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Price
EUR6.45

Previous
None

Target
EUR8.50

Buy

The logic of data

We initiate coverage on Datalogic, a global player in the automatic data capture and industrial automation markets, with a Buy rating and EUR8.5 TP. We appreciate its strong positioning and product portfolio, the growing reference market, its improving earnings outlook and attractive valuation.

Italy | Technology hardware & equipment

Datalogic

INITIATION OF COVERAGE

16 March 2012

Reuters DAL.MI
Bloomberg DAL IM
Index DJ Stoxx 600

In brief

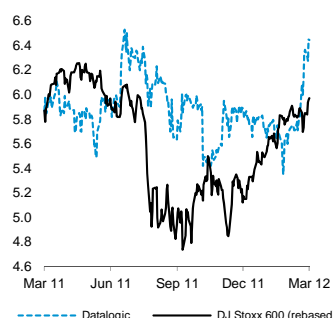
- > Initiating coverage with a Buy rating
- > Strong earnings momentum
- > EUR8.5 target price
- > Potential risks

Year end	Sales	EBIT	EBIT margin	Net profit	EPS	P/E	P/CF	EV/sales	EV/EBITDA	EV/EBIT	Div. yield
31 Dec	(EUR m)	(EUR m)	(%)	(EUR m)	(EUR)						(%)
2010	392.7	38.1	9.7	18.0	0.31	14.0	5.3	0.8	6.4	8.4	3.5
2011E	425.5	48.8	11.5	25.9	0.59	10.1	16.9	0.9	6.5	7.9	2.5
2012E	526.7	75.3	14.3	48.0	0.82	7.9	9.5	0.9	5.8	6.6	2.6
2013E	571.4	88.6	15.5	59.0	1.01	6.4	7.3	0.8	4.6	5.1	2.8
2014E	616.7	99.6	16.2	66.7	1.14	5.6	6.5	0.7	3.7	4.1	3.1

Source: Kepler Capital Markets

Stock data

Market cap (EURm)	377
Free float	22%
Shares outstanding (m)	58
Daily trade volume ('000)	24
YTD abs. performance	12%
52-week high (EUR)	6.5
52-week low (EUR)	5.4
Enterprise value (EURm)	499
Net debt (EURm)	125



In detail

Initiating coverage with a Buy rating

We initiate coverage on Datalogic with a Buy rating for the following reasons: 1) its strong positioning (worldwide leader in POS retail scanners and industrial stationary scanners) in its reference markets; 2) exposure to growth opportunities from manufacturing (and related logistic infrastructure) shifting to emerging countries and increasing adoption of process automation; 3) strong earnings momentum; 4) attractive valuation: 7.9x PE 2012 at a significant discount to peers.

Strong earnings momentum

Besides the contribution of the recently acquired Accu-Sort, 2012 operating margins are set to start benefiting from the adoption of a global supply chain and production shift to Vietnam. We estimate a 13% sales CAGR 2011-14 (+24% in 2012E), +27% for EBIT (+54%) and +25% for adj. EPS (+40%).

EUR8.5 target price

Using a DFC model (WACC 11.7%, long-term growth 2.5%), we value Datalogic at EUR8.5 per share, implying a fair 2012E PE of 10.4x.

Risks

We believe the potential risks are: 1) structural pricing pressure in the industry not absorbed by reduction of direct costs; 2) execution on the integration of Accu-Sort; 3) diluting margins from increasing exposure to emerging markets; 4) low liquidity on the stock (free float 22%; EUR80m at current share prices).

Key financials

Datalogic

Rating	Buy	Market cap	EUR377m	Bloomberg	DAL IM	Top Shareholders		Enrico Coco
Target price	EUR8.50	EV	EUR499m	Reuters	DAL.MI	Hydra S.p.A.	67.0%	enrico.coco@keplercm.com
Price	EUR6.45	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	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	2011	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	2011	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	2011	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 (%)	11.4%	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	2011	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	2011	2012E	2013E	2014E
P/E	97.4	22.3	18.9	ns	14.0	10.1	7.9	6.4	5.6
P/BV	2.1	2.3	2.5	2.1	1.8	2.0	1.8	1.5	1.2
P/CF	56.8	29.8	11.8	29.0	5.3	16.9	9.5	7.3	6.5
Dividend yield	1.0%	1.1%	0.6%	0.0%	3.5%	2.5%	2.6%	2.8%	3.1%
FCF yield	1.8%	3.4%	8.5%	3.5%	18.9%	5.9%	10.5%	13.7%	15.4%
EV/sales	1.2	1.1	1.1	1.1	0.8	0.9	0.9	0.8	0.7
EV/EBITDA	12.2	8.8	9.1	17.0	6.4	6.5	5.8	4.6	3.7
EV/EBIT	16.6	11.3	12.3	53.5	8.4	7.9	6.6	5.1	4.1
EV/capital employed	1.9	1.8	1.8	1.5	1.5	1.7	1.8	1.3	1.2

Source: Kepler Capital Markets

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Summing up

Initiating coverage with a Buy rating and EUR8.5 target price

We initiate coverage on Datalogic (a global leader in bar code readers, data collection mobile computers, RFID and vision systems) with a Buy rating and EUR8.5 target price.

Growing reference markets

We appreciate Datalogic's strong positioning (worldwide leader in POS retail scanners and industrial stationary scanners) in its reference markets of automatic data capture and industrial automation, which are expected to grow at a rate of 8% a year until 2013 (company data on VDC research 2011). Growth drivers include: manufacturing and logistics infrastructure shifting to emerging countries, increasing process automation aimed at reducing costs, and increasing adoption of automation technologies in emerging countries.

Product portfolio protected by patents

The company product portfolio is protected by over 1,000 patents with R&D investments amounting to EUR30m a year (6-7% of revenues). Investments in technological platforms, patent protection and the need of critical mass drive market concentration and provide entry barriers. In emerging markets, technological content is more basic and the cost structure needs to be adapted, although Datalogic's products are generally positioned in the high-end market and not in direct competition with local players.

US the primary market, low exposure to Italy

By region, exposure to Italy is limited (9% of FY 2011 sales including Accu-Sort), with the US accounting for about 40%, Europe 30% and Asia and LatAm 10% each. Besides a more efficient supply chain and improving opportunity for low-cost sourcing, the shift of the primary production line to Vietnam completed in 2011 has strategic implications in supporting growth opportunities in Asia through a direct presence in the region.

Consistent management track record

Over the last decade, management has proved its ability in implementing an internal and external growth strategy (+14% sales CAGR 2001-11) which has transformed Datalogic from a mid-sized player into a global market leader and industry consolidator. We estimate that since its listing in 2001, Datalogic has delivered an average return on capital employed of 14% a year (15% in FY 2007-11), thanks to solid FCF generation (50-60% EBITDA conversion) and a positive track record in integrating acquired companies in its product portfolio and distribution platform.

Earnings momentum

The recent acquisition of Accu-Sort has doubled Datalogic's exposure to the industrial automation business, and 2012 operating margins should also start benefiting from the adoption of a global supply chain in the ADC business and the production shift to Vietnam (we estimate over a 200bp gain in gross margin). As a result, earnings momentum is strong, as we estimate a 13% sales CAGR in 2011-14 (+24% in 2012E), +27% for EBIT (+54%) and +25% for adj. EPS (+40%).

Financial structure

We estimate that following the acquisition of PPT (EUR4m, December 2011) and Accu-Sort (EUR106m January 2012) the net debt/EBITDA could decrease from 2.3x pro-forma 2011 to 1.4x by year-end 2012. Therefore, M&A activity in 2012 could be limited in size (niche companies positioned in machine vision technology), but we think by year-end the company should have financial flexibility for significant M&A (EUR50m-100m sales).

DCF-based target price of EUR8.5

Through a DFC model (WACC 11.7%, long-term growth 2.5%), we value Datalogic at EUR8.5 per share, implying a fair 2012E PE of 10.4x, and suggesting a 32% upside.

Trading at discount to peers

The peer analysis indicates that at 7.9x the 2012E PE the stock is trading at a significant discount to its closest comparable Intermec (13.1x PE 2012E), an unjustified valuation gap in our view. We believe Datalogic's improving earnings momentum is not yet reflected in the share price (Chart 1), although the company's scarce free float (22%) is probably affecting its share price.

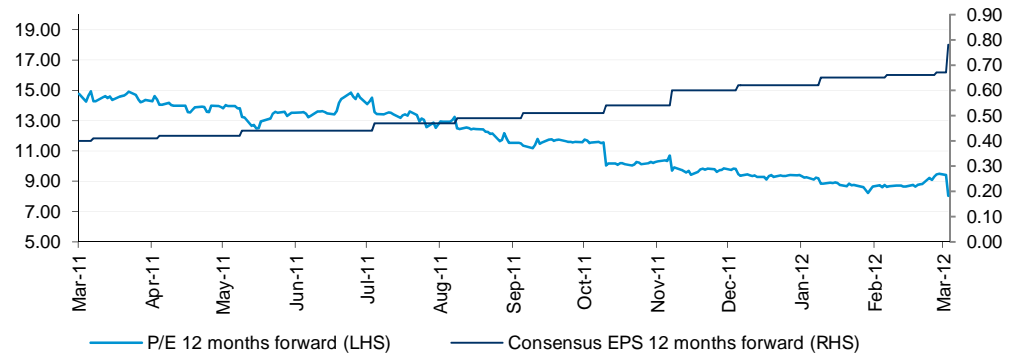
Potential risks

We believe the main potential risks of the investments are: 1) pricing pressure in the industry not absorbed by the reduction of the direct cost of goods sold; 2) execution on the integration of Accu-Sort; 3) diluting margins from increasing exposure to emerging markets; 4) low liquidity on the stock (free float 22%, worth EUR80m at current share price); 5) potential dilutive acquisition.

Forex exposure

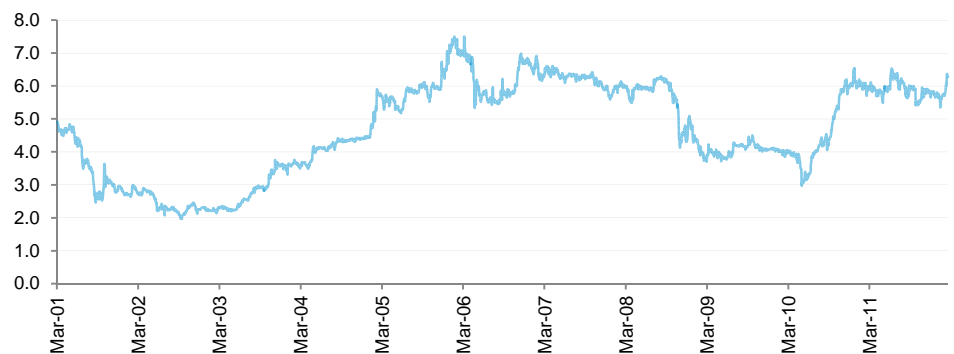
As for forex exposure, the dollar accounts for about 60% of sales and 67% of costs, hence the risk is mainly a translation risk (not covered). We estimate that a 10% devaluation of the dollar versus the euro would have a +5% impact on EPS.

Chart 1: Datalogic - 12m forward P/E versus EPS consensus



Source: Datastream

Chart 2: Datalogic share price performance since IPO



Source: Datastream

SWOT analysis

Table 1: SWOT analysis

Strengths	Weaknesses
Growing reference market	Low free-float, illiquid stock
Strong competitive positioning in high-end markets	Pricing erosion in the industry
Positive management track record	Need to increase penetration in emerging markets
Product and geographic diversification	R&D investments to preserve the competitive positioning
New supply chain adds strategic flexibility	
High entry barriers and solid CF generation	
Opportunities	Threats
Growth in Industrial Automation	Integration of acquired companies
Highly fragmented Industrial Automation market attractive for M&A	Working capital management
Increasing adoption of vision and imaging technologies	Potential dilutive acquisitions
Strong earnings momentum	

Source: Kepler Capital Markets

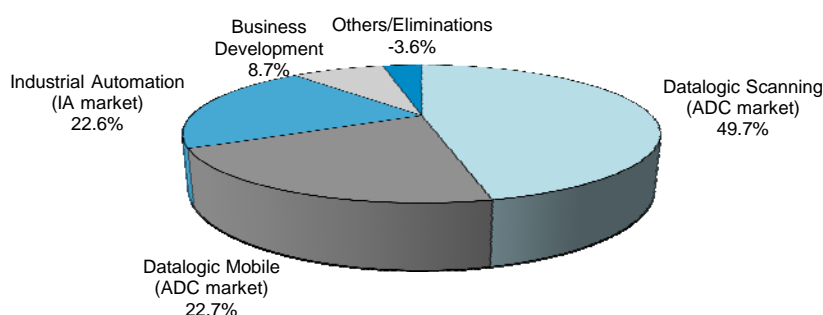
Growing reference market

Datalogic is one of the leading worldwide producers of bar code readers, data collection mobile computers, RFID (radio-frequency identification) and vision systems, for a full range of applications in the manufacturing, retail and transportation & logistics industries. The group has longstanding relations with the biggest retailers, couriers and automotive manufacturers in the world, with a leading positioning in POS retail scanners (28.7% global market share¹) and industrial stationery scanners (30.8% global market share¹).

