

## Upgrade

**BUY** (Prev. HOLD)

Target: € 18.8 (Prev. €17.0)

Risk: High

### STOCK DATA

	Ord
Price €	15.7
Bloomberg code	DAL IM
Market Cap. (€ mn)	910
Free Float	33%
Shares Out. (mn)	58.2
52-week range	10-17.8
Daily Volumes ('000)	42.0

### PERFORMANCE

	1M	3M	12M
Absolute	3.4%	-7.0%	48.3%
Rel. to FTSE all shares	-2.6%	9.4%	65.1%

### MAIN METRICS

	2015	2016E	2017E
Revenues	535	575	613
Adjusted EBITDA	74	86	96
Net income	41	48	57
Adj. EPS - € cents	78	92	105
DPS ord - € cents	24	29	39

### MULTIPLES

	2015	2016E	2017E
P/E	23.5 x	18.9 x	16.0 x
P/E adj	20.9 x	17.0 x	14.9 x
Adj. EV/EBIT	16.0 x	12.8 x	10.7 x

### REMUNERATION

	2015	2016E	2017E
Div. Yield ord	1.5%	1.9%	2.5%
FCF yield	4.8%	4.6%	6.6%

### INDEBTEDNESS

	2015	2016E	2017E
NFP	-21	5	47
Debt/EBITDA	0.3 x	n.m.	n.m.
Interests cov	15.4 x	25.5 x	31.1 x

### PRICE ORD LAST 365 DAYS



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# 79

## A SOLID EQUITY STORY WHICH DESERVES A BUY

**4Q was a touch above estimates and of good quality: the organic top-line was sound (~8%) while Adj. EBITDA returned to grow (+18% YoY). Cash generation was extremely strong (FCF=€45mn). We upgrade to BUY (TP to €18.8ps from €17ps) in light of: 1) More visibility on the IA division's restructuring which is a strong lever to bring company's margins above >15%, 2) Strong order intake (+21% YoY) and 3) Better than expected FCF generation (avg. FCF 16-17E=€50mn).**

### ■ 4Q15: a touch above expectations. Solid cash generation

- Sales at €143.8mn (+15.5% YoY) - already disclosed;
- Adj. EBITDA at €20.7mn (18.5% YoY) vs €19.8mn exp.;
- NI at €10.1mn vs €10.7mn exp.;
- NFP at €21.0mn (FY14=€55.7mn) vs €31.3mn exp.

**4Q was a touch above expectations.** Following organic growth which was sound (~8%), EBITDA was back to grow (+18% YoY) mainly thanks to a substantial improvement of the IA division. **ADC continued to be very strong** (org. growth close to 8% with FY margins = 22%) **while IA turned to deliver positive results (org. ~14% with FY margins at ~6%)** on the back of the Systems BU recovery (Royal mail order). Once again Europe was the driver (double digit growth). Despite substantially higher Capex (€22mn vs €12mn FY14), FY FCF was strong and better than exp. (~€45mn) thanks to strict TWC management (6.8% on sales/8.7% FY14).

### ■ CFO leaving the company

Unexpectedly, CFO Mr. Borgheresi announced to leave the company for a new professional position after 1 year. DAL is searching a substitute. From our point of view, there is no negative read-across or impact on the underlying business.

### ■ Outlook: room for solid organic growth and margins expansion

During the CC, the management was **confident about 2016**:

- Organic growth is expected to be well above the market trend (>>5%) thanks to an expected sound development in the US (ADC as well as IA) and the consolidation in Europe; these indications are supported by a solid order intake (book-to-bill at 110% in 4Q);
- Margins are forecasted to benefit from: 1) Efficiencies on production/procurement, 2) Strict control on G&A costs and 3) Operating leverage (price erosion under control at ~2%).

The company expects that such drivers could allow the "troubled" IA division to deliver double digit margins (we have ~9% in FY16E).

### ■ Basically confirming our 2016-17 EPS estimates

We basically confirm 2016-17 EPS estimates after being a little bit more positive on top-line and EBITDA margin while incorporating higher D&A.

### ■ Appealing equity story which deserves a premium

We move to BUY (TP to €18.8ps from €17 due to a higher TP multiple: 18x PE ex cash discounted) in light of:

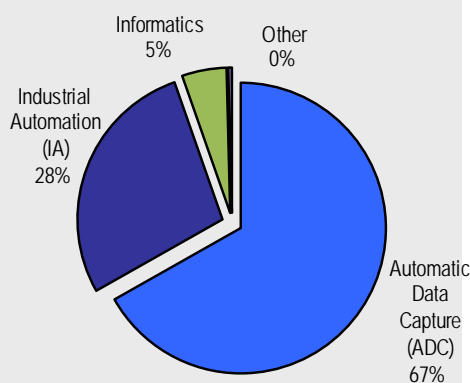
- More visibility on the IA division's restructuring which is a strong lever for bringing company's margins above >15%;
- Strong order intake (+21% YoY) in 4Q which foresees a tonic start of the year;
- Better than expected FCF generation (we estimate avg. FCF 16-17=€50mn).

