

Italy – IT Services

The Italian 'Hyper VAR' champion

20th May 2021

GERMAN SPRING CONFERENCE

RIC: DGV.MI
BBG: DGV IM

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:

Rating:

Buy

Price Target:

€ 68.00

Upside/(Downside): 27.6%

Last Price: € 53.30

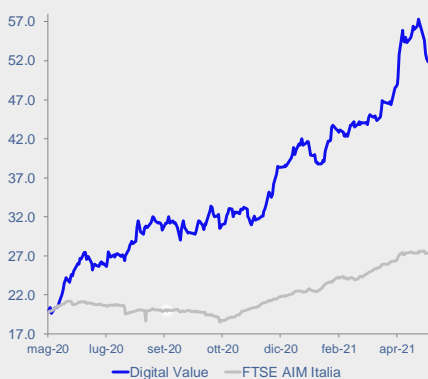
Market Cap.: € 527.5m

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%	185.1%
Rel.to Peers	-1.7%	17.8%	117.4%

Analysts:

Luca Arena
+39 02 30343 395
luca.arena@cfosim.com

Gianluca Mozzali
+39 02 30343 396
gianluca.mozzali@cfosim.com

'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 € 46bn out of € 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

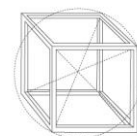
DGV has developed a solid ecosystem consisting of the main technology suppliers that allows the group to propose effective and customised solutions via its network of highly skilled professionals. That is why DGV is able to manage every phase of the lifecycle of an ICT project. Enlarged size embodies 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 € 40.0m per annum in 2021-23. CFO SIM has confirmed its estimates and stock valuation via DCF: PT is € 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 nor 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



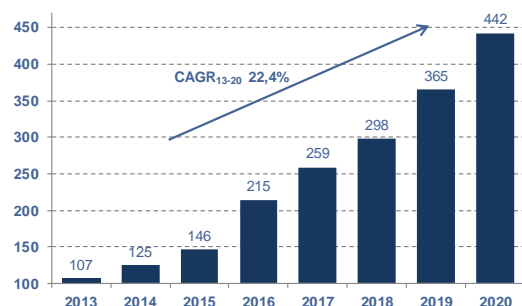
The company at a glance

Digital Value originates from the combination of two domestic IT systems integrators, Italtware 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.

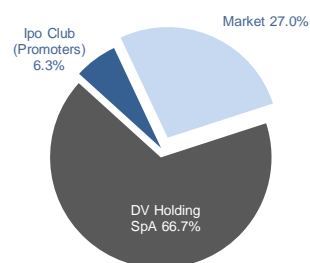
The group boasts key expertise in network infrastructure and data centres, security, network testing and monitoring, workstation management, Help Desk, data management and analysis, ERP systems management, retail applications, information systems, on-premise support and governance, outsourcing and cloud.

With its 193 employees, DGV reported 2020 Total Revenues of € 442.3m, EBITDA of € 45.4m (10.3% margin), € 24.1m Net Profit and a Net Financial Position of € 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.

