

## COMPANY UPDATE



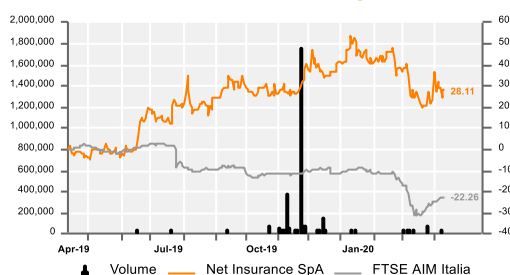
**Fair Value: €6.67**  
(Prev. €7.49)

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### Relative Performance Chart YoY



### Market Data:

|                        |       |
|------------------------|-------|
| Current Price (€)      | 4.74  |
| Fair Value (€)         | 6.67  |
| Market Cap (€mn)       | 72.4  |
| 52 Wk High (€)         | 5.90  |
| 52 Wk Low (€)          | 3.38  |
| Free Float (%)         | 36.1% |
| Avg. Daily Trading 90d | 7242  |
| Price Change 1w (%)    | -6.32 |
| Price Change 1m (%)    | 1.72  |
| Price Change YTD (%)   | -9.71 |
| P/E 2020E              | 4.8x  |
| P/E 2021E              | 6.4x  |
| P/BV 2020E             | 0.8x  |
| P/BV 2021E             | 0.8x  |

## Facing a second Black Swan...

**Overview.** Net Insurance (NET) is an insurance company specialized in the insurance of salary and 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.

**FY19 Financial Results: beating the expectations.** GWP grew by 35.4%YoY, reaching €84.4mn (+1.2% than company’s target and +1.9% compared to our estimates). Underwriting result came in at €16.6mn recording an excellent growth of +45.5%YoY (+14pp above our estimates). The more selective underwriting and pricing criteria adopted over the last two years led FY19 loss ratio<sup>1</sup> to improve by 140 bps, coming in at 57%. The Group’s CoR came in at 86%, +8% compared to FY18 as a result of higher expenses due to the development of the new distribution channels but 2pp below business plans’ targets and our forecast. Net profit amounted at €12.5mn and it was positively impacted also by the recovery of part of the misappropriated funds (netted by related costs). Adjusting by extraordinary items, net income came in at €7mn. In line with the business plan, NET showed a Solvency Ratio of 165.7% and a ROE in line with our estimates of 20%.

**1Q2020 GWP post double-digit growth to €43mn.** NET has disclosed its top line results in 1Q2020 which shows a strong start of FY20: €43mn raised in premiums, +34.4% YoY. In a macroeconomic scenario characterized by a higher uncertainty, NET shows also a resilient capital position with a Solvency Ratio of 151% as of March 31<sup>st</sup>, 2020.

**Impact of COVID-19 on NET’s business.** Despite the high exposure to the CQ market, we point out that the low portfolio concentration on elderly people - the most affected by COVID-19 - along with the high reinsurance level of the policies covering private employees could mitigate the impact on group’s profitability. To seize the COVID 19 impact on NET’s results, we have developed three scenarios based on three variables: i) the lockdown duration; ii) % of GWP lost during the lockdown period; and iii) % of loss ratio deterioration following a rising number of default payment due to unemployment and mortality. For all our scenarios, we expect a pick in FY21 loss ratio mainly due to a lag time factor resulting from unemployment to default. In the worst-case scenario (-14% in FY20 GWP with a loss ratio of 56%) and in the base-case scenario (-7% in FY20 GWP with a loss ratio of 55%), we assume that the % of GWP lost during FY20 due lower commercial workforce activity and cooling demand will be partially recovered in the following years to a higher market demand for protection. In the optimist scenario we consider no decline in FY20 GWP - factoring in a total recovery of the % of GWP during the lock-down period by the end of FY20 - and a 1pp worsening in FY20 and FY21 loss ratio compared to our previous forecast.

**Valuation.** Factoring in estimates of the base-case scenario, our valuation based on both DDM and the warranted equity method, return a fair value of €6.67ps or an equity value of €72mn, which implies a +40.6% upside on the current price. We also explicitly valued the potential contribution of treasury shares, given their current high level of 11.86%. Furthermore, we assess share value sensitivity to changes in FY20 GWP and in the loss ratio. Our analysis returns a share price of €6.37 in the worst-case scenario and of €6.99 in the best-case scenario.

| € 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 |
| 2019A     | 84.4                   | 16.6                 | 85.8%          | 8.5  | 12.5       | 0.81 |
| 2020E     | 106.1                  | 19.4                 | 90.0%          | 6.5  | 15.2       | 1.00 |
| 2021E     | 129.0                  | 28.7                 | 87.7%          | 15.7 | 11.3       | 0.74 |
| 2022E     | 146.8                  | 34.9                 | 86.3%          | 19.9 | 14.1       | 0.92 |
| 2023E     | 166.0                  | 43.2                 | 83.3%          | 26.0 | 18.4       | 1.20 |

Source: Company data, KT&Partners’ estimates

\*Underwriting result is calculated as net earned premiums minus net insurance benefits and claims.

