Banca Profilo

Initial coverage

Intred: the reference player for data speed in Brescia and neighbouring thriving areas

October 2nd 2018 at 12:00

A fast growing leading local player in the telecommunication market

Intred is a local reference player in the telecommunication market. It provides fibre network infrastructure, data and voice services. The Company holds a strong presence in Brescia and other neighbouring thriving areas, ensuring a capillary territorial coverage, mainly based on ultra-wideband connectivity.

A 1,700 km proprietary network at the hedge of innovation

Intred can rely on a constantly expanding proprietary optical fibre network, covering about 1,700 km, which provides an excellent territorial presence. The proprietary infrastructure, started in 2010, has given a strong impulse to Company revenue growth and profitability.

Not only corporates, but also residential to leverage on investments

Intred initiated its activity focusing on corporate business, considered more profitable and suitable for repaying initial infrastructure investment. In 2012 the Company entered the retail segment with its own brand "EIR", in order to increase its reference market and offer high quality services to residential clients, exploiting investments already sustained.

A scalable business model based on a consolidated customer base

Since 2012 the Company has quintupled the number of its clients to 22,800, increasing also the fragmentation of its customer base. Client retention rate is above 90% and contracts last on average 3 years, guaranteeing an efficient control of cash-flows and an excellent basis for programming the future.

Financials: outpacing market growth and leveraging on capex

In the last three years Intred has reported an average growth above 20% (CAGR 2015-2017 at +25.6%), well above its Italian territorial rivals (+16.2% in 2016) and larger European players (+18.4% CAGR 2015-2017). Revenue growth has been driven by ultra-wideband services, through the development of the proprietary fibre network, along with the entrance in the residential market. EBITDA margin increased 10% to 38.5% in 2017.

Corporate strategy and our projections: further growth driven by ultra-wide services and B2C. 1H18 on track to our estimates.

Main corporate strategy is to further develop its proprietary optical fibre network, in order to increase its territorial presence in areas already covered (Brescia, Mantova and Bergamo) and to enter new markets such as Monza Brianza, thanks to the scalability of its business model. We factor in a 14% revenue CAGR in 2017-2020E to reach €21.8mln, mainly driven by the ultra-wideband services and EIR and an EBITDA margin increase to 41.0% in 2020E, thanks to the investments reaching their full speed. In the 1H18, sales increased by 20% yoy to €8.3mln and EBITDA margin reached 40%.

Valuation: DCF approach well appraises the long term duration of contracts and the capex plan

In the 2018E-2021E period we estimate an annual average FCF of €1.5 mln, including €5mln yearly capex. Using a perpetual growth rate of 2% and a WACC of 6.5% we head to an Equity Valuation of €61mln or €3.9/share leaving 25% upside to current price level. Our recommendation is BUY. The implicit average EV/EBITDA 2018-2019 is 8x vs 8.4x of its closest comparable and vs 5.6x of lower growing and profitable, much leveraged European Telecom players.

Target Price (€)	**3.9**
Recommendation	**BUY**
Price as of October 1st	3.11
Number of shares (mln)	15.85
Market capitalization (€mln)	49.3
Market segment	FTSE AIM ITALIA

Performance	**from IPO**
Absolute	+37%
Max / Min	3.16/2.27
Average daily volumes ('000)	35.5

(€ mln)	2017	2018E	2019E	2020E
Revenue	**14.8**	**16.9**	**19.4**	**21.8**
yoy change	*24.4%*	*14.3%*	*14.6%*	*12.5%*
Gross margin	8.0	9.3	10.8	12.4
margin (%)	*54.3%*	*55.3%*	*55.6%*	*56.9%*
EBITDA	**5.7**	**6.6**	**7.6**	**8.9**
margin (%)	*38.5%*	*38.9%*	*39.3%*	*41.0%*
EBIT	**3.5**	**4.1**	**4.9**	**5.9**
margin (%)	*23.8%*	*24.5%*	*25.3%*	*27.3%*
EBT	3.5	4.1	4.8	5.9
Net income	**2.5**	**2.9**	**3.5**	**4.3**
margin (%)	*17.2%*	*17.4%*	*18.0%*	*19.6%*
Net debt/(cash)	**4.1**	**(5.3)**	**(6.7)**	**(8.9)**
Equity	9.4	21.9	25.6	29.9
Free Cash Flow	(1.5)	(0.1)	1.3	2.0

Source: Banca Profilo estimates and elaborations, Company data.

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Executive summary

Intred in a nutshell: key investment drivers

A fast growing leading local player in the telecommunication market

Intred S.p.A. (hereinafter "Intred" or the "Company") is a local reference player in the telecommunication ("TLC") market. It provides fibre network infrastructure and offers data and voice services. The Company, founded in 1996, operates with a strong presence in Brescia and other neighbouring thriving areas, ensuring a unique service and a capillary territorial coverage, mainly based on ultra-wideband connectivity.

Intred is controlled by Daniele Peli, one of the 3 founders, and by his wife Marisa Prati, respectively with 46% and 23% stake.

A strong presence in the Brescia area: 1,700 km of fibre network

Intred can rely on a constantly expanding proprietary network in optical fibre, covering about 1,700 km (as of the end of June, +13% in six months only), which guarantees an excellent territorial presence. The proprietary infrastructure, started in 2010, has given a strong impulse to Company growth, both in terms of revenue and profitability.

B2B (>50% of revenue) and B2C clients (~30% of total)

Intred initiated its activity focusing on corporate business (currently >50% of revenue), considered more profitable and suitable for repaying initial infrastructure investments. In 2012 the Company entered the retail segment with its own brand "EIR" (today close to 30% of customer base), in order to expand its reference market and offer high quality services to residential clients, exploiting the investments already sustained for the proprietary fibre network.

3 year contracts and >90% client retention rate

Thanks to this strategy, combined with the come into operation of the infrastructure capex, in 6 years the Company has quintupled its client to 22,800 and this increased the fragmentation of its customer base. Client retention rate is above 90% and contracts last on average 3 years, guaranteeing an efficient control of cash-flows.

Strategically positioned to outpace market growth and profitability

The Telecom Industry is a mature and historically decreasing market (-3.8% CAGR in 2011-2017), affected by a strict price competition. Starting from 2016, the Market inverted its negative trend and showed a slight increase (+0.3% yoy), which continued in 2017 (+0.9% yoy) representing. Over the past years, the significant contraction of the market came from the weak performance of Voice services (-10.1% CAGR 2011-2017), historically the most important segment, not fully offset by Data services, which reported constant growth in the same period (+3.9% CAGR 2011-2017). As a result, starting from 2016 revenue from Data have overcome those from Voice services, changing positively the outlook of the Industry.

Growth driven by ultra-wideband connectivity

The strategic positioning of Intred is in the ultra-wideband connectivity, which has been reporting the highest growth rate within the data services segment. In fact, in 2017 the Company generated more than 50% of its revenue from connectivity services, mainly through activities based on the newest technologies.

Key competitive advantage: a 1,700 km proprietary network in a thriving area

Intred key competitive advantage is its strategic positioning in the data service market, at the edge of new technologies from ADSL to FTTH. The significant investments in broadband for developing its proprietary fibre network (more than €20mln, of which 80% relative to new fibre posed and 20% to the rights of use for existing fibre), led to a better territorial presence and higher profitability compared to the Industry average (33.6% in 2016 vs local Italian players at 16.2%). As a result, the Company is a leading player in a fast growing segment, with a capillary presence in a thriving area, supported by an excellent technologic know how and a resilient and fragmented customer base.

Satisfaction leads to 4% churn rate and >90% of turnover from recurring fees

More than 90% of turnover is generated by recurring fees and traffic, ensuring an efficient control of the cash-flows and a consolidated customer base. Contracts have an average duration of 3 years and a churn rate as low as 4%.

In the last years Intred reported high double-digit growth (+25.6% CAGR 2015–2017), mainly driven by the ultra-wideband services and to the retail offer under its EIR brand. In 2017 EBITDA margin stood at 38.5%, with significant room to improve, driven by the market trend, but mostly by the exploitation of the proprietary fibre network.

Outperformer of its reference market: higher growth and EBITDA margin vs peers

We rolled out our benchmarking analysis both on local Italian competitors and on big European TLC listed players. For what concerns local and Italian players, Intred was in the top three for revenue growth (+26.6% in 2015-2016), outpacing the mean (16.2%) and reported the highest EBITDA margin in 2016 (33.6%). For what concerns the major European TLC players, in the 2015-2017 period, Intred is positioned in the top three for revenue growth at 25.5% CAGR, outpacing the average (18.4%), performing the third highest EBITDA margin in 2017 at 38.5%, above peers' average (34.5%).

Main corporate strategy: develop the proprietary infrastructure as a first mover

Main corporate strategy is to further develop its proprietary optical fibre network, in order to increase its territorial presence in areas already covered (Brescia, Mantova and Bergamo) and to enter new markets such as Monza Brianza, thanks to the scalability of its business model. The expansion strategy could be implemented also through M&A. The Company expects the market to grow further in the next six years, with significant opportunity to cover new geographical areas in a low-intense competition scenario from other local territorial and focused players. Moreover, in this market it's key to be a first mover, leveraging on the customer loyalty and gaining a competitive advantage over competitors through an extensive proprietary network.

Main financial data (2016-2017) and estimates (2018E-2021E)

Double digit revenue and EBITDA growth since 2012

Since 2012, when the investment in infrastructure came into operation and Intred entered the retail market with its own brand EIR, the Company has reported a double digit growth (17.0% CAGR 2012-2017), with a steady profitability improvement.

Room to stretch the financial structure

In 2017 Intred generated €14.8mln of revenue, €5.7mln of EBITDA with margin at 38.5% and €2.5mln of net income. The Balance Sheet is extremely stable including €4.1mln of Net debt (mostly m/l term) and €9.4mln of equity, with room to stretch its financial structure.

2017-2021E CAGR at 13% and EBITDA to 41.6%

According to our estimates, in the 2017-2021E period revenue is expected to grow at 12.7% on average (CAGR 2017-2021E) to €23.8mln with an EBITDA up to €9.9mln or 41.6% margin driven by expanding ultra-wideband own fibre network and EIR retail clients and €4.9mln of net income, leading to an average unlevered Free Cash Flow of €1.5mln, including cumulated capex of about €20mln and to a net cash of €12mln, with €34mln of equity (including €9.5mln of net IPO proceeds). Moreover, considering the contracts duration and the structure of the customer base, Intred shows a very high visibility on 2018E results.

1H18 results on track to our projections on FY18

In the 1H18 Intred reported a 20% yoy top line growth to €8.2mln with EBITDA margin improving 150bps to 40%. These results show the Company is on track, or quite above, our €16.6mln revenue and 38.9% EBITDA margin estimates for FY18.

Remedy shares as partial protection

In addition, the Company business plan execution risk is limited by a remedy share mechanism and by an experienced management team which has been managing the company for more than 20 years.

Valuation

DCF approach well appraises contracts duration and capex plan

Given the average duration of the contracts (2-3 years), the consequent visibility over cash-flows and the significant amount of capex, a DCF method well adapts as a valuation approach.

For what concerns the relative market multiples approach, there is only one listed company (Retelit) active in the specific business of Intred, which shows a similar incidence of revenue from data services and provides fibre connection through a proprietary network. Thus, we also included in our analysis big European and diversified players, which have a higher incidence of revenue from voice services, mainly in the mobile segment, not covered by Intred.

Major EU players as selected sample of listed comparables

Our peers' sample includes: the Italian Retelit and Telecom Italia, the French Iliad and Orange, the German Deutsche Telekom, the Spanish Telefonica, the English BT Group and Vodafone. Finally we add to the relative valuation an average of M&A multiples derived from comparables transactions over the past three years.

DCF assumptions: €6mln cumulated FCFs, 6.5% WACC

We run a DCF model, using our projections of unlevered FCFs for the 2018E-21E explicit period: €6mln cumulated and €1.5mln on average. In order to assess the Terminal Value, we factor in an unlevered FCF of €2.7mln and a 2% perpetual growth rate. The DCF method leads us to an Enterprise Value of €56mln and an Equity Value of €61mln or €3.9/share.

Market multiples: mean EV/EBITDA 2018E-2019E at 5.6x for lower growth and profitability Retelit trades at 8.4x

Our Sample of comparables shows a mean EV/EBITDA 2018E-2019E of 5.7x-5.5x and a mean P/E 2018E-2019E at 15.8x-13.4x respectively. We choose the EV/EBITDA multiple for its relative valuation, considering the different financial structure and the strong investments in proprietary infrastructure. The closest comparable Retelit is trading at 9x and 7.9x the EV/EBITDA 2018E and 2019E respectively.

Intred trades at an average EV/EBITDA of 6.2x, showing a 10% premium on the mean but 25% discount on Retelit. Compared to the Sample's mean, Intred shows much higher top line historical and perspective growth and EBITDA margin. Intred Growth and marginality are more in line with those of Retelit. Finally, Retelit and Intred are the only cash positive companies; the rest of comparable players show a leveraged financial structure with an average Net debt / market capitalization at 1x.

Target price and recommendation

We set our target price on Intred at €3.9/share, leaving a 25% potential upside on current price (as of October, 1st). The implicit mean EV/EBITDA 2018E-2019E multiple is then 8x. Our recommendation is BUY.

SWOT analysis

STRENGTHS	WEAKNESSES
• Capillary territorial presence in thriving areas, through a proprietary optical fibre network • Proprietary wireless network dedicated to areas not adequately covered in XDSL • Broad customer base, with a high loyalty rate (> 90% of clients are recurring) • Strong brand awareness in the reference areas • Remarkable expertise of sales force and technical department • Experienced management team, with a consolidated know-how in the TLC industry	• Low turnover in the customer base • Geographical concentration in Brescia and in the neighbouring areas • Lower investment capacity than the TLC players • Lack of a commercial offer in the mobile segment • Lower marketing expertise than big TLC players

OPPORTUNITY	THREATS
• Geographical expansion in the province of Bergamo, Mantova and Monza Brianza, also through acquisitions • Structural national delay in the development of the optical fibre infrastructure • Lower access in Italy to the ultra-wideband services than in other European countries	• Increasing competition with big Italian TLC players • Regulatory uncertainty with reference to the NGN networks • Potential entrance of new services or technologies

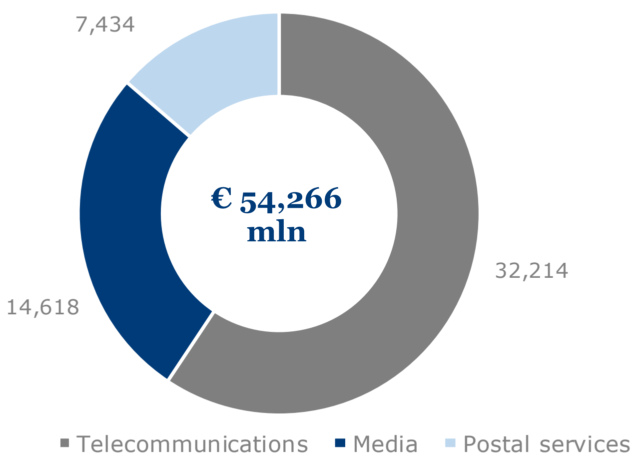
The reference Industry: the telecommunication market

Intred is a local reference player in the telecommunication market (TLC). It offers data and voice services through a proprietary fibre network infrastructure.

TLC Industry: a €32bn market

The telecommunication market is part of the larger Communication Industry, representing around 60% of the total and contributing with €32.2bn. The other segments are Media (27% of total market) and Postal services (14%).

