

3 February 2020

DATAGROUP SE

Rating **Buy (Buy)**
 Share price (EUR) **64.90**
 Target price (EUR) **72.00 (54.00)**

Bloomberg **D6H GY**
 Sector **IT-Service**

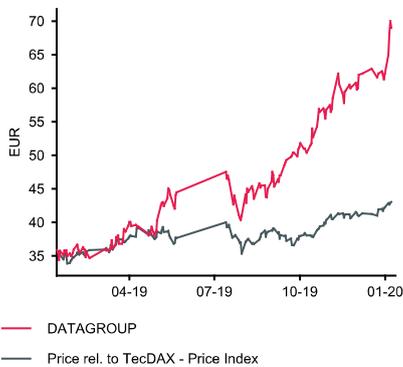
Share data

Shares out (m) 8.3
 Daily volume shs (m) 0.6
 Free float (%) 42.00
 Market cap (EUR m) 541
 EV (EUR m) 602
 DPS (EUR) 0.70
 Dividend yield (%) 1.1
 Payout ratio (%) 40.2

Performance

ytd (%) 10.9
 12 months (%) 91.9
 12 months rel. (%) 72.0
 Index TecDAX

Share price performance



Source: Bloomberg

Next triggers

25.02.2020: Q1 figures

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Impressive track record justifies target price upgrade

Datagroup published its financial report for FY 2019. Revenues were at EUR 306.8m, up by an impressive 12.7% yoy and 3% above Bloomberg consensus (company guidance was more than EUR 295m). EBITDA came in at EUR 46.9m and 3.3% above consensus and in line with the company guidance, which was more than EUR 45m. With these figures, the company again demonstrated the effectiveness of its strategy as well as the high quality and competitiveness of its product. Numerous major long-term orders were gained by 29 newly acquired customers and through upselling to 16 existing customers. We expect this trend to continue in 2020. We also regard the two acquisitions as quite positive. Especially the acquisition of entities of the IT Informatik GmbH is quite positive in our view. It adds another 200 experts for SAP, infrastructure and software development – manpower that is increasingly difficult to find in light of the S/4HANA migration wave. Datagroup employs now more than 500 SAP experts and is therefore well prepared to capitalize on the growth potential of the S/4HANA migration. Many companies need the support of IT consultants for the changeover. In our view, this will lead to a bottleneck, as there are not enough consultants available. Hence, a project backlog is expected to occur by 2022 at the latest according to a study from Lünendonk & Hossselfelder.

Our investment case (details on following pages) is intact and confirmed by this strong set of figures. We made some adjustments on our top line and EBITDA margin estimates (next page) and lowered our beta from 1.0 to 0.8 due to the high business stability and strong demand for Datagroup's expertise. Consequently, we confirm our Buy rating and increase our target price from EUR 54.0 to EUR 72.0 based on our DCF model.

Datagroup SE - FY 2019/18

EUR m	2019/18	2018/17	yoy	Consensus	delta
Revenues	306.8	272.1	12.7%	297.8	3.0%
EBITDA	46.9	34.5	36.0%	45.4	3.3%
EBITDA margin	15.3%	12.7%	262 BP	15.2%	4 BP

Source: Datagroup SE, Quirin Privatbank AG

Key figures		2018	2019	2020e	2021e	2022e
Sales	EUR m	272	307	371	391	412
EBITDA	EUR m	34	47	57	60	64
EBIT	EUR m	20	24	28	34	40
EPS	EUR	1.55	1.74	1.99	2.45	2.95
Sales growth	%	21.9	12.7	20.9	5.5	5.2
EBIT growth	%	9.9	15.7	20.4	19.5	17.6
EPS growth	%	9.6	12.7	14.2	23.4	20.4
EBITDA margin	%	12.7	15.3	15.3	15.4	15.5
EBIT margin	%	7.5	7.7	7.7	8.7	9.7
Net margin	%	4.7	4.7	4.5	5.2	6.0
EV/Sales	ratio	1.06	1.96	1.62	1.48	1.36
EV/EBITDA	ratio	8.4	12.8	10.6	9.6	8.8
EV/EBIT	ratio	14.2	25.5	21.2	17.1	14.0
P/E	ratio	40.2	35.7	31.3	25.3	21.1
P/BV	ratio	8.1	8.9	10.2	11.8	13.8
Dividend yield	%	2.1	1.1	1.2	1.5	1.8

