

Italy – IT Services

Once again a robust interim top line progression

4th August 2023

H1-23 REVENUES RELEASE

RIC: DGV.MI
BBG: DGV IM

For the ninth consecutive semester, DGV registered a double-digit growth in revenues, thanks to the strong contribution of its core business, i.e. Next Generation Data Center, prompted by the acceleration of digitalisation projects related to the Recovery Fund, driven primarily by the Public Administration.

Rating:

Buy

Price Target:

€ 96.50

Upside/(Downside): **50.8%**

Last Price: **€ 64.00**

Market Cap.: **€ 637.6m**

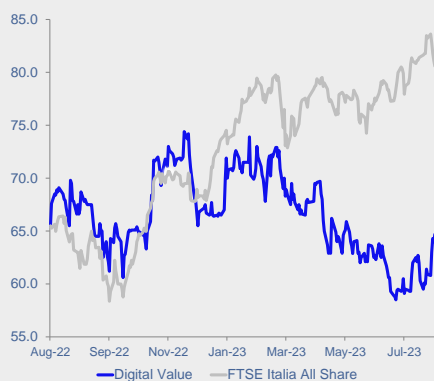
1Y High/Low: **€ 74.50/ € 56.80**

Avg. Daily Turn. (3M, 6M): **€ 394k, € 359k**

Free Float: **35.3%**

Major shareholders:

DV Holding 64.7%



Stock price performance

	1W	3M	12M
Absolute	8.3%	-0.8%	0.9%
Rel.to FTSE IT All Share	12.1%	-1.7%	16.8%
Rel.to Peers	10.4%	5.4%	15.2%

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Top line up 23.6% YoY and well on track to reach our FY estimates

Digital Value H1-23 preliminary turnover increased by 23.6% YoY to € 416.9m, representing the ninth consecutive semester featuring double-digit growth (CAGR₁₉₋₂₃ of +21.8%, including TT Tecnosistemi). The group further consolidated its leading position in light of its unparalleled ability to intercept investment opportunities in key reference markets. It also benefitted from a strong acceleration of NRRP-funded projects, especially with respect to the Public Administration. Digital Value is well on track to reach our FY-23 top line estimate, given that H1-23 accounted for 51% of the total. Additionally, the company is well positioned to continue outpacing the Italian ICT market over the next few years, by taking advantage of 1) a still underpenetrated market compared to European peers, in which DGV focuses on the highest growth segments, 2) the accelerated implementation of the NRRP in Italy and, 3) its strong balance sheet which grants it access to several M&A opportunities with the aim of enhancing know-how and adding complementary services. Estimates, valuation and price target confirmed. DGV will unveil full interim results on 21-Sept.

Top line driven by Next Generation Data Center, which soared 53.3% YoY

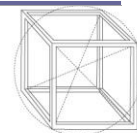
In terms of line of business, Next Generation Data Center, DGV's core business, rose by 55.6% YoY to € 222.1m, accounting for more than half of revenues (53.3%). The business line, which represents most of DGV's recurring revenues, benefitted from strong demand for digital infrastructures to enable customers to digitalise their activities. Notably, DGV provides its clients with physical and virtual Data Center Infrastructures, also delivered in IAAS (Infrastructure as-a-Service) mode, where the group has invested a considerable amount of resources over the last year. Digital Business Transformation reported € 115.2m, up 2.3% YoY, primarily driven by Secure Integration and Cybersecurity services, along with Cloud and Software platforms delivered as-a-service. The business unit accounted for 27.6% of revenues, compared to 33.3% in H1-22. Smart Workplace Transformation totalled € 79.6m, largely stable YoY, making up 19.1% of top line, compared to 24.4% in H1-22.