MAIN FIGURES € mn	2013	2014	2015	2016E	2017E	2018E
Revenues	451	465	535	575	613	642
Growth	-2%	3%	15%	7%	6%	5%
EBITDA	61	64	71	84	96	103
Growth	4%	4%	12%	18%	15%	7%
Adjusted EBITDA	60	69	74	86	96	103
Growth	-5%	16%	6%	16%	12%	7%
EBIT	45	47	53	64	76	83
Growth	179%	3%	13%	22%	18%	9%
Profit before tax	36	39	52	61	73	80
Growth	273%	10%	32%	19%	19%	10%
Net income	27	31	41	48	57	62
Growth	163%	15%	31%	19%	18%	8%
Adj. net income	33	39	45	53	61	66
Growth	-5%	18%	16%	18%	14%	7%
MARGIN	2013	2014	2015	2016E	2017E	2018E
Ebitda Margin	13.6%	13.7%	13.3%	14.6%	15.7%	16.1%
Ebitda adj Margin	13.3%	14.9%	13.8%	14.9%	15.7%	16.1%
Ebit margin	10.1%	10.1%	9.9%	11.2%	12.4%	12.8%
Pbt margin	7.9%	8.4%	9.6%	10.7%	11.9%	12.5%
Ni rep margin	6.0%	6.6%	7.6%	8.4%	9.3%	9.6%
Ni adj margin	7.4%	8.5%	8.5%	9.3%	10.0%	10.2%
SHARE DATA	2013	2014	2015	2016E	2017E	2018E
EPS - € cents	47.2	52.8	69.7	82.8	98.0	106.2
Growth	161.6%	12%	32%	19%	18%	8%
Adj. EPS - € cents	58.2	67.3	78.1	92.0	104.8	112.7
Growth	-5.3%	16%	16%	18%	14%	7%
DPS ord - € cents	16.0	18.0	24.4	29.0	39.2	42.5
DPS sav - € cents	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
VARIOUS - € mn	2013	2014	2015	2016E	2017E	2018E
Capital employed	289	304	299	307	305	304
FCF	40	43	45	41	60	64
Capex	-17	-13	-22	-23	-14	-15
Working capital	39	40	37	43	48	53
INDEBTNESS - €mn	2013	2014	2015	2016E	2017E	2018E
NFP	-97	-56	-21	5	47	87
D/E	0.52 x	0.23 x	0.08 x	n.m.	n.m.	n.m.
Debt/EBITDA	1.6 x	0.9 x	0.3 x	n.m.	n.m.	n.m.
Interests cov	9.4 x	7.9 x	15.4 x	25.5 x	31.1 x	41.2 x
MARKET RATIOS	2013	2014	2015	2016E	2017E	2018E
P/E	17.6 x	16.6 x	23.5 x	18.9 x	16.0 x	14.7 x
P/E adj	14.2 x	13.0 x	20.9 x	17.0 x	14.9 x	13.9 x
PBV	2.5 x	2.1 x	3.5 x	3.0 x	2.6 x	2.4 x
P/CF	11.0 x	10.1 x	16.4 x	13.4 x	11.9 x	11.2 x
EV FIGURES	2013	2014	2015	2016E	2017E	2018E
EV/Sales	1.28 x	1.23 x	1.83 x	1.59 x	1.42 x	1.29 x
Adj. EV/EBITDA	9.4 x	9.0 x	13.8 x	10.8 x	9.0 x	8.1 x
Adj. EV/EBIT	11.5 x	9.9 x	16.0 x	12.8 x	10.7 x	9.5 x
EV/CE	2.0 x	1.9 x	3.3 x	3.0 x	2.8 x	2.7 x
REMUNERATION	2013	2014	2015	2016E	2017E	2018E
Div. Yield ord	1.9%	2.1%	1.5%	1.9%	2.5%	2.7%
FCF yield	8.5%	8.5%	4.8%	4.6%	6.6%	7.0%
ROCE Adj.	11.8%	14.4%	14.6%	17.0%	19.4%	20.7%
ROCE	12.8%	15.4%	15.9%	18.4%	20.6%	22.1%