The long-term growth drivers of Datalogic's reference markets of automatic data capture (ADC) and industrial automation (IA) include globalisation (increasing movement of people and goods, need to capture information about materials in transit, manufacturing and the supporting transportation & logistics infrastructure shift to emerging countries), process automation (sales model redesigned to reduce opex, cost reduction in supply chain), new regulations (safety and security) and the increasing adoption of automation technology in emerging countries.

Based on VDC 2011 data, Datalogic's management expects 8% annual growth of the company's addressable markets of ADC and IA to USD4.4bn and USD3.2bn respectively in 2013. On top of this, Datalogic estimates a potential additional market for IA worth USD3bn in 2013.

Chart 3: FY 2011 sales by business segment



Source: Kepler Capital Markets

High barriers to entry, high-end product positioning

Following the acquisition of PSC (2005) and Accu-Sort (2012), Datalogic reached a leadership position in the vertical markets of retail and T&L (transportation & logistic) with a global market share close to 30% in POS retail scanners and industrial stationary scanners, and is among the top three global producers of handheld scanners. The company's product portfolio is protected by roughly 1,000 patents with R&D investments amounting to EUR30m a year (6-7% of sales).

Investments in technological platforms, patent protection and the need for critical mass drive market concentration (the top three players in ADC: Motorola, Honeywell and

¹ Company data based on VDC Research 2011

Datalogic have a combined and growing market share >50%) and provides barriers to new competitors. In emerging markets, technological content is more basic and the cost structure needs to be adapted, although Datalogic products are generally positioned in the high-end market and not in direct competition with local players.

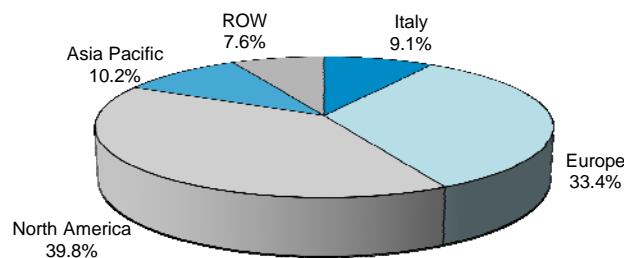
The company is also moving away from being a product manufacturer towards a value-added solution provider, with a strategic focus on integrating its core identification technology with machine vision technology (which implies software/decoding know-how) aimed at offering completely automatic quality control and security solutions. The acquisitions of Evolution Robotics (2010) and PPT (2011) follow this strategic path, and we expect further M&A moves in this direction.

Well diversified by region and vertical markets

Datalogic's revenues are geographically well diversified. Exposure to Italy is limited (9% of FY 2011 pro-forma sales including Accu-Sort), with the US accounting for about 40%, Europe 30%, Asia and ROW (mainly LatAm) 10% each.

Besides a more efficient cost structure from the adoption of an integrated supply chain in the ADC business (integration of Datalogic Scanning and Datalogic Mobile operations), the shift of the primary production line to Vietnam completed in 2011 (workforce tripled to over 500 people without an impact on ongoing business) has strategic implications in supporting growth opportunities in Asia through a direct presence in the region and low-cost sourcing of components.

Chart 4: FY 2011 sales by region



Source: Kepler Capital Markets

By vertical market, Datalogic is exposed to retail (estimated 45% of sales), T&L (transportation & logistic 35%) and manufacturing (20%). Business correlation to the economic cycle is higher for the retail segment, which is more reactive to shifts in consumer behaviour, and where investments in innovation can be delayed by the weak economic context.

This correlation is less obvious for other end-markets, where Datalogic's business is linked to long-term strategic choices (ie new logistics hub, airports) and investments in automation aimed at improving efficiency and reducing costs. According to Datalogic's management, projects presented to clients have a payback period of 12-18 months, hence increasing focus on opex reductions in a weak macro environment also drives investments in automation.

As a result, after a sharp YOY fall of revenues in FY 2009 when investments in automation were completely put on hold, the weak macro environment didn't affect the market recovery in 2010 and 2011, when Datalogic increased revenues by 26% YOY and 8% YOY respectively, exceeding the pre-recession level.

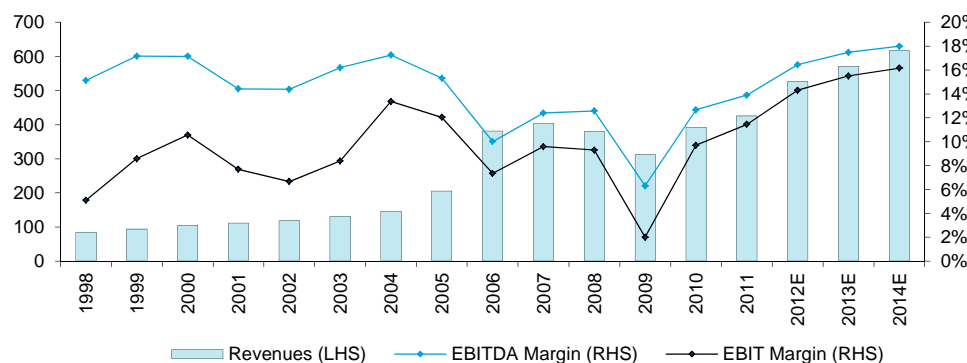
Consistent management track record

Over the last decade, management has proved its ability in implementing a successful internal and external growth strategy (+14% sales CAGR 2001-11), which has transformed Datalogic from a mid-sized player into a market leader and industry consolidator. In a sector characterised by rapid technological changes, management's

expertise in monitoring market trends, investing in the right technology platforms and planning the pipeline of product re-engineering aimed at absorbing pricing erosion through direct cost reduction, are what generate margins in the end.

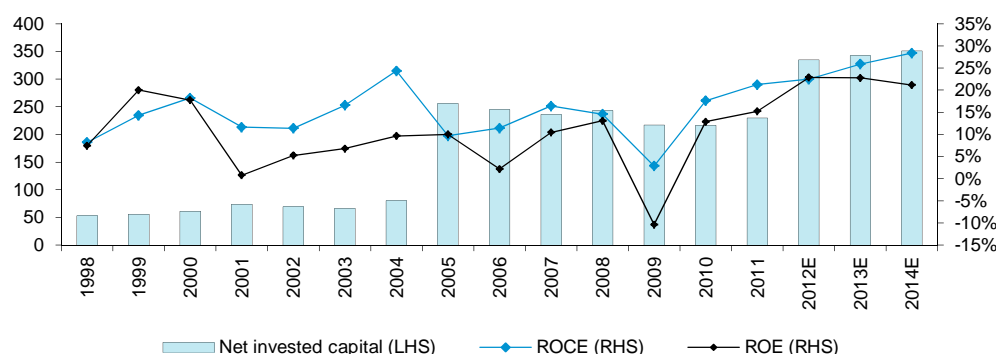
We estimate that since its listing in 2001, Datalogic has delivered an average return on capital employed of 14.3% a year, driven by a steady high level of profitability (8.9% average EBIT margin 2001-11), solid FCF generation (EUR169m cumulated in 2001-11 before investments in acquisitions) and a successful integration of acquired companies.

Chart 5: Revenues and margins



Source: Kepler Capital Markets

Chart 3: Invested capital and returns



Source: Kepler Capital Markets

Table 2: Datalogic's milestones

1972	Datalogic SpA. founded by Romano Volta (Italy)
1988	Acquisition of Escort Memory Systems (U.S.A.)
1997	Acquisition of IDWare (Italy)
1998	Acquisition of Escort Memory Systems (U.S.A.)
1998	Spin-off of Datasensor SpA
2001	Listing on the Milan Stock Exchange
2004	Acquisition of Laservall SpA (Italy), Infra Srl (Italy) and Specialvideo (Italy)
2005	Acquisition of Informatics Inc. (U.S.A.)
2005	Acquisition of PSC Inc. (U.S.A.)
2007	Transformation in three autonomous operating divisions: Datalogic Scanning, Datalogic Mobile, Datalogic Automation
2009	Datalogic Automation S.r.l., Infra S.r.l., Datasensor S.p.A. and Laservall S.p.A. merged into Datalogic Automation S.r.l.
2010	Acquisition of Evolution Robotics Retail Inc. (U.S.A.)
2011	Acquisition of PPT Vision, Inc. (U.S.A.)
2012	Acquisition of Accu-Sort System, Inc. (U.S.A.)

Source: Kepler Capital Markets

Strong earnings momentum

The consolidation of Accu-Sort (acquired on 20 January 2012) is doubling Datalogic's exposure to the industrial automation business, while 2012E operating margins should start benefiting from the adoption of a global supply chain in the ADC business, resulting in EUR12m cost efficiencies already in hand (production shift to Vietnam completed at the end of 2011) after the EUR11m non-recurring costs sustained in 2011 (closing of two plants).

As a result, earnings momentum is strong, with an estimated 13% sales CAGR in 2011-14, +27% for EBIT (2011 base adjusted for non-recurring costs, +40% CAGR on reported EBIT) and +25% for adj. EPS. Most of the growth is concentrated in 2012, reflecting the

accretive impact of the Accu-Sort acquisition and an estimated 200bp gain in gross margin from the production shift to Vietnam.

Solid FCF generation, flexibility for further M&A

Datalogic's business model has a low capital intensity (capex <2% of sales, trade working capital 15% of sales), while the manufacturing location in Vietnam and Slovakia allows for a low tax rate (about 27% in FY 2012-14E) resulting in a FCF conversion at 50-60% of EBITDA. We estimate that following the acquisition of PPT (EUR4m, December 2011) and Accu-Sort (EUR106m January 2012) the net debt/EBITDA could decrease from 2.3x pro-forma 2011 to 1.4x by year-end 2012E.

Therefore, M&A activity in 2012 would probably be limited in size (niche companies positioned in the machine vision technology), but we think the company could have financial flexibility for significant M&A by year-end (EUR50m-100m sales). Datalogic has built a positive track record in integrating acquired companies in its product portfolio and distribution platform, and the highly fragmented industrial automation market offers opportunities at lower prices than in the past (Accu-Sort was paid 6x the EBITDA).

Management recently (source: FY 2011 results conference call, 8 March 2012) hinted at a sustainable leverage of 3x net debt/EBITDA and a possible diversification of financing sources (bonds, private placements) which are fully covered by bank loans today (3-5 years expiry, 250bp average spread).

Pricing erosion in industry, high level of R&D investments

Datalogic's business is characterised by structural technology obsolescence and pricing erosion, historically ranging from minus 2% to minus 5% a year. In FY 2011, price erosion hit revenues by EUR13m (-3%), fully compensated at the EBIT level by a EUR14m reduction in the direct cost of goods sold. The capability of absorbing price reductions is driven by product innovation and re-engineering (cost of components), which has to be planned in advance.

In addition, substantial R&D investments (6-7% of sales and 20% of Datalogic's operating costs) are needed to preserve the top line and market share, while the commercial success of product innovation remains uncertain (roughly 25% of sales come from new products released in the past two calendar years). Growing exposure to emerging markets (LatAm and Asia) also driven by manufacturing de-localisation of clients might have a dilutive impact on margins while requiring some additional investments.

Low free float and scarce liquidity

Datalogic was IPOed in March 2001 at EUR20 per share, equivalent to EUR5 today as a 4:1 share split was executed in May 2006. The company's main shareholder is Hydra SpA, which holds 67% of share capital. Hydra is headed by Datalogic's founder and chairman Romano Volta, who currently has no managerial role in the company. Treasury shares currently held amount to 2.8% of share capital, TIP (Tamburi Investment Partners SpA) holds 6.4% and D'Amico Società di Navigazione SpA 2%, with a free float of 22% (worth about EUR80m at the current share price).

We believe the stock's scarce liquidity to be a key element of the share price's discount to fair value (10.4x target PE 2012E vs. 7.9x based on the current market price). Risk of dilutive acquisitions through the issue of shares remains unlikely at the current share price.

Key questions for management

Strategies

- What are the key growth drivers of the ADC and IA markets in coming years?
- How has Datalogic's market share evolved in the past years? Did Datalogic outperform the market? Why?
- What are Datalogic's competitive advantages in its reference markets? Is the company's positioning sustainable?
- Can growth shifting to emerging markets affect the company's positioning and margins?
- Is Datalogic's cost structure competitive?
- Where are your R&D investments deployed?
- Does your strategy need further acquisitions? In which business segments/countries? What kind of synergies would you require from acquisitions?
- What are the main risks in integrating acquired companies?

