

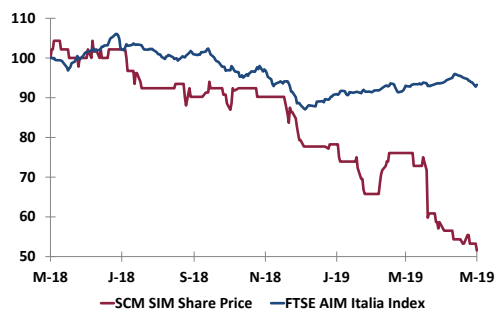


## OUTPERFORM

**Current Share Price (€): 4.74**

**Target Price (€): 6.74**

### SCM SIM - 1Y Performance



Source: S&P Capital IQ - Note: 14/05/2018=100

### Company data

ISIN number	IT0005200248
Bloomberg code	SCM IM
Reuters code	SCM.MI
Share Price (€)	4.74
Date of Price	14/05/2019
Shares Outstanding (m)	2.0
Market Cap (€m)	9.5
Market Float (%)	16.1%
Daily Volume	480
Avg Daily Volume YTD	305
Target Price (€)	6.74
Upside (Discount) %	42%
Recommendation	OUTPERFORM

### Share price performance

	1M	3M	1Y
SCM SIM - Absolute (%)	-12%	-22%	-48%
FTSE AIM Italia (%)	0%	2%	-7%
1Y Range H/L (€)		9.60	4.74
YTD Change (€)/%		-2.41	-34%

Source: S&P Capital IQ

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## AUM drop and losses lead to capital raising and actions to recover profitability

### AUM down bring losses and push away value targets

SCM's AUM fell over 20% to €846m as of December 2018, also hit by negative market performance. Fee income was €6.4m, -20% YoY, following the AUM trend. Fee expense was €3.3m, consistently at 50% of fee income. Brokerage margin was €3.0m, down by 27% compared to FY17. Personnel cost increased by almost 30%, from €1.7m to €2.2m, due to the hiring of managers and young professionals. Net loss was €1.1m. Operations used €1m of cash.

### G&A cost optimization program to offset a worsening cost/income ratio

In 2018 G&A decreased by 17% YoY, while personnel cost increased by nearly 30%. We expect during 2019 a cost reduction program and a substantial cost/income ratio reduction. We recall that cost/income in 2018 increased to over 150%, higher than 110% of 2017, maximum level ever reached.

### Rights issue completed with €0.7m capital raised

In December 2018, the Board of Directors approved a rights issue to raise up to €1.2m, beginning on January 7<sup>th</sup> and ending on April 30<sup>th</sup>, 2019. The paid-in capital was €0.7m.

### Breakeven moving forward, estimates reset

AUM backing down and losses overturn targets. Considering the recent underperformance and the cost cutting actions that we expect, we have revised our estimates downwards. The cost/income target on which the SCM value building perspective is founded is thus postponed.

### Target Price €6.74 per share (from €8.92), OUTPERFORM rating

In the last update note we rated SCM shares NEUTRAL and lowered our Target Price from €9.52 to €8.92, on our lower estimates. The €7.15 price per share of the rights issue just completed represents a 20% drop on our last target price and a 50% premium on current market price of SCM share, which since beginning of April has lost an additional 25%.

Italian listed asset management peers have suffered an average 30% drop in 2018, compared to the SCM over 40%.

Our updated Target Price is €6.74 per share, a 42% premium on current share price, as such we assign an OUTPERFORM rating on the stock. The €6.74 current share price on our revised estimates indicates an AUM multiple of 1.6%, a 60% discount on the average 4% of peers.

