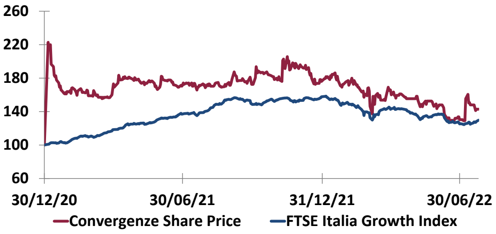
A single touchpoint for connectivity and energy

Convergenze internet - phone - TV - energie

OUTPERFORM

Current Share Price (€): 2.50
Target Price (€): 5.06

Convergenze - Performance since IPO



Source: S&P Capital IQ - Note: 30/12/2020 (IPO offer price)=100

Company data

ISIN number	IT0005426215
Bloomberg code	CVG IM
Reuters code	CVG.MI
Industry	TLC - Energy
Stock market	Euronext Growth Milan
Share Price (€)	2.50
Date of Price	25/07/2022
Shares Outstanding (m)	7.5
Market Cap (€m)	18.7
Market Float (%)	23.1%
Daily Volume	0
Avg Daily Volume YTD	5,378
Target Price (€)	5.06
Upside (%)	102%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Convergenze - Absolute (%)	8%	-8%	-16%
FTSE Italia Growth (%)	2%	-6%	-6%
Range H/L (€) since IPO		3.90	1.75
YTD Change (€) / %		-0.58	-19%

Source: S&P Capital IQ

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We initiate coverage of Convergenze: OUTPERFORM rating, TP €5.06 per share. Convergenze *Benefit Corporation*, listed on Euronext Growth Milan, is an Italian local multi-utility provider of internet, voice services and energy to residential and business customers in Salerno-Cilento area (Southern Italy). It operates with a joint business model: provider of broadband connectivity services through a proprietary infrastructure made of 5,647 km of FTTH optic fiber network (plus 1,036 km in IRU) and 100 BTS WiFi towers; energy reseller and owner of a network of patented electric cars charging stations. Through its combined multi-services offer the Company provides 53,000 active services to its customer base. The value proposition is complemented by value-added cloud services managed in the proprietary data centers and is being integrated with media and entertainment services.

Proprietary infrastructure and customer base are key value drivers. The proprietary FTTH optic fiber and WiFi infrastructure is a permanent competitive advantage and a barrier to entry for competitors. It makes it possible to limit the use of third-party networks and to increase value generation through existing and additional customer base. In an increasingly crowded and competitive environment, proprietary network and a loyal customer base are a solid and valuable asset.

Outlook: promising TLC and Energy markets. The telecommunications market will continue to see investments in fixed-mobile network infrastructures and new technologies, given that Italy is still lagging behind as to broadband connectivity. The energy market, despite current turbulences, is involved in the energetic transition towards non-fossil fuels and will see significant investments in clean technologies.

Repeatable and scalable business model, leaving room for operating leverage. Revenues are driven by the proprietary infrastructure and number of customers. Convergenze is continuing to invest in own TLC infrastructure and new products/services to drive subscribers, revenue and profitability growth. Convergenze aims to expand its business beyond current borders and replicate the business model originally setup locally in other uncovered and complementary territories, to exploit the competitive advantage of acting as first mover. Based on current network available capacity and continued infrastructure expansion, there is room for improvements in profitability and operating leverage.

Target Price €5.06 per share, OUTPERFORM recommendation. Convergenze is a local first mover in the TLC business and an emerging energy reseller, building its role in the fragmented national market. The value expectation relies on the infrastructure investment plan and on the proven capability to leverage on cross-selling between TLC and Energy customers. Convergenze shares are traded at 0.9x EV/Revenues and 6.7x EV/EBITDA, vs 1.3x and 7.0x combined multiples of TLC and Energy peers. Our valuation yields a target price of €5.06 per share, 102% upside on the current price of €2.50. We initiate the coverage of Convergenze with an OUTPERFORM rating.

KEY FINANCIALS AND ESTIMATES

€m	2019	2020	2021	2022E	2023E	2024E	2025E
Revenues	16.8	16.5	18.9	22.8	26.4	29.5	31.3
Adjusted EBITDA	1.6	2.3	1.8	3.2	3.9	4.7	5.2
Margin	*9.7%*	*13.9%*	*9.6%*	*13.8%*	*14.8%*	*16.1%*	*16.5%*
Net Income	0.5	0.7	0.2	0.9	0.7	0.6	0.3
Net (Debt) Cash	(0.5)	0.1	(2.3)	(4.1)	(5.3)	(5.7)	(4.1)

Source: Company data 2019-21A, EnVent Research 2022-25E

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1. INVESTMENT CASE

Company

Convergenze SpA *Benefit Corporation*, founded in 2005 and public company since 2020 on the Euronext Growth Milan, is an Italian local multi-utility provider of internet and voice services, electricity and natural gas to residential and business customers in Salerno province-Cilento area (Southern Italy). It was established with the aim of filling the *digital divide* typical of that area, bringing broadband connectivity services in uncovered municipalities, after that energy supplies were added.

Drivers

Industry drivers

EU digital targets call for continued broadband expansion. According to the EU strategy for a digital Europe, by 2025: households should have access to 100 Mbps networks; key businesses and institutions should have access to gigabit connectivity; urban areas and major transport paths should have uninterrupted 5G coverage; mobile data should be accessible everywhere (Source: European Commission, *Digital Economy and Society Index - Digital infrastructures*, 2021). In this framework, Italy's positioning behind most European countries as to broadband connectivity calls for continuous investments in fixed and mobile broadband network infrastructures.

Broadband in Italy, more efforts expected. Also in view of the resources coming from the PNRR, the Italian government has anticipated by four years the EU targets of the Digital Compass 2030 with the aim of promoting investment in ultrabroadband networks, to ensure that everyone has connection speeds of at least 1 Gbps in download and 200 Mbps in upload by 2026. Despite some progress in both coverage and uptake of connectivity networks, the pace of fibre deployment is still not adequate and efforts are needed to increase the coverage of Very High Capacity Networks. Italy's major FTTH network builders, TIM (FiberCop) and Open Fiber, lag behind in their coverage programs. The gap in optic fiber infrastructure development leaves room to local operators able to bring innovative services in territories where large players struggle or have no interest to penetrate.

5G rollout. Fiber network infrastructure is crucial for 5G technology development. Currently Italy has a relatively high score of 60% in 5G readiness, while only 8% of populated areas are covered by 5G, lower than the EU average of 14%, leaving wide room for growth (Source: European Commission, *Digital Economy and Society Index - Italy*, 2021).

Increasing use of Internet and digitalization. Digitalization is linked to the increase in demand for TLC-related services, especially during and after Covid-19 pandemic, when Internet users grew for remote education, work and health services needs.

Connectivity and convergence of emerging technologies such as cloud and IoT. Emerging technologies such as broadband, cloud, IoT and AI are converging, disrupting established business models and accelerating economic growth. Cloud computing adoption has been increasing rapidly, however, despite overall increased cloud investment, enterprise cloud adoption is maturing slowly, as such, room for growth is still huge. IoT is emerging as the third internet wave, impacting individuals' lives, workplace productivity and consumption.

Electric and sustainable mobility leading the edge. To face major issues evident in cities such as emissions and congestion, governments and municipalities have introduced regulations and incentives to accelerate the shift to sustainable mobility. The EU approved a program aiming at reducing net greenhouse gas emissions by at least 55% by 2030. In this framework, electric vehicles (EV) play a crucial role in the transformation of the mobility industry. In line with EV uptake, the buildup of charging infrastructure needs to accelerate. McKinsey estimates that more than 15,000 chargers per week will be installed by 2030 within the EU (Source: McKinsey, *Why the automotive future is electric*, 2021).

Smart and connected devices are turning upside-down attitude to home energy savings and efficiency. With technological advance in voice control and artificial intelligence, home automation devices contribute to energy savings in many ways: climate control, lighting, energy management, water allocation. Despite a substantial growth over the last years, the market has yet to reach its full potential. Currently most of devices are purchased through service providers, due to their go-to-market access.

Heat pumps: a promising solution for lowering greenhouse gas emissions. Heat pumps, used for space heating, cooling, and heating water, offer an energy-efficient and sustainable technology solution. Heat pumps extract the ambient heat from air and land at low temperatures and increase the temperature through electricity, as such, their use can bring down the fossil fuel consumption considerably. This is increasing the number of installations.

Company drivers

Value of customer base and cross selling opportunities. Customer base build-up and retention is crucial in an increasingly crowded and competitive environment. Convergenze most valuable asset is customer base. Through cementing the relationship with existing customers and offering additional services, Convergenze generates extra revenues without the costly endeavor for new customers acquisition.

A single touchpoint for connectivity and energy. Bundle broadband and utilities (plus media in a near future) is an easier way for households and small businesses to manage communication and bills, having a sole provider and a dedicated customer support.

Proprietary network and interconnections. Convergenze owns a proprietary infrastructure made of FTTH optic fiber network, Wi-Fi BTS towers (FWA), interconnection points with the voice network, two data centres. The investment in the FTTH and WiFi infrastructure makes it possible to reduce the cost of third-party network infrastructure and consequently to increase the value generated thanks to the existing customer base and new customers in new locations. The data centers serve value-added cloud, datacenter-as-a-service and virtualization services.

R&D and innovation underpin TLC development. The continuous research and development activity exploits opportunities arising from new generation technologies, in the fields of IoT, cloud, virtualization products, media. The Company has developed internally some software platforms and technologies.

Green since the beginning. State-of-the-art technologies and green practices identify Convergenze business model since the beginning. The energy supplied to customers comes from 100% renewable sources. The electric vehicles chargers network expansion is in line with the Company mission to bring green innovation in presided territories, promoting sustainable mobility and generating local development. The Company headquarter, called *Convergenze Innovation Center*, is one of the most technologically advanced spaces in Southern Italy on which the largest photovoltaic system of the South was built.

Value chain monitoring and control. Convergenze has control over the TLC and Energy supply chain, ensuring quality and efficiency in the delivery of its services, from sale to post-sale assistance. The salesforce is trained to provide qualified consultancy, also with customized solutions, together with a team of dedicated technicians.

Repeatable business model, also scalable at national level. Revenues are driven by the proprietary infrastructure and number of customers. Network expansion drives subscriber growth and additional revenues. The optic fiber infrastructure is a permanent competitive advantage and a barrier to entry for competitors. The Company is in the position to replicate the business model originally setup on the local market in uncovered regions, especially in *white* and *grey* areas. The first steps in this direction have been the opening of an operational headquarter in Poggibonsi (Siena) and two sales branches in Pinzolo (Trento) and Atripalda (Avellino).

Sustainability and corporate responsibility. Convergenze has been a *Benefit Corporation* since 2020, a qualification for profit-corporates based on the positive impact on community, workers and environment, as legally defined goals in addition to profit (law 208/2015). In accordance with the regulatory obligations, a report detailing the pursuit of common benefit is attached to annual financial statements, and, in addition to this, Convergenze also releases its sustainability report.

Management with an established track record. The management team has over 15 years of experience in the TLC industry and over 5 years in the Energy industry.

Challenges

Soaring energy prices. High volatility of natural gas and electricity prices, due to macroeconomic factors or supply-demand dynamics, could force the Company, in order to meet supply commitments, to procure energy supplies on markets at a time of peak demand with significant increases in costs and subsequent impact on financials. Hedging policies may affect financials.

Highly competitive telco and energy markets. The fragmented competitive arena, populated by large national or multinational companies, industrial groups and a number of small local/regional players, is a permanent feeder of competition and pressure on prices in both industries, where market players use price as main competitive factor.

The number of customers and churn rate may fluctuate and cause volatility. The customer base is a valuable asset which is expected to increase its value and turnover over time, but subject also to risk and volatility.

Regulatory risk. Convergenze operates in two highly regulated industries. Both TLC and Energy industries are subject to technological changes and thus possible changes in the relevant regulation.

2. PROFILE

A local TLC pioneer and emerging Energy retailer

Convergenze operates through two business units closely interconnected:

- **Telecommunications** - TLC - Voice + data bundle to retail and business customers. Convergenze has 5,647 km of proprietary FTTH optic fiber network covering Salerno province, mainly the Capaccio-Paestum area, and 1,036 km of fiber Indefeasible Rights of Use (IRU) at regional level in Campania. The data infrastructure is articulated also on a national and international level, in addition to the own and IRU local and regional networks. The own WiFi infrastructure consists of over 100 BTS towers (FWA) powered by ultra-broadband wireless access technology located in Campania and Tuscany. TLC offer is complemented by cloud services managed in the proprietary data centers, such as disaster recovery, housing, data-center-as-a-service.
- **Energy** - Electricity and natural gas to residential and business customers, from 100% renewable sources; Network of patented electric cars charging stations/points *EVO - Electric Vehicle Only* in Campania and Tuscany on major routes near convenient locations

Combined active services for the two BUs were around 53,000 (Source: Company data, as of year-end 2021).
Media and entertainment services are being integrating into Convergenze offer, in conjunction with TLC services, through the **Media** BU under structuring.

Convergenze has a workforce of 79 people (as of year-end 2021), of which 15 people dedicated to optic fiber, 7 to energy, 12 frontdesk and 10 sales people.

History and key developments

Convergenze has a long track record in the TLC industry: it was established in 2005 in Capaccio Paestum as a local telecommunications operator, has evolved over the years into a national player, and has diversified its business since 2015 introducing energy reselling.

