



Enrico Coco
+39 02 8550 7227
enrico.coco@keplercm.com

Price
EUR6.61

Previous
Buy

Target
EUR8.00

Buy

M&A to support growth

Following the 2012-14 plan, we trim our estimates and TP from EUR8.3 to EUR8.0. Management's assumption about a strong growth recovery in 2013-14 might prove optimistic. However, growth drivers in reference markets are intact, its positioning is strong and M&A might provide a strong catalyst. Buy.

Italy | Technology hardware & equipment

Datalogic

TARGET PRICE CHANGE

1 October 2012

Reuters DAL.MI
Bloomberg DAL IM
Index DJ Stoxx 600

Latest financials

Market cap (EURm)	386
Free float	22%
Shares outstanding (m)	58
Daily trade volume ('000)	28
YTD abs. performance	15%
52-week high (EUR)	7.4
52-week low (EUR)	5.4
Enterprise value (EURm)	528
Net debt (EURm)	146

(EUR)	2012E	2013E	2014E
Sales	477.2	521.5	563.9
EBITDA	80.5	90.4	101.4
EBIT	70.3	80.2	91.2
Pretax profit	57.8	72.4	84.2
Net profit (adj)	45.1	52.8	60.7
EPS (adj)	0.77	0.90	1.04
DPS	0.15	0.17	0.18
P/E	8.6	7.3	6.4
EV/sales	1.1	0.9	0.8
EV/EBITDA	6.6	5.4	4.4
EV/EBIT	7.5	6.0	4.9
Net div. yield	2.3%	2.5%	2.7%

Financial year end: 31 December



In brief

- > New business plan for 2012-14
- > Growth set to restart in 2013-14 after a weak 2012
- > TP trimmed from EUR8.3 to EUR8.0
- > M&A might change the story

In detail

New business plan for 2012-14

The 2012-14 plan presented last Friday is a rolling plan based on the same strategic pillars of the previous plan and assumes a 5-6% CAGR 2011-14 on Datalogic's reference markets, below the 8% of the previous plan, to reflect weaker macro conditions.

Growth set to restart in 2013-14 after a weak 2012

The plan's financial targets include a LFL CAGR 2011-14 of 7% for revenues (to EUR600-620m in 2014) and 13% for EBITDA (to EUR105-110m in 2014). Management warned about a weaker-than-expected 2012 amid a spending cut at retailers and the postponement of contracts in the postal sector. As a result, FY 2012 might close with revenues of about EUR475m (6% below our previous estimate), which make the plan targets a bit ambitious, in our view (13% implied revenue growth in 2013 and 2014).

TP trimmed from EUR8.3 to EUR8.0

While aligning our 2012 estimates to the new guidance (revenues -6%, EPS -13%), we also took a more conservative stance on 2013-14 (revenues -4%, EPS -8%) and cut our TP from EUR8.3 to EUR8.0. Our new estimates are at a discount to 2014 management targets by 8% for revenues and 7% for EBITDA.

M&A might change the story

We stick to our Buy rating on the stock. Datalogic has limited exposure to Italy (<10% of revenues) and a strong positioning in its reference markets, where demand for process automation has long-term drivers related to the increasing adoption of automation technologies aimed at cutting opex. At 7.7x EV/EBIT 2012E (post earnings revision), the stock is not expensive, and management suggested that the company is evaluating financing options to strengthen its positioning in the industrial automation business through acquisitions. This might also lead to an increase of the free float (currently at 22% or EUR80m), which we see as one of the key issues of the story.

Ambitious targets, M&A might support growth

The 2012-14 plan is a rolling plan that confirms the growth drivers of the plan approved in June 2011 and stretches the time horizon to 2014. The plan's strategic pillars are still strengthening Datalogic's competitiveness in its reference markets of automatic data capture (ADC, 70% of 2012E revenues) and industrial automation (IA, 30%) also through acquisitions, increasing penetration in emerging countries and an on-going improvement in industrial efficiency and productivity.

The plan's financial targets are based on the VDC Research forecasts (2012) for Datalogic's reference markets of ADC and IA and assume a sustained recovery in 2013-14 after a flattish 2012, resulting in a CAGR 2011-14 of 5.7% for the ADC market and 5.4% for IA globally (compared to the 8% global annual growth for both markets assumed in the Datalogic's old 2011-13 plan).

