

# DATAGROUP

## IT services one-stop-shop for Mittelstand companies

DATAGROUP has established an interesting niche providing Mittelstand companies with a modular suite of technology solutions. The Mittelstand sector needs to modernise its IT infrastructure, and DATAGROUP is ideally positioned to benefit, as its large international IT services competitors are focusing their energy on larger enterprises. Further, Mittelstand companies are particularly sensitive about security and DATAGROUP can offer hosting services from three datacentres in Germany, supported by the group's ISO 27001 certification for information security management.

### Focusing on long-term, fixed-price contracts

DATAGROUP is a full IT outsourcing provider, focused on the German market with a follow-the-customer strategy. It is evolving its business model to focus on three- to five-year fixed-price contracts, targeting companies with 250-5,000 IT users. It believes there is a huge opportunity in the Mittelstand space, as these companies typically rely on their own expensive in-house IT departments and have difficulty adapting to new technologies such as mobility and cloud security. Customers can select from a range of solutions, such as Service Desk, Cloud Services, Network Services, Application Management Services and SAP services. These solutions are based on standardised processes that are certified according to ISO 20000 and backed by service level agreements (SLAs). The broad range of services allows customers to fully outsource their IT operations. Much of the work is done remotely, and the group can scale its data centre services and shared services desk to support a large number of customers.

### Q3 EBITDA margin jumps by 180bp

Q3 revenues slipped by 3.4% to €36.8m, while EBITDA jumped 24.4% to €2.9m, resulting in a 180bp improvement in the margin to 7.9%. These movements reflect the de-emphasising of time-and-materials (T&M) business, with two large, less-profitable, T&M contracts exited in H1. Services generated 76% of revenues in the period, of which the bulk is fixed price. DATAGROUP wishes to be a consolidator in the German IT service space, and on 1 October it announced the acquisition of Excelsis to broaden its offerings into mobile apps and portals.

### Valuation: Modest valuation given the attractive growth potential

DATAGROUP's shares look attractively priced, trading on 0.6x consensus FY15 EV/sales and c 6x EV/EBITDA, given that the outlook is underpinned by the strong case for Mittelstand companies to improve efficiencies and outsource their IT.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/2012	146.2	3.6	0.36	0.20	24.9	2.2
09/2013	156.9	2.5	0.25	0.20	35.8	2.2
09/2014e	155.0	3.0	0.31	0.20	28.9	2.2
09/2015e	161.0	8.4	0.76	0.23	11.8	2.6

Source: Company accounts, Thomson Reuters

## Technology

Price €8.95

Market cap €68m

### Share price performance



### Share details

Code D6H  
 Shares in issue 7.6m  
 Net (debt)/cash (€) as at Jun '14 (27.3m)

### Business description

DATAGROUP provides IT solutions to companies. The company offers the full range of IT services such as cloud services, service desk and application management. DATAGROUP also provides SAP and software solutions as well as solutions for mobile applications.

### Bull

- A compelling growth strategy.
- Cost base has been restructured.
- Attractive business drivers.

### Bear

- Significant net debt levels (€27.3m at end June).
- Revenues declined in Q3, although this was as planned.
- Highly exposed to the German economy.

### Analyst

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