Net Insurance S.p.A.

Insurance

KT&PARTNERS

Warming Up the Engines Heading to the "STAR"

ADD | Fair Value: €9.42 (€9.79) | Current Price: €7.00 | Upside: 34.6%

Research Update

€ Million	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Gross Written Premiums	62.3	84.4	117.7	149.3	172.4	194.1	211.0
Underwriting Result	11.4	16.6	21.2	26.6	34.2	41.4	47.6
Combined Ratio	*80%*	*85%*	*90%*	*89%*	*87%*	*85%*	*83%*
Net Profit	4.1	12.5	6.5	11.3	21.6	19.9	24.0
Net Profit Adjusted	6.7	7.0	7.6	11.5	14.5	18.9	22.9
EPS	0.3	0.8	0.4	0.7	1.2	1.1	1.4
EPS Adjusted	0.4	0.5	0.5	0.7	0.8	1.1	1.3

Source: Company data, KT&Partners' elaboration

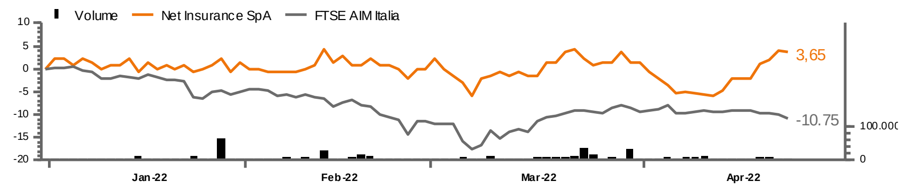
FY21 results "to be framed". NET-IT achieved strong results thanks to positive performance recorded by all business segments. FY21 gross written premiums increased by 26.8% YoY to €149.3mn, exceeding by ca. +11% company's business plan targets while being in line with our expectations (-0.6%). GWP were up in both P&C (+21.7% YoY) and Life (+32.5% YoY) segments. The CQ business kept contributing for the bulk of total GWP, although its incidence decreased by ca. 9pp to ca. 60% mainly following the expansion of the bancassurance line (+86% YoY). Indeed, the bancassurance channel generated €28.3mn of GWP in FY21, representing ca. 19% of total GWP (+6pp compared to FY20). This is the result of the strategy successfully executed by NET-IT's management in less than three-years, leading to a network of 18 partners (of which 2 acquired in 2022) and ca. 1,000 branches in Italy to distribute its policies. According to KT&Partners' elaborations, the Group's CoR (gross of reinsurance) amounted to 89.4%, -0.5pp YoY but ca. +1.7pp compared to our estimates mainly due to higher-than-expected commission costs related to the development of the new distribution channels. Net profit recorded a remarkable growth of 73.7% YoY amounting to €11.3mn, in line with NET-IT's business plan but 17.2% below our expectations mainly due to the higher-than-expected claims associated to Covid-19 mortality and commissions costs. By adjusting for extraordinary items, net income stood at €11.5 (vs €11.3mn of NET-IT's targets). A solid capital position was confirmed as well, with the SR at 180.7%, almost in line with FY20 and well above NET-IT guidelines (165%–175%). NET-IT's balance sheet strength is also confirmed by AM Best, which affirmed the company's Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of "bbb–" (Good). The BoD proposed a dividend per share of €0.17 (2.4% dividend yield).

Upcoming events: 2022-25 business plan and translisting to Euronext STAR Milan. In April 2022, the Company announced two important upcoming events. On June 23rd, NET-IT will release a new business plan updating its guidelines for the 2022-25 period. Furthermore, the Board of Director has approved the translisting to the Euronext STAR Milan by the end of 2022, representing a cornerstone moment in the Group's growth and development path.

Estimates review. Following FY21 results, we left unchanged our topline estimates while revising downward bottom-line projections to factor in higher-than-expected claims and commission costs. We expect GWP to grow at a CAGR21-24 of 12.2%, reaching €211mn in FY24 We forecast CoR at 87.1% in FY22, gradually decreasing to 82.6% in FY24. Net income is expected to grow from €21.6mn in FY22 to €24mn in FY24, also benefiting from ca. €13mn cash-in from the recovery of funds related to the "Mister X" fraud. Adjusting by recovered sums, we expect FY22 net income at €14.5mn, increasing at a CAGR21-24 of 25.8%. Finally, we expect the solvency ratio to remain above 185% over the 2022–24 period.

