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Convergenze	Italy	FTSE AIM Italia	TLC & Energy
Rating: BUY	Target Price: € 5,60	Initiation of Coverage	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	N/A	N/A	N/A	N/A
to FTSE AIM Italia	N/A	N/A	N/A	N/A
to FTSE STAR Italia	N/A	N/A	N/A	N/A
to FTSE All-Share	N/A	N/A	N/A	N/A
to EUROSTOXX	N/A	N/A	N/A	N/A
to MSCI World Index	N/A	N/A	N/A	N/A

Stock Data

Price	€ 3,85
Target price	€ 5,60
Upside/(Downside) potential	45,4%
Bloomberg Code	CVG IM EQUITY
Market Cap (€m)	€ 26,98
EV (€m)	€ 27,52
Free Float (Greenshoe Included)	21,49%
Share Outstanding (Greenshoe Included)	7.007.200
52-week high	N/A
52-week low	N/A
Average daily volumes (3m)	N/A

Key Financials (€m)	FY19A	FY20E	FY21E	FY22E
Revenues TLC	7,0	7,6	8,8	9,6
Revenues Energy	9,7	9,1	11,5	13,7
EBITDA Adj.	1,6	2,6	3,4	3,4
EBIT	1,0	1,5	2,3	2,2
Net Profit	0,5	0,9	1,4	1,3
EBITDA Adj. margin	9,7%	15,3%	16,2%	14,6%
EBIT margin	5,9%	9,2%	10,9%	9,4%
Net Profit margin	3,1%	5,3%	6,5%	5,6%

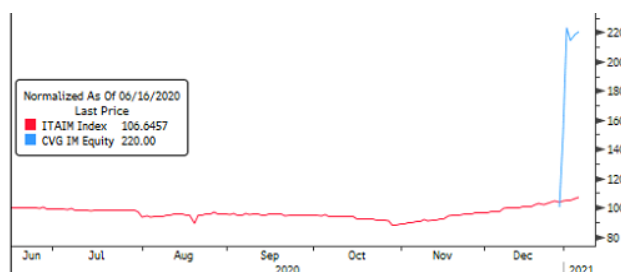
Main Ratios	FY19A	FY20E	FY21E	FY22E
EV/EBITDA Adj. (x)	16,9	10,8	8,2	8,1
EV/EBIT (x)	27,9	17,9	12,2	12,5
P/E (x)	52,1	30,5	20,0	20,8

Mattia Petracca

+39 02 87208 765

mattia.petracca@integraesim.it

Stocks performance relative to FTSE AIM Italia



Company Overview

Convergenze S.p.A. (Convergenze), established in 2005, is a multi-utility company based in Capaccio Paestum (SA), active for more than fifteen years in the supply of Internet and voice services and since 2015 in the sale of energy and natural gas, on the national territory. In the TLC segment, the company has built a network of about 2,850 km of proprietary optical fiber (FTTH) and has more than one hundred radio links for the Wi-Fi connection. In the energy segment, the Company carries out energy and gas reselling activities. Furthermore, it has created a network of charging stations and charging points called EVO, of which it has obtained the patent of industrial invention. A new business unit called Media & Content Delivery is under development.

Market

Revenues from the communications sector in Italy, including telecommunications, media, and postal services, amounted to a total of € 52.4 billion in 2019. The largest contribution was made by the telecommunications segment, with a share of 57% of the entire sector. The remaining part of the revenues was attributable to the media segment for 29% and the postal services segment for 14%. National electricity consumption decreased by 0.7% in 2019, following a 0.5% increase in the previous year. Electricity consumption in 2019 was equal to 301.4 TWh. Gross national production of 291.7 TWh was 60% covered by thermoelectric production and the remaining 40% by renewable sources.

Valuation Update

We have conducted the valuation of Convergenze's equity value based on the DCF methodology and market multiples of comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.5%) provides an equity value of €47.7 Mln. The equity value of Convergenze using the market multiples is equal to €30.7 Mln. The result is an average equity value of approx. €39.2 Mln. The target price is €5.60, BUY rating and MEDIUM risk.

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1. Company Overview

1.1 Activity

Convergenze S.p.A. (Convergenze), established in 2005, is a multi-utility company based in Capaccio Paestum (SA), active for more than fifteen years in the supply of Internet and voice services and since 2015 in the sale of energy and natural gas, on the national territory. In order to carry out the business in the TLC segment, the company has built a network of about 2,850 km of proprietary optical fiber (FTTH) and has more than one hundred radio links for the Wi-Fi connection. The data infrastructure is developed in international, national, regional, and local areas. Regarding the operations in the energy segment, the Company carries out energy and gas reselling activities. Furthermore, in support of electrical mobility, Convergenze has created a network of charging stations and charging points called EVO (Electric vehicles only), of which it has obtained the patent of industrial invention. Finally, an additional business unit called Media & Content Delivery is in the development phase, aimed at providing customers with the best possible experience in enjoying online video content thanks to ultra-fast connectivity.

Convergenze shows great interconnection with the geographical area in which it operates, where it boasts a strong territorial presence and leadership. The Company's distinctive features are the use of cutting-edge technologies and the use of green practices in its business model. On September 14, 2020, Convergenze became a Benefit Company thanks to the constant focus on sustainability and corporate social responsibility. In addition to the recognition as a Benefit Company, Convergenze has obtained four important certifications: ISO 9001, ISO 4001, OHSAS 18001, and ISO 27001. These certifications bear witness to the management's attention to the efficiency and proper management of business processes, environmental quality, employees' health, workplace safety and confidentiality and management of all sensitive data.

A fundamental asset for Convergenze is the so-called Convergenze Innovation Center, inaugurated on September 22, 2012. The center represents the company's main operating location, is distributed through three levels and over 1,350 square meters and embodies all the company's values:

- **Sustainability:** the photovoltaic system located on the roof of the building, thanks to the innovative glass-glass technology, fully meets the energy needs of the company and is one of the largest in Southern Italy;
- **Innovation:** the basement houses one of the two proprietary data centers, one of the largest and most advanced in Southern Italy;
- **Green Mobility:** the headquarters houses the first ever-accessible EVO charging station for the company's electric cars made available to the commercial network and governance.

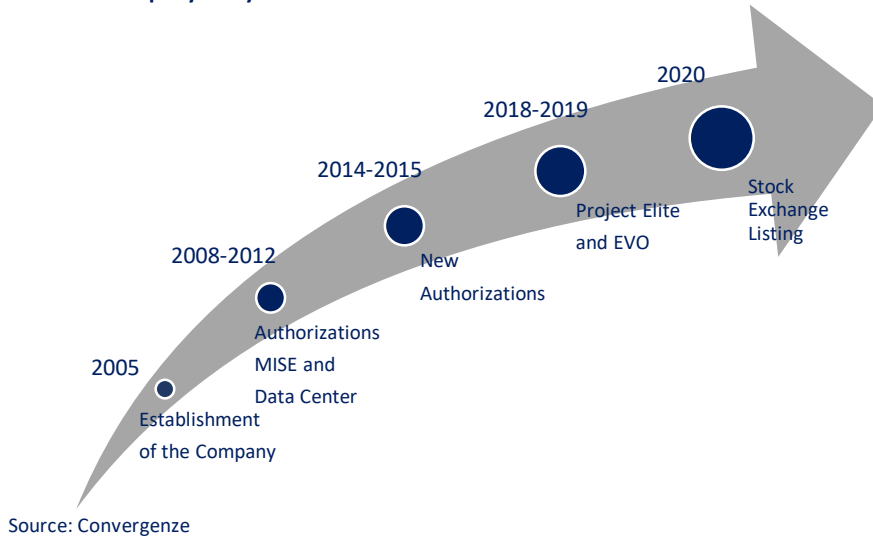
Chart 1 – Convergenze Innovation Center



Source: Convergenze

1.2 Company Story

Chart 2 – Company Story



- In 2005, Rosario Pingaro, current Chairman of the Board of Directors and Chief Executive Officer, established the Company under the name of Convergence SpA, based in Capaccio Paestum (SA). Convergence begins as a broadband connectivity provider in the Cilento area.
- In 2008, the Company obtained General Authorization from MISE (Ministry of Economic Development) to work as a local telecommunication operator. Later, in 2011, Convergence also obtained the General Authorization from MISE as a regional telecommunications operator. In 2012, following major investments, the Convergence Innovation Center was inaugurated: a strategic asset and a distinctive element of the Company.
- In 2014, the Company also obtained the General Authorization for the creation of electronic communications networks on the national territory, to realize the proprietary fiber network, while in 2015, it obtained the General Authorization from the MISE for the provision of landline telephone services to the public as a national telecommunications operator. Besides, in 2015, the Company approached the energy and natural gas market: Convergence starts its process of business diversification.
- 2018 represents a year of great importance for the Company, in fact, during the year, Convergence adheres to the Elite program of the Italian Stock Exchange thanks to the results achieved in terms of economic growth, becomes a Dispatching operator in the energy market, and acquires the new headquarters in Trentinara (SA), able to guarantee about 200 square meters of working space. Later, in 2019, the Company obtained the industrial invention patent for the EVO (Electric Vehicle Only) network.
- On 30/12/2020 the Company was listed on the AIM Italia market aiming to find resources finalized on the prosecution of the growth process. Also, on 14/09/2020, Convergence was recognized as a Benefit Company. During the year, Convergence also opened: a further branch office in Poggibonsi (SI), two points of commercial presence in Pinzolo and Madonna di Campiglio (TN), and a point of commercial presence in Atripalda (AV).

1.3 Shareholders

Chart 3 – Shareholders

Shareholder	Share
Rosario Pingaro	24.01%
Grazia Pingaro	24.01%
G&RP Consulting Srl	10.28%
Sage Gestioni Srl	18.87%
Employees bound by Lock-up	1.34%
Market	21.49%

Source: Convergence

The Company is controlled: for 48.02%, equally divided, by Rosario and Grazia brothers of the Pingaro Family, for 10.28% by G&RP Consulting Srl (attributable to RFLTC SpA, holding company of industrial shareholdings), for the 18.87% by Sage Gestioni Srl, attributable to the Prearo Family (Prearo Giovanna 25%, Prearo Antonio 25%, Prearo Emilio 25% and Prearo Saida 25%), for the 1.34% by employees bound by Lock-up and for the remaining 21.49% by the market. The above values have been computed assuming the full exercise of the greenshoe.

1.4 Key People

Rosario Pingaro – Chairman of BoD and CEO

He obtained a degree in Engineering from the University Federico II of Naples in 1997, then continued his training at the NASD in New York where he obtained the “Series 7” license with a score of 90%. In 1999 he also obtained a Master's in Business Administration at the MBA STOA in Ercolano (Naples). In 2002 he began his activity as a Director of the Bank BCC Capaccio, of which he also became President in 2013. Since 2013 he is a Member of the Board of Directors of the Namex Consortium (the second Italian NAP) and since 2019 he is a Member of the BCC National Federation. In 2005 he founded Convergenze, of which he is still today Chairman and CEO.

Grazia Pingaro – Vice-President and Head of the Energy BU

She obtained a degree in Banking Sciences at the University of Siena in 1998 and in 2005 obtained a Master's degree in “Communication and Information in Public Administrations” at the University of Siena. Since 2001 she has been an Administrator at Executive Planning Srl, a company that deals with communication and event planning. Since 2009 she has been a Member of the Board of Directors of Aristeia SpA. From 2014 to 2020 she was a Member of the Board of Directors of Tra In SpA. Since 2019 she is also a Councilor for productive activities, trade, and environmental policies in the municipality of Colle di Val d'Elsa (SI). Since 2016 she is responsible for the Energy sector in Convergenze SpA and since 2019 she is a Member of the Board of Directors of the Company.

