



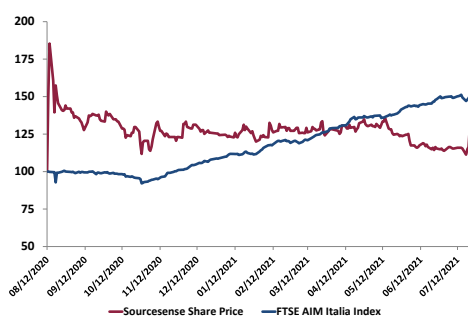
## FLASH NOTE

### OUTPERFORM

Current Share Price (€): 2.51

Target Price (€): 3.69

#### Sourcesense - Performance since IPO



Source: S&P Capital IQ - Note: 08/12/2020=100

#### Company data

ISIN number	IT0005417040
Bloomberg code	SOU IM
Reuters code	SOU.MI
Industry	ICT
Stock market	AIM Italia
Share Price (€)	2.51
Date of Price	07/22/2021
Shares Outstanding (m)	8.3
Market Cap (€m)	20.8
Market Float (%)	32.53%
Daily Volume	346,500
Avg Daily Volume YTD	21,968
Target Price (€)	3.69
Upside (%)	47%
Recommendation	OUTPERFORM

#### Share price performance

	1M	3M	IPO
Sourcesense - Absolute (%)	11%	-3%	29%
FTSE AIM Italia (%)	3%	10%	50%
Range H/L (€) since IPO	3.61	1.95	
YTD Change (€) / %	0.09	4%	

Source: S&P Capital IQ

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## Revenues and EBITDA H1 21 +46% and +56% vs H1 20, estimates and target price confirmed

#### High performance in H1 21

Sourcesense experienced a strong growth of sales and EBITDA in H1 21 with respect to the same period in 2020, which positively impacted on cash flow evolution.

H1 21 unaudited consolidated figures unveiled:

- Revenues €9.8m circa vs €6.7m in H1 20 (+46%)
- EBITDA €1.2m circa vs €0.8m in H1 20 (+56%)
- Net Cash €3.9m circa vs €1.8m in FY20

#### Business update

Along with the expected stock option plan approval and warrant issuance, Sourcesense confirmed its growth path with new orders, also abroad, enriching its portfolio.

#### Target Price €3.69 per share and OUTPERFORM rating confirmed

H1 21 revenues, should the trend be confirmed along H2, would imply a FY21 projection slightly above our €18.5m estimate. Moreover, the inertial H1 21 projection along H2 would imply a FY21 EBITDA consistent with our €2.7m estimate.

As a consequence, we confirm our previous estimates and our €3.69 target price with a 47% upside with respect to current price.

#### Consolidated key financials and estimates

€m	2018	2019	2020	2021E	2022E	2023E
Sales	12.1	14.5	16.1	18.5	23.2	27.8
<b>Total Revenues</b>	<b>12.9</b>	<b>15.5</b>	<b>17.2</b>	<b>19.8</b>	<b>24.6</b>	<b>29.5</b>
YoY %	na	20.2%	11.4%	14.9%	24.3%	19.6%
<b>EBITDA</b>	<b>0.8</b>	<b>1.6</b>	<b>2.1</b>	<b>2.7</b>	<b>3.9</b>	<b>4.9</b>
Margin	6.1%	10.2%	12.0%	13.4%	15.8%	16.6%
<b>EBIT</b>	<b>0.7</b>	<b>1.0</b>	<b>1.2</b>	<b>1.7</b>	<b>3.0</b>	<b>4.3</b>
Margin	5.2%	6.2%	7.0%	8.6%	12.3%	14.7%
<b>Net Income</b>	<b>0.5</b>	<b>0.5</b>	<b>0.9</b>	<b>1.2</b>	<b>2.2</b>	<b>3.1</b>
<b>Trade Working Capital</b>	<b>3.9</b>	<b>4.6</b>	<b>4.8</b>	<b>5.1</b>	<b>6.4</b>	<b>7.3</b>
<b>Net (Debt) Cash</b>	<b>(1.8)</b>	<b>(1.0)</b>	<b>2.1</b>	<b>3.3</b>	<b>4.3</b>	<b>6.2</b>
<b>Equity</b>	<b>1.1</b>	<b>1.7</b>	<b>6.1</b>	<b>7.3</b>	<b>9.5</b>	<b>12.6</b>

Source: Company data 2018-20A, EnVent Research 2021-23E

## Investment Case

### Company

Sourcesense S.p.A. and its subsidiaries ("Sourcesense" or "Company") are an Italian IT group mainly active in Italy and UK which supplies IT services and solutions to its customers - usually large businesses and public institutions - and supports them in their digital evolution choices and in the process of designing, integrating and developing systems and platforms.