<sup>1</sup> Calculated claims paid and change in insurance provisions on earned premiums, gross of reinsurance.

## Net Insurance - Key Figures

| Current price (€) | Fair Value (€) | Sector    | Free Float (%) |
|-------------------|----------------|-----------|----------------|
| 4.7               | 6.7            | Insurance | 36.1%          |

| Per Share Data                | 2018A | 2019A | 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   | 0.8   | 1.0   | 0.7   | 0.9   | 1.2   |
| BV Per Share                  | 3.5   | 4.7   | 5.7   | 6.2   | 7.0   | 7.9   |
| Dividend per share (ord)      | -     | -     | -     | 0.20  | 0.18  | 0.28  |
| Dividend pay out ratio (%)    | -     | -     | 0%    | 20%   | 25%   | 30%   |

### Income Statement (EUR million)

|                             |      |      |       |       |       |       |
|-----------------------------|------|------|-------|-------|-------|-------|
| Gross Written Premium (GWP) | 62.3 | 84.4 | 106.1 | 129.0 | 146.8 | 166.0 |
| Underwriting Result         | 11.4 | 16.6 | 19.4  | 28.7  | 34.9  | 43.2  |
| Financial Result            | 0.1  | 2.0  | 2.0   | 4.5   | 5.3   | 6.9   |
| Operating Income            | 10.3 | 8.5  | 6.5   | 15.7  | 19.9  | 26.0  |
| Net Income                  | 4.1  | 12.5 | 15.2  | 11.3  | 14.1  | 18.4  |
| Net Income Adj.             | 6.7  | 7.0  | 4.9   | 11.3  | 14.1  | 18.4  |

### Balance Sheet (EUR million)

|                              |       |       |       |       |       |       |
|------------------------------|-------|-------|-------|-------|-------|-------|
| Investments                  | 178.0 | 167.0 | 198.4 | 216.4 | 240.9 | 275.4 |
| Intangible assets            | 0.9   | 2.6   | 3.4   | 4.2   | 5.0   | 5.8   |
| Deferred acquisition costs   | -     | -     | -     | -     | -     | -     |
| Insurance technical reserves | 299.5 | 300.4 | 307.2 | 327.6 | 353.7 | 386.9 |
| Senior or subordinated debt  | 14.7  | 15.5  | 15.5  | 15.5  | 15.5  | 15.5  |
| Shareholder's Equity         | 53.8  | 71.8  | 87.0  | 95.2  | 106.5 | 120.7 |

### Ratios (%)

|                        |        |        |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|--------|
| Loss ratio             | 58.5%  | 57.1%  | 55.0%  | 52.2%  | 50.3%  | 48.3%  |
| Commission ratio       | 3.1%   | 8.1%   | 17.0%  | 19.0%  | 21.0%  | 21.4%  |
| General expenses ratio | 16.2%  | 20.6%  | 18.0%  | 16.5%  | 15.0%  | 13.6%  |
| Combined ratio         | 77.7%  | 85.8%  | 90.0%  | 87.7%  | 86.3%  | 83.3%  |
| Solvency ratio         | 162.9% | 165.7% | 152.0% | 170.2% | 175.0% | 178.0% |
| ROE                    | 11.3%  | 19.8%  | 19.2%  | 12.4%  | 14.0%  | 16.2%  |
| ROE Adj.               | 18.4%  | 11.1%  | 6.1%   | 12.4%  | 14.0%  | 16.2%  |

### Valuation

|                    |       |      |      |      |      |      |
|--------------------|-------|------|------|------|------|------|
| P/E                | 17.7x | 5.8x | 4.8x | 6.4x | 5.1x | 3.9x |
| P/BV               | 1.3x  | 1.0x | 0.8x | 0.8x | 0.7x | 0.6x |
| P/Premiums         | 1.2x  | 0.9x | 0.7x | 0.6x | 0.5x | 0.4x |
| Dividend yield (%) | -     | -    | 0.0% | 4.2% | 3.9% | 5.9% |

### Growth rates (%)

|                     |        |        |        |        |        |        |
|---------------------|--------|--------|--------|--------|--------|--------|
| GWP                 | 6.7%   | 35.4%  | 25.8%  | 21.6%  | 13.8%  | 13.1%  |
| Underwriting Result | 29.0%  | 45.5%  | 16.8%  | 47.6%  | 21.4%  | 23.9%  |
| Operating Income    | -6.7%  | -17.1% | -24.4% | 142.8% | 26.7%  | 31.1%  |
| Net Income          | -23.4% | 303.7% | 122.3% | 74.0%  | 125.4% | 130.2% |
| Net Income Adj.     | 91.4%  | 4.5%   | -30.6% | 131.8% | 25.4%  | 30.2%  |