### Key financials and estimates

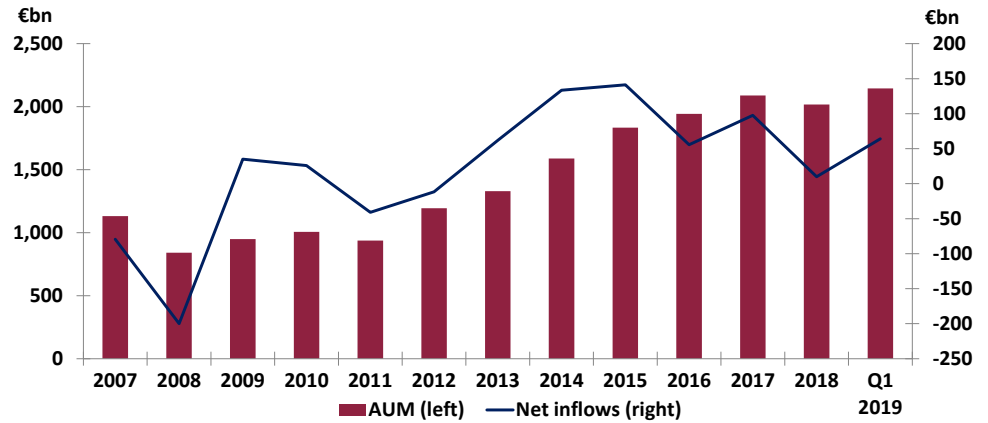
	2017A	2018A	2019E	2020E	2021E	2022E
Assets Under Management (AUM)	1,083	846	980	1,150	1,300	1,450
Private bankers (units)	27	34	39	46	52	58
Brokerage Margin	4.1	3.0	3.6	4.4	5.2	5.8
EBT	(0.3)	(1.3)	(0.2)	0.5	1.3	1.8
Net Income (Loss)	(0.3)	(1.1)	(0.2)	0.3	0.9	1.3
Net (Debt) Cash	1.4	0.4	1.0	1.1	1.8	2.9
Equity	3.8	2.9	3.2	3.6	4.5	5.8
Cost/Income	110%	151%	106%	88%	75%	69%
Net fees/AUM (bps)	37	36	37	38	40	40
ROE	-8%	-37%	-5%	10%	20%	22%

Source: Company data 2017-18A; EnVent Research 2019-22E

## Period facts: industry and market down

### Industry performance: in 2018 first AUM drop since 2011

AUM and net inflows 2007-Q1 2019 (€bn)

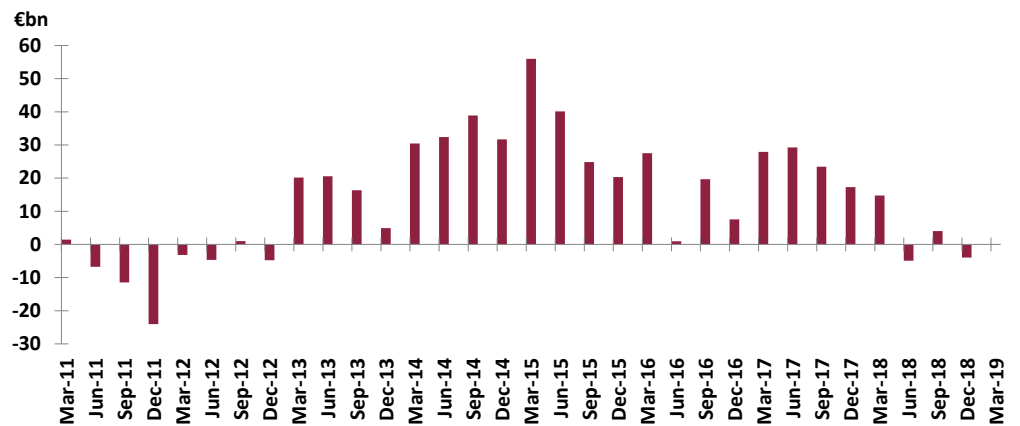


Domestic industry net inflows drop -90% in 2018 vs 2017, recovery in Q1 2019

Peak AUM in March 2019

Source: Italian Fund Hub - Assogestioni, Cubodata, data extracted in May 2019

Net inflows by quarter 2011-Q1 2019 (€bn)



