

Beating Targets with Strong FY22 Performance

HOLD | Fair Value: €9.56 (€9.56) | Current Price: €9.44

Research Update

March 27th, 2022 – h 7.00

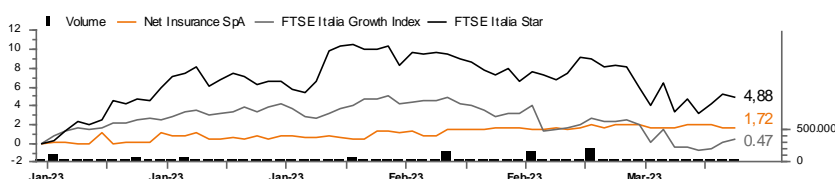
€ Million	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Gross Written Premiums	84.4	117.7	149.3	184.9	194.1	220.8	250.2
Underwriting Result	16.6	21.2	26.6	39.3	39.2	46.7	57.3
Combined Ratio	85%	90%	89%	88%	85%	84%	81%
Net Profit	12.5	6.5	11.3	8.4	21.4	21.8	28.2
Net Profit Adjusted	7.0	7.6	11.5	14.3	17.0	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

FY22 results: Growth Momentum Confirmed. On March 21st, 2023, NET-IT disclosed its FY22 results, confirming business growth and solidity despite macroeconomic uncertainties. Gross written premiums (GWP) rose by 23.8% YoY to €184.9mn, exceeding NET-IT's target and our estimates by 9.3% and 7.2%, respectively. The salary-backed loan business stood at €102mn (-1% than our expectations), +12% YoY and accounting for 55% of the total GWP. In line with our estimates, the bancassurance business increased by 46% YoY to €41.3mn (+3% than our estimates). The broker channel (excluding agro) recorded the highest growth (+222% YoY), exceeding our estimates by 114%, reaching €4.2mn. The agro business performed better than expected, achieving €36.3mn (+28% YoY). Finally, the digital channel reached ca. €1mn of GWP. In line with our estimates, the CoR ratio gross of reinsurance came in at 88%. At the bottom line, net income came at €8.4mn. By adjusting for extraordinary costs and the provision related to performance shares plan related to the takeover bid promoted by Poste Vita, the net result stood at €14.3, fully in line with our expectations. On the capital structure side, the Group's shareholders' equity stood at €88.6 (vs €88.8mn in FY21), due to the depreciation of the financial instruments in the portfolio that have led to the solvency ratio decreasing from 180.7% in FY21 to 172.4%. The BoD also approved around €0.14 dividend per share, implying a dividend yield of 1.4%.

	FY21A	FY22A	YoY growth	FY22E	A vs E
Gross Written Premiums	149.3	184.9	23.8%	172.4	7.2%
Gross Earned Premiums	140.6	171.9	22.2%	162.2	6.0%
Reinsurers' share	(76.8)	(98.6)	28.3%	(88.9)	10.9%
Net Earned Premiums	63.8	73.3	14.9%	73.3	0.0%
Claims paid and change in insurance pr	(91.1)	(104.3)	14.5%	(105.8)	-1.4%
Reinsurers' share	54.0	70.3	30.2%	65.7	7.0%
Net insurance benefits and claims	(37.2)	(34.1)	-8.3%	(40.1)	-15.1%
Underwriting Result	26.6	39.3	47.4%	33.2	18.2%
Net acquisition and administration cost	(16.8)	(28.4)	68.9%	(15.8)	79.7%
Combined ratio	89.4%	88.0%	-1.5%	88.1%	-0.1%
Financial Result	3.1	2.6	-16.8%	2.7	-1.4%
Operating Result	13.0	13.5	3.9%	20.1	-32.8%
Other income (expenses)	(0.3)	(1.6)	518.1%	1.9	-185.5%
EBT	12.7	11.9	-6.7%	21.9	-46.0%
Income taxes	1.4	3.5	148.6%	6.4	-45.3%
Net Income	11.3	8.4	-25.9%	15.6	-46.3%
Net Income Adjusted	11.5	14.3	24.1%	14.3	-0.2%

