*36,870*	*42,154*	*47,296*	*53,067*	**16.9%**
of which Other P&C	*14,773*						
of which Life	*23,167*	*24,964*	*29,208*	*32,421*	*35,663*	*39,229*	**11.1%**
Gross Earned Premiums	65,299	82,035	94,031	108,743	122,118	136,887	16.0%
Reinsurers' share	(43,266)	(53,596)	(57,349)	(58,857)	(62,163)	(66,226)	8.9%
Net Earned Premiums	**22,033**	**28,439**	**36,682**	**49,885**	**59,955**	**70,662**	**26.2%**
Claims paid and change in insurance provisions	(38,175)	(48,847)	(50,248)	(53,688)	(58,679)	(64,580)	11.1%
Reisurers' share	27,588	33,078	34,705	34,764	36,119	39,468	7.4%
Net insurance benefits and claims	**(10,587)**	**(15,769)**	**(15,543)**	**(18,924)**	**(22,560)**	**(25,112)**	**18.9%**
Underwriting Result	**11,446**	**12,670**	**21,139**	**30,961**	**37,395**	**45,550**	**31.8%**
Loss ratio	***58%***	***60%***	***53%***	***49%***	***48%***	***47%***	
Net acquisition and administration costs	(1,260)	(9,024)	(15,985)	(17,943)	(20,760)	(24,640)	81.2%
of which commissions	*(2,010)*	*(7,383)*	*(15,985)*	*(20,661)*	*(25,645)*	*(29,294)*	*70.9%*
Commission ratio	***3.1%***	***9.0%***	***17.0%***	***19.0%***	***21.0%***	***21.4%***	
of which general expenses	(10,566)	(15,587)	(16,926)	(17,943)	(18,318)	(18,617)	12.0%
General expenses ratio	***16.2%***	***19.0%***	***18.0%***	***16.5%***	***15.0%***	***13.6%***	
of which ceding commision	11,316	13,946	16,926	20,661	23,202	23,271	15.5%
Combined ratio	***78%***	***88%***	***88%***	***85%***	***84%***	***82%***	
Financial Result	107	2,976	3,332	4,477	5,270	6,874	130.0%
Operating Result	**10,293**	**6,623**	**8,486**	**17,495**	**21,904**	**27,784**	**22.0%**
Other income (expenses)	(4,039)	12,295	14,601	(169)	(330)	(506)	
EBT	**6,254**	**18,918**	**23,088**	**17,326**	**21,574**	**27,278**	**34.3%**
Income taxes	2,154	5,486	6,695	5,025	6,257	7,911	29.7%
Net Income	**4,100**	**13,432**	**16,392**	**12,301**	**15,318**	**19,367**	**36.4%**
Net Income Adjusted	**6,700**	**4,912**	**6,026**	**12,301**	**15,318**	**19,367**	**23.7%**

Source: Company data and KT&Partners' elaborations

Shareholders Equity's changes will be due to the registration of the periodical result and the dividend payment. Indeed, for the 2019-2022 period we assume an increasing payout ratio from 20% in 2020 to 40% in 2023, in line with NET's target.

Table 5: Consolidated Balance Sheet 2018A-2023E

€ thousand	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
Intangible assets	876	1,676	2,476	3,276	4,076	4,876
Tangible assets	15,777	15,377	14,977	14,577	14,177	13,777
Amounts ceded to reinsurers from insurance provisions	187,378	183,615	195,907	211,180	226,397	241,427
Investments	178,021	175,082	196,007	213,181	239,541	274,973
Receivables and other assets	58,132	66,240	87,717	98,092	106,537	114,805
Cash and cash equivalent	2,472	17,102	5,711	4,299	4,628	5,353
Total Assets	**442,655**	**459,093**	**502,796**	**544,606**	**595,357**	**655,210**
Insurance provisions	299,469	291,452	310,963	335,206	365,157	402,378
Financial liabilities	14,669	14,669	14,669	14,669	14,669	14,669
Payables and other liabilities	74,704	85,726	96,212	105,575	114,749	124,141
Total liabilities	**388,843**	**391,848**	**421,845**	**455,451**	**494,575**	**541,188**
Share capital and reserves	49,713	53,813	64,559	76,853	85,464	94,655
Result of the period	4,100	13,432	16,392	12,301	15,318	19,367
Shareholders' equity	**53,813**	**67,245**	**80,951**	**89,154**	**100,782**	**114,022**

