

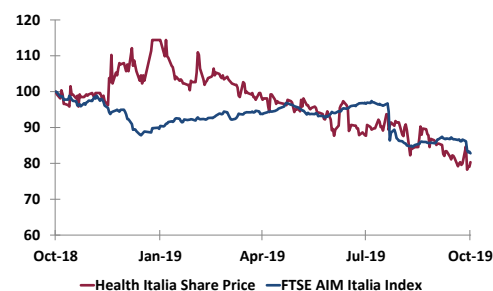


NEUTRAL

Current Share Price (€): 4.20

Target Price (€): 5.05

Health Italia - 1Y Performance



Source: S&P Capital IQ - Note: 04/10/2018=100

Company data

ISIN number	IT0005221004
Bloomberg code	HI IM
Reuters code	HI.MI
Share Price (€)	4.20
Date of Price	04/10/2019
Shares Outstanding (m)	19.0
Market Cap (€m)	79.7
Market Float (%)	37.5%
Daily Volume	8,250
Avg Daily Volume YTD	8,846
Target Price (€)	5.05
Upside (%)	20%
Recommendation	NEUTRAL

Share price performance

	1M	3M	1Y
Health Italia - Absolute (%)	-6%	-11%	-20%
FTSE AIM Italia (%)	-3%	-14%	-17%
1Y Range H/L (€)	5.98	4.09	
YTD Change (€)/%	-1.8	-30%	

Source: S&P Capital IQ

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FY18 Revenues +30%, operating margins down, 3 years running dividends, highly diversified M&A activity

2018 Revenues up by 30%, H1 2019 +7.5%, operating margins and cash drop after investments

Health Italia FY18 revenues were €29.4m, up 30% YoY. EBITDA dropped to €5.0m from €6.1m, mainly due to services and personnel cost. EBIT was €2.3m (8% margin). Net income was €1.1m, from €1.4m loss in 2017. Net debt as of December 2018 was €8.6m, up from €2.3m in 2017. Dividend pay-out in 2018 was €1.2m, from €1m in 2017. In 2019, HI will pay €0.025 per share dividend for a payout of €0.35m and will assign 1 share each 100 shares held, up to 141,820 ordinary shares.

Larger business scope and diversification through M&A activity

Health Italia completed the acquisition of Cornelia Capital SpA (Cornelia), a related party, through a capital stock increase reserved to Cornelia shareholders, who have subscribed by contributing 84.97% of Cornelia shares. HI had already purchased 18.6% of Cornelia shares for €1m in H2 2018, then sold to MBA Mutua, a HI business partner, in June 2019 for €4.5m. The target company is listed on the Third Market of Vienna Stock Exchange and operates in the areas of personal care, real estate, insurance, food and startup scouting. FY18 Cornelia group revenues were €0.4m, all generated by the real estate and insurance subsidiaries, with negative EBITDA and €0.4m net loss. The current market capitalization of Cornelia is €34m. The implied EV/Revenues multiple on 2019 forecast is 5.4x (Health Italia 2019E EV/Revenues 2.3x). The trigger to weaken the implied dilution potential would be a fast progress towards revenues and EBITDA over the 2021 targets of €14.8m and €4.8m, an overall alignment threshold.

Target Price €5.05 per share, NEUTRAL recommendation

The updated DCF model (11% WACC, 3% G), reflecting period facts as profitability and cash flow drop, financial debt dynamics, a proxy present value for Cornelia contribution and the updated number of shares, yields a Target Price of €5.05 per share (from €6.37), 20% over current share price. Therefore, we confirm the Neutral rating on the stock.