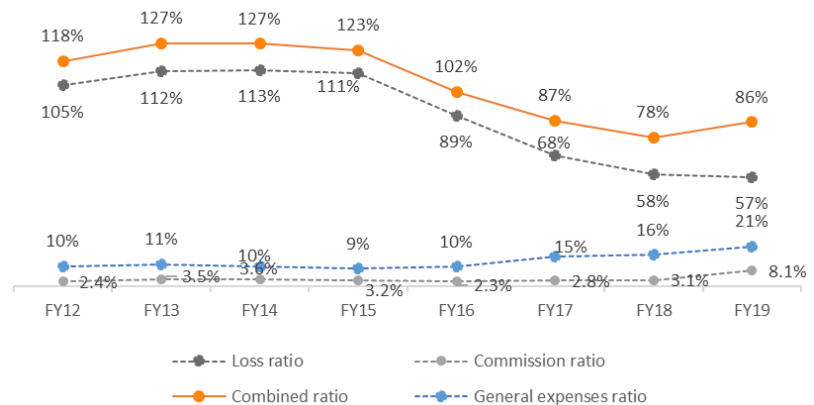
## FY19 Financial Results

In FY19, NET achieved solid and profitable growth across all segment following the effective implementation of company’s business plan. Premiums raised amounted at €84.4mn (+35.4%YoY), exceeding company’s target by ca. 1.2% and our estimates by ca. 1.9%. The major contribution came from the traditional/core business, mainly driven by the life segment which grew by 71.5%YoY (+59% respect to our estimates), reaching €39.7mn of GWP. This result has allowed the Group to strengthen its position within the salary/pension backed loans market with a market share in terms of volume of over 20%.<sup>2</sup> A remarkable performance was also recorded by the new bancassurance business line which a year after the launch accounted for 10% of the total GWP.

The underwriting result<sup>3</sup> stood at €16.6mn, recording an excellent growth of +45.5%YoY (+14pp beyond our estimates). This was mainly the result of the combined effect of a lower rate of reinsured premiums and lower incidence of claims paid. Indeed, the more selective underwriting and pricing criteria adopted over the last three years led FY19 loss ratio<sup>4</sup> to improve by 140 bps, coming in at 57%. We point out that NET closed FY19 with a loss ratio that has halved respect to FY14, reaching the best result since FY12.

The Group’s CoR<sup>5</sup> came in at 86%, +8% compared to FY18 as a result of higher expenses due to the development of the new distribution channels. However, FY19 CoR was 2pp below business plan targets and our forecast mainly due to lower than expected gross loss ratio and commission ratio which more than offset the higher than expected increase in general expenses ratio (+5ppYoY).

### Profitability Ratios



Source: Company data, KT&Partners’ elaboration

The net financial result improved going from €0.1mn in FY18 to €2mn in FY19 benefiting from the revised asset allocation carried out by the new management.

<sup>2</sup> The positive performance of the life segment was also influenced by the new CPI production distributed through Cassa di Risparmio di Bolzano.

<sup>3</sup> Underwriting result is calculated as net earned premiums minus net insurance benefits and claims.

<sup>4</sup> Calculated claims paid and change in insurance provisions on earned premiums, gross of reinsurance.

<sup>5</sup> Calculated as the sum of loss ratio, commission ratio and general expenses ratio, gross of reinsurance.

Net profit amounted at €12.5mn and it was positively impacted also by the recovery of part of the misappropriated funds (netted by related costs). It was however 7.3% below our estimates mainly due to a recovery of €8mn vs an expected amount €12mn. Adjusting by extraordinary items, net income came in at €7mn, exceeding our estimates by ca. €2mn.

In line with the business plan, NET showed an improvement in its capital position with Regulatory Solvency Ratio at 165.7% (+2.8ppYoY but 6pp lower than our estimates) and a ROE in line with our estimates of 20% (+9%ppYoY).