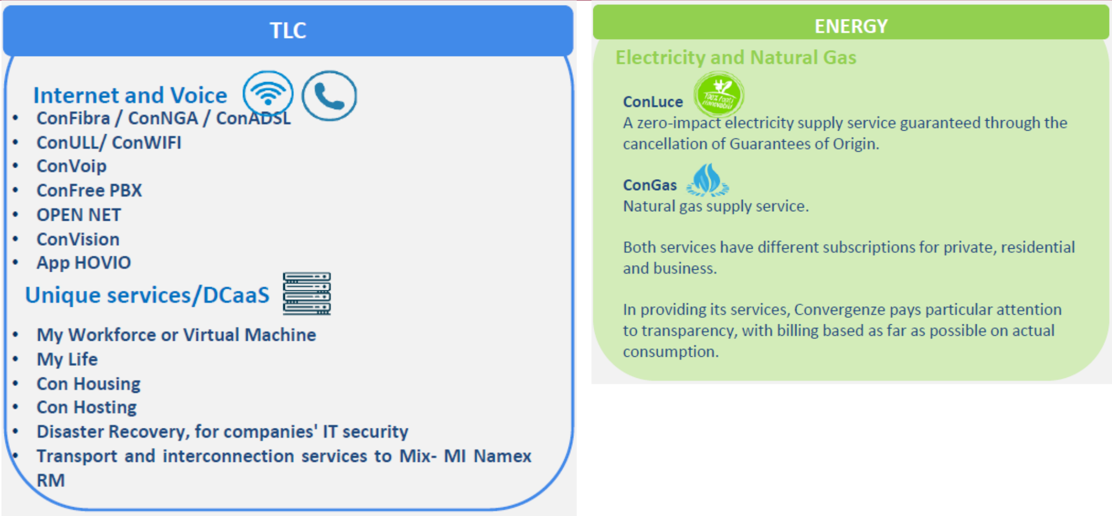
Key milestones	
2005	• Foundation, as broadband connectivity provider in the Cilento area
2008	• Authorization to operate as local TLC operator
2011	• Authorization to operate as regional TLC operator
2012	• Opening of *Convergenze Innovation Center*
2014	• Authorization for the deployment of electronic communication network to develop a proprietary fiber optic network
2015	• Authorization to offer phone services as a national TLC operator • Start of Energy reselling business
2018	• Joining the Elite program of Borsa Italiana • Dispatching operator in the energy market
2019	• Patent for the *EVO - Electric Vehicle Only* network
2020	• Listing on Euronext Growth Milan (ex AIM Italia), €2.8m IPO proceeds

	• Qualification as *Benefit Corporation*
2021	• Establishment of the Wholesale division within the TLC BU • First sustainability report
2022	• New facility including a datacenter in Trentinara (Salerno) • Acquisition of Positivo Srl, telco company in Salerno area

Source: Company data

Services

Service portfolio



Source: Company data

Media

- Set-top box offering online video content, through a catalogue of online media and TV platforms, at ultra-fast connectivity
- Voice and HD video-call solutions
- Games, security, video surveillance, etc.

Proprietary infrastructure

TLC infrastructure

- 5,647 km of proprietary FTTH optic fiber network and 1,036 km of fiber IRU
- WiFi infrastructure of over 100 BTS towers with ultrabroadband wireless access technology

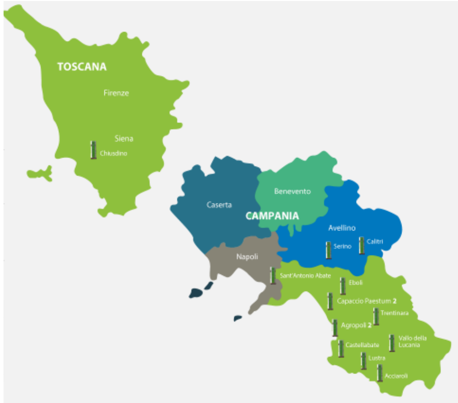
Data centers

Two data centers:

- one hosted within *Convergenze Innovation Center*, with quality and safety standards gaining the ISO 27001 certification, meeting the requirements of Tier III and Tier IV levels
- one hosted in the Company registered headquarter

EVO network

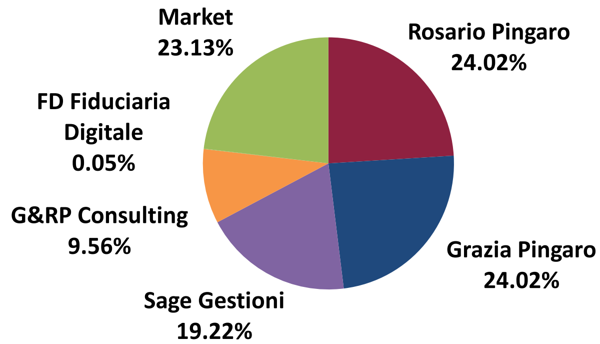
- 16 EVO network, public recharging stations, located in the provinces of Salerno, Naples, Avellino and Siena
- 18 EVO Solution stations and wall boxes in private hospitality locations in the provinces of Salerno and Siena



Source: Company data

Shareholders and key people

Shareholders



Source: Company data - Note: Sage Gestioni is owned by several members of Prearo family; G&RP is owned by Redfish Longterm Capital

Key people

Name and role	Background
Rosario Pingaro *Chairman and CEO - Shareholder*	• Founding shareholder of Convergenze, chairman and CEO since 2005 • Several roles in BoD of banking institutions and consortia (BCC Capaccio Paestum, Federazione Nazionale delle Banche di Credito Cooperativo, Consorzio Namex)
Grazia Pingaro *Vice-Chairman and Director Energy BU - Shareholder*	• Founding shareholder of Convergenze, director of Energy BU since 2016 and board member since 2019 • Several roles in BoD of companies (Aristea, Executive Planning)
Carmine Malito Rebecco *CFO*	• CFO of Convergenze since 2018 • Auditor and accountant

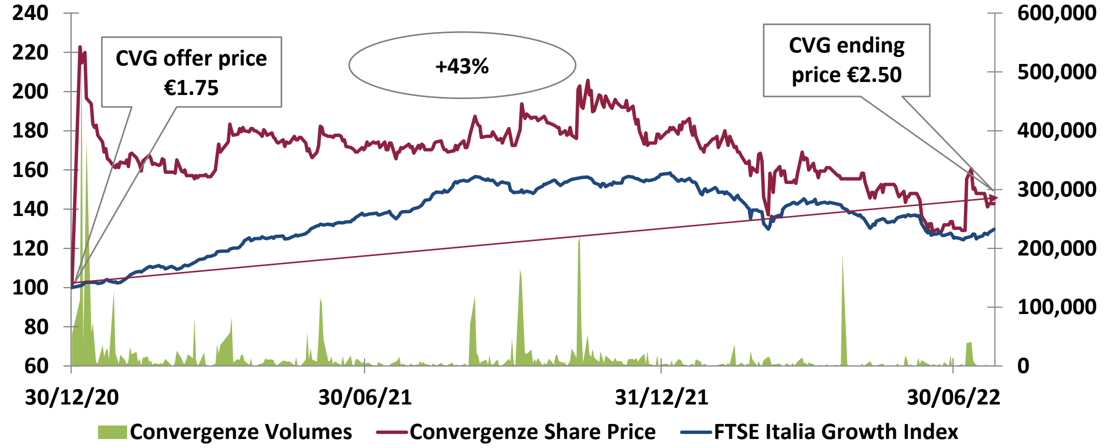
Source: Company data

IPO and stock market performance on Euronext Growth Milan

Convergenze on Euronext Growth Milan	
Stock market	Euronext Growth Milan
Bloomberg code	CVG IM
Reuters code	CVG.MI
IPO date	30/12/2020
Offer price (€)	1.75
Money raised (€m)	2.8
Market cap at IPO (€m)	12.0
Free float at IPO	19.53%
Ordinary shares - ISIN number	IT0005426215
Shares outstanding	7,492,959
Current Share price (€)	2.50
Current Market cap (€m)	18.7
Warrants - ISIN number	IT0005426199
Warrants outstanding	1,334,082
Current Warrant price (€)	0.4075

Source: Company data and S&P Capital IQ, update: 25/07/2022

Share price performance and volumes since IPO



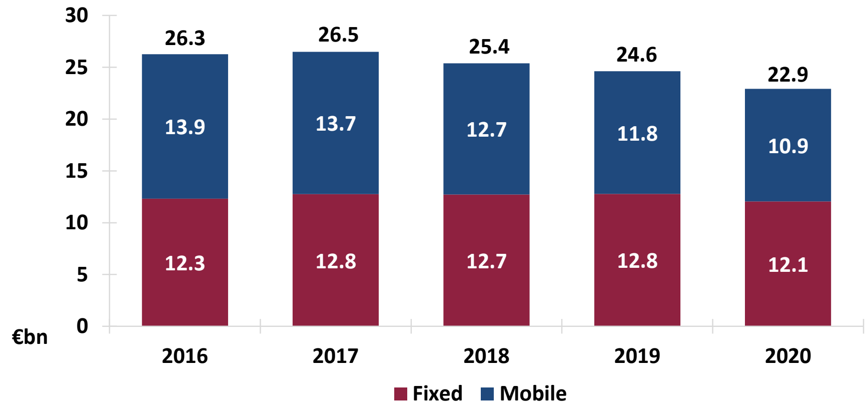
Source: S&P Capital IQ - Note: 30/12/2020 (IPO offer price)=100

3. MARKET TRENDS AND OUTLOOK

The Italian telco market

According to Agcom - Autorità per le garanzie nelle telecomunicazioni, the authority for communications, the telco market in Italy was worth €22.9bn in 2020, recording a 7% drop YoY due to Covid-19 pandemic and related restrictions. Both the fixed and mobile segments went down, respectively by 6% and 8%. Since 2018, total user spending on fixed services has overcome mobile expense; both residential and business customers fell respectively by 7% and 6%, with mobile network suffering the most (-8%).

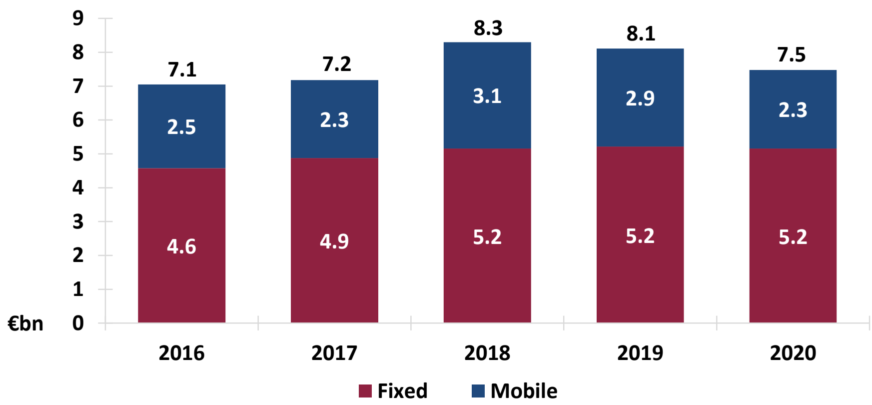
Network expense of business and residential customers (€bn)



Source: Agcom, *Relazione annuale sull'attività svolta e sui programmi di lavoro*, 2021

Total investment into communications infrastructure decreased by 8% YoY in 2020. Fixed network keeps the lead with over €5bn investments, -1% YoY, while investments in mobile infrastructure fell at €2.3bn, -20% YoY.

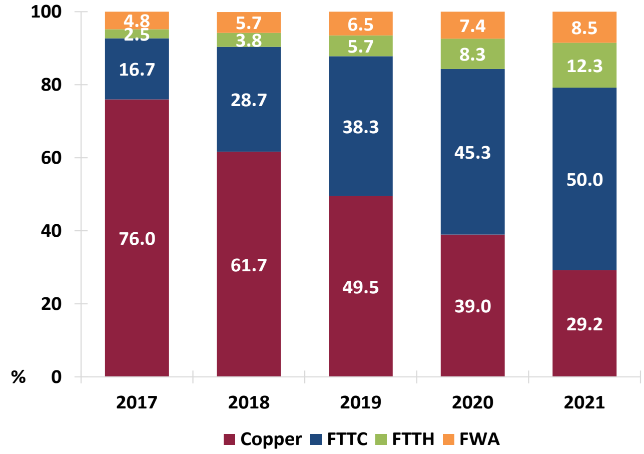
Investments into fixed assets (€bn)



Source: Agcom, *Relazione annuale sull'attività svolta e sui programmi di lavoro*, 2021

FTTH (Fiber To The Home) network recorded the highest growth in direct accesses (49% CAGR Sep 2017/Sep-21), followed by FTTC (Fiber To The Cabinet) technology (31.5%). This trend is consistent with the current demand in the fixed telecommunications market, where customers are shifting toward technologies that allow for better quality service access.

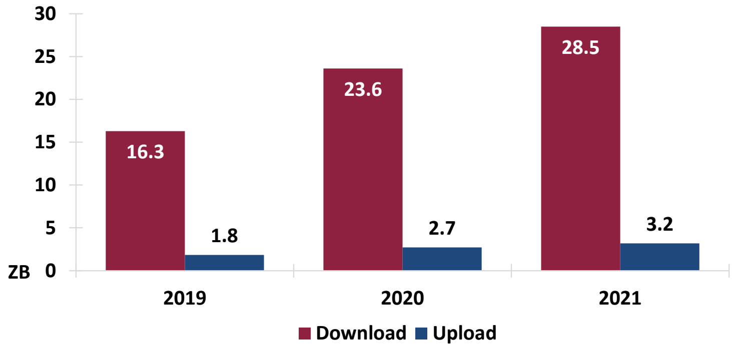
Access to fixed network by technology (%)



Source: Agcom, *Communication markets monitoring system n.1/2022*, 2022 - Note: 2021 Data as of September

Data traffic volumes are constantly growing due to digitalization, even faster during and after pandemic, with data traffic in both download and upload recording a CAGR 2019-21 of 32%. In this context, market positioning in the ultra-fast connection segment is crucial: telecommunication players speeded up their investment programs, increasing the extension of their proprietary FTTH infrastructure, which represented 12% of total access to fixed network in 2021.

