Net Insurance S.p.A.

Insurance

KT&PARTNERS

Ambitious 2025 Targets Based on Sustainable Growth

ADD | Fair Value: €9.56 (€9.42) | Current Price: €7.72 | Upside: +23.9%

Research Update

August 8th, 2022 – h 7.00

€ Million	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Gross Written Premiums	84.4	117.7	149.3	172.4	194.1	220.8	250.2
Underwriting Result	16.6	21.2	26.6	33.2	39.2	46.7	57.3
Combined Ratio	*85%*	*90%*	*89%*	*88%*	*85%*	*84%*	*81%*
Net Profit	12.5	6.5	11.3	15.6	21.4	21.8	28.2
Net Profit Adjusted	7.0	7.6	11.5	14.3	17.0	20.7	27.1
EPS	0.8	0.4	0.7	0.9	1.2	1.3	1.6
EPS Adjusted	0.5	0.5	0.7	0.8	1.0	1.2	1.6

Source: Company data, KT&Partners' elaboration

1H22 financial results. NET kept posting strong growth in terms of premiums, totaling €96.9mn (exceeding our estimates by +4%). A strong contribution came from the bancassurance business (+51% YoY) whereas the Salary Backed Loan business was up by +12 YoY. A positive performance was also recorded by the broker channel, with the Agro and Suretyship lines increasing by +24% YoY +34.8% YoY, respectively. At the bottom line, net income came in at €5.9mn whereas combined ratio and SR stood at 93% and 171.9%, respectively.

2022-25 business plan. On June 23rd, NET-IT presented an updated and detailed business plan setting new ambitious targets and bringing forward the strong commitment showed over the last three years aimed at ensuring sustainable growth, capital strength and shareholders' remuneration. The company aims at: i) consolidating its leadership position within the Salary Backed Loan market with GWP expected to grow at a +9% CAGR21-25, reaching €130mn in FY25; ii) scaling-up the bancassurance business, becoming a reference partner for local small banks, increasing the weight on the Group's total GWP to ca. 30% in FY25; and iii) consolidating the Agro and Suretyship segments while developing a dedicated digital platform to smooth and improve the management of the broker channel. Business growth will come with profitability improvement, with the combined ratio going from 91% in FY21 to 82% in FY25. At the bottom line, normalized net income is forecasted to growth at a GAGR21-25 of 19.3% with EPS at 1.4 in FY25, doubling compared to FY21 figures. This will translate into an adjusted ROE in the range of 16%-19% over the plan. On the capital structure side, the Solvency Ratio is expected to stabilize at around 170/175%. Over the 2022-25 period, NET-IT is expected to pay a cumulative dividend payment of €22mn by considering normalized results (based on a 30% payout ratio).

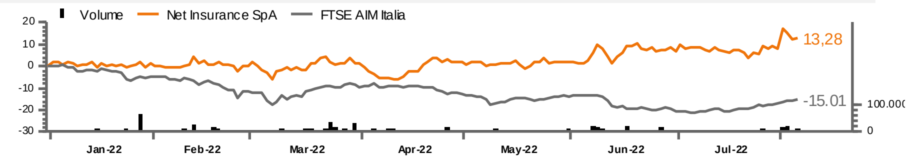
A STAR Insurance Companies listed on Euronext STAR Milan. On August 1st, 2022, NET-IT moved to the Euronext STAR Milan. The translisting represents a cornerstone moment in the Group's growth and development path and it is expected it will contribute to improve stock liquidity and visibility towards Italian and foreign investors.

YTD Stock Performance: outperforming Italian Insurance Market. Since the beginning of the year, NET-IT is the second-best performer recording a +12.7% performance vs -10.4% average performance of Cattolica, Generali, Poste Italiane, Unipol.

Estimates review. We left unchanged our 2022 and 2023 topline estimates, which are above the Group's guidelines (+1.9% on FY22 and +1.5% on FY23 figures), while revising upward 2024 estimates that are mainly benefitting from a higher than previously expected contribution from the bancassurance segment. We now expect GWP to grow at a CAGR2021-25 of 13.8%, reaching €250.2mn by 2025. On the profitability side, we now estimate the Group's CoR to go from 88.1% in FY22 to 81.2% in FY25 (ca. -1pp compared with NET's target). Looking at the bottom line, we expect net income adjusted to grow at a CAGR21-25 of 23.9%, reaching €27.1mn in FY25 and implying a 18.8% ROE. Finally, we expect NET's SR to stabilize above 170% by the end of 2025, thus helping the Group win new business.

Valuation. We update our valuation to factor in: i) estimates revision; ii) warrant conversion; 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 €9.56ps, implying a +23.9% upside on the current stock price.

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)	134.0
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**	11.9x	8.6x	6.3x
P/BV	1.5x	1.3x	1.1x
P/Premiums	0.9x	0.8x	0.7x

Stock Data	
52 Wk High (€)	8.16
52 Wk Low (€)	6.20
Avg. Daily Trading 90d	5,577
Price Change 1w (%)	4.32
Price Change 1m (%)	4.32
Price Change YTD (%)	12.70

