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Price
EUR7.00

Target
EUR8.50

Previous
Buy

Buy

Slow start in Q1, but guidance confirmed

Despite 1% LFL sales growth in Q1, management indicated FY consensus of 7% growth achievable, while from Q2 operating margins would start benefiting from the adoption of a global supply chain in the ADC (210bp gain on FY gross margin expected). Buy, EUR8.5 TP.

Italy | Technology hardware & equipment

Datalogic

Q1 EARNINGS

15 May 2012

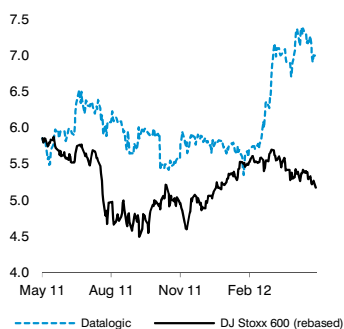
Reuters DAL.MI
Bloomberg DAL IM
Index DJ Stoxx 600

Latest financials

Market cap (EURm)	409
Free float	22%
Shares outstanding (m)	58
Daily trade volume ('000)	43
YTD abs. performance	22%
52-week high (EUR)	7.4
52-week low (EUR)	5.4
Enterprise value (EURm)	531
Net debt (EURm)	125

(EUR)	2012E	2013E	2014E
Sales	526.7	571.4	616.7
EBITDA	86.6	99.9	110.9
EBIT	75.3	88.6	99.6
Pretax profit	65.7	80.8	92.7
Net profit (adj)	48.0	59.0	66.7
EPS (adj)	0.82	1.01	1.14
DPS	0.17	0.18	0.20
P/E	8.5	6.9	6.1
EV/sales	1.0	0.9	0.7
EV/EBITDA	6.1	4.9	4.0
EV/EBIT	7.0	5.5	4.4
Net div. yield	2.4%	2.6%	2.9%

Financial year end: 31 December



In brief

- > Q1 in line, in a weak reference market
- > Management confident on FY guidance
- > Margin improvement visible from Q2
- > Buy, TP EUR8.5

In detail

Q1 in line in a weak reference market

Q1 sales were up 10% YOY to EUR115m thanks to the consolidation of Accu-Sort and PPT (LFL growth of 1%, in line with the reference market) leading to a gross profit increase of 8% to EUR53m (EUR54m expected). EBIT of EUR16m (+32% YOY, EUR14m expected) benefited from EUR5m gains on the disposal of non-core RFID activities, with net profit up 78% to EUR10m (EUR8m expected). Net debt at end-March was up EUR110m QOQ to EUR172m (EUR159m expected) after a EUR103m cash-out to acquire Accu-Sort.

Management confident on FY guidance

Despite Q1 organic growth being well below the 6-8% business plan target, management hinted at improving performance in the coming quarters (March and April denoted a significant improvement versus 2M, the Q1 backlog was up 26% YOY) and expressed confidence in reaching 2012 consensus of roughly 7% organic growth in sales (Kepler EUR527m, +7.2% YOY). Management also suggested a reversal of working capital (EUR18m increase in Q1 also driven by strong sales in March) in the next few quarters, guiding to net debt of about EUR130m (Kepler EUR125m) by year-end.

Margin improvement from Q2

Q1 underlying margins suffered from the integration of Accu-Sort and PPT (EUR1m EBIT loss), while the expected benefits from the adoption of the global supply chain in ADC (we estimate a 210bp benefit on FY gross margin) could become more visible from Q2 (in Q1 savings in the cost of components were mitigated by stock still available). We keep our 2012-14 estimates.

Buy, TP EUR8.5

We value Datalogic at EUR8.5, implying a fair PE 2012E of 10.4x. Our Buy rating is supported by a growing reference market (manufacturing and related logistics infrastructure shifting to Asia) and its strong positioning (worldwide leader in POS retail and industrial stationary scanners, Italy accounts for <10% of sales), and earnings momentum (2012E sales up 24%, EPS 40%).

Q1 results review

Q1 revenues of EUR115m increased by 10% YOY or 7.8% at constant EUR/USD rates (the preliminary figure of EUR116m was disclosed in April). Excluding the contribution of PPT Vision (consolidated as of 21 December 2011) and Accu-Sort (consolidated as of 20 January 2012), LFL growth was close to 1%, in line with reference market trends.

Sales were stable (-0.3% YOY) in the automatic data capture division (barcode readers and scanners), increased by 34% YOY (minus 6% YOY LFL) in industrial automation (automatic identification systems, safety, detection and marking solution) and rose by 32% YOY in informatics (barcoding solutions for SMEs).

By region, revenues were up 30% in North America (contribution of Accu-Sort and PPT), and 11% in Europe supported by the retail segment, while they showed a 12% decline in Asia Pacific and a 10% decline in ROW.