Carmine Malito Rebecco – CFO

He obtained a degree in Economics and Commerce from the University of Salerno in 2006, the year in which he began a training course with qualification to the practice of an Accountant. Since 2010 he has worked as an Accountant at the studio Velia Cursaro in Paestum, for which he has also been a Legal Auditor since 2012. In 2018 he obtained a Master's degree in Corporate Finance & Banking Brains Spa & Order of Accountants SA. Since 2018 he is Chief Financial Officer (CFO) of Convergenze.

Marisa Sica – Marketing Communications Manager

She obtained the diploma of Master of Art at the State Institute of Art F. Menna of Salerno in 1998, and in 2000 she obtained the Diploma of Specialization in Advertising Graphics and Photography at the State Institute of Art F. Menna of Salerno. From 2000 to 2004 she worked as Agency Manager, Art Director, and Marketing Account Manager at the Advertising Agency Fermo Immagine of Agropoli. From 2002 to 2004 she was Brand Manager at Biorem – BsB Group in Agropoli. From 2006 to 2017 she was Communication Coordinator, Brand Manager, Press Office, SMM, Creative Director at Convergenze. In 2018, she became Head of Marketing Communication, Brand Manager, Commercial Co-Management of the Company.

Antonietta Mandetta – Commercial Co-Management, Sales and Compliance Manager

She obtained a degree in Economics and Commerce from the Federico II University of Naples in 2000. From 2001 to 2003 she worked as Head of Public Relations at Persano Country Club in Albanella, while from 2004 she was Head of Sales at Effegi Advertising in Capaccio. From 2004 to 2006 she was Director of Studio Hermes – Communication and Graphics of Capaccio. Finally, in 2008 she became Sales Manager and Commercial Co-Manager for Convergenze.

Fabio Palladino – Chief Digital Officer

He obtained a degree in Computer Science from the University of Salerno in 1998. From 1998 to 2000 he was Junior Developer at Sau studi e Automazione Srl. From 2000 to 2003 he worked as Senior Developer at Italdato SpA. From 2003 to 2014 he was responsible for development at Leader Solutions Srl. Finally, since 2014 he has held positions as Senior Developer Analyst, DPO, and CDO of Convergenze.

Teresa Palladino – Member of the Board of Directors and Head of BU Media & Content Delivery

She obtained a diploma in Accounting at ITC Vico Agropoli in 1997. From 1999 to 2012 she was Administrative Coordinator at Retailer Piaggio Center. From 2015 to 2020 she worked in the Back Office and Power Billing field at Convergenze Spa. From 2020 she became Head of the Company's Media & Content Delivery BU.

2. The Business Model

The business of Convergenze is developed on two different business lines that, although different from each other, are closely linked at the organizational level. In fact, both business units lay their foundations on common elements:

- **Territorial coverage:** when opening up its business in the new geographical areas, Convergenze evaluates whether the characteristics of the territory are in line with its development strategies;
- **Development and knowledge of the territory:** on the telecommunications market, the Company approaches the new geographical areas chosen with the positioning of radio bridges and, subsequently, with the laying of optical fiber. The development on the territory, moreover, can be implemented through contacts with the local institutions for the installation of the EVO network and the promotion of cultural and sports events to support the territory;
- **Commercial development:** commercial activities are carried out through the involvement of the internal sales force and agents on the relevant territory. This activity is aimed at customer growth thanks to expansion in the new areas, customer loyalty, and cross-selling actions between business units;
- **Consultancy and flexibility:** the Company, in addition to the traditional service, in line with its company values, can offer its customers, through a trained and competent workforce, an important consulting service during the sale. In addition to this, through a team of technicians, Convergenze guarantees professional and qualified assistance, available seven days a week to meet the real needs of the customer also with customized solutions;
- **Service bundles.** The offer of Convergenze includes a bundle of services: Data, Voice, Single services/DCaaS, Electricity and Natural Gas;
- **Innovation:** Convergenze is continuously engaged in R&D activities to exploit all present and future opportunities in the field of next-generation technologies and sustainability. Convergenze's desire to innovate is also testified by the registered patent obtained for EVO.

2.1 Business Process

2.1.1 Telecommunications

The telecommunications business is based on four steps: make or use, network and infrastructure development, sales and service delivery, and after-sales service.

Chart 4 – Business Process



Source: Convergenze, elaboration Integræe SIM

Make or Use

The first step in the delivery and sale of telecommunications services is the evaluation of the potential of selected geographical areas and the conformity between the characteristics of these areas and Convergenze's development strategies. Once geographic areas are selected, a convenience study is implemented comparing the internal development of the network to the use of existing networks owned by other operators. In the case of internal development, the

process, entirely managed by Convergenze, which includes, among others, the design phase, starts. The only activity implemented in outsourcing consists in the realization of the building works. The final output of this step is the authorization by the authorities responsible for the development of the network.

Network and Infrastructure Development

Once the way of working in the selected zone is decided, Convergenze ensures the necessary network coverage. This can be done through two different channels:

- Proprietary lines: following the favorable outcome of the authorization process, the coverage of the new areas is outsourced to specialized companies, coordinated directly by Convergenze through a dedicated technical manager;
- Third-party lines: existing third-party lines are used in IRU (Indefeasible Rights of Use) mode.

Sale and Service Delivery

Once the network availability necessary for the service offer is ensured, Convergenze starts the sale and delivery phase, which is done through:

- A commercial network for direct sales;
- A commercial network for indirect sales;
- Use of the hotline and the website;
- The exploitation of the network and positive customer feedback;
- Cross-selling activities between business units;
- Online and off-line marketing activity;
- The e-commerce site (still in the launch phase).

The sale and service delivery phase implies the direct stimulation of the final customers (business and retail), the reception of requests for subscriptions, and the provision of the various services of connectivity, telephony, and others.

After-sales assistance

After the sale, in order to build loyalty and offer a complete service, Convergenze guarantees a range of after-sales services thanks to a team of technicians who offer professional and qualified assistance available seven days a week to meet the real needs of the customer even with customized solutions. In addition to this, every customer can count on a reserved area called Pandora.

2.1.2 Energy

The energy business is based on three steps: purchase of energy and natural gas from the providers, sale & service delivery, and after-sales service.

Chart 5 – Business Process



Source: Convergenze, elaboration Integrae SIM

Purchase of Energy and Natural Gas

The first step in the supply and sale of energy is the purchase of energy and natural gas from providers or from the market. This process consists of supplying independently on regulated markets or through framework agreements for the provision of electricity signed with other wholesalers. The purpose of this process is to cover the consumption needs of the customers. The Company, starting from its position as a reseller, has, in fact, climbed up the supply chain, acquiring the status of wholesaler of electricity. To date, Convergenze is a market operator and supplies on the spot-regulated market (MGP/MI) managed by GME. Like the other wholesalers, the Company regulates with Terna the economic items resulting from the balance of volumes. In fact, Convergenze operates as a wholesaler for electricity and, as a User of Distribution, has signed a withdrawal dispatching contract with Terna and transport contracts with local distributors.

Sale and Service Delivery

Once the purchase phase has been completed, Convergenze starts the sale and delivery phase through:

- A commercial network for direct sales;
- A commercial network for indirect sales;
- Use of the hotline and the website;
- The exploitation of the network and positive customer feedback;
- Cross-selling activities between business units;
- Online and off-line marketing activity;
- The Lighthouse e-commerce site, launched in 2019, and the Gas e-commerce site which is in the launch phase.

After-sales assistance

After the sale, in order to build loyalty and offer a complete service, Convergenze guarantees a range of after-sales services thanks to a team of technicians who offer professional and qualified assistance available seven days a week to meet the real needs of the customer even with customized solutions. In addition to this, every customer can count on a reserved area called Pandora.

2.2 Product and Services Portfolio

The offer of Convergenze, to date, includes products and services on two business units: TLC and Energy. An additional line is also being launched: Media & Content Delivery.

2.2.1 TLC

The TLC service offer can be divided into two different segments: voice and connectivity services and unique/DCaaS services.

Voice and Connectivity Services

In the area of voice and connectivity services, we can find:

- **Connectivity:** ConFIBRA (FTTH on the proprietary network and in WHS), ConNGA (Next Generation Access, FTTC technology), ConADSL, ConULL, and ConWiFi (on the proprietary network) are all types of connectivity services that can be activated for private and business customers, with costs and fees in line with the national market;
- **ConVOIP.** Voice over Internet Protocol: telephone communication through the Internet connection, a voice service applicable to all customers who benefit from the connectivity services of Convergenze and that guarantees highly competitive tariff profiles both flat and upon consumption;
- **ConFREE PBX:** in cloud dispatcher;
- **OPEN NET:** the service dedicated to institutions and owners of accommodation facilities, offering a point of free access to the Internet without the obligation of the direct census (public connectivity);
- **Con VISION:** B2B offer to the facilities that need a broadcast over the Internet (for example local television or web companies), through a Live Content or Video on Demand Streaming Service.

Unique Services/DCaaS

In the context of the Unique Services/DCaaS, we can find:

- **My Workforce:** Convergenze virtual machines ("Virtual Machine" or VM) are software that can simulate, in all its aspects, the operation of a physical computer without the need for hardware support;
- **Con Housing:** service that allows the end customer to install their servers inside the Data Center of Convergenze, with the guarantee of protected electric energy supply, controlled temperature, and connectivity to a secure Internet network;
- **My Life:** a cloud service through which all personal files can be stored so that the customer can manage them from any device and share them with anyone, this service is available free of charge in the Pandora area reserved for Convergenze customers;
- **Con Hosting:** offer of space on the Convergenze servers to host websites of companies or private individuals, with the possibility to use also numerous additional services such as domain management and e-mail boxes;
- **Disaster Recovery:** a service for business IT security. Disaster recovery enables companies to restore systems, contents, and data stored in the Convergenze Data Center to ensure business continuity in the case of a disaster.

2.2.2 Energy

The company has started to work in the energy sector in 2015 as a reseller of electricity and in 2016 has approached the natural gas market. Furthermore, since January 2018, Convergenze became dispatching operator for the electricity market by proposing to its customers an offer without intermediaries that allows guaranteeing maximum speed and efficiency. As a result of this process, the Company offers energy services that include both the supply of electricity, coming exclusively from 100% renewable sources, and the supply of natural gas. Finally, in addition to the services described, Convergenze has embarked on a project that foresees the construction of a network of charging stations for electric cars, called EVO (Electric Vehicle Only).

Electricity and Natural Gas

The supply in the field of electricity and natural gas is mainly implemented thanks to two services offered:

- **ConLUCE:** Includes ConLUCE Condominium, ConLUCE Home, and ConLUCE Business. The ConLUCE service, differentiated in the categories “home”, “condominium” and “business”, offers zero-impact electricity, guaranteed by the cancellation of the Guarantee of Origin;
- **ConGAS:** Includes ConGAS Condominium, ConGAS Home, and ConGAS Business. The ConGAS service concerns the supply of natural gas in the “home”, “condominium” and “business” categories.

EVO

Chart 6 – EVO



Source: Convergenze

In the field of energy, the offer also includes the development of the EVO network, this project is the fruit of the Company's will to show a concrete commitment in the field of electric mobility, in line with the company's values.