**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 (%)
7.72	9.56	Insurance	52.1%

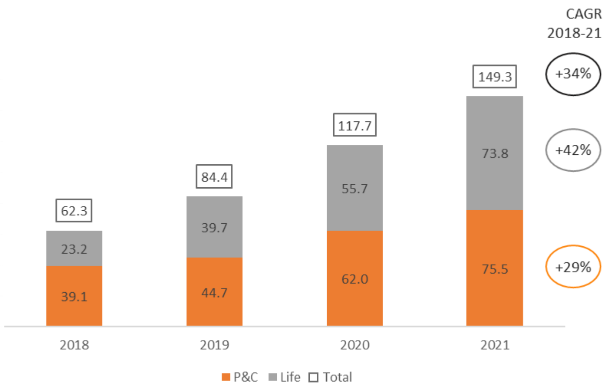
Per Share Data	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Total shares issued (mn)	17.3	17.3	17.3	18.5	18.5	18.5	18.5	18.5
Total shares outstanding (mn)	15.3	15.3	15.3	17.4	17.4	17.4	17.4	17.4
EPS	0.3	0.8	0.4	0.7	0.9	1.2	1.3	1.6
EPS adjusted	0.4	0.5	0.5	0.7	0.8	1.0	1.2	1.6
BV Per Share	3.5	4.7	5.2	5.1	5.8	6.8	7.7	8.9
Dividend per share (ord)	-	-	0.1	0.2	0.3	0.4	0.4	0.5
Dividend pay out ratio (%)	-	-	19%	26%	30%	30%	30%	30%
Income Statement (EUR million)								
Gross Written Premium (GWP)	62.3	84.4	117.7	149.3	172.4	194.1	220.8	250.2
Underwriting Result	11.4	16.6	21.2	26.6	33.2	39.2	46.7	57.3
Financial Result	0.1	2.0	2.2	3.1	2.7	3.6	4.6	5.6
Operating Income	10.3	8.5	12.2	13.0	20.1	23.8	29.4	38.7
Net Income	4.1	12.5	6.5	11.3	15.6	21.4	21.8	28.2
Net Income Adj.	6.7	7.0	7.6	11.5	14.3	17.0	20.7	27.1
Balance Sheet (EUR million)								
Investments	178.0	164.0	176.8	201.5	221.0	257.0	290.4	331.1
Intangible assets	0.9	2.6	5.0	6.1	11.2	11.8	11.6	10.7
Deferred acquisition costs	-	-	-	-	-	-	-	-
Insurance technical reserves	299.5	300.4	326.2	362.1	415.4	469.7	530.6	597.8
Senior or subordinated debt	14.7	15.5	20.1	17.0	17.0	17.0	17.0	17.0
Shareholder's Equity	53.8	71.8	79.8	88.8	101.4	118.1	133.5	155.1
Ratios (%)								
Loss ratio	64.8%	55.6%	55.7%	55.0%	52.9%	49.7%	47.9%	45.7%
Commission ratio	2.6%	8.3%	13.6%	16.5%	17.5%	18.5%	19.0%	20.3%
General expenses ratio	13.0%	20.7%	20.5%	17.8%	17.7%	17.2%	16.8%	15.2%
Combined ratio	80.4%	84.7%	89.8%	89.4%	88.1%	85.4%	83.7%	81.2%
Solvency ratio	162.9%	165.7%	177.2%	180.7%	178.7%	177.6%	173.6%	173.6%
ROE	11.3%	19.8%	8.6%	13.4%	16.4%	19.5%	17.3%	19.5%
ROE Adj.	18.4%	11.1%	10.0%	13.7%	15.0%	15.5%	16.5%	18.8%
Valuation								
P/E	32.7x	10.8x	20.6x	11.9x	8.6x	6.3x	6.1x	4.8x
P/BV	2.2x	1.6x	1.5x	1.5x	1.3x	1.1x	1.0x	0.9x
P/Premiums	2.2x	1.6x	1.1x	0.9x	0.8x	0.7x	0.6x	0.5x
Dividend yield (%)	0.0%	0.0%	1.1%	2.2%	3.5%	4.8%	4.9%	6.3%
Growth rates (%)								
GWP	6.7%	35.6%	39.4%	26.8%	15.5%	12.6%	13.7%	13.3%
Underwriting Result	29.0%	45.5%	27.5%	25.5%	24.6%	18.0%	19.2%	22.7%
Operating Income	-6.7%	-17.1%	43.5%	5.9%	54.7%	18.7%	23.6%	31.5%
Net Income	-23.4%	303.7%	52.3%	173.7%	137.9%	137.2%	102.0%	129.2%
Net Income Adj.	91.4%	4.5%	8.6%	51.4%	24.3%	18.6%	22.1%	30.8%

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.

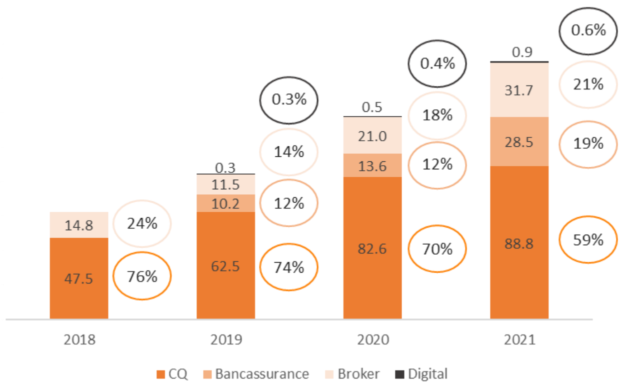
Key Charts

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



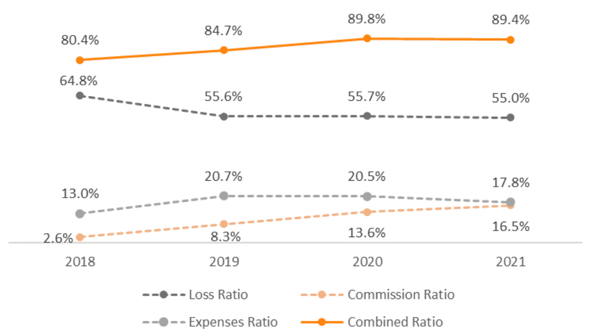
Source: Company data, KT&Partners' elaborations

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



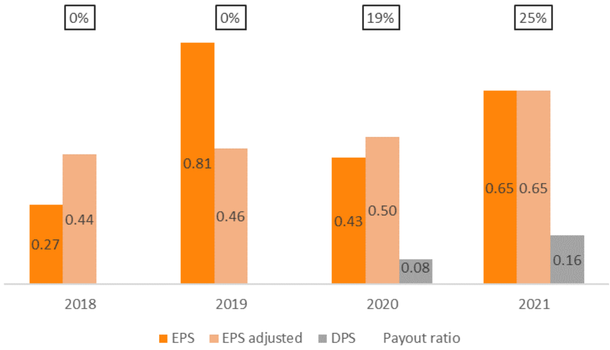
Source: Company data, KT&Partners' elaborations

Key Ratios (%)



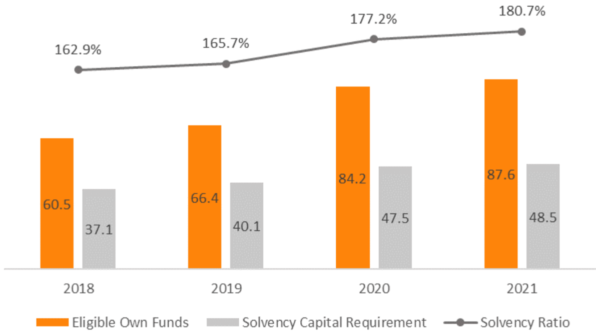
Source: Company data, KT&Partners' elaborations
Note: key ratios are calculated gross of reinsurance

EPS, EPS adjusted and DPS (€)



Source: Company data, KT&Partners' elaborations

Solvency Ratio



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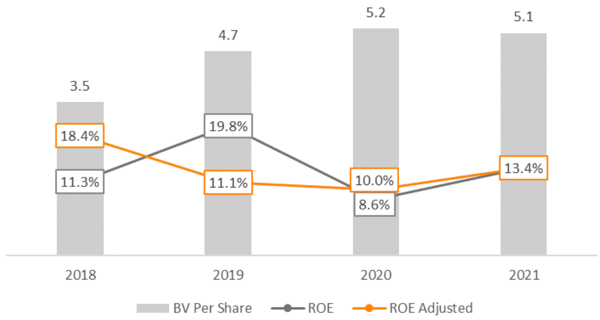
Source: Company data, KT&Partners' elaborations

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.

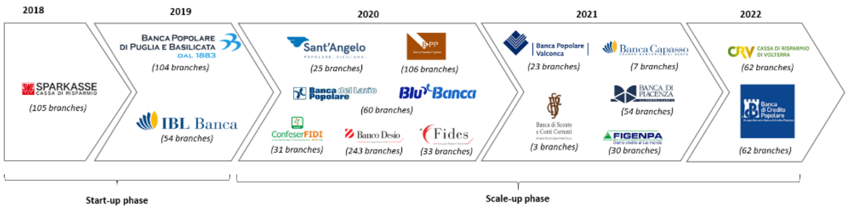
In 2018, NET merged with Archimede, the SPAC promoted by Andrea Battista, Giampiero Stefano Rosmarini and Matteo Carbone that raised €47mn. Archimede was the first Italian SPAC dedicated to the insurance sector and the first with a disclosed target. The merger with Archimede represented a turning point 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 players within the Italian CQ market with a market share in terms of volume exceeding 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 the 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 supported by Matteo Carbone – one of Archimede's promoters and chairman of NET-IT's Innovation Advisory Board – who is 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, and has beaten the **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 – now owns a 26.64% stake in NET (from 9.7% in December 2018).