Source: Company data and KT&Partners' elaborations

Table 6: Other Key Financials

	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
ROE	11%	22%	22%	14%	16%	18%
ROE Adj.	18%	8%	8%	14%	16%	18%
pay-out ratio	0%	0%	20%	25%	30%	40%
Dividend flow (€k)	-	-	2,686	4,098	3,690	6,127

Source: Company data and KT&Partners' elaborations

We expect NET's Solvency Ratio to remain above 150% over the 2019-2023 period thus helping the Group win new business. This will be mainly the result of portfolio reallocation (i.e. lower exposure to Italian government bonds and equities), a better business diversification and the new business' ability to quickly generate capital.

Table 7: Solvency Ratio

	FY18	FY19	FY20	FY21	FY22	FY23
Solvency Ratio	163%	171%	180%	179%	181%	182%

Source: Company data and KT&Partners' elaborations

Valuation

Following the projections of NET's future financials, we carried out the company valuation by applying two major methods (i) Dividend Discount Model and (2) Warranted Equity Method (Gordon Model). As a sanity check, we also performed a peer comparison analysis. We consider the recently listed **DFV Deutsche Familienversicherung AG as the most comparable company. DFV raised €50mn in net proceeds on its December 2018 IPO** and the company is listed in the Prime Standard of the Frankfurt Stock Exchange with a current market cap of **€145mn. DFV** claims to be **the leading European insurtech company.**

In our valuation, we also valued the potential contribution of treasury shares, given their current high level of 11.88% which makes NET itself the main shareholder of the company. To value the impact of the treasury shares, we considered two different scenarios: HP1) we assumed the sale of Treasury Shares at the current market price of €4.42ps resulting in a cash-in of ca. €9.0mn (added to Equity Value), and we calculated Value per share on ca. 17.3mn shares; HP2) We assumed the cancellation of the treasury shares (no impact on Equity Value) and we calculated the Value per share on ca. 15.3mn shares.

The average of the 2 major methods provides the following results under the two different scenarios:

- HP1 – Sale of treasury Shares: €127mn or €7.3ps;
- HP2 – Cancellation of Treasury Shares: €117mn or €7.7ps;

Taking the average of the two different scenarios we derive a fair value per share of €7.5 with a 69% potential upside. Our peer analysis based on **DFV Deutsche Familienversicherung AG** multiples comparison confirms the current substantial discount of NET ranging from 49% on a P/BV18 to 84% on P/E21.

NET shareholders over the coming years could be subject to potential dilution of maximum 10%, related to the 0.94mn warrants exercise (up to 4%) and 0.149mn special shares conversion (up to 6%). In particular:

- Warrants exercise gives to the holders the option to receive 1.97mn shares at a €4.69 price per shares;
- Special shares owned by Archimede's promoters could be converted into seven ordinary shares of NET:
    - 30% of the special shares will be converted if, within 48 months from the business combination, NET's price will exceed €5.4 (reference price +15%) for more than 15 days in a 30-day period;
    - 30% of the special shares will be converted if, within 48 months from the business combination, NET's price will exceed €6.1 (reference price +30%) for more than 15 days in a 30-day period;
    - 10% of the special shares will be converted if, within 48 months from the business combination, NET's price will exceed €7.0 (reference price +50%) for more than 15 days in a 30-day period.

DDM Model

We have conducted our Dividend Discount Model valuation based on 9.4% cost of equity, a function of the risk-free rate of 1.6% (Italian 10y BTP), 0.9 beta,[18] 6% equity risk premium (Damodaran) and a premium for size of 2.5%.

We note that NET holds around 11% of the Treasury Shares, therefore our EPS and dividend flow calculation are based on ca. 15.3mn of shares outstanding (vs 17.3mn of total shares). For our dividend projections, we applied a payout ratio identical to the company guidance, and for 2024 we expected an increase in the payout ratio at 50%.

We discounted 2019E-2024E annual dividend and considered a terminal growth rate of 2%.

