

DATAGROUP

Further leveraging its flagship product

DATAGROUP comfortably met its full year guidance, upgraded in May 2019. This was backed by the dynamic expansion of its core CORBOX customer portfolio, with 29 new customer wins (vs the targeted 20) and 16 existing client upsells through the year. Most notably, the company's top line benefited from the more than €100m 10-year contract with NRW.Bank in the period. In addition, positive effects came from the consolidation of businesses acquired through FY19. Following an c 89% price appreciation in the last 12 months, DATAGROUP trades at 31.8x P/E and 11.5x EV/EBITDA in FY20e.

Good top-line and earnings momentum

FY19 group revenue grew by 18.8% y-o-y to €323.3m (pre-IFRS 15 & 16), of which 4.9% was organic, 5.8% came from the NRW.Bank project and 8.1% was M&A driven. EBITDA rose 15.4% y-o-y to €39.8m, with the margin slightly down 30bp to 12.3% due to transition expenses and hardware supplies for the new NRW.Bank project. Adjusted for this effect, it would have been c 13%, according to the company. EPS was up 13.5% y-o-y to €1.76. Leverage remains moderate, with net debt to EBITDA at 1.4x at end-FY19 (1.0x post-IFRS 15 & 16) vs 0.4x at end-FY18.

Continued focus on growth through acquisitions

DATAGROUP remains committed to growth through M&A, incentivised by lower customer acquisition costs compared to organic growth. In the last 12 months, the group announced three notable deals, including UBL Informationssysteme, IT-Informatik and Diebold Nixdorf Portavis. UBL expanded its expertise in infrastructure, platform and software solutions, and improved its geographical footprint in the Rhine-Main region. IT-Informatik supports the competences in the SAP-related business (the company expects c €60–70m revenues from SAP business in FY20), while Diebold Nixdorf Portavis strengthened DATAGROUP's exposure to the financial industry and added several major customers to its portfolio.

Valuation: Trading at a premium to peers

Following an c 89% share price appreciation in the last 12 months, DATAGROUP is trading at premiums of 40% and 3% on FY20e P/E and EV/EBITDA respectively vs its peers. This seems to reflect its solid track record, clear focus on the large German Mittelstand sector and strong business drivers, enhanced by recent acquisitions and major contract wins.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/18	272.1	34.5	1.6	0.6	41.6	0.9
09/19	306.8	46.9	1.7	0.7	37.1	1.0
09/20e	368.4	55.6	2.2	0.7	31.8	1.1
09/21e	399.0	61.1	2.6	0.9	26.0	1.2

Source: DATAGROUP accounts, Refinitiv consensus estimates

IT services

7 February 2020

Price €68.8
Market cap €574m

Share price graph



Share details

Code	D6H
Listing	Deutsche Börse Scale
Shares in issue	8.3m
Last reported net debt at 30 September 2019	€65.7m

Business description

DATAGROUP is a full IT outsourcing provider, focused on the German Mittelstand market. The company offers the full range of IT services on a modular basis, through its CORBOX 'cloud-enabling platform'. Services include service desk, end-user services, data centre services, application management and SAP services.

Bull

- A compelling growth strategy, scaling the business across the Mittelstand sector.
- Cloud services business model gives it an advantage over competitors.
- Centralised SLA-based approach with a focus on customer satisfaction puts company in a strong position to consolidate a fragmented market.

Bear

- Highly exposed to the German economy.
- Acquisitions bring risks, but DATAGROUP has a proven track record in integrating acquisitions.
- Increased debt levels, although the group is still well within its covenants.

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Organic growth assisted by new client wins

DATAGROUP reported EBITDA growth of 15.4% y-o-y to €39.8m (excluding the IFRS 15 and 16 impact), which exceeded the company's guidance of more than €38.5m. This guidance was revised upwards from the initial €37.0m announced in March 2019 when the H119 figures were published. DATAGROUP's EBITDA margin reached 12.3% (pre-IFRS 15 & 16), representing a slight decline from 12.6% at end-FY18. The lower margin was largely due to the impact of transition expenses and hardware supplies associated with the NRW.Bank contract. Adjusted for this effect, the EBITDA margin would have been around 13%, according to the company.

The company posted revenue growth of 18.8% y-o-y to €323.3m (pre-IFRS 15/16), ahead of management guidance of €300m. This includes solid 4.9% y-o-y organic growth (vs a 2.0% growth rate in the German IT services market, according to Bitkom) on the back of 29 new client wins in FY19 (compared to the target of at least 20 clients) and 16 existing client upsells. During that time, DATAGROUP was able to secure several high-profile contracts, including Bankhaus Lampe, Munich Trade Fair and the association of public broadcasting corporations in Germany (ARD).