Valuation. We update our valuation to factor in: i) estimates revision; and ii) higher market parameters due to macroeconomics uncertainties. As a result, our valuation – based on both DDM and the warranted equity method – returns a fair value of €9.42ps, implying a +34.6% upside on the current stock price and ca. -4% with respect to our latest update.

YTD Relative Performance Chart



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Market Data	
Main Shareholders	
IBL Banca S.p.A.	26.64%
First Capital S.p.A.	5.53%
Algebris UK Limited	5.00%
Mkt Cap (€ mn)	121.5
Shares issued	18,510,070
Treasury shares	1,989,933
Shares out.	17,353,470
Free Float	52.08%

Market multiples	2021	2022	2023
*P/E**	10.7x	5.6x	6.1x
P/BV	1.4x	1.1x	1.0x
P/Premiums	0.8x	0.7x	0.6x

Stock Data	
52 Wk High (€)	7.50
52 Wk Low (€)	5.65
Avg. Daily Trading 90d	8,822
Price Change 1w (%)	8.70
Price Change 1m (%)	-2.10
Price Change YTD (%)	2.19

**P/E is based on net income including the recovery of funds related to "Mister X" fraud*

Key Figures – Net Insurance S.p.A.

Current price (€)	Fair Value (€)	Sector	Free Float (%)
7.00	9.42	Insurance	52.1%

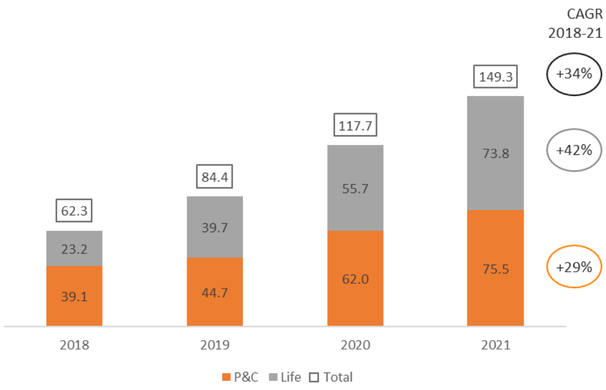
Per Share Data	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Total shares issued (mn)	17.3	17.3	17.3	18.5	18.5	18.5	18.5
Total shares outstanding (mn)	15.3	15.3	15.3	17.4	17.4	17.4	17.4
EPS	0.3	0.8	0.4	0.7	1.2	1.1	1.4
EPS adjusted	0.4	0.5	0.5	0.7	0.8	1.1	1.3
BV Per Share	3.5	4.7	5.2	5.1	6.2	7.0	7.9
Dividend per share (ord)	-	-	0.1	0.2	0.4	0.5	0.6
Dividend pay out ratio (%)	-	-	19%	26%	30%	40%	40%
Income Statement (EUR million)							
Gross Written Premium (GWP)	62.3	84.4	117.7	149.3	172.4	194.1	211.0
Underwriting Result	11.4	16.6	21.2	26.6	34.2	41.4	47.6
Financial Result	0.1	2.0	2.2	3.1	4.0	5.0	5.5
Operating Income	10.3	8.5	12.2	13.0	20.6	26.8	32.5
Net Income	4.1	12.5	6.5	11.3	21.6	19.9	24.0
Net Income Adj.	6.7	7.0	7.6	11.5	14.5	18.9	22.9
Balance Sheet (EUR million)							
Investments	178.0	164.0	176.8	201.5	221.6	249.3	275.1
Intangible assets	0.9	2.6	5.0	6.1	6.9	7.7	8.5
Deferred acquisition costs	-	-	-	-	-	-	-
Insurance technical reserves	299.5	300.4	326.2	362.1	401.2	439.8	476.7
Senior or subordinated debt	14.7	15.5	20.1	17.0	17.0	17.0	17.0
Shareholder's Equity	53.8	71.8	79.8	88.8	107.4	120.8	136.8
Ratios (%)							
Loss ratio	64.8%	55.6%	55.7%	55.0%	55.8%	54.4%	53.5%
Commission ratio	2.6%	8.3%	13.6%	16.5%	15.9%	15.8%	14.9%
General expenses ratio	13.0%	20.7%	20.5%	17.8%	15.4%	14.9%	14.3%
Combined ratio	80.4%	84.7%	89.8%	89.4%	87.1%	85.1%	82.6%
Solvency ratio	162.9%	165.7%	177.2%	180.7%	186.5%	189.5%	190.4%
ROE	11.3%	19.8%	8.6%	13.4%	22.0%	17.5%	18.6%
ROE Adj.	18.4%	11.1%	10.0%	13.7%	14.7%	16.5%	17.8%
Valuation							
P/E	29.6x	9.8x	18.7x	10.7x	5.6x	6.1x	5.1x
P/BV	2.0x	1.5x	1.3x	1.4x	1.1x	1.0x	0.9x
P/Premiums	2.0x	1.4x	1.0x	0.8x	0.7x	0.6x	0.6x
Dividend yield (%)	0.0%	0.0%	1.2%	2.4%	5.3%	6.6%	7.9%
Growth rates (%)							
GWP	6.7%	35.6%	39.4%	26.8%	15.4%	12.6%	8.7%
Underwriting Result	29.0%	45.5%	27.5%	25.5%	28.3%	21.0%	15.1%
Operating Income	-6.7%	-17.1%	43.5%	5.9%	58.7%	30.2%	21.3%
Net Income	-23.4%	303.7%	52.3%	173.7%	190.7%	92.4%	120.3%
Net Income Adj.	91.4%	4.5%	8.6%	51.4%	25.7%	30.4%	21.4%