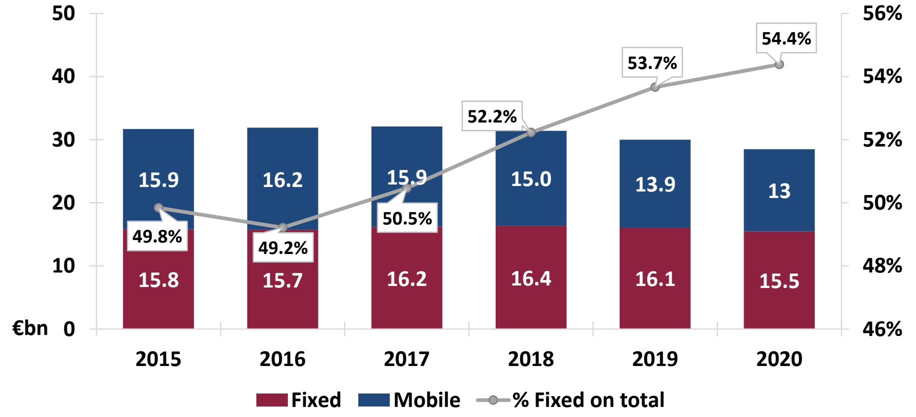
Fixed network - Data traffic in download/upload (Zettabyte - ZB)



Source: Agcom, *Communication markets monitoring system n.1/2022*, 2022 - Note: 2021 Data as of September

TLC operators' slowdown trend in gross revenues that had already characterized previous years was heightened in 2020: total revenues decreased by 5% YoY, due to a more pronounced decline in mobile segment (-6.7% YoY). In 2020 fixed services represented 54.4% of total gross revenues, driven by users' growth in broadband and ultrabroadband, that did not compensate the revenue loss in traditional voice services. Mobile services collapsed to their lowest value in 12 years, losing €0.9bn. According to Assotelecomunicazioni, this decline is mainly due to the strong competitive pressure since 2018 which resulted in continuously customers repositioning, seeking lower overall price offers or more services at the same price, thus reducing Average Revenue Per Unit (ARPU). However, revenues are expected to grow in the following years for an increase in bundle offers, providing improved quality of both services and network performance with the upcoming 5G technology.

Telco operators' gross revenues by service (€bn)



Source: Assotelecomunicazioni, *Rapporto sulla Filiera delle Telecomunicazioni in Italia*, 2021

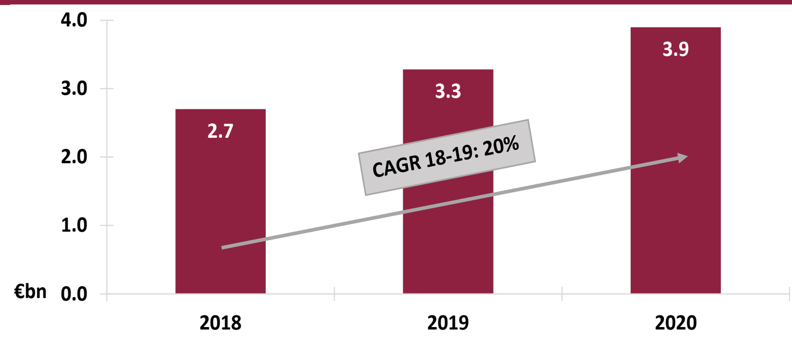
The addressable market in Campania

According to Istat, Campania population is over 5.7m, the largest in southern Italy, and the province of Salerno has nearly 1.1m residents. Companies in Campania are below 400,000 and real estate units are 1m, of which 0.9m are residential units. Campania region is covered by ultrabroadband for 72% (vs. 66% Italian average), of which ultrabroadband >100 Mbps is available for 36% of families (vs. 32% in Italy). According to Agcom, the province of Salerno is third in Campania for ultrabroadband coverage with 59% households covered, preceded by Napoli (87%) and Caserta (70%) and followed far behind by Avellino (38%) and Benevento (33%). In Campania 36% of families have access to high speed ultrabroadband (FTTH, >500 Mbps), while only 7% at <30 Mbps and 57% in the range of 30-100 Mbps; for the province of Salerno, these values are respectively 23%, 10% and 67% (Source: AGCOM, *Broadband map,* 2022).

Cloud: a fast-paced growth technology

Cloud service market increased by 19% YoY in 2020, reaching €3.9bn: pandemic emergency change business needs, looking for platforms to ensure activities continuity such as collaboration and videoconference solutions provided by cloud operators.

Cloud services value (€bn)



Source: Assinform, *Il digitale in Italia*, 2021

The Italian electricity market

From monopoly to liberalization

The end of 90s marked the beginning of the structural reorganization and liberalization of the Italian electricity market, a regulation process based on the *legal unbundling* between structurally monopolistic grid activities (national transmission and regional distribution grids) and competitive activities (electricity production and supply).

The effects of the first EU electricity directive were efficiency gains, price reductions, higher standards of service and increased competitiveness. Based on these results and in response to the call by the Lisbon European Council, which pressed for the speed up of the liberalization process in the electricity and gas sectors, in 2003 the European Commission issued a second electricity directive.

The Italian electricity sector gradually changed from a monopoly, led for almost 40 years by the vertically integrated state-owned Enel, to a complex marketplace with a number of competing operators. In 2004 the Italian Power Exchange market started its trading activities for the supply side and in 2005 also for the demand side. Since 2007, end-customers have had the opportunity to choose their electricity supplier on the free market. In addition, end-customers who did not want to change supplier had the opportunity to access the standard-offer service (Servizio di Maggior Tutela) on a regulated market, with set competitive prices. Currently, the free market, where the price is formed based on competitive market dynamics, and the regulated market, where the price is set every four months by the Authority, coexist for residential customers, who can choose one or the other, while for micro-enterprises, SMEs and large enterprises there is only the free market, since as of January 2021 standard-offer service ceased for them. However, even for households, the free market transition will be complete as of 2023, with the end of the regulated service.

Operations of the electricity market in Italy

The main actors in the electricity market are: production companies; importers and exporters; the Italian Transmission System Operator (TSO); wholesalers; customers.

Main actors	
Gestore dei Sistemi Energetici (GSE)	State-owned company created to manage the national transmission grid, today focused on support schemes for renewables, with three subsidiaries (AU, GME and RSE)
Acquirente Unico	Continuous, secure, efficient and reasonably-priced electricity supply for households and small businesses
Gestore Mercati Energetici (GME)	In charge of the organization and management of the electricity, natural gas and environmental markets in Italy
Autorità per l'Energia Elettrica e il Gas (ARERA)	The Authority for electricity, gas and water ARERA is an independent regulatory body which regulates, controls and monitors electricity and gas markets in Italy
Terna	Italian Transmission System Operator (TSO)

Source: EnVent Research

Transactions for purchase and sale of electricity (MWh) can take place through:

- Italian Power Exchange Market (IPEX), a central auction system managed by GME where supply and demand meet to determine the hourly price of electricity. The power system is divided into transmission grid zones, virtual and geographical. GME collects offers to sell electricity from producers for each offer point (connection point between a generating plant and the grid) and for each hour.
- Direct bilateral contracts traded Over the Counter (OTC) between producers or importers and consumers or wholesalers, where electricity price is the result of free negotiations between operators

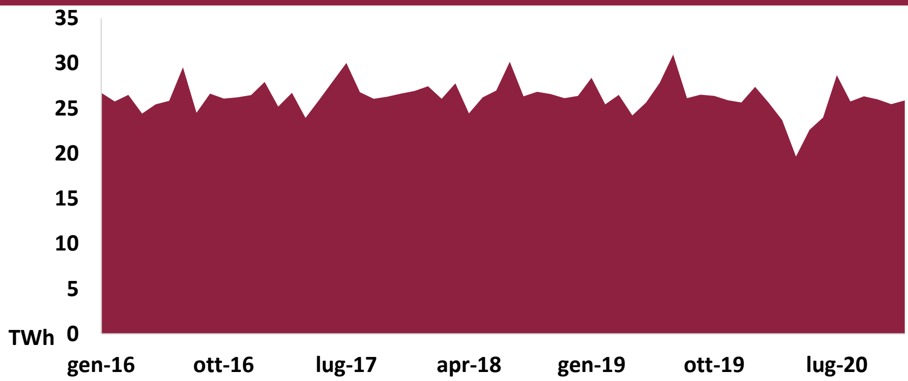
IPEX consists of:

- Spot electricity market (MPE), attended by producers, wholesalers and eligible final customers, divided in three submarkets:
    1. Day-ahead market (MGP), a wholesale electricity market where players negotiate hourly electricity blocks for the following day, with all demand bids priced at a single national price (Prezzo Unico Nazionale, PUN, average zonal prices weighted for zonal consumption)
    2. Intra-day market (MI) allows to change injection/withdrawal schedules defined in MGP through additional bids and offers priced at the zonal price
    3. Ancillary services market (MSD), where Terna purchases/sells contracts to guarantee reserves availability and resources for dispatching and balancing
- Forward electricity market (MTE), a continuous basis trading market for peak/baseload contracts, with monthly, quarterly, and yearly delivery periods
- CDE, the platform for physical delivery of financial contracts concluded on IDEX (derivatives segment coordinated by Italian Stock Exchange and GME)

Electricity market in Italy

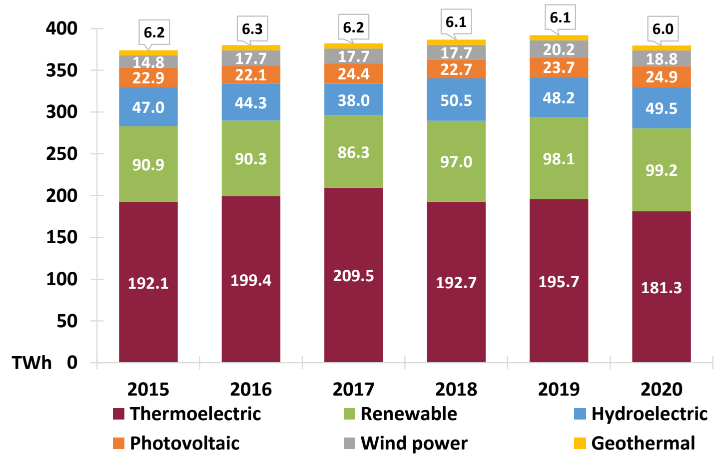
Electricity demand in Italy declined by 5.8% in 2020, reflecting the weak macroeconomic environment (8.9% contraction in national GDP) correlated to Covid-19 pandemic restrictions. Overall, in 2016-20 electricity demand decreased at an annual average rate of 1%.

Electricity demand (TWh)



Source: Terna statistics on electricity market evolution (*www.terna.it/it/sistema-elettrico/statistiche*)

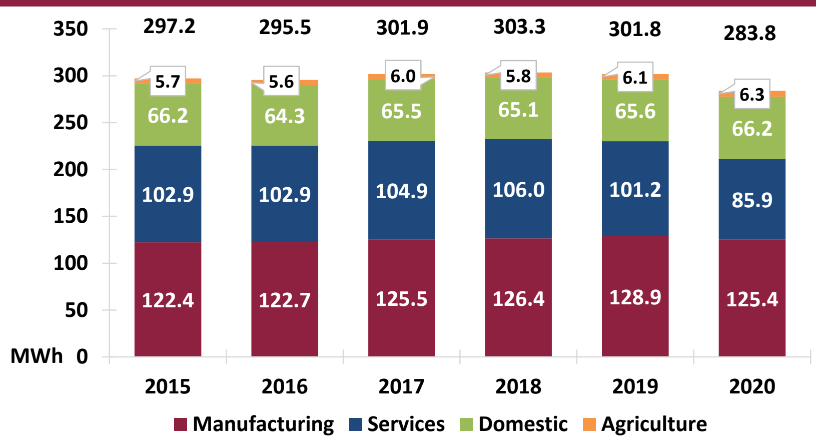
Electricity production by source



Source: Terna statistics on electricity market evolution (*www.terna.it/it/sistema-elettrico/statistiche*)

Overall, 2020 electricity consumption fell by 6% (-0.5% in 2019), broke down as follows: services -15%, -3% manufacturing, only partially offset by a 4% increase in agriculture. Domestic sector consumption, historically less elastic to demand trends and less sensitive to economic fluctuations, remained almost stable (+1%). These trends reflect business activities closure imposed for many months in 2020 to deal with the pandemic. According to Enel, 2021 was characterized by a general recovery in electricity consumption to pre-pandemic levels, despite the impact of the rise in energy prices in H2 2021, with: electricity demand increased by around 5.4% (Source: Enel, *Consolidated financial statement*, 2021).

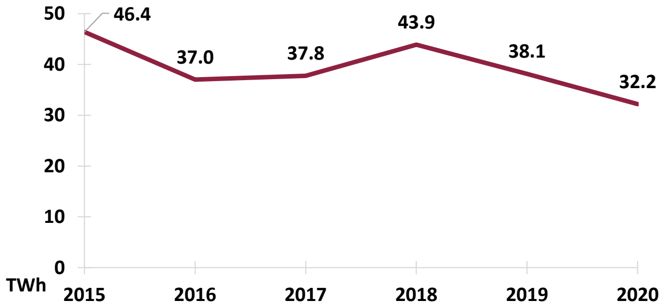
Electricity consumption by sector (MWh)



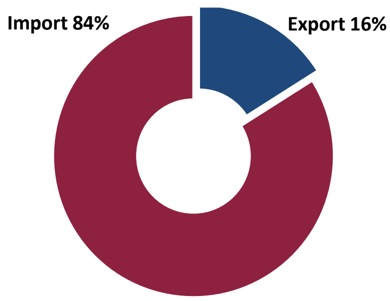
Source: Terna statistics on electricity market evolution (*www.terna.it/it/sistema-elettrico/statistiche*)

According to ARERA, 90% of electricity national demand in 2020 was met by net domestic production, which fell by 4% compared to 2019: thermoelectric lost 7% YoY; as to renewables, solar increased by 5% YoY, partly offset by drops in wind power (-7%) and geothermal (-0.8%).