Considering the two different scenarios regarding treasury shares our estimate of NET's fair value is in the range of:

- HP1 – Sale of treasury Shares: €117mn or €6.7ps;
- HP2 - Cancellation of Treasury Shares: €108mn or €7.0ps;

Table 8: Dividend Discount Model

€ thousand	2019	2020	2021	2022	2023	2024
EPS €	0.88	1.07	0.81	1.00	1.27	n.a.
pay-out ratio	0%	20%	25%	30%	40%	50%
Dividend flow		2,686	4,098	3,690	6,127	9,684
NPV of Dividends	0	2,366	3,300	2,717	4,124	5,960
g	***2.0%***					
ke	***9.4%***					
Discounted Cumulated Div	18,466					
TV	144,767					
Discounted TV	89,096					
NPV Dividends + TV	**107,562**					

	HP1	HP2
Equity Value	**116,595**	**107,562**
# shares mn	17.3	15.3
Value per share €	**6.7**	**7.0**

Source: KT&Partners' elaboration

[18] NET beta has been estimated as a weighted average of NET FY2018 divisions contribution and Damodaran's P&C and Life Insurance sector betas.

Warranted Equity Method

We have also conducted a valuation using a Warranted Equity Method (Gordon Model) over the period 2019-2023. We adjusted 2019 and 2020 net income, removing the impact of the recovery of misappropriated sums. We accounted for the recovery, adding back its present value to our average equity value over the period 2019-2023.

Considering the two different scenarios regarding treasury shares, our Warranted Equity Method valuation of NET's fair value is in the range of:

- HP1 – Sale of treasury Shares: €136mn or €7.9ps;
- HP2 – Cancellation of Treasury Shares: €127mn or €8.3ps;

Table 9: Warranted Equity Method (Gordon Model)

€ thousand	**2019**	**2020**	**2021**	**2022**	**2023**
BV of Shareholder Equity	53,813	67,245	80,951	89,154	100,782
Intangible Asset	1,676	2,476	3,276	4,076	4,876
Tangible Book Value (TBV)	52,137	64,769	77,675	85,078	95,905
Net Income *ADJ.*	4,912	6,026	12,301	15,318	19,367
Return on Tangible Equity (ROTE)	9.4%	9.3%	15.8%	18.0%	20.2%
g	***2.0%***				
Equity Value -> (ROTE-g)/(Ke-g)*TBV	52,489	64,185	145,817	184,731	236,734
NPV of Equity Value	50,555	56,523	117,408	135,996	159,348
Average Equity Value	**103,966**				
PV recovery of misappropiated funds	**23,177**				
Equit Value	**127,143**				

	HP1	HP2
Equity Value	**136,176**	**127,143**
# shares	17,319	15,275
Value per share	**7.9**	**8.3**

Source: KT&Partners' elaboration

Peer Comparison

We have carried out an in-depth analysis of those public companies that could be considered as peers of NET. Taking into account its size, market cap and business characteristics, we found just one company that can be considered a proper peer: **DFV Deutsche** Familienversicherung AG.

- DFV Deutsche Familienversicherung AG: listed on the Frankfurt Stock Exchange in 2018, DFV engages in the provision of digitalized insurance services with a focus on insurtech. It operates through the Supplementary Health Insurance and Damage/Accident segments. The Supplementary Health Insurance segment focuses on supplementary dental, health, and nursing insurance lines. The Damage/Accident segment encompasses accident, property damage, home, and liability insurances. The company was founded by Stefan Maximilian Knoll and Philipp Vogel on April 21st, 2007 and is headquartered in Frankfurt, Germany. DFV's current market cap is €145mn and the company is expected to be profitable in 2021.

Table 10: NET peer comparison

Company Name	Exchange	Market Cap	P/E 2018	P/E 2019	P/E 2020	P/E 2021	P/BV 2018	P/BV 2019	P/BV 2020	P/BV 2021
DFV Deutsche Familienversicherung AG	XETRA	145	n.m	n.m	n.m	34.1x	2.4x	2.7x	2.9x	2.7x
NET INSURANCE	AIM ITALIA	68	16.5x	5.0x	4.1x	5.5x	1.3x	1.0x	0.8x	0.8x
NET INSURANCE Discounts vs DFV		n.m.	n.m.	n.m.	n.m.	-84%	-49%	-62%	-71%	-72%

Source: Factset, KT&Partners' elaboration

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