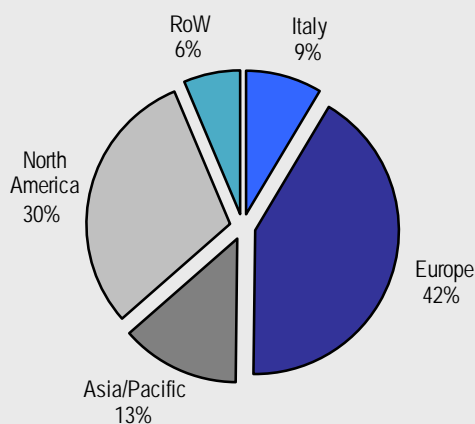
Source: Equita SIM estimates and company data



DIVISIONAL BREAKDOWN - 2015



GEOGRAPHICAL BREAKDOWN - 2015



## BUSINESS DESCRIPTION

**Datalogic (DAL)** is a **global leader in Automatic Identification** with a specific focus on Automatic Data Capture (ADC - ~66% of total sales) and Industrial Automation (IA- ~28% of total sales) markets.

- ADC includes fixed retail scanners, hand-held scanners and mobile computers;
- IA stands for a wide range of solutions/products (i.e. Industrial stationary scanners, sensors, machine visions etc.) whose objective is to automatize production processes.

The company was founded in 1972 by the current President and CEO Mr. Romano Volta; it can be considered a forerunner in the production of photoelectric sensors and laser scanners (in particular for manufacturing). Datalogic can undoubtedly be called "the bar code company".

Through an eventful **external and internal growth** the Group now has **sizeable metrics**: in 2015 the company generated revenues for some € 535mn with an Adj. EBITDA = ~€74mn.

In particular, two major acquisitions have been key to strengthen and expand DAL's business:

- PSC (2005): it enabled DAL to enter the US bar-code readers market;
- Accu-Sort (2011): it enabled DAL to double its presence in the Industrial Automation industry and to increase its presence in the US.

7 YEARS BUSINESS TREND

	2009	2010	2011	2012	2013	2014	2015
Revenues	312	392.7	425.5	462.3	450.7	464.5	535.1
Growth	-17.9%	25.9%	8.4%	8.6%	-2.5%	3.1%	15.1%
Adj. EBITDA	19.6	49.8	59.2	63.2	60.0	69.4	73.7
Margin	6.3%	12.7%	13.9%	13.7%	13.3%	14.9%	13.8%

**The ADC market is a "niche" market** worth ~\$4.6bn on a global basis with:

- Mobile computers accounting for most sales (~54% of the market);
- A strong exposure to Americas and Emea (>80% of total sales).

Over the last few years the market has been subject to a powerful consolidation process and it can now be considered an oligopolistic market (i.e. Zebra-Motorola with >40% mkt.share, Honeywell ~20-25% and Datalogic with ~10.4%). There is some kind of price discipline among the three players, beyond the structural price erosion of the market on the back of technological development.

**The IA market** is worth ~\$3.5bn on a global scale and it is **strongly fragmented** and features many small or medium-sized, highly specialized enterprises that enjoy good profitability, because products are generally tailor-made to meet customers' needs.

Future challenges for Datalogic are the following:

- To continue to innovate and launch successful solutions;
- To increase the IA division margins through efficiencies and operating leverage;
- To expand in the Emerging markets successfully;

Strengths / Opportunities	Weaknesses / Threats
Strong patent portfolio	Structural price erosion in the industry
High entry barriers	Limited exposure to EM
Geographical and products diversification	Competitive environment in the mobile segment
Sales development in EM	Potential margin dilution from the expansion in EM
Bolt-on acquisitions	Trading momentum of the IA division

#### 4Q15: RESULTS A TOUCH ABOVE ESTIMATES

All in all, 4Q results were a touch above expectations and showed:

- Sound top-line growth (organic growth at circa 8%). Again ADC was very strong (~8%) while IA added the most relevant contribution (circa +14%);
- The return to a marked increase in profitability (Adj. EBITDA +18.5% YoY) in light of the IA's recovery;
- A better than expected cash generation (FY15 FCF=€45mn!).

#### ■ Top-line: excellent growth for both the divisions

4Q sales were in line with estimates and of good quality in our opinion.