Gross profit increased by 8% YOY to EUR53m (EUR54m expected), with margin down 100bp YOY to 46.1%. The EBITDA of EUR18.5m (+24% YOY) benefited from EUR5.5m in other revenues generated by the sale of assets (mainly intangible) in non-core RFID activities, leading to an EBIT increase of 32% YOY to EUR16m, well above our EUR14m estimate. Net profit was up 78% YOY to EUR10m (EUR8m expected), with a Q1 tax rate of 3%, leaving room for a FY tax rate below the 25-27% guidance.

Net debt at end-March was EUR172m (EUR159m expected), a EUR110m increase versus December, mainly reflecting the EUR103m cash-out related to the acquisition of Accu-Sort. Management said the EUR18m increase in working capital of Q1 could be reabsorbed in the coming quarters and guided for EUR130m net debt by year-end.

Table 1: Datalogic - quarterly results

(EURm)	Q1 2011	Q2 2011	Q3 2011	Q4 11	Q1 2012E	YOY	QOQ	Q1 2012E	Act/Est
Sales	105.0	105.3	107.1	108.2	115.4	9.9%	6.6%	115.9	-0.4%
Gross profit	49.4	49.4	49.9	47.9	53.2	7.6%	11.1%	54.2	-1.9%
Margin	47.1%	46.9%	46.6%	44.2%	46.1%			46.8%	
EBIT adj.	12.2	14.3	14.1	8.2	16.1	31.9%	96.9%	13.8	17.1%
Margin	11.6%	13.6%	13.1%	7.6%	14.0%			11.9%	
EBIT reported	11.1	5.8	13.1	6.4	15.2	36.7%	135.6%	13.8	10.3%
Net profit	5.7	2.2	9.4	8.7	10.0	77.5%	15.8%	7.9	27.8%
Net debt /(cash)	71.2	71.9	70.9	59.4	172.1	141.9%	189.6%	159.4	8.0%

Source: Company data, Kepler Capital Markets

Key financials

Datalogic

Rating	Buy	Market cap	EUR409m	Bloomberg	DAL IM	Top Shareholders		Enrico Coco
Target price	EUR8.50	EV	EUR531m	Reuters	DAL.MI	Hydra S.p.A.	67.0%	enrico.coco@keplercm.com
Price	EUR7.00	Float	22%			Tamburi Investment Partners	6.4%	+39 02 8550 7227