Source: Bloomberg, Company data, Quirin Privatbank estimates

DCF Valuation

We have derived our target price for Datagroup from our DCF model. Due to the change of our revenue and EBITDA estimates and a lower beta (from 1.0 to 0.8) due to the high stability of the company's business model we upgrade our target price from EUR 54.0 to EUR 72.0 and confirm our Buy recommendation. We calculate with a WACC of 5.93% (resulting from a risk free rate of 2.0%, market premium of 5% and a beta of 0.8 due to a high portion of recurring revenues), a mid-term revenue CAGR 2020-2023 of 5.2% fading to a perpetual growth rate of 2.0% and a sustainable long-term EBIT margin of 11%.

DCF Model for DATAGROUP SE

(EUR m)	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	TV
Sales	371	391	412	432	452	471	488	505	519	532	
growth yo y	20.9%	5.5%	5.2%	4.9%	4.6%	4.2%	3.7%	3.3%	2.9%	2.5%	
EBIT	28	34	40	45	48	50	53	55	57	59	
EBIT margin	7.7%	8.7%	9.7%	10.3%	10.6%	10.7%	10.8%	10.9%	110%	110%	
Taxes	-9.4	-11.2	-13.2	-14.8	-15.9	-16.7	-17.4	-18.2	-18.8	-19.4	
Tax rate	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	
Depreciation	28.3	26.3	23.9	22.8	22.5	23.7	24.7	25.6	26.4	27.1	
% of sales	7.6%	6.7%	5.8%	5.3%	5.0%	5.0%	5.1%	5.1%	5.1%	5.1%	
Capex	-18.9	-19.9	-21.0	-22.0	-23.0	-24.0	-24.9	-25.7	-26.5	-27.1	
% of sales	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	
Δ NWC	-11.6	-3.7	-3.7	-3.7	-3.6	-3.7	-3.9	-4.0	-4.1	-4.2	
% of sales	3.1%	0.9%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	
FCF	16.8	25.4	26.0	27.0	28.0	29.7	31.2	32.6	33.9	35.1	920.8
growth yo y	nm	50.9%	2.1%	3.9%	3.8%	6.1%	5.1%	4.4%	3.9%	3.4%	2.0%
PV FCF	16.0	22.8	22.0	21.5	21.1	21.1	21.0	20.7	20.3	19.8	520.3

PV Forecast Period	206
PV Terminal Value	520

Enterprise value	727
- Net Debt / Net Cash	84
- Pension Provisions	38
Equity value	600
Number of shares	8.3
Value per share (€)	72.0

Sensitivity Analysis	Terminal growth rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
5.33%	69.5	77.6	88.2	102.6	123.3
5.63%	63.8	70.7	79.5	91.1	107.3
WACC 5.93%	58.7	64.6	72.0	81.6	94.5
6.22%	54.3	59.4	65.6	73.6	84.1
6.52%	50.3	54.7	60.1	66.8	75.5

Risk free rate	2.00%	Equity ratio	100%
Cost of debt	3.00%	Company beta	0.8
Market Premium	5.00%	WACC	5.93%

Source: Quirin Privatbank

Estimate changes

EUR m	2020e		2021e		2022e	
	old	new	old	new	old	new
Revenues	324.8	371.0	349.2	391.4	370.1	411.8
Change		14.2%		12.1%		11.2%
EBITDA	49.4	56.8	53.1	60.3	56.3	63.8
Change		15.0%		13.6%		13.4%

