

Growens

Sector: Marketing Technology



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M&A deal to accelerate growth

Growens is an integrated industrial group developing technologies for predictive marketing, mobile messaging and content creation, meant for organisations wishing to communicate effectively with their customers worldwide.

ContactLab deal at a glance: Main terms

As of April 4th 2022, Growens has signed a binding agreement to acquire 100% of ContactLab S.p.A., Italian based player in cloud marketing technology. Total deal consideration stands at €5mn to be paid 75% cash and 25% with treasury shares, plus a €200k earn-out subject to the finalization of integration process within 2022 year end, and up to €6.4mn upon achieving undisclosed profitability targets over 2022-2024 time span.

Our view on the deal

We appreciate the industrial rationale of the acquisition, which we find consistent with the development strategy pursued by Growens. We highlight the following as main benefits deriving from the transaction: 1) it supports dimensional growth in the SaaS business; 2) it allows to address a new customer segment (Mid-Large Enterprises), leveraging on new channels (direct / sales-led channel) and broadens the digital marketing product offer (Marketing Cloud and Agency); 3) it generates cross selling opportunities and increases the average return per customer; 4) it strengthens Growens competitive positioning in the domestic ESP market where it is now by the far the biggest player.

We note that the financial sustainability of the deal enables to look forward to the next M&A step: Growens is already keeping an eye on a possible new EU target for BEE.

Estimates update

We are changing our 2022E-23E-24E estimates as follows: 1) Revenues likely to grow at a double-digit pace (19.1% CAGR_{21A-24E}), moving from €71.2mn as of 2021A (before consolidation) to ca. €120.3mn at the end of forecast period 2) EBITDA and EBIT margins expected to converge to 8.5% and 4.0% respectively in 2024E; 3) Net Cash Position moving from €2.7mn (after acquisition cash-out) up to €11.5mn in 2024E thanks to organic FCF.

We note that at regime the deal is expected to generate ca. €2.0mn annual synergies, 40% cost based and 60% revenue based.

Fair value increased to €6.56 (from €6.26)

In our view the deal adds ca. €0.30 per share to Growens valuation, so we are updating our fully diluted Sum-of-the-Parts calculation at €6.56 per share (from €6.26). At fair value, the stock would trade at 1.0x-0.9x EV/Sales and 13.3x-10.5x EV/EBITDA 2022E-23E multiples, still at deep discount vs. UK and US peers.

Fair Value (€) 6.56

Market Price (€)(*) 5.14

Market Cap. (€m)(*) 77.0

KEY FINANCIALS (€m)	2021A	2022E	2023E
REVENUES	71.2	93.5	108.1
EBITDA	5.2	7.4	8.8
EBIT	1.1	1.8	3.3
NET PROFIT	0.4	1.1	2.1
EQUITY	17.5	18.6	20.8
NET CASH POS.	6.5	2.7	7.6
EPS ADJ. (€)	0.02	0.07	0.14
DPS (€)	0.00	0.00	0.00

Source: Growens (historical figures), Value Track (2022E-23E estimates)

KEY FINANCIALS (€m)	2021A	2022E	2023E
EBITDA MARGIN (%)	7.3	7.9	8.1
EBIT MARGIN (%)	1.6	2.0	3.0
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x)(*)	1.0	0.8	0.7
EV/EBITDA (x)(*)	13.3	10.2	8.0
EV/EBIT (x).(*)	61.2	40.9	21.5
P/E ADJ. (x)(*)	nm	69.1	35.7

Source: Growens (historical figures), Value Track (2022E-23E estimates)

STOCK DATA

FAIR VALUE (€)	6.56
MARKET PRICE (€)(*)	5.14
SHS. OUT. (m)	15.0
MARKET CAP. (€m)(*)	77.0
FREE FLOAT (%)	37.0
AVG. -20D VOL. (#)	12,315
RIC / BBG	GROW.MI / GROW IM
52 WK RANGE	3.81-5.48

Source: Stock Market Data

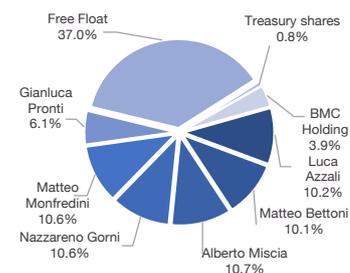


Business Description

Growens is a leading cloud based digital marketing technology hub currently offering its solutions to several thousand customers worldwide, with a consolidated expertise on small to medium-sized enterprises.

