

COMPANY UPDATE



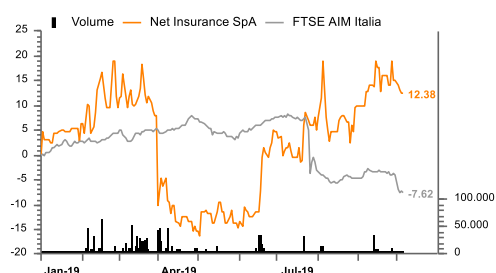
Fair Value: €7.49
(Prev. €7.49)

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Relative Performance Chart YTD



Market Data:

Current Price (€)	4.72
Fair Value (€)	7.49
Market Cap (€mn)	72.1
52 Wk High (€)	5.18
52 Wk Low (€)	3.38
Free Float (%)	43.2%
Avg. Daily Trading 90d	2672
Price Change 1w (%)	-5.60
Price Change 1m (%)	2.16
Price Change YTD (%)	12.38
P/E 2019E	5.4x
P/E 2020E	4.4x
P/BV 2019E	1.1x
P/BV 2020E	0.9x

FY2019E results on target...

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, Giampiero Stefano 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 the company’s offer and profitability.

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 insurtech technologies/companies. According to FinTech Global’s data, global investment in insurtech companies almost doubled in 2018 (+92% YoY), reaching \$3.2bn.

1H19 Financial Results. In 1H19, NET kept recording significant improvement both in terms of GWP (€38.8mn, +12.1% YoY) and profitability (according to our estimates, CoR stood at 72.6%, - ca.10pp YoY) mainly thanks to: i) the double-digit growth recorded by NET’s core business (+21%YoY); ii) the new production of CPI products following bancassurance agreements reached with *Cassa di Risparmio di Bolzano*; iii) a 17.4% YoY reduction of loss ratio to 45.8%, which more than offset the increase in commission ratio (+2.2% YoY) and general expenses ratio (+5.2% YoY). Net profit amounted to €2.1mn (-36% YoY), while the adjusted net profit - which does not take into consideration extraordinary expenses related to legal actions undertaken for the successful recovery of misappropriated funds and costs for portfolio reallocation - was up by 8.5% YoY to €3.5m.

Future Estimates. We left unchanged our estimates over the 2019-23 period, which take into consideration the new business model and strategic guidelines announced by the new management after the business combination. 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/selection 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 confirm a fair value of €7.49ps or an equity value of €122mn, which implies a +59% upside on the current price. Our valuation is based on both DDM and the warranted equity method. We also explicitly valued 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.

Table 1: Net Insurance - Key Figures

	Current price (€)	Fair Value (€)	Sector				Free Float (%)
	4.84	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	
Intangible 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	18.0x	5.5x	4.5x	6.0x	4.8x	3.8x	
P/BV	1.4x	1.1x	0.9x	0.8x	0.7x	0.6x	
P/Premiums	1.2x	0.9x	0.6x	0.6x	0.5x	0.4x	
Dividend yield (%)	-	-	3.6%	5.5%	5.0%	8.3%	
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%	

1H2019 Financial Results

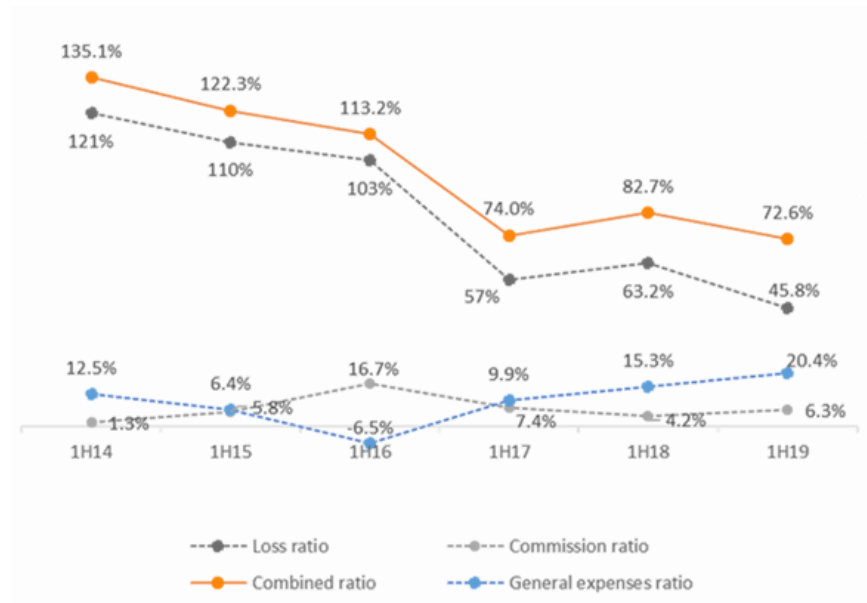
NET's half-year results highlighted a double-digit growth of GWP, which reached €38.8mn (+12.1% YoY). The main contribution to 1H19 GWP came from: i) the CQ business, which grew by 20.8% YoY to €29.7mn, strengthening the Group's position within the salary/pension backed loans market; and ii) the new CPI production distributed through *Cassa di Risparmio di Bolzano*.¹ The agro-segment was the only business which recorded a negative performance in 1H19m, which however had a low impact on the Group's profitability, as the amount of premiums ceded to reinsurers is still high (ca. 80-90%).