**FY19 Consolidated Income Statement**

|                                       | FY12            | FY13            | FY14            | FY15            | FY16            | FY17            | FY18            | FY19            | YoY growth    | FY19E           | A vs E        |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|---------------|
| Gross Written Premiums                | 68,239          | 82,917          | 90,578          | 85,155          | 66,444          | 58,395          | 62,289          | 84,367          | 35.4%         | 82,801          | 1.9%          |
| Gross Earned Premiums                 | 86,947          | 81,946          | 96,825          | 92,327          | 73,031          | 64,051          | 65,299          | 80,764          | 23.7%         | 82,035          | -1.5%         |
| Reinsurers' share                     | (38,530)        | (41,966)        | (51,866)        | (48,206)        | (47,919)        | (41,655)        | (43,266)        | (47,545)        | 9.9%          | (53,596)        | -11.3%        |
| <b>Net Earned Premiums</b>            | <b>48,417</b>   | <b>39,980</b>   | <b>44,959</b>   | <b>44,121</b>   | <b>25,112</b>   | <b>22,396</b>   | <b>22,033</b>   | <b>33,219</b>   | <b>50.8%</b>  | <b>28,439</b>   | <b>16.8%</b>  |
| Claims paid and change in insu        | (91,377)        | (91,932)        | (109,450)       | (102,608)       | (65,159)        | (43,737)        | (38,175)        | (46,095)        | 20.7%         | (48,847)        | -5.6%         |
| Reinsurers' share                     | 41,155          | 44,047          | 53,748          | 48,457          | 42,077          | 30,216          | 27,588          | 29,525          | 7.0%          | 33,078          | -10.7%        |
| <b>Net insurance benefits and cl.</b> | <b>(50,222)</b> | <b>(47,885)</b> | <b>(55,702)</b> | <b>(54,151)</b> | <b>(23,082)</b> | <b>(13,521)</b> | <b>(10,587)</b> | <b>(16,570)</b> | <b>56.5%</b>  | <b>(15,769)</b> | <b>5.1%</b>   |
| <b>Underwriting Result</b>            | <b>(1,805)</b>  | <b>(7,905)</b>  | <b>(10,743)</b> | <b>(10,030)</b> | <b>2,030</b>    | <b>8,875</b>    | <b>11,446</b>   | <b>16,649</b>   | <b>45.5%</b>  | <b>12,670</b>   | <b>31.4%</b>  |
| <b>Loss ratio</b>                     | <b>105%</b>     | <b>112%</b>     | <b>113%</b>     | <b>111%</b>     | <b>89%</b>      | <b>68%</b>      | <b>58%</b>      | <b>57%</b>      | <b>-1.4%</b>  | <b>60%</b>      | <b>-2.5%</b>  |
| Net acquisition and administra        | (6,076)         | (3,329)         | (5,741)         | 869             | 3,874           | (3,584)         | (1,260)         | (10,069)        | 699.3%        | (9,024)         | 11.6%         |
| of which commissions                  | (2,090)         | (2,888)         | (3,492)         | (2,912)         | (1,651)         | (1,770)         | (2,010)         | (6,516)         | 224.2%        | (7,383)         | -11.7%        |
| <b>Commission ratio</b>               | <b>2.4%</b>     | <b>3.5%</b>     | <b>3.6%</b>     | <b>3.2%</b>     | <b>2.3%</b>     | <b>2.8%</b>     | <b>3.1%</b>     | <b>8.1%</b>     | <b>162.1%</b> | <b>9.0%</b>     | <b>-10.4%</b> |
| of which general expenses             | (8,957)         | (9,380)         | (9,748)         | (8,346)         | (7,429)         | (9,898)         | (10,566)        | (16,678)        | 57.8%         | (15,587)        | 7.0%          |
| <b>General expenses ratio</b>         | <b>10.3%</b>    | <b>11.4%</b>    | <b>10.1%</b>    | <b>9.0%</b>     | <b>10.2%</b>    | <b>15.5%</b>    | <b>16.2%</b>    | <b>20.6%</b>    | <b>27.6%</b>  | <b>19.0%</b>    | <b>8.7%</b>   |
| of which ceding commision             | 4,971           | 8,939           | 7,499           | 12,127          | 12,954          | 8,084           | 11,316          | 13,124          | 16.0%         | 13,946          | -5.9%         |
| <b>Combined ratio</b>                 | <b>118%</b>     | <b>127%</b>     | <b>127%</b>     | <b>123%</b>     | <b>102%</b>     | <b>87%</b>      | <b>78%</b>      | <b>86%</b>      | <b>8.1%</b>   | <b>88%</b>      | <b>-1.8%</b>  |
| Financial Result                      | 7,548           | 8,841           | 12,478          | (4,469)         | (6,049)         | 5,738           | 107             | 1,954           | 1729.1%       | 2,976           | -34.4%        |
| <b>Operating Result</b>               | <b>(333)</b>    | <b>(2,393)</b>  | <b>(4,006)</b>  | <b>(13,630)</b> | <b>(145)</b>    | <b>11,029</b>   | <b>10,293</b>   | <b>8,533</b>    | <b>-17.1%</b> | <b>6,623</b>    | <b>28.9%</b>  |
| Other income (expenses)               | (680)           | 281             | (1,602)         | 471             | (1,791)         | (31,705)        | (4,039)         | 7,289           | -280.5%       | 12,295          | -40.7%        |
| <b>EBT</b>                            | <b>(1,013)</b>  | <b>(2,112)</b>  | <b>(5,608)</b>  | <b>(13,159)</b> | <b>(1,936)</b>  | <b>(20,676)</b> | <b>6,254</b>    | <b>15,822</b>   | <b>153.0%</b> | <b>18,918</b>   | <b>-16.4%</b> |
| Income taxes                          | (282)           | 419             | 179             | (918)           | 437             | (3,190)         | 2,154           | 3,372           | 56.5%         | 5,486           | -38.5%        |
| <b>Net Income</b>                     | <b>(731)</b>    | <b>(2,531)</b>  | <b>(5,787)</b>  | <b>(12,240)</b> | <b>(2,373)</b>  | <b>(17,485)</b> | <b>4,100</b>    | <b>12,450</b>   | <b>203.7%</b> | <b>13,432</b>   | <b>-7.3%</b>  |
| <b>Net Income Adjusted</b>            | <b>(731)</b>    | <b>(2,531)</b>  | <b>(5,787)</b>  | <b>(12,240)</b> | <b>(2,373)</b>  | <b>3,500</b>    | <b>6,700</b>    | <b>7,000</b>    | <b>4.5%</b>   | <b>4,912</b>    | <b>42.5%</b>  |

