

Datalogic

Strong 2011A Net Income, Expected Stronger in 2012E

Datalogic - Key estimates and data				
Y/E December		2011A	2012E	2013E
Revenues	EUR M	425.53	522.08	556.01
EBITDA	EUR M	59.19	85.80	99.02
EBIT	EUR M	36.44	69.50	82.60
Net income	EUR M	25.92	44.17	53.72
Dividend ord.	EUR	0.13	0.15	0.15
Adj. EPS	EUR	0.44	0.76	0.92
EV/EBITDA	x	7.26	5.87	4.67
Adj. P/E	x	14.29	8.38	6.89

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- FY11A revenue up by over 8%.** FY11A revenue increased by 8.3% to EUR 425.5M. In particular: 1) the Mobile division grew by 9.9% to EUR 96.4M, but was broadly stable net of intercompany revenue; 2) the Automation division grew by 6.1% to EUR 96.2M; 3) the Scanning division grew by 16.5% to EUR 211.6M; and 4) the Business Development division grew by 10.3% to EUR 36.8M. FY11A revenues were negatively affected by the EUR appreciation vs. USD. Net of this effect, revenue would have grown by around 11%. We highlight that 3Q11 (EUR 107.1M) and 4Q11 (EUR 108.1M) were the best revenue quarters ever, despite a difficult macro-economic environment.
- Profitability up, driven by gross margin.** FY11A EBITDA came in at EUR 59.2M, +19%. The company posted non-recurring costs for EUR 3.6M (shift of ADC production to Vietnam, acquisition fees), net of these elements EBITDA would have grown by 26.2%. The EBITDA margin was 13.9% (+120bps vs. FY10), and net of abovementioned non-recurring costs, the EBITDA margin would have been 14.8%. This EBITDA margin improvement is due to the gross margin (+60bps vs. FY10), and to a lower weighting on revenue of distribution costs (-90bps). Net income came in at EUR 25.9M, +43.7% vs. FY10. Net of non-recurring costs (overall around EUR 12.3M), net income would have been EUR 34.3M, with a 90.1% yoy growth. The Board proposed a EUR 0.15/share dividend. Net debt came in at EUR 59.4M.
- Estimates and valuation.** We calculated a 2011 pro-forma net income, net of non-recurring costs and including the Accu-Sort consolidation of around EUR 40M. During the conference call, management was qualitatively positive on the 2012 operations outlook, and stated that, after a weak January, February and March gave encouraging signals. Therefore we revised upwards our 2012E-13E estimates to incorporate a good organic growth, including the Accu-Sort consolidation. Our 2012E net income is around EUR 44M, around +10% vs. previous estimates, and implies a 2012E P/E of 8.4x, an around 58% discount vs. peers. We value Datalogic with a DCF model, a 9.1% WACC (increasing from 8.3%, mainly due to the worsening in the risk-free rate and equity risk premium), and a 0% terminal value growth. **We obtain a target price of EUR 9.90/share (EUR 9.20/share previously) and rate the company a BUY.**
- Key risks.** The Datalogic reference market is fragmented and characterised by intense competition. To survive in these markets, substantial R&D investments are needed (at a sure cost) and the launch of successful innovative commercial products is uncertain. The ongoing delocalisation of some important clients could require entry into the Latin American and Asian (Chinese and Indian) markets. The company is exposed to foreign currency translation effects: around 50% of revenues are non-EUR denominated.

13 March 2012

BUY

Target Price: EUR 9.90
(from EUR 9.20)

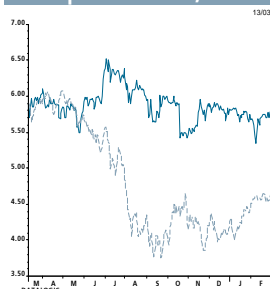
**IT & Technology
Results Note**

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Price performance, -1Y



Source: Thomson Reuters

Data priced on 08.03.2012

Target price (€)	9.90
Target upside (%)	56.08
Market price (€)	6.34
52-week range (€)	6.5/5.4
Market cap (€M)	370.26
No. of shares (M)	58.45
Free float (%)	24.6
Major shareholder (%)	Hydra SpA, 66.9
Reuters	DAL.MI
Bloomberg	DAL IM
FTSE It All Shares	17637

Performance %			
	Absolute	Rel. to FTSE All Sh	
-1M	18.4	-1M	18.3
-3M	8.3	-3M	-3.6
-12M	5.8	-12M	29.1

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

FY11 Results

FY11A revenue increased by 8.3% to EUR 425.5M. In particular:

- The Mobile division grew by 9.9% to EUR 96.4M, but was broadly stable net of intercompany revenue;
- The Automation division grew by 6.1% to EUR 96.2M;
- The Scanning division grew by 16.5% to EUR 211.6M;
- The Business Development division grew by 10.3% to EUR 36.8M.

