

Digital Value SpA

Italy – IT Services

20th May 2021

GERMAN SPRING CONFERENCE

RIC: DGV.MI BBG: DGV IM

Rating: Buy

Price Target: € 68.00

Upside/(Downside): 27.6%

Last Price: € 53.30

Market Cap.: € 527.5m

1Y High/Low: € 57.80/€ 19.60

Free Float: 27.2%

Major shareholders: DV Holding 67.2%



Stock price performance					
	1W	3M	12M		
Absolute	-2.0%	24.0%	169.2%		
Rel.to AIM Italia	1. 8 %	23 .1%	1 85 .1%		
Rel.to Peers	-1.7%	1 7.8 %	117.4%		

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The Italian 'Hyper VAR' champion

The company participated in the German Equity Spring Conference held virtually in Frankfurt. A full-day event during which the Chairman of ITD, the Chief Financial Officer and a Member of the Board of DGV took part in one-to-one meetings with a dozen key European investors specialised in small/mid-caps. Here are the main points worth remembering from the meetings:

'Hyper VAR' domestic champion with opportunities further on than numbers

With its 450 certifications, 30-year seniority in the business, a customer portfolio including over 2,000 names and the status of a listed company, DGV is well positioned to continue to outperform the market. The group will be able intercept the megatrend related to the acceleration in the digitisation process also driven by the massive impact of the Recovery Fund, being its second most important pillar with \in 46bn out of \in 210bn. DGV aims to consolidate its role of a trusted, large Hyper Value Added Reseller, fostering the adoption of the newest technologies, allowing the scouting of the 'best-of-breed' in the offering of the most innovative global vendors. All of this is provided via an integrated two-sided platform approach which connects DGV with its customers and vendors increasing the value for all stakeholders.

A leading resilient player in a consolidating arena

DGV has developed a solid ecosystem consisting of the main technology suppliers that allows the group to propose effective and customised solutions via its network of highly skilled professionals. That is why DGV is able to manage every phase of the lifecycle of an ICT project. Enlarged size embodies higher critical mass, even more effective solidity and business credentials to further penetrate existing and new potential geographical areas, customers and segments. Its strong balance sheet solidity enables DGV to have significant firepower in order to play a primary role in the further consolidation process of the sector. In addition, since 1) it operates in a crucial sector, that is not directly impacted by tight restrictions, 2) focuses on large accounts and 3) plays in a long lasting client environment, DGV should be less affected by the current situation than other stocks and, above all, benefit more from the ongoing recovery.

DGV trades at 8.5x EBITDA₂₁ and offers 18.6% EBITDA CAGR₂₀₋₂₃

According to our figures, Digital Value is projected to produce an average massive Free Cash Flow to Equity of \in 40.0m per annum in 2021-23. CFO SIM has confirmed its estimates and stock valuation via DCF: PT is \in 68.00/share, with an upside of 27.6% at current prices. Shares continue to trade at unjustified, undemanding multiples vs. peers and offering much higher than median growth: 8.5x and 6.7x EBITDA₂₁₋₂₂ vs. 9.5x and 9.0x of comparables. We reiterate our Buy rating on DGV. In this market, DGV represents a cheap, growing, cash-flow generative, resilient player with further upside potential arising from the Recovery Plan and M&A, whose magnitude might be considerable. Neither the Recovery Plan or M&A are included in our estimates.

Digital Value, key financials and ratios

€m	2019	2020	2021e	2022e	2023e
Sales	363.2	440.6	529.0	601.6	684.0
EBITDA	31.9	45.4	55.2	63.8	75.6
EBIT	27.1	34.0	40.6	46.4	61.3
Net profit	19.0	24.1	27.7	31.7	42.1
NFP (cash)/debt	(28.0)	(32.9)	(62.6)	(102.8)	(154.1)
EBITDA margin	8.8%	10.3%	10.4%	10.6%	11.1%
EBIT margin	7.5%	7.7%	7.7%	7.7%	9.0%
EPS FD	1.90	2.42	2.78	3.18	4.23
EPS FD growth	28.3%	27.0%	14.9%	14.6%	32.7%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
Dividend Yield	-	-	-	-	
ROCE	27.5%	25.0%	24.4%	23.2%	25.0%
NWC/Sales	-29.4%	-20.7%	-15.9%	-14.1%	-13.1%
Free Cash Flow Yield FD	-0.6%	1.0%	5.6%	7.6%	9.7%
PER FD x	6.4	10.5	19.2	16.7	12.6
EV/Sales FD x	0.26	0.50	0.89	0.71	0.55
EV/EBITDA FD x	2.9	4.9	8.5	6.7	5.0
EV/EBIT FD x	3.4	6.5	11.5	9.2	6.2