Source: Quirin Privatbank AG

Executive Summary and Investment Case

Investment case in short

Datagroup is one of the leading cloud service providers in Germany with focus on SMEs. It is a high quality company and has a strong track record. Our investment case is based on the ongoing digitalization megatrend, which is far from completed and should serve as a constant tailwind for top line growth. We expect Datagroup to expand its market share further as the German IT market is quite fragmented with small & medium sized companies accounting for 80% market share. In our view, most clients will prefer larger players like Datagroup which serve as a one-stop shop and are able to offer a more comprehensive product portfolio than most competitors which is a huge competitive advantage. With its cloud platform CORBOX, Datagroup's product portfolio has a greater breadth than most competitors. Also, customers enjoy high flexibility as they can pick whatever service they need. Datagroup has been repeatedly voted amongst the top cloud providers. Moreover, we believe that the growing complexity of IT technologies and infrastructures will force many clients to switch to larger IT system houses as it will be harder for the smaller players to keep up with the complexity and pace of technological change favoring Datagroup's market share gain. Generally speaking, Datagroup has high market-entry barriers as once a client decided for a large IT provider changing again involves high costs; therefore, Datagroup's retention rate is quite high which makes the business more predictable. We also like the high portion of recurring revenue with about 83%. For those reasons, we expect Datagroup to continue its strong track record and model a sales CAGR 20-23 of 5.2%.

Competitive positioning & edge

Every company, independent of size and industry, will have to deal with the challenges of the digital transformation. Additionally, the growing complexity of IT technologies and infrastructures boosted the demand for competent service providers. Datagroup is optimally positioned with a comprehensive IT services offer to support our customers in their daily IT operations. The basis of Datagroup's core business is called CORBOX. The modular all-in-one solution includes all service families for carefree IT operations. Customers choose exactly those modules from the combinable CORBOX services which optimally support their business. They receive the entire IT outsourcing in defined and certified quality from a single source. Overall, outsourcing & cloud contracts contribute a share of 79% to the group's gross profit, i.e. the business model is becoming more and more stable and sustainable.

Continuation of acquisition strategy & extended service portfolio

With effect of April 01, 2019, the company has acquired 100 % of the shares in UBL Informationssysteme GmbH, which is headquartered in Neu-Isenburg near Frankfurt am Main. In 2018, UBL generated annual revenue of over EUR 20m and a double-digit EBITDA margin with over 70 employees. The multi-cloud and managed service provider develops and operates IT infrastructures and platforms for larger Mittelstand companies.

With effect of August 1, 2019, and thus without any major impact on the revenue development in the year under review, Datagroup has acquired assets and companies of IT-Informatik GmbH from insolvency and transformed it into a separate legal entity (Datagroup Ulm). The company is specialized in SAP consulting and maintenance, cloud infrastructure and software development, and supplies a broad portfolio of SME customers from various industries. As part of the transaction, 200 experts for SAP, infrastructure and software development came to Datagroup. Datagroup employs now more than 500 SAP experts and is therefore well prepared to capitalize on the growth potential of the S/4HANA migration.

On January 17, 2020, Datagroup signed a contract to acquire the majority of Diebold Nixdorf Portavis GmbH to strengthen its industry focus on operational services for banks and financial service providers. Portavis has around 200 employees providing IT services to customers in the financial services sector and is expected to generate revenue of some EUR 60m in the current fiscal year. The company mainly supports Hamburger Sparkasse, Sparkasse Bremen and Hamburg Commercial Bank on the basis of long-term service agreements.

In our view, those acquisitions will also help to acquire new customers and raise the upselling potential with their existing customer base. Datagroup has already signed 11

Driven by digital transformation the market environment continues to be positive despite protectionist tendencies in the global economy

contracts with new customers and significantly expanded contracts with 7 existing customers during the first months of the new FY 2019/20.

Datagroup was able to again achieve a high score in general customer satisfaction and are well above the median of 66% with a satisfaction rate of 75%

Datagroup ranked among the best with solid market positioning

For the German part of the largest independent Europe-wide comparative study on IT outsourcing, 29 international as well as small and medium-sized IT service providers were evaluated by their respective customers. The assessments of more than 600 outsourcing contracts were incorporated into the study. Datagroup was able to again achieve a high score in general customer satisfaction and are well above the median of 66% with a satisfaction rate of 75%. In categories like price and contractual flexibility the company successfully stood up to its competitors and rank first with 82% and 80%, respectively.