Recent developments

- ***Continuing to expand the bancassurance channel.*** On February 9th, 2022, NET-IT announced it had signed a partnership with *Cassa di Risparmio di Volterra.* On April 21st, 2022, NET-IT strengthened its partnership with Banco di Credito Popolare, bringing to 18 the number of bancassurance agreements closed since the end of 2018. Already a 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.
- ***Launching the first instant insurance policy.*** In 2021, NET partnered with EnelX and Neosurance for the launch of its first instant home insurance policy, which 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) protection against the risk of cyber-attack, together with Yolo.
- ***Update on the "Black Swan".*** In 2022, NET is expected to cash in €3.8mn related to the fraud that emerged in 2019. If this amount will be collected, the total assets recovered up to now will amount to €14.9mn (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.*** In June 2022, NET-IT has renewed the sponsorship with FIGC until 2025. The sponsorship of FIGC and AIA has improved and will continue to enhance NET-IT visibility, leading its brand awareness to increase from 19% in 2020 to 30% in 2021.

NET- IT Stock Performance vs Italian Insurance Companies

	2020 Performance	01-01-2020 - to date	01-01-2021 - to date	YTD performance
Net Insurance SpA	**0.2%**	**47.0%**	**46.8%**	**12.7%**
Assiteca SpA	129.7%	129.7%	0.0%	131.6%
Societa Cattolica di Assicurazioni	-36.9%	-7.2%	47.2%	16.6%
Assicurazioni Generali S.p.A.	-22.5%	-19.5%	3.8%	-20.6%
Poste Italiane SpA	-17.8%	-17.2%	0.8%	-27.3%
Unipol Gruppo S.p.A.	-23.5%	-17.5%	7.8%	-11.8%
UnipolSai Assicurazioni S.p.A.	-16.2%	-12.6%	4.3%	-8.7%
Average Performance Italian Insurance Companies	**-23.4%**	**-14.8%**	**12.8%**	**-10.4%**

Source: Factset

1H22 Financial Results

1H22 financial data confirm strong growth in premiums (+22% YoY), achieving €96.9mn (exceeding our estimates by +4%), thanks to the growth in both P&C (20.5% YoY) and Life segment (+24.8% YoY).

A strong performance was recorded by the bancassurance business (+51% YoY), benefitting from the positive contribution of exiting partnership and widened and enriched product portfolio.

The Salary Backed Loan business was +12%, confirming NET-IT's market share above 25%. A positive performance was also recorded by the broker channel, with the Agro and Suretyship lines increasing by +24% YoY +34.8% YoY, respectively.

As for the digital insurance policies, in 1H22, NET-IT launched "Net Sure," the digital solution for the home that offers, along with coverage insurance, innovative and easy-to-subscribe support services.

Looking at the key profitability figures, loss ratio came in line with 1H21 at 53%, -4pp compared with our expectations, whereas CoR came in at 93%, +5pp YoY and +3pp compared with our estimates.

The net investment result came in at €1mn, down by 43% YoY and -49% compared with our expectations. Furthermore, with reference to the conflict in Ukraine, it should be noted that the management expect no relevant impacts, considering the limited portfolio exposure to Russian, Belarusian and Ukrainian issuers, amounting to a nominal €300k and already written down by ca. €220k.

At the bottom line, net income came in at €5.9mn (-18% compared with our previous estimates) vs 7.6mn in 1H21. We remind that in 1H21 net income was positively impacted by €2mn one-off tax credit related to revaluation of NET's brand, which was carried out in accordance with D.L. 104/2020, and a tax credit concerning the "ACE" incentive in accordance with Law Decree n. 73 dated 25 May 2021. Without considering the one-off tax credit impact, net income increased by 9.7% YoY.

The Group's shareholders' equity was €78.4mn (vs €88.8mn in FY21), down by 11.7% due to the depreciation of the financial instruments in the portfolio that in combination with business growth have led the solvency ratio decreasing to 171.9% from 181.1% in FY21.

1H22 Income Statement

€ thousand	1H18	1H19	1H20	1H21	1H22	YoY growth	1H22E Old	A vs E Old
Gross Written Premiums	**34,585**	**38,776**	**54,584**	**79,139**	**96,899**	**22%**	**93,527**	**4%**
Gross Earned Premiums	33,895	36,270	46,429	65,318	78,711	21%	73,516	7%
Reinsurers' share	(21,478)	(22,143)	(25,754)	(36,768)	(46,349)	26%	(39,029)	19%
Net Earned Premiums	**12,417**	**14,127**	**20,675**	**28,550**	**32,361**	**13%**	**34,487**	**-6%**
Claims paid and change in insurance provisions	(21,432)	(16,617)	(24,199)	(40,920)	(52,588)	29%	(46,212)	14%
Reinsurers' share	13,875	11,548	15,094	24,527	32,359	32%	26,608	22%
Net insurance benefits and claims	**(7,557)**	**(5,069)**	**(9,105)**	**(16,393)**	**(20,230)**	**23%**	**(19,604)**	**3%**
Underwriting Result	4,860	9,058	11,571	12,157	12,132	0%	14,883	-18%
Loss ratio	***65%***	***44%***	***48%***	***53%***	***53%***	***0%***	***57%***	***-4%***
Net acquisition and administration costs	(372)	(3,971)	(6,350)	(5,664)	(4,739)	-16%	(6,685)	-29%
Combined ratio	***82%***	***71%***	***82%***	***88%***	***93%***	***5%***	***90%***	***3%***
Financial Result	1,052	(21)	822	1,789	1,025	-43%	1,995	-49%
Operating Result	5,540	5,066	6,043	8,282	8,418	2%	10,193	-17%
Other income (expenses)	(585)	(2,759)	(2,740)	(1,024)	(529)	-48%	(109)	387%
EBT	4,955	2,307	3,303	7,259	7,889	9%	10,084	-22%
Income taxes	(1,707)	(223)	(700)	(23)	(2,002)	8501%	(2,924)	-32%
Net Income	3,248	2,084	2,603	7,235	5,887	-19%	7,160	-18%

Source: Company data

New 2022-25 Business Plan

On June 23rd, 2022, NET-IT unveiled its new strategy for 2022-25, setting new ambitious targets and bringing forward the strong commitment shown over the last three years. Indeed, since the end of 2018, NET-IT's management team - led by Andrea Battista - has proven to have strong business plan execution skills - matching targets even during challenging times (i.e. blank swan, COVID-19) - ensuring sustainable growth, capital strength and shareholders' remuneration.