Figure 1: Communication Industry segmentation in 2017 (in € mln)

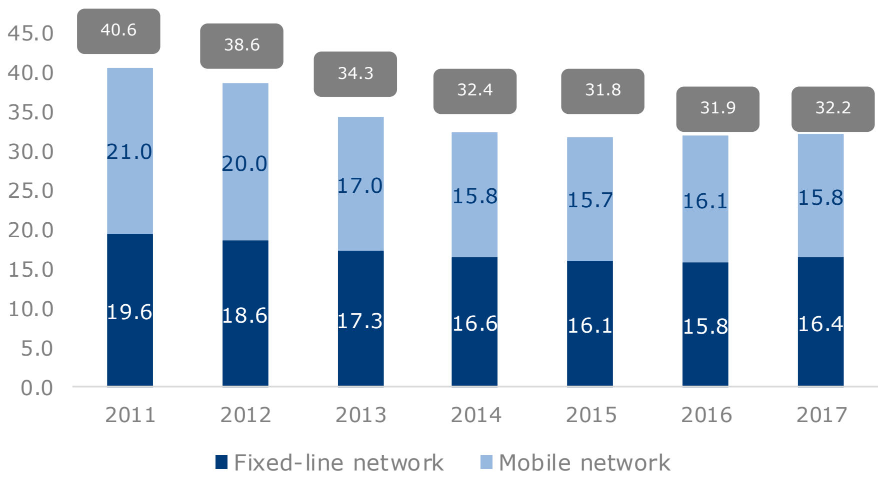


Source: Annual Report, 2018, AGCOM

A declining market which inverted its trend starting from 2016

During the past 6 years, the TLC industry reported a constant decline, due to an intense price competition, which reduced the size of the Market by quite €10bn, with a 2011-2017 CAGR of -3.8%. Starting from 2016, for the first time in 10 years, the Industry inverted this trend, reporting a slight increase (+0.3% yoy) in 2016 and continuing growing in 2017 (+0.9% yoy), driven by the fixed-line segment (+3.8% yoy), showing opposite trend to the mobile network (-1.9% yoy).

Figure 2: Telecommunication industry segmentation in 2011-2017 (in € bn)



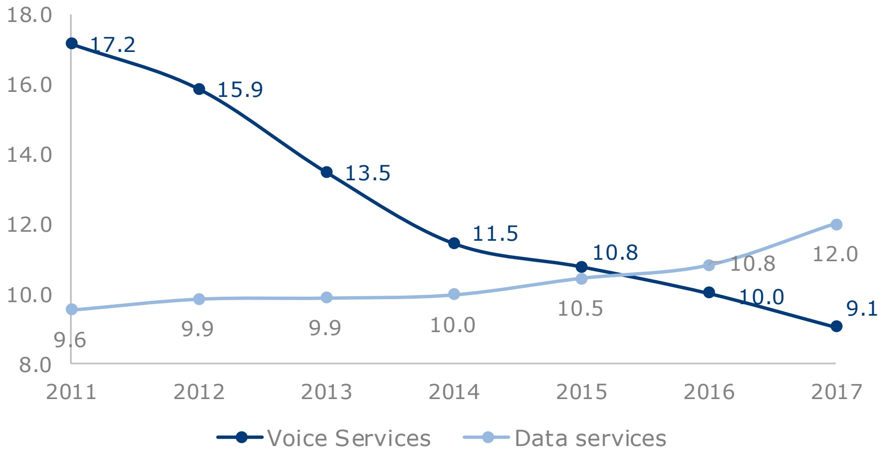
Source: Annual Report, 2018, AGCOM

Growth driven by data services, which overcame persisting declining voice services

With reference to the "Retail" segment of the market, it's important to distinguish services between data and voice.
In the 2011-2017 period, Data services showed 3.9% CAGR, accelerating to +11% yoy in 2017, while Voice services registered a very negative trend (-10.1% and -9.7%

yoy respectively). Starting from 2016, Data services have become the most important segment in the Industry, reaching €12bn in 2017. The Industry is focusing on Data services, based on internet apps and contents that require more and more band width, fastening the demand of ultra-band services and reducing the weight of Voice services.

Figure 3: Data and Voice services 2011-2017 (in € bn)



Source: Annual Report, 2018, AGCOM

Corporates growing faster than Households

Segmenting the Retail revenue by client, we note that the Business segment was the fastest growing in 2017 (+2.5%) reaching 34% of total. The overall trend was driven by the Landline demand (+5.3% yoy), while the Mobile segment declined (-1.6%).

Table 1: Retail revenue breakdown by client 2015-2017 (in € bn)

	2015	%	2016	%	2017	%	yoy
Fixed network	**12.5**	***48%***	**12.3**	***47%***	**13.0**	***49%***	***5.3%***
- Residential	6.7	*26%*	6.1	*23%*	6.6	*25%*	*9.0%*
- Business	5.9	*23%*	6.3	*24%*	6.4	*24%*	*1.6%*
Mobile network	**13.5**	***52%***	**13.9**	***53%***	**13.7**	***51%***	***-1.6%***
- Residential	11.1	*43%*	11.3	*43%*	11.0	*41%*	*-3.0%*
- Business	2.4	*9%*	2.7	*10%*	2.8	*10%*	*4.5%*
Total	**26.0**	***100%***	**26.3**	***100%***	**26.7**	***100%***	***1.6%***
- Residential	17.8	*68%*	17.4	*66%*	17.6	*66%*	*1.2%*
- Business	8.3	*32%*	8.9	*34%*	9.1	*34%*	*2.5%*

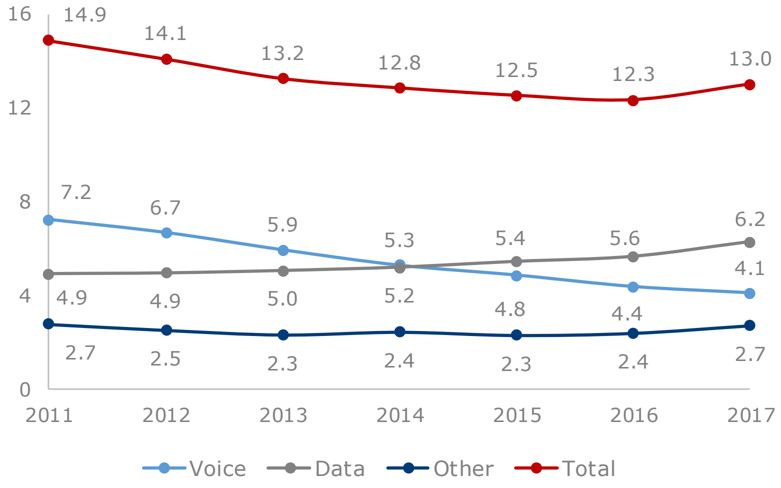
Source: Annual Report, 2018, AGCOM

Growing demand for bandwidth

Analysing the Fixed-line network, this segment inverted its trend in 2017 (+5.4% yoy) driven by revenue from Data services (+10.8%) against persisting decline of Voice services (-6.2% yoy).
This trend is related to the increase of broadband subscribers and to subscriptions of new generation technologies such as ultra-wideband, for which the customer pays a premium price.

These considerations are also shown in the dynamic of users' expenses in the Industry, that clearly shifted towards Data services.

Figure 4: Landline - Users expenses breakdown by service 2011-2017 (in € bn)



Source: Annual Report, 2018, AGCOM

Trends supporting Intred positioning: strong broadband growth on new technologies

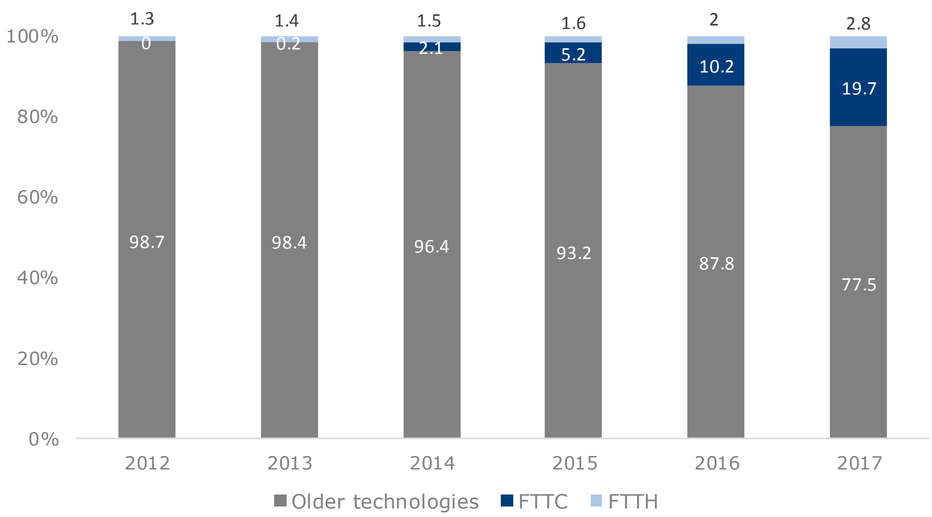
The positive trend of Data services has been driven by the Broadband accesses above 10 Mbit/s, which increased its weight on total accesses to over 60% in 2017 from 29% in 2015, despite its higher price, supporting Intred's strategic positioning. Indeed, the average revenue per broadband connection is estimated at €24 for technologies under 10 Mbit/s and at €42 for technologies above 30 Mbit/s.

Table 2: Broadband accesses breakdown by technology 2015-2017 (in %)

	2015	2016	2017	Var.pp
# of accesses				
< 10 Mbit/s	70.9	55.7	38.6	-32.3
≥ 10 and < 30 Mbit/s	23.1	32.6	40.0	16.9
≥ 30 Mbit/s	6.0	11.7	21.3	15.3
Total	**100.0**	**100.0**	**100.0**	
Revenues				
< 10 Mbit/s	59.5	45.5	25.5	-34.0
≥ 10 and < 30 Mbit/s	29.6	35.1	43.1	13.5
≥ 30 Mbit/s	10.8	19.4	31.4	20.6
Total	**100.0**	**100.0**	**100.0**	

Source: Annual Report, 2018, AGCOM

Figure 5: Broadband lines breakdown by technology 2012-2017 (%)



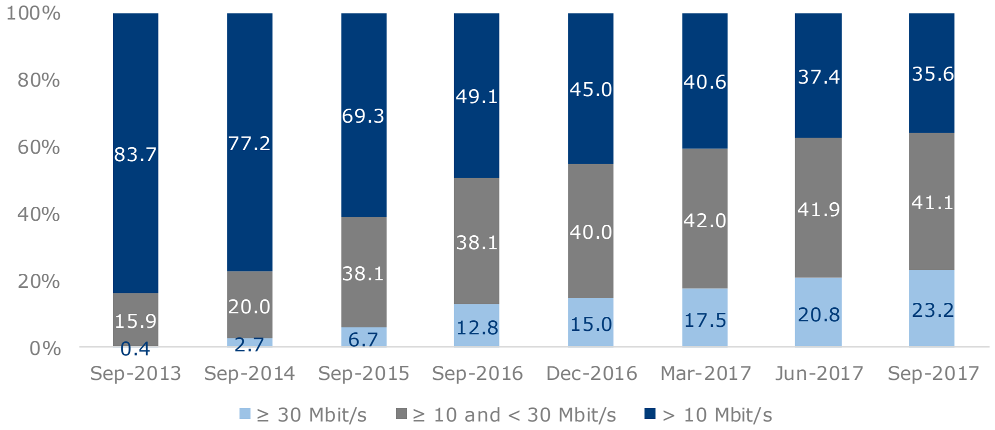
Source: Annual Report, 2018, AGCOM

FTTC and FTTH over 20% of total accesses

Among Broadband accesses, over the past five years, FTTC and FTTH increased their weight significantly to more than 22%, whereas older technologies declined from 99% to 77% on total.

As of September 2017, more than 64% of the broadband lines provided a speed equal or above 10 Mbit/s, while lines with lower connection speed, have almost halved since 2013. Finally, lines with a connection speed equal or above 30 Mbit/s increased by 1.8mln in the year, up to 3.8mln of accesses.

Figure 6: Accesses breakdown by connection speed 2013-2017 (in %)



Source: Annual Report, 2016, AGCOM

Overall, the TLC Industry trends have been leading to an expansion of the data service market, mainly driven by the hedging technologies, most requested by final users, which are willing to spend more for higher quality and data speed.
Thus, the market scenario is extremely favourable for Intred, which is excellently positioned in the new technologies for data services.

Intred competitive arena: strategic positioning and competitive advantages

Intred core business: fibre network, data and voice services

We are analysing Intred competitive national environment looking at its reference business of providing fibre network infrastructure and offering data and voice services (around 90% of Company revenue in 2017).

Strong hold of Brescia district with 1,500 km of fibre network and over 22,800 clients

Over 50% of revenue from corporates

Intred is a local telecommunication player with a strong presence in the province of Brescia (a thriving area with 1,265k people, of which quite 200k in the city – the 17th most populated city in Italy) and in neighbouring areas. The Company provides broadband and ultra-wideband connectivity, wireless, landline, cloud and ancillary services through a proprietary network of optical fibre extending over 1,700 km. Moreover, Intred owns over 130 plants around Brescia, 42 radio stations distributed in Brescia, Bergamo, Verona, Pavia and Lodi and a datacentre with a telephone centre linked with the Italian national telephone network. At the end of June 2018 the client base was over 22,800 units including Corporates (54% of 1H revenue), Resellers (13%), Household users (28%) and Public Administration (4%).

Around 30% in ultra-wideband offering

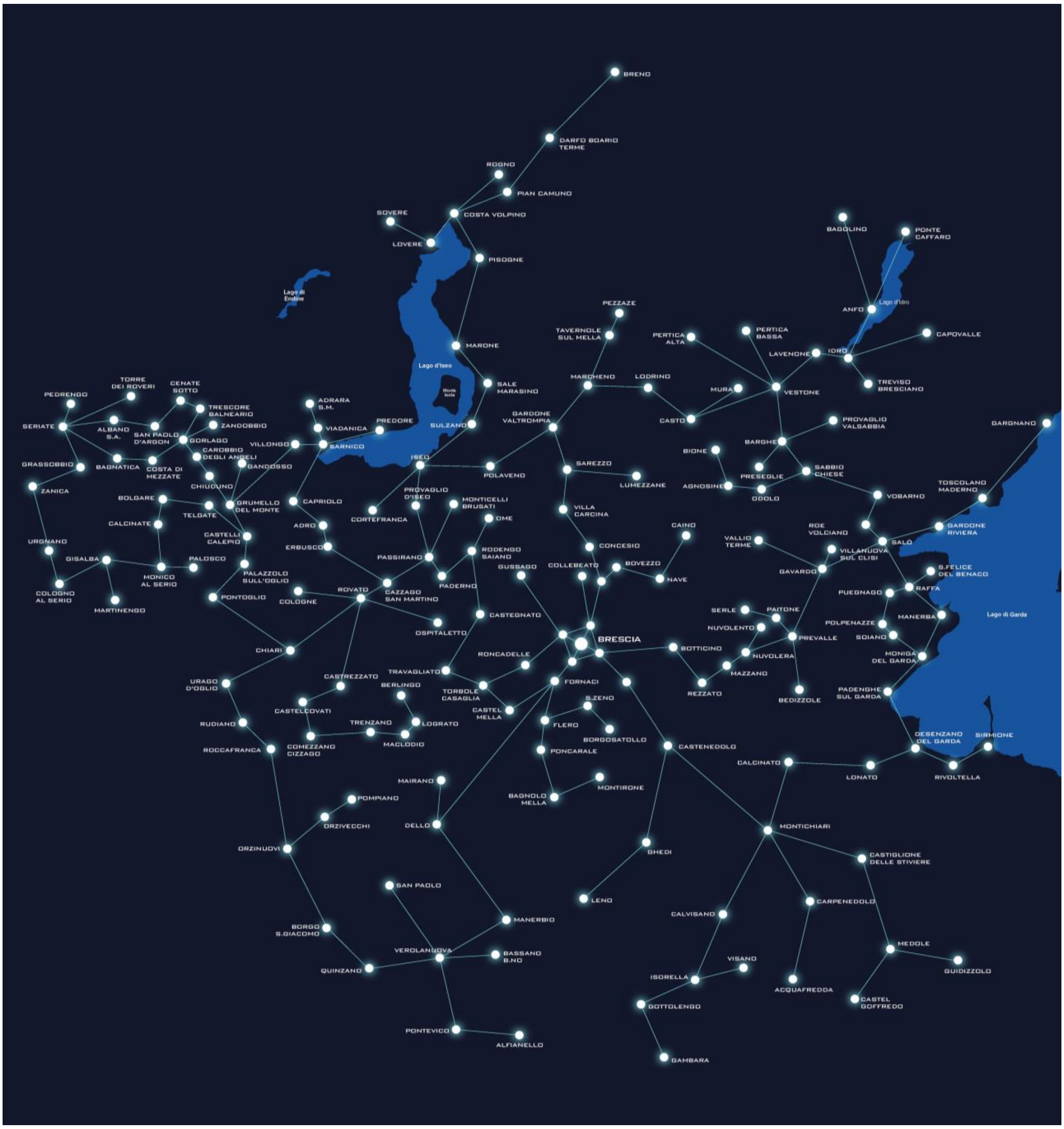
In this competitive arena, the presence in a fast growing market through a proprietary infrastructure is key to a success story. In fact, Intred is extremely well positioned in the ultra-wideband services market, which accounted in 2017 for 30% of total revenue.