Thanks to the company's know-how, the EVO charging stations represent a meeting point between innovative technology and traditional charging stations. In fact, EVO contains a hotspot connection that can be found with immediate ease, this makes it usable by anyone who wants to recharge a vehicle, simply using the smartphone and without any contractual constraints. The hotspot system, which allows recharging by authenticating the customer, transmits the consumption of the single recharge to the back end that processes them, sends to the user an SMS with amount and KW loaded, and then issues an invoice. The possibility of recharging without contractual constraints is a fundamental distinguishing element in comparison to the traditional charging stations. Moreover, compatible with the green soul of the Company, all the electricity supplied by the columns comes from 100% renewable sources.

The six current EVO stations are all located in the province of Salerno, in tourist attraction locations. Two EVO stations installed in accommodation facilities and at the hospitality customers' premises in Campania are also added to the network.

Convergenze, in 2019, has obtained the patent of industrial invention from the Ministry of Economic Development for the creation and realization of the EVO network. This patent attests to the uniqueness and exclusivity of the product

2.2.3 Media & Content Delivery

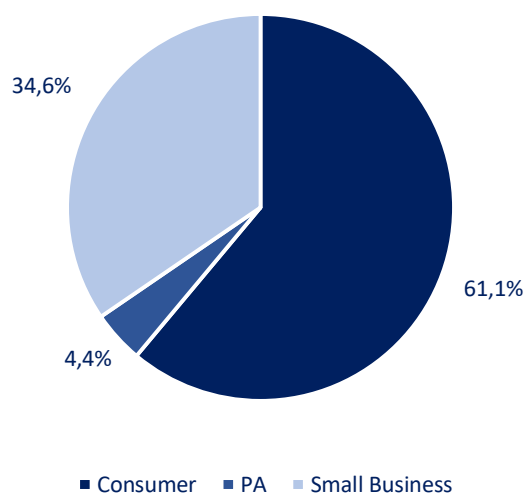
Convergenze plans to launch a new business unit to develop a Set-top box to enable customers to improve their online video experience with ultra-fast connectivity. In particular, customers will have the opportunity to access the catalog of online media platforms at discounted rates, using integrated and innovative payment systems.

Thanks to the offer of connectivity services, and in particular to the ConFIBRA service, customers will be able to: take advantage of a high-performance, reliable and fast Internet connection (up to 1 Gbps), experiment with the new solutions "Convergenze Calling and Conferencing" (high-definition voice and video calls) and take advantage of the "ConFiberTV" service, to enjoy video content by signing contracts with the best TV streaming platforms.

2.3 Clients and Providers

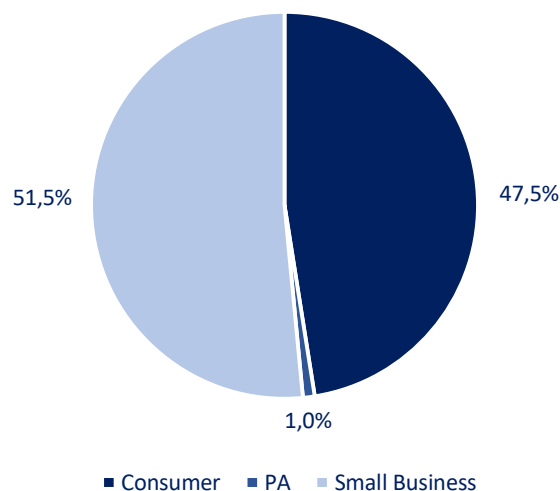
2.3.1 Clients

Chart 7 – Client Convergenze TLC by Segment



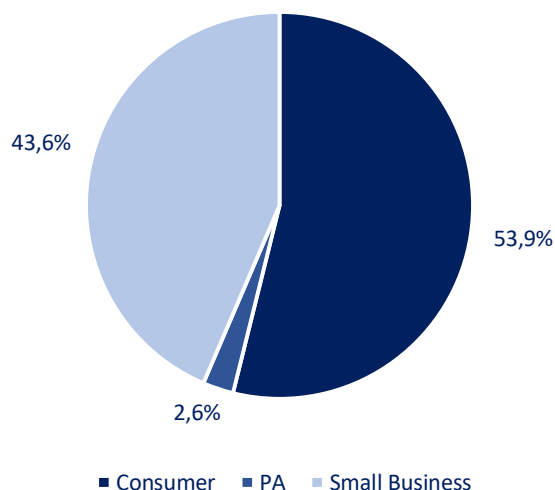
Source: Integrae SIM

Chart 8 – Client Convergence Energy by Segment



Source: Integrae SIM

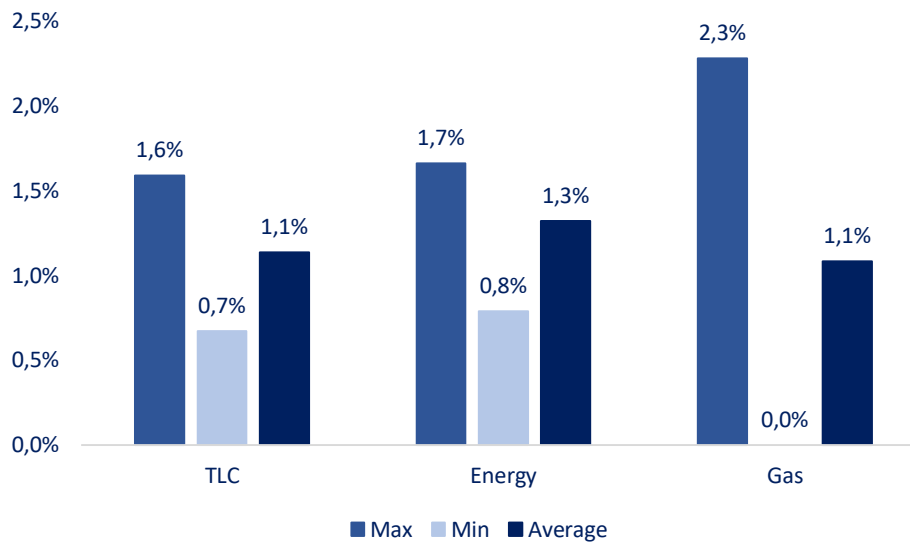
Chart 9 – Client Convergence by Segment



Source: Integrae SIM

In carrying out its business, the Company serves customers that can be divided into three main categories: Consumer, Public Administration, and Small Business. At the level of the impact on total revenues, customers are divided as follows: 53.9% Consumer, 2.6% Public Administration and 43.6% Small Business. In the TLC market, with a share of 61.1%, the Consumer segment is the most important, while the share of Small Business is 34.6% and the remaining 4.4% is attributable to the Public Administration. On the contrary, in the energy sector, the most significant share is that of Small business customers, equal to 51.5% of the total. In the energy sector, revenues from the Consumer segment amounted to 47.5% of the total, while the Public Administration segment weighs only a residual 1.0%.

Chart 10 –Max, Min, and Average Monthly Churn Rate by Segment 2019 - 2020



Source: Integrae SIM

The Company's customers, from the beginning of 2019 to October 2020, showed the following monthly average Churn rates: TLC 1.1% (maximum monthly Churn rate of 1.6% and a minimum of 0.7%), energy 1.3% (maximum monthly Churn rate of 1.7% and a minimum of 0.8%) and gas 1.1% (maximum monthly Churn rate of 2.3% and a minimum of 0.0%).

2.3.2 Providers

As for the TLC business unit, the main relationships are those regarding: provision of transport and access services for the final customers, provision of hardware equipment for the development of the transport network, supply of optical fiber equipment and contract of building works for the excavations for the optical fiber network. Although it has a fairly large number of providers, in the TLC field, it is possible to identify two subjects (among the most important on the national market) that have a rather high impact on the total costs incurred by Convergenze. This situation is not critical considering the nature of the business and the need to ensure the best possible service to the customers.

Regarding the Energy business unit, the main relationships include providers of energy produced from 100% renewable sources and natural gas providers. In addition to these, the Company has contacts with energy and gas transport service providers. Finally, among the sources of energy supply, there is the GME regulated market, on which the Company purchases directly through the Ipx platform. GME organizes and manages electricity markets: producers and buyers sell and buy wholesale electricity. Finally, the Company has signed a contract with Terna for the demand-side dispatching service. Due to the nature of the business carried out in the energy field, the Company interfaces with a rather limited number of providers, with whom it has created multi-annual collaborations.

2.4 Benefit Company

On September 14, 2020, Convergenze was recognized as a Benefit Company. This certification recognizes that the Company, in the implementation of its business, pursues the creation of a common benefit in addition to profit for its shareholders. For Convergenze, the pursuit of this goal is implemented by basing its business on the following milestones:

- **Sustainability:** Convergenze supplies electricity from 100% renewable sources and the photovoltaic plant of the head office fully meets the Company's needs. The objective is to promote the spread of the culture of sustainable energy management by enhancing the use of renewable sources;
- **Territory and collaborators growth promotion:** Convergenze supports the territories in which it is active through the promotion of sports and cultural events and initiatives. Also, the Company practices inclusive business policies and creates favorable conditions for reception, flexibility, and quality of work, supporting the work-life balance;
- **Research and Digitization:** Convergenze promotes directly, or in collaboration with other bodies, the research and technological development of innovative services, energies, and business models. Moreover, it favors digitization through the realization of ultra-broadband electronic communication networks in white and gray areas;
- **Green mobility:** Convergenze, thanks to the patent of industrial invention and the EVO network, fully powered by 100% renewable sources, promotes green mobility. In addition to the development of EVO, the Company promotes green mobility by equipping its employees with electric company cars;
- **Fundraising campaigns:** Convergenze has signed the Self-Regulation Code for the management of fundraising campaigns, thus offering customers the possibility to participate in the charitable donations offered by the various ONLUS without receiving any remuneration.

2.5 Infrastructure

The Company, at the data infrastructure level, is present at national and international, regional, and local levels. Convergenze is present on the Mix in Milan and the Namex in Rome, the major Italian NAPs (Neutral Access Point), which allow free traffic exchange between all those who are connected to it, improving the quality and navigation experience of the end-users. Rome is important in the Convergenze network to purchase transit from Tinet (2.5gbps), Cogent (2.5gbps), and Level3 (2.5gbps), and to reach two European interchange centers such as AMS-IX (2gbps) and LINX (500mbps), while Milan reaches the NETIX network (2.5gbps) and the DE_CIX interchange points of Frankfurt (2gbps), ANY2 of Los Angeles (1gbps) and HKIX of Hong Kong (1gbps). At the national level, Convergenze is present with a network of 400 gbps able to connect in a ring Capaccio, Rome, and Milan.

Analyzing the regional level, Convergenze is present in Campania with a network of 660 km (updated to 31/07/20) in fiber IRU with 100gbps on which an upgrade to 400gbps is ready. At the local level, the proprietary fiber-optic network of Convergenze extends to the following territories: Municipality of Capaccio Paestum, municipality of Trentinara, and the municipality of Albanella.

As for the wireless network, Convergenze has over 100 radio links on the territory in which it operates, powered by UWA (Ultra-Broadband Wireless Access) technology.

Finally, in the TLC segment, the voice network is based on a double architecture: TDM SS7 and ITC-IP. The ITC-IP architecture derives from Voip SIP technology. Interconnection points with TIM's voice network are constantly expanding and include the following Optical Packet Backbone (OPB): Rome, Pescara, Brescia, Nola, Ancona, Florence, Perugia, Milan, Bari, Verona, Palermo, Turin, Bologna, Genoa, Venice, and Como.