Net electricity import/export balance



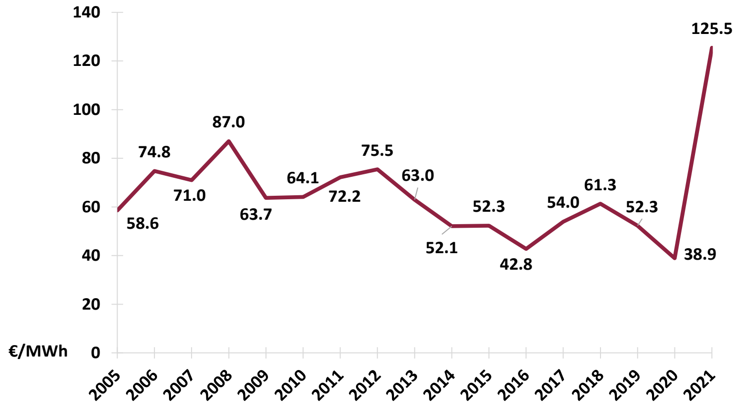
Electricity breakdown by import vs export, 2020



Source: Terna statistics on electricity market evolution (*www.terna.it/it/sistema-elettrico/statistiche*)

Imported energy decreased by 9.5% in 2020, while exported energy increased again, at +30%. In 2020 the net exchanged energy balance decreased by 15.6%, lowest value in last 20 years.

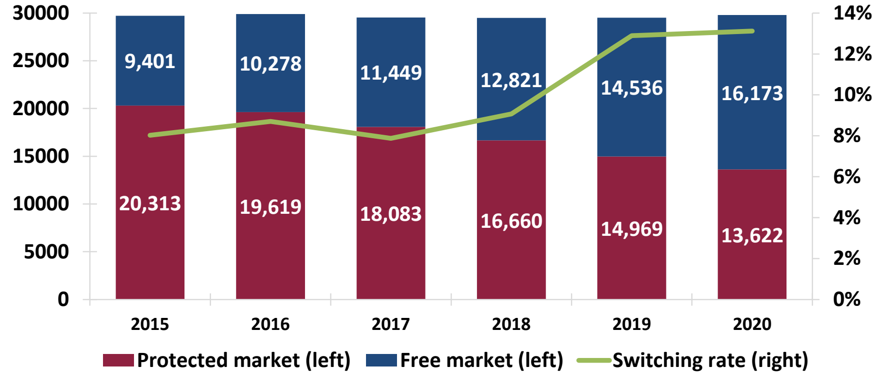
Historical trend of average national energy purchase price (PUN)



Source: GME statistics on MPE-MGP (*www.mercatoelettrico.org/it/Statistiche/ME/DatiSintesi.aspx*)

In 2018 PUN (Single National Price) started a downwards trend which led to its lowest level since 2005 at €38.9/MWh in 2020. This decrease mainly reflects demand reduction and lower cost of gas (€10.5/MWh, -35% YoY).
The bullish performance of commodity markets in 2021 led to a sharp increase in PUN, which grew by 220% compared to 2020, reaching €125/MWh. The price trend is independent of transactions volumes, but it is closely linked to the sharp rise in natural gas prices (representing 53% of the sources used for electricity production in 2021), coupled with lower production from renewable sources and with the maintenance of nuclear power plants in Europe. The price increase recorded in H2 2021 persists in 2022, due to the reduction in natural gas flows from Eastern Europe resulting from Russian-Ukrainian conflict.

Electricity domestic customers trends



Source: ARERA, *Indagine annuale sui settori regolati*, 2021

Domestic customers in 2020 were 29.8m, of which 16.2m in the free market (54.3%, +5% YoY) and 13.6m in the protected market (45.7%). Household switching remained stable, with 13% of customers switching supplier at least once during the year.

Growth forecasts for electricity demand in Italy

Terna and Snam periodically elaborate and update their estimates for medium-long term electricity demand in Italy (Source: Terna and Snam, *Documento di descrizione degli scenari 2021*, 2021). Assuming a population growth up to 65.5m in 2040 and annual GDP growth of 1.4%, according to them electricity demand will increase from 320 TWh in 2020 to 380.6 TWh in 2040, as well as hourly peak demand, due to the massive electrification in consumption forecasted in the next future (such as electric vehicles). Analyzing electricity sources, renewables will increasingly assume a predominant role in the coming years, with a steady growth in renewables installed capacity: photovoltaic will growth up to 64 GW and wind at 25 GW by 2040, respectively from 21 GW and 11 GW in 2019, leading annual gas demand for energy production to decrease to 60.6m^3 by 2040, conditioned by efficiency improvements too. In this forecasted picture, phase-out from coal goal was expected to be completed by 2025, but the present international conflict situation is likely to postpone such term.

The Italian natural gas market

From monopoly towards competitiveness

The Italian gas market followed the same path of the electricity market, switching from a substantial monopoly held by state-owned group Eni to a liberalized market under the impulse of European Union. The main outcomes of the liberalization process were:

- legal unbundling between distribution (transmission/dispatch) and retail companies
- new antitrust thresholds to gas volumes injected into the market by each operator
- two markets: a free market and a regulated market called standard-offer market for users who did not choose any offer on the free market and did not change their supplier

Gas market operations in Italy

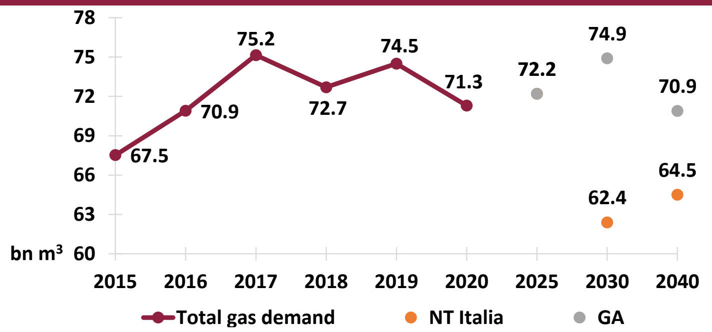
Natural gas transactions in Italy take place on the M-GAS, the natural gas exchange market, organized and managed by GME, which acts as a central counterparty in the transactions concluded by market participants. M-GAS consists of:

- Spot gas market (MP-GAS), divided in two segments:
  - Day-ahead market (MGP-GAS), which takes place in two phases, a continuous-trading mechanism and a tendering procedure. Gas demand bid-ask quotations are related to the following calendar gas-day in which session ends
  - Intra-day market (MI-GAS) takes place under continuous trading mechanism; gas demand bid-ask offers are related to the gas-day in which session ends
- Forward gas market (MT-GAS), where trading takes place on a continuous basis. Gas demand bid-ask offers are selected from as many order books as the types of tradable contracts for different delivery periods

Fluctuating natural gas market trend in Italy

Natural gas demand was stable at nearly 70bn m^3 between 2015 and 2020, from a minimum of 67.53bn m^3 in 2015 to a maximum of 75.15bn m^3 in 2017. In 2020 natural gas demand decreased by 4.3%, for the pandemic situation. According to Enel, gas demand was back to pre-pandemic levels by 2021.
According to Snam and Terna reference scenarios for natural gas transmission network development plans, in both the two alternatives they elaborate (National Trend Italia and Global Ambition) annual gas demand is going to decrease, but with a steady or swinging trend according to the different scenarios.

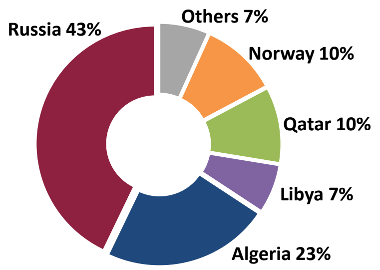
Natural gas demand in Italy



Source: Snam, *Piano decennale di sviluppo della rete di trasporto del gas naturale 2018-2027* for historical data and *Scenari di riferimento per il PdS delle reti di trasporto del gas 2022-2031* for expected scenarios, 2018

According to ARERA, the dependency from imports decreased to 93.2% in 2020, vs 95.4% in 2019. Imports fell from 70.9 to 66.4bn m^3 (-6.6% YoY), with a general decline in volumes from all countries, except Algeria and Norway (both around +13%). Russia's weight among countries exporting to Italy decreased to 42.9% (46% in 2019), while Algeria's share rose to 22.8% from 18.8%, followed by Qatar (10.5% of Italy's total gas imports, 9.2% in 2019), Norway with 10.4% and Libya with 6.7%.

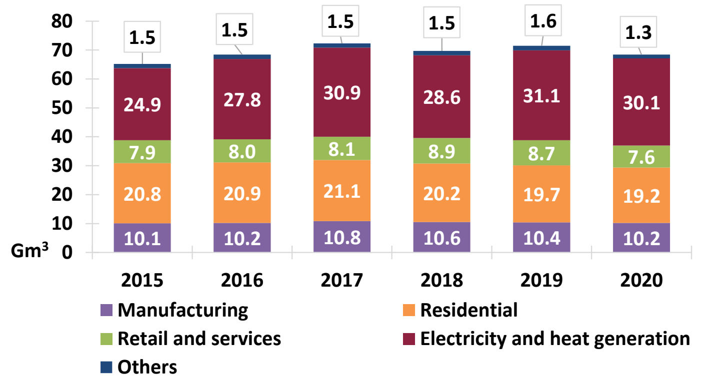
Gas import in Italy by country, 2020



Source: Arera data and statistics (*www.arera.it/it/dati/gm8.htm*)

In 2020 all sectors experienced a consumption reduction at 4.2% YoY, due to closures imposed by authorities as pandemic containment measures. Manufacturing and residential sectors suffered a moderate reduction, -2.2% and -2.8%, respectively, a downward trend related to energy efficiency and renewable energy increase; on the other hand, retail and services experienced a significant 12% decrease.

Natural gas consumption by sector in Italy

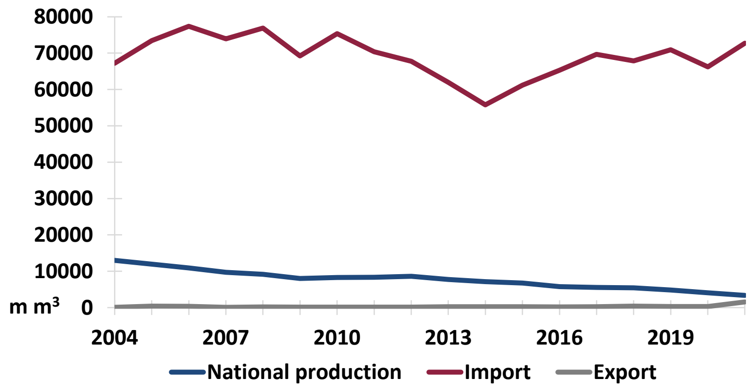


Source: Arera data and statistics (*www.arera.it/it/dati/gmconsumi.htm*)

On the supply side, 2020 has been severely affected by pandemic, in line with the decrease in consumption:

- National production fell sharply, dropping 16% YoY, reaching 4,000m m^3
- Import cut by 6.6%
- Export reduced by 3%

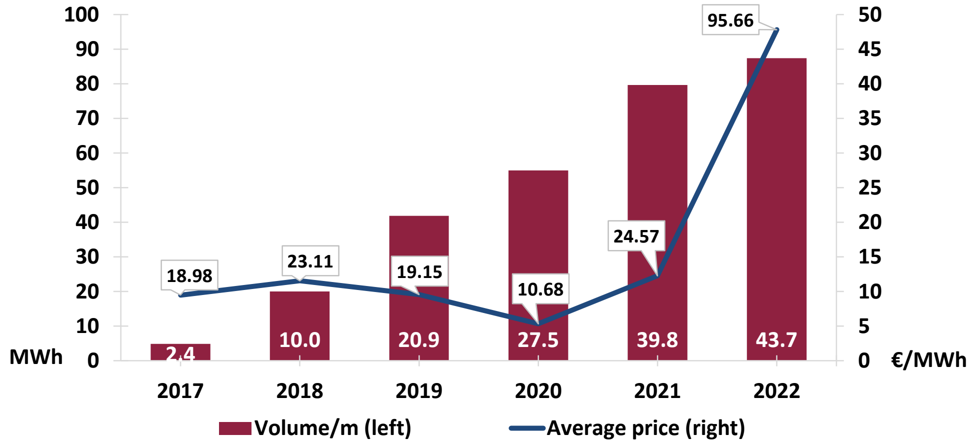
National gas production



Source: Ministero dello Sviluppo Economico - *DGSAIE*

Analyzing gas prices data in continuous trading provided by GME, during Oct 2019 - Sept 2020 gas prices slowed down sharply (-44%) due to pandemic, while MWh of traded volumes increased, albeit less than previous years (+31%). According to ARERA, average annual spot price in 2020 on various trading platforms was 10.8€/MWh, in line with annual average spot price on OTC markets with delivery to the VTP (10.55€/MWh) and with day-ahead and intra-day markets confirmed prices (10.50€/MWh).

Gas price in continuous trading in Italy



Source: GME statistics on *MGP-GAS* - Note: reference period October-September

According to Enel, in 2021 the European gas market experienced high volatility, driven by both demand and supply factors. In H1 2021, lower-than-average temperatures and a heating season lasted until May led to a gradual depletion of gas storage in Europe, resulting in increased demand during summer. On the other hand, on the supply side LNG exports from United States were drawn to the Asian market, exacerbating commodity' shortages. This led to a sharp rise in gas price in 2021 (+130% over 2020 and +65% over 2019), which has not yet stopped in 2022 due to the international tensions for the Russian-Ukrainian conflict.