The importance of proprietary infrastructure:

€20mln of investments so far with 2 year repayment period

Moreover, the presence of a proprietary optical fibre network is key to drive revenue and profitability. Indeed, Intred has invested around €20mln over the years in its proprietary infrastructure, which is now capillary in its reference territory, reducing significantly the costs for renting third parties' network. The network uses Cysco System and Huawei components, the most used in the market. The investment, studied and realized, only under certain conditions, has typically a 2 year payback. After this period, the significant initial investment has been repaid and the Company is able to leverage the network to connect other clients at very lower costs, ensuring a significant improve in profitability for the following years. Indeed, the following add-ons capex can be sustained with lower resources, compared to a stable level of revenue. The other operators without a developed and extended proprietary network, have to rent the network from third parties, which take in part of the margins.

Figure 7: Intred's proprietary infrastructure



Source: Company data

A matter of "Make" or "Use" strategy

Intred is able to decide where and how to invest, through an ad-hoc analysis of feasibility, based on a "Make" or "Use" option. The option "Use" is chosen when potential customers to be connected are few and too far from Intred closest infrastructure point.

Benchmarking analysis: local rivals and big listed TLC companies

We rolled out a benchmarking analysis both on local rivals and big TLC listed European players.

The Italian scenario of companies with a size and a core business similar to Intred includes: Eolo S.p.A.; My Net S.r.l.; Retelit S.p.A.; Q Com S.p.A.; Mc Link S.p.A.; Planetel S.r.l.; Enter S.r.l.; Go Internet S.p.A.

Eolo (MI)
€72mln turnover

Eolo S.p.A., founded in 1999, is an Italian company focused on telecommunication services. It is specialized in broadband and ultra-broadband wireless radio connections, both for privates and corporates. Eolo can count on more than 300k customers in Italy and about 300 employees. Its headquarter is located in the province of Milan, in a 13,000 sqm area. In 2016/2017 Eolo generated €71.6mln in revenue.

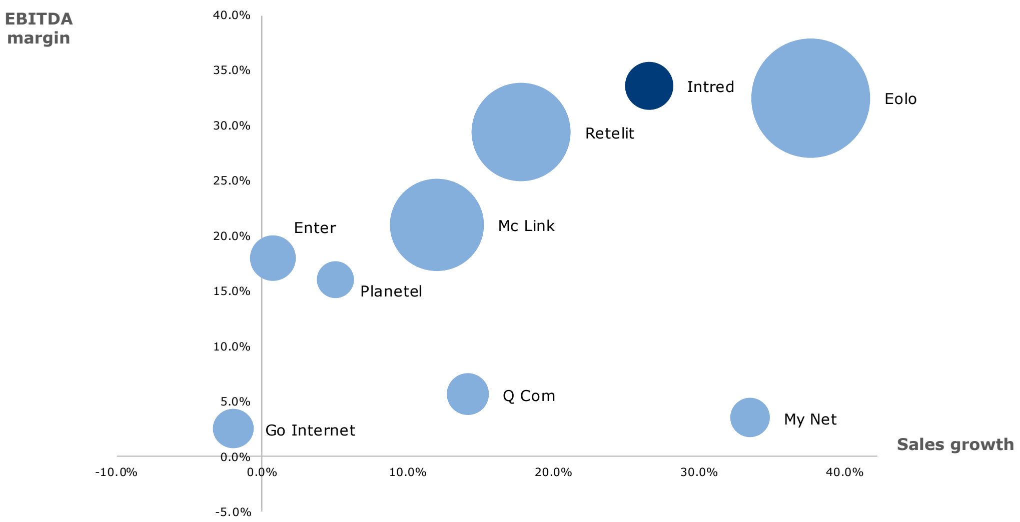
My Net (MN)
€8mln turnover

My Net S.r.l., founded in 2000, is an Italian company located in Mantova and active in the telecommunication industry only for business users (from private ADSL networking lines to ultra-broadband corporate networks until 10 Gbit/s) mainly in the North of Italy. My Net can count on 60 professionals and a small property network. My Net generated €8mln revenue in 2016.

Retelit (MI)
€50mln turnover
12,500 km of own fibre network

Retelit S.p.A., founded in 1999 and listed on Milan Stock Exchange since 2000, is a provider of data and infrastructure services to the telecommunications market. The company's fibre optic infrastructure covers over 12,500 km connecting 9 Metropolitan Areas Network and 15 Data Centers across Italy. Retelit network is present also in main European cities (London, Frankfurt, Amsterdam and Paris). Services range from ultra-broadband fibre optic internet connection to the Cloud and network and VPN services to colocation solutions, with over 10,500 sqm of equipped and secure fibre optic connected spaces. Retelit's turnover was €49.6mln in 2016.

Figure 8: Intred strategic positioning



Source: Banca Profilo elaborations on Company data

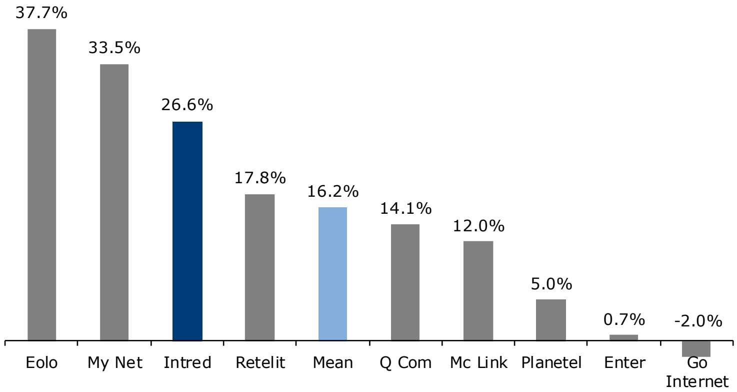
Q Com (BG)
€9mln turnover

Q Com S.p.A., founded in 1997, is an Italian company located in Bergamo active in 5 different areas: telecom (VoIP); connectivity (FTTH, ADSL, etc.); datacenter (hosting, cloud, mailbox); web (sites, web marketing); security (cloud backup, secure mail, etc.); IT solutions (infrastructure and wiring, videoconferences, etc.). In 2016, the Company had €8.9mln revenue.

Mc Link (TN)
€43mln turnover
540 km of own fibre network

Mc Link S.p.A., founded in 1992, is a Group of 3 companies: Simple Solutions (consulting on optimization and productivity services); Big TLC (a network of about 540 km in the province of Bergamo, a PoP in 94 municipalities and over 100 HiperLAN sites); BBC (technical and commercial call center services in the TLC sector). In 2016, Mc Link generated revenue for €43.5mln.

Figure 9: Main Italian and local players in the Industry – (pro-forma) revenue YoY growth 2015-2016



Source: Banca Profilo elaborations on Company data, Factset

Planetel (BG)
€7mln turnover

Planetel S.r.l., is an independent landline operator with a range of voice, Internet and data services (broadband and integrated services for medium and large corporates). The company is located in Bergamo and can counts on 120 employees.
In 2016 Planetel generated revenue for €6.9mln.

Enter (MI)
€10mln turnover

Enter S.r.l., founded in 1996, is a company active in the telecommunication industry with a focus on network, datacenter, cloud, workspaces, energy, logistics, educational resources and production systems. In 2016 the company generated sales of €10.4mln.

Go Internet (PG)
€8mln turnover

Go Internet S.p.A., founded in 2002, engages in broadband telecommunications services. It provides broadband wireless access, Internet connections and telephone services using voice-over-Internet protocol. In 2016 the company's turnover was €8.1mln.

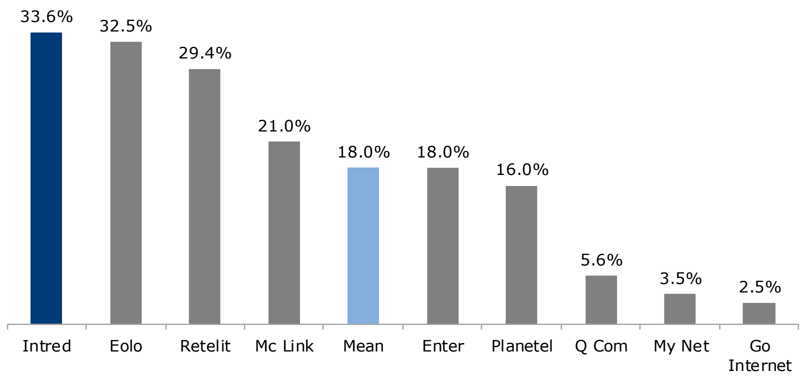
Intrede has grown faster than peers

In the 2015-2016 period, Intred was in the top three for revenue growth (+26.6%) outpacing the mean (16.2%)

Intred shows the highest EBITDA margin

With respect to the EBITDA margin, Intred performed the highest EBITDA margin vs peers' in 2016 (33.6%).

Figure 10: Main Italian and local players in the Industry – EBITDA margin 2016



Source: Banca Profilo elaborations on Company data, Factset

Benchmarking analysis: large TLC players

Main listed players active in the TLC Industry are: the Italian Retelit and Telecom Italia, the French Iliad and Orange, the German Deutsche Telekom, the Spanish Telefonica and the English BT Group and Vodafone. Most show a worldwide presence and their business includes also mobile voice and data services.

Telecom Italia (ITA)

Telecom Italia S.p.A. engages in the provision of telecommunication and Internet services, digital contents, and cloud services. It operates through the following business segments: Domestic, Brazil, and Other Operations. The Domestic segment includes operations in Italian voice and data operations on fixed and mobile networks for retail and wholesale customers; the international wholesale through Telecom Italia Sparkle; and products and services for information technology through the Olivetti group. The Brazil segment includes mobile and fixed telecommunications operations in Brazil. The Other Operations segment includes finance companies and other minor companies not strictly related to the core business. The company was founded in 1994 and is headquartered in Rome, Italy. In 2017, Telecom Italia generated revenue for €20 bn.

Iliad (FR)

Iliad SA engages in providing Internet access and telecommunication services. The Company offers fixed and mobile telephony services, prepaid phone cards and internet access providing and hosting services. Iliad was founded by Xavier Niel in 1987 and is headquartered in Paris, France. In 2017, Iliad's turnover was €5 bn.

BT Group (UK)

BT Group Plc provides communication solutions and services: landlines services, broadband, mobile and TV products and services as well as networked IT services. The Company has following customer-facing lines of business: Consumer; EE; Business and Public Sector; Global Services; Wholesale and Ventures; Technology, Service and Operations and Openreach. The Consumer segment provides consumer landline voice and broadband services. BT Group was founded in 2001 and it is headquartered in London. In 2017, BT Group generated sales of €24 bn.

Telefónica (SP)

Telefonica SA engages in the provision of communication, information, and entertainment solutions. It operates through the following brands: Telefónica, Movistar, O2, and Vivo. The Company was founded in 1924 and it is headquartered in Madrid, Spain. In 2017, Telefónica generated revenue for €52 bn.

Vodafone Group (UK)

Vodafone Group Plc engages in the provision of telecommunications services. It focuses on small and medium sized enterprises; large and multinational corporates; and carrier services. It also intends to invest in the growth areas of communications, such as cloud and hosting, internet of things, security, and fixed connectivity. The Company was founded in 1984 and it is headquartered in Newbury (UK). In 2017, Vodafone Group generated revenue for €40 bn.

Orange (FR)

Orange SA is a telecommunication services company, which operates mobile and internet services. It provides telecommunication services to multinational companies, under the brand Orange Business Services. The Company was founded in 1999 and it is headquartered in Paris. In 2017, Orange's turnover was €41 bn.

Deutsche Telekom (DE)

Deutsche Telekom AG engages in the provision of telecommunication and information technology services. The company was founded in 1995 and it is headquartered in Bonn. In 2017, Deutsche Telekom generated revenue for €75 bn.

CityFibre Infrastructure (UK)

CityFibre Infrastructure Plc enables gigabit connectivity through designing, building, owning, and operating fibre optic network infrastructure throughout the United Kingdom. The company was founded by Greg Mesch in 2011 and is headquartered in London, the United Kingdom. In 2017, sales accounted for €35mln.

Bredband2i

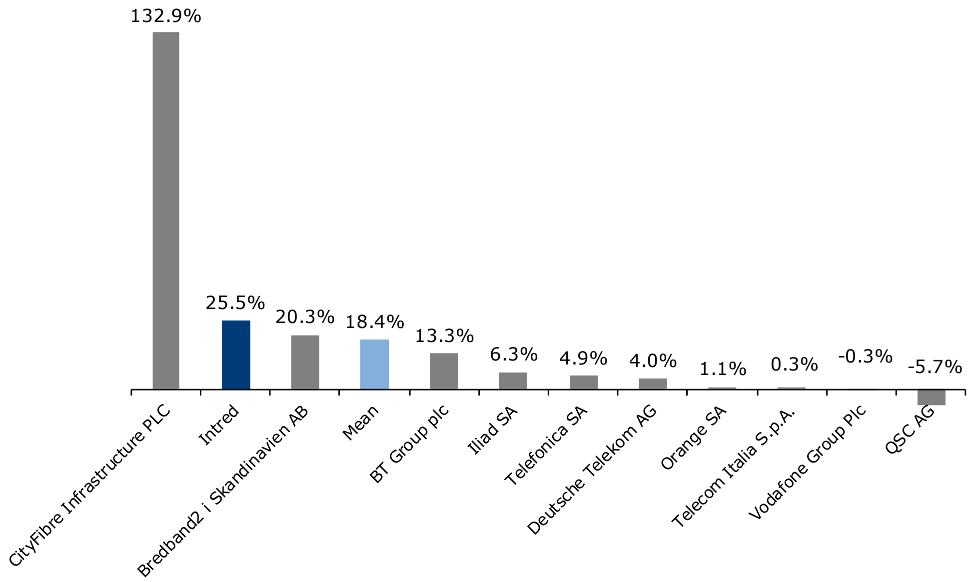
Bredband2 i Skandinavien AB provides communication services. It offers internet, *Skandinavien (SEK)*

telephone, data centers, virtual private network, and mobile broadband services to residential and business customers. The Company was founded in 1989 and is headquartered in Stockholm, Sweden. In 2017, Bredband2 i Skandinavien generated revenue for €527mln.

QSC AG (DE)

QSC AG offers information technology and telecommunications services for small and medium enterprises. It operates through the following business units: Telecommunications, Outsourcing, Consulting, and Cloud. The Company was founded in 1997 and it is headquartered in Cologne. In 2017, QSC generated sales of €358mln.

Figure 11: Main listed players in the Industry – (pro-forma) revenue CAGR 2015-2017



Source: Banca Profilo elaborations on Company data, Factset

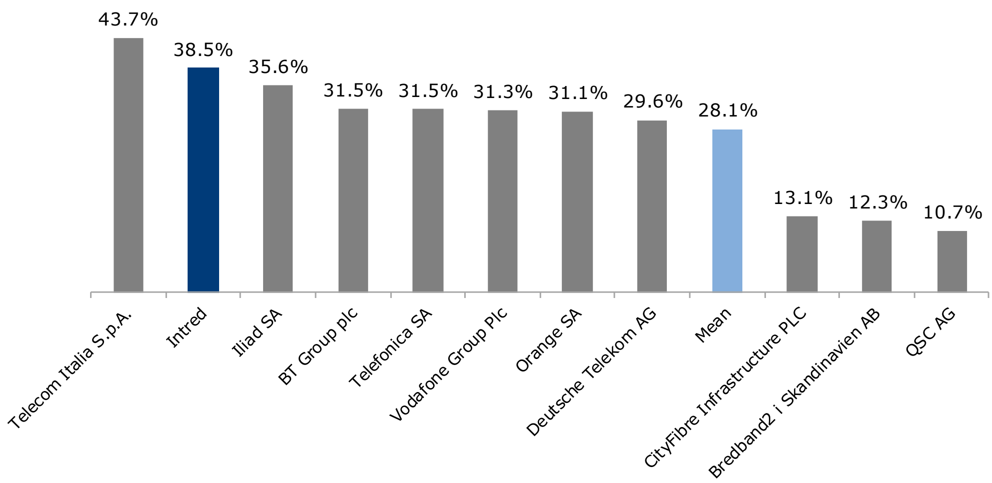
Intred has grown faster than peers

In the 2015-2017 period, we can appreciate how Intred is positioned in the top three for revenue growth at 25.5% CAGR, outpacing peers' average (18.4%).