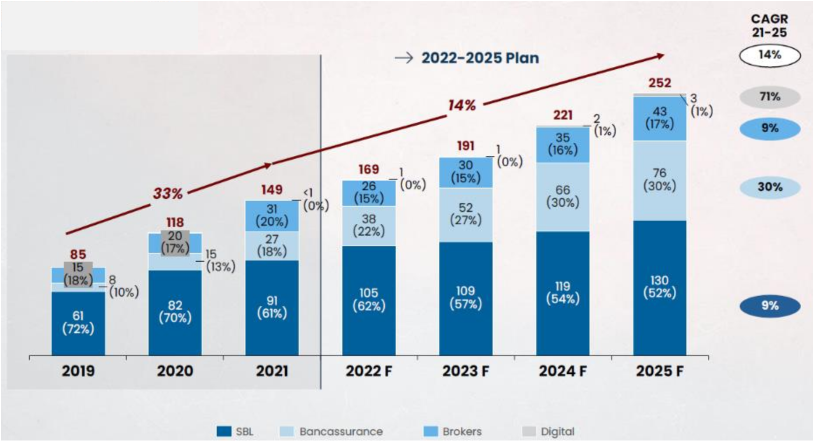
The new business plan predicts the Gross Written Premium (GWP) will grow at a CAGR21-25 of 14%, reaching €252mn in FY25. NET-IT aims at accelerating profitable growth and strengthening its positioning, leveraging on six strategic pillars:

1. **Salary Backed Loans: leadership position consolidation.** Over the coming years, NET will keep consolidating its market share within the Italian Salary Backed Loans market (30% at the end of 2021), acting as one of the leading players. GWP are expected to grow at a +9% CAGR21-25, reaching €130mn in FY25 and accounting for 52% of total GWP. Business growth will be achieved while maintaining a high quality of risk-taking thanks to advanced analytics applied in pricing and underwriting. A further boost to the SBL business line will came from the amendment to the Capital Requirement Regulation (CRR) that provides for lower capital requirements for pension and salary-backed loans given their low credit risk (lower probability of default and lower loss given default) and their importance in supporting the real economy especially in the event of a recession.

2. **Bancassurance: from start-up to scaling up to becoming a leader among small banks.** The bancassurance channel will represent one of the main growth channels (+30% CAGR21-25), increasing its incidence on total GWP from 18% in FY21 to 30% in FY25. In the past three years, NET's management has developed from scratch the bancassurance business line, establishing business connections with 18 banks. The company is now ready to scale-up the business by: i) consolidating its business connections with exiting primary bancassurance partners. Existing partnerships will contribute ca. 80% of GWP of the bancassurance by the end of 2025; ii) signing new distribution agreements with small local banks (also with upfront investments), generating €16mn in FY25 (20% of GWP of the bancassurance channel); and ii) increasing the incidence of other P&C insurance policies other than CPI (today accounting for ca. 90% of the bancassurance offer), focusing on the family, health, home, and life protection segments.

3. **Broker: digital and specialty business-oriented approach.** The broker channel is now anticipated to go from €31mn in FY21 to €43mn in FY25 (+9% CAGR21-25) thanks to the: i) consolidation of the Agro and Suretyship segments while maintaining a prudent underwriting and reinsurance policy; ii) development of a dedicated digital platform "Digital Attacker" to smooth and improve the management of the broker channel; iii) scale-up of existing digital insurance partnerships by also developing new products for digital channels; and iv) entry into the affinity market to leverage on brokers' enterprises customer portfolio.

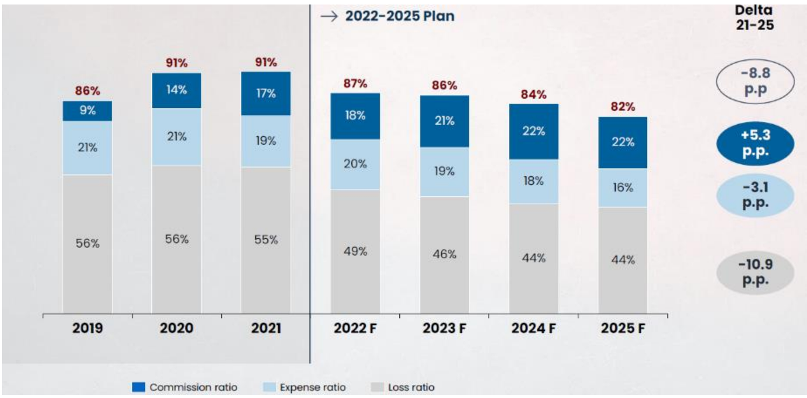
2019A-25E Gross Written Premiums



Source: NET-IT's Business Plan

4. **Efficient and digital-based operating machine**. The company will continue to automize its processes by internalizing some technology applications, while ensuring a high level of protection of clients' data thanks to investments in cyber security. We note that NET is one of the first insurance companies to have achieved the Certification ISO27001:2013 Standard - Information Security Management System (ISMS).
5. **Sustainable growth, capital strength and shareholders' remuneration.** Business growth will come with profitability despite rising personnel (+21 FTE over the 2022-25 period) and direct expenses (i.e. commission costs, expenses for new credit assessment services, higher D&A following €17.6mn investments in technology over the forecast period etc.). The combined ratio is expected to improve from 91% in FY21 to 82% in FY25 thanks to the -11pp and -3pp reduction in the loss and expense ratios, respectively, that will offset the increase in the commission ratio following the development of the bancassurance (also through up-front investments) and broker channels.

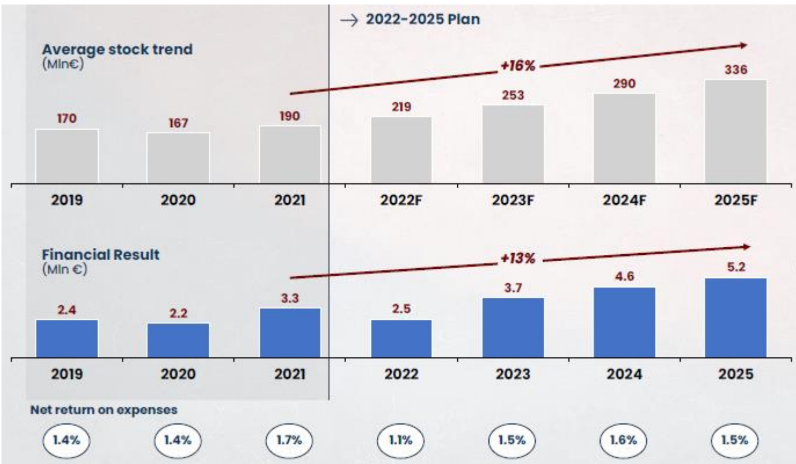
2019A-25E Combined Ratio



Source: NET-IT's Business Plan

A positive contribution is also expected from financial investments, mainly thanks to diversified asset allocation aimed at lowering the exposure to equity and real estate (no investments are planned in the new plan) while increasing the focus on corporate bonds (also through UCITS/FIA funds) to seize the opportunities offered by the yield curve. To minimize the volatility in net investment income results, investments will have a duration up to ca. 2 years and will be focused on maintaining a zero-liquidity risk approach.

