

Poste Vita Launches a Takeover Bid on NET-IT

HOLD | Fair Value: €9.56 (€9.56) | Current Price: €9.38

Research Update

October 6th, 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

Poste Vita launches a voluntary tender offer for Net Insurance. On September 28th, 2022, Poste Vita launched a delisting takeover bid for 100% of Net Insurance S.p.A. shares and warrants. The bid will be promoted through a special purpose vehicle (BidCo) that will be controlled by Poste Vita itself within a joint venture with IBL Banca S.p.A. Indeed, IBL Banca S.p.A. – NET-IT's currently first shareholder with a share of 26.64% - has committed to sell its full shareholdings (including warrants) and to reinvest part of its proceeds into the BidCo for a 40% stake. Andrea Battista, the current CEO of NET-IT, will remain in charge for the future development of the company and he agreed to sell its shares and warrants except for 400,000 shares. Upon the completion of the transaction, Andrea Battista will retain a stake of ca. 2% of the share capital of Net Insurance.

Poste Vita's bid was set at the price of:

- €9.50 per share, with a premium of 21.6%, 28%, and 30.7% compared with the official closing price of the last day before the announcement, the last month, and six-month average price, respectively (Offer on Shares). The offer price is in line with our latest NET-IT's fair value of €9.56ps.
- €4.81 for each warrant, implying a premium of 52.7%, 60%, and 78.4% compared with the official closing price of the last day before the announcement, the last month, and six-month average price, respectively (Offer on Warrants).

The total cash-out of the bid will range between a minimum of €180.8mn, in case the outstanding warrants will be not converted by the end of the Acceptance Period, to a maximum of €187.8mn assuming that all the outstanding warrants will be converted, except those owned by IBL and Andrea Battista that will be tendered to the Offer on Warrants.

Overall Bid	
HP 1 - No conversion of Warrants	
Bid on pre-dilution share capital	172,059,250
Bid on total warrant outstanding	8,783,079
Total cash-out	180,842,329
HP 2 - Conversion of Warrants (except those owned by IBL and Andrea Battista)	
Bid on fully-diluted share capital	186,106,454
Bid on warrant owned by IBL and Net Insurance	1,670,758
Total cash-out	187,777,212

The transaction is subject to a threshold of 90% of shares and warrants that should be tendered to the Offers and it is expected to be completed by 1H23.

Poste Vita's takeover bid purposes. By delisting NET-IT's shares and warrants from Euronext STAR Milan, Poste Vita – an Italian life insurance company entirely held by Poste Italiane S.p.A. – aims at i) reinforcing Poste Italiane Group's business positioning within the salary and pension-backed loans leveraging on and further developing the leadership positioning of NET-IT. Poste Vita will boost NET-IT growth also thanks to the partnership

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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)	162.8
Shares issued	18,511,500
Treasury shares	1,989,933
Shares out.	17,353,470
Free Float	52.08%

Market multiples	2021	2022	2023
P/E	14.4x	10.4x	7.6x
P/BV	1.8x	1.6x	1.4x
P/Premiums	1.1x	0.9x	0.8x

Stock Data

52 Wk High (€)	9.44
52 Wk Low (€)	6.20
Avg. Daily Trading 90d	24,569
Price Change 1w (%)	25.07
Price Change 1m (%)	28.49
Price Change YTD (%)	36.93

Note: The Market Capitalization is based on the number of shares outstanding

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

with IBL Banca that has agreed to increase the insurance coverages relating to its salary-backed loan business; and ii) leveraging on NET-IT know-how and already established agreement with the banking sector to accelerate the distribution of non-life/protection insurance products through the bancassurance channel.

NET-IT storyline. 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.

Listed on the EGM Market since 2013, in 2018, NET-IT 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.

NET-IT's management has leveraged on its business connections and experience to: i) reinforce the positioning within the CQS market, reaching a market share in terms of volume of over 25% in FY21; and ii) start new relationships with the banking sector and seize cross-selling opportunities on CQ's clients to develop from the scratch the bancassurance business line. NET-IT can rely on **ca. 1,000 branches** in Italy to distribute its non-life and protection policies thanks to agreements signed with **18 banks** over the last three years. In FY21, the bancassurance generated €28mn of Gross Written Premium, accounting for ca. 19% of the total.