Financials

- What sales organic growth is targeted for 2012-14? What are the growth drivers?
- How correlated is the Datalogic business to the economic cycle?
- Is the company exposed to sales concentration towards key clients?
- Is pricing a competitive lever in the industry?
- How exposed is the company to raw material prices?
- What is Datalogic's long-term EBIT margin target?
- What drives margin growth?
- What is Datalogic's NWC reduction policy? Can the change of product mix significantly impact the level of capital employed?
- How much flexibility do you have for acquisitions? What financial parameters do you consider in acquisitions?
- What is Datalogic's debt target? Are you exposed to interest rate and forex risks?
- Is goodwill covered by expected future cashflow?
- What level of dividends do you expect to pay in the coming years?

Outlook

- Do you expect to improve operating trends in the current year?
- Do you expect significant differences between H1 and H2?
- Do you need to increase investments to sustain top-line growth?
- Who are Datalogic's main suppliers and clients?

Recent trends

- How do Accusort's products integrate in the Datalogic group?
- What benefits do you expect from the new manufacturing platform in Vietnam?

Other

- What is the greatest challenge for the industry?
- What is the greatest challenge for Datalogic?
- What is the greatest challenge for management?
- What is important but has not been discussed so far?

Drivers and catalysts

Industrial plan 2011-13

In June 2011, Datalogic presented its 2011-13 industrial plan based on the following strategic pillars:

- Strengthening of strategic positioning through the focus on ADC (automatic data capture, about 70% of 2012E sales) and IA (industrial automation, 30% of 2012E sales) markets and exploiting external growth mainly in the IA market.
- International expansion: increasing penetration in mature markets in Europe and North America by addressing high-end products/solutions and higher technology business. Expanding penetration in emerging markets through strategic alliances and direct investments.
- Product and process innovation: maintaining investments in R&D at 7% of sales, becoming a value-added solution provider (software developing) and technology focusing on vision and imaging.
- Efficiency and productivity: integration of activities in the ADC market of Datalogic Scanning (fixed barcode readers and handheld scanners) and Datalogic Mobile (mobile computers for professional use) including an integrated supply chain with estimated cost efficiencies of EUR12m already in 2012.

Automatic Data Capture (ADC) market

Datalogic ADC is a world leader in the automatic data capture market, with an estimated global market share of about 30% for POS retail scanners (stationary scanners for retail applications) and roughly 17% for handheld scanners. Datalogic ADC's product range includes in-counter and on-counter point-of-sale scanners, ruggedised handheld scanners, rugged mobile computers, industrial PDAs and vehicle mount computers (VMC). Reference sectors include healthcare, hospitality/entertainment, manufacturing, retail, services and transportation & logistics.

Besides growth opportunities in some vertical markets (government, healthcare), we think operations in the ADC market represent a defensive game for Datalogic, as there is little scope for increasing market share (global leader in POS retail scanners and third global player for handheld scanners). Therefore, management's focus is on improving industrial productivity through the optimisation of manufacturing, logistics and the distribution platforms of mobile and scanning products.

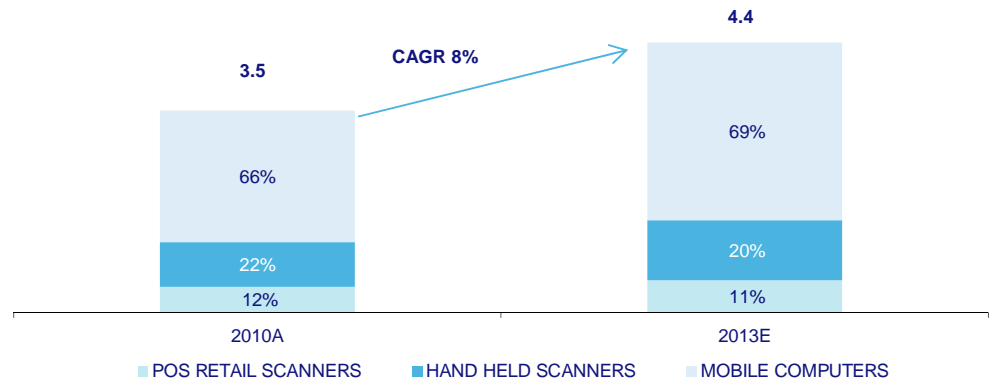
The upgrade of the plant in Vietnam (primary manufacturing line and logistics and distribution centre for APAC) also has strategic implications in terms of production flexibility, presence in the fast-growing Asia region and opportunities for low-cost sourcing.

In addition, Datalogic's growth strategy in the ADC market includes the development of highly profitable self-shopping solutions for the retail market leveraging on Evolution Robotics Retail technology (a product combining identification and imaging technology will be launched in the second half of 2012) and the development of new products for self-check-out and automatic scanning solutions.

According to VDC research (2011), the reference market of ADC should grow from USD3.5bn in 2010 to USD4.4bn in 2013 (+8% CAGR). Factors driving demand include the shift to field mobility deployments, the need to increase efficiency and overcome scanning errors at the point of sale, the growing list of emerging applications in the government, healthcare and retail sectors and the increased adoption of automation technologies in emerging country markets.

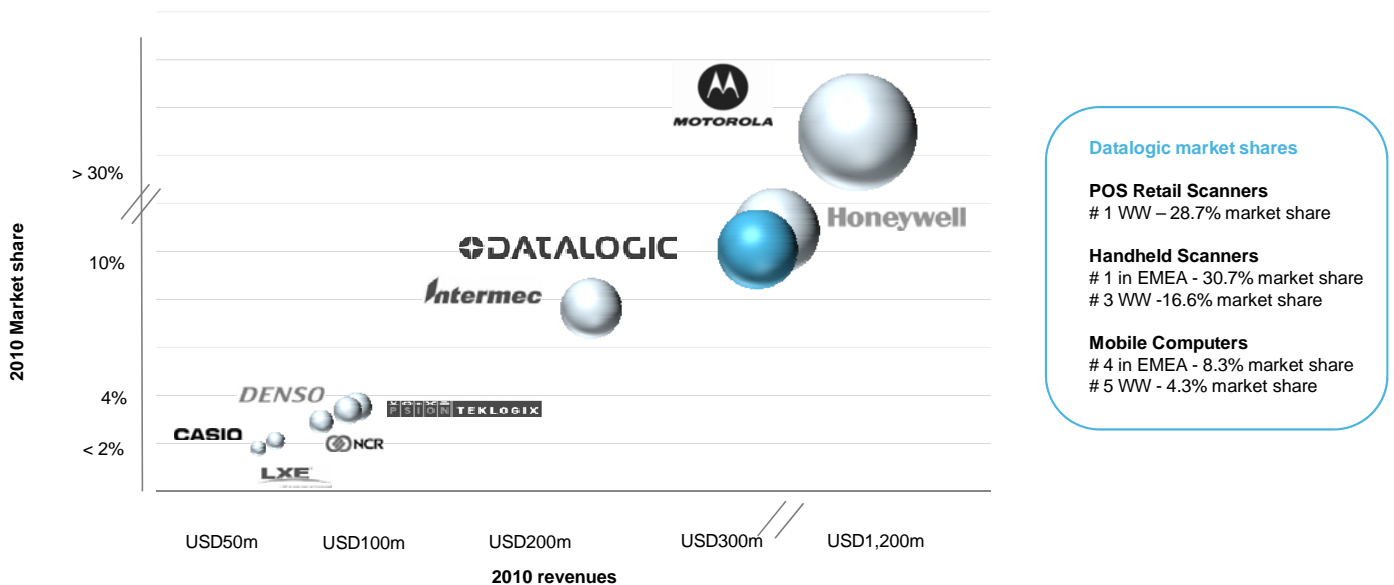
The bulk of growth should come from mobile (handheld and PDA), expected to increase from 66% of the total market in 2010 to 69% in 2013. The weight of POS retail and handheld scanners on the other hand should slightly decrease from 22% to 20% and from 12% to 11% of the total ADC market by 2013 respectively.

Chart 6: Automatic data capture addressable market (USDbn)



Source: Company data on VDC Research 2011

Chart 7: Datalogic's positioning in automatic data capture market



2010 ADC Available Market including POS Retail Scanners, Handheld Scanners and Mobile Computers (Hand Held and PDA) segments

Source: Company data on VDC Research 2011

Industrial Automation (IA) market

In the industrial automation market, Datalogic develops products and solutions that ensure traceability, inspection and detection in manufacturing and logistics processes based on laser barcode scanners and 2D imagers for automatic identification, RFID (radio-frequency identification) and vision systems, industrial sensors, safety light curtains, and laser marking. The reference industries include transportation & logistics sector (airports, couriers, postal services, automated warehouses), automotive, pharma/healthcare, food/beverage, electronics, general manufacturing.

Growth opportunities for Datalogic in the IA market are significant, with targeted organic growth of a 12.5% CAGR 2010-13E compared with the 8% estimated for the market. Datalogic's focus is on vision technology and safety, development of miniature technology for sensors, and external growth opportunities related to the integration of machine vision/imaging technology to the core identification know-how.

Industrial automation is a very fragmented industry. According to VDC Research (2011), the market (stationary barcode scanners, sensors, safety, vision and laser marking) could grow from USD2.6bn in 2010 to USD3.2bn in 2013 (+8% CAGR). On top of this, VDC estimates a potential additional market worth USD3bn in 2013 (50% of the total addressable market in 2013). Market drivers include: increasing demand for traceability of processes and goods, supply chain streamlining, new regulations (traceability, safety, and security) and the increasing adoption of technological solutions in emerging markets.

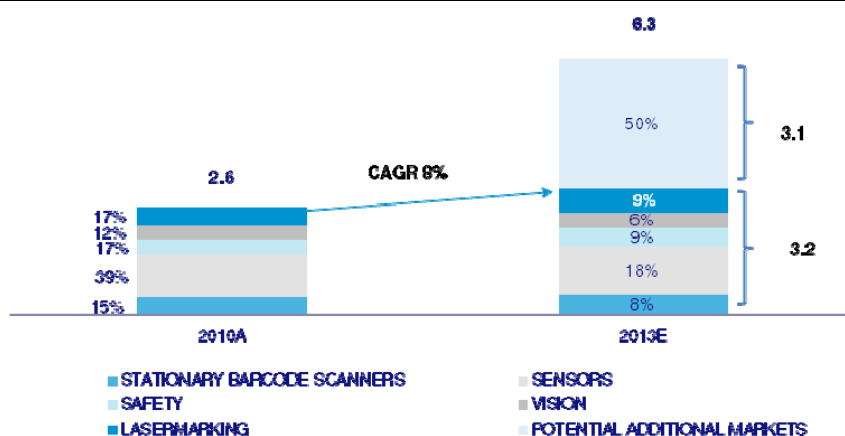
PPT and Accu-Sort acquisitions

Datalogic's business activities in industrial automation were recently strengthened with the acquisition of PPT Vision (a US company that produces multi-camera vision systems used in quality control and inspection in the manufacturing industry, 2011 revenues of USD6m, acquisition closed in December 2011), and mainly Accu-Sort (a US company with a leading position in laser and camera-based automation identification (Auto-ID) systems serving leading players in parcel, postal and retail distribution, 2011 revenues of USD106m, acquisition closed in January 2012).

The above acquisitions will enable Datalogic to double its presence in the Industrial Automation market (from EUR96m in FY 2011 to EUR175m in FY 2012E with Accu-Sort consolidated for 11 months), improve its expertise in the T&L market, and expand its presence in machine vision technology, which will be increasingly integrated into Datalogic's product portfolio and distribution platform.