Last 9 months of 2018 €5bn outflow

First 3 months of 2019 €0.1bn inflow

Source: Italian Fund Hub - Assogestioni, Cubodata, data extracted in May 2019

AUM 2011-18 (€bn)

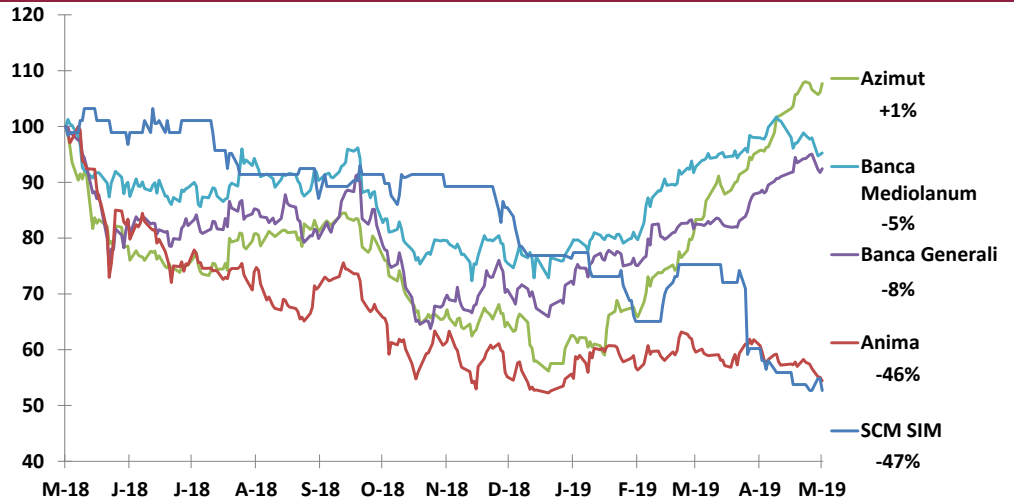
	2011	2012	2013	2014	2015	2016	2017	2018
Funds	461	525	599	731	899	950	1,062	1,013
Individual portfolios	100	93	98	114	128	129	135	126
Retirement schemes	38	49	63	75	81	83	98	94
Insurance products	268	466	499	591	640	685	717	708
Other	70	62	71	78	87	96	78	76
<b>Total</b>	<b>938</b>	<b>1,195</b>	<b>1,330</b>	<b>1,588</b>	<b>1,835</b>	<b>1,943</b>	<b>2,089</b>	<b>2,017</b>