Intred second to TI only on EBITDA margin

With respect to the EBITDA margin, Intred is performing the second highest EBITDA margin vs peers' in 2017 at 38.5% and well above peers' average.

Figure 12: Main listed players in the Industry – EBITDA margin 2017

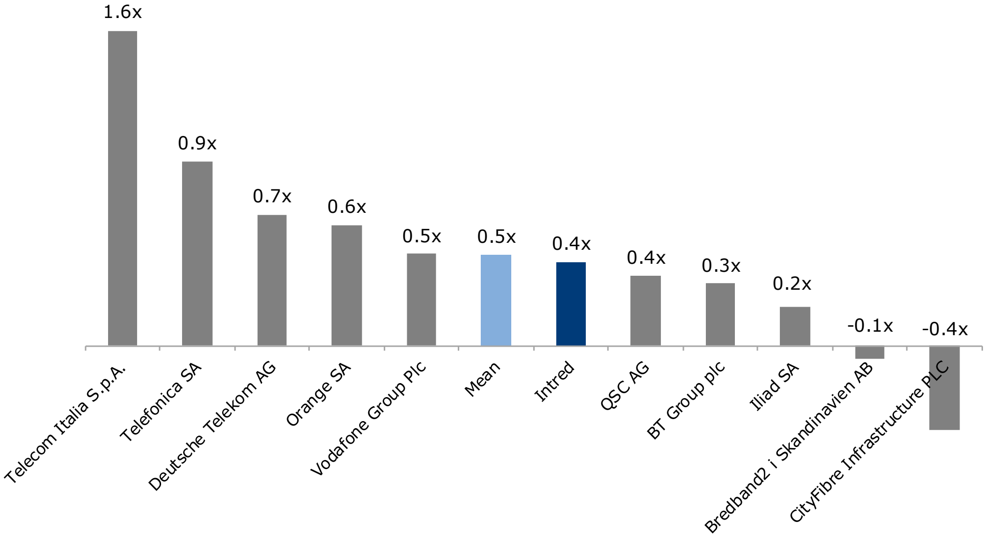


Source: Banca Profilo elaborations on Company data, Factset

Intred leverage in line with the market

In terms of leverage. Intred shows a Net debt to Equity in line with market average.

Figure 13: Main listed players in the Industry – 2017 Net debt / Equity



Source: Banca Profilo elaborations on Company data.

Intred overview and business model

Company overview and activities

Intred is the TLC local reference player of the Brescia area

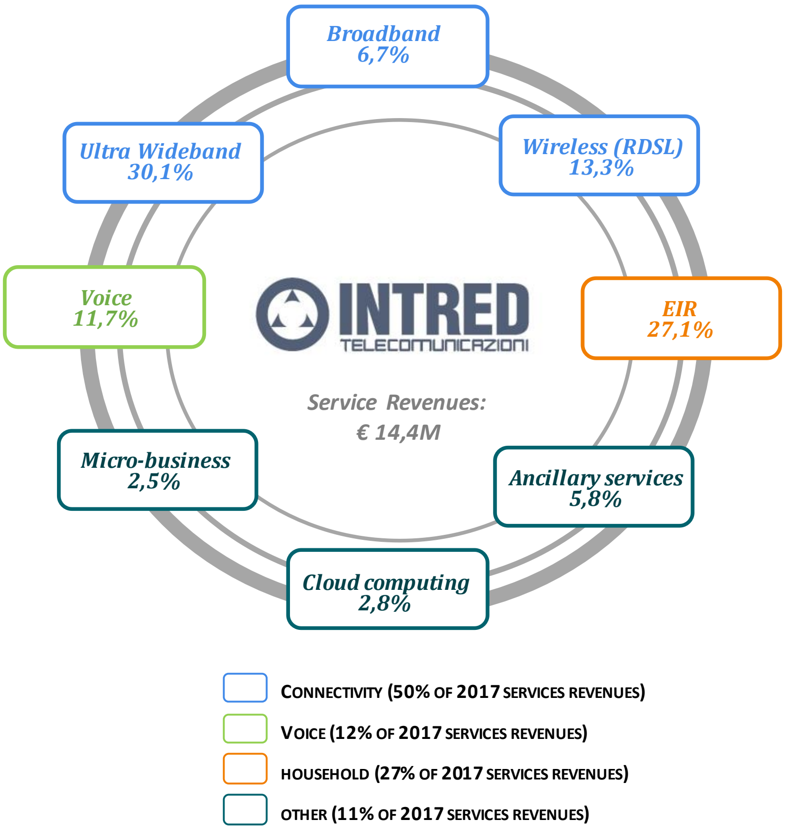
Intred is a local reference player in the telecommunication market. It provides fibre network infrastructure and offers data and voice services. The Company, founded in 1996, operates with a strong presence in Brescia and other neighbouring thriving areas, ensuring a unique service and a capillary territorial coverage, mainly based on ultra-wideband connectivity.

The Company is controlled by Daniele Peli, founder and chairman of the Board of Directors and his wife Marisa Prati, respectively with a 46% and a 23% stake. Daniele Peli, before his entrepreneurial experience, has gained experience in the market for over 12 years with the role of manager both in Italy and abroad.
The Company employees about 56 full time equivalent people.

Strong territorial presence with 1,700 km and above 22,800 clients

Intred provides broadband and ultra-wideband connectivity, wireless, landline, cloud and ancillary services.
The Company can rely on a constantly expanding proprietary optical fibre network, covering about 1,700 km (at the end of June 2018, +13% in six months), providing an excellent territorial presence. The proprietary infrastructure, started in 2010, has given a strong impulse to Company growth, both in terms of revenue and profitability.

Figure 14: Service revenue breakdown



Source: Banca Profilo elaborations on Company data

Broadband (7% of 2017 sales)

The Broadband services include ADSL and HDSL connections with a speed up to 20 Mbp/s. This technology is the most widespread in Italy, it is used by around 15mln of users, with a coverage near to 99% of the national territory. The optical fibre should replace gradually the XDSL technology.

Ultra-Wideband
(30% of 2017 sales)

Optical fibre services are mainly divided between FTTH (fibre to the home) and FTTC (fibre to the cabin), with a speed up to 100 Mbp/s. In the first case the fibre is directly linked to the users' house, where in the latter case the fibre is attached to the nearest cabin in the street. The connection is guaranteed for the last eighth of a mile (from the cabinet to the final user) by Telecom Italia.

These services are sustained by 100 Gbp/s of maximum width and 130 generation centrals.

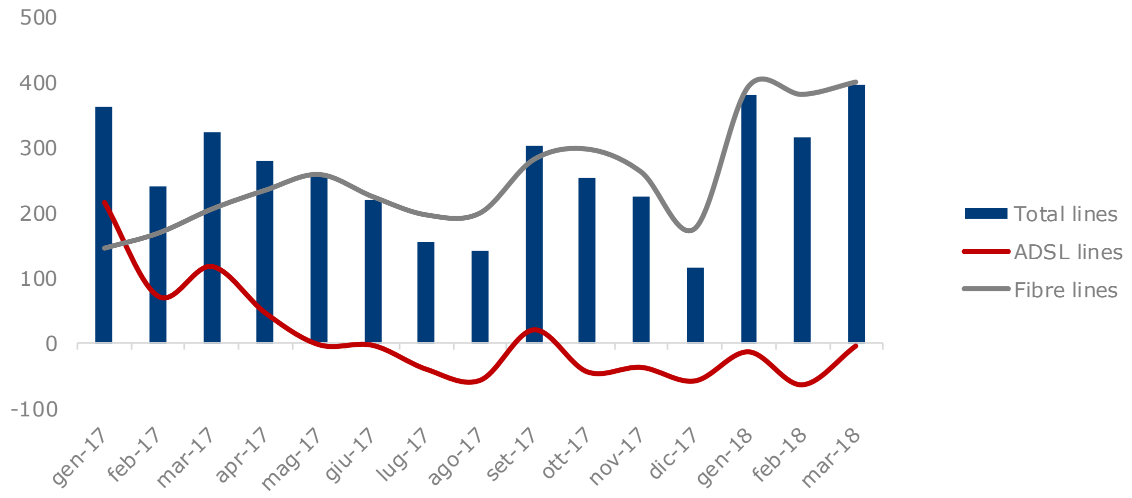
Wireless
(13% of 2017 sales)

This service includes RDSL connections, used either for areas not adequately covered by alternative connections (ADSL or fibre), or for clients who need alternatively backup connections. The Company started this service in 2005 and it now owns 42 radio stations in Brescia, Bergamo, Verona, Pavia and Lodi. Between 2014 and 2015 the network has been totally renewed and it is now able to deliver also ultra-wideband connectivity, with competitive price offerings.

EIR
(27% of 2017 sales)

In 2012 Intred decided to enter the residential market in the province of Brescia, in order to leverage the investments for the proprietary network. The services offered include ADSL and RDSL connections, landline and FTTC connections. In 2017 EIR registered 17,716 users, increasing by 23.6% yoy (revenue +32.7%).

Figure 15: EIR net subscription in 2017-18 (activations - deactivations)



Source: Banca Profilo elaborations on Company data

Telephony
(12% of 2017 sales)

Intred holds the ministerial telecom license OLO (Other Licensed Operator). The Company offers and administrate directly own telephone numbers, or, in alternative, is able to acquire telephone numbers from other OLO and from Telecom Italia. Intred holds a proprietary telephonic central directly connected with the national telephonic network.

Other business
(9% of 2017 sales)

Intred is also active in other minor businesses:

- Micro-business, including TLC services (mainly telephony, ADSL and fibre connectivity) dedicated to small professional users;
- Cloud computing, such as hosting (domain registration, email, web, etc.), housing and virtual server;
- Ancillary services, including router and firewall renting, technical assistance, IP addresses, hardware sales, etc.

Table 3: Revenue breakdown by service in 2017

Profit & Loss (€/000)		2015	2016	2017
Revenues		**9,126**	**11,490**	**14,401**
	yoy		*25.9%*	*25.3%*
connectivity Broadband		1,498	1,218	965
	% on Revenues	*16%*	*11%*	*7%*
connectivity Ultra wideband		1,187	2,539	4,335
	% on Revenues	*13%*	*22%*	*30%*
connectivity RDSL		1,872	1,873	1,915
	% on Revenues	*21%*	*16%*	*13%*
telephony		1,595	1,551	1,685
	% on Revenues	*17%*	*13%*	*12%*
Eir		1,836	2,918	3,903
	% on Revenues	*20%*	*25%*	*27%*
microbusiness		173	276	360
	% on Revenues	*2%*	*2%*	*2%*
hosting and housing		447	402	403
	% on Revenues	*5%*	*3%*	*3%*
ancillary services		518	713	835
	% on Revenues	*6%*	*6%*	*6%*
other revenues		261	385	375
Value of production		**9,387**	**11,875**	**14,776**

Source: Banca Profilo elaborations on Company data

The distinctive business model

Intred core business: ultra-wideband connectivity through a proprietary fibre infrastructure

The Company offers ultra-wideband connectivity, which represents around 30% of 2017 revenue. In 2010 Intred decided to invest considerably in the optical fibre network, with the conviction that a proprietary infrastructure and a robust presence on the territory would have led to higher growth and profitability. Intred has invested around €20mln over the years in the proprietary infrastructure, which is now capillary in its reference territory, reducing significantly the costs for renting third parties' network. EBITDA margin improved from 20% in 2010 to 38.5% in 2017.

Figure 16: The investment process in the proprietary network

Source: Banca Profilo elaborations on Company data

The proprietary network: "Make" or "Use" approach

In fact, at the beginning of its investment process, Intred evaluate the best option according to a "Make" or "Use" perspective. It choose either to develop its own network or to use the third parts' network, according to the density of potential clients in the area, their quality and the typology of contracts.
In case of direct investment, the Company starts the bureaucratic path to obtain the authorization from the competent authorities, otherwise it makes commercial agreements with other counterparties, in order to use their network in IRU

(Indefeasible Right of Use). This second option is usually chosen for areas in the medium and long distance, with low density of potential clients, for which a direct investment wouldn't be profitable.

A typical 2 year payback investment in the network

Following the authorization, Intred outsources the placing of the fibre, under the direction of an internal dedicated technical manager. In the past 2 years, Intred has received more than 600 authorizations.

Intred has mainly developed the "Make" approach, to improve profitability and have a direct quality and service control. Thanks to its know-how and experience in the market, the Company is able to select and invest only in the areas where it is confident to repay the investment in the following 2-3 years, through fees and set up costs paid by its clients. In addition the Company is able to leverage the network connecting other clients at lower costs, ensuring a significant improvement in the profitability for the following years. Indeed, the following add-ons capex can be sustained with lower resources, compared to a stable level of revenue.

Intred client base quintupled in 5 years; +400 per month

The alternative option is to buy the right to use the optical fibre network already posed by other players (in this case the investments are included into immaterial assets). The right expires in 15 years and could be a less expensive option (the network is depreciated in 20 years).

Intred initiated its activity focusing on corporate business, considered more profitable and suitable for repaying initial infrastructure investments. In 2012, the Company entered the retail segment with its own brand "EIR", in order to expand its reference market and offer high quality services to its clients, leveraging on investments in the proprietary fibre network, with a further impulse to growth and profitability.

Connectivity capacity of the network at 50%

Since 2012, thanks to this strategy, the Company has quintupled the number of its clients, who reached 21,600 units at the end of 2017, increasing also the fragmentation of its customer base (around 4k business clients, 17k retail and 18 resellers). In 2018 the Company has been taking 400 new clients per month.

It's important to underline that the first 15 clients represent about 15% of revenue: the main client weight for about 5% (an historical reseller), the second for 2% and the other for about 1%, decreasing gradually their weight (i.e. the 50th client generates revenue of about €20k/year).

Moreover the current proprietary network is able to support up to 80k lines, less than half of those currently in place. This leaves significant space to further market penetration.

Not only Business, but also Residential to exploit the network

Once the development of the network is completed, Intred proceeds with the commercial phase, depending on the type of client. To address residential customers, EIR operates through web channels, customer service and partnerships with multi-brands resellers. For corporate clients a trained sales force, driven by a performance rewarding works system, to bring in new contracts.

Only 4% churn rate and >90% of turnover from recurring fees

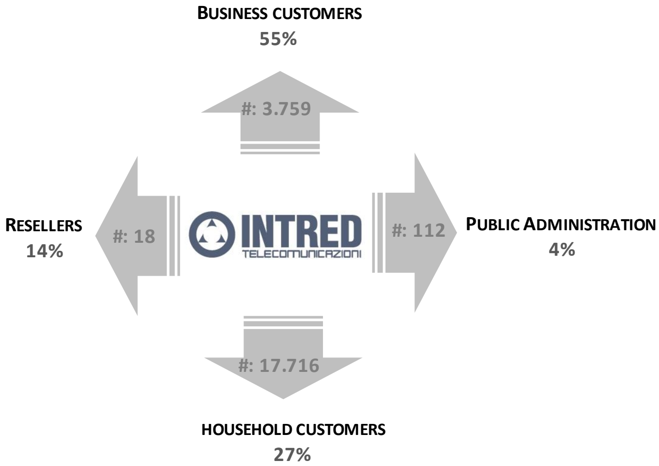
More than 93% of revenue are generated by recurring fees and traffic, ensuring an efficient control of the cash-flows and a consolidating customer base. Contracts have an average duration of 3 years and a churn rate as low as 4%.

