

Italy – IT Services

Brilliant preliminary results with many opportunities ahead

1st February 2024

FY-23 PRELIMINARY SALES

RIC: DGV.MI
BBG: DGV IM

Digital Value reported preliminary sales showing double-digit growth and exceeding our estimate, once again outperforming its reference market and thus continuing to increase its leadership positioning. Moreover, for FY-23 management expects satisfactory levels of profitability and cash flow generation and is currently scouting several M&A opportunities to further strengthen its value proposition.

Rating:

Buy

Price Target:

€ 91.00

Upside/(Downside): 40.0%

Last Price: € 65.00

Market Cap.: € 649.5m

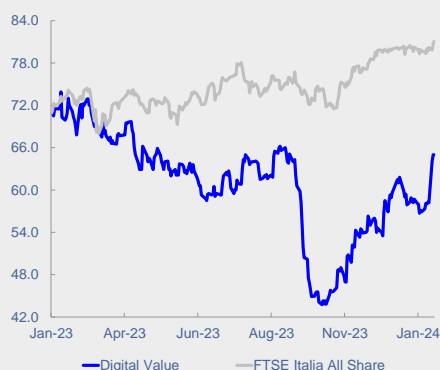
1Y High/Low: € 74.40/€ 42.70

Avg. Daily Turn. (3M, 6M): € 526k, € 530k

Free Float: 35.0%

Major shareholders:

DV Holding 64.7%



Stock price performance

	1W	3M	12M
Absolute	10.2%	33.5%	-8.3%
Rel.to FTSE IT All Share	7.8%	22.9%	-22.7%
Rel.to Peers	2.2%	11.2%	-19.8%

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Brilliant double-digit growth with NRRP still in a warm-up phase

Digital Value reported rising FY-23 preliminary revenues, better than our forecast and once again outperforming the reference market. The company benefitted from the ever-increasing demand for digital infrastructures and services, especially with respect to the Public Administration, with an acceleration of projects linked to the National Recovery and Resilience Plan, although the bulk of its impact is expected over the 2024-26 period, leaving room for further upside potential. In addition, the management expects satisfactory results with respect to profitability and cash flow generation for FY-23, also considering a more normalised level of Capex in H2-23 after the spike occurred in the first semester. Estimates, rating and PT confirmed. Digital Value will release full 2023 results on 29 April.

Sales up by 19.9% YoY to € 849.5m, 3.5% higher than our estimate

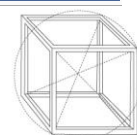
FY-23 preliminary revenues came in at € 849.5m, up by 19.9% YoY, exceeding our estimate of € 820.8m by 3.5%, on the back of brilliant strategy execution and a strong ability to drive the digitalisation of the top-tier Italian ICT spenders. Notably, 2023 witnessed a solid acceleration of NRRP-funded projects for the Public Administration, for which Digital Value is further increasing its positioning as a trusted and valuable Hyper-VAR partner. As a result, Digital Value achieved revenues growth for the 10th consecutive semester. The implicit H2-23 top line amounted to € 434.0m, up 16.9% YoY, comprising over 25% growth for both Digital Business Transformation and Next Generation Data Centre segments, while Smart Workplace Transformation decreased by ca. 10% YoY.

Next Generation Data Centre soared by 40% YoY. The PA contributed 50% of the total

In terms of business line, Digital Business Transformation (31.9% of total) rose by 14.2% YoY, from € 237.4m to € 271.0m, and came in 6.7% higher compared to our estimate of € 254.0m. Growth was mainly underpinned by a soaring demand for cybersecurity-related projects and preventive solutions in the wake of a spike in hacker attacks, along with the realisation of large cloud-computing projects. Next Generation Data Centre (49.1% of total), posted the strongest YoY growth since the listing, totalling € 417.3m, soaring 40.0% YoY (+€ 119.3m) and a touch better compared to our € 402.3m projection, primarily driven by a buoyant demand for digital infrastructures and datacentres. It is worth underlining that the division will enjoy a growing contribution of the 'as-a-service' component in the future, with positive effects on margins. Smart Workplace Transformation, a division focused on customers' digital workstations and personal productivity, recorded revenues of € 161.2m, down by 6.9% YoY and 2.0% below our estimate, accounting for 19.0% of total. In terms of industry served, Public Administration accounted for approximately 50% of total, Industry & Finance for 36%, broadly aligned with FY-22, while Telco & Media stood at 14%, following a lower level of IT investments by one of Digital Value's main customer.