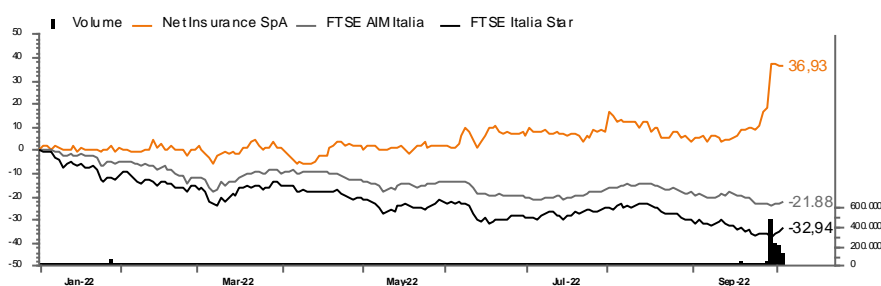
NET-IT's management has successfully executed the Group's strategy aimed at ensuring sustainable growth, capital strength, and shareholders' remuneration, beating **business plan targets for three years in a row** even during challenging times (i.e., black swan, COVID-19).

On June 23rd, 2022, NET-IT presented an updated and detailed business plan setting new ambitious targets and bringing forward the strong commitment shown over the last three years. On August 1st, 2022, NET-IT moved to the Euronext STAR Milan.

Estimates confirmed. We have left unchanged our estimates and we will consider a possible review after the release of FY22 Results. We expect GWP to grow at a CAGR2021-25 of 13.8%, reaching €250.2mn by 2025. On the profitability side, we 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.

Current Valuation. Following the takeover bid announcement, the stock appreciated by ca. 16%, reaching a price of €9.38ps. Since the business combination, the stock price has registered a 123% performance.

YTD Relative Performance Chart



Recap Tender Offer

Tender Offer on Shares	
Shares Issued	18,511,500
<i>of which Treasury Shares</i>	1,989,933
<i>of which owned by IBL</i>	4,930,542
Management Non Tender Commitment	400,000
HP 1 - No conversion of Warrants	
Pre-dilution shares subject to takeover bid	18,111,500
Bid Price Per Share	9.5
Min bid on shares (pre-dilution share capital)	172,059,250
HP 2 - Full Conversion of Warrants (except those owned by IBL and Andrea Battista)	
Shares following warrants conversion (except for warrants committed to Offer on Warrants)	1,478,653
Fully-diluted shares subject to takeover bid	19,590,153.0
Bid Price Per Share	9.5
Max bid on shares (fully-diluted share capital)	186,106,454
Tender Offer on Warrants	
HP 1 - No conversion of Warrants	
Warrants outstanding	1,826,004
<i>of which owned by IBL committed to Offer on Warrants</i>	340,959
<i>of which owned by Andrea Battista committed to Offer on Warrants</i>	6,392
Bid Price Per Warrant	4.81
Max bid on warrants	8,783,079
HP 2 - Conversion of Warrants (except those owned by IBL and Andrea Battista)	
Warrants owned by IBL and Andrea Battista	347,351
Bid Price Per Warrant	4.81
Min bid on warrants	1,670,758
Overall Bid Range	
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Key Figures – Net Insurance S.p.A.

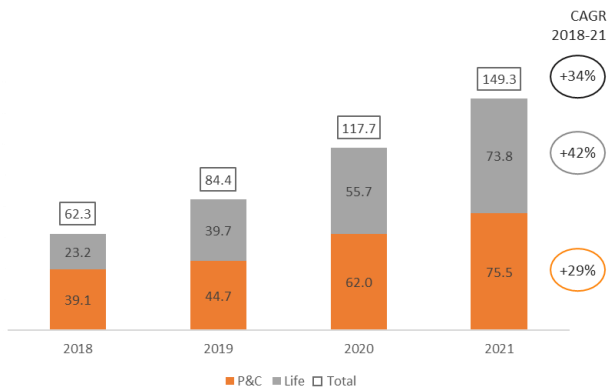
	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	9.38	9.56	Insurance					52.1%
Per Share Data	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Total shares issued (mn)	17.3	17.3	17.3	18.5	18.51	18.5	18.5	18.5
Total shares outstanding (mn)	15.3	15.3	15.3	17.4	17.4	17.4	17.4	17.4
EPS	0.3	0.8	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	39.7x	13.1x	25.0x	14.4x	10.4x	7.6x	7.5x	5.8x
P/BV	2.7x	2.0x	1.8x	1.8x	1.6x	1.4x	1.2x	1.0x
P/Premiums	2.6x	1.9x	1.4x	1.1x	0.9x	0.8x	0.7x	0.7x
Dividend yield (%)	0.0%	0.0%	0.9%	1.8%	2.9%	3.9%	4.0%	5.2%
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.