Source: Company data, KT&Partners' elaboration

Note: The number of treasury shares is netted for shares that will be used to service the eventual bond conversion.

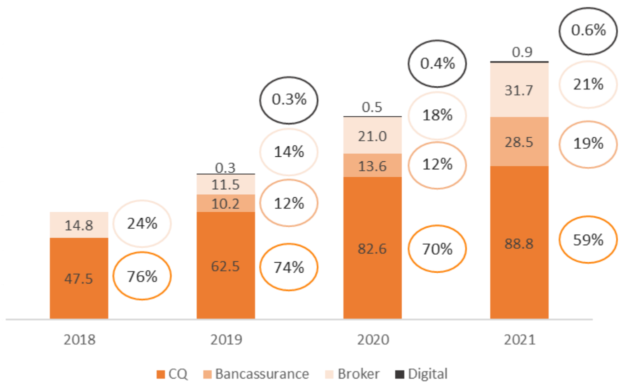
Key charts

P&C and Life Gross Written Premiums (€mn)



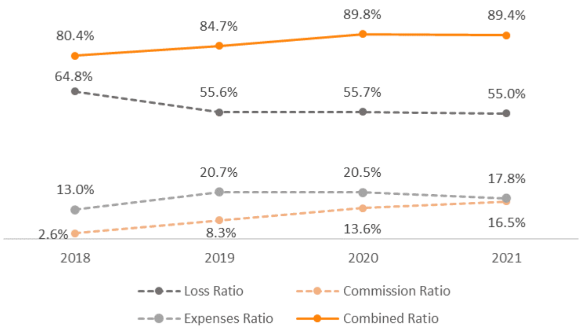
Source: Company data, KT&Partners' elaborations

Gross Written Premiums by Business Line (€mn, %)



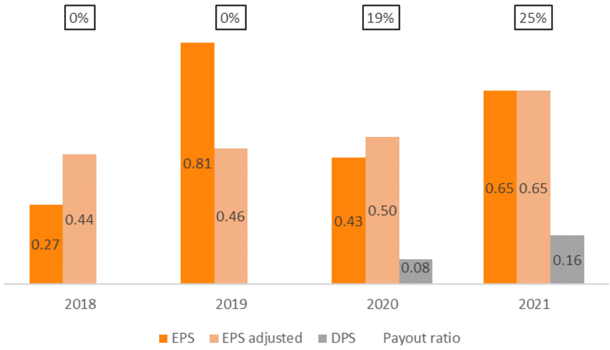
Source: Company data, KT&Partners' elaborations

Key Ratios (%)



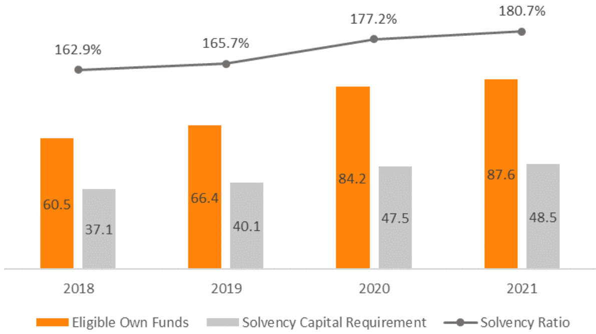
Source: Company data, KT&Partners' elaborations
Note: key ratios are calculated gross of reinsurance