FY11A revenues were negatively affected by the EUR appreciation vs. USD. Net of this effect, revenue would have grown by around 11%.

Note that Datalogic is also exposed to the USD in terms of COGS and operating expenses. In FY11A, at EBITDA level, the net effect of the euro appreciation was negligible (EUR -0.7M).

Datalogic – Quarterly revenue trend 1Q10A-4Q11A									
EUR M	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A	4Q11A	FY11A
Total Revenue	89.5	101.3	100.4	101.5	105.0	105.3	107.1	108.1	425.5
Mobile	20.7	21.2	21.2	24.6	21.2	20.6	23.2	31.4	96.4
Automation	19.0	24.4	21.5	25.8	24.4	24.4	24.0	23.4	96.2
Scanning	42.1	47.2	48.8	43.5	50.9	50.8	53.0	56.9	211.6
Business dev.	7.9	8.7	9.1	7.7	8.6	9.6	9.4	9.2	36.8

A: actual; Source: Company data

FY11A EBITDA came in at EUR 59.2M, +19%. The company posted non-recurring costs for EUR 3.6M (shift of ADC production to Vietnam, acquisitions fees); net of these elements EBITDA would have grown by 26.2%.

The EBITDA margin was 13.9% (+120bps vs. FY10), and net of abovementioned non-recurring costs, the EBITDA margin would have been 14.8%.

Overall, in FY11A, Datalogic posted around EUR 10.3M of non-recurring costs related to the ADC supply chain restructuring (above and below EBITDA). We highlight that this restructuring should generate savings for around EUR 12.5M/year from 2012E.

Datalogic - Key 3Q11A results data							
EUR M	1Q11A	2Q11A	3Q11A	4Q11A	FY11A	% chg vs. FY10A	
Revenue	105.0	105.3	107.1	108.1	425.5	8.3	
Gross operating margin	49.4	53.3	49.9	44.0	196.6	9.7	
Gross operating margin/revenue (%)	47.1	50.6	46.6	40.7	46.2		
EBITDA	14.9	16.9	16.8	10.6	59.2	19.0	
EBITDA margin	14.2	16.0	15.7	9.8	13.9		
EBIT	11.1	5.8	13.1	6.4	36.4	5.1	
Net income	5.7	2.2	9.4	8.6	25.9	43.7	
Net debt	71.2	71.9	70.9	59.4	59.4	-22.4	

A: actual; Source: Company data and Intesa Sanpaolo Research

This EBITDA margin improvement is due to the gross margin (+60bps vs. FY10), and to a lower weighting on revenue of distribution costs (-90bps).

In the following table we report the EBITDA margin breakdown by division.

Datalogic – Quarterly EBITDA margin trend 1Q10A- 4Q11A									
%	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A	4Q11A	FY11A
Total EBITDA	11.8	15.1	12.9	10.8	14.2	16.0	15.7	9.8	13.9
Mobile	12.6	13.5	11.9	9.8	10.8	12.7	10.4	5.0	9.2
Automation	6.8	14.9	14.3	11.3	14.8	14.7	15.9	11.8	14.3
Scanning	11.9	13.5	13.6	8.5	15.7	19.7	17.4	7.6	14.9
Business dev.	13.9	13.8	7.8	-1.4	9.3	8.3	11.6	11.1	10.1

A: actual; Source: Company data

Net income came in at EUR 25.9M, +43.7% vs. FY10. Net of non-recurring costs, net income would have been EUR 34.3M, a 90.1% yoy growth. The Board proposed a EUR 0.15/share dividend.

Net debt came in at EUR 59.4M.

Datalogic – Quarterly trade working capital to revenue ratio trend 1Q10A- 4Q11A									
%	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A	4Q11A	
Total trade WC	18.4	19.1	17.0	15.0	15.4	15.2	16.3	15.7	
Mobile	13.7	14.3	14.0	10.0	11.3	13.0	14.7	11.5	
Automation	28.8	27.0	26.0	22.0	20.8	20.0	19.7	17.2	
Scanning	16.0	17.1	14.0	12.0	13	13.2	15.2	14.5	
Business dev.	9.5	9.6	12.0	11.0	11.9	9.1	11.1	10.9	

A: actual; Source: Company data

Outlook and change of estimates

During the conference call, management was qualitatively positive on the 2012 operations outlook and stated that, after a weak January, February and March gave encouraging signals.

