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INDEPENDENCE OF IDEAS

Italy Media **24 October 2019**

MailUp (MAIL-IT)

Fast up and forward

BUY

Last (€)	4.37
Valuation Range (€)	4.7-4.9
Mkt Cap (€ m)	65
Free Float	39%
Avg Daily Vol (sh m)	0.03
YTD	88.36%

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- **We see c. 10 % upside potential in MailUp Spa share price on the back of strong top-line growth driven by the rapidly expanding email editing product and the ramp-up in the A.I. advertising applications.**
- **Our €4.7-€4.9 valuation range is DCF based and correspond to a modest 1.1x EV/Revenue-'19 EST. The latter multiple is at discount relative to the one applied in an ongoing transaction involving an Italian peer.**
- **In 1H19 the Company experienced a contraction in margin that was mainly due to a non-recurring cost item charged by a SMS supplier with reference to FY18. MailUp has booked the item in its entirety to G&A but has not yet paid, is contesting the claim and discontinued the supplying relationship effective 2H'19.**
- **During the Conference Call management seemed to imply that it does not expect a slow-down in the second half, as confirmed by the Trading Statement referring to 3Q, and that the underlying profitability in the SMS line of business is quite stable, that what we assume.**
- **We expect Revenue to hit the €64mn mark in FY19, up 57% y/y compared to +63% y/y seen in the first half of the year and 68% in 3Q. We expect EBITDA to reach €4.9mn in FY19, up 29% y/y.**
- **Management signalled that is considering using the available cash not only for M&A but also to support an acceleration in organic growth, which we deem is rational. The quest for M&A opportunities however continues with a particular focus on A.I. applications in the advertising domain.**

	Sales (€ m)	EBITDA (€ m)	vs. Cons	Net Profit (€ m)	EPS (old) (€)	EPS (new) (€)	vs. Cons	P/E (x)	EV/EBITDA (x)	DPS (€)	DIV Yield
2017	27	3	0.0%	1	0.05.	0.05	n.a.	n.a.	n.a.	0.00	0.0%
2018	40	4	0.0%	1	0.09	0.09	n.a.	n.a.	n.a.	0.00	0.0%
2019 E	64	5	(2.8%)	2	17.99	0.12	n.a.	35.6	11.9	0.00	0.0%
2020 E	75	7	(5.9%)	3	20.34	0.20	n.a.	21.5	8.0	0.00	0.0%
2021 E	86	8	(13.4%)	4	22.69	0.26	n.a.	16.9	6.0	0.00	0.0%

Est 3 Yr Sales CAGR:	29.1%	*Shares Outstanding (m)*	15
Est 3 Yr EPS CAGR:	44.1%	*Mkt Cap (€ m)*	65

Share price performance	**YTD**	**1 month**	**3 months**	**12 month**
Absolute	88.36%	12.05%	8.71%	75.5%
Relative to FTSEMIB	54.42%	9.79%	6.78%	47.64%
Relative to STOXX 600 Europe	61%	10.57%	7.75%	57.29%

1. 3Q and 1H RESULTS

- **€0.67m cost in 1H'19 is non-recurring in nature**
- **Management sounded upbeat in conference call**
- **We believe that PDS2 can add to notifications volume going forward**

In 3Q'19 Sales grew by 68% y/y to €14.6mn, accelerating sequentially compared to a 63% y/y increase posted in 1H'19. The main driver of growth again was Agile Telecom, the Group SMS-Gateway that grew by 81% y/y to €9.54mn (+87% y/y in 1H) accounting for 73% of y/y advance in the top-line. MailUp performed well, up 23% y/y compared (+9.6% in 1H) also including the contribution of Globase. BEE, the e-mail editor, reported sales up 113% y/y to €0.835mn. Datatrics', the AI Predictive unit consolidated in December '18, reported €0.642mn in revenue for the quarter.

In 1H'19 Sales reached €29.3mn, up 63% y/y, €10.7mn in absolute terms, driven by SMS revenue, which was 71% of Group's total up €8.8mn y/y to €20.8m. Email sales performed well, up 15% y/y compared to +7.3% in FY'18 +10.9% in FY'17 also helped by the email editing unit BEE.
Datatrics', the AI Predictive unit consolidated in December '18, helped support the growth of the high margin Professional Services line, which showed a 45% increase in 1H'19

In the first half EBITDA stood at € 2.1m, i.e. 7.3% margin on revenue vs 10% in 1H'18, up 15% y/y.
EBITDA was depressed by an unexpected, non-recurring charge of €0.67m for SMS traffic broadcast in FY'18 which had a 220bp impact on margin.
Such charge, booked to G&A in full, has not yet been paid and is being contested by the Company, could be partially reversed in the future in our view.