It is worth highlighting that 83% of group gross profit in FY19 was generated from recurring revenues based on long-term contracts (usually signed for three to five years). DATAGROUP's revenue momentum in FY19 also reflects the one-off effect of the NRW.Bank contract (which boosted sales by c €15.8m, or 5.8% y-o-y). This contract represents total revenues of €100m over a period of 10 years. The above was supplemented with acquisitions, which added 8.1% to revenues y-o-y. During FY19, the company completed two important takeovers (UBL Informationssysteme and IT-Informatik), with the acquisition of Diebold Nixdorf Portavis announced in January 2020 (see below for more detail).

Consequently, DATAGROUP's pre-IFRS 15 & 16 EPS was up 13.5% y-o-y to €1.76. Management has proposed a dividend increase of €0.1 per share to €0.7, which translates into a yield of 1.0%.

Exhibit 1: Financial summary

€000s	FY18	FY19 Without IFRS 15 & 16	Change y-o-y	FY19 Including IFRS 15 & 16
Revenues	272,100	323,261	18.8%	306,765
o/w services & maintenance	220,085	256,850	16.7%	242,500
o/w trade	51,770	65,900	27.3%	63,754
o/w other	244	512	109.6%	512
Own work capitalised	685	777	13.3%	777
Total revenues	272,785	324,038	18.8%	307,542
Material expenses/purchased services	80,401	107,593	33.8%	99,206
Gross profit	192,384	216,445	12.5%	208,335
Personnel expenses	134,734	153,241	13.7%	145,179
Other income	5,660	11,102	96.1%	11,102
Other expenses	28,847	34,551	19.8%	27,378
EBITDA	34,463	39,755	15.4%	46,880
Depreciation from property, plant and equipment	8,145	9,814	20.5%	16,821
Other depreciation	5,894	6,434	9.2%	6,434
EBIT	20,424	23,506	15.1%	23,626
Financial result	(1,945)	(1,598)	(17.8%)	(1,936)
EBT	18,479	21,908	18.6%	21,690
Taxation	5,605	7,244	29.2%	7,176
Net income	12,873	14,664	13.9%	14,514
EPS (€)	1.55	1.76	13.5%	1.74

Source: DATAGROUP accounts

DATAGROUP's net debt to EBITDA (including receivables from customer leases related to NRW.Bank but excluding pension liabilities) at end-September 2019 reached 1.4x compared to 0.4x at end-September 2018, which is partially IFRS-related (net debt to EBITDA pre-IFRS 15 & 16 would be 1.0x). After accounting for pensions, the end-September 2019 ratio was 2.3x (or 2.0x pre-IFRS 15 & 16). However, we note that this does not reflect a full-year contribution from the recently

acquired companies. Excluding accounting effects, the net debt increase was driven by acquisitions (€21.7m in FY19) as well as the pre-financing of hardware for the NRW.Bank project and expenses related to the transition of NRW.Bank and other bank customers (aggregate cash outflow of c €32.1m) charged back to the customer over the term of the contract. DATAGROUP expects no further meaningful capital expenditure associated with the NRW.Bank contract starting from FY20. In relation to the large Hamburger Sparkasse contract acquired in conjunction with Portavis (see below), management does not expect a meaningful increase in capex. However, deal terms have not been released.

In FY19, DATAGROUP issued a new promissory note loan with a volume of €69m in two tranches with maturities of five and seven years. The company expects that as part of the Diebold Nixdorf Portavis takeover (announced post the balance sheet date), it will consolidate c €40m in cash and €30m of pension liabilities. It also forecasts that its cash position at group level will reach €38m, €44m and €63m in FY20, FY21 and FY22, respectively.

In line with the company's standard practice, no FY20 guidance has been provided yet as management intends to publish it at the AGM on 3 March. DATAGROUP's long-term aspiration remains to achieve €750m in revenues in 2025 (including acquisitions), as well as an EBITDA margin of 13% (15% post IFRS 15 & 16) and EBIT margin above 9% by FY21. This compares with an adjusted EBITDA and EBIT margin of 13% and 7.3% in FY19, respectively (pre-IFRS 15 & 16). Management expects the margin target to be assisted by the operational efficiencies (including automation and streamlining of processes) implemented in recent years. The company intends to generate most of the growth through M&A as it believes that the acquisition cost per customer is lower in the case of M&A (€400k compared to €600k for organic growth). The average EV/EBITDA multiple paid on acquisitions in 2006–19 (12 deals) stands at 3.3x, although the company notes that deal terms are rising.

M&A activity to strengthen the offering

In FY19, DATAGROUP completed two meaningful acquisitions. In April 2019, it acquired UBL Informationssysteme for €20m, which we described in more detail in our [last update note](#). In FY19, UBL contributed c €13.9m to DATAGROUP's sales (pre-IFRS 15 & 16) and c €1.6m to pre-tax profit. On a pro forma basis (assuming full-year consolidation), the company estimates UBL's contribution to revenues from continuing operations of €25m.