Underwriting results² stood at €9.1mn, recording an excellent growth of +86.4% YoY, mainly as a consequence of the Group's lower loss ratio.³ Indeed, 1H19 loss ratio decreased by 17.4%pp YoY to 45.8%, mainly as the result of a 19.2% YoY reduction in the number of claims reported (especially in the CQ segment) and lower claims paid (-5.6%).

According to our estimates, the Group's CoR⁴ improved considerably, going from 82.7% in 1H18 to 72.6% in 1H19 (-15pp lower compared to NET's business plan estimates), mainly thanks to: i) the gross loss ratio reduction, which more than offset the increase in commission ratio and general expenses ratio, and ii) the higher profitability of the bancassurance business.

We point out that over the 1H14-1H19 period, the Group's gross combined ratio has more than halved (-63%), mainly thanks to the reduction in the loss ratio, which went from 121% in 1H14 to 45.8% in 1H19.

Chart 1: 1H19 Consolidated Income Statement



Source: Company data, KT&Partners' elaboration

¹ Note: part of GWP derived from the CPI products distributed in collaboration with *Cassa di Risparmio di Bolzano* were incorporated within the Financial Losses and Life business unit.

² Net financial result was -€0.23mn - from €1.1mn in 1H18 - and it was primarily affected by a net realized result of €1.1mn following the portfolio reallocation actions taken by the new management.

³ Calculated claims paid and change in insurance provisions on earned premiums, gross of reinsurance.

⁴ Calculated as the sum of loss ratio, commission ratio and general expenses ratio, gross of reinsurance.

The net financial result was -€0.23mn - from €1.1mn in 1H18 - and it was primarily affected by a net realized result of €1.1mn following the portfolio reallocation actions taken by the new management.

Net profit amounted to €2.1mn (-36% YoY), while the adjusted net profit - which does not take into consideration extraordinary expenses related to legal actions undertaken for the successful recovery of misappropriated funds and costs for portfolio reallocation - was up by 8.5% YoY to €3.5m.

Table 2: 1H19 Consolidated Income Statement

€ thousand	1H14	1H15	1H16	1H17	1H18	1H19	YoY growth
Gross Written Premiums	45,640	44,217	37,744	26,467	34,585	38,776	12.1%
Gross Earned Premiums	48,237	45,306	40,400	30,462	33,895	36,270	7.0%
Reinsurers' share	(24,353)	(23,554)	(26,929)	(19,542)	(21,478)	(22,143)	3.1%
Net Earned Premiums	23,884	21,752	13,471	10,920	12,417	14,127	13.8%
Claims paid and change in insurance provisions	(58,494)	(49,895)	(41,615)	(17,284)	(21,432)	(16,617)	-22.5%
Reinsurers' share	28,621	23,301	25,435	11,838	13,875	11,548	-16.8%
Net insurance benefits and claims	(29,873)	(26,594)	(16,180)	(5,446)	(7,557)	(5,069)	-32.9%
Underwriting Result	(5,989)	(4,842)	(2,709)	5,474	4,860	9,058	86.4%
Loss ratio	121%	110%	103%	57%	63.2%	45.8%	-17.4%
Net acquisition and administration costs	(3,907)	(1,189)	3,375	(2,162)	(372)	(3,971)	967.5%
<i>of which commissions</i>	(643)	(2,625)	(6,759)	(2,246)	(1,413)	(2,294)	62.3%
Commission ratio	1.3%	5.8%	16.7%	7.4%	4.2%	6.3%	2.2%
<i>of which general expenses</i>	(6,026)	(2,907)	2,632	(3,018)	(5,183)	(7,417)	43.1%
General expenses ratio	12.5%	6.4%	-6.5%	9.9%	15.3%	20.4%	5.2%
<i>of which ceding commissions</i>	2,762	4,343	7,502	3,102	6,224	5,740	-7.8%
Combined ratio	135.1%	122.3%	113.2%	74.0%	82.7%	72.6%	-10.1%
Financial Result	5,492	3,044	(6,620)	1,790	1,052	(21)	-102.0%
Operating Result	(4,404)	(2,987)	(5,954)	5,102	5,540	5,066	-8.6%
Other income (expenses)	(2,996)	(304)	(629)	(1,161)	(585)	(2,759)	371.6%
EBT	(7,400)	(3,291)	(6,583)	3,941	4,955	2,307	-53.4%
Income taxes	(2,052)	(1,007)	(726)	(1,281)	(1,707)	(223)	-86.9%
Net Income	(5,348)	(2,284)	(5,857)	2,660	3,248	2,084	-35.8%
Net Income Adjusted						3,524	