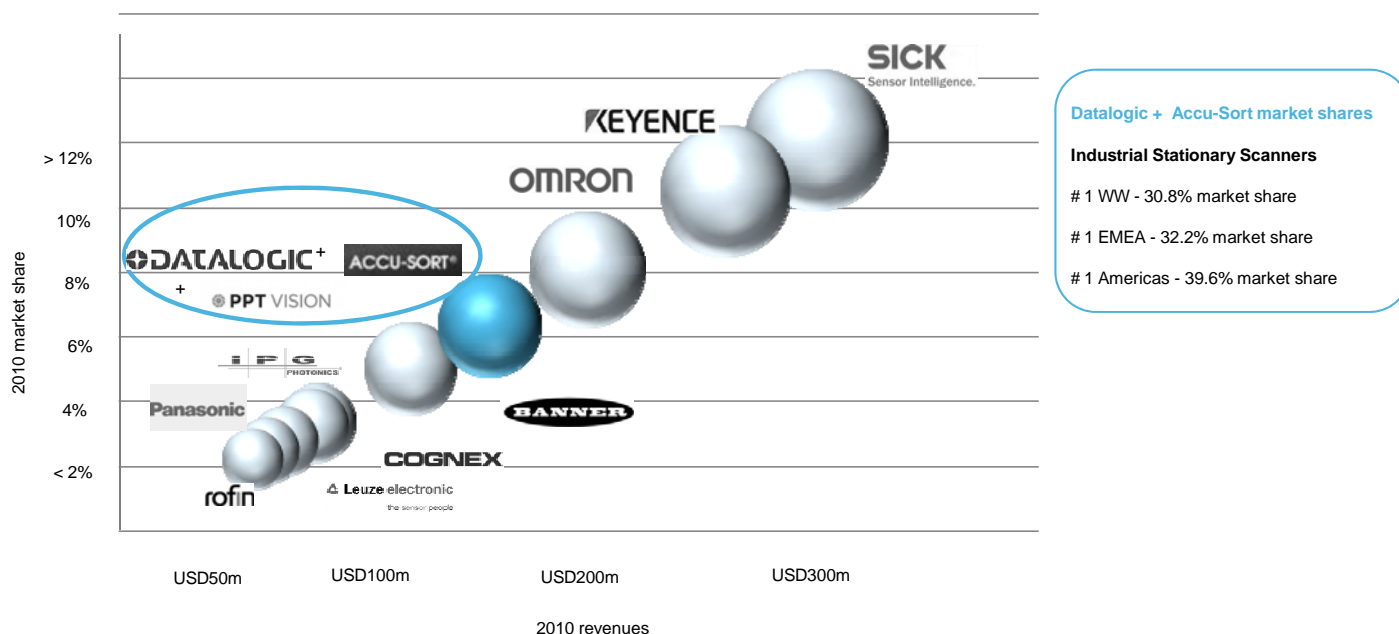
Our estimates assume 2012 will be dedicated to the integration of acquired assets, with an estimated contribution from acquisitions to Datalogic's net profit of EUR7m (15% of the total) based on stable Accu-Sort sales versus FY 2011 and an increasing focus on synergy activation from 2013. During the FY 11 conference call (March 8, 2012), management indicated a flat sales trend for Q1 2012 (results due on May 10), and an improving trend in H2 supported by the launch of new products.

Chart 8: Datalogic's industrial automation addressable market (USDbn)



Source: Company data on VDC Research 2011

Chart 9: Datalogic's positioning in industrial automation market



2010 IA Available Market including Industrial Barcode Scanners, Imagers, Photoelectric Sensors, Safety Light Curtains, Smart Cameras/Vision Sensors and Laser Marking segments

Source: Company data on VDC Research 2011

Financial targets

The financial targets laid out in Datalogic's business plan include:

- EUR470m-480m revenues in 2013 before acquisitions (we estimate EUR571m including EUR95m contribution from Accu-Sort and PPT).
- EBITDA margin of 17-18% in 2013 (we estimate 17.5%, which we believe to be a prudent assumption as Accu-Sort would contribute a high-margin business, 19.6% EBITDA margin reported in FY 2011).
- Investment in capex maintained at about 2% of revenues (we estimate 2.6% in 2012-13).
- 2013 target ROE of 23-24% (we estimate 2013E ROE at 22.7%).

Constructing the forecast

Table 3: Key financials (EURm)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E	CAGR11-14E
Automatic Data Capture (ADC) division	279	215	269	308	328	351	374	6.7%
Industrial Automation (IA) division	70	67	91	96	175	195	214	30.6%
Business development/Others	31	30	33	21	23	26	29	10.4%
Group sales	380	312	393	426	527	571	617	13.2%
YOY growth	-6%	-18%	26%	8%	24%	8%	8%	
Gross profit	168	130	179	197	254	280	303	15.6%
Margin	44.2%	41.8%	45.6%	46.2%	48.3%	49.0%	49.2%	
EBIT	35	6	38	49	75	89	100	26.9%
Margin	9.3%	2.0%	9.7%	11.5%	14.3%	15.5%	16.2%	
Net Profit	18	-12	18	26	48	59	67	37.1%
YOY growth	-1.7%	-168.2%	248.6%	43.7%	85.0%	23.0%	13.1%	
Net debt/(cash)	107	100	76	59	125	83	35	-15.8%
Shareholders equity	136	117	140	170	210	259	316	22.9%
Capital invested (€m)	243	217	217	230	335	342	351	15.2%
ROCE	9.8%	1.9%	11.8%	14.2%	15.1%	17.4%	19.0%	
ROE	13.1%	-10.4%	12.9%	20.1%	22.9%	22.7%	21.1%	

Source: Kepler Capital Markets

Strong earnings momentum, solid balance sheet

We expect a 13% sales CAGR 2011-14 (+8% organic) driven by the contribution of the Accu-Sort acquisition to the industrial automation business (+31% CAGR 2011-14E, +12% organic). Besides the growing scale of the business, expected savings from the re-organisation of the supply chain (EUR12m cost reduction in 2012E) should sustain improving operating margins (EBIT CAGR 2011-14 of +27% with margin reaching 16.2% in 2014, up from 11.5% in 2011). The net profit growth (+37% CAGR 2011-14E) should benefit from the lack of restructuring costs (EUR11m in 2011, +25% CAGR in adj. net profit), with slightly increasing financial costs (+2% CAGR11-14E) and the tax rate stable at 27%.

Assuming no further acquisitions and a DPS increase of 10% a year (EUR28m cumulated dividend, 19% average payout in FY 2012-14E from 34% in FY 2011), we estimate Datalogic's NFP would decrease to EUR35m by 2014 (0.3x net debt/EBITDA from 2.3x pro-forma FY 2011 including Accu-Sort).

The trade working capital is a key component of invested capital (31% on average in 2007-11 and 24% in 2012-14). After the increase of trade working capital to 20-22% of sales in 2007-09, management was able to reduce the working capital/sales ratio to 15% in 2010-11, and we assume a stabilisation of working capital at 14% of sales in 2012-14, thus maintaining post tax returns on invested capital well above 15% (9.7% on average in 2007-11). Cost efficiencies on the new supply chain and the low tax rate (no taxes in Vietnam until 2015, 19% tax rate in Slovakia) should support a solid FCF generation at EUR50m on average in 2012-14 (13.2% average FCF yield).

Sales trend

Since its establishment, Datalogic experienced continuous growth of its top line until 2007 (+19% CAGR 1998-2007) driven by both organic growth and a consolidation strategy aimed at strengthening the company's positioning as one of the key global players in the markets of automatic data collection and industrial automation.

A strong boost to sales came with the acquisition in 2005 for USD195m (partially financed through a EUR77m capital increase) of PSC Inc, a leading US company in the automatic identification & data capture market (PSC introduced the first retail checkout barcode scanner in 1974) which allowed Datalogic to nearly double its sales from roughly EUR200m in 2005 to about EUR380m in 2006.

The global recession upset the sales trend in 2008 (-6% YOY) and 2009 (-18% YOY), resulting in a cumulated decline of 23% in two years followed by a 26% YOY increase in 2010 (<5% contribution from the acquisition of Evolution Robotics, a US company specialised in visual pattern recognition technology) and an 8% YOY increase in 2011.

2012-14E sales CAGR13%, 8% organic

As for 2012-14, we expect Datalogic to deliver a 13% sales CAGR resulting in group sales of EUR617m in FY 2014. In detail, we assume 8% organic growth and a 5% contribution from the change of perimeter (acquisition of PPT Vision and Accu-Sort in the industrial automation business).

As a result, the business split of sales should see the increasing contribution of industrial automation (from 24% of sales in 2011 to 35% in 2014) with sales in the ADC market decreasing their contribution to group sales to slightly above 60% in 2014 from 72% in 2011. In terms of geographical split, we expect the contribution of the US and Europe to decrease from 85% to to about 75% (Italy 5%), with Asia and LatAm increasing their contribution to 25% of sales in FY 14E.

Table 4: Sales by division

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E	CAGR11-14E
Datalogic Scanning	185	147	182	212	225	241	257	6.7%
Datalogic Mobile	93	68	88	96	103	110	117	6.7%
Automatic Data Capture (ADC) division	279	215	269	308	328	351	374	6.7%
Industrial Automation (IA) division	70	67	91	96	175	195	214	30.6%
Business Development	32	31	33	37	39	42	45	7.0%
Datalogic S.p.A.	16	12	15	16	16	16	17	2.0%
Eliminations/Adjustments	-17	-13	-15	-31	-32	-32	-33	2.0%
Group sales	380	312	393	426	527	571	617	13.2%
YOY growth								
Datalogic Scanning	na	-20.6%	23.6%	16.5%	6.5%	7.0%	6.5%	
Datalogic Mobile	na	-27.0%	28.8%	9.9%	6.5%	7.0%	6.5%	
Automatic Data Capture (ADC) division	-13.2%	-22.8%	25.2%	14.3%	6.5%	7.0%	6.5%	
Industrial Automation (IA) division	25.3%	-4.5%	35.4%	6.1%	82.3%	11.0%	10.0%	
Business Development	14.1%	-5.0%	9.2%	10.3%	6.0%	7.0%	8.0%	
Datalogic S.p.A.	na	-21.5%	19.8%	6.6%	2.0%	2.0%	2.0%	
Eliminations/Adjustments	na	-22.3%	19.3%	102.7%	2.0%	2.0%	2.0%	
Group sales	-6.0%	-17.9%	25.9%	8.3%	23.8%	8.5%	7.9%	

Source: Kepler Capital Markets

Profitability

Given the technological content of Datalogic's products, gross profit margins are pretty high (50.3% on average over the last ten years). For 2012-14, we assume the gross margin at 48.8% of sales, up from the 46% of 2010-11 thanks to cost reductions from the integrated ADC supply chain, leading to a 27% EBIT CAGR with margins up from 11.5% in 2011 to 16.2% in 2014E.

Cost structure

The cost of goods sold represents 50% of sales and accounts for 60% of total costs above the EBIT line. Distribution costs account for 20% of costs above the EBIT line, R&D costs 8% and administrative expenses 12% (including 3% of D&A).

At the end of 2011, Datalogic employed around 2,500 workers (65% in the ADC division and 35% in the IA division) up from 2,020 workers in 2010. Personnel costs (accounted above and below the gross margin line) represent 23% of total costs above the EBIT line, and represent 80% of fixed costs, which we estimate at 25% of sales.

27% EBIT CAGR 2011-14E, Accu-Sort contributing for 65% of the expected growth

Below the gross profit line, for 2012-14 we assume:

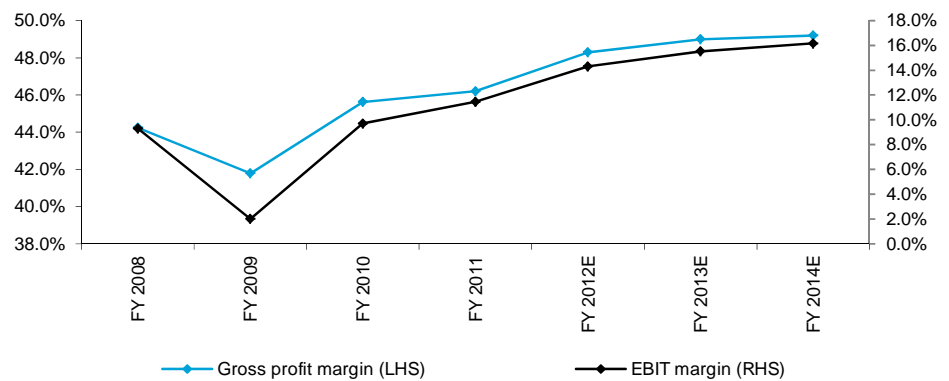
- Distribution costs stable at 19% of sales (20.2% on average in 2008-11).
- R&D costs at 6.5% of sales (7% in 2008-11).
- Administrative costs increasing 2% a year over the period at 8% of sales in 2014 (9.7% in 2008-11).

As a result, we project an increase in the EBIT margin from 11.5% in 2011 to 16.2% in 2014, implying a +27% EBIT CAGR 2011-14E (from EUR49m in 2011 to EUR100m in 2014E). We estimate ACCU-Sort could contribute about 65% (EUR35m) to the expected EBIT increase over the next three years.