Long-term scenario for the Italian natural gas market

Snam and Terna annual paper describing reference scenarios for natural gas transmission network development plans, defines two alternatives. National Trend Italia forecasted for annual gas demand a decreasing trend, in line with PNIEC, going from 72.2bn m3 in 2025 to 60.6bn m3 in 2040 (peak demand from 453m m3 to 421m m3). Global Ambition, the alternative scenario in line with Paris Agreement's temperature containment goals, forecast a steady trend in demand, rising from 72.2bn m3 in 2025 to 74.9bn m3 in 2030 due to phase out from coal, and falling to 70.2bn m3 in 2040 due to increased deployment of green gas and hydrogen, with peak demand stable above 450bn m3. In both scenarios imports will be significant (80% in NT and 75% in GA), with domestic production share expected to increase due to green gas, offsetting decrease in natural gas production.

4. BUSINESS MODEL AND STRATEGY

Service quality, technology and sustainability for a hassle-free broadband and utilities bundle

Convergenze value proposition is offering its customers superior service and competitive prices, being a single touchpoint for fiber network connectivity, voice, electricity and gas.

Convergenze business model:

- Geographical coverage - assessment of the areas for own optic fiber network development and electricity and natural gas offering
- Network development and knowledge of the territory - BTS towers installation, followed by optical fiber laying, as soon as a large customer base is reached. For the Energy BU, the first contact in a new territory takes place with local institutions and installation of the EVO network.
- Sales development - through the internal salesforce and agents. The salesforce oversees both the initial sales phase and post-sales phase, where it offers assistance together with a team of technicians.
- Offer of bundle of services - consisting of Internet, Voice (fixed line, not mobile), Single Services / DCaaS, Electricity and Natural Gas

Revenue model

Sales are generated by the sale of internet broadband, voice, electricity and natural gas subscriptions to residential and business customers. Payments occur monthly, through separate billing.
Since March 2022, Convergenze has abandoned the fixed pricing system for Energy customers in favour of the variable one. This allows to charge end-users with increases in energy cost.

Market logics and decision process

Key factors underlying the subscription decisions are:

- Stability and reliability of the services provided, both for TLC and Energy
- Performance and speed, for TLC broadband services
- Coverage of small municipalities with FTTH broadband, for TLC BU
- Easy activation, consumption monitoring, customer service
- Hassle-free service to avoid provider switching, procedural burden overly complicated and time-consuming
- Pricing

Sales and marketing

Sales channels are: direct and indirect sales network, toll-free number and e-commerce/website. The main phases are:

- Choice and assessment of geographic area, with setup of a sales branch and hiring of local agents
- Target customers identification: retail/households and business/B2B
- Training of local agents
- Marketing and promotion campaigns

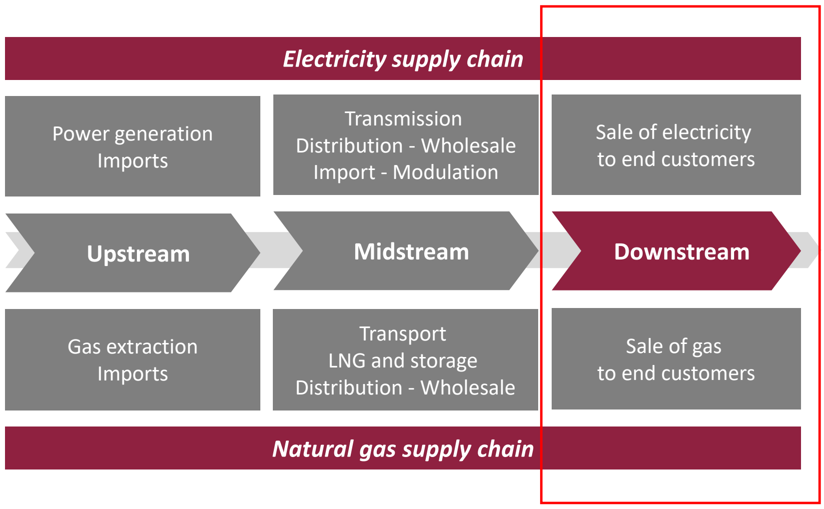
TLC BU - supply chain

Source: Company data

- Network make or use: the Company has the choice between internal network development or use of existing networks of other operators (TIM, Infratel, Fastweb and Openfiber) through IRU agreements
- Network and infrastructure development: Convergenze oversees the whole network infrastructure construction process, from design to authorizations, only outsourcing building works
- Sale and services: a direct and indirect sales network carries out marketing activities, both online and offline, and receives subscriptions through the dedicated toll-free number, the website and the e-commerce
- After-sales assistance: available, 7 days a week with a dedicated team of technicians, through the dedicated toll-free number or by accessing the reserved area of each customer

Energy BU - supply chain

Convergenze is a retailer in the Italian electricity and gas markets, positioned in the downstream value chain, consisting in the sale of electric power and gas to end customers or resellers.



Source: Company data

- Purchase of electricity and natural gas from suppliers: as to electricity, Convergenze has different suppliers: AGSM and Iren if it acts as a reseller, GME if it acts as dispatching operator. For the purchase of natural gas, the Company's supplier is 2VEnergy.
- Sale, services and after-sales assistance: in common with TLC BU

Strategy: leverage on service quality, technology and cross-selling to increase market penetration

Strategy pillars:

- Extension of the proprietary fiber optic network in the municipalities where Convergenze has already reached a critical mass of customers served by wireless technology
- Increase in the number of Energy customers, taking advantage of cross-selling opportunities between the TLC and Energy BUs, also through the unified e-commerce portal
- Value-added services such as cloud, datacenter as a service and virtualization services
- Introduction of the BU Media & Content Delivery for product portfolio diversification
- Acquisition of TLC players to expand the geographical coverage

M&A is an efficient and fast way to penetrate uncovered and complementary geographies. As of today, Convergenze has completed the acquisition of Positivo Srl, to consolidate its coverage in the Salerno area.

5. COMPETITION

Competitors in the telecommunications industry

Coverage of *grey* and *white* areas

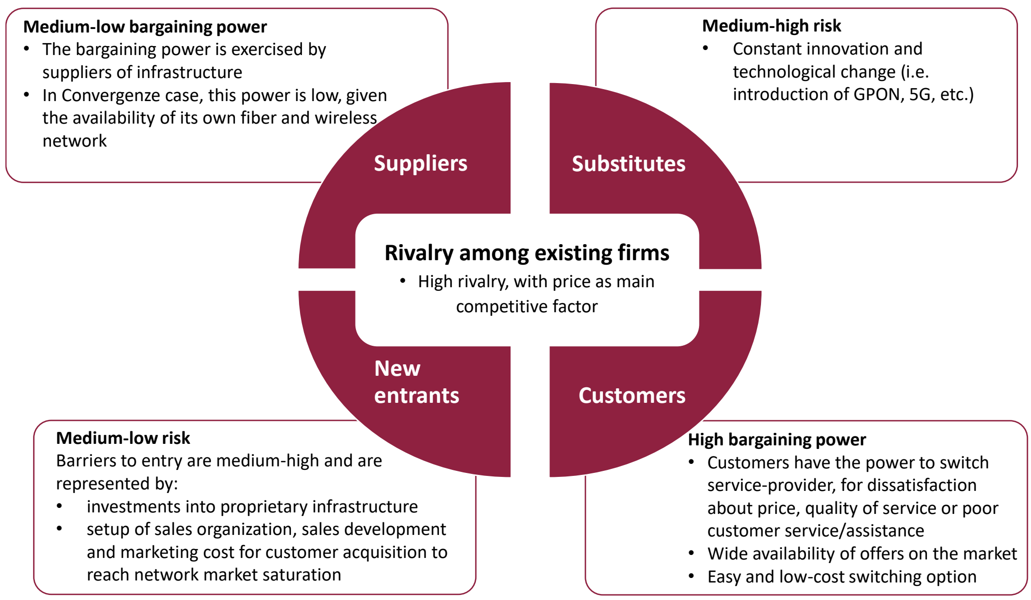
Broadband access, with increased connectivity needs, has become critical and has led to the expansion of optic fiber, especially FTTH fiber which provides fast internet access.
Operations within the National Broadband Plan, aiming at covering by broadband 6,232 Italian municipalities, started in 2016 with the issuance of the first two calls for tenders for construction and management of a public broadband network, followed by a third call in 2018, by Infratel. All three tenders were awarded to Open Fiber, wholesale-only venture originally setup by the Italian utility Enel and state-owned lender CDP.
Italy is still far behind with FTTH optic fiber network coverage compared to other European countries and is striving to expand it throughout the country, trying to cover the remaining *grey* and *white* areas (areas where no operator invests given the low density of population and thus government initiative is necessary).
As of June 2022, 43% of Italian provinces were covered by optic fiber (Source: Ministry of Economic Development, www.bandaultralarga.italia.it).

Competition drivers

The main competitive factors, especially within fiber networking, are:

- price
- service performance
- level of capital expenditure to build an extended proprietary network

Competitive forces - TLC industry



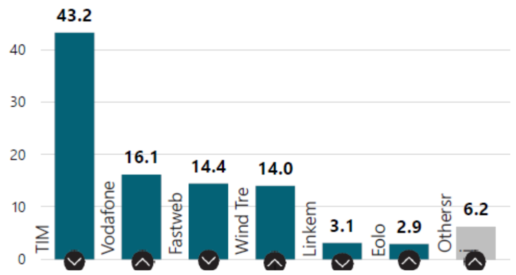
Source: EnVent Research

Industry players competing within the telco industry

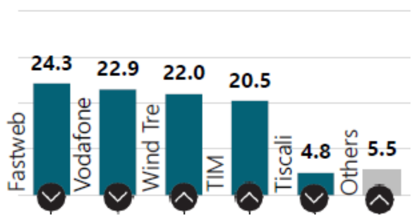
The telecommunications market in Italy is highly competitive, as operators, despite not numerous, use price as main competitive factor and have focused on customer acquisition through aggressive pricing, data packages and customized offers.

The market arena of fixed network is dominated by four major operators: TIM, Vodafone, Fastweb, Wind Tre, followed by Linkem-Tiscali and Eolo.

Fixed network, market shares %, 2021



FTTH network, market shares %, 2021



Source: AGCOM, *Communications markets monitoring system*, 2022

TIM (FiberCop) and Open Fiber are Italy's major FTTH network builders; they have reached a preliminary deal to merge their assets and create a single national wholesale fiber network. Operators who own a proprietary fiber network have a competitive advantage to directly reach customers or to provide the infrastructure to other operators. They sustain high capital expenditure to penetrate *grey* and *white* areas and to expand customer portfolio. There are over 140 operators across Italy in partnership with OpenFiber (Source: openfiber.it). Some of them operate nationwide, others are concentrated in specific areas and have a market proposition similar to Convergenze.

Revenues may include also different businesses

Top 20 OpenFiber partners by Revenues, 2020/21

	Company name	HQ	Revenues (€m)	FY
1	**Vodafone Italia**	Torino	5,092	2020
2	**Wind Tre Italia**	Milano	4,594	2021
3	**Sky Italian Holdings**	Milano	2,907	2020
4	**Fastweb**	Milano	2,383	2021
5	**Iliad Italia**	Milano	668	2020
6	**Aruba**	Bergamo	216	2020
7	**Eolo**	Varese	187	2020
8	**Tiscali Italia**	Cagliari	144	2021
9	**Acantho (Hera Group)**	Bologna	68	2020
10	**Vianova**	Lucca	62	2020
11	**Intred**	Brescia	40	2021
12	**Unidata**	Roma	36	2021
13	**Delta Web (CADF)**	Ferrara	31	2020
14	**Planetel**	Bergamo	23	2021
15	**Convergenze**	Salerno	18	2021
16	**BBBell**	Torino	15	2020
17	**Omnia Energia**	Cosenza	14	2020
18	**Easynet**	Lecco	10	2020
19	**Micso**	Pescara	8	2020
20	**Go Internet**	Perugia	8	2021

Source: EnVent Research on Aida and companies' financial statements, consolidated figures where available

Competitive position

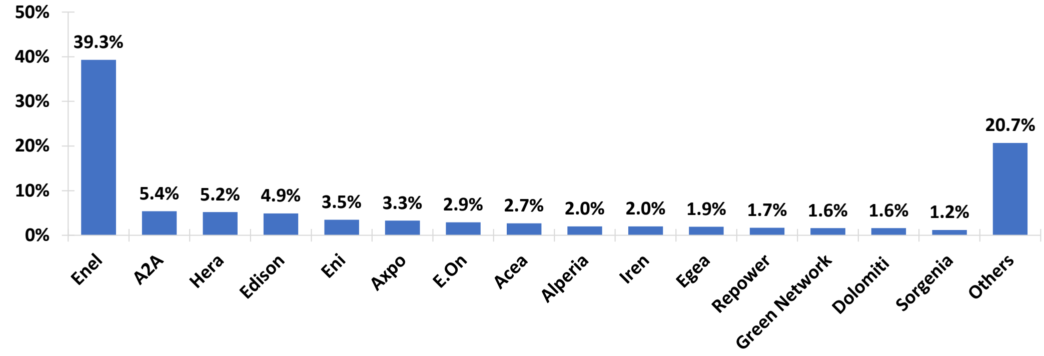
The lack of telecommunications infrastructure in the territory originally presided by Convergenze - Salerno/Cilento area - has given the Company a competitive advantage vs other operators. The investment in a proprietary fiber network has enabled to offer services of a higher quality than both large national players, which lack their own network in the territory, and other local competitors of considerably smaller size.

Competitors in the energy industry

Industry players competing within the energy industry

In Italy there were 739 energy resellers as of year-end 2020. The dominant operator was Enel with 39.3% market share, followed by A2A, Hera and Edison at around 5% market share each (Source: ARERA statistics on arera.it).