2018 AUM -3% vs 2017

Source: Italian Fund Hub - Assogestioni, Cubodata, data extracted in March 2019

**Market update: asset managers drop in 2018, rebound in 2019**

**Italian asset managers - 1Y Share price performance**

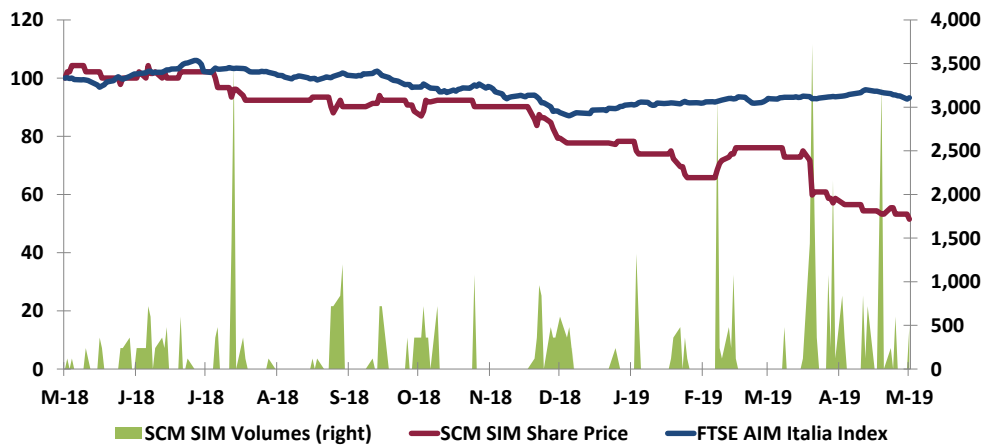


Source: S&P Capital IQ - Note: 08/05/2018=100

Italian asset managers share prices dropped by over 30% on average in 2018

Recovery in the first months of 2019 for three of them

**SCM SIM - 1Y Share price performance and trading volumes**



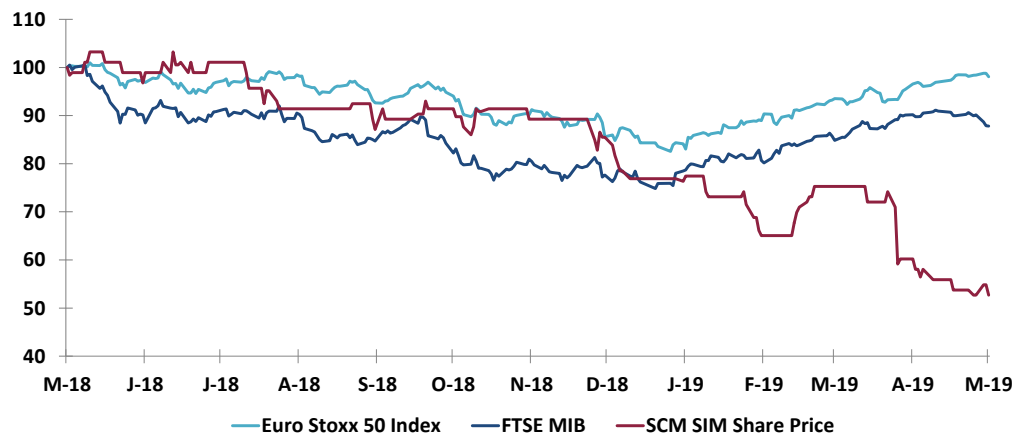
Source: S&P Capital IQ - Note: 14/05/2018=100

SCM SIM share price range in the last 12 months €4.74-9.60, with beginning price at €9.20 and ending at €4.74, 48% decrease

In the same period, the FTSE AIM Italia Index decreased by 7%

Low volumes: 28k traded shares YTD, out of 2m shares

**Market indices - 1Y Market performance**



Source: S&P Capital IQ - Note: 08/05/2018=100

Italian main index went downwards, Europe almost flat

FTSE MIB -12%

Euro Stoxx 50 -4%

## **SCM sub-performance leads to raising capital**

### **Financial performance in 2018: weak market performance and outflows; AUM down by 22%**

FY18 findings:

- AUM decreased by 22% due to a net outflow in assets under advisory (€275m outflow)
- Private bankers network reached a total workforce of 34, from 27 at year-end 2017
- Fee income proportional to AUM drop
- Fee expense at 50% of income
- G&A decreased by 17% compared to the prior year, offset by higher personnel cost (+29% YoY)
- Cost/income up to over 150%, resulting in EBT loss of €1.3m
- Net loss of €1.1m

### **Q1 2019 trading update: AUM beginning to recover, cut on operating costs**

Q1 19 findings:

- AUM increased by 5%, from €846m at year-end 2018 to €886m as of March 2019
- Net fees €0.8m, same level of Q1 18
- Operating costs of €1m, down by 16% compared to Q1 18
- Cost/income at 125%

### **Capital increase completed, 57% success**

In December 2018, the Board of Directors approved a rights issue up to 163,834 new shares, to raise up to €1.2m, beginning on January 7<sup>th</sup> and ending on April 30<sup>th</sup>, 2019. The paid-in capital has been €0.7m.