Sourcesense business lines are conceived and structured in order to exploit most of the opportunities associated with open source software solutions. The Company manages 100 different technologies. Sourcesense is networked with partners, among which there are some of the most important players in open source software development: Atlassian, Liferay, Red Hat, Alfresco, Cloudera, MongoDB, etc.

### Drivers

#### Industry drivers

**Digital transformation of businesses.** The digital transformation is unfolding in businesses, which become more and more data-driven and need to be organized in order to react immediately to changing market conditions. This asks for a new kind of IT consulting services, built on the drivers/pillars of current stage of digital transformation (Cloud Computing, Big Data and Analytics, Mobility and Social Business).

**From Proprietary to Open Source software.** "Open source" does not mean something free of charge. Open source software programmers can charge money for the open source software they create or to which they contribute. But in some cases, because an open source license might require them to release their source code when they sell software to others, some programmers find that charging users money for software services and support (rather than for the software itself) is more lucrative. This way, their software remains free of charge, and they make money helping others install, use, and troubleshoot it" (Source: Opensource.com).

Open source software was born and developed thanks to the idea that end users could be more attracted by the advantages of shared innovations and solutions rather than owning exclusive and specific solutions. Knowledge/innovations sharing better guarantees a company that once an innovation is introduced in business, this will more likely be adopted if technology, systems and processes have been implemented according to an "open source" approach. An increasing swap is expected from proprietary software to open source software (Source: Red Hat).

**The cloud: a cutting-edge industry.** Cloud services provide IT resources from remote sources and bring them directly to the user through internet. Cloud computing adoption has been increasing rapidly over the last years. However, despite the overall increased cloud investment, enterprise cloud adoption is maturing slowly and the average enterprise has achieved less than 20% public or private cloud adoption. As such, room for growth is still huge (Source: McKinsey). Cloud is another key driver for immediate sharing of innovations with respect to systems and solutions supplied by IT consultants.

#### Company drivers

**Riding the wave.** With its 5 business lines, Sourcesense aims at supporting its customers in accelerating business transformation and digitalization processes. Solutions and services supported through open source technology allow technology

management in “Agile” mode.

**Partnerships.** The Company developed strategic partnerships with the world’s leading open source software vendors in order to support its customers with innovative and integrated solutions and services. The rank of partnership (e.g. platinum) often becomes a crucial marketing issue in order to attract new customers interested in partners’ technology and aware that Sourcesense is the “bridge” to access it for Italian market. Partnerships aim at providing services in different technical areas (Enterprise Information Management, Application Lifecycle Management & DevOps, Big Data Search & Analytics, Cloud Services). Some partnerships are exclusive for the Italian market with no risk of competition.

**Growth of scalable Cloud Services and Enterprise Apps business units.** Sourcesense is active in 5 business units. A clear strategy aiming at growth in Cloud Service and Enterprise Apps is based on the intrinsic scalable nature of these business units (currently the most profitable ones) and the chance to supply them with less/without geographical constraints.

**Large company is the typical customer.** Sourcesense customer portfolio is made of almost 80 companies and public institutions in Italy and 35 abroad. Most of them are large corporations, traditionally showing in Italy a stronger inclination to ICT capex/opex with respect to SMEs.

**Long-lasting customer relationships giving way to stable and predictable sales and earnings.** Despite most of the customers are large corporations and institutions, customer loyalty is quite high and the implied low churn rate allows for continuity in the revenue stream.

**Capital-free business model.** Sourcesense, as most IT consulting companies, is an asset-light business.

**Industry experts, management-shareholders alignment of interests.** Key managers are also shareholders, directly involved in the Company’s operations and execution of the growth strategy, leveraging on their 20 years IT background and industry expertise.

### Challenges

**Competition.** IT consulting sector is quite fragmented and varied. Though Sourcesense occupies a sort of niche, due to its specific value proposition (based on open source technology), its size does not prevent or protect from decision of more traditional and probably “slower” actors in the market (such as traditional system integrators) to attack its niche and/or to attract Company’s most talented professionals with incomparable economic offers.

**Acquisition and integration risk.** Acquisitions could be value accretive or dilutive based on valuations paid and market trends. Higher than expected integration costs when consolidating acquisitions may impact margins. Given Sourcesense present size, larger acquisitions may be targeted in order to be material to the growth of the business, but these can carry a greater integration risk.

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#### Sourcesense

Date	Recommendation	Target Price (€)	Share Price (€)
04/22/2021	OUTPERFORM	3.69	2.51
07/22/2021	OUTPERFORM	3.69	2.51

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