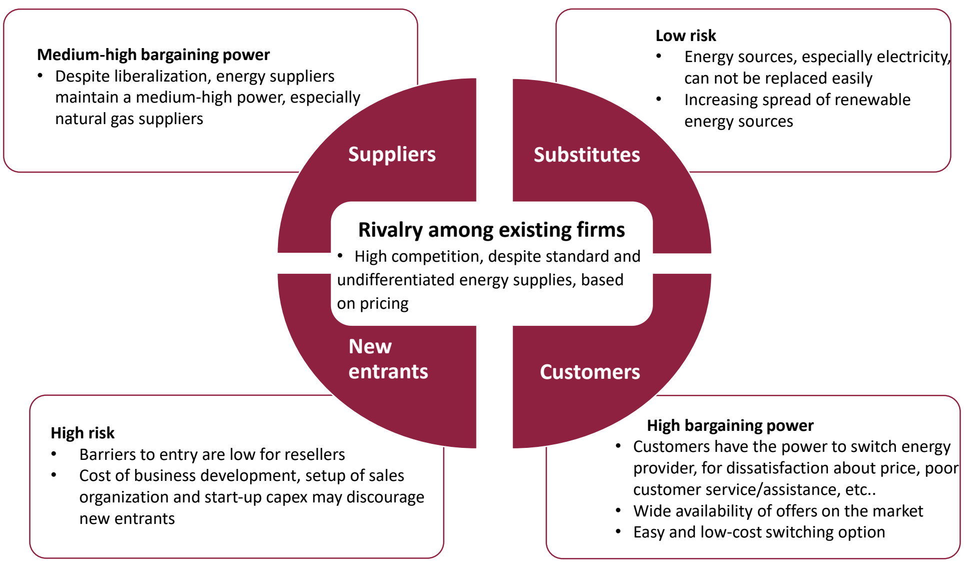
Top 15 electricity suppliers to mass market by market shares, 2020



Source: EnVent Research on ARERA statistics, arera.it

Market forces

Competitive forces - Energy industry



Source: EnVent Research

In the energy market, the homogeneous and poorly differentiated offer forces operators to compete on price, resulting in a highly competitive arena also due to the presence of numerous resellers.

Competition and risk profile

Relevant opportunity and risk factors:

Scenario

- Energy prices subject to adjustments in the coming years, unpredictable based on different scenarios
- Energy consumption stability or gradual growth forecast - anti-cyclical market
- Highly volatile market dynamics
- Mass market penetration implies dedicated strategies, skills and resources
- Regulatory changes

Industry

- Advance supply planning
- Intense competition and pressure on prices
- Historical turbulence as per companies entering and exiting the business
- Hedging flattens risk and profitability

Business model

- Company history of moderate growth
- Business model with focus on downstream, benefiting of the full flexibility in exercising bargaining power in the marketplace, vs own production constraints of many competitors

6. MARKET METRICS

Market value of comparable listed companies

Selection criteria

Key factors:

- Providers of broadband connectivity services to B2B or B2C end-markets
- Energy suppliers to end-consumers in liberalized markets

Industry players segmentation and comparability

TLC

Intred (Italy)
Provider of FTTH ultrabroadband and FWA connectivity to residential and corporate customers mainly in the Lombardy region with 8,000 km fiber network and more than 45k data customers. Listed on Euronext Growth Milan (EGM).
2021 Revenues: €41m

Unidata (Italy)
Provider of ultra-broadband connectivity services to corporate and residential customers and fiber IRU access, with over 4,500 km of FTTH optic fiber network covering Rome and province and over 13,500 customers. Listed on EGM.
2021 Revenues: €37m

Planetel (Italy)
Optic fiber network services provider with an integrated offer of connectivity (FTTC, FTTH, FWA) and cloud IT solutions to retail, medium/large corporates, wholesale, public sector, covering Lombardy, Veneto and Campania, with 1,880 km optic fiber network (of which 740 km in IRU) and 30,000 customers (of which 18,000 for connectivity). Planetel also has 3 datacenters and 44 BTS towers. Listed on EGM.
2021 Revenues: €23m

GO Internet (Italy)
Internet service provider in the Marche and Emilia Romagna regions. It offers Internet and voice connection services to business and consumer customers through FWA/LTE wireless technologies and FTTH in partnership with Open Fiber. Listed on EGM.
2021 Revenues: €9m

Tiscali (Italy)
Telco and multimedia services provider of broadband, mobile telephony, value-added services, digital media and online advertising. The merger between Tiscali and Linkem Retail (unit of private broadband group Linkem), giving life to a group providing ultrabroadband through FWA and FTTH, will be effective as of August 2022.
2021 Revenues: €151m

United Internet (Germany)

Broadband and mobile access products, including home networks, online storage, telephony, video-on-demand, IPTV, data and network solutions for SMEs; infrastructure services for large corporations.

2021 Revenues: €5.6bn

Chorus (New Zealand)

Fixed line communications infrastructure services in New Zealand. It offers phone and broadband services over copper and fiber networks for residential and business customers, high-speed digital subscriber line broadband services, colocation services.

2021 Revenues: €558m

Cogent Communications (USA)

High-speed Internet access, private network and datacenter colocation services to SMEs, communications service providers, and other bandwidth-intensive organizations in North America, Europe, Asia, Australia and Brazil.

2021 Revenues: €502m

Bredband2 i Skandinavien (Sweden)

Mobile broadband, router, telephony, antivirus and TV services.

2021 Revenues: €147m

Source: EnVent Research on S&P Capital IQ and companies' financial statements

Key data comparison

For Convergenze, TLC BU profitability

	Convergenze	Unidata	Intred	Planetel
Business mix	TLC + Energy	TLC	TLC	TLC
Technology	FTTH-FWA	FTTH	FTTH-FWA	FTTC-FTTH-FWA
Fiber network km	6,683	4,590	8,000	1,880
of which in IRU	1,036	na	na	740
BTS towers	100	26	na	44
Geographical coverage	Salerno - Campania	Rome - Lazio	Lombardy	Lombardy, Veneto, Campania
Active services/N. of customers	53,000	13,496	45,600	30,287
FY21 key financials				
Sales	18.4	36.3	40.5	22.8
TLC (Connectivity + infrastructure)	8.9	29.3	36.9	16.7
Other	9.4	6.9	3.5	6.1
EBITDA	2.7	14.1	17.6	4.8
Margin on sales %	29%	39%	43%	21%
EBIT	1.7	9.1	11.8	1.4
Margin on sales %	19%	25%	29%	6%
Capex/Sales	29%	38%	37%	40%
Net debt/Revenues	0.1x	0.1x	cash	0.3x
Net debt/EBIT	4.4x	0.2x	cash	6.0x
Market cap, current	18.7	136.3	206.2	44.8
EV/Revenues 2022E	0.9x	2.5x	4.3x	1.6x

Source: EnVent Research on S&P Capital IQ, Companies' financial statements and presentations -
Note: for Convergenze number of active services; for TLC BU EBIT, EnVent Research proxy

Energy

Within the liberalized energy industry, we deem, to a certain extent, European public companies as better suitable, given common regulatory environment, access to same supply markets, comparability of energy costs, predictability of climatic conditions, exposure to the same market/target customers. These companies operate in different stages of the electricity (production, sale and distribution) and gas supply chains (production, storage, sale and distribution).
We have segmented peers into two clusters:

- **Local multi-utilities in Italy** - medium-sized companies grown through mergers of municipal or regional multi-utilities, such as A2A, Iren, Acea, Hera. They operate in electricity, gas, waste, water or heat businesses and their presence is concentrated, regional or multiregional. A significant portion of revenues and profits is generated by own generation capacity and regulated businesses, as such, they are less subject to electricity market dynamics and have an inherently lower risk profile. Thus, comparability with Convergenze is partial.
- **Multinational ex-incumbents** - energy producers and sellers, large multinationals such as Enel, Eni, EDF, E.ON, Edison. They are well financed and established businesses, with a strong trade position, often in mature business environments. Their past earnings have been stable and their future is fairly predictable. These groups are large and diversified, business mix and profitability also differ. They have operating and control procedures that imply also a relatively lower risk profile. Comparability with Convergenze is low, because of size, business model and risk profile. However, they are worth to be analyzed, to perceive the vision of the global market leaders about the industry and the expected evolution and dynamics.

Summary: Convergenze vs peers and comparability

TLC

For the TLC business, Convergenze can be properly compared to some closest peers: Unidata, Intred and Planetel. They are local/regional operators, offering broadband connectivity services based on a proprietary infrastructure, in the investment cycle, currently extending their proprietary networks. Current profitability of Convergenze is lower compared to two out of the three closest peers, probably being impacted by the network saturation level.

Energy

There are no fully comparable listed companies to Convergenze Energy BU, since the most similar companies operate in different stages of the supply chain, including upstream and midstream.
Convergenze, focused on retail of energy purchased on the free market, has no investment in power generation capacity, service more than production attitude, lean and dynamic internal organization. Its finance needs are driven by working capital logics and regulatory issues. It can be defined as a business operating in a more competitive industry segment, requiring limited capital to enter.

Market multiples

Company	EV/Revenues 2021	EV/Revenues 2022E	EV/Revenues 2023E	EV/EBITDA 2021	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBIT 2021	EV/EBIT 2022E	EV/EBIT 2023E	P/E 2021	P/E 2022E	P/E 2023E
TLC												
Unidata	3.8x	2.5x	2.0x	9.8x	7.8x	6.3x	15.2x	13.6x	9.9x	17.4x	19.3x	13.6x
Intred	7.1x	4.3x	3.7x	16.7x	9.8x	8.5x	25.0x	14.7x	12.6x	34.8x	na	na
Planetel	3.0x	1.6x	1.5x	14.9x	7.3x	5.9x	52.0x	17.8x	11.4x	59.5x	21.4x	13.2x
GO internet	2.7x	na	na	neg	na	na	neg	na	na	neg	na	na
Tiscali	1.3x	0.9x	0.9x	nm	5.0x	4.4x	neg	neg	neg	neg	na	na
United Internet	1.6x	1.2x	1.2x	8.3x	5.5x	5.2x	11.6x	8.9x	8.7x	15.7x	10.7x	10.5x
Bredband2	1.5x	1.3x	1.2x	15.6x	7.6x	7.2x	24.2x	16.1x	13.7x	25.5x	14.5x	14.1x
Cogent Communications	7.6x	6.3x	5.9x	21.5x	16.0x	14.7x	38.7x	31.3x	27.3x	nm	nm	48.5x
Chorus	6.9x	7.1x	6.9x	11.5x	10.1x	9.8x	28.9x	28.7x	28.1x	70.3x	60.6x	55.1x
Mean	**4.0x**	**3.1x**	**2.9x**	**14.0x**	**8.6x**	**7.7x**	**27.9x**	**18.7x**	**15.9x**	**37.2x**	**25.3x**	**25.8x**
Mean w/out extremes	**3.8x**	**2.9x**	**2.6x**	**13.7x**	**8.0x**	**7.1x**	**26.4x**	**18.2x**	**15.0x**	**34.3x**	**18.4x**	**22.4x**
Median	**3.0x**	**2.1x**	**1.7x**	**14.9x**	**7.7x**	**6.7x**	**25.0x**	**16.1x**	**12.6x**	**30.1x**	**19.3x**	**13.9x**
Energy - Local multi-utilities												
A2A	0.9x	0.6x	0.7x	7.9x	6.2x	5.6x	16.0x	14.7x	12.2x	10.4x	11.4x	9.4x
ACEA	2.3x	1.8x	1.9x	8.6x	5.9x	5.7x	17.5x	12.8x	12.4x	12.7x	9.2x	8.9x
Hera	0.8x	0.7x	0.8x	8.7x	6.3x	6.1x	14.5x	12.8x	12.3x	16.1x	11.9x	11.5x
Iren	1.5x	1.2x	1.3x	8.0x	5.8x	5.5x	16.5x	12.3x	11.6x	11.2x	8.0x	7.7x
Mean	**1.4x**	**1.1x**	**1.1x**	**8.3x**	**6.1x**	**5.7x**	**16.1x**	**13.1x**	**12.1x**	**12.6x**	**10.1x**	**9.4x**
Median	**1.2x**	**1.0x**	**1.0x**	**8.3x**	**6.1x**	**5.6x**	**16.3x**	**12.8x**	**12.2x**	**12.0x**	**10.3x**	**9.2x**
Energy - Multinational ex-incumbents												
Enel	1.5x	1.5x	1.5x	9.6x	6.8x	6.4x	15.7x	11.1x	10.3x	22.5x	8.6x	7.8x
Eni	0.8x	0.5x	0.5x	3.3x	1.9x	2.1x	4.6x	2.7x	3.2x	7.4x	3.3x	4.4x
Electricité de France	0.8x	1.0x	0.9x	4.5x	63.0x	4.4x	10.7x	neg	11.5x	6.5x	neg	10.5x
E.ON	0.9x	0.7x	0.7x	neg	7.2x	7.4x	neg	12.0x	12.1x	6.8x	7.8x	8.0x
Edison	0.6x	na	na	10.6x	na	na	19.1x	na	na	17.0x	na	na
Mean	**0.9x**	**0.9x**	**0.9x**	**7.0x**	**19.7x**	**5.1x**	**12.5x**	**8.6x**	**9.3x**	**12.0x**	**6.5x**	**7.7x**
Median	**0.8x**	**0.8x**	**0.8x**	**7.0x**	**7.0x**	**5.4x**	**13.2x**	**11.1x**	**10.9x**	**7.4x**	**7.8x**	**7.9x**
Energy - Full sample												
Mean	**1.1x**	**1.0x**	**1.0x**	**7.6x**	**12.9x**	**5.4x**	**14.3x**	**11.2x**	**10.7x**	**12.3x**	**8.6x**	**8.5x**
Median	**0.9x**	**0.8x**	**0.8x**	**8.3x**	**6.2x**	**5.6x**	**15.8x**	**12.3x**	**11.9x**	**11.2x**	**8.6x**	**8.5x**
Full sample												
Mean	**2.5x**	**2.1x**	**2.0x**	**10.6x**	**10.8x**	**6.6x**	**20.7x**	**15.0x**	**13.1x**	**22.2x**	**15.6x**	**15.9x**
Median	**1.5x**	**1.3x**	**1.2x**	**9.6x**	**7.0x**	**6.0x**	**16.5x**	**13.2x**	**12.1x**	**16.1x**	**11.0x**	**10.5x**
Convergenze	**1.3x**	**0.9x**	**0.8x**	**13.3x**	**6.7x**	**5.4x**	**45.6x**	**15.2x**	**18.5x**	**90.5x**	**19.3x**	**13.6x**

Source: EnVent Research on S&P Capital IQ, 25/07/2022

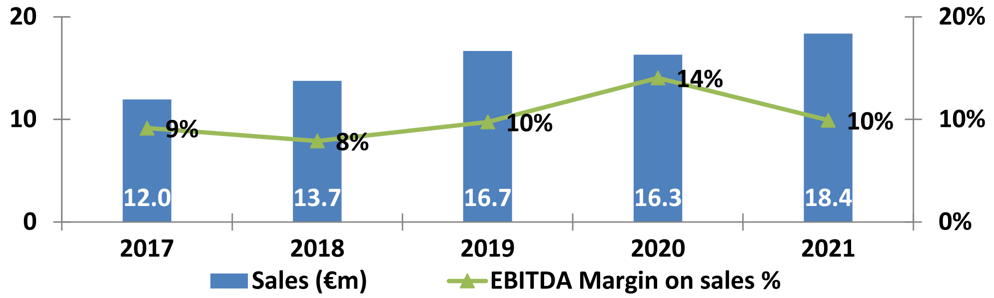
The selected samples present, in our view, a sufficient degree of convergence and consistency to be assumed as market multiples references, confirming the stability of the two industries on the long-run. This also confirms the investors' perception that these industries are less affected than others by macroeconomic downturns and uncertainties and that these companies, that have gained a visible and well-structured presence, are expected to maintain their value and continuing payback.