In August 2019, DATAGROUP acquired IT-Informatik's assets and employees from insolvency. IT-Informatik is a specialist in SAP consulting and maintenance, cloud infrastructure and software development, supplying a broad portfolio of SME customers in various industries. While the contribution to revenues in FY19 was limited, DATAGROUP's management expects a c €20m revenue contribution in the current financial year (the acquired operations have been profitable since January 2020). This includes the subsidiary Mercoline, as well as a small operation in Barcelona. Mercoline operates an add-on for the SAP logistics chain software, which may now be offered to a large share of existing CORBOX customers, allowing DATAGROUP to improve margins and client relationships. The small entity in Barcelona develops software for some parts of IT-Informatik's software products. It gives DATAGROUP an opportunity to test a new software development hub in Spain, bringing significantly lower employee/development costs vs domestic operations. First impressions are very positive and management is looking to expand the team to strengthen its near-shoring capacities.

As a result of the IT-Informatik deal, DATAGROUP has gained 300 IT specialists. This includes 100 SAP experts (bringing DATAGROUP's SAP team to 500 employees), which is important given the growing demand for SAP services, especially given that SAP will stop supporting the SAP ECC and SAP R/3 products by end-2025, thus encouraging its customers to migrate to S/4HANA. The migration appears to be at an early stage, with only 10% of SAP customers that have already

completed the migration and 52% of clients at the stage of business case development, according to a recent study published by a German research and consulting company Lünendonk. 70% of the SAP clients intend to start the migration in 2022, which implies a relatively tight schedule. We note that the SAP-related business represents a meaningful part of DATAGROUP's operations, with the company envisaging around €60–70m of revenue in the current financial year and with a longer-term ambition of more than €100m. The company is actively looking for new acquisition targets, also in the SAP business.

In January 2020, DATAGROUP acquired a 68% stake in Diebold Nixdorf Portavis, an IT outsourcing provider for financial institutions in Northern Germany, with major customers including Hamburger Sparkasse and Sparkasse Bremen (which holds the remaining 32% stake), as well as Hamburg Commercial Bank. Through Portavis, the company has secured an 8-year contract with Sparkasse Hamburg with a volume in excess of €150m (DATAGROUP's largest contract so far). We believe this is a good fit for DATAGROUP given its sector focus and thus allows it to strengthen its position as an independent IT service provider in the banking industry. It has allowed DATAGROUP to expand its team by 200 employees. DATAGROUP expects Portavis to generate sales of c €60m in FY19/20, which means it will contribute c €30m to DATAGROUP's full-year revenues (depending on the timing of consolidation). The transaction is subject to regulatory approvals, with expected completion in February/March 2020.

Finally, in late January 2020, the company announced that its two subsidiaries, Almato and DATAGROUP Mobile Solutions, have merged into Almato AG. The group will now focus on automation and artificial intelligence, and further enhance its Robots-as-a-Service offer.

Valuation

DATAGROUP's shares have risen by an impressive 89% to c €69 over the last 12 months. Currently, the shares are trading at a premium to its broad peer group in terms of both P/E and EV/EBITDA (except for the 10% discount on FY21e EV/EBITDA). We believe this reflects its solid track record, healthy recurring revenues and attractive business drivers, which also provide a compelling case for acquisitions. The company offers a dividend yield of c 1%, which compares with c 2% for its peers.

Exhibit 2: Peer group comparison

Company	Market cap (local CCY m)	P/E (x)			EV/EBITDA (x)		
		2019	2020e	2021e	2019	2020e	2021e
Allgeier	€378	32.9	18.8	14.7	9.2	7.7	6.1
ATOS	€8,861	9.8	9.1	8.5	6.7	6.5	6.2
Bechtle	€6,041	36.4	32.7	29.6	20.6	18.9	17.3
Cancom	€2,110	32.7	27.5	24.2	15.5	13.3	11.9
CENIT	€109	18.7	15.7	13.3	6.0	5.7	4.9
GFT	€335	23.0	18.4	14.7	8.7	8.0	7.2
QSC	€153	1.8	N/A	N/A	1.5	N/A	31.4
S&T	US\$1,633	32.7	24.0	18.9	15.0	12.1	10.4
SNP Schneider	€456	85.7	40.3	31.0	29.9	18.5	15.4
USU Software	€169	36.9	22.4	18.9	19.8	14.9	12.1
All for One Steeb	€254	15.4	17.3	14.7	8.2	5.8	5.3
Peer average		29.6	22.6	18.8	12.8	11.1	11.7
DATAGROUP	€574	37.3	31.8	26.0	13.9	11.5	10.5
Premium/(discount)		26%	40%	38%	9%	3%	(10%)

Source: Refinitiv consensus at 7 February 2020

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