Source: Company data, KT&Partners' elaboration

Future Financials

Following the 1H19 results, we left unchanged our estimates over the 2019-23 period, which 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 break down 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% CAGR 2019-23), 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, benefiting from:

- i. Management’s 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% CAGR 2018-23, 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% CAGR 2018-23.

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

- lower the CQ reinsured premiums;
- reinsure 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 high profitability and 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 will 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 be positively affected by the recovery from subtracted funds in FY19 and FY20. Net income is projected to grow at a CAGR 2018-23 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 3 years, we expect an adjusted ROE in the range of 14%-18%.

Table 3: 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%
<i>of which Existing Business</i>	47,516	55,559	66,078	74,574	82,959	92,295	14.2%
CQ&FL	24,349	30,595	36,870	42,154	47,296	53,067	16.9%
Life	23,167	24,964	29,208	32,421	35,663	39,229	11.1%
<i>of which New Business</i>	14,773	27,242	48,336	59,188	69,237	79,911	40.2%
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%
Reinsurers' 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%
<i>of which commissions</i>	(2,010)	(7,383)	(15,985)	(20,661)	(25,645)	(29,294)	70.9%
<i>Commission ratio</i>	3.1%	9.0%	17.0%	19.0%	21.0%	21.4%	
<i>of which general expenses</i>	(10,566)	(15,587)	(16,926)	(17,943)	(18,318)	(18,617)	12.0%
<i>General expenses ratio</i>	16.2%	19.0%	18.0%	16.5%	15.0%	13.6%	
<i>of which ceding commision</i>	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

Changes in shareholders' equity will be due to the registration of the periodical result and the dividend payment. Indeed, for the 2019-22, period we assume an increasing payout ratio from 20% in 2020 to 40% in 2023, in line with NET's target.

Table 4: 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 5: 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 2019-23 period, thus helping the Group to win new business. This will be mainly the result of portfolio reallocation (i.e. lower exposure to Italian government bonds and equities), better business diversification and the new business' ability to quickly generate capital.

Table 6: Solvency Ratio

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

Source: Company data and KT&Partners' elaborations

Valuation

We carried out the company valuation by applying 2 major methods: (i) the dividend discount model, and (ii) the 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 **€136mn**. **DFV claims to be the leading European insurtech company**.

In our valuation, we also valued the potential contribution of treasury shares, given their currently 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 2 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 2 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 2 different scenarios, we derive a fair value per share of €7.5 with a 59% potential upside. Our peer analysis based on **DFV Deutsche Familienversicherung AG** multiples comparison confirms the current substantial discount of NET ranging from 42% on a P/BV18 to 87% on P/E21.

NET's 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 shareholders the option to receive 1.97mn shares at a price of €4.69 per share;
- Special shares owned by Archimede's promoters could be converted into 7 ordinary shares of NET:
 - 30% of the special shares will be converted if, within 48 months of 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 of 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 of 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,⁵ 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 the 2019E-2024E annual dividend and considered a terminal growth rate of 2%.

Considering the 2 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 7: 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

⁵ 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 2019-23. 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 2019-23.

Considering the 2 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 8: 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
<i>Intangible Asset</i>	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 <i>ADJ.</i>	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%
<i>g</i>	2.0%				
Equity Value -> $(ROTE-g)/(K_e-g)*TBV$	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 misappropriated funds	23,177				
Equity Value	127,143				
	HP1	HP2			
Equity Value	136,176	127,143			
# shares	17,319	15,275			
Value per share	7.9	8.3			

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 21, 2007, and is headquartered in Frankfurt, Germany. DFV's current market cap is €136mn and the company is expected to be profitable in 2021.

Table 9: 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	136	n.m.	n.m.	n.m.	46.7x	2.3x	2.3x	2.5x	2.4x
NET INSURANCE	AIM ITALIA	72	17.6x	5.4x	4.4x	5.9x	1.3x	1.1x	0.9x	0.8x
NET INSURANCE Discounts vs DFV		n.m.	n.m.	n.m.	n.m.	-87%	-42%	-54%	-64%	-66%

Source: FactSet, KT&Partners' elaboration

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