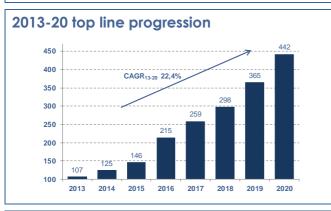


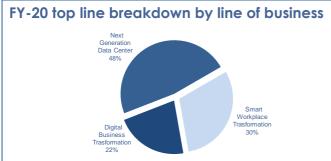
The company at a glance

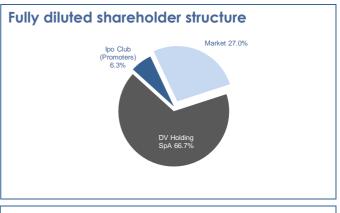
Digital Value originates from the combination of two domestic IT systems integrators, Italware and ITD Solutions, with more than 30 years of experience in the field. The group supports the digital transformation of its customers through an offer of customised solutions and services. Headquartered in Milan, DGV (Digital Value) focuses on large accounts, firms with more than 500 employees, accounting for more than 50% of total IT spending in Italy in 2019 and the most promising segment in the IT service 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, onpremise support and governance, outsourcing and cloud.

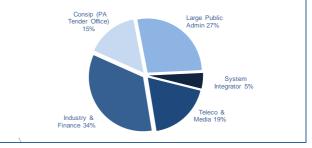
With its193 employees, DGV reported 2020 Total Revenues of \notin 442.3m, EBITDA of \notin 45.4m (10.3% margin), \notin 24.1m Net Profit and a Net Financial Position of \notin 32.9m (cash positive). With structurally negative Working Capital which aims to support growth, ROE of 25.7% and ROCE of 25.0%, DGV has a well-balanced and lucratively allocated capital structure. Currently, 100% of the business is generated in Italy.







FY-20 top line breakdown by industry



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	3.60	3.30	3.04	19.1	17.7	16.0	24.0	21.7	19.8
Alten SA	1.25	1.13	1.00	12.4	9.9	8.6	16.9	12.9	10.6
Atos SE	0.52	0.46	0.40	3.6	3.1	2.7	6.5	5.3	4.4
Aubay SA	1.04	0.97	0.89	8.7	8.0	7.3	10.6	9.8	8.8
Bechtle AG	1.00	0.90	0.81	15.8	14.2	12.8	20.9	18.6	16.5
Capgemini SE	1.74	1.59	1.44	11.2	10.1	9.1	15.4	13.4	11.9
CDW Corp	1.33	1.26	1.17	16.2	15.4	13.6	17.2	16.2	14.8
Computacenter PLC	0.45	0.42	0.39	9.5	9.0	8.3	13.0	12.2	11.3
Devoteam SA	0.93	0.82	0.70	8.0	7.1	5.8	9.3	8.0	6.8
Econocom Group SE	0.28	0.27	0.24	4.4	4.2	3.7	6.4	5.8	5.1
Indra Sistemas SA	0.60	0.54	0.49	5.9	5.0	4.4	8.9	7.3	6.4
Reply SpA	2.92	2.59	2.28	17.8	15.7	13.8	22.0	19.0	16.6
Sesa SpA	0.89	0.79	0.69	14.5	11.9	10.1	20.6	16.6	14.0
Sopra Steria Group SA	0.76	0.69	0.62	6.8	5.8	5.1	10.9	8.9	7.6
TietoEVRY Corp	1.34	1.27	1.18	7.2	6.9	6.5	10.7	9.8	9.0
Median	1.00	0.90	0.81	9.5	9.0	8.3	13.0	12.2	10.6
Digital Value SpA*	0.89	0.71	0.55	8.5	6.7	5.0	11.5	9.2	6.2