Datatrics, contributed a €0.279m loss EBITDA while first time adoption of IFRS16 brought a €0.32mn positive impact at the EBITDA level.

Adjusting for non-recurring and non-comparable items in 1H'19 the EBITDA margin of the core business would have been a good 9.3 %.
Net Cash at the end June was €4.4mn after netting out a €2.4mn for IFRS16 and after deducting €0.97mn invested in acquisitions, compared to €6.4mn at YE18.

During the Conference Call held on 18 September to comment 1H results management indicated they do not expect a deceleration in 2H, which is remarkable, especially considering the strong growth seen so far this year. Such indication was confirmed by the 3Q Trading Update released on 10 October. We furthermore understood that Gross Margin in the SMS business is quite stable, despite that the business remains volatile by nature.

CEO signalled they could choose to fully invest their €8mn cash position to push for organic growth in BEE and Datatrics, both in terms of product development and market penetration. We take this as a sign of confidence in their products' commercial potential. Interestingly, BEE is being transformed into a Communication Platform open to the contribution of third-party developers. We deem this choice could prove to be a winner from a commercial standpoint.

Management added that scouting for M&A however will continue with a focus on A.I. applications in the o advertising domain. Although the Company said it's too early days to quantify the possible impact of PSD2 on SMS traffic we believe the Payment Service Directive can only accelerate the growth of the Notification market.

This publication has been reviewed and approved by the "Committee for the Independence of the Publications of the Research Department".

2. FINANCIAL ESTIMATES

- **SMS has good momentum and PDS2 is likely to be supportive**
- **EMAIL revenue boosted by the contribution of BEE**
- **Datatrics making good progress**

We expect revenue to grow by 25% CAGR FY18/FY22, compared to 62% CAGR FY15/FY18 (29% FY15-PF/FY18). We foresee EBITDA growing by 28%/29%CAGR over the same period, compared to 77%CAGR FY15/FY18 (8% CAGR FY15PF/FY18).

SMS growth remains sustained
SMS revenue accelerated again in 1H'19. We believe the PSD2 Directive, effective from 14 September, stands to contribute to traffic growth as it requires Strong Customer Authentication (SCA) for most non-cash transactions (see Appendix). The PSD2 is not yet enforced universally as most National Competent Authorities (NCAs) have granted a grace period to unprepared players until March '21, implying that up to then the market for verifications, including SMS traffic, should be supported by banks and merchants ramping-up to reach full compliance. We expect SMS revenue to grow by 38% CAGR FY'20/FY'18, vs +85% in 1H'19, +44% CAGR-FY'18/-FY'15PF with falling Gross Margins as SMS Gateways compete for market share through volume price discounts.

EMAIL revenue benefit from BEE contribution
Email revenue in 1H'19 benefitted from the contribution of the BEE unit. The email channel is not losing appeal as a means of marketing, against for example social media for the customary reasons:
*there are >2x more email accounts than Facebook /Twitter/Instagram accounts combined;
*email open rates remain in the 15%-25% range, as opposed to mid-single digit on Facebook;
*click-through ratios are in the 2%-4% range compared to c. 1% on social media.
Furthermore, the evolution of A.I. is making it feasible to personalize emails content to a much greater degree than what has been possible so far, thus making the channel even more able to leverage on readers' preferences. We foresee that email revenue will grow by 18% CAGR FY'20/FY'18 compared to 17.7%-EST CAGR-FY'18/fy'16 (net of Globase). We expect margins to stay basically stable going forward in the core email business.

Revenue of the BEE unit in 1H19 grew by 109% y/y reaching €1.19mn. In April BEE enjoyed a 20% price increase to "free/$15/$25/$45 monthly" which we understand was passed on to customers without receiving any complaints.
Management believes there is potential to further increases prices that seems doable to us, especially considering that BEE's offer looks relatively cheap when compared to incumbents, and that competitors recently increased their prices. As an example the market leader, MailChimp, in May changed its retail offer from "free/$9.99/$199 monthly" to "free/$9.99/ $14.99/$299 monthly".

MailUp does not give guidance about the future performance of the unit but is confident it could hit the $10mn revenue mark within three to four years, implying a 72% CAGR Although such a target might sound over-ambitious we estimate that result could be delivered with current metrics if they were to achieve less than 1% of MailChimp's market share (11m active users in FY19 as estimated by TechCrunch). We believe it is realistic that BEE revenue could grow by 60% CAGR over the next three years.