Table 5: Gross profit and EBIT

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E	CAGR11-14E
Sales	380	312	393	426	527	571	617	13.2%
YOY growth	-6.0%	-17.9%	25.9%	8.3%	23.8%	8.5%	7.9%	
Cost of good sold	-212	-182	-214	-229	-272	-291	-313	11.0%
as % of sales	-55.8%	-58.2%	-54.4%	-53.8%	-51.7%	-51.0%	-50.8%	
Gross profit	168	130	179	197	254	280	303	15.6%
Margin	44.2%	41.8%	45.6%	46.2%	48.3%	49.0%	49.2%	
Other revenues	10	2	2	2	2	2	2	-5.8%
R&D	-25	-25	-26	-26	-34	-37	-40	15.2%
Distribution costs	-77	-68	-77	-80	-99	-107	-116	13.1%
Administrative expenses	-39	-30	-38	-42	-45	-46	-47	3.3%
Other operating expenses	-2	-4	-2	-2	-3	-3	-3	22.9%
Total operating costs	-143	-126	-143	-150	-181	-193	-206	11.1%
as % of sales	-37.7%	-40.5%	-36.5%	-35.3%	-34.4%	-33.8%	-33.4%	
Operating profit before non-recurring costs	35	6	38	49	75	89	100	26.9%
Margin	9.3%	2.0%	9.7%	11.5%	14.3%	15.5%	16.2%	
YOY growth	-8.8%	-82.3%	509.7%	27.9%	54.5%	17.7%	12.4%	
Operating leverage (x)	1.5	4.6	19.7	3.3	2.3	2.1	1.6	
EBIT reported	31	-6	35	36	74	89	100	39.8%

Source: Kepler Capital Markets

Chart 10: Gross profit and EBIT margin


Source: Kepler Capital Markets

25% EPS CAGR 2011-14E

Below the EBIT line, we assume a 2012-14 tax rate at 27.3% (29.9% on avg. in 2001-11) and financial charges almost stable (2% CAGR 2011-14E) reflecting the expected improvement in NFP after the spike of 2012 due to the acquisition of Accu-Sort. We project a +37% net profit CAGR 2011-14E from EUR26m in 2011 to EUR67 in 2014 (+25% CAGR for adj. net profit, excluding EUR8m non-recurrent cost from the 2011 base), with most of the growth concentrated in 2012 (40% YOY increase in EPS followed by a 18% CAGR 2012-14E).

Table 6: From EBIT to net profit

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E	CAGR11-14E
Operating profit before non-recurring costs	35	6	38	49	75	89	100	26.9%
Margin	9.3%	2.0%	9.7%	11.5%	14.3%	15.5%	16.2%	12.1%
EBIT reported	31	-6	35	36	74	89	100	39.8%
Financial income/expenses	-6	-6	-7	-7	-9	-8	-7	2.0%
Equity Investments	0	0	0	0	0	0	0	0.0%
Other financials	1	-1	0	3	0	0	0	0.0%
Pre-tax profit	26	-13	28	33	66	81	93	40.8%
Taxes	-8	1	-10	-7	-18	-22	-26	52.7%
tax rate	31.2%	5.3%	36.0%	22.0%	27.0%	27.0%	28.0%	
Minorities	0	0	0	0	0	0	0	0.0%
Reported net profit	18	-12	18	26	48	59	67	37.1%
YOY growth	-1.7%	nm	nm	43.7%	85.0%	23.0%	13.1%	

Source: Kepler Capital Markets

Solid cash flow generation, flexibility for further acquisitions

Datalogic closed 2011 with a net debt position of EUR59m, a EUR17m improvement versus 2010 driven by EUR34m operating FCF. Dividends paid were EUR8.1m based on a DPS of EUR0.15 (2.6% yield). Datalogic's business model has a low capital intensity (capex <2% of sales, trade working capital roughly 15% of sales), while the manufacturing location in Vietnam and Slovakia allows for a low tax rate (25-27% guidance for 2012-14) resulting in a FCF conversion at 50-60% of the EBITDA.

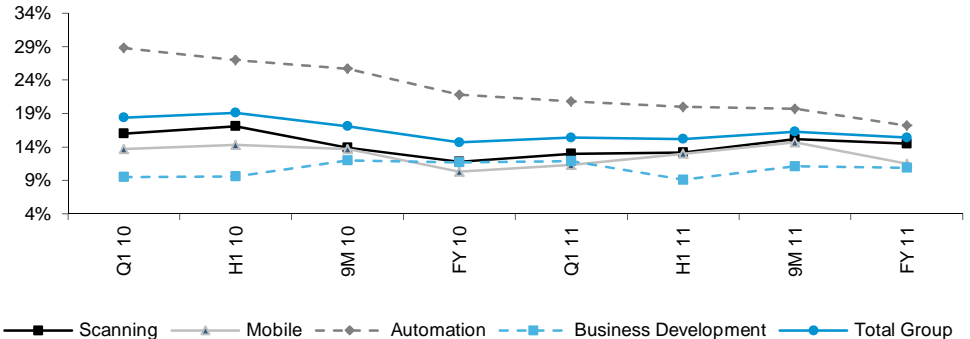
We estimate that following the acquisition of PPT (EUR4m, December 2011) and Accu-Sort (EUR106m January 2012,) the net debt/EBITDA could decrease from 2.3x pro-forma 2011 to 1.4x by year-end 2012. Therefore, M&A activity in 2012 will probably be limited in size (niche companies positioned in the machine vision technology), but we think that by year-end the company could have financial flexibility for significant M&A (EUR50m-100m sales).

Trade working capital from 21% of sales in 2007-09 to 15% in 2010-11

Trade working capital and the goodwill arising from the M&A strategy pursued in recent years are the key components of invested capital (29% and 48% of 2011 invested capital respectively).

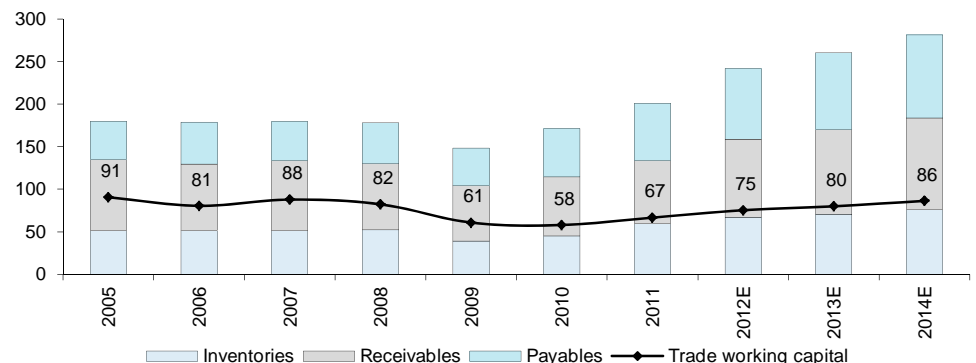
Trade working capital was on average 21% of sales in 2007-09 and 36% in 2002-06, but decreased to 15% of sales in 2010-11 (inventory rotation 46 days in 2010-11 vs. 47 days in 2007-09, receivables rotation 63 days in 2010-11 vs. 74 days in 2007-09, payables rotation 101 days in 2010-11 vs. 84 days in 2007-09) driven by supply chain efficiencies in the ADC market, and the rationalisation of SKU and inventory processes reengineering for the industrial automation market.

Chart 11: Trade working capital/annualised sales



Source: Kepler Capital Markets

Chart 12: Trade working capital trend



Source: Kepler Capital Markets

2012-14 FCF of EUR50m a year provides flexibility for M&A

As for 2012-14, we assume a stabilisation of trade working capital/sales at 14%, with the net financial position decreasing to EUR35m by 2014 (0.3x net debt/EBITDA) based on an estimated FCF of EUR50m a year on average in 2012-14 (13% FCF yield). In detail, our model assumes:

- Trade working capital absorbing EUR6m a year on average in 2012-14 based on a ratio of working capital on sales stable at 14%.
- Cumulated dividend payments of EUR28m in 2012-14 based on a DPS increase from EUR0.15 in FY 2011 to EUR0.18 in FY 2013 (+10% DPS CAGR 2011-13E, with a 19% average payout in FY 2012-13 vs. 34% in FY 2011).
- Negligible capex requirement at 2.5% of sales or EUR42m cumulated over 2012-14.
- No investments in growth through acquisitions, although we believe the current financial structure allows Datalogic to invest EUR50m-100m in external growth aimed at capturing opportunities in the industrial automation market.

Table 7: Cash flow summary (EURm)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E	AVG 2012-14E
Gross cash flow from operations	30	1	30	45	59	70	78	69
- Change in operating net working capital	6	22	3	-9	-9	-5	-6	-7
- Change in other assets/liabilities	-3	-5	13	6	3	0	0	1
Others	5	-2	10	-8	0	0	0	0
Operating cash flow	38	16	56	34	54	66	72	64
Capex	-9	-7	-8	-14	-14	-14	-14	-14
Free operating cash flow	29	8	48	21	40	52	58	50
Disposals	0	0	0	0	0	0	0	0
Financial Investments	-43	0	-21	-4	-106	0	0	-35
Dividends	-4	-1	0	-8	-9	-9	-10	-9
Share buy-backs	-23	-2	-2	9	9	0	0	3
Change in Equity	0	0	0	0	0	0	0	0
Others	-3	1	-1	0	0	0	0	0
Change in net cash /(debt)	-44	6	24	17	-66	42	48	8
Net financial position	-107	-100	-76	-59	-125	-83	-35	-81

Source: Kepler Capital Markets

Table 8: Balance sheet summary (EURm)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E	AVG 2012-14E
Fixed Assets	216	203	224	244	344	347	349	347
Trade net working capital	82	61	58	67	75	80	86	81
Other current assets	22	18	17	17	17	17	17	17
Other current liabilities	-45	-35	-48	-54	-57	-57	-57	-57
Net working capital	60	43	27	30	35	40	47	41
Provisions for risks and charges	-6	-4	-10	-15	-15	-15	-15	-15
Other long-term liabilities	-19	-17	-17	-22	-22	-22	-22	-22
Employees' severance indemnity	-8	-8	-7	-7	-7	-7	-7	-7
Total invested Capital	243	217	217	230	335	342	351	343
- Cash	52	72	103	171	70	112	160	114
- Short-term debt	-65	-124	-48	-73	-39	-39	-39	-39
- Long-term debt	-94	-48	-132	-157	-157	-157	-157	-157
Net Financial Position	-107	-100	-76	-59	-125	-83	-35	-81
- Minorities	0	0	0	0	0	0	0	0
- Shareholders Equity	136	117	140	170	210	259	316	262
Total shareholder funds	136	117	140	170	210	259	316	262
Total Financing	243	217	217	230	335	342	351	343

Source: Kepler Capital Markets

Table 9: Goodwill breakdown

	Year of acquisition	FY 2010	FY 2011
PSC Group	November 2005	70.1	72.4
Informatics	February 2005	11.8	12.1
Laserwall	August 2004	5.1	5.1
Idware	January 1998	3.4	3.4
Datasensor	October 2008	1.7	1.7
Gruppo Minec	July 2002	0.3	0.0
Evolution Robotics	July 2010	13.7	14.2
PPT	December 2011	-	3.4
Total		106.1	112.2

Source: Kepler Capital Markets

Full financials

Table 10: Profit & Loss (EURm)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	CAGR 2011-2014E
Sales	404	380	312	393	426	527	571	617	13.2%
YOY growth	5.9%	-6.0%	-17.9%	25.9%	8.3%	23.8%	8.5%	7.9%	
Cost of good sold	-224	-212	-182	-214	-229	-272	-291	-313	11.0%
Gross profit	180	168	130	179	197	254	280	303	15.6%
YOY growth	7.6%	-6.5%	-22.4%	37.4%	9.7%	29.4%	10.1%	8.4%	
Other revenues	3	10	2	2	2	2	2	2	-5.8%
R&D	-25	-25	-25	-26	-26	-34	-37	-40	15.2%
Distribution costs	-78	-77	-68	-77	-80	-99	-107	-116	13.1%
Administrative expenses	-36	-39	-30	-38	-42	-45	-46	-47	3.3%
Other operating expenses	-5	-2	-4	-2	-2	-3	-3	-3	22.9%
Total operating costs	-144	-143	-126	-143	-150	-181	-193	-206	11.1%
YOY growth	1.5%	-0.3%	-11.8%	13.3%	4.9%	20.5%	6.8%	6.4%	
Operating profit	39	35	6	38	49	75	89	100	26.9%
YOY growth	38.3%	-8.8%	-82.3%	509.7%	27.9%	54.5%	17.7%	12.4%	
Non recurring costs/revenues	-3	-1	-8	1	-8	-1	0	0	-100.0%
Amortization of intangibles from acquisitions	-4	-4	-4	-4	-4	0	0	0	-100.0%
Reported EBIT	32	31	(6)	35	36	74	89	100	39.8%
YOY growth	84.6%	-4.2%	-118.1%	-725.4%	5.1%	104.0%	19.3%	12.4%	
Financial income/(expenses)	-5	-6	-6	-7	-7	-9	-8	-7	2.0%
Equity investments	0	0	0	0	0	0	0	0	2.4%
Other financials	0	1	-1	0	3	0	0	0	-100.0%
Pre-tax profit	27	26	-13	28	33	66	81	93	40.8%
Taxes	-9	-8	1	-10	-7	-18	-22	-26	52.7%
Tax rate%	32.1%	31.2%	5.3%	36.0%	22.0%	27.0%	27.0%	28.0%	
Minorities	0	0	0	0	0	0	0	0	0.0%
Net profit	18	18	-12	18	26	48	59	67	37.1%
Growth %	341.5%	-1.7%	-168.2%	-248.6%	43.7%	85.0%	23.0%	13.1%	
Net extr.	0	0	0	0	8	0	0	0	-100.0%
Adjusted net profit	18	18	-12	18	34	48	59	67	24.9%
Growth %	341.5%	-1.7%	-168.2%	-248.6%	90.1%	39.9%	23.0%	13.1%	