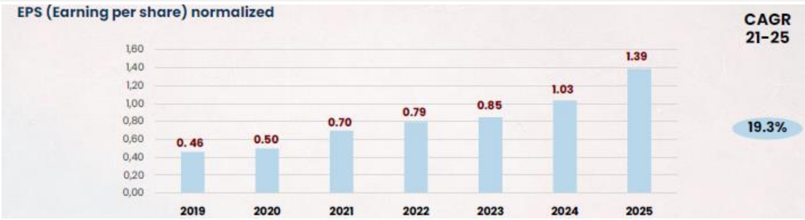
2019A-25E Asset Allocation and Financial Results



Source: NET-IT's Business Plan

At the bottom line, normalized net income (without considering the recovery of the *black swan*'s sums) is forecasted to grow at a CAGR21-25 of 19.3% with EPS at 1.4 in FY25, doubling compared to FY21 figures. This will translate into an adjusted ROE in the range of 16%-19% over the plan.

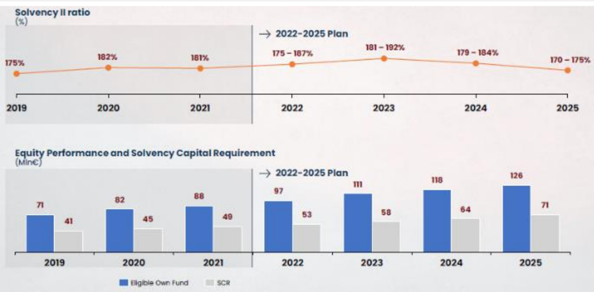
2019A-25E Earning Per Share (EPS)



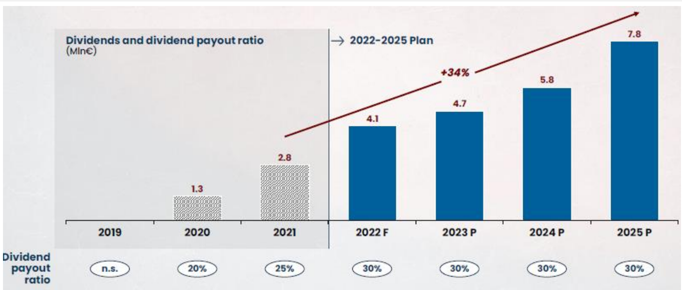
Source: NET-IT's Business Plan

On the capital structure side, profitable business growth will go alongside a strong financial position and shareholder returns too. The Solvency Ratio is expected to stabilize at around 170/175% thanks to the organic capital generated by the business. To support business growth, the company will mostly rely on self-financing, reinvesting ca. 70% of the income generated, thus adopting a more prudent dividend policy compared with the past and the previous plan. Over the 2022-25 period, NET-IT is expected to pay a cumulative dividend payment (based on a payout ratio of 30%) of €27mn or €22mn by considering normalized results. We note that the new plan also considers the exercise of the 1.8mn outstanding warrants at a €4.69 strike price for a total cash-in of ca. €8.5mn between 2022 and 2023.

2019A-25E Solvency Ratio



2019A-25E Dividend Policy



Source: NET-IT's Business Plan

6. **Business and operating model evolution towards ESG "Good Practice".** NET-IT has already embraced an ESG approach, pursuing different targets in the Environment, Social and Governance field. Over the 2022-25 period, the company will continue to promote a sustainable business model by reducing its environmental impact (targeting a 15% reduction in CO_2 emissions by 2025) and increasing investment in sustainable assets (i.e. a photovoltaic system). On the social front, NET-IT will consolidate its commitment to inclusion and the well-being of employees to maintain the "Great Place to Work status" (Trust Index >= 60%) by achieving gender parity at all levels (including salary), promoting work-life balance, and investing in employee training and welfare. Furthermore, NET-IT will develop initiatives to support the local community and vulnerable groups (e.g. donation of unused holidays, Miguel's race). Finally, the company will establish an internal ESG committee and will also align management targets with sustainability results.

2022-25 NET-IT's Business Plan

	2021	2022 F	2023 P	2024 P	2025 P
Gross premiums written €Mln	149.3	169.2	191.3	221.4	252.1
Ordinary Expenses €Mln	21.0	23.1	26.0	28.0	28.9
Net Tech. Result €Mln	10.6	17.0	19.0	23.2	31.7
Financial Result €Mln	3.3	2.5	3.7	4.5	5.2
Net Profit €Mln	11.3	14.9	20.2	19.3	25.9
Normalised Net Profit €Mln	11.5	13.6	15.8	19.3	25.9
ROE	13.4%	16.2%	19%	15.7%	18.8%

Source: NET-IT's Business Plan

Market Update

NET-IT is active in market segments that despite the current macroeconomics uncertainties have shown more resilience to the volatility of recent times, leaving room for growth and leveraging on more digitalized and user-friendly insurance policies.

Leadership positioning in the Salary Backed Loans market …

After being hit by Covid pandemic in 2020 – with a SBL volume down by -6% YoY to €8bn and an 8%YoY decrease in SBL premiums collected to €533mn – the Italian salary backed loans market experienced a significant recovery in 2021, almost coming back to its pre-pandemic level. SBL volumes came back to €8bn, registering +9% YoY. Following the rise in financing volumes, premiums collected from the SBL market grew to €563mn, + 6% with respect to 2020.

By 2025, the market is expected to reach €11bn of SBL volumes (CAGR21-25 +8%) with €740mn of premiums collected (CAGR21-25 of +7%). Pensioners will continue to account for the bulk of financing volumes (ca. 45%) and premiums collected (64%), while Private Employees are expected to experience the highest growth in terms of premiums collected (+9% CAGR21-25), accounting for 23% of total premium collected.[1]

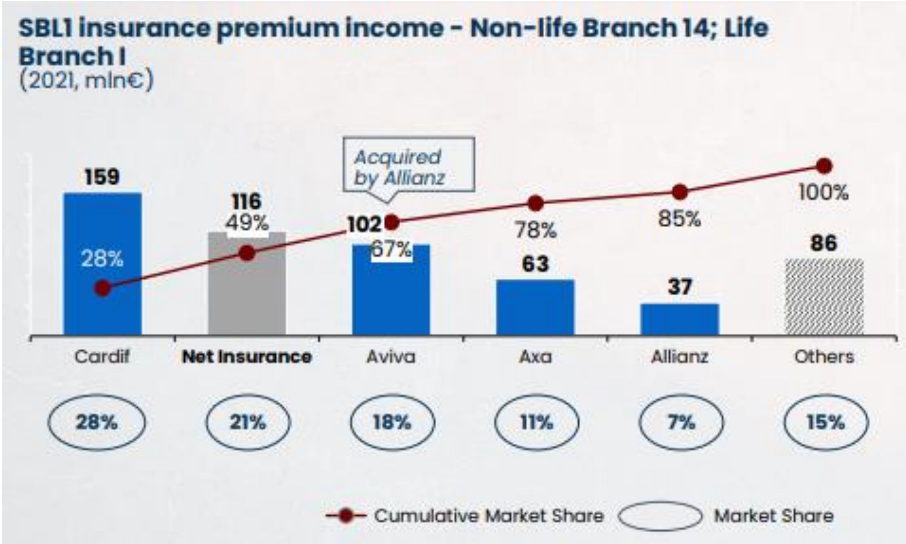
Salary-Backed Loan Market 2014A-25E

Source: Kearney analysis of BIC Report data and market players

Leveraging on high-quality services provided to its partners, NET-IT boasts a leading position in the Italian SBL market. At the end of 2021, the company was the **first insurance company** in the SBL Salary segment in terms of volumes, and the **second considering the entire Salary Backed Loans market** (both Salary and Pensions), with a 21% market share in 2021 for €116mn of premiums.[2]