Large Public Administration accounted for 43.7% of revenues

With regard to the main reference markets, Large Public Administration's contribution to top line was 43.7% (vs 23.1% in H1-22), driven by a strong acceleration of NRRP-funded projects, whereas Local Public Administration accounted for 9.8% (vs 10.4% in H1-22). Telco & Media made up 16% of revenues (vs c. 34% in H1-22), mainly as a consequence of a contingent market situation affecting a major customer; Industry & Finance accounted for 30.5% (vs 32.2% in H1-22), following the postponement of few projects to H2-23, although featuring an improved backlog comprising medium-long term contracts with top-tier financial institutions. Moreover, on 1 August DGV was awarded 7 out of 13 lots in a tender called by Consip with a 12-month term worth € 220m, of which € 168.9m attributable to the group, thus considerably increasing contract portfolio and top line visibility for FY-24.

Digital Value, key financials and ratios

€ m	2021	2022	2023e	2024e	2025e
Total Revenues	557.8	708.5	818.2	949.8	1,073.1
EBITDA	57.5	73.6	85.5	102.1	118.0
EBIT	44.5	51.1	57.4	72.1	88.0
Net profit	30.1	33.9	38.0	48.2	59.4
NFP (cash)/debt	(4.9)	(16.4)	(37.2)	(77.5)	(127.9)
EBITDA margin	10.3%	10.4%	10.4%	10.8%	11.0%
EBIT margin	8.0%	7.2%	7.0%	7.6%	8.2%
EPS	3.05	3.49	3.81	4.84	5.96
EPS growth	26.3%	14.3%	9.3%	26.9%	23.1%
DPS ord. €/s	0.00	0.85	0.96	1.21	1.49
ROCE	18.6%	19.7%	19.6%	21.3%	22.5%
NWC/Sales	7.5%	4.9%	6.3%	6.2%	6.1%
Free Cash Flow Yield	-2.6%	2.4%	4.6%	7.8%	9.8%
PER x	23.3	21.2	16.8	13.2	10.7
EV/Sales x	1.27	1.02	0.74	0.59	0.48
EV/EBITDA x	12.3	9.8	7.0	5.5	4.3
EV/EBIT x	15.8	14.1	10.5	7.8	5.8



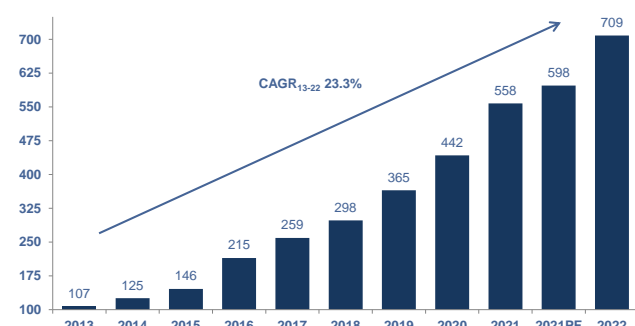
The company at a glance

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.

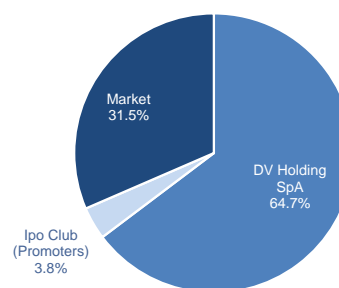
The group boasts key expertise in network infrastructure and data centres, security, network testing and monitoring, workstation management, Help Desk, data management and analysis, ERP systems management, retail applications, information systems, on-premise support and governance, outsourcing and cloud.

With over 400 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.