Source: Kepler Capital Markets

Table 11: Profit & Loss (weight on sales)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	AVG 2012-2014E
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of good sold	-55.5%	-55.8%	-58.2%	-54.4%	-53.8%	-51.7%	-51.0%	-50.8%	-51.2%
Gross profit	44.5%	44.2%	41.8%	45.6%	46.2%	48.3%	49.0%	49.2%	48.8%
Other revenues	0.7%	2.8%	0.7%	0.5%	0.6%	0.4%	0.4%	0.3%	0.4%
R&D	-6.2%	-6.7%	-8.0%	-6.7%	-6.2%	-6.5%	-6.5%	-6.5%	-6.5%
Distribution costs	-19.2%	-20.3%	-21.8%	-19.7%	-18.8%	-18.8%	-18.8%	-18.8%	-18.8%
Administrative expenses	-8.8%	-10.2%	-9.5%	-9.6%	-9.9%	-8.5%	-8.0%	-7.6%	-8.0%
Other operating expenses	-1.3%	-0.5%	-1.2%	-0.5%	-0.4%	-0.6%	-0.5%	-0.5%	-0.5%
Total operating costs	-35.6%	-37.7%	-40.5%	-36.5%	-35.3%	-34.4%	-33.8%	-33.4%	-33.9%
Operating profit	9.6%	9.3%	2.0%	9.7%	11.5%	14.3%	15.5%	16.2%	15.3%
Non recurring costs/revenues	-0.6%	-0.2%	-2.5%	0.2%	-2.0%	-0.2%	0.0%	0.0%	-0.1%
Amortization of intangibles from acquisitions	-1.0%	-1.0%	-1.3%	-1.1%	-0.9%	0.0%	0.0%	0.0%	0.0%
Reported EBIT	7.9%	8.1%	-1.8%	8.8%	8.6%	14.1%	15.5%	16.2%	15.3%
Financial income/(expenses)	-1.1%	-1.5%	-2.0%	-1.7%	-1.6%	-1.7%	-1.4%	-1.2%	-1.5%
Equity investments	0.1%	0.0%	-0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other financials	-0.1%	0.2%	-0.2%	0.0%	0.8%	0.0%	0.0%	0.0%	0.0%
Pre-tax profit	6.6%	6.8%	-4.1%	7.2%	7.8%	12.5%	14.1%	15.0%	13.9%
Taxes	-2.1%	-2.1%	0.2%	-2.6%	-1.7%	-3.4%	-3.8%	-4.2%	-3.8%
Minorities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net profit	4.5%	4.7%	-3.9%	4.6%	6.1%	9.1%	10.3%	10.8%	10.1%
Net extr.	0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Adjusted net profit	4.5%	4.7%	-3.9%	4.6%	8.1%	9.1%	10.3%	10.8%	10.1%

Source: Kepler Capital Markets

Table 12: Balance sheet (EURm)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	AVG 2012-2014E
- Property, plants and equip.	49	53	51	50	50	56	62	68	62
- Intangibles	52	49	40	41	42	39	36	33	36
- Goodwill	85	90	87	106	112	112	112	112	112
- Financial assets	20	25	26	26	40	137	137	137	137
Fixed assets	207	216	203	224	244	344	347	349	347
- Inventories	51	52	39	45	60	67	71	76	71
- Receivables	83	78	65	69	74	92	99	107	99
- Payables	-46	-48	-44	-57	-67	-83	-90	-97	-90
Trade net working capital	88	82	61	58	67	75	80	86	81
Other current assets	19	22	18	17	17	17	17	17	17
Other current liabilities	-45	-45	-35	-48	-54	-57	-57	-57	-57
Net working capital	63	60	43	27	30	35	40	47	41
Provisions for risks and charges	-6	-6	-4	-10	-15	-15	-15	-15	-15
Other long-term liabilities	-21	-19	-17	-17	-22	-22	-22	-22	-22
Employees' severance indemnity	-7	-8	-8	-7	-7	-7	-7	-7	-7
Total invested capital	236	243	217	217	230	335	342	351	343
- Cash	55	52	72	103	171	70	112	160	114
- Short-term debt	-27	-65	-124	-48	-73	-39	-39	-39	-39
- Long-term debt	-91	-94	-48	-132	-157	-157	-157	-157	-157
Net financial position	-63	-107	-100	-76	-59	-125	-83	-35	-81
- Minorities	0	0	0	0	0	0	0	0	0
- Shareholders equity	174	136	117	140	170	210	259	316	262
Total shareholder funds	174	136	117	140	170	210	259	316	262
Total Financing	236	243	217	217	230	335	342	351	343
Operating net working capital/sales	21.8%	21.7%	19.5%	14.8%	15.7%	14.3%	14.0%	14.0%	14.1%
ROCE	11.0%	9.8%	1.9%	11.8%	14.2%	15.1%	17.4%	19.0%	17.1%
ROE	10.4%	13.1%	-10.4%	12.9%	20.1%	22.9%	22.7%	21.1%	22.3%

Source: Kepler Capital Markets

Table 13: Cash flow statement (EURm)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	AVG 2012-2014E
Net profit	18	18	-12	18	34	48	59	67	58
D&A	12	12	13	12	10	11	11	11	11
- Change in operating net working capital	-7	6	22	3	-9	-9	-5	-6	-7
- Change in other assets/liabilities	10	-3	-5	13	6	3	0	0	1
Change in net working capital	2	3	16	16	-3	-6	-5	-6	-6
Others	-7	5	-2	10	-8	0	0	0	0
Operating cash flow	26	38	16	56	34	54	66	72	64
- Tangible	-8	-9	-7	-7	0	0	0	0	0
- Intangible	-5	0	0	-1	0	0	0	0	0
Capex	-13	-9	-7	-8	-14	-14	-14	-14	-14
Free operating cash flow	14	29	8	48	21	40	52	58	50
Disposals	0	0	0	0	0	0	0	0	0
Financial Investments	0	-43	0	-21	-4	-106	0	0	-35
Dividends	-4	-4	-1	0	-8	-9	-9	-10	-9
Share buy-backs	-20	-23	-2	-2	9	9	0	0	3
Change in equity	0	0	0	0	0	0	0	0	0
Others	6	-3	1	-1	0	0	0	0	0
Change in net cash /(debt)	-4	-44	6	24	17	-66	42	48	8
Net financial position	-63	-107	-100	-76	-59	-125	-83	-35	-81
Net debt/EBITDA (x)	1.25	2.24	5.11	1.54	1.00	1.45	0.83	0.32	0.87
Debt/Equity (x)	0.36	0.79	0.86	0.55	0.35	0.60	0.32	0.11	0.34
Cash/(debt) per share	-0.98	-1.83	-1.72	-1.31	-1.02	-2.14	-1.42	-0.61	-1.39
FCF per share	0.21	0.49	0.14	0.82	0.35	0.68	0.89	0.99	0.85

Source: Kepler Capital Markets

Valuation

We value Datalogic through a DCF model which returned an equity value of EUR495m. We set a target price of EUR8.5 per share, which implies a fair multiple of 8.2x EV/EBIT 2012E, of 10.4x PE 2012E and suggests 32% upside.

DCF model

Table 14: DCF model (EURm)

	2012E	2013E	2014E	2015E	2016E	TV
Revenues	527	571	617	654	667	
Growth	23.8%	8.5%	7.9%	6.0%	2.0%	
Gross profit	254	280	303	322	320	
Margin	48.3%	49.0%	49.2%	49.2%	48.0%	
EBIT	75	89	100	110	109	
Margin	14.3%	15.5%	16.2%	16.7%	16.3%	
NOPLAT	55	65	72	79	76	
Change in net working capital	-9	-5	-6	-5	-2	
Change in other assets/liabilities	3	0	0	0	0	
D&A	11	11	11	16	17	
Capex	-14	-14	-14	-16	-17	
Unlevered FCF from operations	47	57	63	74	75	721
Margin	8.9%	10.0%	10.2%	11.3%	11.2%	
Net Invested Capital	335	342	351	356	358	
ROCE	14.0%	16.7%	17.9%	20.7%	20.8%	
NPV of FCF 2013E-2016E	202					
NPV of Terminal Value	414					
EV	616					
NFP 2012E	-125					
Treasury shares	10					
Pension liabilities	-7					
Equity value	495					
Shares outstanding (m)	58					
Target price (EUR)	8.5					
Current price (EUR)	6.4					
Potential upside / (downside)	32%					

Source: Kepler Capital Markets

The assumptions at the basis of our DCF model are as follows:

- We consider and estimate a five-year time horizon (2012-16).
- We calculate the net present value of unlevered cash flow generated over 2013-16 at EUR202m (33% of the aggregated EV) discounting cash flows at a WACC of 11.7%, resulting from the weighted average between cost of equity (12.6%) and post tax cost of debt (6.5%) based on a debt/equity ratio of 18%.
- We assume a sustainable capex/sales of 2.5% from 2017 (3.2% in 2011, 2.5% in 2012-16) with D&A equal to capex.
- We assume a sustainable FCF margin of 9.5% from 2017 (8.2% in 2011, 10.3% in FY 2012-16E).
- We assume a sustainable ROCE of 18% from 2017 (15.2% in 2011, 18% in FY 2012-16E).
- We calculate the net present value of the terminal value at EUR414m (67% of the aggregated EV) discounting it at the difference between WACC (11.7%) and perpetual growth rate (2.5%).
- We subtracted the estimated net debt position at end-2012 of EUR125m from the aggregated EV.
- We adjusted the EV for the 1.63m treasury shares (2.8% of capital) held by the company, which have a market price of EUR10m.
- We subtracted the value of pension liabilities included in 2011 accounts (EUR7m) from the EV.

The assumptions of our DCF model and sensitivity to WACC, the perpetual growth rate, the 2012-16 sales CAGR versus the base case (6.1%) and the sustainable FCF margin versus base case (9.5%) are shown in Table 18.

Table 15: DCF assumptions

D/E	18%
Beta levered	1.5
Risk free rate	5.0%
Equity risk premium	5.0%
Cost of equity	12.6%
Tax rate	27.5%
Cost of debt (post tax)	6.5%
WACC	11.7%
Perpetual growth rate	2.5%

Source: Kepler Capital Markets

Table 16: Fair value sensitivity to WACC assumption

10.7%	9.8
11.2%	9.1
11.7%	8.5
12.2%	8.0
12.7%	7.5

Source: Kepler Capital Markets

Table 17: Fair value sensitivity to perpetual growth assumption

1.5%	7.7
2.0%	8.1
2.5%	8.5
3.0%	9.0
3.5%	9.5

Source: Kepler Capital Markets

Table 18: Fair value sensitivity to sales CAGR 2012-16 and sustainable FCF margin

		Sales CAGR12-16E						
		0.0%	2.0%	4.0%	6.1%	8.0%	10.0%	12.0%
Sustainable FCF margin	0.5%	1.5	1.6	1.7	1.8	1.8	1.9	2.0
	3.5%	3.3	3.5	3.7	4.0	4.2	4.5	4.8
	6.5%	5.0	5.4	5.8	6.2	6.6	7.1	7.6
	9.5%	6.8	7.3	7.9	8.5	9.1	9.7	10.4
	12.5%	8.6	9.2	9.9	10.7	11.5	12.3	13.2
	15.5%	10.3	11.1	12.0	12.9	13.9	14.9	15.9
	18.5%	12.1	13.1	14.1	15.2	16.3	17.5	18.7

Source: Kepler Capital Markets

Peer analysis

Direct listed competitors of Datalogic are Motorola Solutions, Honeywell and Intermec in the automatic data capture market and Cognex in the industrial automation market.