In addition to this, the Company is developing the EVO network. Convergenze has installed six EVO stations active and operating in the province of Salerno, while three other stations will be available shortly in the provinces of Naples and Avellino. To the EVO network are added two EVO stations already installed in accommodation facilities and at the hospitality customers premises in the province of Salerno. By the end of 2020, a further EVO Station and an EVO Wallbox will be active in Trentino.

2.6 Data Center

Convergenze, to date, has two proprietary data centers: one located in the basement of the Convergenze Innovation Center, characterized by two rooms and certified ISO27001, and one located in the Company's registered office. Also, an additional data center is under renovation in Trentinara (SA) and will be used primarily as a disaster recovery of enterprise cloud infrastructure in the future. Convergenze data centers host Google and Netflix caches. Through data centers, the Company can offer the following services: data centers for other companies for disaster recovery, renting to third parties of the available physical space (housing), and Datacenter as a service.

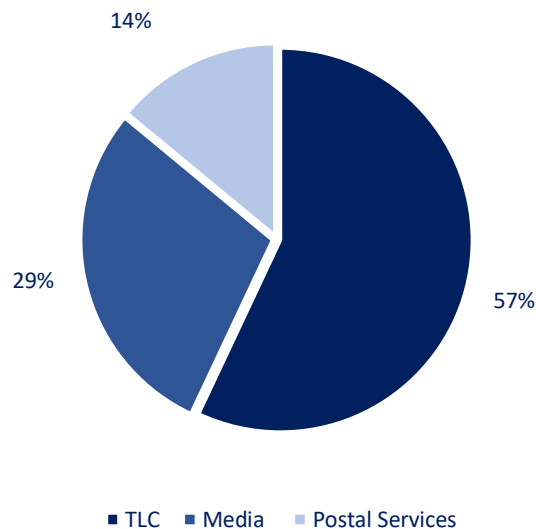
The Convergenze Innovation Center hosts a proprietary data center among the largest and the most advanced in South Italy, which expands for two rooms, conveys Fastweb, TIM, and Convergenze fibers, and is connected via multifiber to the headquarters of Seliano (SA), to ensure continuity of service. The structure has obtained the certificate 27001 with the attached extensions 27017 and 27018, useful to become a cloud service provider for public administrations and it respects the standards required by Tier III and Tier IV levels, even if it has not yet obtained the certification.

3. The market

Convergenze through its two business units operates on the TLC and Energy markets.

3.1 TLC market

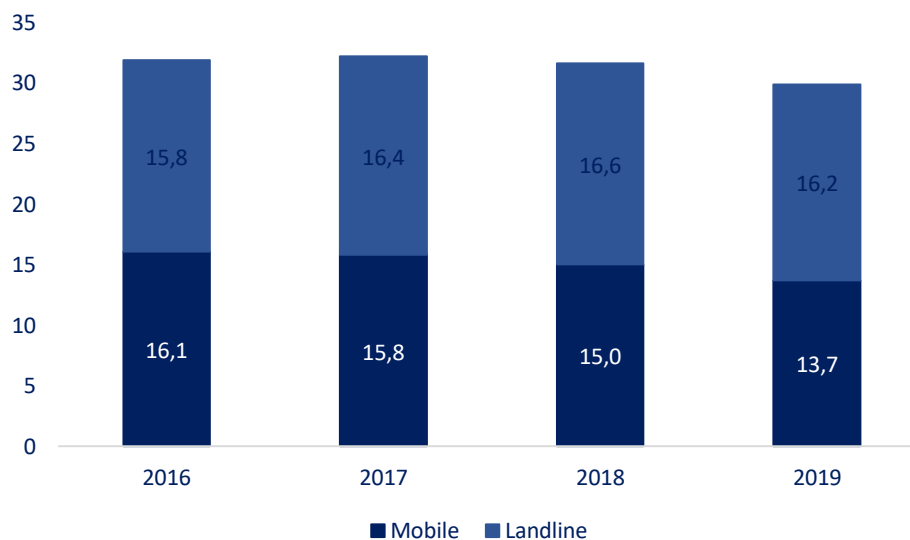
Chart 11 – Italian Communication Revenues by Sector



Source: “The economic and competitive environment: assets and prospects of the regulated markets”, AGCOM 2020

Revenues from the communications sector in Italy, including telecommunications, media, and postal services, amounted to a total of € 52.4 billion in 2019. The largest contribution was made by the telecommunications sector, with a share of 57% of the entire sector. The remaining part of the revenues was attributable to the Media segment for 29% and the Postal segment for 14%.

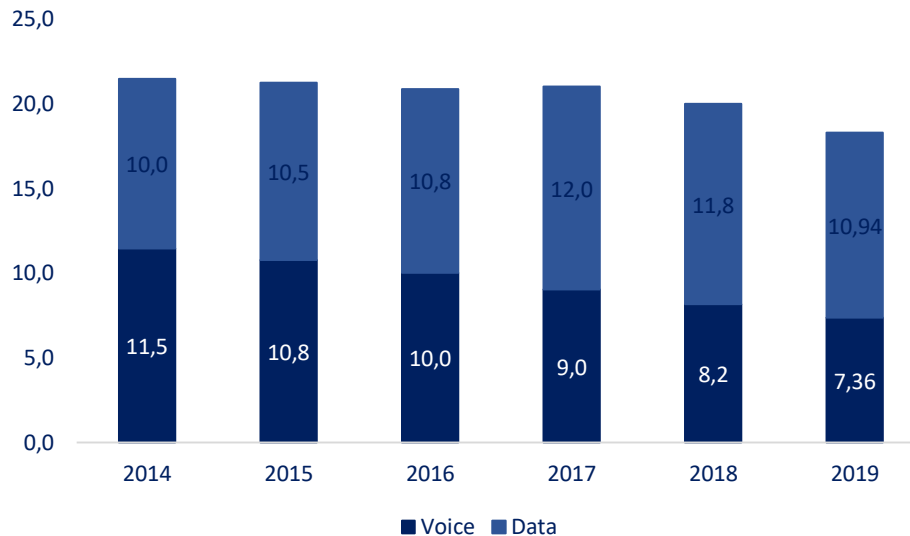
Chart 12 – TLC Revenues by Segment



Source: “The economic and competitive environment: assets and prospects of the regulated markets”, AGCOM 2020

The Italian telecommunications market reached a total value of € 29.9 billion in 2019, down 5.3% from around € 31.6 billion in 2018A. Both market components are down: the value of the mobile network decreased from € 15 billion to € 13.7 billion, while the value of the fixed network decreased from € 16.6 billion to € 16.2 billion.

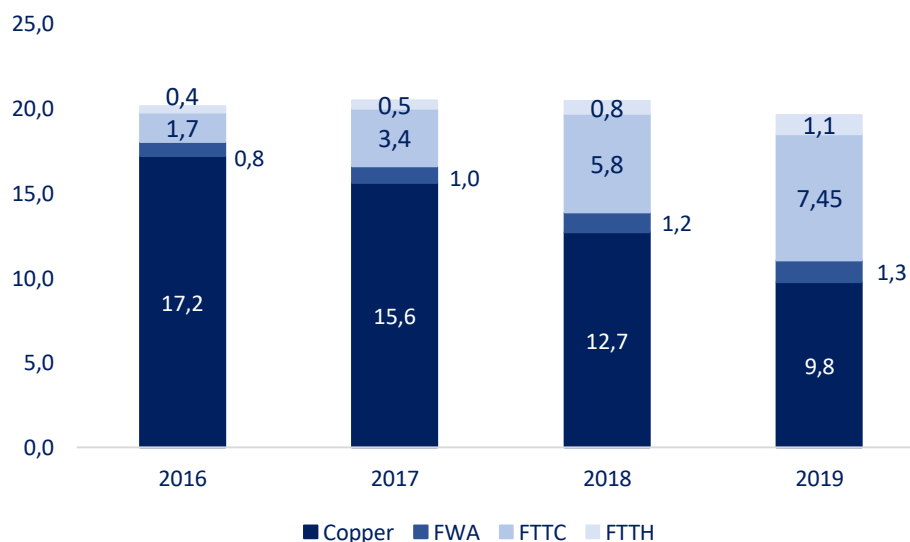
Chart 13 – TLC Retail Revenues by Segment



Source: “The economic and competitive environment: assets and prospects of the regulated markets”, AGCOM 2020

The retail market can be divided into Voice and Data services. Until 2015, the total value of retail revenues from voice services was higher than that generated by data services, while in 2016, this trend was reversed. The gap between data services and voice services has been increasing in the following years. In 2019, data services generated € 10.94 billion compared to € 7.36 billion generated by the voice services.

Chart 14 – N° of Access by Technology (data in mln)

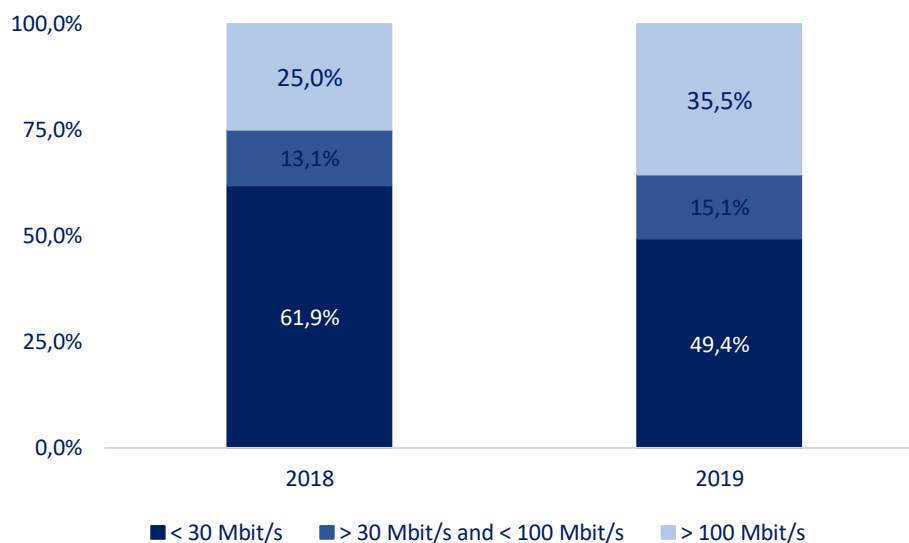


Source: Communication n. 4/2019, AGCOM

According to AGCOM, in recent years, there has been a progressive abandonment of the most obsolete technologies and infrastructures in favor of new, more performant technologies. In fact, there is an increase in the number of accesses through FWA and above all in the number

of accesses through FTTC and FTTH, accompanied by a reduction in accesses through copper lines.

Chart 15 – Broadband and Ultrabroadband by Speed



Source: “The economic and competitive environment: assets and prospects of the regulated markets”, AGCOM 2020

Thanks to the development of the new technologies, it is also possible to observe a growth in market share for network access through higher speed classes. Observing the data in 2018 and 2019, there is a relative and absolute increase in access through services with speed classes higher than 30 Mbit/s and a relative and absolute reduction in access with speed lower than 30 Mbit/s.