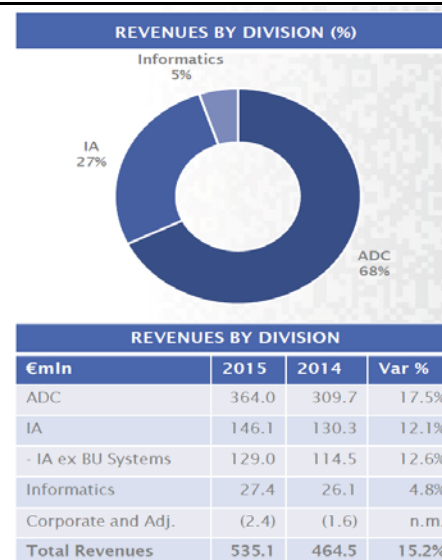
Organically sales grew by ~8% thanks to the contribution of both the divisions:

- ADC (organic =c8% YoY vs +8.4% in 9M15) continued to show a very positive trend in all the reference markets, in particular in EMEA/US, thanks to the on-going product innovation (i.e mobile computers as well as Fixed Retail scanners and handheld readers);
- IA after a subdued 9M (organic growth +1.3%) returned to deliver a strong growth (c+14%) on the back of: 1) the first part of the Royal Mail order (estimated contribution=c+10-11%) and 2) the solid performance of the core business (mid-single digit).

On a FY basis the suffering business unit Systems (focused on tenders in the T&L and postal business) reported sales for some €17mn (€16mn in FY14)

#### 2015 REVENUES BY DIVISION

- ADC Division is the driver of the growth in all the reference markets (+17.5%, +8.2% at constant exchange rate).
- POS check out fixed scanners with the new imaging technology and hand held scanners are driving growth in Retail
- The Industrial Automation division is improving +12.1% (+4.7% at constant exchange rates) and net of the BU Systems, the division's revenues increased by 12.6% (+6.2% at constant exchange rates)
- BU Systems: revenues from Royal Mail's order to implement a new Parcel Sorting System (totaled €29 M) in UK started in 4Q.



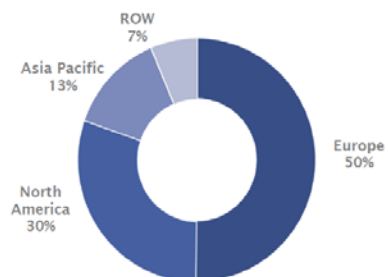
Source: Company presentation

On a geographical basis:

- Europe continued to be the growth engine for both the divisions;
- North America was back to a more solid trend thanks to the launch of new IA products in FA and T&L.

## 2015 REVENUES BY GEOGRAPHY

REVENUES BY GEOGRAPHIC AREA			
€mln	2015	2014	Var %
Europe	268.5	244.0	10.0%
North America	161.1	132.6	21.4%
Asia Pacific	71.5	57.3	24.7%
ROW	34.0	30.6	11.0%
Total Revenues	535.1	464.5	15.2%



- Europe continues to generate robust growth both in in ADC and IA, confirming the leadership of the Group
- North America: strong growth of ADC (+38.7%, +15.9% at constant exchange rate) and recovery in IA in the second half of the year thanks to the launch of new products in FA and T&L
- Expansion in Asia Pacific continues with the launch of dedicated products
- Focus on Greater China up 37.1% (22.8% at constant exchange rate), with good performance in both divisions
- ROW driven by South Africa and Arab Emirates (over 50% growth), Russia (over 30%) partially offset by the economic downturn in Brasil

Source: Company presentation

### ■ Profitability: rebounding after a subdued 9M

While 9M results showed a subdued operating leverage (Adj. EBITDA +2.1%) due to: 1) negative FX impact (the company is slightly net short \$) and 2) the poor profitability of the IA division hit by higher strategic investments (R&D as well as distribution costs) and the difficult trend of the Business Unit Systems (under restructuring)....

...4Q was strong (Adj. EBITDA +18.5%) and slightly above expectations.

Unfortunately the company adopted a new divisional reporting for FY15 results, but from our understanding the bounce was driven by:

- the marked improvement of the IA division profitability which benefitted from the Royal Mail order;
- a lower price erosion (circa -0.5% in 4Q vs circa -3% in 9M). 9M results were affected by big orders resulting from competitive bids.

ADC continued to show best-in-class margins (FY15=22.3%).

## FY15 ADJ.EBITDA

## GOP BY DIVISION

Division	2014	2015
ADC	157.2	172.2
IA	59.6	65.4
Informatics	11.8	12.0
Corporate	(0.1)	(1.0)
Total Group	228.4	248.6

■ 2014 ■ 2015

Gross Operating Profit	2015	2014
ADC	47.3%	50.8%
Industrial Automation	44.8%	45.7%
- IA ex BU Systems	50.1%	49.6%
Informatics	43.7%	45.1%
Total Group	46.5%	49.2%

## EBITDA\* BY DIVISION

Division	2014	2015
ADC	74.1	81.2
IA	7.7	8.6
Informatics	1.3	(0.01)
Corporate	(13.7)	(16.0)
Total Group	69.4	73.7