Key financials and estimates

€m	2017A	2018A	2019E	2020E
Revenues	22.6	29.4	41.5	52.7
EBITDA	6.1	5.0	7.1	12.8
<i>Margin</i>	26.8%	17.2%	17.0%	24.3%
EBIT	(0.7)	2.3	5.8	10.9
<i>Margin</i>	-2.9%	7.7%	13.9%	20.6%
Net Income (Loss)	(1.4)	1.1	3.7	7.4
Net (Debt) Cash	(2.3)	(8.6)	(8.3)	(6.1)
Equity	22.1	23.8	27.2	33.4

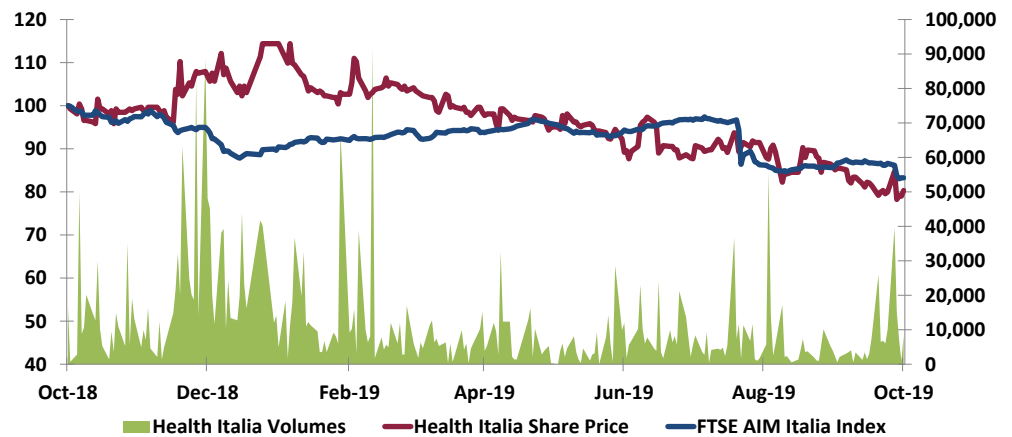
Source: Company data 2017-18A; EnVent Research 2019-20E

Market update

HI's shares in the last 12 months traded in the range €4.09-5.98, with beginning price at €5.23 and ending at €4.20, 20% drop

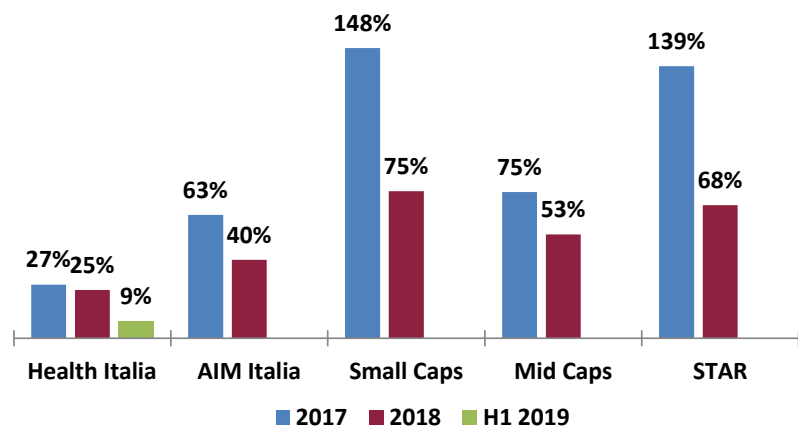
In the same period, the FTSE AIM Italia decreased by 17%

Health Italia - 1Y Share price performance and trading volumes



Source: S&P Capital IQ - Note: 04/10/2018=100

Health Italia - Liquidity analysis and velocity turnover



Source: EnVent Research on Bloomberg - Note: The velocity turnover is the ratio of total traded shares to total ordinary shares in a given period

Low trading volume in H1 2019, with 1.2m traded shares out of 14.3m shares outstanding

Withdrawal of lock-up agreement, market float up

The lock-up agreement on 2,034,925 HI shares, signed on the IPO date by some shareholders representing each less than 5% of share capital and together 14.21%, has been withdrawn, targeting a liquidity increase of HI stocks. In doing so, the market float increased by 54%, reaching 40.5%. The lock-up agreement entered at the IPO by HI key shareholders is still valid.