Table 1 – Lockdown and Phase 2

	Landline		Mobile network	
	Lockdown	Phase 2	Lockdown	Phase 2
Average data traffic intensity	+29%	+12%	+17%	+11%
Average data traffic volume	+57%	+28%	+29%	+15%
Average Voice traffic intensity	+59%	+32%	+35%	+16%
Average Voice traffic volume	+49%	+29%	+37%	+25%

Source: “The impact of Coronavirus in regulated sectors”, AGCOM 2020

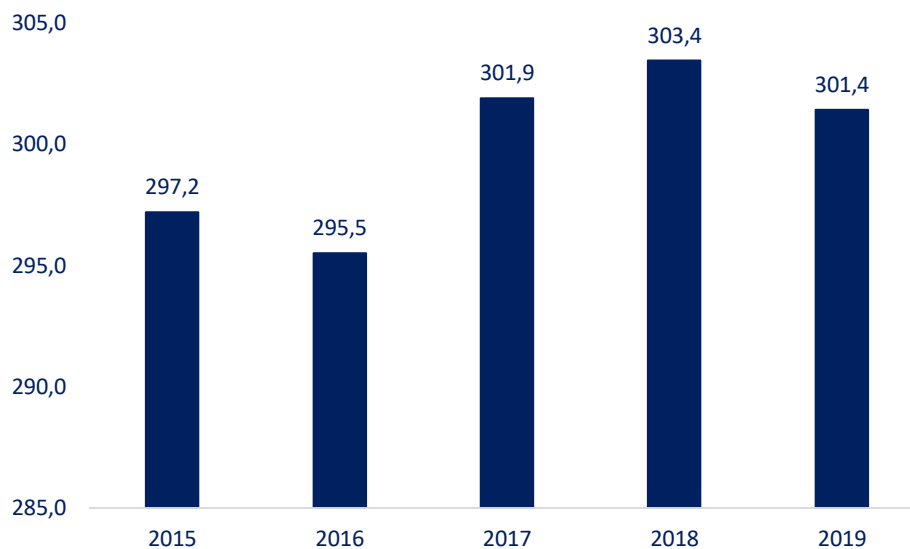
The period of lockdown and Phase 2 in Italy led to a significant year-over-year increase in the intensity and volumes of data traffic and the intensity and volumes of voice traffic. This growth was largely driven by an increase in smart working. The survey led by AGCOM involved 24 landline network operators, corresponding to about 99% of the market, and 8 mobile network operators, corresponding to about 97% of the market.

Moreover, for the next few years, it is expected that among the markets with the highest growth rate there may be: Cloud and IoT. In fact, according to Anitec's estimates:

- At the end of 2019, the Cloud market reached just under € 3 billion. CAGR 19-22 is estimated to be 18%. The observed and prospective growth trend and the consequent diffusion of Cloud services highlight the central role of this technology in the digitization process;
- The adoption of IoT platforms in 2019 generated a market with a value just above € 3.5 billion. Despite a slight slowdown expected in 2020, it is expected growth with CAGR 19-22 of 9%.

3.2 Energy market

Chart 16 – Electrical Energy Consumption (data in TWh)

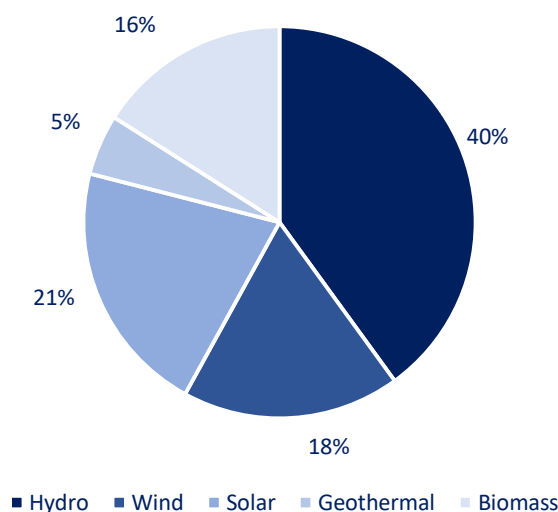


Source: Annual Report – Arera 2020

National electricity consumption decreased by 0.7% in 2019, following a 0.5% increase in the previous year. Electricity consumption in 2019 was equal to 301.4 TWh. Gross national production of 291.7 TWh was 60% covered by thermoelectric production and the remaining 40% by renewable sources.

In the first months of 2020, following the crisis in Covid-19, there was a marked decrease in energy consumption. According to the ENEA report on the Italian energy system for the second quarter of 2020, electricity demand decreased by about 13% compared to the second quarter of 2019. Overall, final energy consumption is estimated to decrease by about 16% in the first half of the year. This contraction is due, first and foremost, to the slowdown in production activities and traffic: two of the main drivers of energy demand.

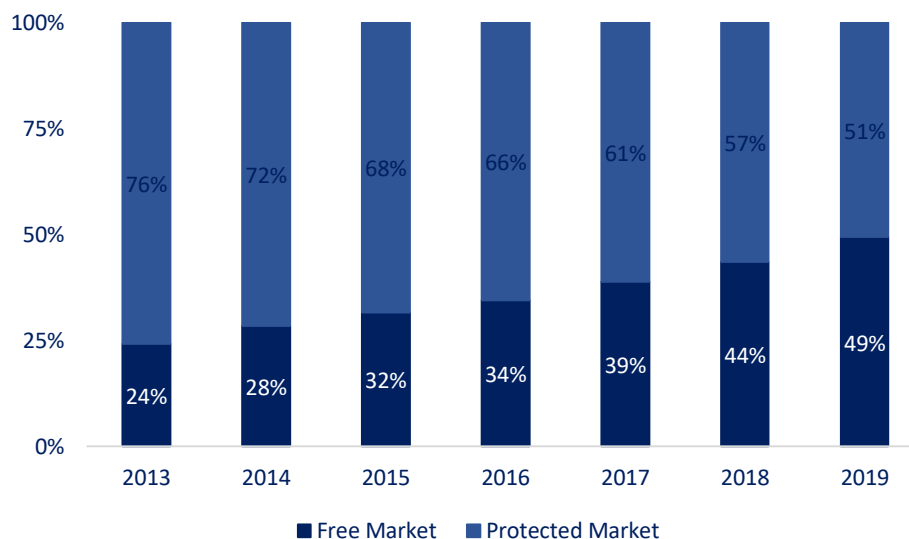
Chart 17 – Renewables Production in Italy by Segment



Source: Annual Report – Arera 2020

Renewable energy production in Italy reached a share close to 40% of the total. From the total of the produced renewable energy, the main sources are: hydroelectric power with a share of 40% of the total, wind power with a share of 18% of the total, and photovoltaic power with a share of 21% of the total. The remaining shares are related to biomass and geothermal energy: 16% and 5% respectively.

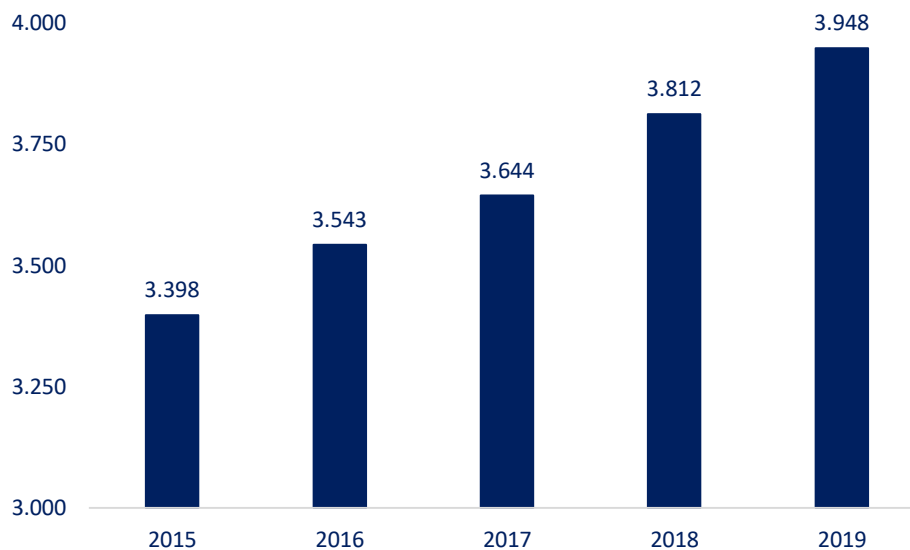
Chart 18 – Domestic Market



Source: Annual report, Arera 2020

As far as domestic customers are concerned, over the years, there has been an increasing reduction in the market share of the protected market in favor of the market share of the free market. In 2013, the share of customers entrusted to the free market was around 24%, while in 2019, this figure reached 49%. According to Arera, this trend can also be found for non-domestic customers.

Chart 19 – World Gas Consumption (Data in G(m³))

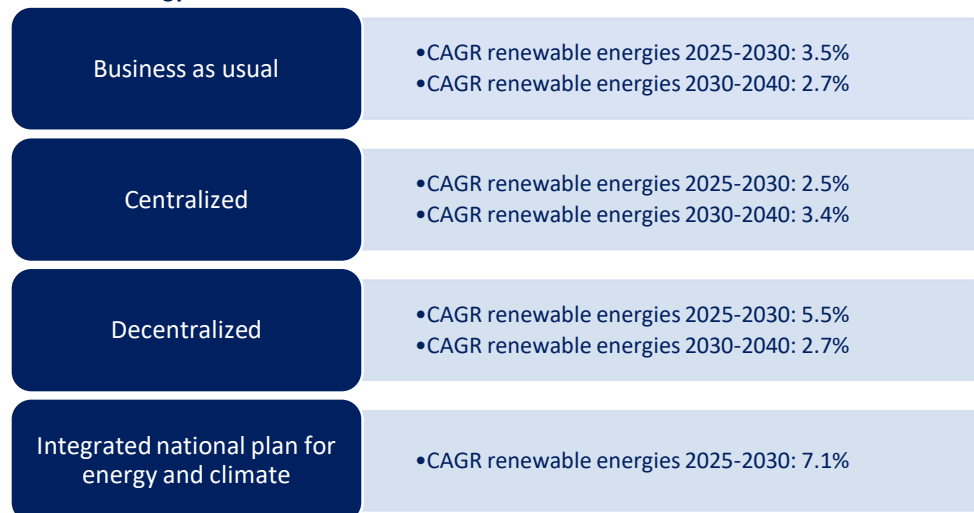


Source: Annual report, Arera 2020

Global consumption of natural gas grew by 3.6% in 2019, following a 4.6% growth in the previous year. Natural gas consumption in 2019 reached 3,948 G(m³).

Also, in this case, the share of gas purchased on the free market increased and is equal to 88%, compared to 12% of purchases on the protected market. In terms of customers, however, 41.4% make use of the protected market, while 58.6% buy on the free market.

Chart 20 – Energy Market 2025-2040 Scenarios



Source: Scenario Description, SNAM, and Terna, 2019

For the next few years, SNAM and Terna have developed an analysis of the energy market in Italy based on four different scenarios. In these scenarios, the possible evolutions in terms of: electricity consumption, electricity peak load, and the use of renewable energy sources were then estimated.

There are four scenarios:

- **Business as Usual:** this is a current-policy scenario, built considering moderate economic growth and the failure to meet the 2030 targets for energy efficiency and decarbonization policies and long-term indications. The scenario projects the current trends with minimum incentive measures for energy efficiency and slow growth in renewables;
- **Centralized:** this is a development scenario, built considering sustained economic growth, which allows the achievement of the 2030 targets set in the “Clean Energy for all Europeans Package” and long-term indications. Centralized scenario refers to a greater development of centralized renewable/low carbon technologies (photovoltaic, wind, and greater use of thermoelectric with green gas combustion);
- **Decentralized:** this is a scenario that refers, specularly to the Centralized scenario, to a greater development of decentralized generation systems (photovoltaic coupled with small-scale electrochemical storage systems) and to greater electrification of final consumption (diffusion of electric heat pumps and electric cars);
- **PNIEC:** the scenario refers to current Italian policies and is based on the proposal of the Integrated National Plan for Energy and Climate, which allows achieving the objectives of decarbonization, renewable coverage, and energy efficiency set for 2030 by the “Clean Energy for all Europeans Package”. In the construction of the PNIEC scenario, the following assumptions were made: sustained economic growth, phase-out of coal plants by 2025, strong growth in renewables, and both electrochemical storage and pumping systems. The scenario was developed until 2030.