7. FINANCIAL ANALYSIS AND PROJECTIONS

A gradual and regular growth of sales, with stable profitability

Over the last five years, Convergenze sales grew steadily, with 2017-21 CAGR at 11%, and EBITDA profitability was fairly stable, mostly in the 10% region, with some fluctuations in the 8-14% range. Looking at the two BUs, 5Y sales growth was at 14% CAGR for Energy and 8.5% for TLC. Between 2018 and 2021, Convergenze invested €10m in fixed assets, mainly in the extension of its proprietary optic fiber network to over 5,600 km as of year-end 2021.

5Y Historical performance



Source: Company data

P&L metrics show a regular progress trend, with a growing customer base despite market challenges

Convergenze generated sales of €18.4m in FY21, +13% YoY, driven by the TLC BU, which continued its gradual and steady growth on the back of the infrastructure investment plan with an increase in sales by 19% YoY reaching €8.9m. The Energy BU, despite an increase in active services and sales going up by 7% to €9.4m, almost recovering the pre-Covid level after the consumption slowdowns due to pandemic restrictions for business customers (representing the majority of the Energy customer base), was impacted by the Energy Authority resolutions to reduce the burden related to electricity cost for some users, resulting in a reduction of FY21 turnover estimated in €1.1m, according to management.

Within the Energy BU, although not yet significant as to figures, the EVO charging station network recorded +227% YoY growth in the number of recharges and +164% in consumptions. Other income of almost €0.6m is mainly represented by IPO tax credit.

Single BUs profitability in line with respective industries (over 25% for TLC and below 10% for Energy), with room for growth mainly in the TLC BU

Cost of sales was in the region of 65-70% of sales, consistently with pre-Covid level; services were 8% of sales; personnel went up by almost 20%, after 12 new hirings in the year. EBITDA was €1.8m, almost 10% margin, vs €2.3m in FY20 (14% margin), reflecting the sudden rise in natural gas and electricity procurement cost which affected especially H2.

The TLC BU generated €2.7m EBITDA, 28.5% margin, an increase by 49% YoY driven by the expansion of the proprietary FTTH and WiFi infrastructure, which makes it possible to limit the cost of third-party network infrastructure (direct cost of sales went down from 43% in FY20 to 37% in FY21). The Energy BU reported an EBITDA of €(0.8)m, vs €0.5m (6% margin) in FY20, due to the impact of the sudden and unpredictable rise in energy procurement cost, an all-time high (energy cost was 98% of sales vs 79% in FY20). It was not possible for the Company to promptly adjust rates and transfer the cost increases to customers, also due to a market regulation which does not allow contractual changes before a given term.

Bottom line affected by D&A being in an investment cycle

EBIT was €0.5m, after €1.3m D&A, vs €1.2m in FY20. D&A, mostly depreciation of fixed assets, increased by 38% due to higher investments in proprietary FTTH and WiFi infrastructure and datacenters. Net income was €0.2m, vs €0.7m in FY20.

A WC-driven and fixed assets-based B/S, no issues

On the balance sheet, Trade Working Capital was €(1)m, made of €3.7m payables (55 DPO), €2.5m receivables (40 DSO) and €0.2m TLC inventory, -5% of sales. Non-current assets are mostly made of €10.5m property, plant and equipment, mainly the own FTTH network, WiFi infrastructure, *Convergenze Innovation Center* and datacenters, and €0.9m intangible assets.
At year-end 2021 net financial debt increased to €2.3m (net debt to EBITDA ratio of 1.3x), from €0.1m cash as of year-end 2020, mainly for capex uses only partially financed by operations and period proceeds. Equity was €5.9m, 0.4x net debt to equity ratio, after €0.3m IPO proceeds coming from the greenshoe option exercise and €0.3m warrants exercise.

Sound and increasing cash generations from operations, used to finance growth capex

Operating cash flow before capex fully reflects EBITDA, with a cash conversion ratio of over 100%. Capital expenditure was €5.2m (29% of sales), of which €2.9m in FTTH network in some municipalities in the province of Salerno and WiFi infrastructure in Campania and Basilicata regions, €1m in the extension of datacenters storage capacity, €0.6m intangible assets.

Proprietary infrastructure and cross-selling drive growth in local uncovered territories

Key growth drivers

- Own fiber and WiFi network in Salerno/Cilento area, suitable for further expansion
- Continuous customer base development
- Cross-selling between TLC and Energy customers
- Service portfolio diversification with media and cloud value-added services
- Recurring revenues generated by connectivity and energy contract subscriptions

Estimates

We have drawn our estimates on a 4Y horizon, to appreciate the effect on sales of the 3Y investment plan in infrastructure, assuming 1Y time from investment to activation of services.

Assumptions

Revenues	Sales built per BU based on respective KPIs - TLC: doubling of sales from €8.9m in FY21 to €18.9m in 2025E based on a 3Y investment plan on own optic fiber infrastructure and consistent customer base growth - Energy: moderate sales growth at 6.5% 2021-25E CAGR based on assumptions of growing customers, almost flat consumption and soaring energy costs - Other income 1% of sales
Operating costs	Operating costs estimated per BU in our model - Cost of sales decreasing from 68% of sales in FY21 to 58% in 2025E, for lower third-party TLC infrastructure cost and normalizing energy costs compared to 2021 level

	- Services 8-10% of sales - Personnel 11% CAGR, driven by growing volumes and organization complexity - Other operating 3% of sales
Income taxes	- Corporate tax (IRES): 24%; Regional tax (IRAP): 4.97%

Working Capital	- Trade working capital:
	  - DSO 40, in line with FY21
	  - DPO 60, as average of last 3Y fluctuating between 55-65
	  - DOI 8, only TLC, consistent with historical level
	- Other assets (liabilities) consistent with historical level at -9% of sales, mostly deferred income for equipment grants/tax credit

Capex	- PPE - mainly extension of optic fiber network, plus maintenance and improvement of the existing equipment - €4.5m per year in the 3Y 2022-24E and €2.5m in 2025E - Intangible assets €0.5m per year
Financial debt	- Long-term bank debt and bonds estimated according to repayment schemes, where available
Equity	- No dividend distribution

Source: EnVent Research

Projections

Profit and Loss

€m	2019	2020	2021	2022E	2023E	2024E	2025E
Sales TLC BU	7.0	7.5	8.9	11.7	14.5	17.3	18.9
Sales Energy BU	9.7	8.8	9.4	10.9	11.7	11.9	12.1
Sales	16.7	16.3	18.4	22.6	26.2	29.2	31.0
Other income	0.1	0.2	0.6	0.2	0.2	0.2	0.2
Total Revenues	**16.8**	**16.5**	**18.9**	**22.8**	**26.4**	**29.5**	**31.3**
YoY %	-	*-1.9%*	*14.9%*	*20.5%*	*15.8%*	*11.6%*	*6.1%*
Cost of sales	(11.7)	(10.1)	(12.6)	(14.2)	(15.9)	(17.2)	(17.9)
Gross profit	**5.1**	**6.3**	**6.3**	**8.6**	**10.5**	**12.3**	**13.4**
Margin	*30.4%*	*38.5%*	*33.5%*	*37.9%*	*39.9%*	*41.8%*	*42.8%*
Services	(1.4)	(1.7)	(1.5)	(1.8)	(2.5)	(3.0)	(3.2)
Personnel	(1.8)	(2.1)	(2.5)	(3.1)	(3.4)	(3.8)	(4.2)
Other operating costs	(0.3)	(0.3)	(0.4)	(0.6)	(0.7)	(0.8)	(0.8)
Operating costs	(3.5)	(4.0)	(4.5)	(5.5)	(6.6)	(7.6)	(8.2)
Adjusted EBITDA	**1.6**	**2.3**	**1.8**	**3.2**	**3.9**	**4.7**	**5.2**
Margin	*9.7%*	*13.9%*	*9.6%*	*13.8%*	*14.8%*	*16.1%*	*16.5%*
Non-recurring items	(0.1)	(0.1)	(0.0)	0.0	0.0	0.0	0.0
EBITDA	**1.6**	**2.2**	**1.8**	**3.2**	**3.9**	**4.7**	**5.2**
Margin	*9.4%*	*13.1%*	*9.5%*	*13.8%*	*14.8%*	*16.1%*	*16.5%*
D&A	(0.6)	(0.9)	(1.3)	(1.8)	(2.8)	(3.7)	(4.5)
EBIT	**1.0**	**1.2**	**0.5**	**1.4**	**1.1**	**1.0**	**0.6**
Margin	*5.9%*	*7.5%*	*2.8%*	*6.1%*	*4.4%*	*3.4%*	*2.0%*
Interest	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
EBT	**0.8**	**1.0**	**0.3**	**1.2**	**1.0**	**0.8**	**0.5**
Margin	*4.6%*	*6.2%*	*1.5%*	*5.4%*	*3.8%*	*2.8%*	*1.5%*
Income taxes	(0.3)	(0.3)	(0.0)	(0.4)	(0.3)	(0.3)	(0.1)
Net Income (Loss)	**0.5**	**0.7**	**0.2**	**0.9**	**0.7**	**0.6**	**0.3**
Margin	*3.1%*	*4.2%*	*1.3%*	*3.8%*	*2.6%*	*2.0%*	*1.1%*

Source: Company data 2019-21A, EnVent Research 2022-25E

Balance Sheet

€m	2019	2020	2021	2022E	2023E	2024E	2025E
Inventory	0.1	0.1	0.2	0.3	0.3	0.4	0.4
Trade receivables	2.0	2.0	2.5	3.0	3.5	3.9	4.1
Trade payables	(3.2)	(3.3)	(3.7)	(4.3)	(4.8)	(5.2)	(5.0)
Trade Working Capital	(1.0)	(1.1)	(1.0)	(1.0)	(1.0)	(0.9)	(0.4)
Other assets (liabilities)	(1.1)	(1.0)	(1.7)	(2.1)	(2.4)	(2.7)	(2.8)
Net Working Capital	**(2.1)**	**(2.0)**	**(2.7)**	**(3.1)**	**(3.4)**	**(3.6)**	**(3.3)**
Intangible assets	0.2	0.6	0.9	1.1	1.2	1.2	1.1
Property, plant and equipment	4.8	6.8	10.5	13.6	15.7	17.0	15.5
Equity investments and financial assets	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Non-current assets	**5.0**	**7.5**	**11.4**	**14.7**	**16.9**	**18.2**	**16.6**
Provisions	**(0.5)**	**(0.5)**	**(0.6)**	**(0.7)**	**(0.7)**	**(0.8)**	**(0.9)**
Net Invested Capital	**2.4**	**5.0**	**8.2**	**10.9**	**12.8**	**13.8**	**12.5**
Bank debt	1.2	1.9	4.9	4.5	4.5	4.5	4.5
Bonds	0.0	1.0	0.9	0.8	0.6	0.4	0.2
Other financial debt	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Receivables from shareholders	0.0	(2.5)	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	(0.7)	(0.6)	(3.6)	(1.2)	0.2	0.7	(0.7)
Net Debt (Cash)	**0.5**	**(0.1)**	**2.3**	**4.1**	**5.3**	**5.7**	**4.1**
Equity	**1.9**	**5.0**	**5.9**	**6.7**	**7.4**	**8.0**	**8.4**
Sources	**2.4**	**5.0**	**8.2**	**10.9**	**12.8**	**13.8**	**12.5**