DATATRICS. In 1H'19 revenue stood at c. €0.9m, customers currently count up to 250+. In the first half the unit added c. 120-EST client of which 20+ in Italy. During the 1H call the CEO hinted that the product could be distributed indirectly outside of the areas where the Company already have feet on the ground (Holland, Germany, UK, Denmark, Italy and part of the US), thus decreasing the need for upfront investment in additional sales capacity. Revenue per customer stands at c. €750/month of which c. 30% is a variable component linked to improvement in the conversion ratio. The largest accounts generated more than €150k/year. For the next four years we assume that Datatrics will add customers at the same absolute rate it has had so far and will grow ARPU by 2% CAGR. With these assumptions we estimate that Datatrics at the end of the period will achieve c. 6.5% penetration of the Group's current customer base compared to c. 10% that the Company keeps in mind as a target.

3. VALUATION

- **DCF points to €4.7-€4.9 value per share**
- **The DCF estimate corresponds to c. 1.1x EV/Rev-19EST, at discount vs Kaleyra's value estimated by GIGCapital**

VALUATION

We increase our Fair Value Range to €4.7-€4.9 compared to €3.5-€3.7 previous. We now incorporate the current BTP's rate vs 3.5% we used formerly as risk-free rate. Equity premium remains unchanged at 770bps.

We increase estimates for revenue by an average 22% over the next three years to reflect stronger growth of SMS line of business and increased contribution from BEE, Datatrics and the Professional Service lines.
We cut estimates for EBITDA over the same period mainly to anticipate losses that the Company will likely (and rightly in our view) bear to press for growth, in particular at the Datatrics level, in order to increase the market share of MailUp's innovative products.

Compared to peers MailUp continue to trade at deep discount relative as highlighted in the tables below.

20-EST	Price	Ebitda % y/y	PE	EV/Ebitda	EV/Rev	Ebitda %	(Cash) mn	Div yield
DotDigital	0.957	16.0	23.9	15.2	5.4	34.7	-10.1	0.9%
Imimobile	3.07	12.5	19.3	11.6	1.47	12.6	14.6	0.0%
Sinch	168.8	31.1	20.4	14.2	1.7	10.6	159.0	0.0%
Esker	82	19.4	36.6	17.7	3.9	22.1	-27.4	0.8%
AVERAGE		17.3	22.8	14.5	4.2	27.7		0.6%
MailUp	4.44	28.9	21.8	8.1	0.7	9.2	-10.4	0.0%

20-EST	Price	Ebitda % y/y	PE	EV/Ebitda	EV/Rev	Ebitda %	(Cash) mn	Div yield
Vonage	9.98	10	39.1	16.9	2.3	13.3	408	0.0%
Twilio	100.5	n.m.	355	293	11.1	3.1	-1552	0.0%
Kaleyra					1.5			
MailUp	4.44	29	21.8	8.1	0.7	9.2	-10.4	0.0%

4. APPENDIX: Payment Service Directive 2

- **PSD2 makes Strong Customer Authentication, a qualified two factor authentication, compulsory for a good part of non-cash transactions.**
- **Growth in volume for Push Notifications is likely to be supported by the gradual implementation of the Directive**

APPENDIX: PAYMENT SERVICE DIRECTIVE 2

The Payment Service Directive 2 became effective on 14 September but its implementation has been delayed until 14 March 2021 to give it more time to deal with technical issues. All parties concerned by the Directive are exempted from applying it provided they can produce a migration plan towards full compliance within the timeframe defined by local authorities on request. The new regulation requires Strong Customer Authentication (SCA) for all electronic transactions except those:
a) valued less than €30;
b) deemed low risk based on counterparties risk profile, when available;
c) consisting in fixed amount subscriptions;
d) merchants initiated;
e) initiated by white-listed customers;
f) completed on the phone;
g) initiated by lodged cards (e.g. corporate cards deposited with travel agents).

SCA is accomplished when the counterparty provides two pieces of information drawn by two separate sets of data that satisfy Possession/Inherence/Knowledge factors. For example, the consumer can provide information he inherently has, like fingerprints, and data he exclusively knows, like a password. As an alternative he can supply information he possesses, like a One Time Password received on his phone, and a memorized swiping path on his phone numbers pad.