4. Competitive positioning

Table 2 – Main Competitor TLC (2019 data)*

	Revenues	EBITDA	EBITDA Margin	EBIT	EBIT Margin	Net Income	Net Income Margin	NFP	NFP/EBITDA
	2019	2019	2019	2019	2019	2019	2019	2019	2019
Intred	20,83	8,71	41,8%	5,76	27,6%	4,33	20,8%	-8,14	N/A
Unidata	12,84	4,64	36,1%	2,43	18,9%	1,69	13,2%	0,49	0,1x
Optima Italia	282,77	33,33	11,8%	4,66	1,6%	1,13	0,4%	21,20	0,6x
Mynet	14,59	3,89	26,7%	2,74	18,8%	1,95	13,4%	4,47	1,1x
Xstream	2,63	0,46	17,6%	0,27	10,1%	0,20	7,6%	N/A	N/A
Fontel	141,02	3,39	2,4%	3,13	2,2%	1,54	1,1%	12,75	3,8x
Alida	1,75	0,10	5,8%	0,05	2,6%	0,02	1,1%	0,11	1,1x
MEDIAN	14,59	3,89	17,6%	2,74	10,1%	1,54	7,6%	2,48	1,1x
Convergenze	16,73	1,63	9,7%	0,99	5,9%	0,52	3,1%	0,54	0,3x
Convergenze TLC	7,01	1,27	18,1%						

*Optima Italia and Fontel, as Convergenze, are multiservice Companies. The Alida data is related to the FY18

Source: AIDA, elaboration Integrae SIM

Table 3 – Main Competitor Energy (2019 data)*

	Revenues	EBITDA	EBITDA Margin	EBIT	EBIT Margin	Net Income	Net Income Margin	NFP	NFP/EBITDA
	2019	2019	2019	2019	2019	2019	2019	2019	2019
Optima Italia	282,77	33,33	11,8%	4,66	1,6%	1,13	0,4%	21,20	0,6x
Fontel	141,02	3,39	2,4%	3,13	2,2%	1,54	1,1%	12,75	3,8x
Sicme	41,72	0,60	1,4%	0,20	0,5%	0,05	0,1%	-2,36	N/A
MEDIAN	141,02	3,39	2,4%	3,13	1,6%	1,13	0,4%	12,75	2,2x
Convergenze	16,73	1,63	9,7%	0,99	5,9%	0,52	3,1%	0,54	0,3x
Convergenze Energy	9,73	0,36	3,7%						

*Optima Italia and Fontel, as Convergenze, are multiservice Companies. The Sicme data is related to the FY18

Source: AIDA, elaboration Integrae SIM

In the development of its business, the Company competes with some important players on the Italian both in the TLC and in the energy field.

In comparison to most competitors, Convergenze has some important distinctive features:

- **Transparency.** The Company interfaces with the market with a transparent and ethical approach that first of all protects the customer by providing all the information necessary for a conscious choice from the communication to the contract;
- **Consultancy and qualified assistance activities.** With customers, Convergenze presents itself as an interlocutor with strong competencies both in the TLC and in the energy field. Convergenze offers a wide range of services: from commercial consultancy to qualified and continuous assistance seven days a week. The Company offers, in fact, a telephone operator available at the hotline and technicians that guarantee an efficient resolution of faults in a short time, all manageable by accessing the Pandora dedicated area;
- **Territoriality.** The Company operates in a responsible, sustainable, and transparent way, supporting the territories in which it is active through cultural and sports events and introducing into its team resources coming from the territory;
- **Integration of services.** The Company can offer a complete and flexible bundle of services able to adapt to the different needs of the customers. From the consumer to the business segment, the offer of Convergenze is wide, integrated, and able to adapt to different needs.

4.1 Swot

Strengths:

- Strong sales force competencies;
- Integration between business units;
- Brand awareness on the covered territory;
- Management competencies and know-how;
- TLC:
 - Proprietary network in part of the covered territory;
 - High technical expertise;
- Energy:
 - Use of 100% renewable sources;
 - The possibility of operating as dispatching users;
 - Customer Care daily activity;

Weaknesses:

- Limited geographical diversification;
- TLC:
 - Investment capacity still reduced compared to the large operators;
 - Absence of an offer on the mobile segment;
- Energy:
 - Small business size;
 - Execution of the sales force;

Opportunities:

- Strengthening of the marketing structure to increase geographical diversification;
- Increase of the cross-selling opportunities;
- TLC:
 - The growth potential of the Ultra-Broadband market: Italian market is lagging behind the European market;
 - Development of the Optical Fiber structure: technology still not very widespread on the Italian territory;
 - The increasing digitization of the Italian market with a consequent increase in the demand for TLC services;
- Energy:
 - Methanization process still in progress on the reference territory;
 - Increase of business customers, through the presence on new territories;
 - Opening up of the free market since 2022;

Threats:

- The high degree of competition in both reference markets;
- TLC:
 - Regulatory uncertainty;
 - The possible entry of new technologies and new products into the market;

- Energy:
 - Possible reduction in energy demand following the Covid 19 epidemic;
 - Possible increase in concentration on the reference market, with the consequent creation of large players;
 - Particularly stringent regulations on the market;
 - Risk of volatility on the energy market;
 - The presence of energy producers, able to guarantee cheaper rates for customers;
 - The Company, working as an energy reseller, is in the price taker position on the market, thus suffering price changes.

5. Economics & Financials

Table 4 – Convergence Economics & Financials

INCOME STATEMENT (€/mIn)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenues TLC	6,87	7,01	7,55	8,75	9,60	10,80
Revenues Energy	6,98	9,73	9,10	11,50	13,70	16,50
Other Revenues	0,00	0,00	0,00	0,45	0,00	0,00
Value of Production	13,85	16,73	16,65	20,70	23,30	27,30
COGS	9,27	11,64	10,25	12,60	14,40	16,90
Services	1,10	1,20	1,35	1,80	2,00	2,35
Use of assets owned by others	0,08	0,09	0,10	0,15	0,20	0,25
Employees	1,86	2,03	2,20	2,60	3,10	3,50
Other Operating Expenses	0,18	0,15	0,20	0,20	0,20	0,25
EBITDA Adj.	1,34	1,63	2,55	3,35	3,40	4,05
<i>EBITDA Adj. Margin</i>	<i>9,7%</i>	<i>9,7%</i>	<i>15,3%</i>	<i>16,2%</i>	<i>14,6%</i>	<i>14,8%</i>
Extraordinary Items	0,10	0,05	0,22	0,00	0,00	0,00
EBITDA	1,25	1,58	2,33	3,35	3,40	4,05
<i>EBITDA Margin</i>	<i>9,0%</i>	<i>9,4%</i>	<i>14,0%</i>	<i>16,2%</i>	<i>14,6%</i>	<i>14,8%</i>
D&A	0,62	0,59	0,80	1,10	1,20	1,30
EBIT	0,63	0,99	1,53	2,25	2,20	2,75
<i>EBIT Margin</i>	<i>4,5%</i>	<i>5,9%</i>	<i>9,2%</i>	<i>10,9%</i>	<i>9,4%</i>	<i>10,1%</i>
Financial Management	(0,19)	(0,21)	(0,25)	(0,30)	(0,35)	(0,35)
EBT	0,44	0,77	1,28	1,95	1,85	2,40
Taxes	0,25	0,26	0,40	0,60	0,55	0,75
Net Income	0,19	0,52	0,88	1,35	1,30	1,65

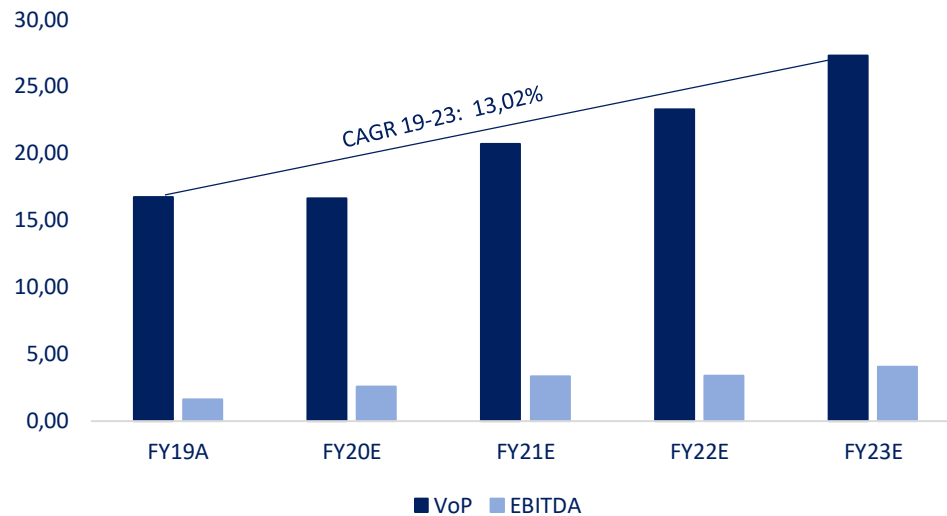
BALANCE SHEET (€/mIn)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Fixed Assets	4,17	4,99	7,50	8,10	8,80	9,40
Account receivable	1,73	2,03	2,10	2,50	3,00	3,60
Inventories	0,10	0,10	0,10	0,15	0,20	0,25
Account payable	2,55	3,18	2,35	2,80	3,35	4,00
Operating Working Capital	(0,72)	(1,05)	(0,15)	(0,15)	(0,15)	(0,15)
Other receivable	0,81	0,31	0,60	0,75	0,90	1,10
Other payable	1,31	1,39	1,90	2,25	2,65	3,10
Net Working Capital	(1,22)	(2,13)	(1,45)	(1,65)	(1,90)	(2,15)
Severance Indemnities & Other Provisions	0,40	0,48	0,60	0,70	0,80	0,90
NET INVESTED CAPITAL	2,55	2,39	5,45	5,75	6,10	6,35
Share Capital	1,15	1,15	1,47	1,47	1,47	1,47
Reserves	-0,01	0,18	3,18	4,06	5,41	6,71
Net Income	0,19	0,52	0,88	1,35	1,30	1,65
Equity	1,33	1,85	5,53	6,88	8,18	9,83
Cash & Cash Equivalent	0,29	0,72	3,13	3,63	4,03	4,88
Short Term Debt to Bank	0,29	0,35	0,45	0,40	0,35	0,30
M/L Term Debt to Bank	1,22	0,92	2,60	2,10	1,60	1,10
Net Financial Position	1,22	0,54	(0,08)	(1,13)	(2,08)	(3,48)
SOURCES	2,55	2,39	5,45	5,75	6,10	6,35