Source: Company data 2019-21A, EnVent Research 2022-25E

Cash Flow

Normalized cash flow after the investment cycle

€m	2019	2020	2021	2022E	2023E	2024E	2025E
EBIT	**1.0**	**1.2**	**0.5**	**1.4**	**1.1**	**1.0**	**0.6**
Current taxes	(0.3)	(0.3)	(0.0)	(0.4)	(0.3)	(0.3)	(0.1)
D&A	0.6	0.9	1.3	1.8	2.8	3.7	4.5
Provisions	0.1	(0.0)	0.1	0.1	0.1	0.1	0.1
Cash flow from P&L operations	**1.4**	**1.8**	**1.8**	**2.9**	**3.7**	**4.6**	**5.1**
Trade Working Capital	0.3	0.0	(0.1)	0.1	(0.0)	(0.1)	(0.5)
Other assets and liabilities	0.6	(0.1)	0.7	0.4	0.3	0.3	0.2
Operating cash flow before capex	**2.3**	**1.7**	**2.5**	**3.4**	**4.0**	**4.7**	**4.8**
Capex	(1.4)	(3.4)	(5.2)	(5.0)	(5.0)	(5.0)	(3.0)
Operating cash flow after WC and capex	**0.9**	**(1.7)**	**(2.8)**	**(1.6)**	**(1.0)**	**(0.3)**	**1.8**
Interest	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
IPO proceeds	0.0	2.5	0.3	0.0	0.0	0.0	0.0
Warrants exercise	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Net cash flow	**0.7**	**0.6**	**(2.4)**	**(1.8)**	**(1.2)**	**(0.4)**	**1.6**
Net Debt (Beginning)	(1.2)	(0.5)	0.1	(2.3)	(4.1)	(5.3)	(5.7)
Net Debt (End)	(0.5)	0.1	(2.3)	(4.1)	(5.3)	(5.7)	(4.1)
Change in Net Debt (Cash)	**0.7**	**0.6**	**(2.4)**	**(1.8)**	**(1.2)**	**(0.4)**	**1.6**

Source: Company data 2019-21A, EnVent Research 2022-25E

Consistency of ratios, while capex increase invested capital and impact EBIT

Ratio analysis

	2019	2020	2021	2022E	2023E	2024E	2025E
ROE	28%	14%	4%	13%	9%	7%	4%
ROA	12%	9%	3%	7%	6%	5%	3%
ROS	6%	8%	3%	6%	4%	3%	2%
ROI	41%	25%	6%	13%	9%	7%	5%
DSO	36	37	40	40	40	40	40
DPO	65	63	55	60	60	60	60
DOI	5	7	9	8	8	8	8
TWC/Sales	-6%	-7%	-5%	-5%	-4%	-3%	-1%
NWC/Sales	-13%	-13%	-14%	-14%	-13%	-12%	-11%
Capex/Sales	8%	21%	29%	22%	19%	17%	10%
Net Debt/Revenues	0.0x	cash	0.1x	0.2x	0.2x	0.2x	0.1x
Net Debt/EBITDA	0.3x	0.0x	1.3x	1.3x	1.4x	1.2x	0.8x
Net Debt/EBIT	0.5x	cash	4.4x	3.0x	4.6x	5.8x	6.5x
Net Debt/Equity	0.3x	0.0x	0.4x	0.6x	0.7x	0.7x	0.5x
Cash flow from P&L operations/EBITDA	88%	84%	103%	92%	94%	96%	99%
FCF/EBITDA	56%	neg	neg	neg	neg	neg	35%
Basic Earnings per Share (€)	na	0.09	0.03	0.11	0.09	0.08	0.04

Source: Company data 2019-21A, EnVent Research 2022-25E

8. VALUATION

Proprietary infrastructure and customer base are key assets for growth strategy and value-building path

Key valuation topics

The profile of Convergenze is that of a local first mover in the TLC industry and an emerging energy provider that is consolidating its positioning in the local market and working on building its position on the fragmented national market of telcos and energy utilities. Being in its investment cycle, Convergenze will continue to invest in own TLC infrastructure and new products/services to drive revenue and profitability growth over time.

Value drivers

- In the TLC and energy/utilities industries, proprietary infrastructure and customer base are major value drivers
- Entry barriers are high in the telco industry and are represented by the investment in own infrastructure; conversely, in the energy industry barriers are low for newcoming resellers
- The recent performance of Convergenze, with steady and gradual sales growth, accompanied by industry-like profitability, is consistent with industry expectations and a medium-low risk profile
- Business mix balanced between a solid business, anchored to fixed investments, and a more volatile one
- Proprietary technology and digital approach in the customer journey
- Revenue visibility from recurring subscriptions
- Revenue model made of variable costs, low overheads
- Low risk balance sheet, with investment in fixed assets, negative working capital cycle, no issues on financial debt profile

Use of market metrics and valuation issues

- Pass-through system and transmission charges, fees paid to national transmission system operators and charged to end-consumers in their bills. Thus, sales and related cost of sales in Convergenze P&L include transmission costs and passing charges rebilled to customers.
- Available market multiples of energy peers come from companies and business mixes fairly different from Convergenze Energy BU
- Given the wide range among TLC peers' market multiples, we have normalized the result by adopting the mean among the three calculations (mean, mean without extremes and median)
- The valuation is run in a framework of high volatility, including domestic and international turbulence and a rising inflation perspective; as a consequence, certain value determinants are subject to significant judgmental adjustments

Valuation

The valuation of Convergenze has been performed through:

- Discounted Cash Flows applied to our 2022-25E financial projections
- Market multiples by BU under the Sum of the Parts approach

Discounted Cash Flows

Main metrics and assumptions:

- Risk free rate: 1.1% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, July 2022)
- Market return: 12.6% (3Y average. Source: Bloomberg, July 2022)
- Market risk premium: 11.5%
- Beta: 0.8 (From selected comparable companies. Source: Bloomberg, July 2022)
- Cost of equity: 10.3%
- Cost of debt: 4.0%
- Tax rate: 24% IRES
- 50% debt/(debt + equity) as capital structure
- WACC calculated at 6.7%, according to above data
- Perpetual growth rate after explicit projections: 2.5%
- Terminal Value assumes a 17% EBITDA margin

DCF valuation

€m		2019	2020	2021	2022E	2023E	2024E	2025E	Perpetuity
Revenues		**16.8**	**16.5**	**18.9**	**22.8**	**26.4**	**29.5**	**31.3**	**32.0**
EBITDA		**1.6**	**2.2**	**1.8**	**3.2**	**3.9**	**4.7**	**5.2**	**5.4**
Margin		*9.4%*	*13.1%*	*9.5%*	*13.8%*	*14.8%*	*16.1%*	*16.5%*	*17.0%*
EBIT		**1.0**	**1.2**	**0.5**	**1.4**	**1.1**	**1.0**	**0.6**	**2.9**
Margin		*5.9%*	*7.5%*	*2.8%*	*6.1%*	*4.4%*	*3.4%*	*2.0%*	*9.2%*
Taxes		(0.3)	(0.4)	(0.2)	(0.4)	(0.3)	(0.3)	(0.2)	(0.9)
NOPAT		**0.7**	**0.9**	**0.4**	**1.0**	**0.8**	**0.7**	**0.4**	**2.1**
D&A		0.6	0.9	1.3	1.8	2.8	3.7	4.5	2.5
Provisions		0.1	(0.0)	0.1	0.1	0.1	0.1	0.1	0.0
Cash flow from P&L operations		**1.4**	**1.8**	**1.7**	**2.9**	**3.6**	**4.5**	**5.1**	**4.6**
Trade Working Capital		0.3	0.0	(0.1)	0.1	(0.0)	(0.1)	(0.5)	(0.1)
Other assets and liabilities		0.6	(0.1)	0.7	0.4	0.3	0.3	0.2	0.0
Capex		(1.4)	(3.4)	(5.2)	(5.0)	(5.0)	(5.0)	(3.0)	(2.5)
Unlevered free cash flow		**0.9**	**(1.7)**	**(2.9)**	**(1.7)**	**(1.1)**	**(0.3)**	**1.7**	**2.0**
WACC	6.7%								
Long-term growth (G)	2.5%								
Discounted Cash Flows					**(1.6)**	**(0.9)**	**(0.2)**	**1.3**	
Sum of Discounted Cash Flows	(1.4)								
Terminal Value									**48.8**
Discounted TV	37.7								
Enterprise Value	**36.3**								
Net debt as of 31/12/21	(2.3)								
Equity Value	**34.0**								
Equity Value per share (€)	**4.53**								

Source: EnVent Research

DCF - Implied multiples		2020	2021	2022E	2023E	2024E	2025E
EV/Revenues		2.2x	1.9x	1.6x	1.4x	1.2x	1.2x
EV/EBITDA		16.9x	20.3x	11.5x	9.3x	7.7x	7.0x
EV/EBIT		29.3x	69.2x	26.0x	31.5x	36.6x	57.5x
P/E		48.9x	142.4x	39.5x	48.8x	57.7x	101.1x
Discount of current valuation vs DCF	***42%***						
Current market price - Implied multiples		**2020**	**2021**	**2022E**	**2023E**	**2024E**	**2025E**
EV/Revenues		1.3x	1.1x	0.9x	0.8x	0.7x	0.7x
EV/EBITDA		9.8x	11.8x	6.7x	5.4x	4.4x	4.1x
EV/EBIT		17.0x	40.2x	15.1x	18.3x	21.2x	33.4x
P/E		27.0x	78.6x	21.8x	26.9x	31.9x	55.8x

Source: EnVent Research

Valuation based on market multiples by BU under SoP

We have applied market multiples of peers using data which derive from 2022E analyst consensus. Multiples of the local multi-utilities have been applied to the Energy BU, in consideration of our comparability assessment.

We look at EV/Revenues multiples to express the value embedded in Convergenze short-term perspective, having the advantage of not being influenced by investment cycles or temporarily profitability levels below the ordinary industry thresholds, which is the case for the Energy BU.

SoP application

€m

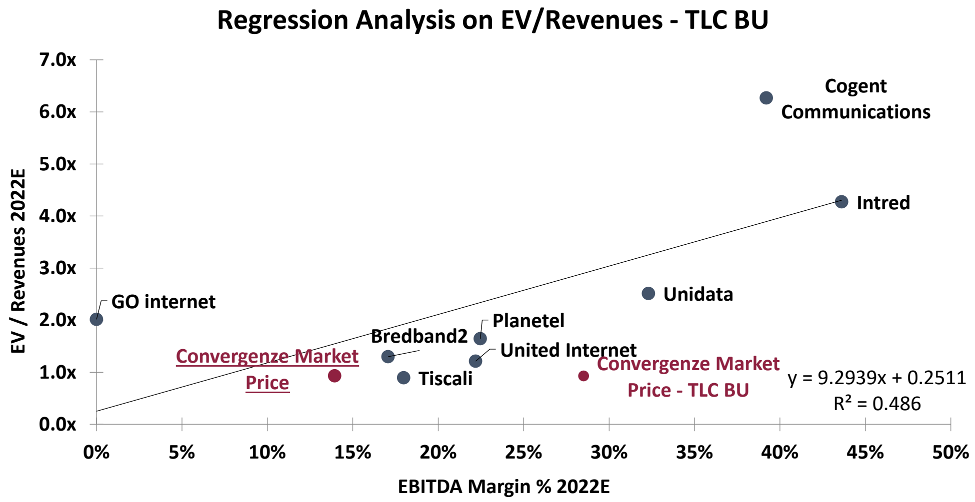
Convergenze		2022E Market multiples	
EV TLC BU			
2022E Sales	**11.7**	2.9x	33.7
EV Energy BU			
2022E Sales	**10.9**	1.0x	10.6
SOP EV Convergenze			***44.2***
Net debt as of 31/12/21			(2.3)
Equity value Convergenze			**41.9**
Equity value convergenze per share (€)			**5.59**

Source: EnVent Research

Regression analysis

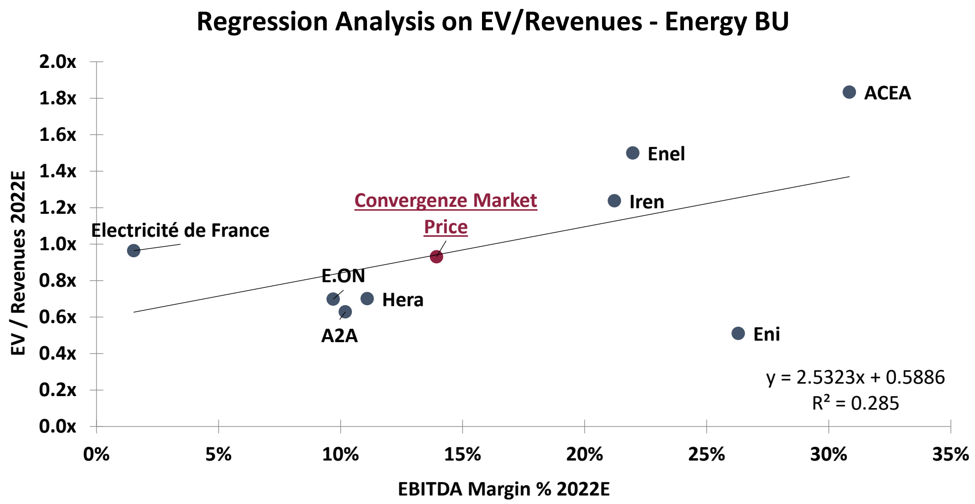
We have run a separate regression analysis for each peer group, to represent Convergenze positioning vs peers and the embedded values implied by EV/Revenues multiples.

Convergenze positioning, with profitability in the low-side of the TLC peer group being impacted by the Energy BU, shows wide room for growth



Source: EnVent Research on S&P Capital IQ data, July 2022

Low comparability and correlation within the Energy peer group



Source: EnVent Research on S&P Capital IQ data, July 2022

Valuation summary and Target Price

The value expectation on Convergenze relies on the continuity of the infrastructure investment plan and on its capability to realize effective cross-selling strategies between TLC and Energy customers and achieve a fast increase of market positioning. In our view, the summary valuation, in a framework of mild comparability of peers, should take into account both the DCF, as standpoint in Convergenze value building path, and the present market sentiment for the two BUs. The outcome target price is €5.06 per share. Given the potential upside of 102% on current share price, we initiate coverage of Convergenze with an OUTPERFORM rating on the stock.

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

Convergenze Price per Share	€
Target Price	5.06
Current Share Price (25/07/2022)	2.50
Premium (Discount)	**102%**

Source: EnVent Research

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Date	Recommendation	Target Price (€)	Share Price (€)
25/07/2022	OUTPERFORM	5.06	2.50

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