INHERENCE		POSSESSION		KNOWLEDGE	
YES	NO	YES	NO	YES	No
Fingerprints	Swiping path	On device:	Apps	Password	Email address
Retina/Iris scan		- OTP		PIN	Card details
Voice recognition		- QR scan		Sec question	OTP, tokens
Hand geometry		- Binding		Passphrase	OTP lists
Face geometry		- Signature		Swiping path	
Keystroke dynamic					
Heart rate					
Device holding angle					

SCA is a form of Two Factor Authentication with stricter Regulatory Technical Standards, defined by the Regulators, like real time assessment for malware infections, monitoring of device software access history, cross-checking with hot-lists of suspected fraudsters and other requirements that are relatively complex to comply with.

The ramp-up to SCA compliance has led banks to abandon digital token keys in favor of mobile phone apps. Although apps have the potential to dampen the growth of notifications it seems logical to expect that the latter will always be offered as an

option and will be chosen by a significant percentage of clients, reluctant to install yet another app on their phone or share their biometrics data with third parties.
We don't have reliable recent data on financial notification volume growth, besides the figures provided by Ubiquity up to 2017, but we believe CAGR is still solidly above 20% with a penetration below 25% of transactions.

Summarised P&L Account and key ratios

€m	2016	2017	2018	2019 E	2020 E	2021 E
Sales	**21.6**	**27.3**	**40.2**	**63.5**	**74.8**	**86.5**
EBITDA	**2.4**	**2.9**	**3.8**	**4.9**	**6.9**	**8.3**
Depr/Prov	(1.2)	(1.6)	(1.9)	(2.1)	(2.2)	(2.4)
EBIT	**1.2**	**1.3**	**1.9**	**2.8**	**4.7**	**5.9**
Net Int.Cost	0.7	(0.1)	(0.1)	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Impairment & Other	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
PBT	1.1	1.2	1.9	2.8	4.7	5.9
Taxes	0.3	(0.6)	(0.7)	(1.0)	(1.6)	(2.1)
Discontinued Operations	0.0	0.0	66.8	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**0.8**	**0.6**	**1.3**	**1.8**	**3.0**	**3.9**
EPS adj	**0.08**	**0.05**	**0.09**	**0.12**	**0.20**	**0.26**
Sales growth	14.4%	26.2%	47.1%	58.0%	17.8%	15.6%
EBITDA growth	(18.5%)	19.3%	30.9%	28.9%	41.4%	20.9%
Net Profit growth	(34.6%)	(24.7%)	105.2%	45.6%	66.0%	27.5%
EBITDA margin	11.2%	10.5%	9.4%	7.7%	9.2%	9.6%
EBIT margin	5.5%	4.7%	4.7%	4.4%	6.2%	6.9%
Net Pr. Margin	3.8%	2.2%	3.1%	2.9%	4.1%	4.5%
Gross Int. Cover (x) (1)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Summarised Balance Sheet and key ratios

€m	2016	2017	2018	2019 E	2020 E	2021 E
Fixed assets	5.4	6.1	6.6	6.3	7.4	7.8
Goodwill	10.4	9.9	16.7	16.7	16.7	16.7
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Trade Receivables	3.4	3.7	8.4	13.2	15.5	18.0
Cash + S/T Invest. + Other	4.5	10.7	7.7	9.1	12.2	16.6
Total Assets	**25.4**	**32.1**	**43.0**	**67.9**	**80.0**	**92.5**
Sharehold. Equity	7.0	13.9	15.9	17.8	20.8	24.7
L-T Financial Debt	2.2	1.8	0.3	0.3	0.3	0.3
S-T Financial Debt	1.3	1.7	1.5	1.5	1.5	1.5
Trade Payables	2.9	4.7	8.1	12.8	15.0	17.4
Provisions + Other	1.0	1.2	1.8	2.8	3.3	3.8
TotalLiabilities	**25.4**	**32.1**	**43.0**	**67.9**	**80.0**	**92.5**
Net Debt (Cash)	(2.2)	(9.0)	(6.2)	(7.3)	(10.4)	(14.8)
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Net Debt/Equity	(0.3)	(0.6)	(0.4)	(0.4)	(0.5)	(0.6)
ROCE (2)	9%	8%	11%	8%	13%	16%
ROE	12%	4%	8%	10%	15%	16%
ROCE/WACC (x)	1.0	1.0	1.3	1.0	1.5	1.9