Cornelia Capital, a major scope extension project

Cornelia Capital S.p.A. (Cornelia) is an Italian holding company listed since January 2019 on the Third Market of Vienna Stock Exchange, headquartered in Formello (Italy). The company provides a wide range of services in the areas: personal care, insurance, real estate, food and startup scouting. FY18 Cornelia group revenues

were €0.4m. Negative EBITDA and Net Loss of respectively €0.5m and €0.4m. Consolidated net equity as of September 30th, 2018 was €1.6m, of which €0.8m invested into a 1.2% stake in HI; consolidated equity as of December 31st 2018 was €5m, mostly invested into fixed assets and shareholdings.

In H2 2018 HI had acquired a 18.62% stake in Cornelia, worth €1m as of December 2018, thus implying a consideration of €5.4m for 100% as a sum of minorities and that Cornelia was becoming a related party. The stake was sold in June 2019 to MBA Mutua, the HI key business partner, for €4.5m with a capital gain of €3.75m and an updated implied consideration of €24m.

In July 2019, HI completed the acquisition of the related party Cornelia through the contribution in kind of 84.97% of Cornelia shares from Cornelia shareholders and assignment to them of 4,653,141 HI new shares at €1.00 per share par value with exclusion of pre-emption rights, representing together a stake of 25%.

The value assigned to Cornelia is €35.3m and thus the deal consideration is €30m. The outcome after the offer period ended on July 26th, 2019 was the contribution of 84.97% of Cornelia in HI, resulting in a capital increase of 4,653,141 new HI shares, valued €27.9m proportionally to the total value assigned to Cornelia.

Cornelia Capital operations started in 2018 and include the following businesses:

1) SBU Health

- Cornelia Pharma Srl, dedicated to contract manufacturing of cosmetics and food supplements
- Be Live SpA, network marketing of nutraceuticals and cosmetics products
- Be Live CESKA Sro, company incorporated under Czech law to develop Be Live business abroad

2) SBU Real Estate

- Basis Costruzioni SpA, whose statutory business is construction and sale of commercial, residential and industrial real estate
- Cornelia Garden, whose statutory business is design of green areas and provision of cleaning and maintenance services for buildings
- Cornelia Property Espana SA, company incorporated to develop RE business abroad

3) SBU Insurance and Services

- Pool Brokers SpA, insurance broker
- Area 51 Srl, marketing company providing advisory or brand awareness and event management
- News Broker Srl, insurance broker
- Bussola Assicurazioni Srl, insurance agency

4) SBU Food

- Cornelia Food Srl, catering services

5) SBU Start-up

- Cornelia Technology Srl, IT services, operating in the design and implementation of IT infrastructures

The Cornelia Capital current implied EV/Revenues multiple on 2019 forecast is 5.4x. As a preliminary assessment on desk data, we guess as suitable multiples applicable to Cornelia future normally profitable revenue streams: 2.3x (present

Health Italia multiple) to the SBU Health revenues and appropriate market consistent multiples to other businesses. The 2019 revenues forecast of €6.4m has been taken as base indicator for the application of multiples observed on our analysis for a tentative proxy of present value to date. The 2021 target revenues of €14.8m and target EBITDA of €4.8m would be the dilution break-even threshold before 2Y discount, worth 20%.

M&A and business scope expansion

Acquisitions:

- 25% of StemWay Biotech Ltd., for a consideration of €0.3m (H1 2019). Cornelia Capital acquired a 26% stake in the same company (February 2019). Assuming the completion of the proposed deal HI-Cornelia Capital, StemWay would become a subsidiary of the integrated group. StemWay, provider of stem cells storage and predictive genetics, reported in 2018 revenues of €0.35m and 15% EBITDA margin. Health Italia plans to offer StemWay services across Health points.
- 18.62% of Cornelia Capital SpA for €1m (H2 2018), then sold to MBA Mutua for €4.5m in H1 2019
- 22% of Impresa Plus Servizi Srl for €0.25m (H2 2018)
- 51% of Health South Europe for €7k (H2 2018)

Group changes and rebranding:

- Merger of Hi Welfare Srl in Health Italia SpA (H1 2019)
- Basis SpA merged with Agricola Feronia Srl, company name changed into Health Property SpA (H2 2018)
- Scegliere Salute Srl (after acquisition of 51%, reaching 100%) merged into Coopsalute Soc. Coop. (H2 2018)
- Centro di Angiologia Eugheia Srl merged into Health Point Srl (H2 2018)
- Merger of SBM Srl and SBM Trading Srl, company name changed into Health Pharma SpA (H2 2018)
- Coopsalute change company name into Health Assistance
- Incorporation of Health East Europe Srl, based in Romania, for the development of the business in Eastern Europe (H2 2019). HI will provide health assistance services through partnerships with local health facilities and mutual companies.
- Cornelia Capital changed name into RE Health SpA

The updated group structure is:

Health Italia - Group structure



Source: Company website - Update: August 2019

FY18: Revenues 30% up, meeting our estimates. EBITDA down to 11% of revenues, Net Income of €1.1m

Revenues keep growing, +30% YoY on 2017

EBITDA lags behind

Net debt increasing to €8.6m from €2.3m at 2017

Health Italia FY18 revenues were €29.4m, +30% YoY, close to our previous estimate (€32.3m). Operating costs increased, with services and personnel up both by 45%. Reported EBITDA dropped from €6.1m to €5m (17% margin), before €1.9m other operating costs. EBIT was €2.3m, 8% margin. Net Income was €1.1m, from a loss of €1.4m in 2017. Health Italia FY18 financial statements have been converted to International Accounting Standards (IAS/IFRS).

On the balance sheet side, operating working capital increased by 38% with receivables and payables respectively of €17.1m and 9.4m vs. €12.0m and €6.5m in 2017. Fixed assets increased by 29% YoY to €15m and financial assets reached €2.4m from €0.9m YoY.

Net debt as of year-end 2018 was €8.6m up from €2.3m in 2017. Our cash flow

analysis indicates that the use of cash is due to company acquisitions and participations with capex of €4.2m and €2.1m for operating working capital dynamics.

H1 2019: Revenues 7.5% up, 11% EBITDA margin, Net Income of €3m and net debt decreased thanks to a capital gain

In H1 2019 Health Italia generated €14.6m consolidated revenues, 7.5% higher than H1 2018. Personnel cost rose by 25%. Reported EBITDA was €1.6m, stable compared to H1 2018, 11% margin vs. 12% in H1 2018. Reported EBIT was €0.7m. The period result was €3m net income, after €4.6m capital gain from the Cornelia Capital minority stake sale, mostly to MBA.

On the balance sheet side, operating working capital decreased by 9% from €7.6m as of year-end 2018 to €6.9m at June 2019. Other assets and liabilities decreased by 31%. Non-current assets increased by 8%.

Reported net financial debt as of June 2019 decreased to €6.2m, from €8.6m as of year-end 2018. Equity was €26.7m.

Business update: Health plans and HI Points

Corporate health plans

- Health Italia entered into a 3-year agreement with the bank Banca Agricola Popolare di Ragusa which will offer to 16,000 bank's shareholders HI health plans
- A 2-year agreement has been signed with Assoimprese, an association that supports growth among small and medium enterprises. Health Italia will offer health plans to the employees of the associated companies.
- In July 2019, HI signed an agreement with Gruppo Igea-Fucino to provide HI services across their 30 Italian branches in 2019-2024. HI also participated to the capital increase of Banca Igea, investing €0.75m.

New Health Points

In June 2019, four Health Points have been opened across Italy: Rome, Bologna, Vimercate and the first franchising shop in Arezzo.

Through its centers, HI offers medical services, natural cosmetic products, nutraceuticals from the subsidiary Health Pharma SpA, genetic tests from StemWay Biotech and mineral water with low percentage of alkaline from Pradis, will be integrated within the shop centers offer.

Currently there are 12 Health Points across Italy.