The company expects to grow at a faster pace than the market and guided for a revenue CAGR 2011-14 of 12% in ADC (+5.7% for the market) and 7% LFL (excluding the contribution of acquired assets, +28% CAGR on reported revenues) in IA (+5.4% for the market), resulting in a 2014 revenue target of EUR600-620m (+13% CAGR 2011-14, +7% LFL).

However, management also warned about a weaker-than-expected 2012 amid a spending cut at retailers (about 40% of Datalogic's revenues from the vertical market) and a postponement of some important contracts in the postal sector. As a result, FY 2012 might end with revenues of around EUR475m, well below the initial indication of EUR520-530m and 6% below our previous estimate of EUR507m. Excluding the contribution from forex and the change of perimeter, we believe the 2012 guidance of EUR475m revenues implies a 7% YOY organic decline, which makes the business plan target of EUR600-620m revenues in 2014 a bit ambitious in our view (13% implied annual revenue growth in 2013 and 2014). Nonetheless, it is reasonable to expect some recovery of spending after a weak 2012, as increasing focus on opex reduction tends to support investments in automation even in a weak macro environment (Datalogic's projects presented to clients have a typical payback period of 12-18 months). We note that Datalogic reported a 26% revenue growth in FY 2010 after a 18% decline suffered in FY 2009.

On the positive side, management's execution on cost reduction is strong. Efficiencies from the adoption of an integrated supply chain and synergies from the integration of Accu-Sort on PPT into Datalogic Automation are likely to support an improvement in EBITDA margin from 14% in FY 2011 to 16% in FY 2012 and 17-18% in FY 2014, when management expects an EBITDA of EUR105-110m (+23% CAGR 2011-14, and +13% LFL).

Cash flow generation over the plan horizon is seen at EUR110-120m, mostly concentrated in 2013-14, as the company expects to close 2012 with net debt slightly below EUR150m (from EUR159m pro-forma FY 2011 including the acquisition of Accu-Sort) falling to EUR40/50m in FY 2014 (0.5x net debt/EBITDA from 1.9x in FY 2012) after stable capex and R&D investments at about 2% and 7% of revenues respectively.

While aligning our 2012 estimates to the new guidance (revenues -6%, EPS -13%), we also took a more conservative stance on 2013-14 (revenues -4%, EPS -8%), and cut our TP from EUR8.3 to EUR8.0. Our new estimates are at discount to management targets for 2014 by 8% on revenues and 7% on EBITDA.

We stick to our Buy rating on Datalogic. The company has limited exposure to Italy (<10% of revenues) and a strong positioning in its reference markets, where demand for process automation enjoys long-term drivers related to the growth of manufacturing and logistics infrastructure in emerging economies and the increasing adoption of automation technologies aimed at cutting opex.

The robust growth recovery assumed by management for 2013 and 2014 might prove optimistic, although the lowered guidance for 2012 makes further earnings cuts (we cut estimates in July) unlikely in the short term.

At 7.7x EV/EBIT 2012E (post earnings revision), the stock is not expensive and management suggested that the company is evaluating financing options to strengthen its positioning in the industrial automation business through acquisitions. This might also lead to an increase in free float (currently at 22% or EUR80m), which we see as one of the key issues of the story.

Table 1: Datalogic: key data versus management targets

EURm	FY 09	FY 10	FY 11	FY 12E	FY 13E	FY 14E	CAGR 2011-14E	Mgmt targets 2014
Group sales	312	393	426	477	522	564	9.8%	600/620
YOY growth	-18%	26%	8%	12%	9%	8%		
Gross profit	130	179	197	231	256	277	12.2%	
Margin	41.8%	45.6%	46.2%	48.4%	49.0%	49.2%		
EBITDA	20	50	59	78	90	101		105/110
Margin	6.3%	12.7%	13.9%	16.4%	17.2%	17.8%		17/18%
EBIT	6	38	49	68	79	90	22.8%	
Margin	2.0%	9.7%	11.5%	14.3%	15.2%	16.0%		
Net Profit	-12	18	26	43	52	60	32.3%	
YOY growth	-168.2%	248.6%	43.7%	67.8%	20.1%	15.0%		
Net debt/(cash)	100	76	59	146	103	61	1.1%	40/50
Shareholders' equity	117	140	170	205	249	300	20.7%	
Capital invested (€m)	217	217	230	348	348	361	16.3%	
ROCE	1.9%	11.8%	14.2%	13.1%	15.3%	16.8%		
ROE	-9.6%	14.0%	16.7%	23.2%	23.0%	21.9%		22/23%