In greater detail, Growens is involved in the provisioning of email marketing services, delivery of mobile text messages (for both transactional and marketing purposes), email editing support, Predictive Marketing CDP and professional services to business clients.

Shareholders Structure



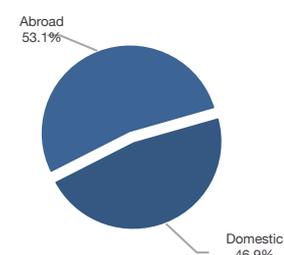
Source: Growens SpA

Key Financials

€mn	2021E	2022E	2023E	2024E
Total Revenues	71.2	93.5	108.1	120.3
Chg. % YoY	9.2%	31.3%	15.6%	11.3%
EBITDA	5.2	7.4	8.8	10.2
EBITDA Margin (%)	7.3%	7.9%	8.1%	8.5%
EBIT	1.1	1.8	3.3	4.8
EBIT Margin (%)	1.6%	2.0%	3.0%	4.0%
Net Profit	0.4	1.1	2.1	3.3
Chg. % YoY	-34.8%	nm	93.4%	57.9%
Adjusted Net Profit	0.4	1.1	2.1	3.3
Chg. % YoY	-34.8%	nm	93.4%	57.9%
Net Fin. Position	6.5	2.7	7.6	11.5
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-4.1	-3.9	-4.0	-5.0
OpFCF b.t.	4.7	1.5	6.0	5.4
OpFCF b.t. as % of EBITDA	89.7%	20.6%	68.6%	52.4%

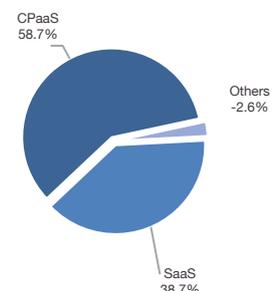
Source: Growens SpA (historical figures), Value Track (estimates)

FY2021 Revenues by geography



Source: Growens SpA

FY2021 Revenues by business line



Source: Growens SpA

Investment case

Strengths / Opportunities

- ◆ Full range of marketing technology services (SMS, email, email editor, CDP services, professional ones);
- ◆ Highly diversified customer base ranging from professional marketers to developers and to wholesalers both at a domestic and international level;
- ◆ Intense and effective R&D effort generating high-value opportunities.

Weaknesses / Risks

- ◆ Much smaller size if compared to Anglo-Saxons competitors;
- ◆ MarTech moves fast and Growens capability to keep up with the pace could be limited due to financial availabilities.

Stock multiples @ €6.56 Fair Value

	2022E	2023E
EV / SALES (x)	1.0	0.9
EV / EBITDA (x)	13.3	10.5
EV / EBIT (x)	53.1	28.3
EV / CAP.EMP. (x)	6.1	7.1
OpFCF Yield (%)	1.6	6.5
P / E (x)	89.6	46.3
P / BV (x)	5.3	4.7
Div. Yield. (%)	0.0	0.0

Source: Value Track

ContactLab acquisition

The deal at a glance

As of 4th of April 2022, Growens (GROW) has signed a **binding agreement to acquire 100% of ContactLab S.p.A.**, a leading one-stop-shop boutique that provides products and services to enhance the customer engagement strategies and digital marketing campaigns.

The company operates in two business segments:

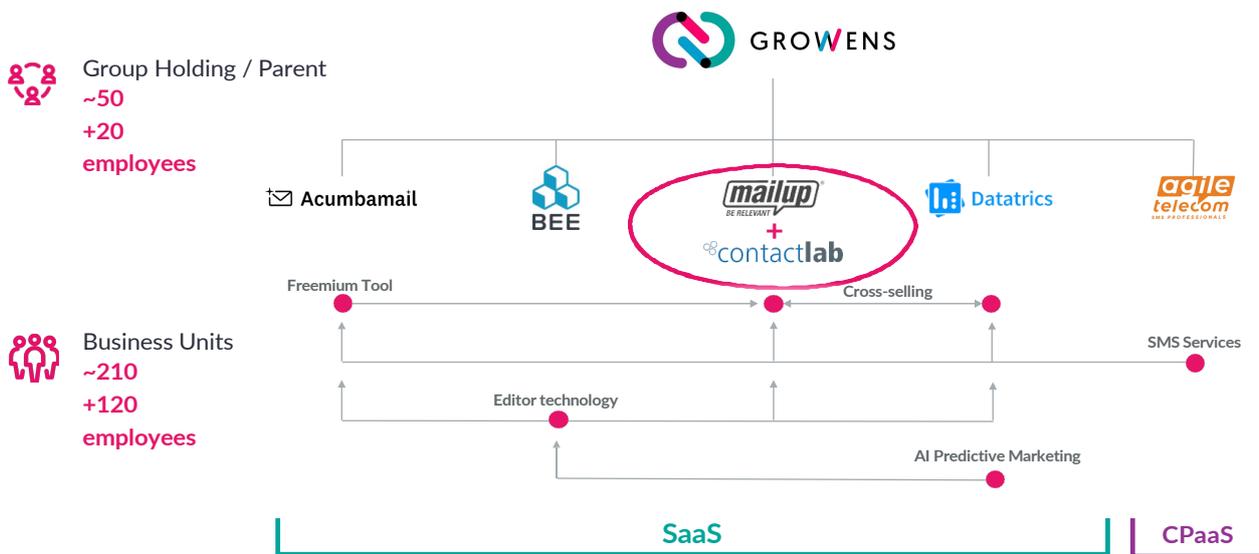
- ◆ **Tech Division** (accounting for 46.5% of the revenues), with its proprietary SaaS platform “Flow” providing tools for: 1) Data Analysis; 2) Automated marketing campaigns; 3) Multi-channel communication; 4) Return Analysis, to assess the effectiveness of the campaign. The product is scalable and relies on quick and customizable APIs, able to integrate into the client ecosystem and external tools. The platform already embeds BEE Plugin for content creation;
- ◆ **Agency Division** (accounting for 47.5% of the revenues), namely services on e-commerce and digital marketing to create tailor- made marketing campaigns. More in specific, we highlight: 1) Evaluation of effectiveness; 2) Analysis of customer feedbacks; 3) Predictive model to optimize the outcome; 4) Deliverability services, including a 24/7 operations team to support customers in executing global campaigns.

After the transaction, that will indicatively be finalized by the end of May 2022, the Tech Division will be combined and coordinated with MailUp business unit, thus increasing the service range in order to serve more sophisticated clients with real-time data management and marketing automation.

The Agency Division will form a new unit, aggregating the professional services offer related to the whole Group customer engagement on various proprietary and non-proprietary platforms, as well as serving certain BEE internal activities currently appointed to foreign partners.

Therefore, the new Group structure is as shown in the chart below.

Growens: New Group structure



Source: Growens

As far as 2021A full year figures are concerned, ContactLab has recorded:

- ◆ Sales revenues at €10.9mn;
- ◆ EBITDA at €1.0mn (9.3 % EBITDA margin);
- ◆ Net Cash at €0.4mn.

Therefore, 2021FY pro-forma aggregate results obtained by including ContactLab in Growens' consolidation perimeter, are as shown in the chart below. We highlight that the aggregated Net Cash Position (€3.2mn) is affected €-3.7mn acquisition-related costs.

Growens: Aggregated Key Financials FY2021

	 GROWENS	 contactlab	 GROWENS + contactlab
Total Revenues	71.2	10.9	82.1
Recurring Revenues	30.0%	30.3%	30.0%
Gross Profit	23.8	4.8	28.6
Gross Margin	33.4%	44.5%	34.8%
EBITDA	5.2	1.0	6.2
EBITDA Margin	7.3%	9.3%	7.6%
NFP	(6.5)	(0.4)	(3.2)

Source: Growens

Terms of the deal

The transaction requires the purchase of n. 1,228,572 ContactLab shares (100% of its share capital) for a **total Equity Value of €5mn** to be paid as follows:

- ◆ As per **€3.750mn in cash**, versus the purchase of n.827,617 class A and B ContactLab shares (respectively owned by all the selling shareholders amounting to ca. 67.4% of its share capital), to be paid on the date of closing;
- ◆ As per **€1.250mn in shares**, versus the purchase of the remaining n. 400,955 class A and B ContactLab shares respectively owned by all the selling shareholders amounting to ca. 32.6% of its share capital, in kind, via the attribution of n. 188,822 treasury shares of the issuer, on the date of closing. The implied value of the Purchase Price Shares is €6.62 p.s., with a ca. 29% premium on the official price of 1 April, 2022.