A growing market share in a low covered area with competition mostly on service quality

So far Intred has an average market share of some 8% in the province of Brescia, but if we consider the best 1,000 corporates of this area, the share increases to 30%.
In the next years the Company expects to increase its market share in Brescia to between 15% and 16% not only through the infrastructure investments, but also because in the area competition is still poor. Few operators are independent and

focused locally, while national players have been addressing big cities. Competition is based more on service quality, technology and territorial presence than on price. In addition, national players often rely on Intred to reach their clients, with a double positive effect: these agreements allow the Company to participate in projects for which it would not have been eligible given its small size.
Intred points to 4 type of clients: Business, Resellers, Public Administration and Residential.

Figure 17: Revenue breakdown by client and number of client in 2017



Source: Banca Profilo elaborations on Company data

Corporate clients: 3 year contracts; efficient control of cash-flows and a solid customer base

Business customers subscribe contracts without no maturity for low quality and older technologies services (ADSL, HDSL, RDSL and VDSL), whereas 3 years is the average duration of faster and more expensive connectivity (FTTH and RDSL SDH optical fibre connection). In fact, this is the time needed for the network investment (around €4 – 5k), not fully covered by the set-up fee of the service. These contracts represent about 30% of total revenue.

Resellers: long lasting agreements with resellers and recent partnership with Fastweb

Regarding resellers, Intred has an active partnership with 18 companies, in many times for more than 10 years. In 2017 Intred started a partnership with QCOM S.p.A. and Fastweb S.p.A., which underlines a strong appreciation of the work developed by the Company. In particular, Intred expects in the next years a high growth in the financial, large distribution and healthcare segments through the cooperation with Fastweb.

The contracts with the Public Administration are usually activated through a public tender. The average duration of these contracts is 3 years.
Residential contracts are signed through i) internet (60%); multi-brand distributors in the province of Brescia (40%). As requested by law, households' contracts has no maturity. EIR is distributed through more than 100 multi-brand stores.

Table 4: Contract duration by client in 2017

Type of Clients	2017 Contract duration (years)
Business Customers	Min 3 – Max 5
Resellers	Min 3 – Max 5
Household Customers	Indeterminate
Public Administration	3

Management: long experience in the Industry and sound track record

The Company is owned by Daniele Peli, founder and chairman of the Board of Directors and by his wife Marisa Prati, respectively with a 66.67% and a 33.33% stake.

Danieli Peli: Founder, Chairman and CEO

Daniele Peli is the founder of the Company, has gained experience in the market for over 12 years with the role of manager both in Italy and abroad.

Adalberto Salvi: Board member

Adalberto Salvi has been working as finance director for over 25 years in the food industry, large distribution and retail. He has been working as advisor of Intred from 1996 to 2007 and more recently as chairman of the statutory auditors. On April 2018 he has been appointed as a member of the board.

Egon Zanagnolo: Head of sales

Egon Zanagnolo has been working in the Company since 1999, developing interlay the commercial path, managing a 16 people team. He elaborates jointly with the CEO, the commercial and marketing strategies and supervises relations with business and public administration clients.

Filippo Leone: CFO

Filippo Leone has been working in the accounting, financial and administrative area for over 15 years. In 2018 he joined the Company as CFO.

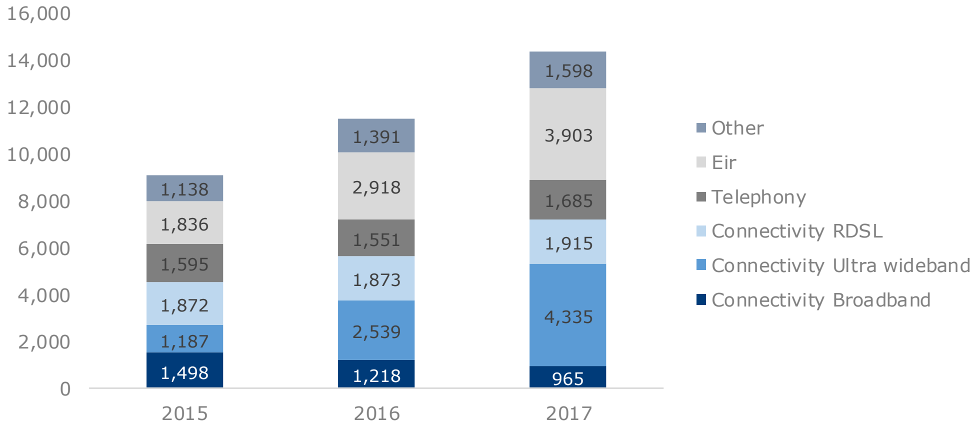
Historical operating and financial performance

Main operating and financial data 2015-2017

2015-2017: double digit revenue growth well above the market

In the past 3 years Intred has reported an average growth above 20% (CAGR 2015-2017 at 25.6%), well above its Italian territorial comparables (+16.2% in 2016) and bigger European players (+18.4% CAGR 2015-2017). Revenue growth has been driven by ultra-wideband services, through the development of the proprietary fibre network decided in 2010 and following the entrance in the residential market in 2012.

Figure 18: Intred revenue 2015-2017 by service

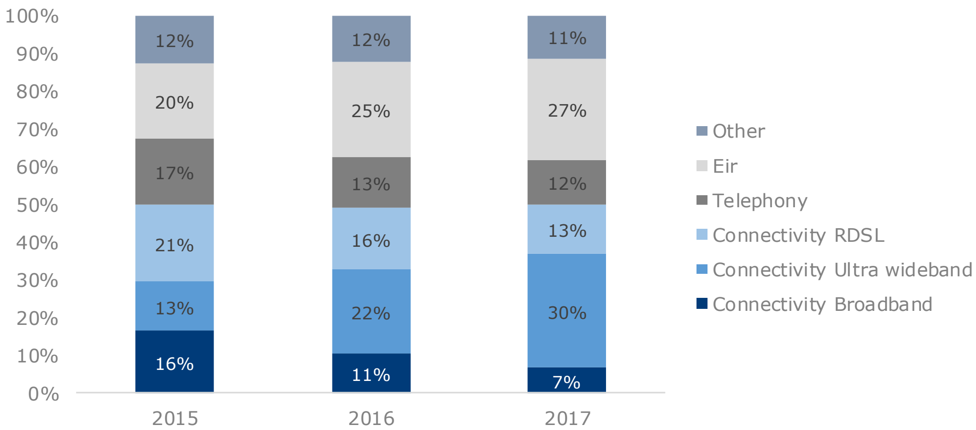


Source: Banca Profilo elaborations and estimates on Company data

Revenue growth driven by ultra-wideband connectivity and EIR

In 2017, Intred reported revenue at €14.4mln. Ultra-wideband connectivity increased its contribution to sales to 30% from 13% in 2015, confirming the switch process from Broadband services, which decreased their weight from 16% in 2015 to 7% in 2017. EIR revenue weight grew to 27% from 20% in 2015.

Figure 19: Revenue breakdown by service – 2015 - 2017



Source: Banca Profilo elaborations on Company data

Among other revenues in the Value of the Production, there are public subsidy to sustain the investment in fibre network deployment in specific areas. The total amount of the contribution in 2015 was €2.5mln, and it is deferred for the estimated duration of the infrastructure (15 years). This line includes also credit notes issued by TIM, for infrastructural processing done by Intred, for which the Company does not set a mark-up.

Raw material costs not impacting on the P&L

Raw material costs were quite stable in the period. The only increasing expense is represented by advertising materials and costs incurred by Intred for processing carried out on infrastructures.

Leases and rentals are the heaviest costs

This line of cost mainly includes the third parties' network rent. Between 2016 and 2017 this cost item had a slight increase (+1%) below its historical trend, in line with the Company's strategy to develop its proprietary network. Rental agreements are mainly signed with TIM S.p.A.

Service costs refer mainly to:

- Board members and Statutory auditors (€240k and €21.7k), stable during the 2015-2017 period;
- marketing expenses increasing in line with revenue growth and according to company strategies, yet keeping their incidence on revenue below 2%;
- commissions including costs for resellers quite entirely for the EIR brand;
- on-site network maintenance and repair by in-house installers and technicians. The incidence is quite stable during the period.

The other costs are represented by utilities, maintenance, consulting and other minor costs.

Labour costs increasing in line with turnover

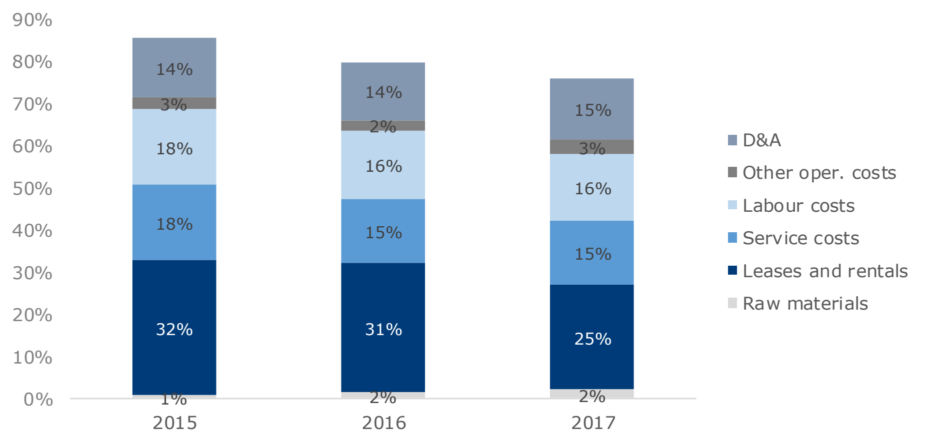
Labour costs reported a constant increase in 2015-2017 period (€1.7mln, €1.9mln and €2.3mln respectively), mainly due to the increase of the workforce and to the higher average cost per employee. The number of employees moved to 48 in 2017 from 40 in 2015, with an average cost per person to €48k in 2017 from €42k in 2015, keeping stable in 2016 and 2017 its incidence on revenue at 14%. The cost for board members is included in the service costs.

Other operating costs mainly include authorization concessions for the use of frequencies. In 2017 these costs increased due to contingent liabilities and other taxes.

Cost structure impacted by leases for rentals ("Use") and D&A ("Make") for the infrastructure

The dual-option "Use" or "Make" business model includes leases and rentals (of third's party network) in the first case and D&A (of own network) in the second one. In order to give a more complete analysis of this cost structure, we included D&A in our cost analysis. Leases and rentals and D&A are the most important cost figures, excluding labour cost, as the revenue generation is based on the use of infrastructure. During the period 2015-2017, the incidence of leases and rentals declined to 25% from 32%, as the Company started to invest in proprietary network, while the incidence of D&A slightly increased to 15% from 14%. The combined effect of these two trends is still positive for profitability, as the option "Make" generates higher profits. In fact, only the initial investments is significantly high, but all the following investments are lower providing higher profits.

Figure 20: Cost incidence in 2015-2017

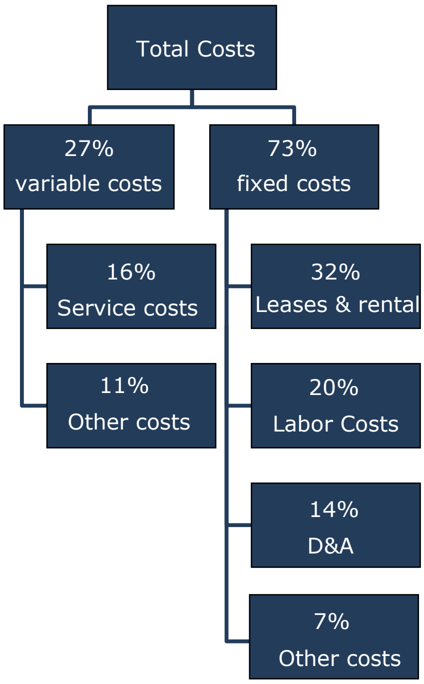


Source: Banca Profilo elaborations on Company data

Switching from rentals to D&A

In both "MoU" options, Intred cost structure is mostly made of fixed costs, as the revenue generation is based on the use of infrastructure (either owned or leased).

Figure 21: Cost incidence in 2017



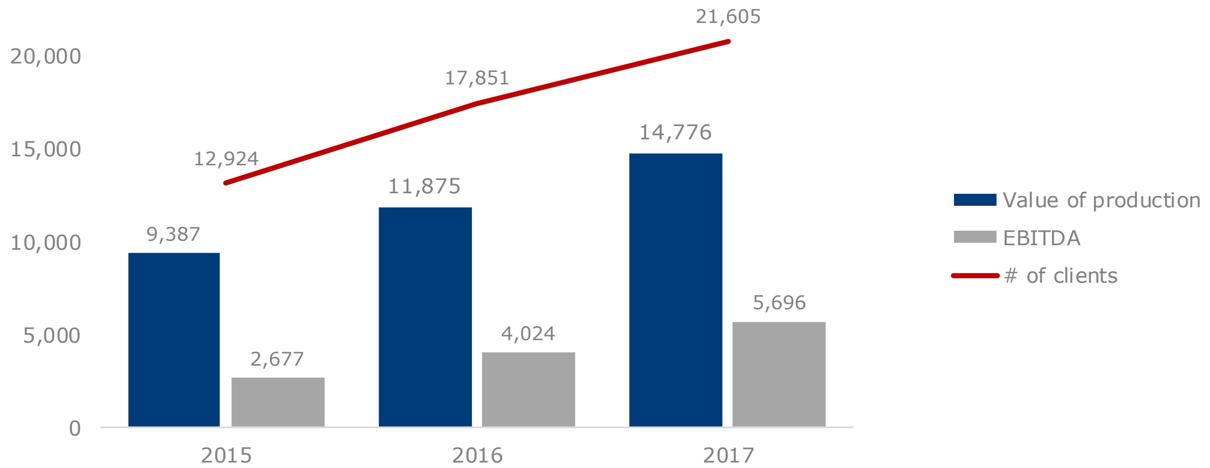
Source: Banca Profilo elaborations on Company data

Profitability improvement as a result of a successful strategy

The profitability increase in the 2015-2017 period is the result of a successful Company strategy to keep investing in the proprietary network. Intred was able to increase revenue and EBITDA which more than offset higher D&A. As a results EBIT margin increased from 14% in 2015 to 24% in 2017.

In 2017 the financial statements have been certified by BDO.