EPS, EPS adjusted and DPS (€)



Source: Company data, KT&Partners' elaborations

Solvency Ratio



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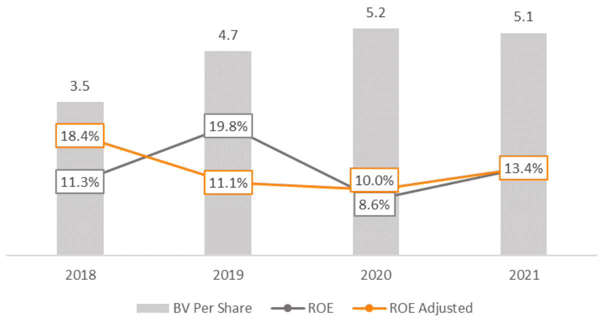
Source: Company data, KT&Partners' elaborations

BV per share (€), ROE and ROE Adjusted (%)



Source: Company data, KT&Partners' elaborations

Overview

Company description

Net Insurance (NET-IT) is an **innovative multi-line insurance player** specialized in: i) insurance of **salary and pension-backed loans (CQ)**; and ii) non-life and protection products aimed at individuals and small business, distributed through **bancassurance**, **retail brokers** and **digital** channels.

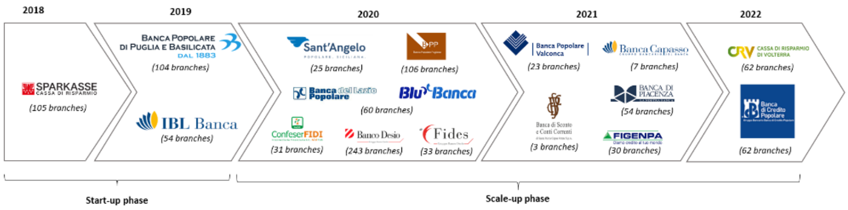
In 2018, NET merged with Archimede, the SPAC promoted by Andrea Battista, Giampiero Stefano Rosmarini and Matteo Carbone that raised €47mn. Archimede was the first Italian SPAC dedicated to the insurance sector and the first with a disclosed target. The merger with Archimede represented a turning point for NET, allowing the Group to leverage on fresh capital (restoring capital above regulatory requirements), an outstanding management and a new strategic plan.

Following the business combination, the main levers of NET-IT – along with strong governance and a world class management team - are: i) consolidation of NET-IT's positioning in the CQ market; ii) the development of high growth distribution channels (i.e. bancassurance, retail broker and digital channels); and iii) a "**pervasive insurtech**" approach through the whole value chain, to enhance group profitability, particularly risk selection, pricing and distribution.

Investment Case

- ***Strong positioning in the CQ market (CQ).*** According to Business Intelligence's data, in 2021, NET-IT was among the largest player within the Italian CQ market with a market share in terms of volume exceed 25% from ca. 20% in 2019.

- ***Bancassurance has taken off and 18 partnerships have been signed since the end of 2018.*** Bancassurance is one of the fastest-growing distribution channels with highly attractive levels of Combined Ratio (CoR). To take advantage of this trend, NET-IT's management has leveraged on its business connections and experience to start new relationships with the banking sector and seize cross-selling opportunities on CQ's clients. Thanks to the 18 agreements signed in the last 3 years, NET-IT can rely on **ca. 1,000 branches** in Italy to distribute its non-life and protection policies. Further agreements are in pipeline.



- ***"A pervasive insurtech" approach***. Insurtech and digital transformation are a core element in NET-IT's strategic plan, being a key profitability enhancer, particularly in risk selection, pricing and distribution. The adoption of the Insurtech strategy through the whole value chain is superseded by Matteo Carbone – one of Archimede's promoters and chairman of the Innovation advisory Board of NET-IT – a worldwide expert in Insurtech and insurance innovation.

- ***A highly experienced top management achieving outstanding results.*** NET-IT boasts a strong and experienced management team led by Andrea Battista, which is successfully executing its strategy, **beating Group's business plan targets for three years in a row**.

- ***Stable and diversified shareholder base also supporting the business.*** Among NET-IT's shareholders, there are top-tier institutional investors which in most cases haves also signed a strategic partnership with NET (i.e. Unicredit, Swisse Re, IBL Banca, Cassa di Risparmio di Bolzano, Banca Popolare di Puglia e Basilicata etc.). We note that IBL –

leader in the Italian CQ market – owns a 26.64% stake in NET (from 9.7% in December 2018).