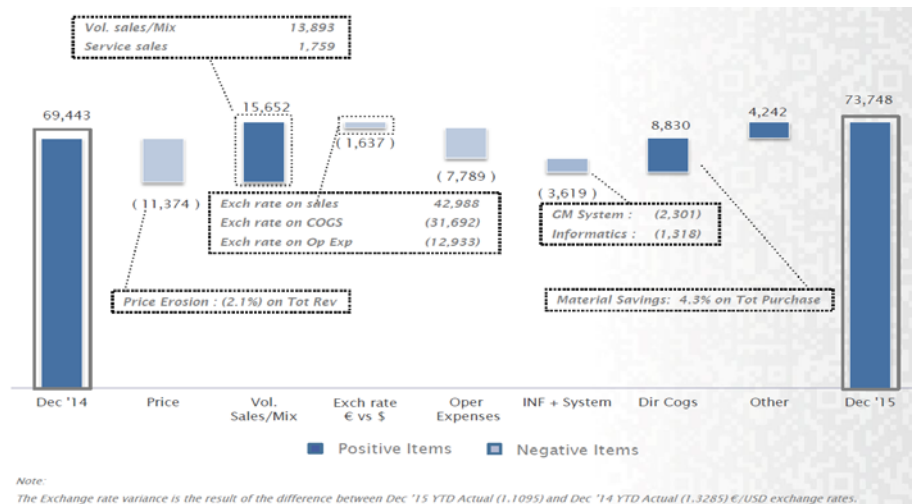
■ 2014 ■ 2015

EBITDA* Margin	2015	2014
ADC	22.3%	23.9%
Industrial Automation	5.9%	5.9%
- IA ex BU Systems	9.3%	7.8%
Informatics	(0.1%)	4.9%
Total Group	13.8%	14.9%

(\*) With the purpose to better report the operating sectors economic performances, it was deemed appropriate to highlight the Divisional EBITDA as monitoring KPI.

Source: Company presentation

## FY15 ADJ.EBITDA BRIDGE



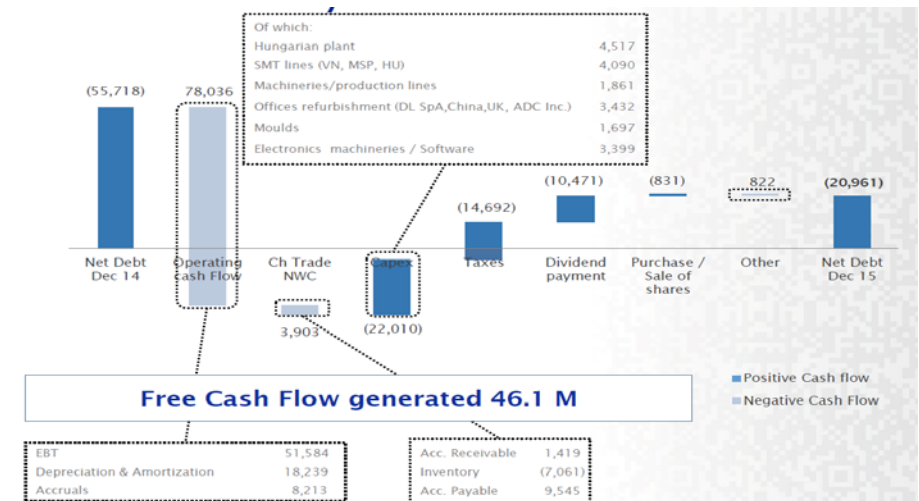
Source: Company presentation

## ■ A cash generative machine

DAL has always been a cash-generative machine but FY15 showed a particularly strong performance.

Despite substantially higher Capex (€22mn vs €12mn FY14) due to the ongoing investments for a new plant in Hungary, FCF was strong and better than exp. (~€45mn) thanks to strict TWC management (6.8% on sales/8.7% FY14) in particular on the payables and receivables side.

## FY15 CASH GENERATION



Source: Company presentation



## SUPPORTIVE OUTLOOK

During the CC, the management was **confident about 2016 drawing a supportive outlook:**

- Organic growth is expected to be well above the market trend (>>5%) thanks to an expected sound development (double digit) in the US (ADC as well as IA) and the consolidation in Europe; the management at the moment does not see “weak spots” on a geographical basis. These indications are supported by a solid order intake (book-to-bill at 110% in 4Q);
- Margins are forecasted to benefit from both self-help initiatives and operating leverage: 1) Efficiencies on production (new plant in Hungary) and procurement (new procurement centre in China), 2) Strict control on G&A costs and 3) Operating leverage (price erosion under control at ~2%).

R&D expenditures are expected to grow well above the revenues trend (at a record high of 9.5% on sales vs 9% in FY14).

