

## Datalogic

### Estimates increased on higher profitability

Ahead of 3Q11 results that are scheduled to be released on 9 November, we are increasing our 2011-2013 estimates. For 2011, we expect one-off negative costs to only partially hit the P&L. In fact, we forecast net profit in 2011 to be higher than in 2010 (EUR 19mn vs. EUR 18mn). Our new 2012 estimates point to a top-line growth of around 6%-7% and an EBITDA margin of 17%. We also increase our EBITDA estimates by about 10% for 2012E and 2.5% for 2013E. We thus confirm our Buy rating and increase our 12M TP to EUR 7.5 p.s. (prev. EUR 7.3).

■ **2011-2013 estimates increased.** We believe that 3Q11 results should confirm the good trend already highlighted during 1H11 with the good performance of the reference market coupled with a good profitability mainly driven by the plant in Vietnam. We expect one-off costs related to the transfer of two production lines in Vietnam (ca. EUR 6mn of non-recurring costs) to only partially offset the good performance of Datalogic at a consolidated level. In fact, we expect net profit in 2011E to be higher than 2010 (EUR 19mn vs. EUR 18mn) and have thus increased our estimate by ca. 30% (from ca. EUR 15mn to ca. EUR 19mn). We have increased our 2012 estimates for EBITDA by ca. 10% (from EUR 69mn to EUR 76mn) and for the EBITDA margin to 17% (from 15.6%). Moreover, we raised our 2012E net profit by ca. 17% (from EUR 30mn to EUR 36mn).

■ **Buy confirmed and TP nudged to EUR 7.5.** We confirm our rating on Datalogic to Buy and slightly increase our 12M target price to EUR 7.5 (from EUR 7.3) based on an average of REP ratio and FCF yield methodologies. Given the good visibility on numbers, we suggest investors to now focus on 2012, when we expect enhanced cost savings thanks to the implementation of the new supply chain that is mainly related to the production in Vietnam.

EUR mn	2009	2010	2011E	2012E	2013E
Sales	312.0	392.7	420.2	447.3	477.5
EBITDA	19.6	49.8	58.9	76.1	84.2
EBIT	6.2	38.1	45.2	62.4	70.4
Group Net Profit	-12.2	18.0	19.2	35.6	42.2
EPS Reported (EUR)	-0.2	0.3	0.3	0.6	0.7
DPS (EUR)	0.0	0.0	0.0	0.1	0.2
After tax ROIC	2.7%	11.3%	13.9%	17.2%	19.1%
P/E	n.m	14.0x	16.7x	9.0x	7.6x
P/CF	n.m	8.5x	9.7x	6.5x	5.7x
EV/Sales	1.1x	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	17.7x	6.8x	6.5x	4.7x	3.8x
EV/EBIT	n.m	8.8x	8.5x	5.7x	4.5x
Free cash flow yield	7.6%	17.0%	8.6%	13.7%	16.9%
Dividend yield	0.8%	0.0%	0.3%	1.5%	2.8%

Source: Datalogic, UniCredit Research estimates

## Buy (prev. Buy)

Price on 4 Nov 2011	EUR 5.47
Target price (prev. EUR 7.30)	EUR 7.50
Upside to TP	37.1%
Cost of equity	10.3%
High/Low (12M)	6.54/5.30

### INVESTMENT HIGHLIGHTS

Major global player in automatic data capture market  
2011 should be the cycle recovery year for Datalogic

### STOCK TRIGGERS

Visibility increased dramatically since 'annus horribilis' in 2009; management expects double-digit top-line growth in 2010

Ongoing restructuring and efficiency program should allow Datalogic to achieve margin recovery

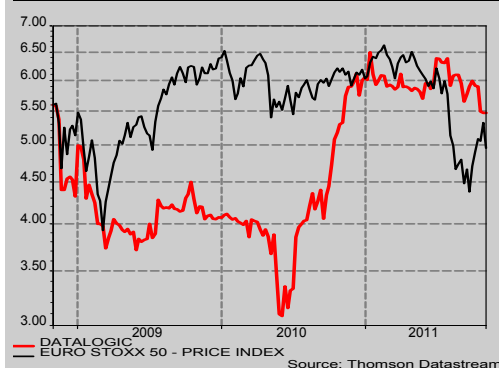
Vietnamese factory to increase company's profitability thanks to new supply chain

### STOCK DATA

Reuters/Bloomberg	DAL.MI/DAL.IM
Average daily volume (tds.)	13.7
Free float (%)	20.0
Market capitalization (EUR bn)	0.32
No. of shares in issue (mn)	58.4
Shareholders	Hydra SpA 67%, Tamburi Investment Partners SpA 6.4%, D'Amico Società Navigazione SpA 2.0%, Own shares 4.6%

### UPCOMING EVENTS

9M/Q3	9 Nov 2011
Annual general meeting	Apr 2012
1Q	May 2012



### STOCK PERFORMANCE (% CHG.)

	1M	3M	6M
absolute	-7.6	-10.8	-4.1
rel. to FTSE Italia	-15.7	-6.8	24.3
rel. to ES Insurance	-20.3	-5.9	18.5

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## Change in estimates

### Reference market is recovering and margins are increasing

Datalogic's 3Q11/9M11 results are due out on 9 November. A conference call is scheduled for the same day at 14:30 CET. Dial-in numbers are: +39 02 805 88 11 from Italy, +44 121 281 8003 from UK or +1 718 7058794 from US.