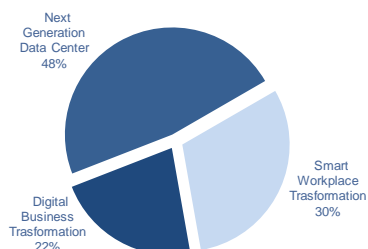
2013-20 top line progression



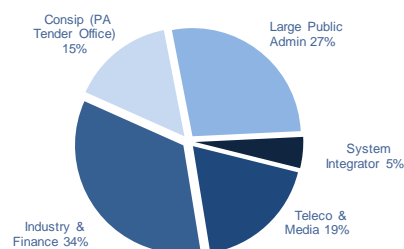
Fully diluted shareholder structure



FY-20 top line breakdown by line of business



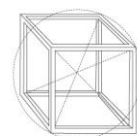
FY-20 top line breakdown by industry



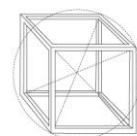
Peer group multiples table

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

Source: CFO Sim, Thomson Reuters Eikon. * FD multiples



Income statement (€ m)	2019	2020	2021e	2022e	2023e
Sales	363.2	440.6	529.0	601.6	684.0
Value of Production	364.8	442.3	530.3	602.8	685.4
Raw material and processing	(280.7)	(342.7)	(406.2)	(458.7)	(520.9)
Services	(38.2)	(40.2)	(53.0)	(60.3)	(67.9)
Personnel expenses	(13.6)	(13.6)	(14.8)	(18.8)	(19.6)
Other opex	(0.4)	(0.3)	(1.1)	(1.2)	(1.4)
EBITDA	31.9	45.4	55.2	63.8	75.6
D&A	(4.9)	(11.4)	(14.6)	(17.4)	(14.4)
EBIT	27.1	34.0	40.6	46.4	61.3
Financials	(0.3)	(0.5)	(1.0)	(1.0)	(1.0)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	26.8	33.6	39.6	45.4	60.3
Income taxes	(7.6)	(9.4)	(11.9)	(13.6)	(18.1)
Minorities	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)
Net Profit	19.0	24.1	27.7	31.7	42.1
Net Profit Adjusted	19.0	24.1	27.7	31.7	42.1
Balance sheet (€ m)	2019	2020	2021e	2022e	2023e
Net Working Capital	(107.4)	(91.4)	(84.4)	(85.1)	(90.0)
Net Fixed Assets	47.9	50.2	48.5	44.2	42.8
Equity Investments	0.0	0.4	0.4	0.4	0.4
Other M/L Term A/L	101.1	101.7	94.3	90.9	88.0
Net Invested Capital	41.6	60.9	58.9	50.4	41.2
Net Financial Debt	(28.0)	(32.9)	(62.6)	(102.8)	(154.1)
Minorities	0.2	0.2	0.2	0.3	0.3
Group's Shareholders Equity	69.4	93.5	121.2	152.9	195.0
Financial Liabilities & Equity	41.6	60.9	58.9	50.4	41.2
Cash Flow statement (€ m)	2019	2020	2021e	2022e	2023e
Total net income	19.0	24.1	27.7	31.7	42.1
Depreciation	4.9	11.4	14.6	17.4	14.4
Other non-cash charges	(24.2)	(1.3)	7.4	3.5	2.9
Cash Flow from Oper. (CFO)	(0.4)	34.1	49.7	52.6	59.4
Change in NWC	31.5	(16.0)	(7.0)	0.6	4.9
FCF from Operations (FCFO)	31.2	18.1	42.7	53.2	64.3
Net Investments (CFI)	(34.4)	(13.0)	(13.0)	(13.0)	(13.0)
Free CF to the Firm (FCFF)	(3.2)	5.1	29.7	40.2	51.3
CF from financials (CFF)	17.5	13.3	2.0	2.1	2.2
Free Cash Flow to Equity (FCFE)	14.2	18.4	31.7	42.3	53.6
Financial ratios	2019	2020	2021e	2022e	2023e
EBITDA 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	0.02
Net Debt/EBITDA x	(0.88)	(0.72)	(1.13)	(1.61)	(2.04)
Debt-to-Equity x	(0.40)	(0.35)	(0.52)	(0.67)	(0.79)
ROIC	45.6%	39.6%	47.1%	63.0%	102.3%
ROCE	27.5%	25.0%	24.4%	23.2%	25.0%
ROACE	33.8%	29.0%	26.8%	25.3%	27.5%
ROE	27.3%	25.8%	22.9%	20.8%	21.6%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2019	2020	2021e	2022e	2023e
Number of shares # m	9.90	9.90	9.90	9.90	9.90
Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
Average Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
EPS stated FD €	1.90	2.42	2.78	3.18	4.23
EPS adjusted FD €	1.90	2.42	2.78	3.18	4.23
EBITDA €	3.20	4.55	5.54	6.40	7.59
EBIT €	2.71	3.41	4.07	4.65	6.15
BV €	6.98	9.40	12.18	15.36	19.59
FCFO €	3.13	1.82	4.28	5.34	6.45
FCFF €	(0.32)	0.51	2.98	4.03	5.15
FCFE €	1.43	1.84	3.18	4.25	5.37
Dividend €	0.00	0.00	0.00	0.00	0.00

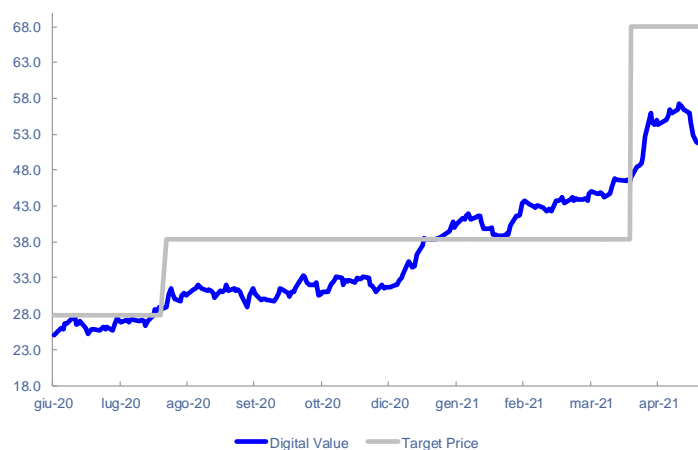


ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

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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 **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- 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.