Estimates update

We overall confirm our revenue estimates for HI, considering the substantial revenue increase in 2018. We assume a 30% CAGR for the next two years, an ambitious target, but at reach, considering the performance of last years and especially the expected contribution by the Cornelia Capital revenues potential offsetting the H1 2019 lower score.

We recall that our 2020 revenue estimate is more conservative compared to Management's guidance, which envisages over €60m revenues in 2020.

On the financial debt side, we notice an operating cash use offset by a higher financial receivable coming from the sale of the Cornelia minority stake to the related party MBA, which contributes as a direct increase of the current equity value.

On the operating profits side, following FY18 results that show profitability lagging behind, we have fine-tuned our estimates. Our revised profitability estimates are close to the previous ones, looking for the contribution of Cornelia.

The other side of the coin in the framework of such a substantial transaction, might be the market sentiment about the business scope extension and the time necessary to give substance to the Cornelia deal value, that may imply lower profitability and multiples for additional revenues, catalysts of a value dilution.

Overall, we see that the value building perspective of HI in the mid-term should be supported by an improvement in quality of the earnings.

Change in estimates

€m	Revised			Previous			Change % (Rev. vs. Prev.)		
	2018A	2019E	2020E	2018E	2019E	2020E	2018A	2019E	2020E
Revenues	29.4	41.5	52.7	32.3	41.5	52.7	-9%	0%	0%
EBITDA	5.0	7.1	12.8	5.9	9.7	12.9	-15%	-27%	-1%
<i>Margin</i>	17%	17%	24%	18%	23%	25%			
EBIT	2.3	5.8	10.9	4.4	7.9	10.8	-48%	-27%	1%
<i>Margin</i>	8%	14%	21%	14%	19%	20%			
Net Income (Loss)	1.1	3.7	7.4	2.5	5.3	7.3	-56%	-29%	1%
Net (Debt) Cash	(8.6)	(8.3)	(6.1)	(2.3)	1.3	6.2			

Source: EnVent Research

Financial projections

Consolidated Profit and Loss

€m	2017A	2018A	2019E	2020E
Revenues	22.6	29.4	41.5	52.7
YoY %	26.2%	29.8%	41.4%	26.8%
Operating costs	(13.0)	(19.1)	(27.4)	(32.1)
Personnel	(3.6)	(5.2)	(7.0)	(7.8)
Reported EBITDA	6.1	5.0	7.1	12.8
Margin	26.8%	17.2%	17.0%	24.3%
Other operating income (costs)	(2.0)	(1.9)	0.0	0.0
EBITDA	4.0	3.2	7.1	12.8
Margin	17.9%	10.9%	17.0%	24.3%
D&A	(4.7)	(0.9)	(1.3)	(1.9)
EBIT	(0.7)	2.3	5.8	10.9
Margin	-2.9%	7.7%	13.9%	20.6%
Interest	0.5	0.1	(0.6)	(0.6)
EBT	(0.1)	2.3	5.2	10.3
Margin	-0.6%	7.9%	12.5%	19.5%
Income taxes	(1.3)	(1.2)	(1.5)	(2.9)
Net Income (Loss)	(1.4)	1.1	3.7	7.4
Margin	-6.2%	3.7%	8.9%	14.1%

Source: Company data 2017-18A; EnVent Research 2019-20E

Consolidated Balance Sheet

€m	2017A	2018A	2019E	2020E
Receivables	12.0	17.1	20.1	25.5
Payables	(6.5)	(9.4)	(11.9)	(14.0)
Operating Working Capital	5.5	7.6	8.2	11.6
Other assets (liabilities)	1.6	2.5	2.5	3.2
Net Working Capital	7.2	10.1	10.7	14.7
Intangible assets	2.8	2.2	3.4	3.3
Goodwill	2.8	3.4	3.4	3.4
Fixed assets	11.4	14.8	16.2	16.4
Equity investments and financial assets	0.9	2.9	2.9	2.9
Non-current assets	18.0	23.3	26.0	26.0
Provisions	(0.8)	(0.9)	(1.2)	(1.3)
Net Invested Capital	24.4	32.4	35.5	39.5
Net Debt (Cash)	2.3	8.6	8.3	6.1
Equity	22.1	23.8	27.2	33.4
Sources	24.4	32.4	35.5	39.5