Recent Developments

- ***Keeping expanding the bancassurance channel.*** On February 9th, 2022, NET-IT announced it has signed a partnership with *Cassa di Risparmio di Volterra*. On April 21st, 2022, NET-IT has strengthened its partnership with Banco di Credito Popolare, bringing to 18 the number of bancassurance agreements closed since the end of 2018. Already partner in the CQ business, Banco di Credito Popolare will distribute P&C bancassurance and life protection policies through its 62 branches, reinforcing NET-IT's presence in Campania.
- ***Launched the first instant insurance policy.*** In 2021, NET partnered with EnelX and Neosurance for the launch of its first instant home insurance policy that protects homes against theft. This solution is currently available on the Italian market, but it is designed for future global scalability. NET has also launched new digital insurance policies for: i) the protection of people (i.e "green mobility" and dental) together with ForGreen Spa, Axieme and Banca Popolare di Puglia e Basilicata; ii) device protection, in partnership with Trendevice; and iii) cyber risk attack, together with Yolo.
- ***Update on the "Black Swan".*** In 2022, NET is expected to cash in €4.4mn related to the fraud emerged in 2019. If this amount will be collected, the total assets recovered up to now will amount to €15.5mn (considering past recovered funds).
- ***Optimizing and maintaining an adequate capital structure.*** With the aim of optimizing its capital structure, at the end of September 2021, NET-IT issued a 5.1% ten-year bond (Tier II) for a total amount of €12.5mn while redeeming the €15mn 7% subordinated note (Tier II) due in 2026. In December 2020, NET-IT issued a five-year subordinated convertible bond (Tier II) for a total amount of €5mn, also leveraging on its treasury shares that will service the eventual bond conversion.
- ***Outlook of credit ratings is stable.*** AM Best confirmed NET-IT's Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of "bbb–" (Good).
- ***A strengthened brand awareness.*** Thanks to the sponsorship of FIGC and AIA, NET-IT's brand awareness increased from 19% in 2020 to 30% in 2021.

FY21 Financial Results

In FY21, NET-IT kept recording outstanding results, leveraging on a clear business strategy aimed at developing a multi-specialist business model.

Fully in line with our expectations, FY21 GWP amounted to €149.3mn (+26.8% YoY) - beating for the third year in a row NET-IT's business plan target by ca. 11% - thanks to the positive performance recorded by all business lines (CQS, Bancassurance, Broker and Digital).

The CQ business line still accounted for the bulk of total GWP (ca. 60% or €91.1mm) although its incidence decreased by ca. 9pp following the diversification process towards a multi-line company. In 2021, NET-IT kept consolidating its positioning in terms of volume within the salary/pension backed loans market with a market share well above 25%. In detail, NET-IT was the 1st Insurance Company in the CQS and the 2nd in the overall CQ market.

The bancassurance business line recorded +86% YoY growth, reaching €28.3mn of GWP (ca. 19% of the total). During 2021, the Company has strengthened its bancassurance network by signing 5 new partnerships (Banca Popolare Valconca, Banca Capasso, Banca di Piacenza, Banca di Sconto e Conti Correnti and Fingepa), bringing to over 850 its "points of sale". Network expansion went with offer expansion thanks to the launch of insurance products dedicated to protection of SMEs (leasing and cyber risk) and persons (sport activities and Long Termcare insurance Coverage). The broker channel, a complementary channel to the bancassurance, reached €29.6mn (ca.19.8% of total GWP), increasing by ca.57% YoY.

As for the digital channel, although the contribution to NET-IT's top line is still low, in 2021 the Group kept working on expanding its product portfolio (i.e. pet insurance, policies dedicate to "green mobility", dental and cyber risk). NET-IT has also signed an important agreement with Enel for the launch of instant insurance policy that protects homes against theft.

Net earned premiums came in at €63.8mn, increasing by 37.7% YoY and +6.2% above our estimates mainly following higher than expected gross earned premiums (6.7% above our estimates).

Looking at the key profitability figures, according to KT&Partners' elaborations, FY21 loss ratio (gross of reinsurance) came in at ca. 55%, -0.7pp YoY and in line with our expectations thanks to the strong business growth which offset the higher claims associated to Covid-19 mortality. The underwriting result[1] came in at €26.6mn, up by 25.5% YoY but -9.5% below our estimates due to the higher level of claims.