Source: Company data, KT&Partners' elaboration

## Estimates Revision

COVID-19 is becoming the biggest challenge that the global economy has faced since the 2008 Great Financial Depression. It is a global symmetric shock affecting economies and business activities with significant negative short-term impact and unclear long-term effects. In order to assess COVID-19's effect on NET's results, we developed a scenario analysis which is basically dependent on three variables:

- 1) Lockdown duration;
- 2) % of GWP lost during the lockdown period;
- 3) % of loss ratio deterioration following a rising in the default, unemployment and mortality risk and a deterioration in the macroeconomic activity. For all our scenarios, we expect a pick in FY21 loss ratio mainly due to a lag time factor resulting from unemployment to default. For the following years we foresee lower deterioration also thanks to more accurate selection/underwriting criteria.

Before going deeper into our what-if scenario, it is worth noticing that historically the Group have showed a great exposure to the salary or pension backed loans market which represents the traditional business. Focusing on the pension backed segment, the current portfolio has a low exposure to the Italian elderly (people aged over 70+ years old) which is the most affected by COVID's lethality. Looking instead at the salary backed loans segment, we point out that NET reinsures more than half of the policies covering private employees which represent one third of the total salary backed loan portfolio. The low concentration on elderly people along with the high reinsurance level of the policies covering private employees mitigate the impact on group's profitability in all our scenarios.

We developed three scenarios assessing how the situation may develop in 2020. For all our scenarios, we assume that higher market demand for protection in the following years will drive a recovery in the % of GWP lost during FY20 due to lower commercial activity and cooling demand.

1. **Worst-Case Scenario.** Our worst-case scenario assumes: i) a lockdown period of three months; ii) a 13.6% decline in FY20 GWP sales, factoring in a company operation level of 50% for all the lock-down period; iii) a worsening, compared to our previous estimates, of 3pp in FY20 loss ratio and of 5pp in FY21 loss ratio. We also consider a recovery of 50% of the % of GWP lost during FY20 leading GWP to grow at +18.5% CAGR2019-22 although 3.3% lower than previously expected in a no-COVID-19 world. We still consider reasonable €140.2mn revenues in FY2022. We expect loss ratio to go from 56% in FY20 to 52% in FY22. Over the 2020-2022 period, we forecast Solvency Ratio at 146% in FY20, progressively improving to 167% in FY22;
2. **Base-Case Scenario.** In our base-case scenario, we assume: i) a two-month lockdown period; ii) a 7.3% drop in 2020 annual GWP, forecasted at €106.1mn, considering an operation rate of 60% during the two months; and iii) loss ratio to increase with respect our previous estimates by 2pp in FY20, 3pp in FY21 and a 2pp in FY22. Considering a 60% recovery of the % of GWP lost during FY21, we forecast GWP to increase at a +20.3% CAGR2019-22 (vs a +21.7% CAGR2019-22 from our

previous research), reaching €146.8mn in FY22. We expect loss ratio to be 55% in FY20 and to progressively improve over the forecasted period reaching 50% in FY22. We forecast Solvency Ratio in the range of 152%-175% over the 2020-2022 period;

3. **Best-Case Scenario.** In the optimistic scenario, we consider: i) a lock-down period of two months; ii) no decline in FY20 GWP, factoring in a total recovery of the % of GWP during the lock-down period by the end of FY20; and iii) a 1pp worsening in loss ratio compared to our previous forecast following a higher level of claims due to unemployment and/or mortality. GWP are expected to grow at 21.7% whereas loss ratio is expected to go from 54% in FY to 48% in FY22. We expect Solvency Ratio to stand in the range of 160%-181% over the 2020-2022 period.