Digital Value, key financials and ratios

€ m	2021	2022	2023e	2024e	2025e
Total Revenues	557.8	708.5	820.8	951.1	1,073.5
EBITDA	57.5	73.6	86.7	102.9	118.6
EBIT	44.5	51.1	53.9	65.2	78.3
Net profit	30.1	33.9	34.1	43.3	52.8
NFP (cash)/debt	(4.9)	(16.4)	(0.7)	(42.5)	(91.0)
EBITDA margin	10.3%	10.4%	10.6%	10.8%	11.0%
EBIT margin	8.0%	7.2%	6.6%	6.9%	7.3%
EPS	3.05	3.49	3.50	4.34	5.30
EPS growth	26.3%	14.3%	0.2%	24.1%	22.1%
DPS ord. €/s	0.00	0.85	0.86	1.09	1.33
ROCE	18.6%	19.7%	18.6%	20.1%	21.3%
NWC/Sales	7.5%	4.9%	6.5%	6.2%	6.4%
Free Cash Flow Yield	-2.5%	2.4%	-1.1%	7.8%	9.1%
PER x	23.3	21.2	18.6	15.0	12.3
EV/Sales x	1.27	1.02	0.79	0.64	0.52
EV/EBITDA x	12.3	9.8	7.5	5.9	4.7
EV/EBIT x	15.8	14.1	12.0	9.3	7.1



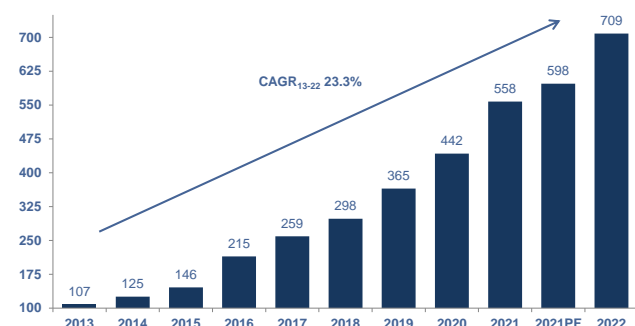
The company at a glance

Digital Value originates from the combination of two domestic IT system integrators, Italtware and ITD Solutions, with more than 30 years of experience in the field. The group supports the digital transformation of its customers through customised solutions and services. Headquartered in Milan, DGV (Digital Value) focuses on large accounts, i.e. companies with more than 500 employees, and the most promising segment in the IT services arena in terms of growth.

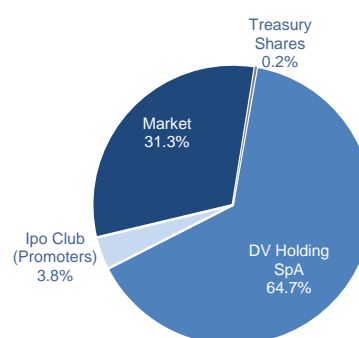
The group boasts key expertise in network infrastructure and data centres, security, network testing and monitoring, workstation management, Help Desk, data management and analysis, ERP systems management, retail applications, information systems, on-premise support and governance, outsourcing and cloud.

With over 300 employees, DGV reported 2022 Total Revenues of € 708.5m, EBITDA of € 73.6m (10.4% margin), € 33.9m Net Profit and a Net Financial Position of € 16.4m (cash positive). With ROE of 22% and ROCE of 20%, DGV has a well-balanced and lucratively allocated capital structure. Currently, 100% of the business is generated in Italy.