Figure 22: Cost incidence in 2017



Source: Banca Profilo elaborations and estimates on Company data

Table 5: Intred Profit & Loss 2015-2017

Profit & Loss (€/000)		2015	2016	2017
Revenues		**9,126**	**11,490**	**14,401**
	yoy		*25.9%*	*25.3%*
connectivity Broadband		1,498	1,218	965
	% on Revenues	*16%*	*11%*	*7%*
connectivity Ultra wideband		1,187	2,539	4,335
	% on Revenues	*13%*	*22%*	*30%*
connectivity RDSL		1,872	1,873	1,915
	% on Revenues	*21%*	*16%*	*13%*
telephony		1,595	1,551	1,685
	% on Revenues	*17%*	*13%*	*12%*
Eir		1,836	2,918	3,903
	% on Revenues	*20%*	*25%*	*27%*
microbusiness		173	276	360
	% on Revenues	*2%*	*2%*	*2%*
hosting and housing		447	402	403
	% on Revenues	*5%*	*3%*	*3%*
ancillary services		518	713	835
	% on Revenues	*6%*	*6%*	*6%*
other revenues		261	385	375
Value of production		**9,387**	**11,875**	**14,776**
	yoy		*26.5%*	*24.4%*
raw materials		(74)	(180)	(311)
leases and rentals		(3,015)	(3,655)	(3,699)
service costs		(1,675)	(1,792)	(2,253)
labour costs		(1,696)	(1,942)	(2,327)
other operating costs		(250)	(282)	(491)
Production costs		**(6,710)**	**(7,851)**	**(9,080)**
	% on Value of production	*-71%*	*-66%*	*-61%*
EBITDA		**2,677**	**4,024**	**5,696**
	margin	*28.5%*	*33.9%*	*38.5%*
D&A		(1,327)	(1,654)	(2,172)
EBIT		**1,350**	**2,370**	**3,523**
	margin	*14.4%*	*20.0%*	*23.8%*
net financial expenses		(95)	(53)	(54)
EBT		1,255	2,317	3,469
taxes		(390)	(682)	(932)
	tax rate	*31%*	*29%*	*27%*
Net profit		**865**	**1,635**	**2,537**
	margin	*9.2%*	*13.8%*	*17.2%*

Source: Banca Profilo elaborations and estimates on Company data

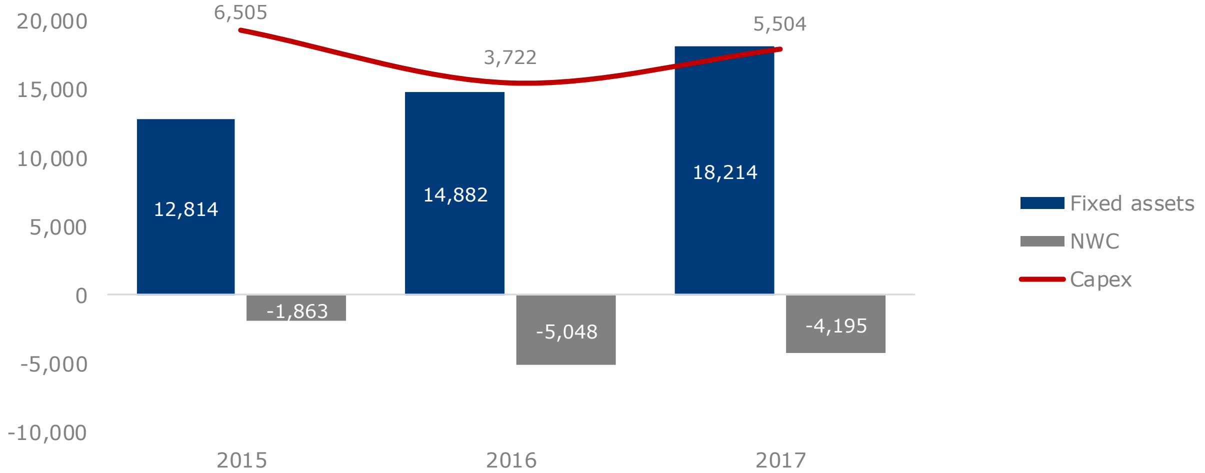
Net income at €2.5mln in 2017

In 2017, the Company accounted €2mln of D&A (or about 15% of revenue) and €54k of net financial expenses, which point out an interest cost of 2.1%. Tax rate was 27% in 2017 and led to a net income of €2.5mln.

Balance Sheet: a strong increase in fixed assets (80% prop. and 20% in IRU), offset by negative operating NWC

On the Balance Sheet side, at the end of 2017, Intred had more than €18mln of fixed assets, a negative net operating working capital of some €1mln financed by €9.4mln of shareholders' equity and by a bit more than €4mln of net financial debt (mostly long term). The strong investment strategy has resulted in higher fixed assets, which increased by €6mln in two years. The investments sustained to develop the proprietary network during the years have been equal to €19.8mln, of which €4.2mln relative to the rights of use.

Figure 23: Cost incidence in 2017



Source: Banca Profilo elaborations and estimates on Company data

An optimized working capital cycle

Intred business model shows a negative working capital. In fact Intred invoices its services in advance every two months, with average payment terms around 30 days. The amount relative to the second months is included in the deferred income.
Then, the payment cycle is extremely favourable: 85% of clients pay in 30 days; 14% in 60 days and only 1% in 90 days. The Company can also easily and promptly stop the service in case of non-paying customers.

Table 6: Intred Balance Sheet 2015-2017

Balance Sheet (€/000)		**2015**	**2016**	**2017**
Fixed assets		**12,814**	**14,882**	**18,214**
	immaterials	2,632	2,940	3,735
	materials	10,174	11,842	14,379
	financials	8	100	100
Operating Working Capital		**(651)**	**(651)**	**(905)**
	accounts receivables	2,162	3,188	3,582
	accounts payables	(2,813)	(3,839)	(4,487)
other receivables		3,388	581	1,675
other payables		(4,600)	(4,978)	(4,964)
Net Working Capital		**(1,863)**	**(5,048)**	**(4,195)**
Funds		(398)	(450)	(503)
Net Invested Capital		**10,553**	**9,384**	**13,516**
Equity		**5,268**	**6,905**	**9,438**
	share capital	3,810	3,810	3,810
	reserves	593	1,460	3,091
	net profit	865	1,635	2,537
Net debt (cash)		**5,286**	**2,479**	**4,077**

Source: Banca Profilo elaborations on Company data

A robust structure: Net debt/EBITDA 0.7x and Net debt/Equity 0.4x

The financial structure is solid and well balanced, with a 2017 Net debt/Equity ratio at 0.4x and a Net debt/EBITDA ratio at 0.7x. Thus, Intred would be able to stretch its financial structure in order to increase its investment and start an expansion strategy also through an acquisition.

Negative cash-flows due to high capex

In 2017 the Company reported negative cash-flows due to capex, which will be converted in cash in the next two years and due to an extraordinary €1mln payment to Telecom Italia for an agreement on future commercial partnership.

Here below the cash-flow related to 2016-2017. It's important to underline that the Company has distributed dividends only once, in 2002, giving priority to net profit reinvestment.

Table 7: Intred Cash Flows 2016- 2017

Cash-flow (€/000)	2015	2016	2017
Net Income		1,635	2,537
D&A		1,654	2,172
Operating cash-flows		**3,289**	**4,709**
Change in working capital		-	254
Capex		(3,722)	(5,504)
Cash-flows from activities		**(433)**	**(541)**
Change in other activities/liabilities		3,185	(1,107)
Change in other funds		52	53
Change in equity		3	(3)
Total cash-flows		**2,807**	**(1,598)**
Initial NFP		**5,286**	**2,479**
Final NFP	**5,286**	**2,479**	**4,077**

Source: Banca Profilo elaborations and estimates on Company data

Strategy and estimates

Corporate strategy

Develop the proprietary fibre network keeping the first mover competitive advantage

Main corporate strategy is to further develop its proprietary optical fibre network, in order to increase its territorial presence in areas already covered (Brescia, where the Company expects to reach a market share around 15%, Mantova and Bergamo) and to enter new neighbouring less dense markets such as Monza Brianza. This process should lead to a further gradual switch from "Use" to "Make" approach, with an EBITDA margin target above 40%, also thanks to the increase of the EIR customer base. This expansion strategy could be implemented also through M&A operations.

The Company expects the market to grow further in the next six years, with significant opportunity to cover new geographical areas in a limited competition scenario from other local territorial and focused players. Indeed, this is a crucial moment to grow before the intensification of the price competition. Moreover in this market it's key to be a first mover, leveraging on the customer loyalty and gaining a competitive advantage over competitors.

The higher visibility resulting from the expansion, should also lead Intred to be accredited by larger business clients.

Our estimates 2018E-2021E

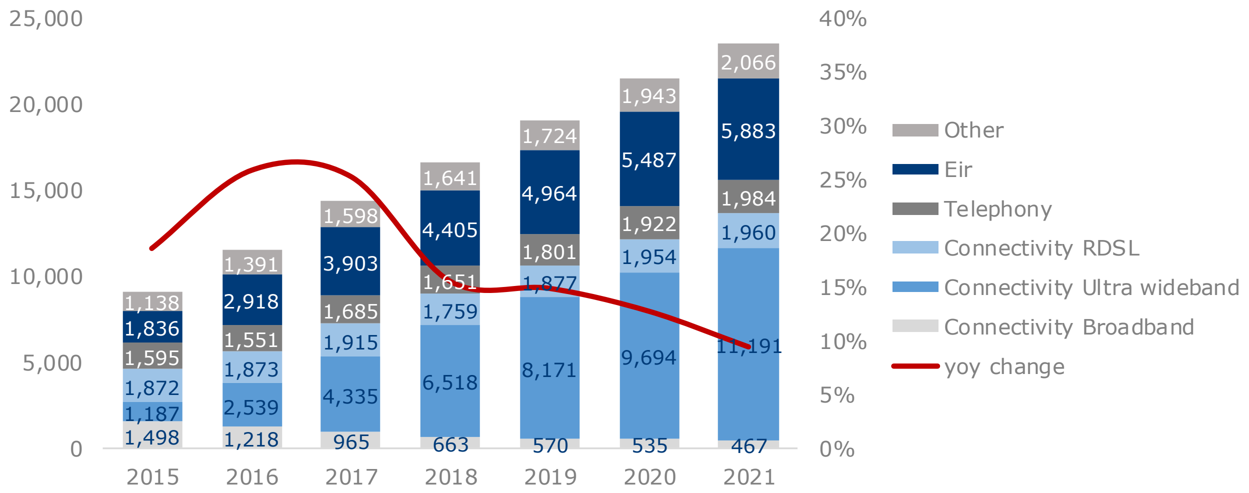
We expect Intred to outpace its reference market thanks to its faster growing positioning: revenue CAGR 17-21E at 13% 1H18 on track with 20% yoy growth

We expect Intred to keep outpacing its reference market growth, given: i) its strategic positioning in faster growing market segments and geographic areas (mainly data services in thriving areas); ii) an increase of provinces covered; iii) a persisting commercial push; iv), improved visibility following the IPO process, which has been opening new opportunities with new clients; and v) opportunistic M&A operations. As a consequence, we project a 13% revenue 2017-2021E CAGR to reach €23.5mln in 2021, mainly driven by the ultra-wideband services (+27%) and EIR (+11%). The 1H18 is on track to our projections, as revenue increased by 20% yoy.

Further non-organic growth potentials

Further non-organic growth, not included in our estimates, might come from industrial partnerships or M&A deals. In this scenario, Intred is looking at companies located in the Northern Italy, with a solid customer base and revenue between €6 – 8mln.

Figure 24: Intred revenue trend by service 2015-2021E

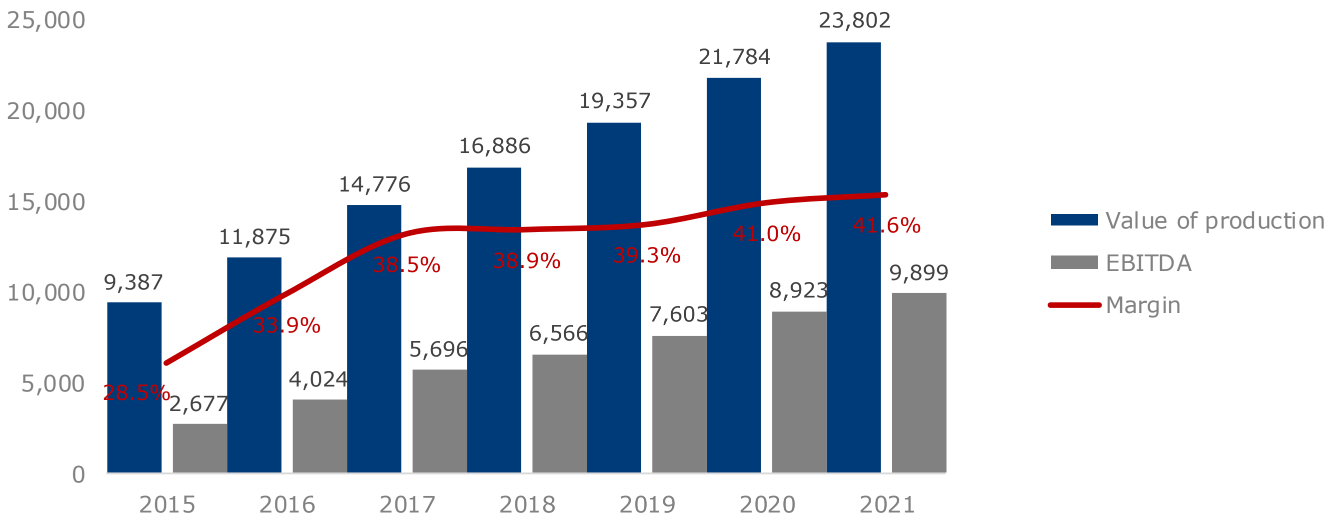


Source: Banca Profilo elaborations and estimates on Company data

EBITDA improving to €9.9mln with margin +300 bps in 2021E
1H18 on track with 40% EBITDA margin +150bps in six months

In 2018E-2021E, we expect the Company to improve the EBITDA to €9.9mln and EBITDA margin to 41.6%. 1H18 marginality is well on track to our estimates as EBITDA margin has already reached 40% from 38.5% in 2017.
More in details, in the period we reduced gradually the incidence of rents and leases on revenue from 25.6% in 2018 to 23.0% in 2021, in line with Company strategy to invest in proprietary infrastructure. Raw materials should keep their incidence quite stable, while labour costs is expected to grow according to the recruitment plan, which includes 4/5 new hiring per year together with a slight increase in the average cost per employee. Moreover we included into services higher costs for the members of the board of directors, which should pass from 2 to 5, while the advertising costs grow, in order to sustain the expansion strategy. Finally other operating costs should keep a stable incidence in line with the last years. All our estimates don't include any proceed or cost from the initial public offering.

Figure 25: Revenue and EBITDA 2015-2021E



Source: Banca Profilo elaborations on

D&A estimated at 14% of revenue.

For the 2018E-2021E period, we estimated increasing D&A from €2.2mln in 2017 to €3.2mln in 2021 with an average incidence of 14% on the value of production. The strong increase in D&A is due to the increase of proprietary network during the next years, with cumulated capex estimated at €19.3mln.

Stable cost of debt and tax rate.
Net income at €4.9mln in 2021E

With regards to net financial expenses, we projected a stable cost of Net debt at 1.7%, in line with 2017. As the Company became cash positive through the €9.5mln IPO proceeds, we estimated little positive items. Finally, the tax rate, at 27% in 2017, is projected at 28% in the following years, leading to a net income of €4.9mln in 2021E. It's important to highlight that the Company has a high visibility on 2018 numbers, based on contracts average duration and recurring revenue.