Moreover, a €200k earn-out has been set subject to integration being finalized within 2022 year end, and a further earn-out provision has been granted to the selling shareholders for a total consideration up to €6.4mn, upon achieving certain strategic and cumulated combined profitability goals for Growens and ContactLab over the 2022-2024 time span.

Since the achievement of established objectives depends on cash flow parameters, the Earn out is expected to be more than repaid by future cash generation.

The potential earn-out will be paid exclusively in cash to P101, while to the remaining selling shareholders at Growens' choice in cash or in kind up to 40% in Growens shares, based on the weighted average official price of Growens shares over the last 90 trading days before the earn-out maturity date, plus 10%.

Following the transaction (and net of the potential Earn-out Shares attribution), the selling shareholders will own an aggregate stake in the issuer of ca. 1.3% of its share capital.

Our view on the deal

We appreciate the industrial rationale of the acquisition, which is consistent with Growens development and consolidation strategy and clearly aimed at strengthening competitive positioning and generating material cross selling synergies.

Indeed, we have identified the following as main benefits arising from the transaction, which:

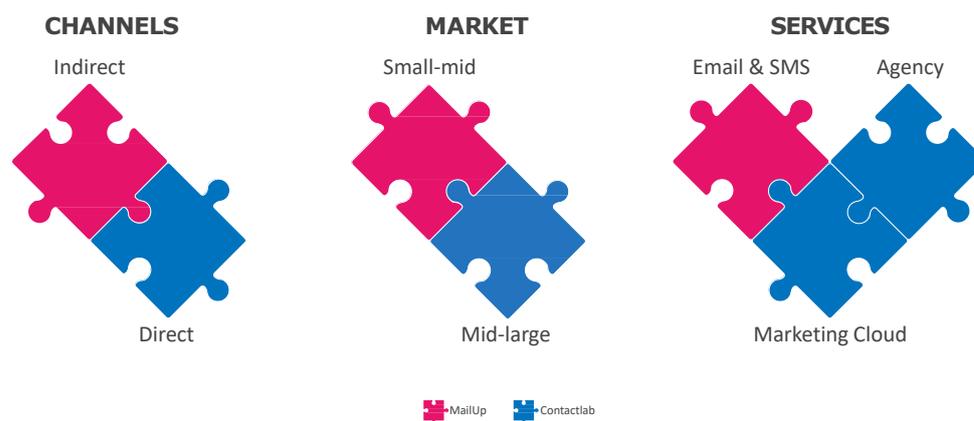
- ◆ Supports **dimensional growth**, in view of creating a more sizeable, more integrated player in the cloud marketing technology field, with a clear Italian leadership;
- ◆ Leads to an **increased and diversified digital marketing product offer**;
- ◆ **Consolidates the Group position in the SaaS business**, which now accounts for ca. 45% of total sales (from previous ca. 37%);
- ◆ **Generates new cross selling opportunities**, thus increasing the average return per customer by leveraging on the enhanced portfolio with a complementary market positioning and technology;
- ◆ **Strengthens Growens competitive position in the domestic ESP market**. Indeed, after the Contactlab deal, Mailup + Contactlab stands at ca. €27m pro-forma turnover, with Dienea following at €11m, while other players are below the €1mn turnover.

In addition, the benefit in terms of synergies, moves along three lines:

- ◆ **Market synergies**, as the acquisition enables to reach a new customer base (+330 clients, mainly Mid-large enterprises), which is highly complementary with that of MailUp, which in turn is focused on the SMB (small-medium business) segment.
- ◆ **Channels synergies**, as the acquisition allows to implement a brand new direct / sales-led approach, which is complementary to that of MailUp (product-led), further accelerating client acquisition.
- ◆ **Services synergies**, by adding Marketing Cloud Technology and Agency to the current portfolio of services, thus exponentially increasing cross-selling possibilities.

By 2024, synergies are expected to have €2mn impact on EBITDA, out of which €1.2mn are revenues-related (namely up /cross – selling synergies) and €0.8mn are cost-related.

Growens: Synergies



Source: Growens

Change in 2022E-24E estimates

We are changing our 2022E-24E estimates to take into account of ContactLab line by line consolidation starting as of January 2022 on a pro-forma basis.