Source: Company data, Kepler Capital Markets

Table 2: Datalogic: estimate revision

EURm	2012E old	2012E new	Change	2013E old	2013E new	Change	2014E old	2014E new	Change
Revenues	507	477	-5.9%	546	522	-4.4%	587	564	-3.9%
Gross profit	247	231	-6.5%	267	256	-4.4%	289	277	-3.9%
margin	48.7%	48.4%		49.0%	49.0%		49.2%	49.2%	
EBIT	78	68	-12.3%	86	79	-7.8%	97	90	-6.7%
margin	15.3%	14.3%		15.8%	15.2%		16.5%	16.0%	
Net profit	50	43	-13.5%	57	52	-8.6%	65	60	-7.2%
Net debt	137	146	6.2%	92	103	11.4%	47	61	30.6%

Source: Kepler Capital Markets

Key financials

Datalogic

Rating	Buy	Market cap	EUR386m	Bloomberg	DAL IM	Top Shareholders		Enrico Coco
Target price	EUR8.00	EV	EUR528m	Reuters	DAL.MI	Hydra S.p.A.	67.0%	enrico.coco@keplercm.com
Price	EUR6.61	Float	22%			Tamburi Investment Partners	6.4%	+39 02 8550 7227

31 December

Income statement (EURm)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales	381.6	404.0	379.8	312.0	392.7	425.5	477.2	521.5	563.9
Change (%)	85.3%	5.9%	-6.0%	-17.9%	25.9%	8.3%	12.1%	9.3%	8.1%
EBITDA adjusted	38.2	50.1	47.8	19.7	49.8	59.2	80.5	90.4	101.4
EBITDA margin (%)	10.0%	12.4%	12.6%	6.3%	12.7%	13.9%	16.9%	17.3%	18.0%
EBIT adjusted	28.0	38.8	35.3	6.3	38.1	48.8	70.3	80.2	91.2
EBIT margin (%)	7.3%	9.6%	9.3%	2.0%	9.7%	11.5%	14.7%	15.4%	16.2%
Net financial	-6.3	-4.9	-4.8	-7.1	-6.9	-3.6	-4.9	-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	-7.9	0.0	0.0
Pretax profit	11.0	27.6	25.9	-12.8	28.2	33.2	57.8	72.4	84.2
Income tax	-4.8	-8.5	-8.1	0.7	-10.2	-7.3	-12.7	-19.5	-23.6
Tax rate (%)	43.0%	31.4%	31.1%	5.3%	36.6%	22.2%	22.1%	27.2%	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	45.1	52.8	60.7
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	45.1	52.8	60.7
Change (%)	-44.3%	211.4%	-6.4%	-chg	+chg	90.1%	31.7%	17.1%	14.8%

Cash flow statement (EURm)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Net earnings	6.3	19.1	17.8	-12.1	18.0	25.9	45.1	52.8	60.7
D&A	12.2	12.3	12.4	13.4	11.6	10.4	10.2	10.2	10.2
Change in TWC	10.1	-7.4	5.5	21.7	2.7	-8.7	-9.7	3.3	-5.9
Others	-13.6	2.2	2.2	-7.3	23.2	6.5	-7.9	0.1	0.1
Operating cash flow	14.9	26.2	38.0	15.6	55.6	34.1	37.8	66.5	65.1
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	23.8	52.5	51.1
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	-8.5	-9.4
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	-5.0	0.0	0.0
Change of net debt	-67.3	4.1	44.4	-6.4	-24.0	-17.1	86.9	-44.0	-41.7

Balance sheet (EURm)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Intangible assets	153.7	137.3	138.7	126.7	147.1	154.4	151.8	149.2	146.6
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	56.4	62.8	69.2
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	114.0	155.6
Current and other assets	143.1	153.1	152.4	122.0	131.5	150.9	179.8	183.5	196.1
Total shareholders' equity	186.6	173.5	135.8	116.7	140.2	170.3	206.8	251.1	302.4
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	216.3	216.3	216.3
Other liabilities & provisions	117.5	117.5	117.7	100.5	131.2	158.8	170.0	177.0	183.7
Net debt	58.4	62.5	106.9	100.5	76.5	59.4	146.3	102.3	60.6
Capital employed	245.0	236.0	242.8	217.2	216.7	229.7	348.1	348.5	363.1