[1] Source: Kearney analysis on BIC Report data and market players
[2] Source: Assofin | BIC Report

Salary-Backed Loans 2021 market positioning (€mn, %)

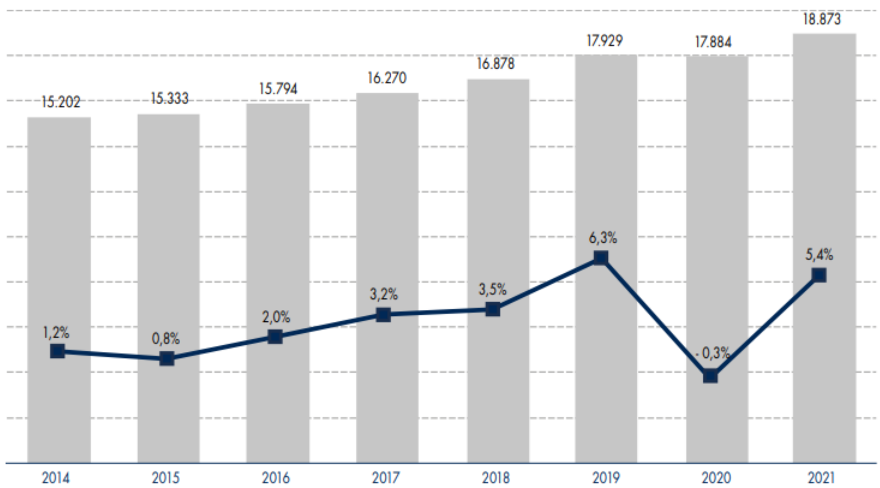


Note: Premium income before early repayments, Source: Assofin | BIC Report

... with an interesting growth perspective in the Bancassurance segment...

In 2021 the non-life branch registered a slight increase to €34.1bn, +1,8% YoY.[3] The growth was mainly driven by a strong increase in the non-vehicle damage segment whose premiums increased by +5.4% YoY at €18.9bn, weighting for ca. 55% of the total non-life market.

Non-Vehicle damage premiums 2014-21 (€mn, % YoY)

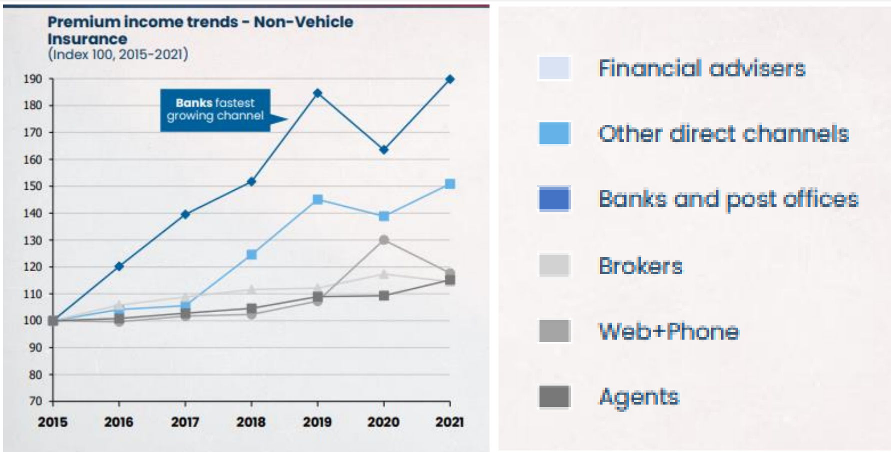


Source: L'Assicurazione Italiana 2021-22, ANIA

Within the non-life market (excluding the vehicle segment), the **Bancassurance** channel is the one experiencing the highest growth, increasing at a higher pace than the average market growth. Since 2015, premiums coming from banks and post offices have increased by +90%, + 40pp compared to other direct channels and ca. + 75pp with respect to the broker segment.[4]

[3] Source: L'Assicurazione Italiana 2021-2022, ANIA
[4] Source: Kearney analysis on ANIA and ISTAT data

Premium Income trends by channel – Non-vehicle insurance 2015-21 (Index 100)

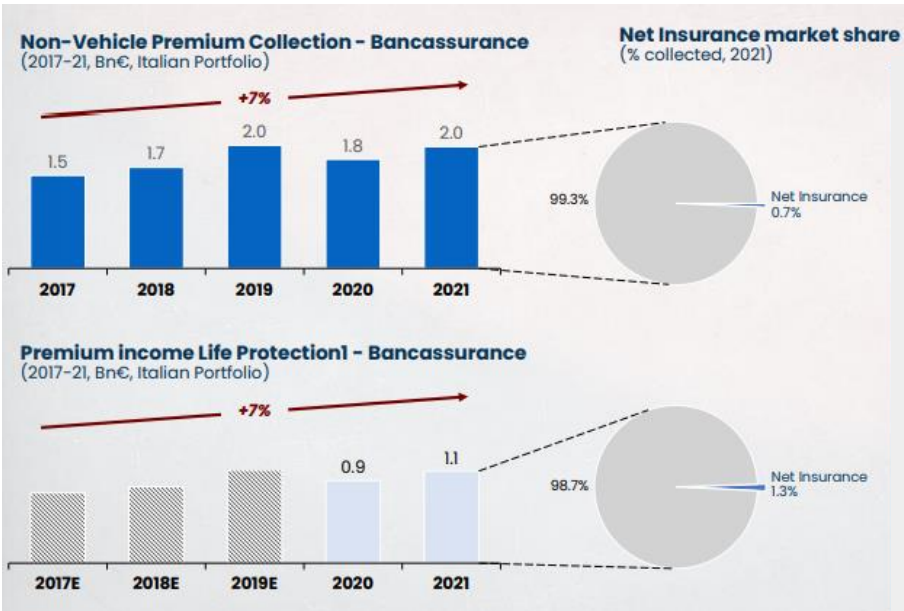


Source: Kearney analysis of ANIA and ISTAT data

Considering the non-vehicle premium collection, NET-IT represented **a 0.7% market share in 2021**, while considering the premiums from Life Protection1, the Group's stake in the market was **1.3%**.[5] Still representing a small market player, the company is expected to ride the non-life bancassurance growth by strengthening new partnerships with medium and small-sized banks - representing approximately 15-20% of the total bancassurance market – becoming a trusted insurance player for local banks, alongside established local players such as Helvetia Assicurazioni and Arca.[6]

We note that in 2020 NET-IT's main bancassurance partner for non-vehicle insurance reached €43k of premium per branch (€64k in 2021), not far from some of the main bancassurance non-vehicle insurance providers such as Vera (€54k per branch) and CreditRAS (€58k per branch).[7]