### Worst-Case Scenario

| € thousand            | 2019A   | 2020E   | 2020E               | Change | 2021E   | 2021E               | Change | 2022E   | 2022E               | Change | CAGR            | CAGR                   |
|-----------------------|---------|---------|---------------------|--------|---------|---------------------|--------|---------|---------------------|--------|-----------------|------------------------|
|                       |         | Old     | New<br>Post-COVID19 |        | Old     | New<br>Post-COVID19 |        | Old     | New<br>Post-COVID19 |        | 2019-'22<br>Old | 2019-'22<br>Post-COVID |
| Gross Written Premium | 84,367  | 114,414 | 98,812              | -13.6% | 133,762 | 123,265             | -7.8%  | 152,196 | 140,230             | -7.9%  | 21.7%           | 18.5%                  |
| YoY Change (%)        |         | 35.6%   | 17.1%               |        | 16.9%   | 24.7%               |        | 13.8%   | 13.8%               |        |                 |                        |
| Underwriting Result   | 16,649  | 21,139  | 18,833              | -10.9% | 30,961  | 27,397              | -11.5% | 37,395  | 33,146              | -11.4% | 31.0%           | 25.8%                  |
| YoY Change (%)        |         | 27.0%   | 13.1%               |        | 46.5%   | 45.5%               |        | 20.8%   | 21.0%               |        |                 |                        |
| Operating Result      | 8,533   | 8,486   | 6,571               | -22.6% | 17,495  | 14,760              | -15.6% | 21,904  | 18,629              | -15.0% | 36.9%           | 29.7%                  |
| YoY Change (%)        |         | -0.6%   | -23.0%              |        | 106.2%  | 124.6%              |        | 25.2%   | 26.2%               |        |                 |                        |
| Adjusted Net Income   | 7,000   | 6,026   | 4,994               | -17.1% | 12,301  | 10,656              | -13.4% | 15,318  | 13,304              | -13.1% | 29.8%           | 23.9%                  |
| YoY Change (%)        |         | -13.9%  | -28.7%              |        | 104.1%  | 113.4%              |        | 24.5%   | 24.8%               |        |                 |                        |
| Loss Ratio            | 57%     | 53%     | 56%                 | 2.1%   | 49%     | 54%                 | 4.7%   | 48%     | 52%                 | 3.8%   | n.m.            | n.m.                   |
| Combined Ratio        | 86%     | 88%     | 91%                 | 2.1%   | 85%     | 90%                 | 4.7%   | 84%     | 88%                 | 3.8%   | n.m.            | n.m.                   |
| Solvency Ratio        | 166%    | 180%    | 146%                | -34.5% | 179%    | 164%                | -15.7% | 181%    | 167%                | -14.4% | n.m.            | n.m.                   |
| Investments           | 167,008 | 196,007 | 196,792             | 0.4%   | 213,181 | 212,664             | -0.2%  | 239,541 | 234,906             | -1.9%  | 12.8%           | 12.0%                  |
| YoY Change (%)        |         | 17%     | 18%                 |        | 9%      | 8%                  |        | 12%     | 10%                 |        |                 |                        |
| Insurance provisions  | 300,430 | 310,963 | 302,399             | -2.8%  | 335,206 | 318,750             | -4.9%  | 365,157 | 340,896             | -6.6%  | 6.7%            | 4.3%                   |
| YoY Change (%)        |         | 3.5%    | 0.7%                |        | 7.8%    | 5.4%                |        | 8.9%    | 6.9%                |        |                 |                        |

Source: Company data, KT&Partners' elaborations

### Base-Case Scenario

| € thousand            | 2019A   | 2020E   | 2020E               | Change | 2021E   | 2021E               | Change | 2022E   | 2022E               | Change | CAGR            | CAGR                   |
|-----------------------|---------|---------|---------------------|--------|---------|---------------------|--------|---------|---------------------|--------|-----------------|------------------------|
|                       |         | Old     | New<br>Post-COVID19 |        | Old     | New<br>Post-COVID19 |        | Old     | New<br>Post-COVID19 |        | 2019-'22<br>Old | 2019-'22<br>Post-COVID |
| Gross Written Premium | 84,367  | 114,414 | 106,093             | -7.3%  | 133,762 | 128,990             | -3.6%  | 152,196 | 146,752             | -3.6%  | 21.7%           | 20.3%                  |
| YoY Change (%)        |         | 35.6%   | 25.8%               |        | 16.9%   | 21.6%               |        | 13.8%   | 13.8%               |        |                 |                        |
| Underwriting Result   | 16,649  | 21,139  | 19,449              | -8.0%  | 30,961  | 28,706              | -7.3%  | 37,395  | 34,858              | -6.8%  | 31.0%           | 27.9%                  |
| YoY Change (%)        |         | 27.0%   | 16.8%               |        | 46.5%   | 47.6%               |        | 20.8%   | 21.4%               |        |                 |                        |
| Operating Result      | 8,533   | 8,486   | 6,455               | -23.9% | 17,495  | 15,675              | -10.4% | 21,904  | 19,856              | -9.4%  | 36.9%           | 32.5%                  |
| YoY Change (%)        |         | -0.6%   | -24.4%              |        | 106.2%  | 142.8%              |        | 25.2%   | 26.7%               |        |                 |                        |
| Adjusted Net Income   | 7,000   | 6,026   | 4,860               | -19.3% | 12,301  | 11,265              | -8.4%  | 15,318  | 14,128              | -7.8%  | 29.8%           | 26.4%                  |
| YoY Change (%)        |         | -13.9%  | -30.6%              |        | 104.1%  | 131.8%              |        | 24.5%   | 25.4%               |        |                 |                        |
| Loss Ratio            | 57%     | 53%     | 55%                 | 1.6%   | 49%     | 52%                 | 2.8%   | 48%     | 50%                 | 2.2%   | n.m.            | n.m.                   |
| Combined Ratio        | 86%     | 88%     | 90%                 | 1.6%   | 85%     | 88%                 | 2.8%   | 84%     | 86%                 | 2.2%   | n.m.            | n.m.                   |
| Solvency Ratio        | 166%    | 180%    | 152%                | -28.2% | 179%    | 170%                | -9.2%  | 181%    | 175%                | -6.1%  | n.m.            | n.m.                   |
| Investments           | 167,008 | 196,007 | 198,437             | 1.2%   | 213,181 | 216,437             | 1.5%   | 239,541 | 240,937             | 0.6%   | 12.8%           | 13.0%                  |
| YoY Change (%)        |         | 17%     | 19%                 |        | 9%      | 9%                  |        | 12%     | 11%                 |        |                 |                        |
| Insurance provisions  | 300,430 | 310,963 | 307,206             | -1.2%  | 335,206 | 327,590             | -2.3%  | 365,157 | 353,676             | -3.1%  | 6.7%            | 5.6%                   |
| YoY Change (%)        |         | 3.5%    | 2.3%                |        | 7.8%    | 6.6%                |        | 8.9%    | 8.0%                |        |                 |                        |