- The enterprise mobility division of Motorola Solutions reported FY 2011 sales of USD2.84bn (+11% YOY) with a 19% operating margin. Motorola enterprise mobility has a strong positioning in the mobile computing segment (46% of Motorola Enterprise Solutions sales in FY 2011) also thanks to the USD3.9bn acquisition of Symbol Technologies back in 2006. Mobile computing accounts for roughly half the automatic data capture market. We excluded Motorola Solutions from our peers analysis due to its much broader range of activities (Motorola Solution reported FY 2011 sales of USD8.2bn) compared to Datalogic.
- Honeywell ACS (automatic & control solutions) division reported FY 2011 sales of USD15.5bn (roughly 40% of consolidated sales) with an operating margin of 13.4%. According to Datalogic's management, Honeywell ACS sales in market segments addressable by the company are slightly above Datalogic's level (about USD700m) with a strong positioning in Asia. Direct competitors of Datalogic are three companies acquired by Honeywell: EMS, HHP and Metrologic. For these three companies, Honeywell indicated (investor conference on 7 March 2012) a 5-7% growth outlook.
- Intermec is the key comparable of Datalogic. Intermec is active in the markets of automated information and data capture and mobile computing systems with 2011 sales of USD848m and operating income of USD32m (same range of products and similar size to Datalogic). Some differences in the business model of the two companies relate to Intermec's extensive use of outsourced manufacturing, and to its exposure (21% sales in 2011) to the printer and media segments in which Datalogic is not present. Intermec generates roughly 50% of its sales in the US (Europe 32%, Asia-Pacific 7%, LatAm 12%), has a strong patent portfolio and positioning in the US military and government market. In January 2011, Intermec acquired Vocollet, a company with a leading position in voice recognition technology, for USD190m. On 2 February, Intermec provided +8-10% sales growth guidance for the current year.
- Cognex is the only listed competitor in the industrial automation market. The company reported 2011 sales of USD322m (+11% YOY) and is active in the

manufacturing and distribution of products (barcode readers, machine vision sensors and machine vision systems) that incorporate sophisticated machine vision and imaging technologies. Cognex has a strong positioning in the US and is exposed to the high-end segments of the factory automation and surface inspection markets with a 27% operating margin reported in 2011 versus Datalogic's 11.5%. The focus on high-end technology makes Cognex not comparable to Datalogic in our view.

In Table 19 we also show trading multiples of Zebra Corp. and Scansource Inc. which are not direct competitors of Datalogic, although exposed to similar market drivers.

Scansource (USD2.7bn sales in 2011) is a value-added wholesale distributor of automatic identification barcode and point-of-sale products as well as communication and physical security products. Scansource is one of Datalogic's main clients.

Zebra Corp. (USD983m sales in FY 2011) manufactures and distributes barcode printers, hence it is positioned in the upper part of the value chain compared to Datalogic, which is a partner of Zebra.

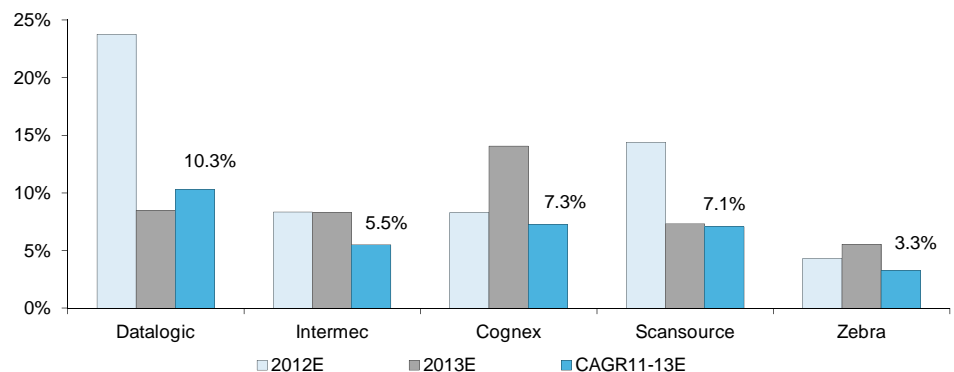
Considering Intermec as a key comparable of Datalogic, our analysis shows that Datalogic trades at a 28% discount on the 2012-13 EV/EBIT and 36% discount on 2012-13 P/E. This valuation gap does not seem fully justified by its different financial structure (in 2011 Intermec reported a slightly positive net financial position compared to Datalogic's D/E of 16%, although Intermec's balance sheet also includes USD226m deferred tax assets) or growth profile (sales CAGR 2011-13E 10.3% for Datalogic and 5.5% for Intermec, Chart 13-14). Our Datalogic target price of EUR8.5 implies a fair PE 2012E of 10.4x, still at significant discount to Intermec's 13.1x.

Table 19: Peers analysis

	Country	Market cap EURm	EV/SALES		EV/EBITDA		EV/EBIT		P/E	
			FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Zebra Corp.	US	1587	1.8X	1.7X	8.5X	8.1X	9.9X	9.3X	15.4X	14.2X
Scansource Inc.	US	777	0.4X	0.3X	8.6X	7.7X	9.3X	8.2X	13.7X	12.0X
Cognex Corp.	US	1378	4.7X	4.1X	15.3X	12.4X	17.3X	13.9X	24.5X	19.6X
Intermec Inc.	US	338	0.5X	0.4X	5.3X	4.5X	9.0X	6.5X	13.1X	9.4X
Datalogic	Italy	377	0.9X	0.8X	5.8X	4.6X	6.6X	5.1X	7.9X	6.4X
Datalogic premium/(discount) versus Intermec			199%	124%	13%	3%	-32%	-24%	-40%	-32%
Datalogic fair multiples at Kepler TP of EUR8.5			1.2X	1.0X	7.1X	5.7X	8.2X	6.5X	10.4X	8.4X
Datalogic fair value at Intermec multiples			2.2	2.9	5.7	6.3	9.5	8.5	10.7	9.5

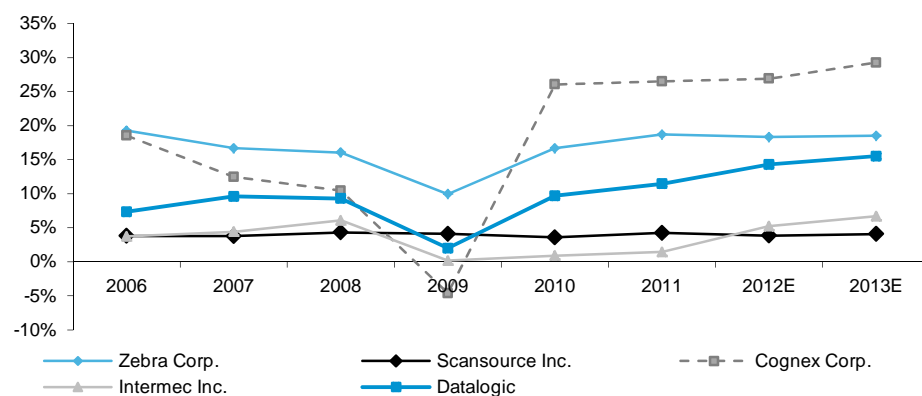
Source: Kepler Capital Markets, Datastream

Chart 13: Sales growth profile



Source: Kepler Capital Markets, Datastream

Chart 14: Operating margin trend



Source: Kepler Capital Markets, Datastream

Additional insight

Company profile

Today Datalogic is one of the most important worldwide producers of bar code readers, data collection mobile computers, RFID and vision systems, for a full range of applications in the manufacturing, retail and transportation & logistics industries.

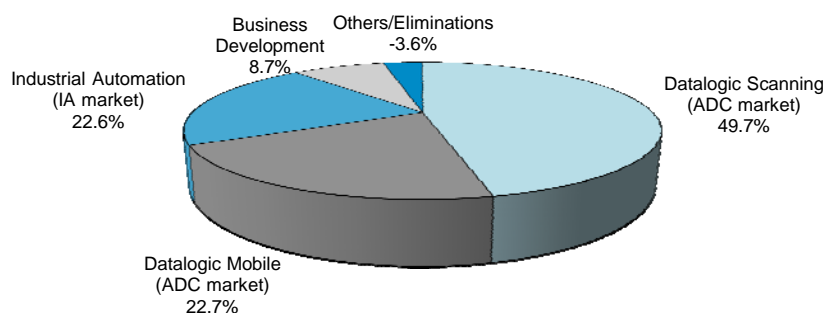
With an approximate 2,500 headcount, the group has a direct presence in 30 countries, including seven manufacturing plants and nine R&D centres. Datalogic is the global leader in POS retail scanners and industrial stationery scanners with an estimated market share of about 30%, and is among the top five players in the world for handheld scanners.

In 2011, Datalogic reported consolidated sales of EUR425m (+8% YOY), EBIT of EUR49m (+28% YOY), net profit of EUR26m (+44% YOY). The ADC (automatic data capture) business accounted for roughly two-thirds of group sales (Datalogic Scanning 46%, Datalogic Mobile 22%), the IA (industrial automation) business for 23% and the business development unit (which includes the US company Informatics, active in the segment of ready-to-use barcode solutions for small businesses) for 9% of 2011 sales.

Datalogic's revenues are geographically well diversified. Exposure to Italy is limited (9% of FY 2011 pro-forma sales including Accu-Sort), with the US accounting for about 40%, Europe 30%, Asia and ROW (mainly LatAm) 10% each.

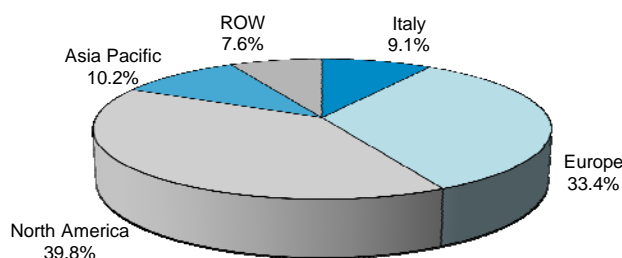
Datalogic was IPOed in March 2001 (EUR61m cash-in through the issue of 3.05m shares at EUR20 each, equivalent to EUR5 today as a 4:1 shares split was executed in May 2006). The company's main shareholder is Hydra with a 67% stake. Hydra is headed by Datalogic's founder and chairman Romano Volta. Treasury shares currently held amount to 2.8% of share capital, with a free float of 22% worth about EUR80m.

Chart 15: FY 2011 sales by business segment



Source: Kepler Capital Markets

Chart 16: FY 2011 sales by region



Source: Kepler Capital Markets

Business description

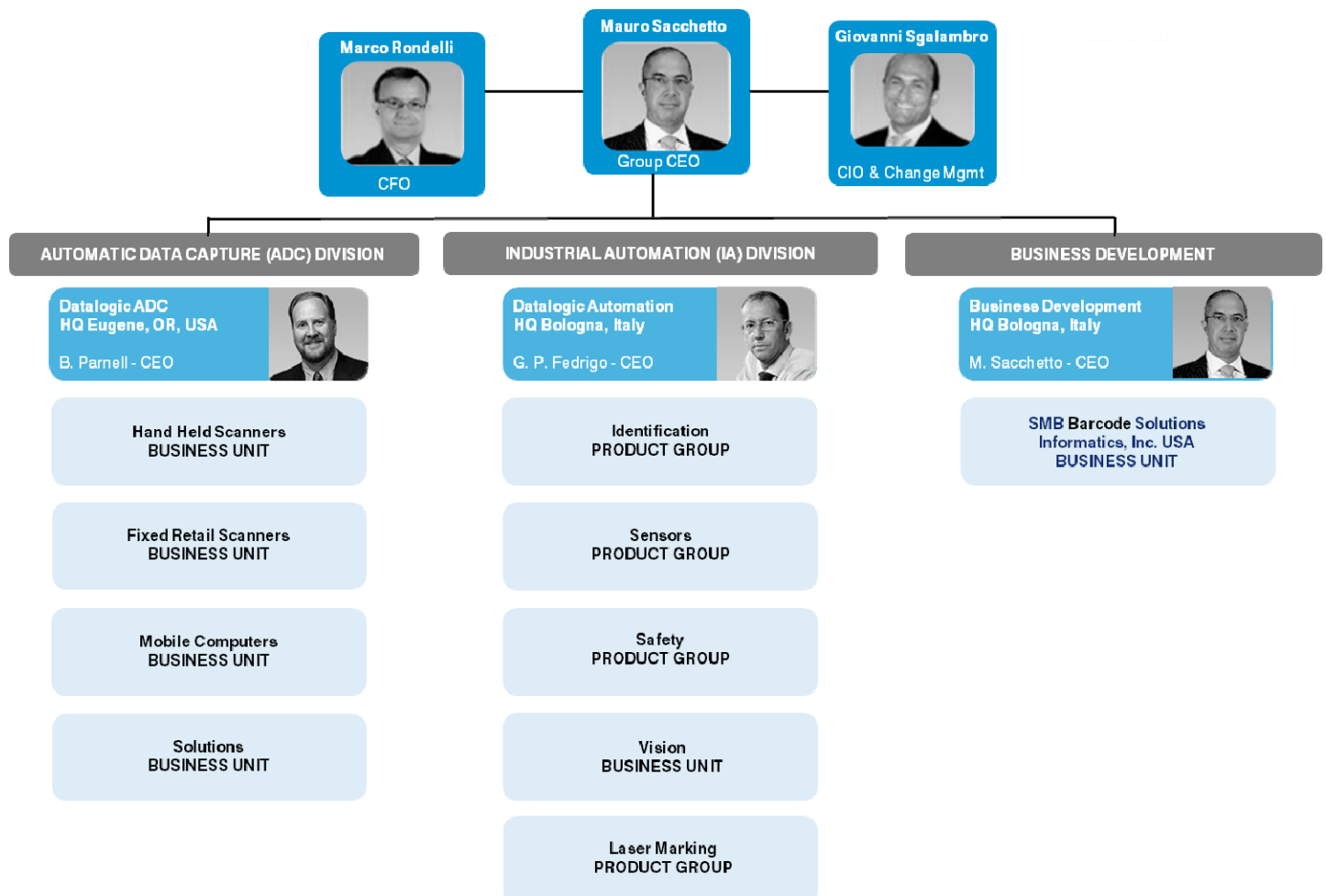
Datalogic focuses on two specific markets: automatic data capture (ADC) and industrial automation (IA) served through two business divisions: Datalogic ADC and Datalogic Automation.