We forecast ContactLab's Revenues to grow up at 20.9% CAGR between 2022-2024E, contributing for ca. 14/15% of Group's Total Revenues and ca. 20% of total EBITDA in the next three years.

ContactLab: P&L figures 2021A-24E

€mn	2021A	2022E	2023E	2024E
Total Revenues	10.9	13.0	16.0	19.0
EBITDA	1.0	1.2	1.7	2.2
EBITDA Margin (%)	9.3%	9.5%	10.5%	11.5%
EBIT	-0.5	-0.3	0.1	0.7
Net Fin. Income (charges)	0.0	0.0	0.0	0.0
Pre-tax Profit	-0.5	-0.3	0.1	0.7
Taxes	-0.8	-0.8	-1.1	-1.2
Reported Net Profit	-0.5	-0.3	0.1	0.5

Source: ContactLab (historical figures), Value Track (forecasts)

That said, our new 2022E-24E financial forecasts for Growens group can be summarized as follows:

- ◆ **Revenues** at €93.5mn in 2022PF, growing at a double-digit pace (19.1 %CAGR_{21A-24E}), moving from €71.2mn as of 2021A (before consolidation) to ca. €120.3mn at the end of forecast period;
- ◆ **EBITDA and EBIT margins** expected to converge to 8.5% and 4.0% respectively in 2024E, thus profitability is expected to remain fairly stable after the acquisition;
- ◆ **Net Financial Position** moving up from €2.7mn (after acquisition cash-out) up to €11.5mn in 2024E thanks to ca. €8.8mn cumulated Free Cash Flow over 2023E-2024E.

Growens: New vs. Old 2022E estimates

	2022E Old	2022E-PF New	Chg. Est
Total Revenues	80.5	93.5	16.1%
EBITDA	6.1	7.4	20.1%
EBIT	2.1	1.8	-13.9%
Net profit	1.3	1.1	-14.0%
Net Financial Position	7.4	2.7	-63.4%

Source: Value Track Analysis

Growens: New vs. Old 2023E estimates

	2023E Old	2023E New	Chg. Est.
Total Revenues	92.1	108.1	17.4%
EBITDA	7.1	8.8	23.6%
EBIT	3.1	3.3	4.7%
Net profit	2.0	2.1	4.8%
Net Financial Position	10.9	7.6	-30.3%

Source: Value Track Analysis

Growens: New vs. Old 2024E estimates

	2024E Old	2024E New	Chg. Est.
Total Revenues	101.3	120.3	18.8%
EBITDA	8.0	10.2	27.8%
EBIT	4.1	4.8	16.8%
Net profit	2.9	3.3	16.9%
Net Financial Position	14.5	11.5	-20.7%

Source: Value Track Analysis

The acquisition is captured in the first revenue stream shown in the table below, which considers both MailUp and ContactLab. The two businesses combined account for ca. 32% of Group Total Revenues, with sound double-digit growth pace (32.9% CAGR_{21A-24E}).

Growens: 2021A-24E Revenues forecasts split by Business Units

(€mn)	2021A	2022E-PF	2023E	2024E	CAGR 21A-24E
MailUp + (ContactLab as of 2022)	16.6	31.0	35.2	39.0	32.9%
Agile Telecom	47.5	49.0	53.1	56.0	5.7%
Acumbamail	2.1	2.5	3.1	3.7	32.5%
BEE	5.6	7.2	9.6	11.8	44.4%
Datatrics	2.6	3.8	7.1	9.7	49.1%
Total Revenues	71.2	93.5	108.1	120.3	19.1%

Source: Value Track Analysis

Growens: P&L figures 2021A-24E

€mn	2021A	2022E-PF	2023E	2024E
Total Revenues	71.2	93.5	108.1	120.3
COGS	-48.6	-64.2	-73.9	-81.8
Other Opex	-17.4	-22.0	-25.4	-28.3
EBITDA	5.2	7.4	8.8	10.2
EBITDA Margin (%)	7.3%	7.9%	8.1%	8.5%
Depreciation & Amortization	-4.1	-5.5	-5.5	-5.4
EBIT	1.1	1.8	3.3	4.8
Net Fin. Income (charges)	0.0	0.0	0.0	0.0
Pre-tax Profit	1.1	1.8	3.3	4.8
Taxes	-0.7	-0.7	-1.1	-1.4
Net Profit	0.4	1.1	2.1	3.3