Source: Company data, KT&Partners' elaborations

## Best-Case Scenario

| € thousand            | 2019A   | 2020E        | 2020E        | Change | 2021E        | 2021E        | Change | 2022E        | 2022E        | Change | CAGR     | CAGR       |
|-----------------------|---------|--------------|--------------|--------|--------------|--------------|--------|--------------|--------------|--------|----------|------------|
|                       |         | Old          | New          |        | Old          | New          |        | Old          | New          |        | 2019-'22 | 2019-'22   |
|                       |         | Post-COVID19 | Post-COVID19 |        | Post-COVID19 | Post-COVID19 |        | Post-COVID19 | Post-COVID19 |        | Old      | Post-COVID |
| Gross Written Premium | 84,367  | 114,414      | 114,414      | 0.0%   | 133,762      | 133,762      | 0.0%   | 152,196      | 152,196      | 0.0%   | 21.7%    | 21.7%      |
| YoY Change (%)        |         | 35.6%        | 35.6%        |        | 16.9%        | 16.9%        |        | 13.8%        | 13.8%        |        |          |            |
| Underwriting Result   | 16,649  | 21,139       | 20,384       | -3.6%  | 30,961       | 29,914       | -3.4%  | 37,395       | 36,348       | -2.8%  | 31.0%    | 29.7%      |
| YoY Change (%)        |         | 27.0%        | 22.4%        |        | 46.5%        | 46.8%        |        | 20.8%        | 21.5%        |        |          |            |
| Operating Result      | 8,533   | 8,486        | 6,555        | -22.8% | 17,495       | 16,727       | -4.4%  | 21,904       | 21,132       | -3.5%  | 36.9%    | 35.3%      |
| YoY Change (%)        |         | -0.6%        | -23.2%       |        | 106.2%       | 155.2%       |        | 25.2%        | 26.3%        |        |          |            |
| Adjusted Net Income   | 7,000   | 6,026        | 4,873        | -19.1% | 12,301       | 11,978       | -2.6%  | 15,318       | 14,996       | -2.1%  | 29.8%    | 28.9%      |
| YoY Change (%)        |         | -13.9%       | -30.4%       |        | 104.1%       | 145.8%       |        | 24.5%        | 25.2%        |        |          |            |
| Loss Ratio            | 57%     | 53%          | 54%          | 0.2%   | 49%          | 50%          | 0.3%   | 48%          | 48%          | 0.3%   | n.m.     | n.m.       |
| Combined Ratio        | 86%     | 88%          | 89%          | 0.2%   | 85%          | 85%          | 0.3%   | 84%          | 84%          | 0.3%   | n.m.     | n.m.       |
| Solvency Ratio        | 166%    | 180%         | 160%         | -19.7% | 179%         | 179%         | -0.3%  | 181%         | 181%         | 0.1%   | n.m.     | n.m.       |
| Investments           | 167,008 | 196,007      | 200,464      | 2.3%   | 213,181      | 220,831      | 3.6%   | 239,541      | 247,811      | 3.5%   | 12.8%    | 14.1%      |
| YoY Change (%)        |         | 17%          | 20%          |        | 9%           | 10%          |        | 12%          | 12%          |        |          |            |
| Insurance provisions  | 300,430 | 310,963      | 312,653      | 0.5%   | 335,206      | 337,515      | 0.7%   | 365,157      | 368,048      | 0.8%   | 6.7%     | 7.0%       |
| YoY Change (%)        |         | 3.5%         | 4.1%         |        | 7.8%         | 8.0%         |        | 8.9%         | 9.0%         |        |          |            |

Source: Company data, KT&Partners' elaborations

## Valuation

In valuing NET we take in consideration estimates of base case scenario and 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 **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 €242mn. 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 11.86%, 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 €4.74ps, resulting in a cash-in of ca. €9.7mn (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: €113mn or €6.55ps;
- HP2 - Cancellation of treasury shares: €104mn or €6.79ps.