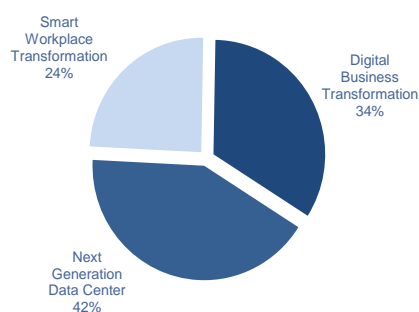
2013-22 top line progression



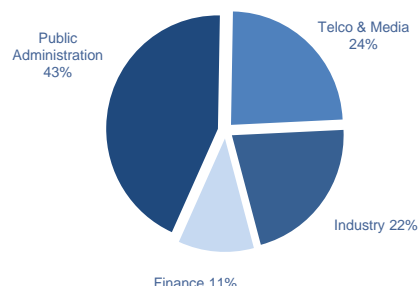
Shareholder structure



FY-22 top line breakdown by line of business



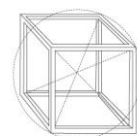
...and by industry verticals



Peer group multiples table

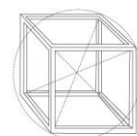
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Accenture PLC	3.54	3.28	2.99	19.1	17.4	15.8	22.8	20.8	18.8
Alfen SA	1.16	1.04	0.91	10.4	9.1	7.7	13.4	11.4	9.4
Atos SE	0.26	0.30	0.29	2.9	3.3	2.7	17.5	6.7	6.8
Aubay SA	0.82	0.77	0.69	8.0	7.3	6.3	9.7	8.8	7.5
Bechtle AG	0.98	0.85	0.77	12.5	10.9	10.0	16.4	14.3	12.9
Capgemini SE	1.67	1.56	1.39	10.8	9.9	8.6	13.6	12.3	10.7
CDW Corp	1.65	1.57	1.45	16.4	15.4	14.2	17.2	16.5	15.4
Computacenter PLC	0.45	0.43	0.40	9.1	8.3	7.6	11.9	10.9	9.9
Econocom Group SE	0.21	0.20	0.18	3.8	3.5	3.2	5.6	5.0	4.4
Indra Sistemas SA	0.74	0.64	0.57	7.1	6.1	5.3	9.2	7.7	6.7
Reply SpA	2.13	1.88	1.65	13.7	12.0	10.5	17.0	14.7	12.6
Sesa SpA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sopra Steria Group SA	0.95	0.83	0.75	8.4	7.0	6.1	11.4	9.3	8.2
Tietoenvy Oyj	1.14	1.07	1.05	7.3	6.6	6.4	10.7	9.5	9.0
Median	0.98	0.85	0.77	9.1	8.3	7.6	13.4	10.9	9.4
Digital Value SpA	0.79	0.64	0.52	7.5	5.9	4.7	12.0	9.3	7.1