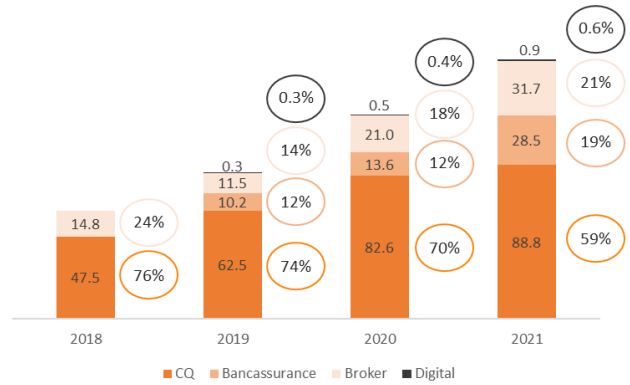
Key Charts

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



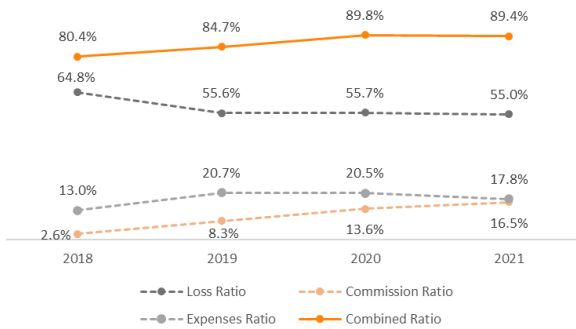
Source: Company data, KT&Partners' elaborations

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



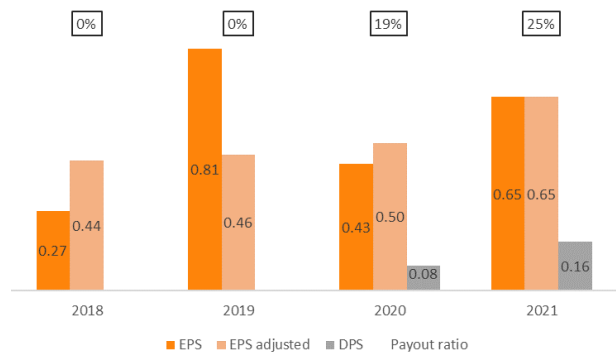
Source: Company data, KT&Partners' elaborations

Key Ratios (%)



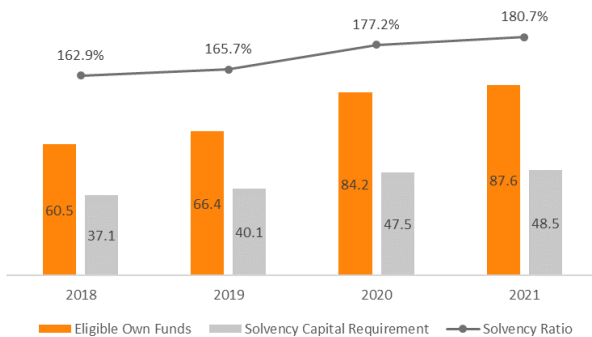
Source: Company data, KT&Partners' elaborations
Note: key ratios are calculated gross of reinsurance

EPS, EPS adjusted and DPS (€)



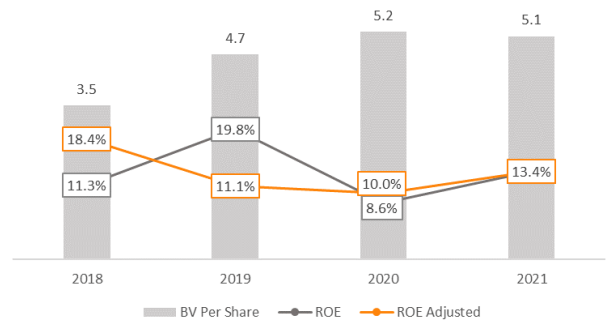
Source: Company data, KT&Partners' elaborations

Solvency Ratio



Source: Company data, KT&Partners' elaborations

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



Source: Company data, KT&Partners' elaborations

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

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