We calculated a 2011 pro-forma net income, net of non-recurring costs and including the Accu-Sort consolidation of around EUR 40M.

On the basis of these elements we changed our 2012E-13E estimates:

▪ 2012E:

- We assumed an organic growth of 5% and added around EUR 75M from Accu-Sort;
- We added some costs (e.g. COGS) to incorporate some possible inertia coming from the Accu-Sort integration, thus cutting the EBITDA margin by 80bps;
- We added Accu-Sort acquisition costs, around EUR 102M, to debt;
- We structurally reduced the tax rate from 30% to around 27%, considering that the production is now strongly exposed to low-tax countries (Slovakia and Vietnam).

▪ 2013E:

- We confirmed top line growth at 6.5%;
- We slightly cut the EBITDA margin (-20bps).

Datalogic - Change of estimates 2012E-13E						
EUR M	2012E old	2012E new	% chg	2013E old	2013E new	% chg
Revenue	447.0	522.1	16.8	476	556.0	16.8
EBITDA	76.75	85.8	11.8	85.83	99.0	15.4
EBITDA margin	17.2	16.4		18.0	17.8	
Net income	40.31	44.2	9.6	48.62	53.7	10.5
Net debt/-cash	21.78	133.5	NM	-17.7	91.8	NM

E: estimates; NM: Not meaningful; Source: Intesa Sanpaolo Research estimates

Valuation

We value Datalogic with a DCF model, using the following key assumptions in our valuation:

DCF valuation

- A risk-free rate of 5.5% (previously 4.75%), an equity risk premium of 6% (previously 5.75%);
- A gearing of around 26%;
- An increase in WACC from 8.3% to 9.1%, mainly due to the worsening in the risk-free rate and equity risk premium;
- A conservative 0% terminal value growth;
- LT EBIT is calculated starting from 2013E EBITDA, and depreciation equals capex.

We obtain a target price of EUR 9.90/share (EUR 9.20/share previously) and rate the company a BUY.

Datalogic – DCF calculation (2012E-13E)			
	2012E	2013E	LT
EBIT	69.5	82.6	87.9
Tax	-16.3	-19.9	-21.3
Depreciation	16.3	16.4	0.0
NOPAT	69.5	79.1	66.6
WC	-9.3	0.3	0.0
Capex	-10.4	-11.1	0.0
FCF	49.7	68.4	66.6
Discounted FCF	49.7	62.7	56.0
WACC (%)	9.1		
TV growth (%)	0.0		
Sum	112		
TV	616		
EV	729		
Debt FY11A	161		
Treasury shares	10		
Equity	578		
Shares	58.4		
Target price	9.9		

E: estimates; Source: Intesa Sanpaolo Research estimates

In the tables below we show Datalogic's peers' key financial indicators and P/E and EV/EBITDA.

Multiples comparison

Datalogic - Key financial indicators							
%	Price (EUR)	Mkt cap (EUR M)	Revenue CAGR11-13E	EBITDA CAGR11E-13E	Net income CAGR10E-12E	Debt/EBITDA 2012E	
Intermec	5.38	322	7.6	29.2	NA	-0.6	
Zebra Tech.	28.95	1,505	4.7	6.2	-9.0	-0.8	
Psion	0.68	96	3.2	26.0	NA	-1.0	
Zetes Industries	16.09	87	4.8	4.3	1.9	-0.5	
Datalogic*	6.15	359	14.3	29.3	44.0	1.6	

E: estimates; NA: not available; Source: Factset consensus *Intesa Sanpaolo estimates

Looking at the multiples, Datalogic trades at a premium on EV/EBITDA (30-38%), but this is probably influenced by the peers' cash position. Looking at P/E, Datalogic trades at a strong discount (49-57%).

Datalogic - Multiples comparison

x	Price (EUR)	Mkt cap (EUR M)	EV/EBITDA		P/E	
			2012E	2013E	2012E	2013E
Intermec	5.38	322	4.2	2.5	24.1	12.6
Zebra Tech.	28.95	1,505	8.2	7.1	15.7	14.5
Psion	0.68	96	4.2	3.5	73.0	27.3
Zetes Industries	16.09	87	4.1	3.7	11.0	10.7
Median			4.2	3.6	19.9	13.6
Datalogic*	6.15	359	5.9	4.7	8.4	6.9
Premium/(Discount) vs. peers			38.5	30.7	-57.8	-49.1