According to KT&Partners' elaborations, the Group's CoR (gross of reinsurance) amounted to 89.4%, -0.5pp YoY but ca. +1.7pp compared to our estimates mainly due to higher-than-expected commission costs related to the development of the new distribution channels.

The net result from financial investments increased by +42.4% YoY to €3.1mn, achieving a sound result in a low returns environment. Following the revised asset allocation carried out by the management, the financial portfolio is well diversified with a low risk profile (36% mutual funds, 40.5% Italian and foreign government bonds, 21.5% corporate bond and 2% equity).

Net profit improved by 73.7% YoY amounting to €11.3mn, in line with NET-IT business plan but 17.2% below our expectations mainly due to the higher-than-expected claims and commissions costs. By adjusted for extraordinary items, net income stood at €11.5 (vs €11.3mn of NET-IT's targets).

A solid capital position was confirmed, thanks to a flexible structure which showed strong resilience and low volatility even during challenging period. In line with our expectations, SR

[1] *The difference between net earned premiums and net insurance benefits and claims*

stood at 180.7%, +3.5pp YoY (despite the dividend payment of €1.3mn) and well above NET-IT guidelines (165%–175%).

FY21 Income Statement

	FY19	FY20	FY21A	YoY growth	FY21E	A vs E
Gross Written Premiums	**84.4**	**117.7**	**149.3**	**26.8%**	**149.9**	**-0.4%**
Gross Earned Premiums	80.8	106.7	140.6	31.8%	131.8	6.7%
Reinsurers' share	(47.5)	(60.3)	(76.8)	27.3%	(71.8)	7.1%
Net Earned Premiums	**33.2**	**46.3**	**63.8**	**37.7%**	**60.1**	**6.2%**
Claims paid and change in insurance provisions	(46.1)	(66.9)	(91.1)	36.1%	(79.9)	14.1%
Reinsurers' share	29.5	41.8	54.0	29.0%	49.2	9.6%
Net insurance benefits and claims	**(16.6)**	**(25.1)**	**(37.2)**	**48.0%**	**(30.6)**	**21.3%**
Underwriting Result	**16.6**	**21.2**	**26.6**	**25.5%**	**29.4**	**-9.5%**
Loss ratio	***55.6%***	***55.7%***	***55.0%***	***-0.7%***	***55.1%***	***-0.1%***
Net acquisition and administration costs	(10.1)	(11.2)	(16.8)	50.2%	(14.1)	18.9%
of which commissions	(6.5)	(12.0)	(18.2)	*51.8%*	(16.6)	*9.5%*
Commission ratio	***8.3%***	***13.6%***	***16.5%***	***2.9%***	***14.3%***	***2.2%***
of which general expenses	(16.2)	(18.1)	(19.6)	8.6%	(21.1)	-7.0%
General expenses ratio	***20.7%***	***20.5%***	***17.8%***	***-2.7%***	***18.2%***	***-0.4%***
of which ceding commision	13.1	19.6	22.0	12.4%	24.2	-9.1%
of which investment management costs	(0.5)	(0.8)	(1.1)	37.8%	(0.7)	55.2%
Combined ratio	***84.7%***	***89.8%***	***89.4%***	***-0.5%***	***87.7%***	***1.7%***
Financial Result	2.0	2.2	3.1	42.4%	2.9	*7.7%*
Operating Result	**8.5**	**12.2**	**13.0**	**5.9%**	**18.2**	**-28.8%**
Other income (expenses)	7.3	(3.3)	(0.3)	-92.0%	(1.8)	-85.4%
EBT	**15.8**	**8.9**	**12.7**	**41.9%**	**16.4**	**-22.6%**
Income taxes	3.4	2.4	1.4	-42.7%	2.8	-49.3%
Net Income	**12.5**	**6.5**	**11.3**	**73.7%**	**13.7**	**-17.2%**
Net Income Adjusted	**7.0**	**7.6**	**11.5**	**51.4%**	**13.7**	**-15.8%**

Source: FactSet, KT&Partners' elaboration

Change in Estimates

On the back of the FY21 results, we left unchanged our topline estimates that is above Group's guidelines. Therefore, we expect GWP to grow at a CAGR 2021–24 of 12.2%, reaching €211mn in 2024. We expect that the non-CQS business will gradually increase its incidence on the topline, accounting for ca. 46% of total GWP by 2024.