The company expects that such drivers could allow the “troubled” IA division to deliver double digit margins (we have ~9%).

Other interesting points:

- State-of the art ADC’s margins could be improved further (right now at some 22%) thanks to the continuous push on new technologically advanced products;
- Retailers (the main end-market for DAL, circa 65% of total sales) are extremely interested in new solutions aimed at improving the customers satisfaction and operational efficiency;
- Capex are expected to be particularly elevated in 2016 as well (equal to 2015 levels, some €22mn) because of the completion of the Hungarian plant and some branches refurbishments;
- Tax rate at 21-22% is considered a consistent level for 2016 (in line with 2015).

### ■ CFO leaving the company

Unexpectedly, CFO Mr. Borgheresi announced to leave the company for a new professional position after 1 year. DAL is searching a substitute.

From our point of view, there is no negative read-across or impact on the underlying business.

## BROADLY CONFIRMING OUR ESTIMATES

After results, we have fine-tune our model and we basically confirm our 2016-17 EPS estimates.

A more positive view on organic top-line growth (avg. org growth to 7% from 6.8%) and on EBITDA margin (+30bps) is fully offset by higher D&A related to a new plant in Hungary.

DATALOGIC - CHANGE IN ESTIMATES (2015-2017)									
	2015E	2016E	2017E	2015A	2016E	2017E	2015E	2016E	2017E
	Past estimates			New estimates			Changes		
Sales	535.1	574.7	609.9	535.1	575.2	612.5	0.1%	0.4%	0.1%
YoY	15.2%	7.4%	6.1%	15.2%	7.5%	6.5%			
Organic Growth	5.9%	7.4%	6.1%	5.9%	7.5%	6.5%			
Adj.EBITDA	72.9	84.7	93.6	73.7	85.8	96.5	1.2%	3.0%	1.2%
margin	13.6%	14.7%	15.3%	13.8%	14.9%	15.7%	0.2%	0.4%	0.2%
Adj. Net Income	46.0	54.1	60.3	45.4	53.5	61.0	-1.1%	1.1%	-1.1%
NFP	(31.3)	(1.0)	32.5	(21.0)	5.3	47.1			

Source: Equita SIM estimates

DATALOGIC - SALES DEVELOPMENT (2013-2017)					
	2013A	2014A	2015A	2016E	2017E
Automatic Data Capture (ADC)	282.4	309.7	363.9	387.6	412.0
YoY Growth (%)		9.7%	17.5%	6.5%	6.3%
Industrial Automation (IA)	137.8	130.3	146.1	161.3	172.9
YoY Growth (%)		-5.5%	12.1%	10.4%	7.2%
Other	30.5	24.5	25.0	26.4	27.6
YoY Growth (%)		-19.7%	2.0%	5.4%	4.8%
Total Sales	450.7	464.5	535.0	575.2	612.5
YoY Growth (%)		3.1%	15.2%	7.5%	6.5%
Organic Growth (%)		-0.8%	3.1%	5.9%	6.5%

Source: EQUITA SIM estimates and Company data

DATALOGIC - PROFITABILITY DEVELOPMENT (2013-2017)										
	2013A	%	2014A	%	2015A	%	2016E	%	2017E	%
Total Sales	450.7	100.0%	464.5	100.0%	535.0	100.0%	575.2	100.0%	612.5	100.0%
YoY Growth (%)	-2.5%		3.1%		15.2%		7.5%		6.5%	
Gross Profit	212.3	47.1%	225.6	48.6%	248.7	46.5%	272.8	47.4%	294.1	48.0%
YoY Growth (%)	-0.3%		6.3%		10.2%		9.7%		7.8%	
Other revenues	2.0	0.4%	2.2	0.5%	3.5	0.7%	3.0	0.5%	2.1	0.3%
R&D	-35.6	-7.9%	-43.1	-9.3%	-48.2	-9.0%	-54.6	-9.5%	-58.3	-9.5%
Distribution costs	-83.5	-18.5%	-85.3	-18.4%	-101.1	-18.9%	-106.3	-18.5%	-111.8	-18.3%
Administrative exp.	-42.2	-9.4%	-39.1	-8.4%	-39.5	-7.4%	-40.9	-7.1%	-42.2	-6.9%
Other operating exp.	-2.9	-0.6%	-2.2	-0.5%	-2.0	-0.4%	-2.7	-0.5%	-2.7	-0.4%
Adj.EBIT	50.1	11.1%	58.0	12.5%	61.3	11.4%	71.3	12.4%	81.1	13.2%
YoY Growth (%)	-6.2%		15.8%		5.6%		16.3%		13.8%	
Adj.EBITDA	60.0	13.3%	69.4	14.9%	73.7	13.8%	85.8	14.9%	96.5	15.7%
YoY Growth (%)	-5.0%		15.8%		6.2%		16.3%		12.5%	

Source: EQUITA SIM estimates and Company data



## VALUATION

We have lifted our TP to €18.8ps from €17ps, mainly thanks to a higher target multiple (2017 Adj.PE=18x ex-cash vs 17x discounted to one year from now) and earnings upgrade.