CASH FLOW (€/mIn)	FY19A	FY20E	FY21E	FY22E	FY23E
EBIT	0,99	1,53	2,25	2,20	2,75
Taxes	0,26	0,40	0,60	0,55	0,75
NOPAT	0,73	1,13	1,65	1,65	2,00
D&A	0,59	0,80	1,10	1,20	1,30
Change in receivable	(0,30)	(0,07)	(0,40)	(0,50)	(0,60)
Change in inventories	(0,00)	0,00	(0,05)	(0,05)	(0,05)
Change in payable	0,63	(0,83)	0,45	0,55	0,65
Change in others	0,58	0,22	0,20	0,25	0,25
<i>Change in NWC</i>	<i>0,91</i>	<i>(0,68)</i>	<i>0,20</i>	<i>0,25</i>	<i>0,25</i>
Change in provisions	0,07	0,12	0,10	0,10	0,10
OPERATING CASH FLOW	2,30	1,38	3,05	3,20	3,65
Capex	(1,4)	(3,3)	(1,7)	(1,9)	(1,9)
FREE CASH FLOW	0,89	(1,93)	1,35	1,30	1,75
Financial Management	(0,21)	(0,25)	(0,30)	(0,35)	(0,35)
Change in Debt to Bank	(0,25)	1,79	(0,55)	(0,55)	(0,55)
Change in Equity	0,00	2,80	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	0,43	2,41	0,50	0,40	0,85

Source: estimates Integrae SIM

5.1 FY20E – FY23E Estimates

Chart 21 – VoP, EBITDA19A-23E



Source: elaboration Integræ SIM

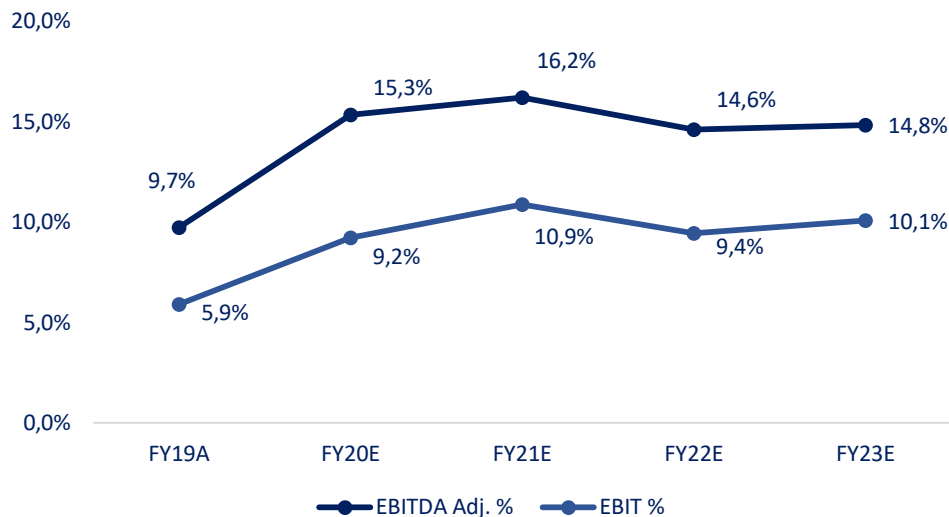
For the coming years, we expect an increase in the Value of Production that, according to our estimates, will grow from € 16.73 million in 2019A to € 27.30 million in 2023E (CAGR19A-23E: 13.02%), thanks to the following main growth drivers:

- **Extension of proprietary fiber-optic network and Wi-Fi:** we believe that the Company can extend proprietary fiber-optic (FTTH) in municipalities where a “critical mass” of customers served with wireless technology has been reached;
- **Diversification and offer of new value-added services:** the Company, to increase the diversification of its offer, will open a new business unit related to media and content delivery, alongside the TLC offer, with other types of services such as video content, video calls, games, security, and video surveillance. Also, we believe that Convergenze can continue to expand its business proposition and implement its infrastructure by offering new high-value-added services such as cloud, data center as a service, and virtualization services;
- **Cross-selling and increasing the number of customers:** cross-selling will benefit from the opening of a new business unit. Moreover, the number of customers can continue to grow, according to our estimates, also due to the positive effect of the e-commerce portal launched in 2019 for the light service and being finalized for the fiber and gas service, as well as for targeted marketing actions;
- **IoT and Virtual Mobile Operator:** we believe that the Company will benefit: from the development opportunities planned for the IoT sector, from the investments in research completed in the past years for the improvement of metering technologies, and from the conclusion of an agreement with the Faculty of Computer Engineering of the University of Salerno. Moreover, Convergenze's infrastructure, developed on four levels (international, national, regional and local), according to our estimates, will be crucial for the exploitation of the opportunities arising from 5G technology;
- **The expansion of the commercial network, coverage of the new territories, and consolidation on the currently covered territory:** we believe that the Company will be able to impose itself effectively on the national territory. In this regard, Convergenze has already opened: a further branch office in Poggibonsi (SI), two points of commercial presence in Pinzolo and Madonna di Campiglio (TN), and a point of commercial presence in Atripalda (AV), to consolidate the relations already

established with these territories and to replicate its model. In addition to this, we believe that the Company will be able to increase its commercial strength over the years;

- **External growth:** we believe that the Company will be able to undertake a path of acquisitions of other TLC operators characterized by a complementary geographic positioning.

Chart 22 – EBITDA Adj.% and EBIT% 19A-23E



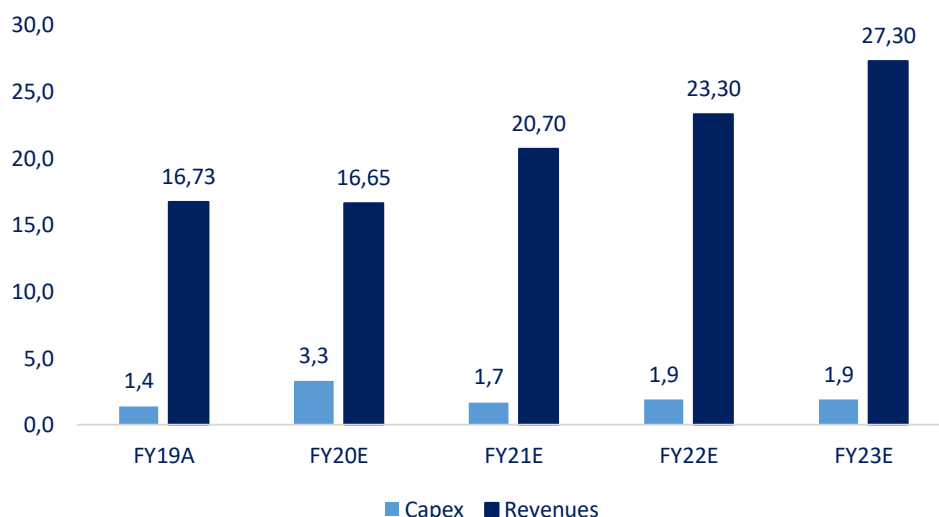
Source: elaboration Integræ SIM

Similarly, we expect EBITDA Adj. to increase from € 1.63 million in 2019A to € 4.05 million in 2023E, according to our estimates. We believe that Convergenze can improve its marginality in the years of plan thanks to the following drivers:

- **Business unit TLC:**
 - increase in customers placed on the proprietary network;
 - greater efficiency of the technical structure for provisioning and assurance;
 - lower cost of supplying for other data services, thanks to increasing competition between providers and significant economies of scale;
 - different sales mix able to favor products with higher marginality.
- **Energy business unit:** progressive transfer of customers to the dispatching market, where the Company can generate higher marginality. In fact, by operating through dispatching, Convergenze does not have the costs related to fees and the margin required by the providers.

In the year 2021E, marginality will be positively influenced by the presence of the tax credit relating to IPO costs (included in the item other revenues).

Chart 23 – Revenues, Capex 19A-23E



Source: elaboration Integrae SIM

Regarding Capex, we believe that the Company will continue to invest decisively in tangible assets during the years of the plan. In particular, we believe that investments will be aimed at:

- Development of the optical fiber;
- Strengthening the supply of services with higher added value and higher marginality.

For 2020E, under Capex, listing costs are included.

Chart 24 - NFP 19A-23E



Source: elaboration Integrae SIM

We believe that the Company can continue to improve its NFP in the years after 2020E, thanks to the positive cash flows generated by its ordinary operations. The NFP shows a significant improvement in 2020E, thanks to the collection resulting from the IPO operation.

5.2 Use of Proceeds

Convergenze concluded the listing on the AIM Italia market aiming to find the resources finalized to provide a greater impulse to the growth process. In particular, we believe that the Company will be able to invest the proceeds of the listing to continue its growth both externally and internally.

- As far as internal growth is concerned, we believe that the objective is to consolidate its competitive position in the reference markets. We, therefore, believe that investments will be aimed:
 - to extend the proprietary fiber-optic network;
 - to increase the diversification of the supply both on the existing business units and on the one in the phase of launch;
 - to increase cross-selling capacity;
 - to invest in the IoT and virtual mobile operator segments;
 - to expand the commercial network and the geographical diversification, and to consolidate the presence on the already covered territory.
- As far as external growth is concerned, we believe that Convergenze will be able to complete acquisitions of TLC operators operating on not yet covered territories.

6. Valuation

We have conducted the valuation of the Convergenze equity value based on the DCF methodology and market multiples of a comparable Companies sample.

6.1 DCF Method

Table 5 – WACC

WACC		5,34%
Risk Free Rate	-0,17% α (specific risk)	2,50%
Market Premium	8,46% Beta Adjusted	0,6
D/E (average)	42,86% Beta Relevered	0,7
Ke	7,00% Kd	2,00%

Source: Integrae SIM

In particular:

- The Risk-Free Rate represented by Rendistato of December 2020 with maturity between 3 years and 7 months and 4 years and 6 months;
- The Market Premium coincides with the risk premium for the Italian market calculated by Professor A. Damodaran;
- D/E is calculated based on the Integrae SIM estimates;
- Ke has been calculated via CAPM;
- Alpha, or additional specific risk, typical of equity investments in companies with small-size operations. Being small, the additional small cap risk has been assumed equal to 2.5%, average value among those suggested by the main studies on the subject (Massari Zanetti, Financial Valuation, McGraw-Hill, 2004, p. 145, A. Damodaran, Cost of Equity and Small Cap Premium in Investment Valuation, Tools and Techniques for Determining the Value of Any Assets, III edition 2012, Guatri Bini, New Company Evaluation Treaty, 2009, p. 236);
- Beta is calculated starting from the unlevered Beta to 5 years of competitors;
- Kd coincides with the current cost of the Company's debt.

Using this data, it results in a WACC of 5.34%.

Table 6 – DCF Valuation

DCF Equity Value		47,7
FCFO actualized	5,7	12%
TV actualized DCF	42,0	88%
Enterprise Value	47,6	100%
NFP (FY20E)	(0,1)	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 47.7 million.**

Table 7 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		3,8%	4,3%	4,8%	5,3%	5,8%	6,3%	6,8%
Growth Rate (g)	2,5%	150,1	108,8	85,2	69,9	59,2	51,3	45,3
	2,0%	110,8	86,8	71,2	60,3	52,2	46,1	41,2
	1,5%	88,4	72,5	61,4	53,2	46,9	41,9	37,8
	1,0%	73,8	62,5	54,2	47,7	42,6	38,5	35,1
	0,5%	63,7	55,1	48,6	43,4	39,2	35,7	32,7
	0,0%	56,1	49,5	44,2	39,9	36,3	33,3	30,7
	-0,5%	50,4	45,0	40,6	36,9	33,9	31,3	29,0

Source: Integrae SIM

6.2 Market Multiples

In order to better capture the Group's diversification, we conducted the valuation using multiples of two different Panels:

- The first one containing Companies belonging to the TLC market;
- The second one containing Companies belonging to the Energy market;

6.2.1 TLC Panel Composition

Intred Spa (Italy), with a fiber-optic network of more than 3,300 kilometers, Intred provides business and retail customers with ultra-broadband, broadband, wireless, landline telephony, and cloud services as well as related accessory services. Direct infrastructure management enables efficiency, profitability, quality of service, and, thanks to a dedicated internal call center, a guaranteed and extremely high level of support for its users. Intred bases its growth strategy on a business model focused on continuous investments in the fiber-optic network. The most important resources are dedicated to the development of the access network, necessary to directly provide high-quality connection services to the customers.