Source: Company data 2017-18A; EnVent Research 2019-20E

Consolidated Cash Flow

€m	2018A	2019E	2020E
EBIT	2.3	5.8	10.9
Current taxes	(1.2)	(1.5)	(2.9)
D&A	0.9	1.3	1.9
Provisions	0.2	0.2	0.1
Cash flow from P&L operations	2.1	5.8	10.0
Operating Working Capital	(2.1)	(0.6)	(3.3)
Other assets and liabilities	(0.8)	(0.0)	(0.7)
Capex	(4.2)	(4.0)	(2.0)
Operating cash flow after capex and working capital	(5.0)	1.2	4.0
Interest	0.1	(0.6)	(0.6)
Equity investments and financial assets	(2.0)	0.0	0.0
Paid-in capital	1.8	0.0	0.0
Dividends	(1.2)	(0.4)	(1.2)
Net cash flow	(6.3)	0.3	2.2
Net (Debt) Cash - Beginning	(2.3)	(8.6)	(8.3)
Net (Debt) Cash - End	(8.6)	(8.3)	(6.1)
Change in Net (Debt) Cash	(6.3)	0.3	2.2

Source: Company data 2017-18A; EnVent Research 2019-20E

Ratio analysis

KPIs	2017A	2018A	2019E	2020E
ROE (Net Income / EoP Equity)	-6%	5%	14%	22%
ROS (EBIT / Revenues)	-3%	8%	14%	21%
ROIC (NOPAT / EoP Invested Capital)	n.a.	5%	12%	20%
DSO	159	174	145	145
DPO	129	134	130	130
OWC / Revenues	24%	26%	20%	22%
Net Debt (Cash) / EBITDA	0.6x	2.7x	1.2x	0.5x
Net Debt (Cash) / Equity	0.1x	0.4x	0.3x	0.2x
Debt / (Debt+Equity)	0.1x	0.3x	0.2x	0.2x
Cash flow from P&L operations / EBITDA	n.a.	67%	83%	78%
CF / EBITDA	neg.	neg.	17.4%	31%
Dividend yield	2%	0.4%	2%	4%
Pay-out ratio	-83%	32%	32%	32%
Earnings per Share (€)	neg.	0.08	0.20	0.39

Source: Company data 2017-18A; EnVent Research 2019-20E

Valuation

Discounted Cash Flows

DCF assumptions updated as to market factors:

- Risk free rate: 2% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, September 2019)
- Market return: 13.5% (3Y average. Source: Bloomberg, September 2019)
- Market risk premium: 11.6%
- Beta: Unlevered Beta 0.9; Re-levered Beta 1.2 (Median Beta of selected comps. Source: Bloomberg, September 2019)
- Cost of equity: 15.5%
- Cost of debt: 4.5%

- Tax rate (IRES): 24%
- 40% debt/(debt + equity) as sustainable capital structure
- WACC 10.7%
- Perpetual growth rate after explicit projections: 3%
- Terminal Value assumes a normalized sustainable EBITDA margin of 23%

DCF Valuation

€m	2018A	2019E	2020E	Perpetuity
Revenues	29.4	41.5	52.7	54.3
EBITDA	3.2	7.1	12.8	12.5
<i>Margin</i>	10.9%	17.0%	24.3%	23.0%
EBIT	2.3	5.8	10.9	10.5
<i>Margin</i>	7.7%	13.9%	20.6%	19.3%
Taxes	(0.6)	(1.6)	(3.0)	(2.9)
NOPAT	1.6	4.1	7.8	7.6
D&A	0.9	1.3	1.9	2.0
Provisions	0.2	0.2	0.1	0.0
Cash flow from P&L operations	2.7	5.7	9.8	9.6
Operating Working Capital	(2.1)	(0.6)	(3.3)	(0.5)
Other assets and liabilities	(0.8)	(0.0)	(0.7)	0.0
Capex	(4.2)	(4.0)	(2.0)	(2.0)
Free cash flow	(4.4)	1.1	3.8	7.0
WACC	10.7%			
Long-term growth (G)	3.0%			
Discounted Cash Flows		1.1	3.5	
Sum of Discounted Cash Flows	4.6			
Terminal Value				94.2
Discounted TV	85.1			
Enterprise Value	89.7			
Net Debt as of 30/06/19	(6.2)			
Minorities as of 30/06/19	(0.6)			
Contribution in kind of Cornelia	12.8			
Equity Value	95.7			