Taking the average of the 2 different scenarios, we derive a **fair value per share of €6.67 with a 40.6% potential upside**.<sup>6</sup> Our peer analysis based on **DFV Deutsche Familienversicherung AG** multiples comparison confirms the current substantial discount of NET ranging from 80% on a P/BV20 to 88% on P/E20.

For completeness, in order to size share value sensitivity to changes in FY20 GWP and in the loss ratio, here below we report the share price in the worst-case and in the best-case scenario:

- Worst-case scenario: €6.37 per share;
- Best-case scenario: €6.99 per share.

<sup>6</sup> NET's shareholders over the coming years could be subject to potential dilution of maximum 9%, related to the 1.96mn warrants exercise and 0.149mn special shares conversion. 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 9.5% cost of equity, a function of the risk-free rate of 1.6% (Italian 10y BTP), 0.9 beta,<sup>7</sup> 6.2% equity risk premium (Damodaran) and a premium for size of 2.5%.

We note that NET holds 11.86% 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.

We discounted the 2020E-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: €94mn or €5.4ps;
- HP2 - Cancellation of treasury shares: €84mn or €5.5ps.

#### Dividend Discount Model

| € thousand                | 2020          | 2021  | 2022          | 2023  | 2024  |
|---------------------------|---------------|-------|---------------|-------|-------|
| EPS €                     | 1.00          | 0.74  | 0.92          | 1.20  | n.a.  |
| pay-out ratio             | 0%            | 20%   | 25%           | 30%   | 40%   |
| Dividend flow             | -             | 3,045 | 2,816         | 4,238 | 7,356 |
| NPV of Dividends          | 0             | 2,606 | 2,201         | 3,027 | 4,799 |
| <b>g</b>                  | <b>2.0%</b>   |       |               |       |       |
| <b>ke</b>                 | <b>9.5%</b>   |       |               |       |       |
| Discounted Cumulated Div  | 12,633        |       |               |       |       |
| TV                        | 109,044       |       |               |       |       |
| Discounted TV             | 71,134        |       |               |       |       |
| <b>NPV Dividends + TV</b> | <b>83,767</b> |       |               |       |       |
|                           | <b>HP1</b>    |       | <b>HP2</b>    |       |       |
| Equity Value              | <b>93,513</b> |       | <b>83,767</b> |       |       |
| # shares mn               | 17.3          |       | 15.3          |       |       |
| <b>Value per share €</b>  | <b>5.4</b>    |       | <b>5.5</b>    |       |       |

Source: KT&Partners' elaboration

<sup>7</sup> NET beta has been estimated as a weighted average of NET FY19 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 2020-23. We 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 2020-23.

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: €133mn or €7.7ps;
- HP2 - Cancellation of treasury shares: €124mn or €8.1ps.

### Warranted Equity Method (Gordon Model)

| € thousand                        | 2020           | 2021    | 2022    | 2023    |
|-----------------------------------|----------------|---------|---------|---------|
| BV of Shareholder Equity          | 71,782         | 87,009  | 95,228  | 106,540 |
| Intangible Asset                  | 3,358          | 4,158   | 4,958   | 5,758   |
| Tangible Book Value (TBV)         | 68,424         | 82,851  | 90,270  | 100,782 |
| Net Income ADJ.                   | 4,860          | 11,265  | 14,128  | 18,391  |
| Return on Tangible Equity (F      | 7.1%           | 13.6%   | 15.7%   | 18.2%   |
| Equity Value -> (ROTE-g)/(Ke      | 46,774         | 128,695 | 165,059 | 219,336 |
| NPV of Equity Value               | 43,812         | 110,122 | 129,025 | 156,627 |
| <b>Average Equity Value</b>       | <b>109,897</b> |         |         |         |
| <b>PV recovery of misappropia</b> | <b>13,676</b>  |         |         |         |
| <b>Equity Value</b>               | <b>123,572</b> |         |         |         |

|                        | HP1            | HP2            |
|------------------------|----------------|----------------|
| <b>Equity Value</b>    | <b>133,318</b> | <b>123,572</b> |
| # shares               | 17,336         | 15,280         |
| <b>Value per share</b> | <b>7.7</b>     | <b>8.1</b>     |

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 21, 2007, and is headquartered in Frankfurt, Germany. DFV's current market cap is €242mn.

### 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      | 242        | n.m      | n.m      | 39.1x    | 23.0x    | 3.8x      | 3.8x      | 4.2x      | 3.9x      |
| NET INSURANCE                        | AIM ITALIA | 72         | 17.7x    | 5.8x     | 4.8x     | 6.4x     | 1.3x      | 1.0x      | 0.8x      | 0.8x      |
| NET INSURANCE Discounts vs DFV       |            | n.m.       | n.m.     | n.m.     | -88%     | -72%     | -64%      | -73%      | -80%      | -80%      |

Source: FactSet, KT&Partners' elaboration

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