### **Management actions and guidelines**

SCM management foresees break-even within 2020.

Next three years main actions:

- Hire of bankers from other networks and through the Young Talent program
- Recruiting of experienced private bankers
- Downsizing of Rome office and new opening in Vicenza
- Incentive program for bankers and optimization of pay-out

### **Estimates revision**

2018 accounts key issues are decreased AUM and operating losses. Q1 2019

presents first achievements to reverse the trend. In view of the cost optimization program, we have revised our 2019-22 estimates assuming an overall management rationale to keep cost/income decreasing:

- Trend consistent yearly net inflows, towards recovery of AUM
- Fee income consistent with the higher level of AUM percentage
- Fee expense consistent with 2018 score, then normalization
- Personnel and G&A resized based on Q1 19 results, which already factor in the cost optimization program
- Working capital dynamics adjusted according to 2018

### Change in estimates

€m	2018A	Revised				Previous					Change % (Rev. vs. Prev.)				
		2019E	2020E	2021E	2022E	2018E	2019E	2020E	2021E	2022E	2018A	2019E	2020E	2021E	2022E
<b>AUM</b>	846	980	1,150	1,300	1,450	1,100	1,200	1,400	1,600	1,800	-23%	-18%	-18%	-19%	-19%
<b>Net inflows (outflows)</b>	(237)	134	170	150	150	17	100	200	200	200	-1477%	34%	-15%	-25%	-25%
<b>Fee income</b>	6.4	7.2	8.4	9.5	10.6	7.7	8.8	10.3	11.7	13.2	-17%	-18%	-18%	-19%	-19%
<b>Fee expense</b>	(3.3)	(3.6)	(4.0)	(4.3)	(4.8)	(3.9)	(4.1)	(4.6)	(5.3)	(5.9)	-13%	-13%	-12%	-19%	-19%
<b>Net fees</b>	3.0	3.6	4.4	5.2	5.8	3.9	4.7	5.6	6.5	7.3	-21%	-23%	-22%	-19%	-19%
<b>Brokerage margin</b>	3.0	3.6	4.4	5.2	5.8	3.9	4.7	5.6	6.5	7.3	-22%	-23%	-22%	-19%	-19%
<b>EBT</b>	(1.3)	(0.2)	0.5	1.3	1.8	(0.7)	(0.0)	0.9	1.6	2.3	83%	891%	-45%	-20%	-22%
<b>Net Income (Loss)</b>	(1.1)	(0.2)	0.3	0.9	1.3	(0.5)	(0.0)	0.6	1.1	1.6	104%	891%	-45%	-20%	-22%
<b>Net (Debt) Cash</b>	0.4	1.0	1.1	1.8	2.9	1.4	1.4	1.8	2.8	4.2	-68%	-27%	-38%	-35%	-31%
<b>Equity</b>	2.9	3.2	3.6	4.5	5.8	3.2	3.2	3.8	5.0	6.6	-12%	0%	-7%	-10%	-13%
<b>Cost/Income</b>	151%	106%	88%	75%	69%	119%	100%	84%	75%	68%	27%	6%	5%	0%	1%
<b>Net fees/AUM (bps)</b>	36	37	38	40	40	35	39	40	40	40	2%	-6%	-5%	0%	0%