Simplified Cash Flow Statement and key ratios

€m	2016	2017	2018	2019 E	2020 E	2021 E
Net Profit	0.8	0.6	1.3	1.8	3.0	3.9
+ Depr. & Amortis.	1.2	1.6	1.9	2.1	2.2	2.4
+/- other	0.7	1.0	1.4	0.0	0.0	0.0
= Operating CF	2.7	3.2	4.5	3.9	5.2	6.2
- Change in Working K	0.4	(0.3)	(2.0)	0.2	1.2	1.0
- CAPEX of which	(1.8)	(2.1)	(3.8)	(3.1)	(3.3)	(2.8)
expansionary CAPEX	0.0	0.0	0.0	0.0	0.0	0.0
- Dividends	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
= FCF	1.1	0.8	(1.3)	1.0	3.1	4.4
FCF Yield (Mkt Cap)	n.a.	n.a.	n.a.	1.6%	4.8%	6.8%
FCF Yield (EV)	0.0%	n.a.	n.a.	1.8%	5.7%	8.8%
FCF (3)	**1.1**	**0.8**	**0.9**	**1.0**	**3.1**	**4.4**
FCF Yield (Mkt Cap)	0.0%	n.a.	n.a.	1.6%	4.8%	6.8%
FCF Yield (EV)	0.0%	n.a.	n.a.	1.8%	5.7%	8.8%

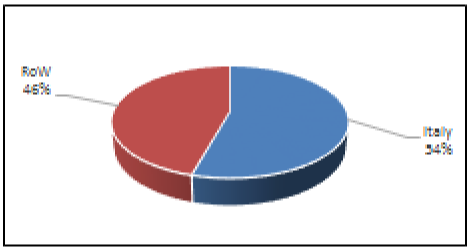
1) calculated as EBIT/Int. expenses (2) calculated as ROCE after taxes (3) calculated ex-expansionary CAPEX

(*) Source: company data and Fidentiis estimates

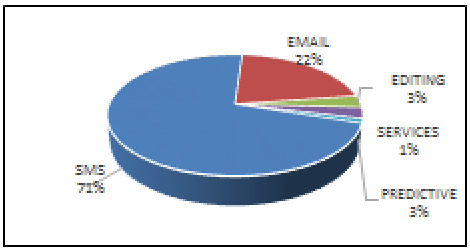
EV VALUATIONS

€m	2019	2020	2021
+ Mkt Cap	65.1	65.1	65.1
+ Net Debt	-7.4	-10.4	-14.8
- Non-core assets	0.2	0.2	0.2
+/- Other	0.0	0.0	0.0
= EV	**57.9**	**54.9**	**50.3**
EV/Sales (x)	0.9	0.7	0.6
EV/EBITDA (x)	11.9	8.0	6.0
EV/EBIT (x)	20.7	11.8	8.4
EV/IC (x)	8.7	7.4	4.7

Geographical Sales BreakDown



Divisional Sales BreakDown



Debt Structure (€m)	
Total Debt in the B.Sheet	(5.9)
Short Term	(6.2)
Long Term	0.3
maturing in 24 months	0.0
maturing in 36 months	0.0
maturing in 48 months or more	0.0
Cost Range	0.00%
Rating (Moody's)	0
Short term	0
Long term	0
Estimated Off B/S Liabilities	**0**

Share Information	
Outstanding # shares (m)	15
Market Cap (€ m)	65
Avge daily volume (€ m, last 6 months)	0.030
Free float %	37%
Major shareholders	
Management	55.2%
Zoidberg srl	7.3%
AZ Funds	2.4%
Lupus Alpha	1.7%
Management shares option scheme	
% of Capital	
Nearest to vest	

This publication has been reviewed and approved
by the "Committee for the Independence of the Publications of the Research Department".

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Guide to fundamental research

Reports on companies under coverage are published normally on a quarterly basis, to comment on results and important news flow. Valuation and risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company specific research report at http://www.fidentiis.com/ or contact your Fidentiis representative.

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BUY: 12-month valuation is at least 10% higher than the current market price.

HOLD: 12-month valuation is 0%-10% higher than the current market price.

SELL: 12-month valuation is lower than the current market price.

The prices of the financial instruments that are the subject of this report (referred as current market prices) are the closing price of the day prior to the publication of the report (i.e. prices at 5.30 p.m. of the day prior to the publication of the report).

The reports are finalised at 9.00 AM before the market opening.

Please refer to the most recently published report on this company for detailed analysis on the relevant strategy/profile, risks and basis of valuation or methodology used to evaluate or to set a price target for the equities subject of this report, which is available at http://fidentiiseq.cloudapp.net/equities/home.aspx

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