ADJ PE MULTIPLE VALUATION			
		SENSITIVITY	
(A) 2017E Adj PE multiple	18.0 x	17.5 x	18.5 x
(B) 2017 Adj Net Income (ex-cash)	60.9	60.9	60.9
(C) (A) x (B) Total Equity Value (EUR mn)	1,096	1,065	1,126
(D) Dividends to be cashed-in (EUR mn)	31.0	31.0	31.0
(E) Avg.cash (EUR mn)	27.1	27.1	27.1
(F) (C) + (D) + (E) Total Stock Value (EUR mn)	1,154	1,123	1,184
(G) Discount (1+Ke)	0.95	0.95	0.95
(H) (E) / (F) Actualized Total Stock Value (EUR)	1,094	1,065	1,123
(I) N.shares	58.3	58.3	58.3
(L) Target (EUR PS)	18.8	18.3	19.3

Source: EQUITA SIM estimates

## INVESTMENT CASE

### Upgrade to BUY: appealing equity story which deserves a premium

We have always appreciated the company's strong competitive positioning and underlying growth drivers (technologically advanced solutions aimed at improving clients' efficiency and productivity).

We upgrade to BUY (HOLD) increasing our TP to €18.8ps (from €17ps, 2017 PE=18x ex-cash discounted to one year from now) in light of:

1. **More tangible evidences that the IA's restructuring** (both in terms of cost and sales) **is on-track** and can be a powerful lever for bringing company's margins above 15% (peak margins in 2014 at 15%, we estimate 15.7% in 2017E).

A new and more efficient manufacturing footprint (a new plant in Hungary to be opened in 2016), the benefits from the 2015's investments in a new powerful salesforce in the US, the new approach by verticals, the Royal Mail order (some €10/12mn of additional sales in both 2016 and 2017) and the continuous flow of new technologically advanced products are in our opinion valid ingredients for bringing the division to market standard double digit margins (from 6% in 2015, we estimate 9% in 2016 and 12% in 2017).

From the time being it is too bullish to forecast higher profitability, but we underline that the Management has always stated that there are no specific reasons why IA's products deliver margins below the ADC's ones.

Looking at the gross margin line (IA ex BU Systems at ~50% on avg. in 2014-15 vs ADC at 49%) "Comparable margins" is not just a long-term dream.

2. **A reassuring top-line trading outlook** (order intake 4Q, +21% with book-to-bill at 110%) gives us confidence on a solid start of the year and on the company capability to continue to over-perform growing reference markets (mid-single digit);
3. **Balance sheet optionality**: we now expect company to be already cash-positive from FY16 thanks to a stronger than expected FCF generation in FY15 (FCF=€45mn). We see scope to increase capital returns (more aggressive buy-back or higher pay-out) or to execute bolt-on M&A deals;

#### 4. **Right strategy:** in our opinion DAL is following the right strategy:

- **From a product base approach to a customer base one:** DAL is step-by-step modifying its marketing/sales approach in order to better exploit its own most important competitive advantage (in our opinion): offering both ADC and IA products. From 2017 the new “One Datalogic” will be fully in place: 1 company (dismantled the organization by division), 1 R&D “heart”....=> many technological advanced products delivered and sold to 4 different end-markets (Factory Automation, Retail, Healthcare and T&L) through a salesforce more specialized/trained on end-markets than product (ADC or IA products).

In our opinion, this approach is shareable and can allow DAL to benefit from important cross-selling opportunities and to increase the penetration rate at main customers.

#### A UNIQUE SELLING PROPOSITION.....WITH A WIDE AND COMPLEMENTARY OFFER



Source: Company presentation

- **Focus on product... being as much efficient as possible:** since the re-appointment of Romano Volta as CEO (2013), DAL has become even more focused on innovation being as much efficient as possible. R&D and distribution investments are not sacrificed for the sake of short-term P&L benefits. At the same time, the company is extremely focused on being more efficient in terms of G&A expenses and production costs (the new factory in Hungary for IA is a valid example).