Source: EnVent Research

### Projections

#### Profit and Loss

€m	2017A	2018A	2019E	2020E	2021E	2022E
<b>Assets Under Management (AUM)</b>	<b>1,083</b>	<b>846</b>	<b>980</b>	<b>1,150</b>	<b>1,300</b>	<b>1,450</b>
Fee income	7.9	6.4	7.2	8.4	9.5	10.6
Fee expense	(3.9)	(3.3)	(3.6)	(4.0)	(4.3)	(4.8)
<b>Net fees</b>	<b>4.1</b>	<b>3.0</b>	<b>3.6</b>	<b>4.4</b>	<b>5.2</b>	<b>5.8</b>
<i>Net fees/AUM (bps)</i>	37	36	37	38	40	40
<b>Brokerage Margin</b>	<b>4.1</b>	<b>3.0</b>	<b>3.6</b>	<b>4.4</b>	<b>5.2</b>	<b>5.8</b>
Personnel	(1.7)	(2.2)	(2.0)	(2.0)	(2.1)	(2.1)
G&A	(2.7)	(2.3)	(1.8)	(1.8)	(1.9)	(1.9)
D&A	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Other income (expense)	0.1	0.3	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>(0.3)</b>	<b>(1.3)</b>	<b>(0.2)</b>	<b>0.5</b>	<b>1.3</b>	<b>1.8</b>
<i>EBT/Brokerage margin</i>	-7%	-44%	-7%	11%	24%	31%
Income taxes	(0.0)	0.3	0.1	(0.1)	(0.4)	(0.5)
<b>Net Income (Loss)</b>	<b>(0.3)</b>	<b>(1.1)</b>	<b>(0.2)</b>	<b>0.3</b>	<b>0.9</b>	<b>1.3</b>

Source: Company data 2017-18A; EnVent Research 2019-22E

**Balance Sheet**

€m	2017A	2018A	2019E	2020E	2021E	2022E
<b>Net Working Capital</b>	<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>
<b>Non-current assets</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Provisions</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>
<b>Net Invested Capital</b>	<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>
<b>Net Debt (Cash)</b>	<b>(1.4)</b>	<b>(0.4)</b>	<b>(1.0)</b>	<b>(1.1)</b>	<b>(1.8)</b>	<b>(2.9)</b>
<b>Equity</b>	<b>3.8</b>	<b>2.9</b>	<b>3.2</b>	<b>3.6</b>	<b>4.5</b>	<b>5.8</b>
<b>Sources</b>	<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>

Source: Company data 2017-18A; EnVent Research 2019-22E

**Cash Flow**

€m	2017A	2018A	2019E	2020E	2021E	2022E
<b>EBT</b>	<b>(0.3)</b>	<b>(1.3)</b>	<b>(0.2)</b>	<b>0.5</b>	<b>1.3</b>	<b>1.8</b>
Current taxes	(0.0)	0.3	0.1	(0.1)	(0.4)	(0.5)
D&A	0.0	0.1	0.0	0.0	0.0	0.0
Net Working Capital	(0.7)	(0.1)	0.2	(0.2)	(0.2)	(0.2)
Provisions	0.1	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.7</b>	<b>1.1</b>
Capex	(0.05)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Cash flow investing</b>	<b>(0.0)</b>	<b>(0.1)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>
IPO proceeds	0.0	0.0	0.0	0.0	0.0	0.0
Paid-in capital	(0.0)	0.1	0.5	0.0	0.0	0.0
Equity adjustments	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>0.6</b>	<b>0.1</b>	<b>0.7</b>	<b>1.1</b>
Net (Debt) Cash - Beginning	2.3	1.4	0.4	1.0	1.1	1.8
Net (Debt) Cash - End	1.4	0.4	1.0	1.1	1.8	2.9
<b>Change in Net (Debt) Cash</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>0.6</b>	<b>0.1</b>	<b>0.7</b>	<b>1.1</b>

Source: Company data 2017-18A; EnVent Research 2019-22E

**Ratio analysis**

KPIs	2017A	2018A	2019E	2020E	2021E	2022E
Assets Under Management (€m)	1,083	846	980	1,150	1,300	1,450
Net inflows (€m)	11	(237)	134	170	150	150
Fee income (€m)	7.9	6.4	7.2	8.4	9.5	10.6
<i>Fee income/AUM</i>	<i>0.73%</i>	<i>0.75%</i>	<i>0.73%</i>	<i>0.73%</i>	<i>0.73%</i>	<i>0.73%</i>
Net fees (€m)	4.1	3.0	3.6	4.4	5.2	5.8
Net fees/AUM (bps)	37	36	37	38	40	40
<i>Cost/Income</i>	<i>110%</i>	<i>151%</i>	<i>106%</i>	<i>88%</i>	<i>75%</i>	<i>69%</i>
Private bankers (units)	27	34	39	46	52	58
Avg. Portfolio per Banker (€m)	40	25	25	25	25	25
<i>ROE</i>	<i>-8%</i>	<i>-37%</i>	<i>-5%</i>	<i>10%</i>	<i>20%</i>	<i>22%</i>

