EDISON

Scale research report - Update

DATAGROUP

IT services

22 May 2018

EBITDA margins lift to 10.6% as acquisitions drive growth

DATAGROUP performed in line with expectations in H1, with revenue growing by 24%, including 1.5% organic growth, or 5–6% when adjusting for discontinued activities from acquisitions. Management conservatively maintained revenue guidance, despite 50% of this already being generated in H1, with ALMATO only contributing for one month in the period. While the rating looks fairly priced at c 10x EBITDA, DATAGROUP offers an excellent track record, high recurring revenues, a clear focus on the large German Mittelstand sector and an increasing number of key differentiators following the acquisitions of ikb Data and ALMATO.

H1 results: Organic growth was 1.5%

Revenue grew by 23.6% to €133.5m and EBITDA rose 35% as margins expanded from 10.6% to 11.6%. The company signed 12 new CORBOX customers during the period and significantly extended business with nine existing customers. The group ended the period with net debt of €14.5m, up from €10.6m at end-September.

New contracts

After the period-end, DATAGROUP won a contract to develop and run a software solution for the Federal Waterways and Shipping Administration to document the technical inspection and calibration of inland water vessels. After the initial €1.8m 16-month development phase, the customer is expected to become a Corbox customer, in the form of a maintenance contract over 10 years.

Guidance maintained at more than €265m revenues

Management maintained guidance with revenues of at least €265m and EBITDA of more than €30m. This looks conservative, given the group has generated 50% of this revenue target in H1, and with ALMATO only contributing for one month (c €0.5m) in the H1 period. The company needs to sign 8–10 new customers in H2 to meet the guidance, which includes the Federal Waterways contract.

Valuation: Premium reflects strong business drivers

While the shares look fairly priced at c 19x FY19e earnings and 9.7x EBITDA, the outlook remains underpinned by a favourable business model supported by attractive business drivers, which also provide a compelling case for acquisitions.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/16	174.9	19.1	0.75	0.30	50.7	0.8
09/17	223.1	27.0	1.41	0.45	27.0	1.2
09/18e	272.5	32.1	1.50	0.53	25.3	1.4
09/19e	287.7	34.3	1.95	0.60	19.5	1.6

Source: Bloomberg.

Price	€38.0
Market cap	€317m

Share price graph

Share details

Code	D6H
Listing	Deutsche Börse Scale
Shares in issue	8.349m
Last reported net debt at 31 March 2018	€14.5m

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 a clear 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

- The group's valuation metrics are more expensive than they have been.
- Highly exposed to the German economy.
- Acquisitions bring risks, but DATAGROUP has a proven track record in integrating acquisitions.

Analysts

Richard Jeans +44 (0)20 3077 5700

tech@edisongroup.com

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H1 results: Organic growth was 5–6%, excluding acquisition impacts

Group revenue grew by 23.6% to €133.5m, boosted by the acquisitions of ikb Data, HanseCom and ALMATO. Organic growth was 1.5%, or 5–6% when excluding the impact of discontinued businesses from acquisitions – ie DATAGROUP sheds unprofitable business after making acquisitions, and there is an ongoing managed decline in business from Hewlett Packard Enterprise relating to the acquisition of SAP and application management services from 2016. Services revenues rose to 81.7% of the total, up from 81.5% in the corresponding period, and 84% of gross profit was recurring in nature. EBITDA jumped by 35.4% to €15.6m, with the margin rising by 100bp to 11.6%.

ALMATO performed well, generating revenue of €0.5m in its one-month period of consolidation. ALMATO offers robotics process automation solutions for the purpose of optimising standard business processes. ALMATO uses Blue Prism and Nice Systems technologies, hence acting as a reseller for these software companies. The main purpose of the ALMATO acquisition was to provide DATAGROUP with the ability to offer customers solutions that will enable them to automate their business processes. DATAGROUP has already been making upsells of the solutions to its existing customers.

Operating cash flow dipped by 23% to €10.5m. Capex rose by 59% to €7.6m, reflecting the investment in infrastructure for cloud services. Additionally, the company shifted to new premises in Cologne while the new SAP staff had to be equipped. DATAGROUP is still in the process of combining offices in Hamburg following the acquisition of HanseCom. After a small amount of fixed asset disposals and net interest paid, free cash flow fell to €2.4m from €8.2m.

Exhibit 1: Key figures

€000s	HY to March 2017	HY to March 2018	Change (%)
Revenues	108,054	133,513	23.6
Service and maintenance	88,010	109,115	24.0
Trade	19,954	24,335	22.0
Other	90	63	(30.0)
Own work capitalised	295	350	18.6
Overall performance	108,349	133,863	23.5
Cost of materials	(30,972)	(39,260)	26.8
Gross profit	77,377	94,603	22.3
Personnel expenses	(57,707)	(66,193)	14.7
Other income	2,339	1,867	(20.2)
Other expenses	(10,508)	(14,707)	40.0
EBITDA	11,501	15,570	35.4
Depreciation from PPA	(1,568)	(1,975)	26.0
Other depreciation	(2,293)	(4,949)	115.8
EBIT	7,640	8,646	13.2
Financial result	(1,055)	(1,353)	28.2
EBT	6,585	7,293	10.8
Taxation	(2,098)	(2,277)	8.5
Net income	4,487	5,016	11.8
Average number of shares (000s)	7,572	8,331	10.0
EPS (€)	0.59	0.60	1.6

Source: DATAGROUP

Management states results to have been “exactly in line with expectations” and hence maintained its FY18 guidance along with its long-term guidance. The latter is to achieve revenues of c €500m by FY21, including c €150m from acquisitions, along with EBITDA margins of 13%.

Acquisition strategy

The group is maintaining its acquisition strategy, which is to make infill acquisitions on regions where it is underrepresented in Germany, or to increase its technological expertise. The group has plenty of capacity to make acquisitions, with net debt to EBITDA currently at c 0.3x, compared with a 3.5x limit on its promissory notes. There is also a 21% equity ratio covenant on the promissory notes, compared with the current 29%. A low equity ratio was why the group carried out its €21m capital increase last year.