Source: CFO Sim, Refinitiv Eikon





Income statement (€ m)	2021	2022	2023e	2024e	2025e
Sales	555.9	706.2	819.1	949.2	1,071.4
Total Revenues	557.8	708.5	820.8	951.1	1,073.5
Raw material and processing	(434.3)	(506.3)	(562.2)	(651.5)	(735.3)
Services	(48.2)	(105.3)	(145.3)	(168.3)	(190.0)
Personnel expenses	(17.4)	(22.3)	(25.8)	(27.4)	(28.5)
Other opex	(0.5)	(1.1)	(0.8)	(1.0)	(1.1)
EBITDA	57.5	73.6	86.7	102.9	118.6
D&A	(13.0)	(22.5)	(32.8)	(37.8)	(40.3)
EBIT	44.5	51.1	53.9	65.2	78.3
Financials	(0.7)	(1.7)	(4.1)	(3.2)	(2.7)
Re/(Devaluation) of financial assets	0.0	(0.4)	0.0	0.0	0.0
Extraordinary	(0.4)	(1.0)	(1.0)	0.0	0.0
Pre-Tax profit	43.4	48.0	48.8	62.0	75.6
Income taxes	(12.8)	(13.9)	(14.6)	(18.6)	(22.7)
Minorities	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	30.1	33.9	34.1	43.3	52.8
Net Profit Adjusted	30.4	34.8	34.9	43.3	52.8
Balance sheet (€ m)	2021	2022	2023e	2024e	2025e
Net Working Capital	41.8	34.8	53.6	59.2	68.2
Net Fixed Assets	69.4	80.0	98.2	80.4	60.2
Equity Investments	0.3	0.2	0.2	0.2	0.2
Other M/L Term A/L	12.8	26.4	30.7	35.8	40.5
Net Invested Capital	124.3	141.4	182.6	175.6	169.1
Net Financial Debt	(4.9)	(16.4)	(0.7)	(42.5)	(91.0)
Minorities	5.5	0.9	1.0	1.1	1.2
Group's Shareholders Equity	123.7	156.9	182.4	217.0	258.8
Financial Liabilities & Equity	124.3	141.4	182.6	175.6	169.1
Cash Flow statement (€ m)	2021	2022	2023e	2024e	2025e
Total net income	30.1	33.9	34.1	43.3	52.8
Depreciation	13.0	22.5	32.8	37.8	40.3
Other non-cash charges	(12.4)	(1.2)	(4.3)	(5.0)	(4.7)
Cash Flow from Oper. (CFO)	30.7	55.2	62.5	76.0	88.4
Change in NWC	(15.5)	(4.0)	(18.7)	(5.6)	(9.0)
FCF from Operations (FCFO)	15.3	51.2	43.8	70.4	79.4
Net Investments (CFI)	(31.6)	(35.9)	(51.0)	(20.0)	(20.0)
Free CF to the Firm (FCFF)	(16.4)	15.4	(7.2)	50.4	59.4
CF from financials (CFF)	55.2	(12.9)	(3.6)	(8.6)	(10.9)
Free Cash Flow to Equity (FCFE)	38.9	2.5	(10.8)	41.8	48.5
Financial ratios	2021	2022	2023e	2024e	2025e
EBITDA margin	10.3%	10.4%	10.6%	10.8%	11.0%
EBIT margin	8.0%	7.2%	6.6%	6.9%	7.3%
Net profit margin	5.4%	4.8%	4.1%	4.6%	4.9%
Tax rate	29.5%	29.1%	30.0%	30.0%	30.0%
Op NWC/Sales	7.5%	4.9%	6.5%	6.2%	6.4%
Interest coverage x	0.02	0.03	0.08	0.05	0.03
Net Debt/EBITDA x	(0.08)	(0.22)	(0.01)	(0.41)	(0.77)
Debt-to-Equity x	(0.04)	(0.10)	(0.00)	(0.20)	(0.35)
ROIC	24.2%	24.0%	18.6%	24.7%	31.2%
ROCE	18.6%	19.7%	18.6%	20.1%	21.3%
ROACE	23.7%	20.5%	19.6%	21.2%	22.6%
ROE	24.4%	21.6%	18.7%	19.9%	20.4%
Payout ratio	0.0%	25.0%	25.0%	25.0%	25.0%
Per share figures	2021	2022	2023e	2024e	2025e
Number of shares # m	9.97	9.97	9.97	9.97	9.97
Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
Average Number of shares Fully Dilute	9.97	9.97	9.97	9.97	9.97
EPS stated FD €	3.02	3.41	3.42	4.34	5.30
EPS adjusted FD €	3.05	3.49	3.50	4.34	5.30
EBITDA €	5.77	7.38	8.69	10.32	11.90
EBIT €	4.47	5.12	5.41	6.54	7.86
BV €	12.95	15.83	18.39	21.87	26.08
FCFO €	1.53	5.14	4.39	7.06	7.96
FCFF €	(1.64)	1.54	(0.73)	5.05	5.95
FCFE €	3.90	0.25	(1.08)	4.19	4.86
Dividend €	0.00	0.85	0.86	1.09	1.33



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DATE	TARGET PRICE	RATING
01/02/2024	€91.00	BUY
27/09/2023	€91.00	BUY
04/08/2023	€96.50	BUY
22/03/2023	€96.50	BUY
02/02/2023	€100.00	BUY

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- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