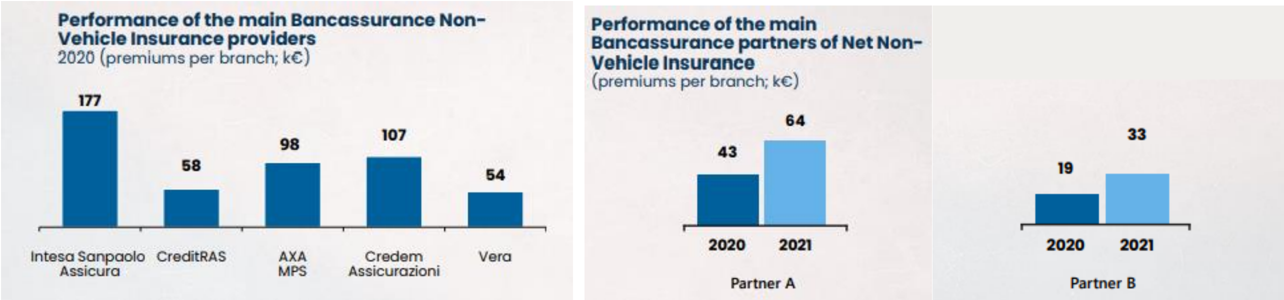
Premium Income trends by channel – Non-vehicle insurance 2015-21 (Index 100)



Source: Kearney processing of ANIA data

[5] Source: Kearney processing of ANIA data
[6] Source: NET-IT Prospectus for EXM-STAR translisting process
[7] Source: Kearney processing of ANIA data

2020 main Bancassurance players performance vs NET-IT's partners in non-vehicle segment (€k)



Source: Kearney processing of ANIA data

… serving niche markets through the broker channel

Over the past few years, the broker market in Italy has been quite stable but has shown resilience in challenging years. Non-vehicle premiums experienced a +0.9% CAGR19-21 and are expected to grow at a +3% CAGR over the 2021-25 period.[8] The market is fragmented and NET-IT's main competitors are Assicurazioni Generali, Allianz and Reale Mutua Assicurazioni.

With more than 50 outstanding agreements, the Group is specialized in market niches such as the agricultural sector, which, as of today, has accounted for almost all the policies distributed through the broker channel. Leveraging on its unique offer, at the end of 2021 NET-IT reached a 4.5% market share in terms of the volume of distributed policies within the agro segment of the broker channel.

Double-digit growth expected in a growing market environment[9]

Looking at historical data, we note that NET-IT grew at higher CAGR19-21 than the reference market segments in which it operated. Over the 2019-21, period the Group experienced a +22% and +42% CAGR19-21 in the Salary Backed Loans and broker markets, respectively, while in the bancassurance segment – the most recent distribution channel – NET-IT grew almost 3.5x compared with the market, reaching a +85% CAGR19-21.

Over the 2021-25 period, the management expects to keep growing at a higher pace compared to its reference markets, with bancassurance leading the growth, increasing at 2.5x more than the market growth.

The digital channel, after a triple-digit CAGR of +488% registered over the 2019-21 period, is expected to grow at an outstanding +71% CAGR21-25[10], driven by i) growing volumes (78k only in 2021); ii) a product portfolio expansion covering all the main customers' needs such as Home, Health, Leisure, Credit and SMEs.

Historical and Expected Growth by Channel – NET-IT vs Market (%)

	CAGR 19-21		CAGR 21-25E	
Business	**NET-IT**	**Market**	**NET-IT**	**Market**
Salary Backed Loans	22%	-1.2%	9%	7%
Bancassurance	85%	23%	30%	12%
Broker	42%	0.9%	9%	3%
Digital	488%	n.a.	71%	n.a.

Source: NET-IT Prospectus for EXM-STAR translisting process, Prometeia

[8] Source: NET-IT Prospectus for EXM-STAR translisting process, Prometeia
[9] Source: NET-IT Prospectus for EXM-STAR translisting process, Prometeia
[10] Note: Italian Market Data non available

Change in Estimates

On the back of the 1H21 results and the new strategic guidelines for the 2022-25 period, we revised our estimates by also adding 2025 projections.

We believe that the macroeconomic and higher inflation uncertainty will partially impact NET's business growth given: i) the anticyclical characteristics of the salary backed loans market; ii) the high exposure, especially in the short term, of the bancassurance portfolio to the CPI products related to mortgages and loans segment that even with increasing interest rates are expected to grow. As for the potential impact of inflation on claims, we note that only a small part of NET's portfolio is exposed to rising inflation (i.e. home protection, caution policies etc.), whereas the large part of the portfolio is based on predetermined claims.

Furthermore, with reference to the conflict in Ukraine, it should be noted that the management expect no relevant impacts, considering the limited portfolio exposure to Russian, Belarusian and Ukrainian issuers, amounting to a nominal €300k and already written down by ca. €220k.

Starting from the top line, we left unchanged our 2022 and 2023 topline estimates that are above the Group's guidelines (+1.9% on FY22 and +1.5% on FY23 figures), while revising upward 2024 estimates mainly benefitting from a higher than previously expected contribution from the bancassurance segment. We now expect GWP to grow at a CAGR21-25 of 13.8%, reaching €250.2mn by 2025 (almost in line with NET's target).

Breaking down GWP by business line we anticipate the CQ business increasing at +9.4% CAGR21-25, in line with company expectation, accounting for ca. 52% by FY25. As for the bancassurance segment, we expect it to progressively increase its weight going from ca. 18% to ca. 31% in FY25 or €78.2m, growing at +29% CAGR2021-25 vs +28% CAGR21-25 of NET's new business plan, assuming a higher contribution from agreements already in place. Looking at the broker channel, we expect it to slightly decrease in 2022, factor in a lower contribution from the agro segment, and to grow at 7% CAGR2021-25 (vs +9% company's guidelines) to €38.8mn in FY25. Finally, the insurtech channel is supposed to be the fastest-growing channel (+72.8% CAGR2021-25), reaching €3mn of GWP by the end of the forecast period, although its contribution to total GWP will remain marginal.

On the profitability side, we lowered our gross loss ratio estimates over the length of the plan mainly to factor in: i) a higher incidence of the bancassurance business that presents high profitability; and ii) lower-than-expected claims recorded during 1Q22 – especially related to unemployment following the end of the ban on redundancies due to COVID-19 - and the positive trend that the management also expects to be recorded in the next few months, although our estimates are more prudential than NET's expectations. We now expect FY22 gross loss ratio to be 52.9% (-3pp vs our previous estimates but +3pp above the company's target), reaching 45.7% in FY25 (+1.6pp above the company's target). Starting from 2023, the lower than previously expected loss ratio will, however, be offset by a lower than previously anticipated share of Gross Earned Premiums mainly factor in the higher incidence of long-term contracts (i.e. CPI contracts), leading to a downward revision of FY23 and FY24 underwriting result. We now expect that underwriting will experience a growth of +21.1%, reaching €57.3mn in FY25.

On the other hand, we revised upward our commission and expenses ratios on the back of: i) higher commission to develop the bancassurance (also through up-front agreements) and broker channels; ii) higher personal costs on the back of workforce expansion; and iii) higher amortization costs following the higher than previously expected investments that NET will carry out over the next years (€17.6mn). As a result, we now estimate the Group's CoR to go from 88.1% in FY22 to 81.2% in FY25 (ca. -1pp compared with NET's target).