DCF - Implied multiples	2018A	2019E	2020E
EV/Revenues	3.1x	2.2x	1.7x
EV/EBITDA	28.1x	12.7x	7.0x
EV/EBIT	39.5x	15.6x	8.3x
P/E	87.6x	25.8x	12.9x

Current market price - Implied multiples	2018A	2019E	2020E
EV/Revenues	2.9x	2.1x	1.6x
EV/EBITDA	27.1x	12.2x	6.8x
EV/EBIT	38.1x	15.0x	8.0x
P/E	72.9x	21.5x	10.8x
<i>Discount</i>	-4%		

Source: EnVent Research

Sum of the Parts waiting for 2019 consolidated statements

The Cornelia Capital addition to the group could be analyzed properly only through a full set of consolidated statements which will be available in late Spring 2020. In this note we factor in the Cornelia deal as an added part, valued separately through a multiple-based proxy valuation. By temporarily applying the Health Italia 2.3x EV/Revenues multiple to the Cornelia 2019 forecast revenues, conservatively as closest target revenues, we obtain €12.8m for 84.97% of Cornelia.

Target Price

For Health Italia valuation, we rely on the analytical DCF method, in view of the comparability issues that may impact the reliability of market multiples.

Our updated projections, while reflecting the recent lower profitability, have been only slightly revised on other areas thanks to the better outlook for other indicators in view of the consolidation of Cornelia, which, altogether, confirms the overall value perspective associated with current management guidelines. Accordingly, the updated DCF valuation model for HI, together with our preliminary assessment of Cornelia, yields a Target Price of €5.05 per share, from €6.37. Given the 20% premium on current share price, we confirm the Neutral rating on the stock.

Health Italia Price per Share	€
Target Price	5.05
Current Share Price (04/10/2019)	4.20
Premium (Discount)	20%

Source: EnVent Research

Please refer to important disclosures at the end of this report.

Investment thesis

Health Italia, listed on AIM Italia, is a promoter of complementary health solutions and provider of healthcare service management for mutual benefit societies, mutual health funds and healthcare funds.

Health Italia has created a unique business model for the promotion of complementary health solutions:

- 139 employees
- 3,200 promoters
- 3,500 approved healthcare facilities
- 400,000 persons assisted

A network of proprietary Health Points providing primary prevention through diagnostics, exams and other healthcare services and nutraceutical research and products have been added to the business portfolio.

We see several investment positives:

- Italian private healthcare expense continues to gain ground
- Unique highly scalable business model with a wide and integrated offer
- Strong client growth thanks to three specialized sales networks and a wide geographical coverage
- Visibility of future revenues helped by a strong customer loyalty, implying, according to Management, a high client retention rate, together with the length of contracts life (around 1-3 years)
- Highly skilled and experienced team

Risks to rating and target price

Downside risks include:

- Wide persons assisted base, but high revenue concentration from partners
- A relatively low cost and high margin growing segment for new entrants
- Operational and IT risks since HI's operations and service perception rely extensively on IT applications, including customized software developed in-house
- Reputation of the network of promoters
- Regulatory environment

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23/05/2017	NEUTRAL	4.74	4.09
24/11/2017	UNDER REVIEW	n.a.	4.44
29/05/2018	OUTPERFORM	6.03	4.83
11/12/2018	NEUTRAL	6.37	5.66
04/10/2019	NEUTRAL	5.05	4.20

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