Ratios	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Capex/D&A (%)	64.7%	102.4%	75.7%	54.4%	67.0%	130.3%	137.3%	137.3%	137.3%
ROE (%)	3.9%	10.6%	11.5%	-9.6%	14.0%	22.1%	23.9%	23.1%	21.9%
ROCE (%)	na	16.1%	14.8%	2.7%	17.6%	21.8%	24.3%	23.0%	25.6%
Net debt/EBITDA (%)	152.9%	124.8%	223.7%	511.1%	153.8%	100.4%	181.6%	113.2%	59.8%
Net debt/equity (%)	31.3%	36.0%	78.7%	86.1%	54.6%	34.9%	70.7%	40.7%	20.1%

Per share (EUR)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
EPS adjusted	0.06	0.28	0.30	-0.21	0.31	0.59	0.77	0.90	1.04
EPS reported	0.06	0.28	0.30	-0.21	0.31	0.44	0.77	0.90	1.04
CFPS	0.11	0.21	0.49	0.14	0.82	0.35	0.41	0.90	0.87
BVPS	2.93	2.72	2.33	2.00	2.40	2.91	3.54	4.30	5.17
DPS	0.06	0.07	0.04	0.00	0.15	0.15	0.15	0.17	0.18
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	2011	2012E	2013E	2014E
P/E	97.4	22.3	18.9	ns	14.0	10.1	8.6	7.3	6.4
P/BV	2.1	2.3	2.5	2.1	1.8	2.0	1.9	1.5	1.3
P/CF	56.8	29.8	11.8	29.0	5.3	16.9	16.2	7.4	7.6
Dividend yield	1.0%	1.1%	0.6%	0.0%	3.5%	2.5%	2.3%	2.5%	2.7%
FCF yield	1.8%	3.4%	8.5%	3.5%	18.9%	5.9%	6.2%	13.6%	13.2%
EV/sales	1.2	1.1	1.1	1.1	0.8	0.9	1.1	0.9	0.8
EV/EBITDA	12.2	8.8	9.1	17.0	6.4	6.5	6.6	5.4	4.4
EV/EBIT	16.6	11.3	12.3	53.5	8.4	7.9	7.5	6.0	4.9
EV/capital employed	na	1.8	1.8	1.5	1.5	1.7	1.8	1.4	1.2

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Datalogic	IT0004053440	nothing to disclose	EUR	6.61

Source: Factset closing prices of 28/09/2012

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 history:

Kepler Capital Markets' current rating for Datalogic is Buy and was issued on 16/3/12 (Initiation of coverage)

We did not disclose the rating to the issuer before its publication and dissemination.

Rating ratio Kepler Capital Markets Q2 2012

Rating breakdown	A	B
Buy	58.9%	0.0%
Hold	27.5%	0.0%
Reduce	12.3%	0.0%
Not Rated/Under Review/Accept Offer	1.4%	0.0%
Total	100.0%	0.0%

Source: Kepler Capital Markets

A: % of all research recommendations

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KCM Nederland	Autoriteit Financiële Markten	AFM
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Amsterdam

Kepler Capital Markets Benelux
De Entree 89
Toren A 19th Floor
1101 BH Amsterdam Zuid-Oost
+31 20 563 2365

Frankfurt

Kepler Capital Markets Germany
Taunusanlage 18
60325 Frankfurt
+49 69 756960

Geneva

Kepler Capital Markets SA
Route de crassier 11
1262 Eysins
+41 22361 5151

London

Kepler Capital Markets UK
Providian House
16-18 Monument Street
EC3R 8AJ London
+44 203 350 5000

Madrid

Kepler Capital Markets Espana
Alcala 95
28009 Madrid
+3491 4365100

Milan

Kepler Capital Markets Italia
Corso Europa 2
20122 Milano
+39 02 855 07 1

Munich

Kepler Capital Markets Germany
Maximilianstrasse 35A
80539 Munich
+49 89 24218147

New York

Kepler Capital Markets Inc.
600 Lexington Avenue
10022 New York, NY USA
+1 2127107600

Paris

Kepler Capital Markets France
112 Avenue Kleber
75016 Paris
+33 1 53653500

Vienna

Kepler Capital Markets Austria
Regus Vienna Stock Exchange
Schottenring 16/2
1010 Vienna
+43 1 537124147

Zurich

Kepler Capital Markets Switzerland
Stadelhoferstrasse 22
Postfach
8024 Zurich
+41 433336666

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