Unidata Spa (Italy) provides innovative services in the field of advanced telecommunications and system integration through various products such as fiber-optic for office and home, wireless, Internet access services, VoIP telephony, and the latest and most innovative market solutions such as Cloud and IoT.

Cincinnati Bell Inc (USA) is a telecommunications services company based in Cincinnati, Ohio. It provides landline telephony, fiber-optic Internet, and IPTV services through its affiliates Cincinnati Bell Telephone and Hawaiian Telcom: local operators in the metropolitan areas of Cincinnati, Dayton and Hawaii.

Retelit Spa (Italy) is an Italian operator of data services and infrastructures for the telecommunications market, the company has a proprietary fiber-optic network that extends over 8,000 kilometers and connects nine metropolitan networks and eighteen data processing centers all over Italy. This infrastructure allows access to the dedicated broadband and ultrabroadband data transmission services for the implementation of private IP and Ethernet networks and the provision of Internet connectivity.

Elisa Oyi (Finland) engages in the provision of telecommunications, information and communications technology, and online services. It operates through the Consumer Customers and Corporate Customers segments. The Consumer Customers segment provides consumers and households with telecommunications services, such as voice and data services. The Corporate Customers segment offers to the corporate and community customers voices and data services, information and communication solutions, and contact center services

Chorus Limited (New Zealand) operates as a telecommunications company. It offers nationwide network of fiber optic cables and copper cables that connect homes and businesses to each other and also provides backhaul and co-location services to retail service providers. The firm also engages in the provision of fixed line communications infrastructure services to retail service providers.

Cogent Communication (Usa) engages in the provision of internet access and Internet Protocol communications services. It offers internet access and data transport through its fiber optic, IP data-only network, ethernet transport, and colocation services.

Table 8 – Comparables Financial Highlights TLC (data in € mln)*

FY2019A	Intred SpA	Unidata SpA	Cincinnati Bell Inc.	Retelit S.p.A.	Elisa Oyj	Chorus Limited	Cogent Communications	Peer Median	Convergence	Convergence TLC
Country	Italy	Italy	USA	Italy	Finland	New Zealand	Usa	470,1		
Mkt Cap	88,8	44,3 (current)	470,1	261,2	8.241,3	1.905,3	2.744,7	2.349,4		
EV	80,7	44,8	2.349,4	257,9	9.462,2	3.388,4	3.331,3			
Profitability										
Sales	20,8	12,8	1.372,9	66,3	1.843,5	552,2	487,9	487,9	16,7	7,0
EBITDA	8,7	4,6	367,1	33,7	666,4	392,1	174,3	174,3	1,6	1,3
EBIT	5,8	2,4	82,9	12,4	400,6	141,6	88,6	82,9	1,0	
Net Profit	4,3	1,7	-41,6	10,9	307,6	29,9	32,8	10,9	0,5	
EBITDA Margin	41,8%	36,1%	26,7%	50,8%	36,1%	71,0%	35,7%	36,1%	9,7%	18,1%
EBIT Margin	27,9%	18,9%	6,0%	18,7%	21,7%	25,6%	18,2%	18,9%	5,9%	
Net Profit Margin	20,7%	13,2%	-3,0%	16,4%	16,7%	5,4%	6,7%	13,2%	3,1%	
Capital Structure										
NFP	-8,1	0,5	1.879,3	-3,3	1.220,9	1.483,1	586,6	586,6	0,5	
NFP/EBITDA	N/A	0,1x	5,1x	N/A	1,8x	3,8x	3,4x	3,4x	0,3x	

*Chorus Limited Data 30/06/20

Source: Bloomberg

6.2.2 Energy Panel Composition

E.ON SE (Germany) is committed to the supply of energy solutions. It operates in the following sectors: Energy Network, Customer Solutions, Renewable Energy, Non-Core Business, and Corporate. In particular, the Energy Network segment deals with electricity and gas distribution networks and related activities, while the Customer Solutions segment provides customers, in Europe, with electricity and gas.

A2A Spa (Italy) is the second Italian operator for installed electrical capacity. A2A is present mainly in North Italy along with all phases of the electricity supply chain (from production to distribution and sale) and of the gas supply chain (from procurement to supply to final customers). In particular, the Group's 8.9 GW generation capacity is guaranteed by thermoelectric assets for about 7.0 GW, characterized by an efficient production mix, hydroelectric for about 1.9 GW, and photovoltaic for about 0.1 GW. The number of customers served by A2A is over 1.2 million in the electricity segment and 1.5 million in the gas segment.

AusNet Services LTD (Australia) engages in the production and distribution of electricity and gas. It operates through the following segments: Electricity Distribution and Gas Distribution. The Electricity Distribution segment carries electricity from the high voltage transmission network to end users. The Gas Distribution segment handles the natural gas to commercial and residential end users.

Pinnacle West Capital Corp (Usa) is a holding company, which engages in providing energy and energy-related products. It offers regulated retail and wholesale electricity businesses and related activities, such as electricity generation, transmission and distribution.

DTE Energy Company (Usa) operates as a diversified energy company, it engages in the provision of electricity and natural gas sales, distribution and storage services. The Electric segment engages in the generation, purchase, distribution and sale of electricity to residential, commercial and industrial customers in south-eastern Michigan. The Gas segment engages in the purchase, storage, transportation, distribution and sale of natural gas to residential, commercial and industrial customers throughout Michigan and the sale of storage and transportation capacity.

BKW AG (Germany) is an energy company that provides energy supply services. The company is focused on the production, transport, trade, and sale of energy. In addition to energy supply, BKW develops, implements, and manages energy solutions for its customers.

Table 9 – Comparables Financial Highlights Energy (data in € mln)*

FY2019A	E.ON SE	A2A S.p.A.	AusNet Services LTD	Pinnacle West Capital Corp.	DTE Energy Company	BKW AG	Peer Median	Convergence	Convergence Energy
Country	Germany	Italy	Australia	Usa	Usa	Switzerland	7.120,5		
Mkt Cap	25.155,9	5.238,2	3.544,6	9.002,7	22.218,1	3.474,0	11.747,8		
EV	55.377,9	8.767,2	8.672,5	14.728,4	37.963,9	4.302,4			
Profitability									
Sales	41.003,0	7.122,0	1.213,4	3.101,2	11.318,4	2.437,4	5.111,6	16,7	9,7
EBITDA	3.574,0	1.327,0	743,7	1.211,7	2.756,1	586,9	1.269,4	1,6	0,4
EBIT	1.072,0	825,0	458,7	564,6	1.537,5	357,0	694,8	1,0	
Net Profit	992,9	508,3	185,0	452,7	1.041,7	350,8	480,5	0,5	
EBITDA Margin	8,7%	18,6%	61,3%	39,1%	24,4%	24,1%	24,2%	9,7%	3,7%
EBIT Margin	2,6%	11,6%	37,8%	18,2%	13,6%	14,6%	14,1%	5,9%	
Net Profit Margin	2,4%	7,1%	15,2%	14,6%	9,2%	14,4%	11,8%	3,1%	
Capital Structure									
NFP	30.222,0	3.529,0	5.127,9	5.725,7	15.745,8	828,4	5.426,8	0,5	
NFP/EBITDA	8,5x	2,7x	6,9x	4,7x	5,7x	1,4x	5,2x	0,3x	

Source: Bloomberg

6.2.3 Multiples Method

Table 10.1 – Market Multiples TLC

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Intred SpA	10,1	8,4	7,2	15,9	12,8	10,7
Unidata SpA	5,5	4,7	N/A	15,5	10,5	N/A
Cincinnati Bell Inc.	7,1	7,0	N/A	24,3	23,5	N/A
Retelit S.p.A.	8,2	7,5	N/A	20,1	16,4	N/A
Elisa Oyj	12,2	11,9	11,6	19,9	19,0	18,3
Chorus Limited	8,8	8,7	N/A	23,7	23,0	N/A
Cogent Communications Holdings...	16,1	14,6	14,8	30,9	25,4	28,0
Peer median	8,8	8,4	11,6	20,1	19,0	18,3

Source: elaboration Integrae SIM and market consensus

Table 10.2 – Market Multiples Energy

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
E.ON SE	8,0	7,4	7,5	14,6	12,2	11,8
A2A S.p.A.	6,7	6,2	5,9	13,9	12,4	11,3
AusNet Services Limited	13,5	13,2	13,2	22,3	22,3	23,9
Pinnacle West Capital Corp.	10,0	9,2	8,6	17,6	16,1	15,1
DTE Energy Company	11,1	10,2	10,3	18,2	16,7	17,5
BKW AG	9,3	8,7	8,2	14,1	13,0	12,5
Peer median	9,7	8,9	8,4	16,1	14,5	13,8

Source: elaboration Integrae SIM and market consensus

Table 11 – Market Multiples Valuation

€/mln	2021E	2022E	2023E
Enterprise Value (EV)			
EV/EBITDA	30,3	29,0	43,7
EV/EBIT	43,0	39,4	47,2
Equity Value			
EV/EBITDA	31,4	31,1	47,2
EV/EBIT	44,1	41,5	50,7
Equity Value post 25% discount			
EV/EBITDA	23,5	23,3	35,4
EV/EBIT	33,1	31,1	38,0
Average	28,3	27,2	36,7

Source: elaboration Integrae SIM and market consensus

The equity value of Convergenze using the weighted average of market multiples EV/ EBITDA and EV/EBIT of two Panels is equal to approx. € 41.0 million. To this value, we have applied a discount of 25% in order to include in the price also the smaller liquidity that presumably will characterize Convergenze stock regarding the comparables: the result is an equity value of € 30.7 million.

7. Equity Value

Table 12 – Equity Value

Average Equity Value (€/mln)	39,2
Equity Value DCF (€/mln)	47,7
Equity Value multiples (€/mln)	30,7
Target Price (€)	5,60

Source: Integrae SIM

The result is an average equity value of € 39.2 Mln. The target price is therefore € 5.60, BUY rating and MEDIUM risk.

Table 13 – Implied Multiples – Sensitivity Analysis

Equity Value (€/mln)	EV/EBITDA Adj.			EV/EBIT		
	2020E	2021E	2022E	2020E	2021E	2022E
36,0	14,3x	10,9x	10,7x	23,8x	16,2x	16,6x
37,0	14,7x	11,2x	11,0x	24,5x	16,7x	17,1x
38,0	15,1x	11,5x	11,3x	25,1x	17,1x	17,5x
39,0	15,5x	11,8x	11,6x	25,8x	17,6x	18,0x
40,0	15,9x	12,1x	11,9x	26,4x	18,0x	18,4x
41,0	16,3x	12,4x	12,2x	27,1x	18,5x	18,9x
42,0	16,7x	12,7x	12,5x	27,7x	18,9x	19,3x

Source: Integrae SIM

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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