Source: Company data 2017-18A; EnVent Research 2019-22E

Capital inflow split between prior and current year

## Valuation

### FCFE

Updated assumptions:

- Risk free rate: 1.9% (3Y Italian 10-year government bonds interest rate - May 2019. Source: Bloomberg)
- Market return: 10% (Calculated by EnVent Research based on Italian market return and sector performance - conservative case. Sector case would be 8%.)
- Market risk premium: 8.1%
- Beta: 1.1 (Median of industry peers - May 2019. Source: Bloomberg)
- Cost of equity: 10.6% (10.4% on our previous note)
- Perpetual growth rate after explicit projections: 2%
- Terminal Value assumes a normalized free cash flow, based on net fees and cost/income of last year of explicit projections

#### FCFE valuation model

€m		2019E	2020E	2021E	2022E	Perpetuity
Cash flow from operations		0.0	0.1	0.7	1.1	1.3
Cash flow investing		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Net cash flow</b>		<b>(0.0)</b>	<b>0.1</b>	<b>0.7</b>	<b>1.1</b>	<b>1.3</b>
Cost of Equity (Ke)	10.6%					
Long-term growth (G)	2.0%					
<b>Discounted Cash Flows</b>		<b>(0.0)</b>	<b>0.1</b>	<b>0.5</b>	<b>0.8</b>	
<b>Sum of Discounted Cash Flows</b>	<b>1.4</b>					
<b>Terminal Value</b>						<b>15.1</b>
<b>Discounted Terminal Value</b>	<b>11.2</b>					
<b>Net Cash as of 30/04/2019</b>	<b>1.0</b>					
<b>Equity Value</b>	<b>13.5</b>					

FCFE - Implied multiples	2018A	2019E	2020E	2021E	2022E
P/E	neg.	neg.	39.3X	14.9X	10.5X
Equity Value/AUM	1.6%	1.4%	1.2%	1.0%	0.9%

Current market price - Implied multiples	2018A	2019E	2020E	2021E	2022E
P/E	neg.	neg.	27.6X	10.5X	7.4X
Equity Value/AUM	1.1%	1.0%	0.8%	0.7%	0.7%
<i>Discount</i>					<i>30%</i>

Source: EnVent Research

## Target Price

The €7.15 offer price per share from the rights issue just completed represents a 20% drop on our last target price of €8.92 issued in October 2018 and a 50% premium on €4.74, current market price of SCM share.

The Target Price coming from our model applied to the revised estimates is €6.74, a 42% premium on current share price. As such we assign an OUTPERFORM rating on the stock.

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

<b>SCM SIM Price per Share</b>	<b>€</b>
<b>Target Price</b>	<b>6.74</b>
Current Share Price (14/05/2019)	4.74
<b>Premium (Discount)</b>	<b>42%</b>