We expect 3Q11 results to show signs of growth compared to the figures posted throughout 2011. Moreover, the reference market is performing well, in fact preliminary sales data highlighted a record quarter for Datalogic. We highlight that since the company is not influenced by seasonality, every quarter usually represents around 25% of the yearly top-line. As far as profitability is concerned, we expect EBITDA margin to reach 15.5% thanks to both the top-line increase and the early benefits from the transfer of two production lines from Italy to Vietnam. Finally, net profit should reach ca. EUR 9mn.

The following table summarizes our estimates for 3Q11/9M11 compared to consensus.

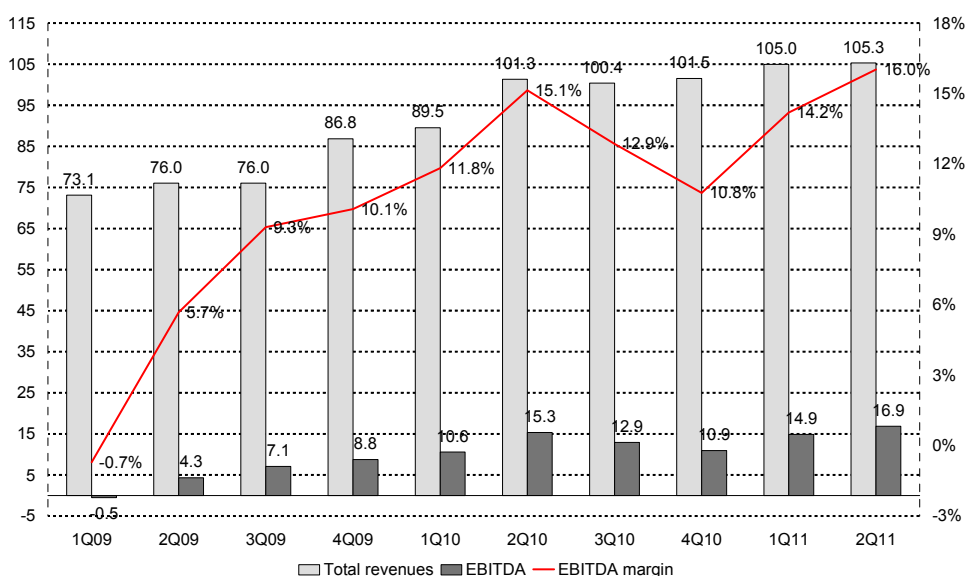
#### DATALOGIC – OUR ESTIMATES VS. CONSENSUS (3Q11, 9M11, FY11 AND FY12)

EUR mn	1Q11	2Q11	1H11	3Q11	3Q11	Est. /	9M11	9M11	Act. /	FY11	FY11	Est. /	FY12	FY12	Est. /
	Act	Act	Act	Est.	Cons.	Cons.	Est.	Cons.	Est.	Est.	Cons.	Cons.	Est.	Cons.	Cons.
Sales*	105	105	210	107	107	0.0%	317	317	0.0%	420	420	0.1%	447	444	0.8%
yoy chg. %	17.2%	3.9%	10.2%	6.6%	6.6%	-	8.9%	8.9%	-	7.0%	6.9%	-	6.4%	5.7%	-
EBITDA	14.9	16.9	31.8	16.6	n.a.	n.a.	48	n.a.	n.a.	59	49	19.9%	76	70	8.6%
yoy chg. %	40.7%	10.0%	22.5%	8.1%	n.a.	-	24.5%	n.a.	-	18.3%	-1.3%	-	29.3%	42.7%	-
EBITDA margin	14.2%	16.0%	15.1%	15.5%	n.a.	-	15.2%	n.a.	-	14.0%	11.7%	-	17.0%	15.8%	-
Net profit	6	2	8	9	n.a.	n.a.	17	n.a.	n.a.	19	15	26.4%	36	32	11.4%
yoy chg. %	36.9%	-69.7%	-30.5%	n.m.	n.a.	-	16.1%	n.a.	-	6.5%	-15.7%	-	85.5%	110.5%	-

\*Sales data already announced by Datalogic.