Datalogic ADC (68% of 2011 sales) is the worldwide leader in retail POS scanners and handheld scanners (50% of 2011 sales) and offers a full range of rugged mobile computers (23% of 2011 sales) dedicated to warehousing solutions, field-force automation and in-store retail.

Datalogic Automation (23% of 2011 sales), specialises in the supply of products and solutions for the industrial automation market and is one of the major worldwide producers of automatic identification, safety, detection and marking solutions.

The Business Development Unit (9% of 2011 sales), which includes the US company Informatics, works with the other two divisions. It deals with the development of new business platforms within the group and the evaluation of new merger and acquisition opportunities.

Chart 17: Datalogic organisational structure



Source: company data

Datalogic ADC

Datalogic ADC is a world leader in the automatic data capture market, with an estimated global market share of about 30% for POS retail scanners (stationary scanners for retail applications) and roughly 17% for handheld scanners. Datalogic ADC's product range includes in-counter and on-counter point-of-sale scanners, rugged handheld scanners, rugged mobile computers, industrial PDAs and vehicle mount computers (VMC).

Reference sectors include healthcare, hospitality/entertainment, manufacturing, retail, services and transportation & logistics. Through the Solutions BU, Datalogic also develops products for the retail industry based on vision-based technology, self-shopping solutions and consumer relationship technologies. Datalogic ADC has two manufacturing sites, in Saigon (Vietnam) and Trnava (Slovakia), and employs 1,600 staff (65% of the total group) worldwide.

Factors driving demand in ADC market

According to VDC research (2011), the reference market of ADC should grow from USD3.5bn in 2010 to USD4.4bn in 2013 (+8% CAGR). Factors driving demand include the shift to field mobility deployments, the need to increase efficiency and overcome scanning errors at the point of sale, the growing list of emerging applications in the government, healthcare and retail sectors, the increased adoption of automation technologies in emerging country markets, enterprises requiring more data to effectively manage their supply chains.

The bulk of growth should come from mobile (handheld and PDA), expected to increase from 66% of the total market in 2010 to 69% in 2013. The weight of POS retail scanners and handheld scanners on the other hand should slightly decrease from 22% to 20% and from 12% to 11% of the total ADC market by 2013 respectively.

Datalogic's positioning in the global ADC market

Based on VDC data (2011), Datalogic ranks:

- Number one worldwide on POS retail scanners (28.7% estimated market share).
- Number three worldwide (estimated market share of 16.6%) and number one in EMEA (30.7%) on handheld scanners.
- Number five worldwide (estimated market share of 4.3%) and number four in EMEA (8.3%) on mobile computers (handheld and PDA).

Datalogic's strategy in the ADC market is based on:

- The optimisation of the distribution structure of mobile and scanning products to meet customers' needs more effectively and promptly.
- The focus on retail through the development of highly profitable self-shopping solutions, the leverage on evolution robotics retail technology and the development of new products in self-checkout and automatic scanning solutions.
- The focus of handheld scanner products in vertical markets: healthcare and convenience stores.
- The increased penetration of mobile computers in North America and western Europe, industries (retail, T&L) and applications (in-store, warehousing, field force automation).

Chart 18: Datalogic ADC fixed retail scanners



Source: Company presentation

Chart 19: Datalogic handheld readers and ruggedised handheld readers

Source: Company presentation

Chart 20: Datalogic handheld devices, industrial PDAs

Source: Company presentation

Datalogic Automation

Datalogic Automation is a key global player in the industrial automation (IA) market, and develops products and solutions that ensure traceability, inspection and detection in manufacturing and logistics processes. Datalogic Automation's portfolio includes customised solutions based on laser barcode scanners and 2D imagers for automatic identification, RFID and vision systems, industrial sensors, safety light curtains and laser marking.

The reference industry of Datalogic Automation products includes the transportation & logistics sector (airports, couriers, postal services, automated warehouses), automotive, pharma/healthcare, food/beverage, electronics and general manufacturing.

Datalogic's business activities in industrial automation were recently strengthened with the acquisition of PPT Vision (a US company that produces multi-camera vision systems used in quality control and inspection in the manufacturing industry, 2011 revenues of USD6m, acquisition closed in December 2011), and mainly Accu-Sort (a US company with a leading position in laser and camera-based automation identification (Auto-ID) systems serving leading players in parcel, postal and retail distribution, 2011 revenues of USD106m, acquisition closed in January 2012).

The above acquisitions will enable Datalogic to double its presence in the industrial automation market, consolidating its leadership position in the industrial stationary scanners segment with an estimated global market share exceeding 20%. Datalogic Automation has manufacturing facilities in Italy and the US, a direct presence in 15 countries, and roughly 850 employees (35% of total workforce) all over the world.

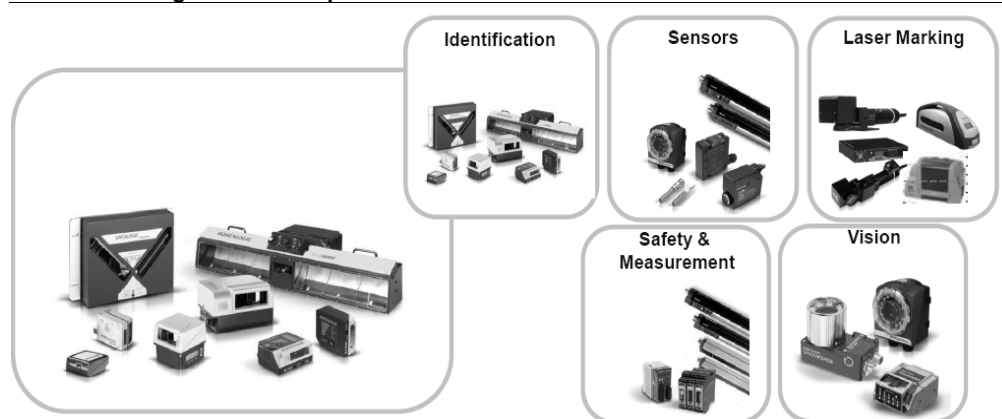
Factors driving demand in industrial automation market

Industrial automation is a very fragmented industry. According to VDC (2011), the market (stationary barcode scanners, sensors, safety, vision, laser marking) could grow from USD2.6bn in 2010 to USD3.2bn in 2013 (+8% CAGR). On top of this, management estimates a potential additional market worth USD3bn in 2013 (50% of the total addressable market in 2013). Market drivers include: increasing demand for traceability of processes and goods, supply chain streamlining, new regulations (traceability, safety, and security) and the increasing adoption of technological solutions in emerging markets.

Datalogic's strategy in the IA market is based on:

- Focusing on vision and safety through investments in R&D exceeding EUR25m aimed at sustaining product development in these promising markets.
- Exploiting external growth through acquisitions.
- Developing miniature technology for sensors and fibre laser technology.
- Improving the supply chain management to gain efficiency and leverage its industrial global presence.
- Working capital rationalisation through the reengineering of the inventory process.

Chart 21: DatalogicAutomation products



Source: xxx

Shareholding structure

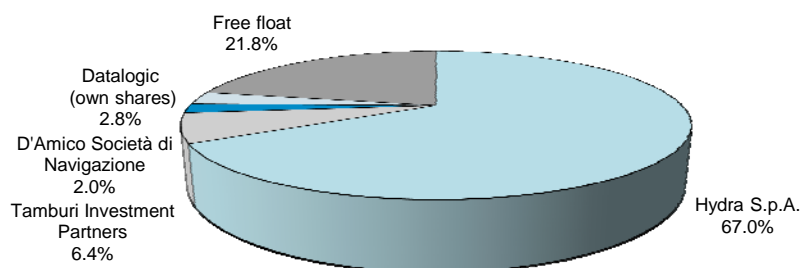
Datalogic was IPOed in March 2001 at EUR20 per share, equivalent to EUR5 today, as a 4:1 shares split was executed in May 2006. The company's main shareholder is Hydra SpA, which holds 67% of share capital. Hydra is headed by Datalogic's founder and chairman Romano Volta. Treasury shares currently held amount to 2.8% of share capital, TIP (Tamburi Investment Partners SpA) holds 6.4% and D'Amico Società di Navigazione SpA 2%, with a free float of 22% (EUR75m).

Table 20: Datalogic - shareholding structure

	Number of shares (m)	% of shares
Hydra S.p.A.	39.1	67.0%
Tamburi Investment Partners	3.7	6.4%
D'Amico Società di Navigazione	1.2	2.0%
Datalogic (own shares)	1.6	2.8%
Free float	12.8	21.8%
Total	58.4	100.0%

Source: Kepler Capital Markets

Chart 22: Datalogic - shareholding structure



Source: Kepler Capital Markets

Table 21: Corporate information

Chairman	Romano Volta
Group CEO	Mauro Sacchetto
CFO	Marco Rondelli
CEO Datalogic ADC	Bill Parnell
CEO Datalogic Automation	Gian Paolo Fedrigo
Investor Relations	ir@datalogic.com / tel. +39 051 3147011

Source: company data

Company history

Datalogic was founded in 1972 by the current chairman and main shareholder Romano Volta. It originally operated in the optical sensor business serving the textile, ceramic and packaging industries, but towards the end of the 1970s it moved into bar code technology and very soon became the European leader in industrial applications (Datalogic's industrial barcode reader was the first installed in Europe in 1978).

During the 1980s, Datalogic began its international expansion project by acquiring Escort Memory Systems, a US company active in the market of electronic tags and RFID technology systems.

In 1997, Datalogic acquired the company IDWare Mobile Computing & Communications, the largest European producer of portable terminals, allowing Datalogic to include one of the widest ranges of portable terminals for data collection on the market in its offer.

The external growth strategy was reinforced after the listing on the Milan stock exchange in March 2001 (EUR61m cash-in through the issue of 3.05m shares at EUR20 each, equivalent to EUR5 today, as a 4:1 shares split was executed in May 2006).

At the end of 2004, Datalogic acquired Laservall S.p.A., a company active in the field of laser marking systems and personal identification and security, and in March 2005 Informatics, active in the field of online sales of products for automatic identification.

A fundamental stage in the development of Datalogic was reached in October 2005 with the acquisition of the US company PSC, which allowed Datalogic to become one of the top companies in the world in the market of bar code readers, more than doubling its turnover.

In July 2010, the acquisition of the US Evolution Robotics Retail added a key technological capability with state-of-the-art and unique technology in the field of visual pattern recognition and provided for a broadening of Datalogic's solution-based offerings.

In December 2011, the acquisition of PPT Vision, an American company, leader in the machine vision market, completed its offering of a high-end range of solutions and services in the new and innovative machine vision technology.

In January 2012, Datalogic completed the acquisition of Accu-Sort Systems, a leading supplier in the design, production, integration and maintenance of automatic identification (Auto-ID) systems in the US. The acquisition of Accu-Sort enabled Datalogic to double its presence in the industrial automation market and improved its global leadership in the industrial stationary scanner segment, achieving the first place worldwide with a market share of around 31% (Source VDC Research 2011).

Research ratings and important disclosures

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Stock	ISIN	Disclosure (See Below)	Currency	Price
Cognex	US1924221039	nothing to disclose	USD	43.35
D'Amico	LU0290697514	nothing to disclose	EUR	0.55
Datalogic	IT0004053440	nothing to disclose	EUR	6.45
Honeywell Intl.	US4385161066	nothing to disclose	USD	60.85
Motorola Mobility Hdg.	US6200971058	nothing to disclose	USD	39.6
Scansource	US8060371072	nothing to disclose	USD	37.41
Tamburi Inv.Partners	IT0003153621	nothing to disclose	EUR	1.51
Zebra Techs. 'A'	US9892071054	nothing to disclose	USD	41.28

Source: Factset closing prices of 15/03/2012

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

Rating ratio Kepler Capital Markets Q4 2011

Rating breakdown	A	B
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Hold	23.9%	0.0%
Reduce	15.9%	0.0%
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Total	100.0%	0.0%

Source: Kepler Capital Markets

A: % of all research recommendations

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