Source: EnVent Research



## Annex: Market multiples

Company	Market Cap / AUM					P / E					
	2014	2015	2016	2017	2018	2016	2017	2018	2019E	2020E	2021E
<b>SCM SIM</b>	n.a.	n.a.	2.0%	1.9%	1.6%	n.m.	neg.	n.m.	neg.	27.6X	10.5X
<b>Italian asset managers</b>											
Anima	2%	4%	2%	1%	1%	15.3X	16.5X	10.1X	7.9X	7.1X	6.9X
Azimut	9%	9%	6%	6%	3%	12.2X	9.8X	10.9X	9.8X	11.2X	10.8X
Banca Generali	7%	8%	6%	6%	4%	16.9X	15.9X	11.7X	13.6X	12.6X	12.1X
Banca Mediolanum	n.a.	8%	6%	7%	5%	12.8X	14.0X	14.6X	11.5X	11.2X	10.4X
<b>Mean</b>	<b>6%</b>	<b>7%</b>	<b>5%</b>	<b>5%</b>	<b>3%</b>	<b>14.3X</b>	<b>14.0X</b>	<b>11.8X</b>	<b>10.7X</b>	<b>10.5X</b>	<b>10.0X</b>
<b>European asset managers</b>											
Ashmore	4%	4%	5%	5%	4%	14.4X	16.0X	15.9X	18.7X	15.7X	14.3X
GAM	2%	2%	2%	2%	0%	13.6X	20.1X	neg.	78.2X	20.7X	16.2X
Julius Baer	3%	4%	3%	3%	2%	16.0X	18.4X	10.4X	12.2X	10.7X	10.1X
Jupiter Fund Mgmt	5%	6%	5%	7%	3%	14.6X	18.3X	9.3X	12.9X	12.1X	10.9X
Man	6%	6%	3%	4%	2%	neg.	17.8X	9.5X	11.7X	9.9X	8.5X
Schroders	2%	2%	2%	2%	2%	15.9X	15.3X	12.9X	14.4X	13.4X	12.3X
St. James's Place	8%	9%	7%	7%	5%	47.4X	44.2X	28.6X	24.3X	18.2X	15.9X
<b>Mean</b>	<b>5%</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>20.3X</b>	<b>21.4X</b>	<b>14.4X</b>	<b>24.6X</b>	<b>14.4X</b>	<b>12.6X</b>
<b>Mean w/out extremes</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>15.2X</b>	<b>18.1X</b>	<b>12.2X</b>	<b>16.5X</b>	<b>14.0X</b>	<b>12.7X</b>
<b>Median</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>4%</b>	<b>2%</b>	<b>15.3X</b>	<b>18.3X</b>	<b>11.6X</b>	<b>14.4X</b>	<b>13.4X</b>	<b>12.3X</b>
<b>Combined Mean</b>	<b>5%</b>	<b>6%</b>	<b>4%</b>	<b>5%</b>	<b>3%</b>	<b>17.3X</b>	<b>17.7X</b>	<b>13.1X</b>	<b>17.7X</b>	<b>12.5X</b>	<b>11.3X</b>

Source: EnVent Research on S&P Capital IQ, update May 2019

## Investment thesis

SCM SIM is an Italian Private Banking and Wealth Management firm, listed on AIM Italia. SCM provides bespoke portfolio management and investment advice services on the client's all-embracing wealth and assets, without having custody of clients' assets. It does not produce or distributes financial products.

We see several investment positives:

- Unique private banking and personal advisory services
- Independent, transparent, conflict-free
- No asset custody, no fund production, nor distribution, means no conflicts of interest
- Attractive flat fee structure
- Business model MiFID II-ready
- Visibility of future revenues

## Risks to rating and target price

Downside risks include:

- Operational gearing
- Market dependence
- Increasing bankers' effectiveness
- Concentration on private bankers
- Reputation of the network
- Exposure to Italy
- Regulatory environment

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The stock price is the reference price on the day indicated as “Date of Price” in the table on the front page of this publication.

## DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Date	Recommendation	Target Price (€)	Share Price (€)
09/01/2017	NEUTRAL	12.32	10.74
23/05/2017	NEUTRAL	12.35	10.75
05/02/2018	NEUTRAL	11.12	10.00
03/05/2018	NEUTRAL	9.52	9.80
22/10/2018	NEUTRAL	8.92	8.50
14/05/2019	OUTPERFORM	6.74	4.74

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