Source: Datalogic, FacSet, UniCredit Research estimates

#### DATALOGIC – 1Q09-2Q11 QUARTERLY RESULTS (EUR MN)



Source: Datalogic, UniCredit Research

## Upgrade to estimates to incorporate expected good 3Q11

To factor in the expected good 3Q11, we have increased our estimates for FY11, FY12 and FY13. We expect Datalogic's reference market (i.e. automatic data capture market) to achieve a very positive end of the year. In term of efficiency, we believe the management should continue to deliver positive results, mainly thanks to its production in Vietnam.

The following table highlights our new and old estimates for FY11, FY12 and FY13.

### DATALOGIC – OUR NEW AND OLD ESTIMATES (FY11, FY12 AND FY13)

EUR mn	FY11	FY11	New/	FY12	FY12	New/	FY13	FY13	New/
	New	Old	Old	New	Old	Old	New	Old	Old
Sales	420	412	2.1%	447	443	1.1%	478	471	1.3%
EBITDA	59	52	12.8%	76	69	9.9%	84	82	2.3%
EBITDA margin	14.0%	12.7%	-	17.0%	15.6%	-	17.6%	17.5%	-
Net profit	19	15	31.5%	36	30	16.8%	42	40	5.5%
EPS (EUR)	0.33	0.25	31.5%	0.61	0.52	16.8%	0.72	0.68	5.5%

Source: UniCredit Research estimates

The following table highlights our estimates for FY11, FY12 and FY13 versus consensus.

### DATALOGIC – OUR ESTIMATES VERSUS CONSENSUS FY11, FY12 AND FY13

EUR mn	FY11	FY11	Est./	FY12	FY12	Est./	FY13	FY13	Est./
	Est.	Cons.	Cons.	Est.	Cons.	Cons.	Est.	Cons.	Cons.
Sales	420	420	0.1%	447	444	0.8%	478	471	1.3%
yoy chg. %	7.0%	6.9%	-	6.4%	5.7%	-	6.8%	6.2%	-
EBITDA	59	49	19.9%	76	70	8.6%	84	82	2.2%
yoy chg. %	18.3%	-1.3%	-	29.3%	42.7%	-	10.7%	17.5%	-
EBITDA margin	14.0%	11.7%	-	17.0%	15.8%	-	17.6%	17.5%	-
Net profit	19	15	26.4%	36	32	11.4%	42	40	5.5%
yoy chg. %	6.5%	-15.7%	-	85.5%	110.5%	-	18.6%	25.1%	-

Source: FactSet, UniCredit Research estimates

## Valuation: Buy confirmed; TP slightly increased to include the higher profitability

We slightly increased our 12M target price to EUR 7.5 (from EUR 7.30) based on the average of REP ratio and FCF yield methodologies. Given the good visibility on numbers, we suggest investors to focus on 2012, when we expect enhanced cost savings thanks to the implementation of the new supply chain that is mainly related to the production in Vietnam.

### REP ratio points to FV of EUR 7.2 p.s.

Our REP ratio valuation leads us to a fair value of EUR 7.2 per share when applying a WACC of 9.1% based on our 2012 estimates. The REP ratio addresses the relationship between returns over cost of capital and the market value of the enterprise to capital employed, and offers a reasonable indication of the appropriateness of the current market valuations, taking the correct relationship between EV/CE and ROCE/WACC to be 1.0x.

Thanks to the positive momentum and good visibility on the top-line, we suggest investors to now focus on 2012, also in light of the fact that 2011 estimates incorporate one-off negative effects that should turn into cost savings going forward. We believe the reference market is set to grow still further next year, even if at a slower pace than in 2011 and 2010, which has been characterized by 20%-plus growth rates thanks mainly to an easy comparison base.

The table below summarizes the estimates factored into our REP ratio valuation.

#### DATALOGIC – REP RATIO VALUATION

EUR mn	2012E	2013E
Treasury shares	18	18
Net capital employed (yearly average)	251	250
Net capital employed less treasury shares	234	232
EBIT	58	66
<i>EBIT margin</i>	13.1%	13.9%
NOPAT	38	43
Asset rotation	1.9	2.1
<i>ROCE (%)</i>	25.0%	28.6%
<i>ROCE post tax (%)</i>	16.3%	18.6%
ROCE / WACC	2.7	3.2
ROCE post tax / WACC	1.8	2.1
EV / CE	1.4	1.3
<b>REP ratio target (EUR)</b>	<b>7.2</b>	<b>9.0</b>

Source: UniCredit Research estimates

### FCF yield valuation points to EUR 7.8

We have also run a free cash flow yield valuation. As highlighted in the table below, with a hurdle rate of 9.25% and a perpetuity growth rate of zero, we obtain a fair price of EUR 7.8.