Table 8: Intred Profit & Loss 2015-2021E

Profit & Loss (€/000)		2015	2016	2017	2018E	2019E	2020E	2021E
Revenues		**9,126**	**11,490**	**14,401**	**16,636**	**19,107**	**21,534**	**23,552**
	yoy		*25.9%*	*25.3%*	*15.5%*	*14.9%*	*12.7%*	*9.4%*
connectivity Broadband		1,498	1,218	965	663	570	535	467
	% on Revenues	*16%*	*11%*	*7%*	*4%*	*3%*	*2%*	*2%*
connectivity Ultra wideband		1,187	2,539	4,335	6,518	8,171	9,694	11,191
	% on Revenues	*13%*	*22%*	*30%*	*39%*	*43%*	*45%*	*48%*
connectivity RDSL		1,872	1,873	1,915	1,759	1,877	1,954	1,960
	% on Revenues	*21%*	*16%*	*13%*	*11%*	*10%*	*9%*	*8%*
telephony		1,595	1,551	1,685	1,651	1,801	1,922	1,984
	% on Revenues	*17%*	*13%*	*12%*	*10%*	*9%*	*9%*	*8%*
Eir		1,836	2,918	3,903	4,405	4,964	5,487	5,883
	% on Revenues	*20%*	*25%*	*27%*	*26%*	*26%*	*25%*	*25%*
microbusiness		173	276	360	504	579	652	678
	% on Revenues	*2%*	*2%*	*2%*	*3%*	*3%*	*3%*	*3%*
hosting and housing		447	402	403	432	496	560	588
	% on Revenues	*5%*	*3%*	*3%*	*3%*	*3%*	*3%*	*2%*
ancillary services		518	713	835	705	649	731	800
	% on Revenues	*6%*	*6%*	*6%*	*4%*	*3%*	*3%*	*3%*
other revenues		261	385	375	250	250	250	250
Value of production		**9,387**	**11,875**	**14,776**	**16,886**	**19,357**	**21,784**	**23,802**
	yoy		*26.5%*	*24.4%*	*14.3%*	*14.6%*	*12.5%*	*9.3%*
raw materials		(74)	(180)	(311)	(331)	(350)	(369)	(385)
leases and rentals		(3,015)	(3,655)	(3,699)	(4,328)	(4,753)	(5,140)	(5,485)
service costs		(1,675)	(1,792)	(2,253)	(2,475)	(3,022)	(3,334)	(3,613)
labour costs		(1,696)	(1,942)	(2,327)	(2,775)	(3,158)	(3,478)	(3,813)
other operating costs		(250)	(282)	(491)	(412)	(471)	(540)	(607)
Production costs		**(6,710)**	**(7,851)**	**(9,080)**	**(10,320)**	**(11,754)**	**(12,861)**	**(13,903)**
	% on Value of production	*-71%*	*-66%*	*-61%*	*-61%*	*-61%*	*-59%*	*-58%*
Gross profit		**4,373**	**5,966**	**8,023**	**9,341**	**10,761**	**12,401**	**13,712**
	margin	*46.6%*	*50.2%*	*54.3%*	*55.3%*	*55.6%*	*56.9%*	*57.6%*
EBITDA		**2,677**	**4,024**	**5,696**	**6,566**	**7,603**	**8,923**	**9,899**
	margin	*28.5%*	*33.9%*	*38.5%*	*38.9%*	*39.3%*	*41.0%*	*41.6%*
D&A		(1,327)	(1,654)	(2,172)	(2,421)	(2,705)	(2,978)	(3,228)
EBIT		**1,350**	**2,370**	**3,523**	**4,145**	**4,898**	**5,945**	**6,671**
	margin	*14.4%*	*20.0%*	*23.8%*	*24.5%*	*25.3%*	*27.3%*	*28.0%*
net financial expenses		(95)	(53)	(54)	11	101	130	172
EBT		1,255	2,317	3,469	4,156	4,998	6,075	6,843
taxes		(390)	(682)	(932)	(1,159)	(1,391)	(1,690)	(1,902)
	tax rate	*31%*	*29%*	*27%*	*28%*	*28%*	*28%*	*28%*
Net profit		**865**	**1,635**	**2,537**	**2,997**	**3,608**	**4,385**	**4,940**
	margin	*9.2%*	*13.8%*	*17.2%*	*17.7%*	*18.6%*	*20.1%*	*20.8%*

Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet projections: €19mln cumulated capex and faster payments to suppliers

Regarding our Balance Sheet projections (2018E-2021E), we have included:

- €19.3mln of cumulated capex for the development of the proprietary network, divided between pose of new fibre and the acquisition of rights of use on other fibre;
- €2.3mln of operating working capital increase in four years ending in 2021E assuming i) a decline in DSO from 74 in 2017 to 70 in 2021E, based on the positive trend calculated on 2018 and 2019 portfolio and ii) a decline in DPO from 114 to 86, mainly due to the payment of past due payables for €1mln in 2018.

The financial structure is solid and well balanced, with a 2017 Net debt/Equity ratio at

0.4x and a ratio Net debt/EBITDA at 0.7x. Following the IPO proceeds and the operating cash flow generation, Intred will be able to stretch its financial structure in order to increase its investment and start an expansion strategy also through acquisitions.

Following the IPO we increased the share capital to €10mln and included net proceeds for €9.52mln, of which €6.19 as share capital and the remaining as reserves ending with net cash of €5.3mln at the end of 2018E.

Table 9: Intred Balance Sheet evolution 2015-2021E

Balance Sheet (€/000)	2015	2016	2017	2018E	2019E	2020E	2021E
Fixed assets	**12,814**	**14,882**	**18,214**	**20,109**	**22,418**	**24,340**	**26,212**
immaterials	2,632	2,940	3,735	3,769	3,814	3,796	3,777
materials	10,174	11,842	14,379	16,224	18,475	20,414	22,305
financials	8	100	100	115	130	130	130
Operating Working Capital	**(651)**	**(651)**	**(905)**	**369**	**632**	**1,160**	**1,398**
accounts receivables	2,162	3,188	3,582	3,659	4,408	5,115	5,594
accounts payables	(2,813)	(3,839)	(4,487)	(3,290)	(3,777)	(3,955)	(4,196)
other receivables	3,388	581	1,675	1,695	1,715	1,732	1,750
other payables	(4,600)	(4,978)	(4,964)	(5,069)	(5,440)	(5,701)	(5,764)
Net Working Capital	**(1,863)**	**(5,048)**	**(4,195)**	**(3,005)**	**(3,093)**	**(2,808)**	**(2,616)**
Funds	(398)	(450)	(503)	(503)	(503)	(503)	(503)
Net Invested Capital	**10,553**	**9,384**	**13,516**	**16,600**	**18,822**	**21,029**	**23,092**
Equity	**5,268**	**6,905**	**9,438**	**21,955**	**25,562**	**29,948**	**34,888**
share capital	3,810	3,810	3,810	10,000	10,000	10,000	10,000
reserves	593	1,460	3,091	8,958	11,955	15,562	19,948
net profit	865	1,635	2,537	2,997	3,608	4,385	4,940
Net debt (cash)	**5,286**	**2,479**	**4,077**	**(5,355)**	**(6,740)**	**(8,919)**	**(11,796)**
Tot. Fonti	**10,554**	**9,384**	**13,515**	**16,600**	**18,822**	**21,029**	**23,092**

Source: Banca Profilo elaborations and estimates on Company data

Cumulated Free Cash Flow ~ €6mln

The Company is expected to be cash generative starting from 2019, as in 2018 the payment of past due should impact for €1mln. We estimated €6mln of aggregated Unlevered Free Cash Flows in four years with a yearly average of €1.5mln. We have not set any dividend payout, in line with Company historical trend.

Table 10: Intred Free Cash Flow evolution 2015-2021E

Cash-flow (€/000)	2015	2016	2017	2018E	2019E	2020E	2021E
Net Income		1,635	2,537	2,997	3,608	4,385	4,940
D&A		1,654	2,172	2,421	2,705	2,978	3,228
Operating cash-flows		**3,289**	**4,709**	**5,417**	**6,313**	**7,364**	**8,169**
Change in working capital		-	254	(1,274)	(262)	(529)	(238)
Capex		(3,722)	(5,504)	(4,315)	(5,015)	(4,900)	(5,100)
Cash-flows from activities		**(433)**	**(541)**	**(172)**	**1,035**	**1,935**	**2,831**
Change in other activities/liabilities		3,185	(1,107)	84	350	243	46
Change in other funds		52	53	-	-	-	-
Change in equity		3	(3)	9,520	-	-	-
Total cash-flows		**2,807**	**(1,598)**	**9,432**	**1,386**	**2,178**	**2,877**
Initial NFP		**5,286**	**2,479**	**4,077**	**(5,355)**	**(6,740)**	**(8,919)**
Final NFP	**5,286**	**2,479**	**4,077**	**(5,355)**	**(6,740)**	**(8,919)**	**(11,796)**

Source: Banca Profilo elaborations and estimates on Company data

Business plan execution risks

Key risks relate to intense competition from big national players, which could invest in the areas covered by Intred. We also highlight the risk of uncertain regulatory frame related to the new generation networks (NGN) and the evolution of new technologies or services, such as GPON and 5G frequencies.

Remedy shares as partial protection

Finally, the Company business plan execution risk is limited by a remedy share mechanism and by an experienced management team which has been managing the company for more than 20 years.

1H18 results: on track to our 2018 projections

1H18 results: +20% yoy top line growth

In the first six months of 2018, revenues increased by 20% yoy to €0.3mln, mainly driven by the ultra-wideband business (+61% yoy) connectivity (FTTH/FTTC), by the microbusinesses (+35% yoy) and the residential clients under EIR brand (+26.5% yoy). On the other hand, as expected, the RDSL connectivity revenue decreased (-5.3% yoy) as clients migrated to fiber optic connectivity.

1H18 top line well on track to our FY18 forecast

If we analyse the weight of 1H on FY revenues in 2017, this was 46%; if we projected this percentage to 2018 we would get to almost €18mln, well ahead of our €16.9mln estimate; this can also be seen comparing 1H growth (20.1% yoy) to our 15.5% projection for 2018. Thus 1H results are well on track to our estimates, which might look quite conservative.

Table 11: Intred 1H18 Profit & Loss vs our 2018E

Profit & Loss (€mln)	1H17	1H18	2018E
Revenues	**6.87**	**8.25**	**16.64**
yoy		*20.1%*	*15.5%*
connectivity broadband (ADSL)		*-25.6%*	*-31.3%*
connectivity Ultra wideband (Fibre FTTH/FTTC)		*61.2%*	*50.3%*
microbusiness		*35.0%*	*39.9%*
connectivity RDSL		*-5.3%*	*-8.1%*
telephony		*11.6%*	*-2.0%*
EIR		*26.5%*	*12.9%*
ancillary services		*11.4%*	*-15.6%*
other revenues		0.10	0.25
Value of production	**6.87**	**8.35**	**16.89**
yoy		*20.1%*	*14.3%*
weight of 1H on FY	*46%*	*49%*	17.97
raw materials		-0.08	-0.33
service costs		-1.23	-2.47
leases and rentals		-2.26	-4.33
other operating costs		-0.20	-0.41
labour costs		-1.24	-2.78
Gross profit		**4.59**	**9.34**
margin		*54.9%*	*55.3%*
EBITDA		**3.34**	**6.57**
margin		*40.0%*	*38.9%*
weight of 1H on FY		*51%*	7.19
D&A		-1.26	-2.42
EBIT		**2.08**	**4.15**
margin		*24.9%*	*24.5%*
net financial expenses		-0.04	0.01
EBT		**2.04**	**4.16**
margin		*24.5%*	*24.6%*
taxes		-0.53	-1.16
tax rate		*25.9%*	*27.9%*
Net profit		**1.51**	**3.00**
margin		*18.1%*	*17.7%*
weight of 1H on FY		*51%*	

Source: Banca Profilo elaborations and estimates on Company data

1H18: 22,811 clients (+18% yoy and +6% in six months)

In the first six months of 2018, clients increased by 18.5% yoy to 22,811 and by 6% in six months from 21,605 at the end of 2017. Regarding revenues breakdown by type of customer, there has been a slight decline from FY17 in business customers and resellers customers (to 54% from 55% and to 13% from 14% respectively), whereas the incidence of households increased (to 28% from 27%). Churn rate remained very low at 5% in the semester.

1H18: 40% EBITDA margin (+150bps in six months). On track to our FY18 estimate.

In the first six months of 2018, EBITDA margin increased by 150 bps from FY17 to 40%. This is more than our projection at 38.9% in 2018, which might again look conservative. If we projected this percentage to our revenues estimate for 2018 (€16.9) we would get to €6.7mln EBITDA but we would go over €7mln forecasting a 40% EBITDA margin on the €18mln sales above mentioned. Again, even at the EBITDA level, 1H results are well on track to our estimates, which might look quite conservative.
At the bottom line, net income was €1.5mln or 18% margin with a 51% weight on our FY18 expectation.

1H18: €3.1mln capex and 1,700 km of fiber optic network (+13% in six months)

During the 1H18, Intred invested €3.1mln mainly in the development of the proprietary fiber network in the areas of Brescia, Bergamo and Mantova and partly in the "right of use" for 15 years of "turned off" fiber networks. For the FY18, we project €4.1mln capex, which might look too low compared to the trend in the 1H.

Table 12: Intred 1H18 Balance Sheet vs our 2018E

Balance Sheet (€mln)	31.12.17	30.06.18	31.12.18E
immaterials	3.74	4.38	3.77
materials	14.38	15.58	16.22
financials	0.10	0.11	0.11
Fixed assets	**18.21**	**20.07**	**20.11**
accounts receivables	3.58	4.04	3.66
accounts payables	-4.49	-5.47	-3.29
Operating net working capital	**-0.91**	**-1.43**	**0.37**
other receivables	1.67	1.62	1.69
other payables	-4.96	-5.87	-5.07
Net working capital	**-4.19**	**-5.68**	**-3.01**
Funds	-0.50	-0.54	-0.50
Net invested capital	**13.52**	**13.85**	**16.60**
share capital	3.81	3.81	10.00
reserves	3.09	5.63	8.96
net profit	2.54	1.51	3.00
Equity	**9.44**	**10.95**	**21.95**
bank debt	5.17	5.46	
cash	-1.09	-2.56	
Net debt (cash)	**4.08**	**2.90**	**-5.35**

Source: Banca Profilo elaborations and estimates on Company data

post IPO capital structure

Regarding Net debt and Equity at the end of June, they did not include the IPO proceeds. At the end of 2018 we will have: a share capital post IPO of €10mln from €3.8mln at the end of 2017, including net proceeds of €9.52mln (€6.19mln as share capital and the remaining €3.33mln as reserve) leading to a net cash position of €5.3mln.

Valuation

DCF approach well appraises contracts duration; capex plan

Given the average long term duration of the commercial contracts, the consequent control over cash-flows and the significant amount of capex, a DCF method well adapts as a valuation approach.

Sample of listed comparables: Retelit and big EU players

For what concerns the relative market multiples approach, there is only one listed company (Retelit) active in the specific business of Intred, which shows a similar incidence of revenue from data services, providing also its own fibre network infrastructure. Thus, we also included in our analysis big European and diversified players, even if they show a higher incidence of revenue from voice services, mainly in the mobile segment, not offered by Intred.
Our Sample for a relative approach on market multiples includes: the Italian Retelit and Telecom Italia, the French Iliad and Orange, the German Deutsche Telekom, the Spanish Telefonica and the English BT Group and Vodafone.

M&A transactions multiples

Finally we add an average of M&A multiples derived from comparables transactions over the past three years.

DCF

DCF assumptions: €1.5mln yearly FCF on average

To run a DCF model, we use our projections of unlevered FCFs for the 2018E-21E explicit period: €6mln cumulated and €1.5mln on average. Considering the positive trend of the market and the business model based on strong investments with a 2 year payback, our projected FCFs have a considerable uptrend.

In order to assess the Terminal Value, we factor in:
- an unlevered FCF of €2.7mln, that of the last year of our explicit period (2021E);
- 2% perpetual growth rate.

Table 13: unlevered FCFs

Free Cash Flow (€ 000)	2016	2017	2018E	2019E	2020E	2021E	TV
EBIT	2,370	3,523	4,145	4,898	5,945	6,671	
taxes	(660)	(981)	(1,154)	(1,363)	(1,655)	(1,857)	
NOPAT	**1,710**	**2,543**	**2,991**	**3,534**	**4,291**	**4,814**	
D&A	1,654	2,172	2,421	2,705	2,978	3,228	
Operating NWC change	3,185	(853)	(1,189)	88	(285)	(192)	
Other funds	52	53	-	-	-	-	
capex	(3,722)	(5,504)	(4,315)	(5,015)	(4,900)	(5,100)	
Free Cash Flow	**2,879**	**(1,589)**	**(92)**	**1,313**	**2,084**	**2,750**	**2,750**

Source: Banca Profilo estimates and elaborations

WACC assumptions: 6.5%

We use a 6.5% WACC, derived from:
- 4.5% risk free rate, as implicitly expected by consensus (Bloomberg) on the 30Y Italian BTP yield curve;
- 5% market risk premium;
- 0.8 re-levered beta, coming from the average betas of peers in our Sample;
- D/E target at 30%.

Table 14: FCFs and WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	**6.5%**
risk free rate (30Y) (Bloomber	4.5%
equity risk premium	5.0%
beta	0.8
KE	8.7%
cost of debt	2.0%
tax rate	27%
KD	1.4%
Target financial structure	
D/D+E	30%
E/D+E	70%

Source: Banca Profilo estimates and elaborations

DCF valuation: €3.9/share

The DCF method leads us to an Enterprise Value of €56mln and an Equity Value of €61mln or €3.9/share.

Table 15: DCF valuation

DCF Valuation	2018E	2019E	2020E	2021E	TV
Free Cash Flows (€ 000)	(92)	1,313	2,084	2,750	2,750
years	1	2	3	4	
discount factor	0.94	0.88	0.83	0.78	
NPV Cash flows (€ 000)	(87)	1,157	1,725	2,139	
Sum of NPVs (€ 000)	(87)	1,071	2,796	4,935	
Terminal Value (€ 000)					65,252
NPV Terminal Value (€ 000)					50,743
Enterprise Value (€ 000)					**55,678**
Net debt end of 2018 (€ 000)					(5,355)
Equity Value (€ 000)					**61,033**
number of shares (mln)					15.85
Per share value (€)					3.9

Analysis of listed peer group and market multiples

Sample mean EV/EBITDA 2018E-2019E at 5.6x; Retelit at 8.4x

Our Sample of comparables shows a mean EV/EBITDA 2018E-2019E of 5.7x-5.5x and a mean P/E 2018E-2019E at 15.8x-13.4x respectively. We choose the EV/EBITDA multiple for its relative valuation, considering the different financial structure and the strong investments in proprietary infrastructure. The closest comparable Retelit is trading at 9x and 7.9x the EV/EBITDA 2018E and 2019E respectively. Multiples are as of October, the 1st.