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COMPANY FLASH



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$\begin{array}{ c c c c c c c c c c c c c c c c c c c$						41.2
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$\begin{array}{c c c c c c c c c c c c c c c c c c c $						2023e
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						42.1
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$\begin{array}{c ccccc} Free CF to the Firm (FCFF) & (3.2) & 5.1 & 29.7 & 40.2 & 51. \\ CF from financials (CFF) & 17.5 & 13.3 & 2.0 & 2.1 & 2. \\ Free Cash Flow to Equity (FCFE) & 14.2 & 18.4 & 31.7 & 42.3 & 53. \\ \hline \hline Frae Cash Flow to Equity (FCFE) & 14.2 & 18.4 & 31.7 & 42.3 & 53. \\ \hline Financial ratios & 2019 & 2020 & 2021e & 2022e & 2022 \\ EBIDA margin & 7.5\% & 7.7\% & 7.7\% & 7.7\% & 7.7\% & 9.0 \\ Net profit margin & 5.2\% & 5.5\% & 5.2\% & 5.3\% & 6.2 \\ Tax rate & 28.5\% & 28.1\% & 30.0\% & 30.0\% & 30.00 \\ Op NWC/Sales & -29.4\% & -20.7\% & -15.9\% & -14.1\% & -13.1 \\ Interest coverage x & 0.01 & 0.01 & 0.02 & 0.02 & 0.0 \\ Net Debt/EBIDA x & 0.088 & 0.72 & (1.13) & (1.61) & (2.0 \\ Debt-to-Equity x & (0.40) & (0.35) & (0.52) & (0.67) & (0.7 \\ ROIC & 45.6\% & 39.6\% & 47.1\% & 63.0\% & 102.3 \\ ROACE & 27.5\% & 25.0\% & 24.4\% & 23.2\% & 25.0\% \\ ROACE & 27.5\% & 25.0\% & 24.4\% & 23.2\% & 25.0\% \\ ROACE & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% \\ ROACE & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% \\ ROACE & 27.5\% & 25.0\% & 20.8\% & 25.3\% & 27.5\% \\ ROACE & 27.5\% & 25.0\% & 20.8\% & 25.3\% & 27.5\% \\ ROACE & 27.5\% & 25.0\% & 20.4\% & 20.8\% & 27.5\% & 25.0\% & 20.4\% & 20.8\% & 27.5\% \\ ROACE & 27.5\% & 25.0\% & 20.4\% & 20.8\% & 27.5\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 25.0\% & 20.8\% & 27.5\% & 20.0\% & 0.0$						(13.0)
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						51.3
Financial ratios 2019 2020 2021e 2022e 2023e EBIDA margin 8.8% 10.3% 10.4% 10.6% 11.1 EBIT margin 7.5% 7.7% 7.7% 7.7% 9.0 Net profit margin 5.2% 5.5% 5.2% 5.3% 6.2 Tax rate 28.5% 28.1% 30.0% 30.0% 30.0 Op NWC/Sales -29.4% -20.7% -15.9% -14.1% -13.1 Interest coverage x 0.01 0.01 0.02 0.02 0.0 Net Debt/EBITDA x (0.88) (0.72) (1.13) (1.61) (2.0 ROCC 45.6% 39.6% 47.1% 63.0% 102.3 ROCE 27.5% 25.0% 24.4% 23.2% 25.0% ROACE 27.3% 25.8% 22.9% 20.8% 21.6 ROACE 27.3% 25.8% 22.9% 20.8% 21.6 Number of shares Fully Diluted # m 9.97 9.97 9.97 9.97 9.97 Pes stated FD € 1.90						2.2
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Free Cash Flow to Equity (FCFE)	14.2	18.4	31.7	42.3	53.6
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Financial ratios	2019	2020	2021e	2022e	2023e
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	EBITDA margin	8.8%	10.3%	10.4%	10.6%	11.1%
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	EBIT margin		7.7%	7.7%	7.7%	9.0%
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						6.2%
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						30.0%
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$						-13.1%
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$						0.02
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						(2.04)
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$						
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						27.5%
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						21.6%
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						0.0%
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Per share figures	2019	2020	20216	20226	2023e
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						9.90
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$						9.97
$\begin{array}{cccccccccccccccccccccccccccccccccccc$						4.23
$\begin{array}{cccccccccccccccccccccccccccccccccccc$						4.23
$\begin{array}{cccccccccccccccccccccccccccccccccccc$						7.59
FCFO € 3.13 1.82 4.28 5.34 6.4 FCFF € (0.32) 0.51 2.98 4.03 5.1						6.15
FCFF € (0.32) 0.51 2.98 4.03 5.1						19.59
						6.45
EVEEE 1/13 1/8/ 1/25 5/3						5.15
						5.37 0.00





ANALYST CERTIFICATION

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DATE	TARGET PRICE	RATING
20/05/2021	€68.00	BUY
09/04/2021	€68.00	BUY
10/08/2020	€38.40	BUY
01/04/2020	€27.70	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.

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