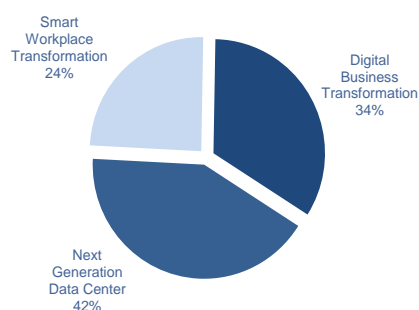
2013-22 top line progression



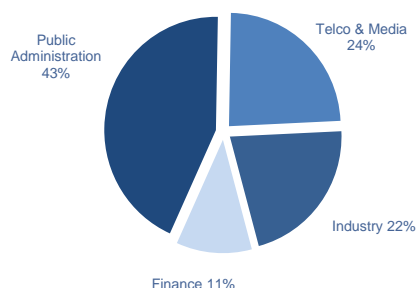
Shareholder structure



FY-22 top line breakdown by line of business



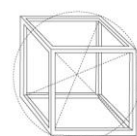
...and by industry verticals



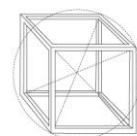
Peer group multiples table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Accenture PLC	3.19	2.99	2.77	17.4	16.0	14.5	21.2	19.6	17.6
Alten SA	0.98	0.86	0.79	7.9	7.0	6.3	9.7	8.5	7.6
Atos SE	0.26	0.29	0.28	2.8	3.0	2.5	9.8	7.0	5.6
Aubay SA	0.81	0.73	0.80	7.0	6.2	6.8	8.3	7.3	8.0
Bechtle AG	0.75	0.67	0.61	9.9	8.9	8.2	13.0	11.7	10.5
Capgemini SE	1.32	1.18	1.04	8.5	7.5	6.4	10.9	9.4	8.1
CDW Corp	1.45	1.35	1.24	15.2	14.1	10.9	16.0	14.8	13.6
Computacenter PLC	0.34	0.32	0.30	6.9	6.4	5.9	8.5	7.8	7.2
Econocom Group SE	0.23	0.17	0.13	3.4	2.5	1.7	4.8	3.6	2.7
Indra Sistemas SA	0.55	0.49	0.45	5.3	4.6	4.1	6.9	5.9	5.2
Reply SpA	1.57	1.36	1.17	10.3	8.7	7.5	12.8	10.7	9.1
Sesa SpA	0.45	0.40	0.34	6.1	5.3	4.5	8.4	7.1	6.1
Sopra Steria Group SA	0.77	0.69	0.61	6.7	5.7	4.8	9.2	7.7	6.6
Tietoenvy Oyj	1.10	1.03	0.99	6.7	6.2	6.1	10.1	8.9	8.5
Median	0.79	0.71	0.70	7.0	6.3	6.2	9.8	8.2	7.8
Digital Value SpA	0.73	0.59	0.48	7.0	5.5	4.3	10.5	7.8	5.8