We lowered our underwriting result estimates by ca. 4.7pp in FY22 and FY23 to consider higher incidence of claims and long-term contracts in life business - which implies lower earned premiums (or higher costs) for the period as the recognition of premiums as revenue happens over time as the risk covered by the policy runs.

We prudentially confirm our gross loss ratio projections over the length of the plan, slightly worsening in 2022 factoring in: i) higher level of claims due to unemployment following the end of ban on redundancies at the end of June 2021; and ii) macroeconomic uncertainties due to COVID-19. As a result, we anticipate gross loss ratio at 55.8% in FY22, progressively improving in the following years, reaching 53.5% in FY24 also on the back of the increasing incidence of the bancassurance business that presents high profitability.

On the other hand, we revised downward our Group's CoR projections mainly to factor in a higher incidence of commission ratio related to the expansion of the bancassurance channel. We now expect CoR at 87.1% in FY22, reaching 82.6% in 2024 (-6.7pp over the 2021-24).

We left unchanged the contribution from financial investments that we expect will positively impact Group's net income.

Looking at the bottom line, we now anticipate net income to go from €21.5mn in FY22 (also benefitting from €10mn cash-in following the recovery of the sums related to "Augusto bond) to €23.9mn in FY24. Without considering the potential sums that NET could recover (ca. €13mn over the 2022-24 period), net income is expected to grow at a CAGR21-24 of 25.8%, going from €14.5mn in FY22 to €22.9mn in FY24. This will translate into an adjusted ROE of ca. 17.8% in FY24.

Finally, we expect NET's SR to remain above 185% over the 2022–24 period, thus helping the Group win new business.

Change in Estimates

€ million	2020A	2021A	Change	2022E	2022E	Change	2023E	2023E	Change	2024E	2024E	Change	CAGR
	Actual	New		Old	New		Old	New		Old	New		2021-'24 New
Gross Written Premium	117.7	149.3	-0.4%	172.4	172.4	0.0%	194.1	194.1	0.0%	211.0	211.0	0.0%	12.2%
YoY Change (%)	*39.4%*	*26.8%*		*15.0%*	*15.4%*		*12.6%*	*12.6%*		*8.7%*	*8.7%*		
Underwriting Result	21.2	26.6	-9.5%	35.9	34.2	-4.7%	43.4	41.4	-4.7%	49.2	47.6	-3.3%	21.3%
YoY Change (%)	*27.5%*	*25.5%*		*21.9%*	*28.3%*		*21.0%*	*21.0%*		*13.4%*	*15.1%*		
Operating Result	12.2	13.0	-28.8%	24.8	20.6	-17.0%	30.9	26.8	-13.2%	35.6	32.5	-8.7%	35.9%
YoY Change (%)	*43.5%*	*5.9%*		*36.2%*	*58.7%*		*24.5%*	*30.2%*		*15.4%*	*21.3%*		
Adjusted Net Income	7.6	11.5	-15.8%	16.2	14.5	-10.9%	20.4	18.9	-7.4%	23.6	22.9	-2.9%	25.8%
YoY Change (%)	*8.6%*	*51.4%*		*18.7%*	*25.7%*		*25.5%*	*30.4%*		*15.9%*	*21.4%*		
Loss Ratio	55.7%	55.0%	-0.1%	55.8%	55.8%	0.0%	54.8%	54.4%	-0.3%	53.5%	53.5%	0.0%	-1.6%
Combined Ratio	89.8%	89.4%	1.7%	86.6%	87.1%	0.5%	84.5%	85.1%	0.7%	82.8%	82.6%	-0.2%	-6.7%
Solvency Ratio	177.2%	180.7%	-0.4%	187.2%	186.5%	-0.7%	190.2%	189.5%	-0.7%	190.7%	190.4%	-0.3%	9.6%

Source: FactSet, KT&Partners' elaboration

Valuation

We carried out the Company valuation by applying two major methods: i) the dividend discount model, and ii) the warranted equity method (Gordon model). As a 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 €175mn. DFV claims to be the leading European insurtech company.

In our valuation, we also valued the potential contribution of treasury shares netted for ca. 0.8mn shares that will be used to service the eventual bond conversion. 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 €7.00ps, resulting in a cash-in of ca. €8mn (added to equity value), and we calculated value per share on ca. 18.5mn shares; HP2) we assumed the cancellation of the treasury shares (no impact on equity value) and we calculated the value per share on ca. 17.4mn shares.

