KT&PARTNERS

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COMPANY UPDATE

NET INSURANCE

Fair Value: €7.49
(Prev. €7.49)

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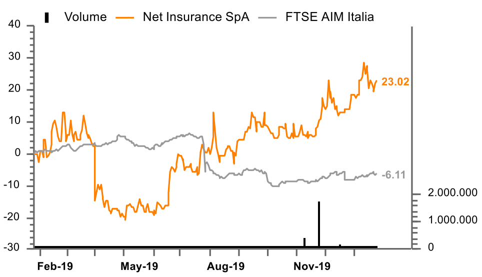
Relative Performance Chart YoY



Market Data:	
Current Price (€)	5.20
Fair Value (€)	7.49
Market Cap (€mn)	79.4
52 Wk High (€)	5.90
52 Wk Low (€)	3.38
Free Float (%)	43.2%
Avg. Daily Trading 90d	48461
Price Change 1w (%)	-1.89
Price Change 1m (%)	-0.95
Price Change YTD (%)	-0.95
P/E 2019E	5.4x
P/E 2020E	4.4x
P/BV 2019E	1.1x
P/BV 2020E	0.9x

Hitting GWP targets

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, the SPAC promoted by Andrea Battista, Giampiero Stefano Rosmarini and Matteo Carbone that raised €47mn. The new entity will 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.

2019 preliminary premiums in line with expectations. NET has released a first disclosure of the top line results: €83mn raised in premiums, +33.2% YoY. The result is in line with both NET's business plan presented in June and our latest estimates.

IBL Banca increased its stake to 19.77%. On November 26th, 2019, IBL Banca – NET's main shareholder and strategic partner - expanded its ownership position from 9.73% to 19.77%. Moreover, following the June agreement, NET is now distributing protection policies through IBL Assicura's 53 branches and exclusive agents.

Recovery of misappropriated sums. NET recovered €1.7mn on November 29th, 2019. It is the second tranche – following the first of €6.3mn – of the €26.6mn forecasted to be received within 2020. Also, €3.1mn related to the settlement agreement has been raised from the old shareholders, directors and administrators. On January 15th, 2020, NET has signed an agreement with a former statutory auditor for the recovery of €66k.

Further business commercial expansion. On January 15th, 2020, NET announced an agreement with Banca Popolare S. Angelo. The aim is to develop a strong network of local players, focusing on commercial, artisanship and especially agricultural SMEs. Furthermore, to expand its product line, in November 2019 NET also launched, together with Yolo - in which it owns minority interests - a new insurance policy, "Yolo Travel Pack", allowing buyers to cover their needs from medical expenses to luggage.

Market performance. The market has been supporting the new management strategy: from December 31st, 2018 - the business combination date - to January 30th, the stock has shown a +29.76% return, overperforming the FTSE AIM Italia by +34.06%.

Future estimates. We leave unchanged our estimates over the 2019-23 period while waiting for NET to release the FY2019 financial statements. Our expectations take into consideration the new business model and strategic guidelines announced by the new management after the business combination.

Valuation. We confirm a fair value of €7.49ps or an equity value of €122mn, which implies a +44.0% 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 (%)
5.30	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	19.7x	5.4x	4.4x	5.9x	4.7x	3.7x
P/BV	1.5x	1.1x	0.9x	0.8x	0.7x	0.6x
P/Premiums	1.3x	1.0x	0.7x	0.6x	0.5x	0.5x
Dividend yield (%)	-	-	3.7%	5.7%	5.1%	8.5%
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%

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 **€247mn. 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 €5.20ps, resulting in a cash-in of ca. €10.6mn (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 44% potential upside. Our peer analysis based on **DFV Deutsche Familienversicherung AG** multiples comparison confirms the current substantial discount of NET ranging from 54% on a P/BV19 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,[1] 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 2: 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

[1] 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 3: 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 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 €247mn and the company is expected to be profitable in 2021.

Table 4: 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	247	n.m	n.m	n.m	54.5x	4.2x	4.1x	4.4x	4.1x
NET INSURANCE	AIM ITALIA	79	19.4x	5.4x	4.4x	5.9x	1.5x	1.1x	0.9x	0.8x
NET INSURANCE Discounts vs DFV		n.m.	n.m.	n.m.	n.m.	-87%	-65%	-54%	-64%	-66%

Source: FactSet, KT&Partners' elaboration

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