Source: CFO Sim, Refinitiv Eikon



Income statement (€ m)	2021	2022	2023e	2024e	2025e
Sales	555.9	706.2	816.6	947.9	1,070.9
Total Revenues	557.8	708.5	818.2	949.8	1,073.1
Raw material and processing	(434.3)	(506.3)	(585.0)	(679.1)	(767.2)
Services	(48.2)	(105.3)	(122.7)	(142.5)	(161.0)
Personnel expenses	(17.4)	(22.3)	(24.2)	(25.2)	(25.8)
Other opex	(0.5)	(1.1)	(0.8)	(0.9)	(1.1)
EBITDA	57.5	73.6	85.5	102.1	118.0
D&A	(13.0)	(22.5)	(28.0)	(30.0)	(30.0)
EBIT	44.5	51.1	57.4	72.1	88.0
Financials	(0.7)	(1.7)	(3.0)	(3.0)	(3.0)
Re/(Devaluation) of financial assets	0.0	(0.4)	0.0	0.0	0.0
Extraordinary	(0.4)	(1.0)	0.0	0.0	0.0
Pre-Tax profit	43.4	48.0	54.5	69.1	85.0
Income taxes	(12.8)	(13.9)	(16.3)	(20.7)	(25.5)
Minorities	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	30.1	33.9	38.0	48.2	59.4
Net Profit Adjusted	30.4	34.8	38.0	48.2	59.4
Balance sheet (€ m)	2021	2022	2023e	2024e	2025e
Net Working Capital	41.8	34.8	51.4	58.8	65.0
Net Fixed Assets	69.4	80.0	67.9	53.9	39.9
Equity Investments	0.3	0.2	0.2	0.2	0.2
Other M/L Term A/L	12.8	26.4	30.6	35.7	40.5
Net Invested Capital	124.3	141.4	150.1	148.6	145.5
Net Financial Debt	(4.9)	(16.4)	(37.2)	(77.5)	(127.9)
Minorities	5.5	0.9	1.0	1.1	1.2
Group's Shareholders Equity	123.7	156.9	186.3	224.9	272.1
Financial Liabilities & Equity	124.3	141.4	150.1	148.6	145.5
Cash Flow statement (€ m)	2021	2022	2023e	2024e	2025e
Total net income	30.1	33.9	38.0	48.2	59.4
Depreciation	13.0	22.5	28.0	30.0	30.0
Other non-cash charges	(12.4)	(1.2)	(4.2)	(5.1)	(4.8)
Cash Flow from Oper. (CFO)	30.7	55.2	61.8	73.2	84.7
Change in NWC	(15.5)	(4.0)	(16.6)	(7.3)	(6.2)
FCF from Operations (FCFO)	15.3	51.2	45.2	65.8	78.5
Net Investments (CFI)	(31.6)	(35.9)	(16.0)	(16.0)	(16.0)
Free CF to the Firm (FCFF)	(16.4)	15.4	29.2	49.8	62.5
CF from financials (CFF)	55.2	(12.9)	(3.6)	(4.4)	(6.6)
Free Cash Flow to Equity (FCFE)	38.9	2.5	25.7	45.4	55.8
Financial ratios	2021	2022	2023e	2024e	2025e
EBITDA margin	10.3%	10.4%	10.4%	10.8%	11.0%
EBIT margin	8.0%	7.2%	7.0%	7.6%	8.2%
Net profit margin	5.4%	4.8%	4.6%	5.1%	5.5%
Tax rate	29.5%	29.1%	30.0%	30.0%	30.0%
Op NWC/Sales	7.5%	4.9%	6.3%	6.2%	6.1%
Interest coverage x	0.02	0.03	0.05	0.04	0.03
Net Debt/EBITDA x	(0.08)	(0.22)	(0.44)	(0.76)	(1.08)
Debt-to-Equity x	(0.04)	(0.10)	(0.20)	(0.34)	(0.47)
ROIC	24.2%	24.0%	25.3%	32.5%	40.8%
ROCE	18.6%	19.7%	19.6%	21.3%	22.5%
ROACE	23.7%	20.5%	20.8%	22.8%	24.1%
ROE	24.4%	21.6%	20.4%	21.5%	21.8%
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 Diluted	9.97	9.97	9.97	9.97	9.97
EPS stated FD €	3.02	3.41	3.81	4.84	5.96
EPS adjusted FD €	3.05	3.49	3.81	4.84	5.96
EBITDA €	5.77	7.38	8.57	10.24	11.84
EBIT €	4.47	5.12	5.76	7.23	8.83
BV €	12.95	15.83	18.79	22.67	27.42
FCFO €	1.53	5.14	4.54	6.60	7.87
FCFF €	(1.64)	1.54	2.93	5.00	6.27
FCFE €	3.90	0.25	2.58	4.56	5.60
Dividend €	0.00	0.85	0.96	1.21	1.49



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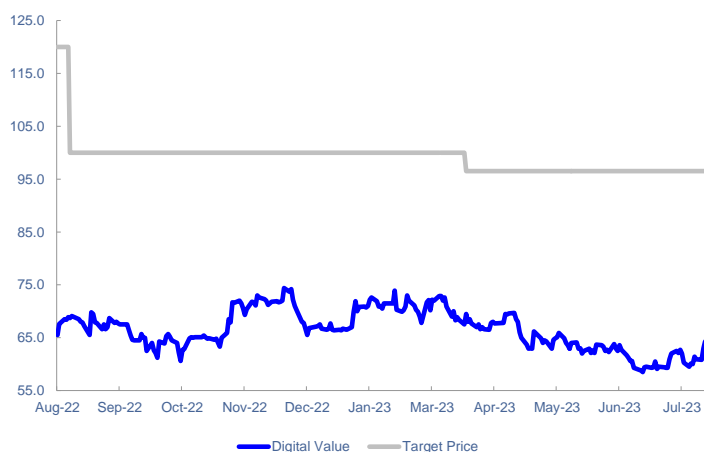
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DATE	TARGET PRICE	RATING
04/08/2023	€96.50	BUY
22/03/2023	€96.50	BUY
02/02/2023	€100.00	BUY
13/09/2022	€100.00	BUY
04/08/2022	€120.00	BUY

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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.