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

- HP1 – Sale of treasury shares: €172.9mn or €9.34ps;
- HP2 – Cancellation of treasury shares: €164.9mn or €9.50ps.

Taking the average of the two different scenarios, we derive a fair value per share of €9.42 with a 34.6% potential upside. Our peer analysis based on DFV Deutsche Familienversicherung AG multiples comparison confirms the current substantial discount of NET ranging from 33% on a P/BV21 to 75% on P/E23.

NET shareholders over the coming years could be subject to potential dilution of maximum 2.6% related to the 0.9mn warrants exercise (considering only the free-float)

DDM Model

We have conducted our dividend discount model valuation based on 9.1% cost of equity, a function of the risk-free rate of 2.3% (Italian 10y BTP, +1.7pp compared our latest valuation revision), 1.05 beta (+0.08 compared our latest valuation revision, 4.6% equity risk premium and a premium for size of 2% (-0.7pp compared our latest valuation revision to factor Group's stable market cap above €110mn).

We note that NET holds 10.7% of the treasury shares and that ca. 0.8mn will be used to service the potential conversion of the bond. Therefore, our EPS and dividend flow calculation are based on ca. 17.4mn of shares outstanding (vs 18.5mn of total shares). For our dividend projections, we applied a payout ratio identical to the Company guidance, adding a payout ratio for 2024 in line with FY23.

We discounted the 2022E–25E annual dividend and considered a terminal growth rate of 1.5%.

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: €133.1mn or €7.19ps;
- HP2 – Cancellation of treasury shares: €125mn or €7.20ps.

Dividend Discount Model

€ million	**2020**	**2021**	**2022E**	**2023E**	**2024E**	**2025E**
EPS €	0.4	0.7	1.2	1.1	1.4	n.a.
pay-out ratio		19%	26%	30%	40%	40%
Dividend flow		1.3	3.0	6.5	8.0	9.6
NPV of Dividends			2.9	5.9	6.6	7.3
g	***1.5%***					
ke	***9.1%***					
Discounted Cumulated Dividend	22.8					
TV	133.8					
Discounted TV	102.2					
NPV Dividends + TV	**125.0**					

	HP1	**HP2**
Equity Value	**133.1**	**125.0**
# shares mn	18.5	17.4
Value per share €	7.19	7.20

Source: KT&Partners' elaboration

Warranted Equity Method

We have also conducted a valuation using a warranted equity method (Gordon model) over the period 2022–24. We adjusted 2022–24 net income, removing the impact of the recovery of misappropriated sums. We accounted for the recovery by adding back its present value to our average equity value over the period 2022–24.

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: €212.8mn or €11.50ps;
- HP2 – Cancellation of treasury shares: €204.7mn or €11.79ps.

Warranted Equity Method (Gordon Model)

€ million		**2022E**	**2023E**	**2024E**
BV of Shareholder Equity		100.3	119.8	135.7
Intangible Asset		6.9	7.7	8.5
Tangible Book Value (TBV)		93.3	112.0	127.2
Net Income *ADJ.*		14.5	18.9	22.9
Return on Tangible Equity (ROTE)		15.5%	16.8%	18.0%
Equity Value -> (ROTE-g)/(Ke-g)*TBV		172.6	227.0	277.4
NPV of Equity Value		162.6	196.1	219.7
Average Equity Value	**192.8**			
PV recovery of misappropiated fun	**11.9**			
Equity Value	**204.7**			

	HP1	**HP2**
Equity Value	**212.8**	**204.7**
# shares mn	18.5	17.4
Value per share €	11.50	11.80

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 €175mn.

NET Peer Comparison

	Exchange	Market Cap	P/E 2021	P/E 2022	P/E 2023	P/BV 2021	P/BV 2022	P/BV 2023
DFV Deutsche Familienversicherung AG	XETRA	175	n.m.	51.5x	24.1x	2.1x	1.9x	1.8x
Average		175	n.m.	51.5x	24.1x	2.1x	1.9x	1.8x
Median		175	n.m.	51.5x	24.1x	2.1x	1.9x	1.8x
NET INSURANCE	Euronext Growth Milan	107	10.7x	5.6x	6.1x	1.4x	1.1x	1.0x
NET INSURANCE Discounts vs DFV			n.m.	-89%	-75%	-33%	-40%	-43%

Source: KT&Partners' elaboration

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IN THIS STUDY DDM AND GORDON MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE <15% AND >–15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE <–15% ON CURRENT PRICE

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