E : estimates; Source: Factset consensus *Intesa Sanpaolo estimates

Datalogic - Key figures						
Sector	IT & Technology	Mkt price EUR/Share		Ordinary	Rating	
REUTERS CODE	DAL.MI	2010A	2011A	6.34	BUY	
Values per share (EUR)		Target price EUR/Share		9.90	2012E	2013E
No. ordinary shares (M)		58.45	58.45		58.45	58.45
No. NC saving/preferred shares (M)		-	-		-	-
Total no. of shares (M)		58.45	58.45		58.45	58.45
Adj. EPS		0.31	0.44		0.76	0.92
CFPS		0.58	0.69		1.03	1.20
BVPS		2.40	2.91		3.45	4.06
Dividend Ord		0.15	0.13		0.15	0.15
Dividend SAV Nc		-	-		-	-
Income statement (EUR M)		2010A	2011A		2012E	2013E
Sales		392.74	425.53		522.08	556.01
EBITDA		49.76	59.19		85.80	99.02
EBIT		34.68	36.44		69.50	82.60
Pre-tax income		28.18	33.21		60.50	73.59
Net income		18.03	25.92		44.17	53.72
Adj. net income		18.03	25.92		44.17	53.72
Cash flow (EUR M)		2010A	2011A		2012E	2013E
Net income before minorities		18.03	25.92		44.17	53.72
Depreciation and provisions		15.90	14.38		16.30	16.42
Change in working capital		20.17	7.73		-9.35	0.34
Operating cash flow		54.11	48.02		51.12	70.48
Capital expenditure		-7.86	-13.59		-10.44	-11.12
Other (uses of Funds)		-22.25	-9.24		-101.75	-
Free cash flow		24.00	25.19		-61.07	59.36
Dividends and equity changes		-	-8.13		-12.96	-17.67
Net cash flow		24.00	17.06		-74.03	41.69
Balance sheet (EUR M)		2010A	2011A		2012E	2013E
Net capital employed		216.66	229.69		334.93	329.29
of which associates		-	-		-	-
Net debt/-cash		76.50	59.44		133.46	91.77
Minorities		-	-		-	-
Net equity		140.16	170.25		201.46	237.51
Market cap		370.26	370.26		370.26	370.26
Minorities value		-	-		-	-
Enterprise value (*)		446.76	429.70		503.72	462.03
Stock market ratios (x)		2010A	2011A		2012E	2013E
Adj. P/E		20.54	14.29		8.38	6.89
P/CEPS		10.91	9.19		6.12	5.28
P/BVPS		2.64	2.17		1.84	1.56
Dividend yield (% ord)		2.37	2.00		2.37	2.37
Dividend yield (% sav)		-	-		-	-
EV/sales		1.14	1.01		0.96	0.83
EV/EBITDA		8.98	7.26		5.87	4.67
EV/EBIT		12.88	11.79		7.25	5.59
EV/CE		2.06	1.87		1.50	1.40
D/EBITDA		1.54	1.00		1.56	0.93
D/EBIT		2.21	1.63		1.92	1.11
Profitability & financial ratios (%)		2010A	2011A		2012E	2013E
EBITDA margin		12.67	13.91		16.44	17.81
EBIT margin		8.83	8.56		13.31	14.86
Tax rate		36.03	21.96		27.00	27.00
Net income margin		4.59	6.09		8.46	9.66
ROE		12.86	15.22		21.92	22.62
Debt/equity ratio		0.55	0.35		0.66	0.39
Growth (%)			2011A		2012E	2013E
Sales			8.35		22.69	6.50
EBITDA			18.95		44.97	15.40
EBIT			5.07		90.74	18.83
Pre-tax income			17.84		82.19	21.62
Net income			43.75		70.44	21.62
Adj. net income			43.75		70.44	21.62

(*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

Notes

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Valuation methodology (long-term horizon: 12M)

The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows:

We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
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Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

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Number of companies subject to recommendations: 81 (**)	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	32	32	35	1	-
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Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Banca IMI discloses interests and conflicts of interest, as defined by: Articles 69-quater and 69-quinquies, of Consob Resolution No.11971 of 14.05.1999, as subsequently amended and supplemented; the NYSE's Rule 472 and the NASD's Rule 2711; the FSA Policy Statement 04/06 "Conflicts of Interest in Investment Research – March 2004 and the Policy Statement 05/03 "Implementation of Market Abuse Directive", March 2005. The Intesa Sanpaolo Group maintains procedures and organisational mechanisms (Information barriers) to professionally manage conflicts of interest in relation to investment research. We provide the following information on Intesa Sanpaolo Group's conflicts of interest:

- 1 The Intesa Sanpaolo Group has a conflict of interest inasmuch as it plans to solicit investment banking business or intends to seek compensation from the Company in the next three months.
- 2 The Intesa Sanpaolo Group has an equity stake above 1% in DATALOGIC S.p.A.

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