#### FOCUS ON R&D

- A large and growing portfolio of over 1,200 patents and patent applications
- About 300 pending patent applications in all jurisdictions
- 26.5% of sales from new products\*
- 22 new products launched in 9M 2015
- 12 Research & Development Centers
- Around 400 R&D Engineers
- New product development process that starts from the Customers' needs – 1<sup>st</sup> milestone of the new product development

\* Are considered new products the products announced in the last 24 months



Source: Company presentation

- **A selective approach on M&A:** DAL enjoys an unlevered balance sheet and a hefty FCF generation: sizeable M&A deals could be not be ruled out. However, the company is carefully assessing bolt-on M&A deals mostly: this in our opinion makes sense in the short-term considering that the company's priority is to reshape the marketing approach and to revamp the troubled IA division.

## STATEMENT OF RISKS

The primary elements that **could negatively impact the stock include:**

- Significant deterioration in the reference macroeconomic scenario
- Significant increase in short term interest rates
- Rising competition and higher price pressure
- Unfavourable M&A deals

P&L	2013	2014	2015	2016E	2017E	2018E
<b>Revenues</b>	<b>451</b>	<b>465</b>	<b>535</b>	<b>575</b>	<b>613</b>	<b>642</b>
Growth	-2%	3%	15%	7%	6%	5%
Total opex	-401	-407	-474	-504	-531	-555
Growth	-2%	1%	17%	6%	5%	4%
Margin	-89%	-88%	-89%	-88%	-87%	-86%
<b>EBITDA</b>	<b>61</b>	<b>64</b>	<b>71</b>	<b>84</b>	<b>96</b>	<b>103</b>
Growth	4%	4%	12%	18%	15%	7%
Margin	14%	14%	13%	15%	16%	16%
D&A (incl. M&A)	-16	-17	-18	-20	-21	-21
Extraordinaries	1	-6	-3	-2	0	0
<b>EBIT</b>	<b>45</b>	<b>47</b>	<b>53</b>	<b>64</b>	<b>76</b>	<b>83</b>
Growth	179%	3%	13%	22%	18%	9%
Margin	10%	10%	10%	11%	12%	13%
Net financial profit/Expenses	-7	-8	-5	-3	-3	-3
Profits/exp from equity inv	na	na	na	na	na	na
Other financial profit/Exp	-3	0	3	0	0	0
<b>Total financial expenses</b>	<b>-10</b>	<b>-8</b>	<b>-1</b>	<b>-3</b>	<b>-3</b>	<b>-2</b>
Non recurring pre tax	na	na	na	na	na	na
<b>Profit before tax</b>	<b>36</b>	<b>39</b>	<b>52</b>	<b>61</b>	<b>73</b>	<b>80</b>
Growth	273%	10%	32%	19%	19%	10%
<b>Taxes</b>	<b>-9</b>	<b>-8</b>	<b>-11</b>	<b>-13</b>	<b>-16</b>	<b>-18</b>
Tax rate	-24%	-21%	-21%	-22%	-22%	-23%
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Non recurring post tax	na	na	na	na	na	na
<b>Net income</b>	<b>27</b>	<b>31</b>	<b>41</b>	<b>48</b>	<b>57</b>	<b>62</b>
Growth	163%	15%	31%	19%	18%	8%
Margin	6%	7%	8%	8%	9%	10%
<b>Adj. net income</b>	<b>33</b>	<b>39</b>	<b>45</b>	<b>53</b>	<b>61</b>	<b>66</b>
Growth	-5%	18%	16%	18%	14%	7%
Margin	7%	8%	8%	9%	10%	10%

CF Statement	2013	2014	2015	2016E	2017E	2018E
Pre-tax	36	39	52	61	73	80
D&A	16	17	18	20	21	21
(Taxes)	-15	-8	-15	-15	-18	-20
(Increase) decrease in OWC	22	-2	4	-6	-5	-6
(Purchase of fixed assets)	-17	-13	-22	-23	-14	-15
(Other net investments)	-9	0	0	0	0	0
(Distribution of dividends)	-9	-9	-11	-14	-17	-23
Rights issue	2	11	-1	0	0	0
Other	-1	7	9	3	2	3
<b>(Increase) Decrease in Net Debt</b>	<b>24</b>	<b>41</b>	<b>35</b>	<b>26</b>	<b>42</b>	<b>40</b>

Source: EQUITA SIM estimates and company data

**INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999**

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In the past EQUITA SIM has published studies on Datalogic

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**EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE**

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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Date	Rec.	Target Price (€)	Risk	Comment
1 February 2016	HOLD (HOLD)	17.0 (15.3)	High	Earnings upgrade
16 July 2015	HOLD (BUY)	13.4 (13.4)	High	Stock performance

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	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	33.5%	56.6%
HOLD	63.8%	41.5%
REDUCE	2.7%	1.9%
NOT RATED	0.0%	0.0%

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