31 December

Income statement (EURm)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Sales	381.6	404.0	379.8	312.0	392.7	425.5	526.7	571.4	616.7
Change (%)	85.3%	5.9%	-6.0%	-17.9%	25.9%	8.3%	23.8%	8.5%	7.9%
EBITDA adjusted	38.2	50.1	47.8	19.7	49.8	59.2	86.6	99.9	110.9
EBITDA margin (%)	10.0%	12.4%	12.6%	6.3%	12.7%	13.9%	16.4%	17.5%	18.0%
EBIT adjusted	28.0	38.8	35.3	6.3	38.1	48.8	75.3	88.6	99.6
EBIT margin (%)	7.3%	9.6%	9.3%	2.0%	9.7%	11.5%	14.3%	15.5%	16.2%
Net financial	-6.3	-4.9	-4.8	-7.1	-6.9	-3.6	-9.0	-8.3	-7.4
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring items	-10.7	-6.7	-4.6	-11.8	-3.4	-12.3	-1.0	0.0	0.0
Pretax profit	11.0	27.6	25.9	-12.8	28.2	33.2	65.7	80.8	92.7
Income tax	-4.8	-8.5	-8.1	0.7	-10.2	-7.3	-17.7	-21.8	-26.0
Tax rate (%)	43.0%	31.4%	31.1%	5.3%	36.6%	22.2%	27.2%	27.1%	28.1%
Minorities	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net earnings	6.1	19.1	17.8	-12.1	18.0	25.9	48.0	59.0	66.7
Adjustments	0.0	0.0	0.0	0.0	0.0	8.4	0.0	0.0	0.0
Adjusted net earnings (group)	6.1	19.1	17.8	-12.1	18.0	34.3	48.0	59.0	66.7
Change (%)	-44.3%	211.4%	-6.4%	-chg	+chg	90.1%	39.9%	23.0%	13.1%
Cash flow statement (EURm)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Net earnings	6.3	19.1	17.8	-12.1	18.0	25.9	48.0	59.0	66.7
D&A	12.2	12.3	12.4	13.4	11.6	10.4	11.3	11.3	11.3
Change in TWC	10.1	-7.4	5.5	21.7	2.7	-8.7	-8.6	-4.7	-6.3
Others	-13.6	2.2	2.2	-7.3	23.2	6.5	3.1	0.1	0.1
Operating cash flow	14.9	26.2	38.0	15.6	55.6	34.1	53.7	65.7	71.8
Capex	-7.9	-12.6	-9.4	-7.3	-7.8	-13.6	-14.0	-14.0	-14.0
Free cash flow	7.0	13.6	28.6	8.3	47.8	20.6	39.7	51.7	57.8
Financial investments & disposals	0.0	0.0	-42.7	0.0	-20.7	-4.1	-105.9	0.0	0.0
Dividends	-3.5	-3.8	-4.1	-1.3	0.0	-8.1	-8.5	-9.4	-10.3
Equity issued net of buy back	68.3	-19.9	-23.2	-1.8	-2.1	8.8	8.8	0.0	0.0
Others	-4.6	6.1	-3.0	1.1	-1.0	0.0	0.0	0.0	0.0
Change of net debt	-67.3	4.1	44.4	-6.4	-24.0	-17.1	65.9	-42.4	-47.5
Balance sheet (EURm)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Intangible assets	153.7	137.3	138.7	126.7	147.1	154.4	151.2	148.0	144.8
o/w Net goodwill	89.9	84.8	89.7	87.1	106.1	112.2	112.2	112.2	112.2
Property, plant & equipment	50.4	49.2	52.6	50.8	50.0	50.0	55.9	61.8	67.7
Financial assets	23.0	20.5	25.2	25.9	26.4	39.9	137.0	137.0	137.0
Cash and cash equivalents	33.3	55.1	52.5	72.1	102.9	170.6	70.0	112.4	159.9
Current and other assets	143.1	153.1	152.4	122.0	131.5	150.9	175.6	187.3	200.8
Total shareholders' equity	186.6	173.5	135.8	116.7	140.2	170.3	209.7	259.3	315.7
Pension provisions	7.6	6.6	8.4	7.7	7.1	6.7	6.8	6.9	7.1
Financial liabilities	91.7	117.6	159.4	172.6	179.4	230.1	195.3	195.3	195.3
Other liabilities & provisions	117.5	117.5	117.7	100.5	131.2	158.8	177.8	184.9	192.1
Net debt	58.4	62.5	106.9	100.5	76.5	59.4	125.3	83.0	35.4
Capital employed	245.0	236.0	242.8	217.2	216.7	229.7	335.0	342.2	351.1
Ratios	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Capex/D&A (%)	64.7%	102.4%	75.7%	54.4%	67.0%	130.3%	123.9%	123.9%	123.9%
ROE (%)	3.9%	10.6%	11.5%	-9.6%	14.0%	22.1%	25.2%	25.2%	23.2%
ROCE (%)	na	16.1%	14.8%	2.7%	17.6%	21.8%	26.7%	26.2%	28.7%
Net debt/EBITDA (%)	152.9%	124.8%	223.7%	511.1%	153.8%	100.4%	144.7%	83.0%	31.9%
Net debt/equity (%)	31.3%	36.0%	78.7%	86.1%	54.6%	34.9%	59.8%	32.0%	11.2%
Per share (EUR)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
EPS adjusted	0.06	0.28	0.30	-0.21	0.31	0.59	0.82	1.01	1.14
EPS reported	0.06	0.28	0.30	-0.21	0.31	0.44	0.82	1.01	1.14
CFPS	0.11	0.21	0.49	0.14	0.82	0.35	0.68	0.89	0.99
BVPS	2.93	2.72	2.33	2.00	2.40	2.91	3.59	4.44	5.40
DPS	0.06	0.07	0.04	0.00	0.15	0.15	0.17	0.18	0.20
Year-end number of shares (m)	63.6	63.9	58.4	58.4	58.4	58.4	58.4	58.4	58.4
Valuation	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
P/E	97.4	22.3	18.9	ns	14.0	10.1	8.5	6.9	6.1
P/BV	2.1	2.3	2.5	2.1	1.8	2.0	2.0	1.6	1.3
P/CF	56.8	29.8	11.8	29.0	5.3	16.9	10.3	7.9	7.1
Dividend yield	1.0%	1.1%	0.6%	0.0%	3.5%	2.5%	2.4%	2.6%	2.9%
FCF yield	1.8%	3.4%	8.5%	3.5%	18.9%	5.9%	9.7%	12.6%	14.1%
EV/sales	1.2	1.1	1.1	1.1	0.8	0.9	1.0	0.9	0.7
EV/EBITDA	12.2	8.8	9.1	17.0	6.4	6.5	6.1	4.9	4.0
EV/EBIT	16.6	11.3	12.3	53.5	8.4	7.9	7.0	5.5	4.4
EV/capital employed	na	1.8	1.8	1.5	1.5	1.7	1.9	1.4	1.3

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Stock	ISIN	Disclosure (See Below)	Currency	Price
Datalogic	IT0004053440	nothing to disclose	EUR	7.00

Source: Factset closing prices of 14/05/2012

Stock prices: Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

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Rating ratio Kepler Capital Markets Q1 2012

Rating breakdown	A	B
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