YTD Relative Performance Chart



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Market Data

Main Shareholders	
IBL Banca S.p.A.	26.63%
Algebris UK Limited	5.00%
Mkt Cap (€ mn)	163.9
Shares issued	18,514,269
Treasury shares	1,156,600
Shares out.	17,357,669
Free Float	62.12%

Market multiples	2022	2023	2024
P/E	19.4x	7.6x	7.5x
P/BV	1.8x	1.4x	1.2x
P/Premiums	0.9x	0.8x	0.7x

Stock Data	
52 Wk High (€)	9.46
52 Wk Low (€)	6.38
Avg. Daily Trading 90d	24,734
Price Change 1w (%)	0.00
Price Change 1m (%)	0.00
Price Change YTD (%)	1.72

*P/E is based on net income including the recovery of funds related to the "Mister X" fraud. The number of treasury shares is netted for shares that will be used to service the eventual bond conversion.

Overview

Company description

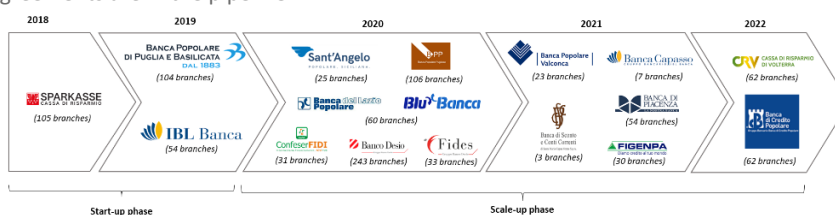
Net Insurance (NET-IT) is an **innovative multi-line insurance player** specialized in: i) insurance of **salary and pension-backed loans (CQ)**; and ii) non-life and protection products aimed at individuals and small business, distributed through **bancassurance, retail brokers** and **digital channels**.

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 have 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 7.6% in January 2019).

Recent developments

- **Convertible Bond: opened an ad-hoc conversion period.** In February 2023, NET-IT announced the opening of an “ad-hoc” conversion period related to the “€5mn Fixed Rate Dated Subordinated Convertible Notes” due December 17th, 2030. The conversion period – going from February, 27th, to March 21st, 2023, with a conversion price of €6ps – has been opened to enable holders converting their bond into ordinary shares, and eventually joining the tender offer.
- **Cash-in related to “bond Augusto”.** In December 2022, NET-IT announced to have collected €3.8mn from Augusto SpA (under liquidation). The payment follows the agreement between Augusto SpA and Domus Srl - occurred in September 2022 – for the sale of a majority stake in Aedes SIIQ SpA, after which Augusto has been able to settle the amount provided. Up to now, the total recovered amount related to the “black swan” is €15mn.
- **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 stake 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 Range

HP 1 - No conversion of Warrants	
Bid on pre-dilution share capital	172,085,556
Bid on total warrant outstanding	8,769,760
Total cash-out	180,855,316
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.

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 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.

- **A STAR Insurance Companies listed on Euronext STAR Milan.** On August 1st, 2022, NET-IT moved to the Euronext STAR Milan.
- **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.

Recap Tender Offer

Tender Offer on Shares	
Shares Issued	18,514,269
<i>of which Treasury Shares</i>	1,789,941
<i>of which owned by IBL</i>	4,930,542
Managment Non Tender Commitment	400,000
HP 1 - No conversion of Warrants	
Pre-dilution shares subject to takeover bid	18,114,269
Bid Price Per Share	9.5
Min bid on shares (pre-dilution share capital)	172,085,556
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)	1,475,884
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	1,823,235
<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	8,769,760
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	
HP 1 - No conversion of Warrants	
Bid on pre-dilution share capital	172,085,556
Bid on total warrant outstanding	8,769,760
cash-out	180,855,316
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
cash-out	187,777,212

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KT&PARTNERS RELEASED NET INSURANCE EQUITY RESEARCH UPDATE ON 24/11/2022, WITH A FAIR VALUE OF €9.56ps.

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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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