Looking at the bottom line, we now anticipate net income to be €15.6mn in FY22, reaching €28.2mn in FY25, also assuming a €13mn recovery of the sums related to the black swan (of which ca. €2mn has already accounted in FY21 financials) over the length of the plan. Without considering the potential sums that NET could recover, we estimate net income to be €14.3mn in FY22, -1% below our previous estimates. We expect that the higher commission and expense costs will negatively impact the bottom line starting from 2023. We therefore expect net income adjusted to grow at a CAGR21-25 of 23.9%, reaching €27.1mn in FY25. This will translate into an adjusted ROE of ca. 18.8% in FY25 from 13.7% in FY21.

Shareholders equity changes will be due to the registration of the periodical result and the dividend payment. Indeed, for the 2021-25 period we assume a payout ratio of 30% in line with NET's target. Finally, we expect NET's SR to stabilize above 170% by the end of 2025.

Change in Estimates

€ million	2020A Actual	2021A Actual	2022E Old	2022E New	Change	2023E Old	2023E New	Change	2024E Old	2024E New	Change	2025E New	CAGR 2021-'25 New
Gross Written Premium	117.7	149.3	172.4	172.4	0.0%	194.1	194.1	0.0%	211.0	220.8	4.6%	250.2	13.8%
YoY Change (%)	39.4%	26.8%	15.4%	15.5%		12.6%	12.6%		8.7%	13.7%		13.3%	
Underwriting Result	21.2	26.6	34.2	33.2	-2.8%	41.4	39.2	-5.3%	47.6	46.7	-1.9%	57.3	21.1%
YoY Change (%)	27.5%	25.5%	28.3%	24.6%		21.0%	18.0%		15.1%	19.2%		22.7%	
Operating Result	12.2	13.0	20.6	20.1	-2.5%	26.8	23.8	-11.2%	32.5	29.4	-9.5%	38.7	31.4%
YoY Change (%)	43.5%	5.9%	58.7%	54.7%		30.2%	18.7%		21.3%	23.6%		31.5%	
Adjusted Net Income	7.6	11.5	14.5	14.3	-1.0%	18.9	17.0	-10.0%	22.9	20.7	-9.5%	27.1	23.9%
YoY Change (%)	8.6%	51.4%	25.7%	24.3%		30.4%	18.6%		21.4%	22.1%		30.8%	
Loss Ratio	55.7%	55.0%	55.8%	52.9%	-3.0%	54.4%	49.7%	-4.7%	53.5%	47.9%	-5.6%	45.7%	-9.4%
Combined Ratio	89.8%	89.4%	87.1%	88.1%	1.0%	85.1%	85.4%	0.3%	82.6%	83.7%	1.1%	81.2%	-8.2%
Solvency Ratio	177.2%	180.7%	186.5%	178.7%	-7.8%	189.5%	177.6%	-11.9%	190.4%	173.6%	-16.7%	173.6%	-7.1%

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).

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 €7.72ps, resulting in a cash-in of ca. €8.9mn (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: €184.8mn or €9.98ps;
- HP2 – Cancellation of treasury shares: €175.9mn or €10.13ps.

Taking the average of the two different scenarios, we derive a fair value per share of €10.06ps.

In valuing the company, we also consider the warrant dilution impact as the new business plan envisages the exercise of the outstanding warrants. We carried out a simulation considering the exercise of the remaining ca. 1.8mn of warrants for a potential capital increase of ca. €8.5mn (conversion rate 1:1, strike price €4.69).

By summing up the results of the valuation methods and the warrant dilution effects, we project a fair value of €9.56ps.

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 €158mn. DFV claims to be the leading European insurtech company. Our peer analysis based on DFV Deutsche Familienversicherung AG multiples comparison confirms the current substantial discount of NET ranging from 26% on a P/BV22 to 88% on P/E22.

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 3% (Italian 10y BTP, +0.7pp compared with our latest valuation revision), 1.03 beta (almost in line with our latest valuation revision), 5% equity risk premium and a premium for size of 1.7% (-0.3pp compared with our latest valuation revision).

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's guidance, adding a payout ratio for 2024 in line with FY23.

We discounted the 2022E–26E annual dividend and considered a terminal growth rate of 2% (+0.5pp compared to our latest update taking into consideration the high growth profile of NET-IT)

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: €159.1mn or €8.59ps;
- HP2 – Cancellation of treasury shares: €150.1mn or €8.65ps.

Dividend Discount Model

€ million	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**2026E**
EPS €	0.4	0.7	0.9	1.2	1.3	1.6	n.a.
pay-out ratio		19%	26%	30%	30%	30%	30%
Dividend flow		1.3	3.0	4.7	6.4	6.5	8.5
NPV of Dividends				4.3	5.4	5.1	6.0
g	***2.0%***						
ke	***9.5%***						
Discounted Cumulated Dividend	20.8						
TV	183.0						
Discounted TV	129.3						
NPV Dividends + TV	**150.1**						

	HP1	**HP2**
Equity Value	**159.1**	**150.1**
# shares mn	18.5	17.4
Value per share €	8.59	8.65

Source: KT&Partners' elaboration

Warranted Equity Method

We have also conducted a valuation using a warranted equity method (Gordon model) over the period 2022–25. We adjusted 2022–25 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 2022–25.

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: €210.5mn or €11.37ps;
- HP2 – Cancellation of treasury shares: €201.6mn or €11.62ps.

Warranted Equity Method (Gordon Model)

€ million		**2022E**	**2023E**	**2024E**	**2025E**
BV of Shareholder Equity		100.1	113.7	132.4	154.0
Intangible Asset		11.2	11.8	11.6	10.7
Tangible Book Value (TBV)		88.9	101.9	120.8	143.3
Net Income *ADJ.*		14.3	17.0	20.7	27.1
Return on Tangible Equity (ROTE)		16.1%	16.7%	17.2%	18.9%
g	***2.0%***				
Equity Value -> (ROTE-g)/(Ke-g)*TBV		166.7	198.8	243.8	322.6
NPV of Equity Value		160.7	175.0	195.9	236.8
Average Equity Value	**192.1**				
PV recovery of misappropiated fun	**9.5**				
Equity Value	**201.6**				

	HP1	**HP2**
Equity Value	**210.5**	**201.6**
# shares mn	18.5	17.4
Value per share €	11.37	11.62

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 €158mn.

NET Peer Comparison

	Exchange	Market Cap	P/E 2021	P/E 2022	P/E 2023	P/E 2024	P/BV 2021	P/BV 2022	P/BV 2023	P/BV 2024
DFV Deutsche Familienversicherung AG	XETRA	158	n.m.	72.5x	25.3x	15.9x	1.9x	1.8x	1.7x	1.5x
Average		158	n.m.	72.5x	25.3x	15.9x	1.9x	1.8x	1.7x	1.5x
Median		158	n.m.	72.5x	25.3x	15.9x	1.9x	1.8x	1.7x	1.5x
NET INSURANCE	Euronext Growth Milan	118	11.9x	8.6x	6.3x	6.1x	1.5x	1.3x	1.1x	1.0x
NET INSURANCE Discounts vs DFV			n.m.	-88%	-75%	-61%	-19%	-26%	-32%	-31%

Source: KT&Partners' elaboration

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- 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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