Intred EV/EBITDA 2018E-2019E at 6.2x

Intred trades at an average EV/EBITDA of 6.2x, showing a 10% premium on the mean but 25% discount on Retelit. Compared to the Sample's mean, Intred shows much higher top line historical and perspective growth and EBITDA margin. Intred growth and marginality are more in line with those of Retelit. Finally, Retelit and Intred are the only cash positive companies; the rest of comparable players show a leveraged financial structure with an average Net debt / market capitalization at 1x.

Table 16: Market multiples

Company	EV/EBITDA			P/E		
	2017	2018E	2019E	2017	2018E	2019E
Retelit	8.5x	9.0x	7.9x	21.8x	23.8x	18.4x
Telecom Italia	4.4x	4.6x	4.5x	7.9x	6.8x	6.2x
Iliad	5.7x	5.8x	5.5x	13.4x	16.1x	15.7x
Orange	5.0x	4.9x	4.8x	2.7x	12.3x	16.9x
Deutsche Telekom	5.9x	5.7x	5.4x	2.7x	16.1x	11.0x
Telefonica	5.4x	5.6x	5.6x	2.3x	16.8x	11.3x
BT	4.4x	4.5x	4.5x	3.1x	10.8x	10.9x
Vodafone	5.7x	5.8x	5.7x	3.4x	23.5x	16.6x
Mean	**5.6x**	**5.7x**	**5.5x**	**7.1x**	**15.8x**	**13.4x**
Intred	7.7x	6.7x	5.8x	8.7x	7.5x	6.5x

Source: Factset. Banca Profilo estimates. All numbers calendarised

Source: Banca Profilo estimates and elaborations on Factset, as of October, 1st

Table 17: Sample benchmarking

Company	Sales growth			EBITDA margin		
	2017	2018E	2019E	2017	2018E	2019E
Retelit	*33.2%*	*6.3%*	*10.4%*	*41.5%*	*37.2%*	*38.2%*
Telecom Italia	*4.2%*	*-3.4%*	*-0.7%*	*43.7%*	*43.3%*	*43.8%*
Iliad	*5.6%*	*-0.3%*	*7.3%*	*35.6%*	*34.9%*	*34.5%*
Orange	*0.4%*	*0.4%*	*1.0%*	*31.1%*	*31.5%*	*32.0%*
Deutsche Telekom	*2.5%*	*0.1%*	*3.3%*	*29.6%*	*30.7%*	*31.1%*
Telefonica	*-0.1%*	*-5.9%*	*-0.4%*	*31.5%*	*32.4%*	*32.3%*
BT	*4.4%*	*-1.8%*	*-1.1%*	*31.6%*	*31.5%*	*31.7%*
Vodafone	*-3.9%*	*-1.9%*	*0.8%*	*31.2%*	*31.5%*	*31.5%*
Mean	***5.8%***	***-0.8%***	***2.6%***	***34.5%***	***34.1%***	***34.4%***
Intred	*24.4%*	*14.3%*	*14.6%*	*38.5%*	*38.9%*	*39.3%*

Source: Banca Profilo estimates and elaborations, Factset, as of October, 1st

Mean EV/EBITDA from M&A transactions

Finally, transaction multiples on similar players over the past three years show and average EV/EBITDA of 10.2x, well above market multiples.

Table 18: M&A transactions multiples

TRANSACTION MULTIPLES							
Completed Date	**Target Company**	**Bidder Company**	**EQUITY (mln)**	**EV (mln)**	**Currency**	**EV/ EBITDA**	**EBITDA margin**
Within 30/06/2018	Linkem	Go Internet	19	62	EUR	8.3X	9%
11/01/2018	Eolo	Searchlight Capital	324	376	EUR	10.2X	37%
24/08/2017	Entanet	CityFibre	33	33	EUR	15.3X	5%
31/07/2017	Mc-link	F2i	56	74	EUR	8.1X	21%
27/07/2017	Infracom	F2i	62	132	EUR	6.0X	21%
20/12/2016	Metroweb	Enel Open Fiber		714	EUR	13.6X	61%
		Mean				**10.2X**	

Source: Banca Profilo elaborations on Factset, Bloomberg and Mergermarket data

Valuation, target price and recommendation

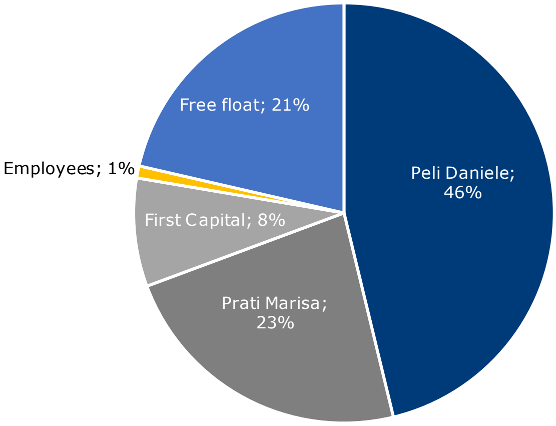
We set our target price on Intred at €3.9/share, leaving a 25% potential upside on current price (as of October, 1st). The implicit mean EV/EBITDA 2018E-2019E multiple is then 8x. Our recommendation is BUY.

Shareholders and offering structure

The shareholders structure post IPO

The Company is controlled by Daniele Peli, founder and Chairman of the Board of Directors and by his wife Marisa Prati, respectively with a post IPO 46% and a 23% stake. Free float is 21%.

Figure 26: Shareholders structure



Source: Banca Profilo elaborations

Listed on the AIM

The Company was listed on the AIM segment of the Milan Stock Exchange on July the 18th through a primary offering of 4.86mln shares at €2.27/share. Total shares are 15.85mln and the market capitalization is €50.1mln (as of September the 27th).

36 month lock up period

Daniele Peli and Marisa Prati agreed to a lock-up period of 36 months from the day of listing on AIM.

Remedy shares mechanism

Daniele Peli and Marisa Prati have approved and adopted a Remedy Shares mechanism, according to which a maximum number of 1,714,500 of their shares (11.0% of total shares and 16% of those owned by the Peli Family) will be delated, if Company EBITDA (without including non-recurring costs from the IPO and from eventual M&A) is lower than €6.5mln, with a floor at €5.7mln (the result reported in 2017). There will be no cash out for the Company, but only a dilution of Mr. Peli and Mrs. Prati in case of economic trigger levels are reached. It's important to highlight that the Company has a high visibility on 2018 numbers, based on contracts average duration, a consequent recurring revenue stream and the 1H18 good results.

Table 19: Remedy Shares mechanism

REMEDY SHARES MECHANISM									
EBITDA target (€mln)	6.5								
EBITDA floor (€mln)	5.7								
# shares under the PAS		1.71	16%	11%					
EBITDA 2018 (€mln)	**5.7**	**5.8**	**5.9**	**6.0**	**6.1**	**6.2**	**6.3**	**6.4**	**6.5**
# shares to be canceled	**1.7**	**1.5**	**1.3**	**1.1**	**0.9**	**0.6**	**0.4**	**0.2**	**0.0**
# shares Peli Family post cancellation	9.3	9.5	9.7	9.9	10.1	10.3	10.6	10.8	11.0
share of Peli Family post cancellation	66%	66%	67%	67%	68%	68%	68%	69%	69%
free float post cancellation	24%	24%	23%	23%	23%	22%	22%	22%	21%
Total shares post cancellation	14.1	14.3	14.6	14.8	15.0	15.2	15.4	15.6	15.8

Source: Banca Profilo elaborations

Use of IPO proceeds mostly for fiber network expansion

The €9.5mln net proceeds from the IPO will be mainly addressed to the network infrastructure strengthening through the expansion of ultra-wide connectivity network (FTTH and FTTC technologies), disinvesting from broadband connectivity, in line with current market trends. To reach this goal, Intred will both expand its proprietary network ("Make option") and use third parties network ("Use option"). The Company expects to increase its presence in neighbouring areas, together with its market share in the province of Brescia (with a target of 15%-16% from current 8%), obtaining a competitive advantage from positioning its infrastructure before other players.
Part of the proceeds will also be used to acquire interesting competitors. The target companies should work in the same areas of interest as Intred and show a turnover of €5 to €10mln.

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Intred "ID Card"

Recommendation	Target Price	Upside
BUY	**3.9 €**	**25%**

Company Overview

Intred S.p.A. is a local reference player in the telecommunication market. It provides fibre network infrastructure and offers data and voice services. The Company, founded in 1996, operates with a strong presence in Brescia and other neighbouring thriving areas, ensuring a unique service and a capillary territorial coverage, mainly based on ultra-wideband connectivity. Intred can rely on a constantly expanding optical fibre proprietary network, covering about 1,500 km, which guarantees an excellent territorial presence. The proprietary infrastructure, started in 2010, has given a strong impulse to Company growth, both in terms of revenue and profitability. Intred initiated its activity focusing on corporate business, considered more profitable and suitable for repaying initial infrastructure investments. In 2012 the Company entered the retail segment with its own brand "EIR", in order to expand its reference market and offer high quality services to residential clients, leveraging on investments already sustained for the proprietary fibre network. Thanks to this strategy, combined with the come into operation of the infrastructure capex, in 6 years the Company has quintupled the number of its clients up to 21,600 and increased the fragmentation of its customer base. Client retention rate is above 90% and contracts last on average 3 years, providing an efficient control of cash-flows. Intred is controlled by Daniele Peli, one of the 3 founders, and by his wife Marisa Prati, respectively with a 66.67% and 33.33% stake.

SWOT Analysis

Strengths

- Capillary territorial presence in thriving areas, through a proprietary optical fibre network
- Proprietary wireless network dedicated to areas not adequately covered in XDSL
- Broad customer base, with a high loyalty rate (around 93% of clients are recurring)
- Strong brand awareness in the reference areas
- Remarkable expertise of sales force and technical department
- Experienced management team, with a consolidated know-how in the TLC industry

Weaknesses

- Low turnover in the customer base
- Geographical concentration in Brescia and in the neighbouring areas
- Lower investment capacity than TLC players
- Lack of a commercial offer in the mobile segment
- Lower marketing expertise than big TLC players

Opportunities

- Geographical expansion in the province of Bergamo, Mantova, and Monza Brianza, also through acquisitions
- Structural national delay in the development of the optical fibre infrastructure
- Lower access in Italy to the ultra-wideband services than the other European countries

Threats

- Increasing competition from big Italian TLC players
- Regulatory uncertainty with reference to the NGN networks
- Potential entrance of new services or technologies

Main catalysts

Profitability improvement driven by the development of the proprietary infrastructure with high visibility on future results
Better strategic positioning in the covered areas than competitors thanks to investments sustained before other players
Geographical expansion also through M&A
Remedy shares mechanism based on 2018 EBITDA in order to protect new shareholders
The stock is PIR (Piani Individuali di Risparmio) eligible

Main risks

Increasing competition in the area from big players
Development of new technologies able to overwhelm current ones

Intred "ID Card"

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Recommendation	Target Price	Upside
BUY	3.9 €	25%

Main Financials

(€ mln)	2016	2017	2018E	2019E	2020E
Revenue	**11.9**	**14.8**	**16.9**	**19.4**	**21.8**
yoy change	*26.5%*	*24.4%*	*14.3%*	*14.6%*	*12.5%*
Gross margin	6.0	8.0	9.3	10.8	12.4
Gross margin (%)	*50.2%*	*54.3%*	*55.3%*	*55.6%*	*56.9%*
EBITDA	**4.0**	**5.7**	**6.6**	**7.6**	**8.9**
yoy change	*50.3%*	*41.5%*	*15.3%*	*15.8%*	*17.4%*
EBITDA margin (%)	*33.9%*	*38.5%*	*38.9%*	*39.3%*	*41.0%*
EBIT	**2.4**	**3.5**	**4.1**	**4.9**	**5.9**
EBIT margin (%)	*20.0%*	*23.8%*	*24.5%*	*25.3%*	*27.3%*
EBT	2.3	3.5	4.2	5.0	6.1
Margin (%)	*19.5%*	*23.5%*	*24.6%*	*25.8%*	*27.9%*
Net income	**1.6**	**2.5**	**3.0**	**3.6**	**4.4**
Margin (%)	*13.8%*	*17.2%*	*17.7%*	*18.6%*	*20.1%*
Net debt (cash)	**2.5**	**4.1**	**(5.4)**	**(6.7)**	**(8.9)**
Shareholders Equity	6.9	9.4	22.0	25.6	29.9
Operating Working Capital	(0.7)	(0.9)	0.4	0.6	1.2
Capex and acquisitions	(5.5)	(4.3)	(5.0)	(4.9)	(5.1)
Free Cash Flow	2.8	(1.6)	9.4	1.4	2.2

Company Description

Company Sector	Telecoms
Price (€) as of October 1st	3.11
Number of shares (mln)	15.9
Market Cap (€ mln)	49.3
Reference Index	FTSE AIM ITALIA
Main Shareholders	Daniele Peli and Marisa Pra
Main Shareholder stake	46% and 23%
Free Float	21%
Daily Average Volumes ('000)	35.5
Sample of comparables	Retelit, Telecom Italia, Iliad, Orange, Telefonica, DT, BT Group, Vodafone

Breakdown by business unit

(€ mln)	2016	2017	2018E	2019E	2020E
Connectivity Broadband	1.2	1.0	0.7	0.6	0.5
Connectivity Ultra-Wideband	2.5	4.3	6.5	8.2	9.7
Connectivity RDSL	1.9	1.9	1.8	1.9	2.0
Telephony	1.6	1.7	1.7	1.8	1.9
Eir	2.9	3.9	4.4	5.0	5.5
Microbusiness	0.3	0.4	0.5	0.6	0.7
Hosting and Housing	0.4	0.4	0.4	0.5	0.6
Ancillary services and other	0.7	0.8	0.7	0.6	0.7
Revenues	**11.5**	**14.4**	**16.6**	**19.1**	**21.5**

TLC: data of peers

	2017	2018E	2019E
Revenue Growth (yoy)	*5.8%*	*-0.8%*	*2.6%*
EBITDA Margin	*34.5%*	*34.1%*	*34.4%*
net debt / equity		*0.9x*	

Average data

Solvibility Ratios

	2016	2017	2018E	2019E	2020E
Net debt (cash) / EBITDA	0.6x	0.7x	-0.8x	-0.9x	-1.0x
Net debt (cash) / Equity	0.4x	0.4x	-0.2x	-0.3x	-0.3x
Net debt (cash) / Net Invested Capital	0.3x	0.3x	-0.3x	-0.4x	-0.4x

TLC: multiples of peers

	2018E	2019E
Retelit		
EV / EBITDA	9.0x	7.9x
P/E	23.8x	18.4x
Sample mean		
EV / EBITDA	5.7x	5.5x
P/E	15.8x	13.4x

INTRED: multiples

	2018E	2019E
EV / EBITDA	6.7x	5.8x
P/E	7.5x	6.5x

Financial and Operative ratios

	2016	2017	2018E	2019E	2020E
Days of receivables	83	74	66	68	70
Days of payables	124	114	86	86	86
Days of inventories	-	-	-	-	-
Tax rate	*29.4%*	*26.9%*	*27.9%*	*27.8%*	*27.8%*
ROIC	*18.2%*	*18.8%*	*18.0%*	*18.8%*	*20.4%*
ROE	*23.7%*	*26.9%*	*13.6%*	*14.1%*	*14.6%*
Capex/Sales	*-32.4%*	*-38.2%*	*-25.9%*	*-26.2%*	*-22.8%*
D&A to capex	44%	39%	56%	54%	61%

Source: Factset, Banca Profilo estimates and elaborations

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ADDITIONAL INFORMATION

THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").