Source: Growens (historical figures), Value Track (forecasts)

At the Balance Sheet / Cash Flow level, we now expect:

- ◆ **Net Working Capital** levelling off at €-10.8mn, thus progressively reducing cash absorption (€-11.2% 2022E vs €-9.0% 2024E) and despite some fluctuations arising from normal operations;
- ◆ **Net Fixed Assets** progressively decreasing from €30.0mn in 2022E versus €28.1mn, as an effect of low capital expenditure (€4.3mn on average) and no sizable investments over the forecast period (below 4% of revenues);
- ◆ **Net Cash Position** reducing to €2.7mn due to € 5mn acquisition cash-out in 2022E. Subsequently, we expect Net Cash to reach €7.6mn in 2023E and to progressively improve up to €11.5mn by 2024E.

Growens: Balance Sheet figures 2021A-24E

€mn	2021A	2022E	2023E	2024E
Net Working Capital	-12.9	-10.5	-11.2	-10.8
as (%) of Sales	-18.1%	-11.2%	-10.4%	-9.0%
Net Fixed Assets	27.1	30.0	28.5	28.1
Provisions	3.2	3.6	4.1	4.7
Total Capital Employed	11.0	15.9	13.2	12.6
Group Net Equity	17.5	18.6	20.8	24.1
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	6.5	2.7	7.6	11.5

Source: Growens (historical figures), Value Track (forecasts)

Growens: Cash Flow figures 2021A-24E

€mn	2021A	2022E-PF	2023E	2024E
EBITDA	5.2	7.4	8.8	10.2
Change in NWC	3.0	-2.4	0.7	-0.4
Capex	-4.1	-3.9	-4.0	-5.0
Change in Provisions	0.6	0.4	0.5	0.6
Cash Taxes	-0.7	-0.7	-1.1	-1.4
Net Financial Charges	0.0	0.0	0.0	0.0
Net Cash generated	4.0	-3.8	4.9	3.9

Source: Growens (historical figures), Value Track (forecasts)

Valuation Update

Taking into account updated Growens financial forecasts, **we update our S-O-P based fair value at €6.56 per share (from €6.26)**, that would imply 1.0x-0.9x EV/Sales and 13.3x-10.5x EV/EBITDA 2022E-23E multiples, still at deep discount vs. UK and US peers. Overall, in our view the Contactlab deal adds ca. €0.30 per share to Growens valuation,

Growens: Sum-of-the-Parts valuation

Company	Stake (%)	EV (€mn)	EV (%)	Valuation Method
MailUp + Contactlab	100%	53.7	38.6%	1.7x EV/Sales '22 – 11.0x EV/EBITDA '22
Agile Telecom	100%	32.5	23.4%	1.0x EV/Sales '22 - 10.0x EV/EBITDA '22
Acumbamail	100%	6.3	4.5%	2.5x EV/Sales '22
BEE	95.2%	36.6	26.3%	5.0x EV/ARR (Annual Recurring Revenue)
Datatricks	100%	9.9	7.2%	4.0x EV/ARR (Annual Recurring Revenue)
Gross Asset Value		139.0	100.0%	
Net Cash Position 2022E		2.7		
Total Equity Value		141.7		
Holding costs		35.3		
Net Asset Value (€mn)		106.4		
Fair equity value per share (€ p.s.)		6.56		

Source: Value Track Analysis

Growens: Foreign Peers stock trading multiples

Company	EV / Sales			EV / EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
HUBSPOT	11.8	9.1	7.3	nm	nm	nm
DOTDIGITAL	3.3	2.9	2.5	10.3	9.0	7.9
SALESFORCE	6.6	5.5	4.5	21.3	18.1	15.0
TWILIO	4.6	3.6	3.0	nm	nm	nm
D4T4 Solutions	4.1	3.6	nm	nm	19.0	nm
Agillic	6.1	5.9	6.1	nm	nm	nm
Kaleyra Inc.	0.9	0.7	nm	10.9	8.2	nm
SINCH AB	2.2	1.8	nm	16.1	12.2	nm
Vonage Holdings	3.1	2.8	nm	21.1	18.9	nm
Total Average	4.7	4.0	4.7	15.9	14.2	11.5
Total Median	4.1	3.6	4.5	16.1	15.1	11.5
Growens Group	0.8	0.7	0.5	10.4	8.1	6.4

Source: Value Track Analysis

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