#### DATALOGIC – FREE CASH FLOW YIELD VALUATION

EUR mn	2012E	2013E
Free cash flow	30.7	36.6
Non-maintenance investments (add-back)	2.5	2.5
Total dividend paid (add-back)	8.9	10.6
Other adjustments	-	-
<b>Adjusted free cash flow</b>	<b>42.1</b>	<b>49.7</b>
Market cap	322.9	322.9
<i>Free cash flow yield</i>	13.0%	15.4%
<i>Perpetuity growth rate</i>	0.0%	0.0%
<b>Fair value (EUR)</b>	<b>7.8</b>	<b>9.2</b>

Source: UniCredit Research estimates

**DATALOGIC – KEY DATA**

EUR mn	2008	2009	2010	2011E	2012E	2013E
<b>Market Data</b>						
Price Ord (EUR)	5.8	4.1	4.3	5.5	5.5	5.5
No. Issued Shares (mn)	58.4	58.4	58.4	58.4	58.4	58.4
Total Market Cap	336.4	240.7	253.0	322.9	322.9	322.9
<b>P&amp;L</b>						
Group Net Sales	379.8	312.0	392.7	420.2	447.3	477.5
yoy % change	-6.0%	-17.9%	25.9%	7.0%	6.4%	6.8%
EBITDA	47.8	19.6	49.8	58.9	76.1	84.2
EBITDA Margin	12.6%	6.3%	12.7%	14.0%	17.0%	17.6%
EBIT	35.3	6.2	38.1	45.2	62.4	70.4
EBIT Margin	9.3%	2.0%	9.7%	10.7%	13.9%	14.7%
Pretax	25.9	-12.8	28.2	29.5	54.8	65.0
Group Net Profit	17.8	-12.2	18.0	19.2	35.6	42.2
Net profit margin	4.7%	-3.9%	4.6%	4.6%	8.0%	8.8%
Adj. Group Net Profit	17.8	-12.2	18.0	19.2	35.6	42.2
Adj. EBITDA	47.8	19.6	49.8	58.9	76.1	84.2
<b>Balance Sheet</b>						
Net Fixed assets	217.0	203.9	223.9	218.4	213.0	207.4
Net working capital	57.5	40.5	27.3	32.9	38.5	40.7
Long term liabs. and TFR	-33.4	-30.1	-34.1	-34.1	-34.1	-34.1
Net Capital Required	241.2	214.3	217.1	217.2	217.4	214.0
Shareholders' Equity	135.8	116.7	140.2	158.5	189.3	222.6
Net Financial Debt (Cash)	105.4	97.6	76.9	58.7	28.1	-8.6
<b>Cash flow statement</b>						
Operating Cash Flow	34.8	18.3	42.9	27.4	43.7	53.9
Capex	-22.1	-0.3	-31.6	-8.3	-8.3	-8.3
Dividends	-2.0	0.0	-0.9	-4.8	-8.9	-10.6
Change in net financial position	-46.9	7.8	20.8	18.2	30.7	36.7
<b>Leverage</b>						
Debt/Equity	0.8x	0.8x	0.5x	0.4x	0.1x	0.0x
Debt/EBITDA	2.2x	5.0x	1.5x	1.0x	0.4x	-0.1x
EBITDA Interest Coverage	8.5x	3.1x	7.4x	13.0x	23.4x	101.7x
<b>EV Ratios</b>						
EV	463.1	346.7	337.0	388.8	358.1	321.5
EV/Sales	1.2x	1.1x	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	9.7x	17.7x	6.8x	6.6x	4.7x	3.8x
EV/EBIT	13.1x	55.7x	8.8x	8.6x	5.7x	4.6x
[EV/CE]/[ROCE/WACC]	1.1x	3.6x	0.9x	0.8x	0.7x	0.6x
<b>Per Share Data (EUR)</b>						
EPS	0.31	-0.21	0.31	0.33	0.61	0.72
Adj. EPS	0.31	-0.21	0.31	0.33	0.61	0.72
Free CFPS	0.52	0.02	0.51	0.56	0.84	0.96
BVPS	2.32	2.00	2.40	2.71	3.24	3.81
DPS Ord	0.07	0.04	0.00	0.02	0.08	0.15
<b>Valuation Ratios</b>						
P/E Ord	18.9x	n.m	14.0x	16.8x	9.1x	7.6x
Adj. P/E Ord	18.9x	n.m	14.0x	16.8x	9.1x	7.6x
Free cash flow yield	10.0%	7.6%	17.0%	8.5%	13.5%	16.7%
Div. Yield Ord	1.2%	0.8%	0.0%	0.3%	1.5%	2.8%

Source: Datalogic, UniCredit Research estimates

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Datalogic	-

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Company	Date	Rating	Currency	Target price
Datalogic	28/06/2011	BUY	EUR	7.30
Datalogic	18/01/2011	HOLD	EUR	6.60

Datalogic                      08/10/2010                      BUY                      EUR                      5.30

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