We regard Datagroup as one of the winners of the S/4HANA migration wave

Many companies in the German-speaking world are now specifically concerned with the introduction of S/4HANA. However, they lack employees and consultants to handle the complex projects on their own and SAP will support its current ERP software only until 2025 - so there is a need for action. Therefore, many companies need the support of IT consultants and service providers such as Datagroup for the changeover. This could lead to a bottleneck due to a shortage of specialists; hence, IT consultants and service providers probably cannot keep up with the increasing demand (according to a study from Lünendonk & Hossfeldler). According to the study, 52% of companies are currently conducting a preliminary analysis for S/4HANA, while another 30% are working on an implementation strategy. Only 10% already concluded the migration to S/4HANA and most companies (70 %) will not begin to introduce S/4HANA until 2022, with a tight rollout schedule of one to two years. Therefore, a project backlog is expected to occur by 2022 at the latest.

In our view, with more than 500 SAP experts and many successfully implemented S/4HANA projects in various industries, Datagroup has the necessary know-how to accompany companies from analysis to technical implementation. With many years of experience in the operation of SAP both on premise and in the private cloud, as well as with comprehensive know-how of the public cloud, the IT service provider is also ideally equipped to cover the entire range of cloud scenarios for customers and to set up optimally integrated hybrid systems. Therefore, we believe Datagroup will be one of the winners of the S/4HANA migration wave, which might lead to stronger growth and higher margins in this segment due to the shortage of SAP specialists on the market.

Profit & loss statement

Profit & loss statement (EUR m)	2018	YOY	2019	YOY	2020e	YOY	2021e	YOY	2022e	YOY
Sales	272.1	21.9 %	306.8	12.7 %	371.0	20.9 %	391.4	5.5 %	411.8	5.2 %
Other own work capitalized	6.3		11.9		14.4		15.2		15.9	
Cost of goods	-80.4		-99.2		-120.0		-126.6		-133.2	
Gross profit	278.4		318.6		385.4		406.6		427.7	
Personnel expenses	-134.7		-145.2		-175.6		-184.8		-194.0	
Depreciation	-14.0		-23.3		-28.3		-26.3		-23.9	
Other operating expenses	-28.9		-27.4		-33.0		-34.9		-36.7	
EBITDA	34.5	27.4 %	46.9	36.0 %	56.8	21.1 %	60.3	6.2 %	63.8	5.9 %
EBITDA margin (%)	12.67		15.28		15.30		15.40		15.50	
EBIT	20.4	9.9 %	23.6	15.7 %	28.4	20.4 %	34.0	19.5 %	39.9	17.6 %
EBIT margin (%)	7.51		7.70		7.66		8.68		9.70	
Net financial result	-1.9		-1.9		-3.7		-3.4		-3.2	
Pretax profit	18.5	11.3 %	21.7	17.4 %	24.8	14.2 %	30.6	23.4 %	36.8	20.4 %
Pretax margin (%)	6.79		7.07		6.67		7.81		8.93	
Taxes	-5.6		-7.2		-8.2		-10.1		-12.2	
Tax rate (%)	30.33		33.09		33.09		33.09		33.09	
Earnings after taxes	24.1		28.9		33.0		40.7		49.0	
Group attributable income	12.9	15.0 %	14.5	12.7 %	16.6	14.2 %	20.4	23.4 %	24.6	20.4 %
No. of shares (m)	8.3		8.3		8.3		8.3		8.3	
Earnings per share (EUR)	1.55	9.6 %	1.74	12.7 %	1.99	14.2 %	2.45	23.4 %	2.95	20.4 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2018	YOY	2019	YOY	2020e	YOY	2021e	YOY	2022e	YOY
Assets										
Cash and cash equivalents	38.7		47.5		70.2		91.2		111.4	
Accounts receivables	31.2		45.6		55.1		58.2		61.2	
Inventories	2.0		19.1		23.1		24.3		25.6	
Other current assets	29.1		36.6		36.6		36.6		36.6	
Tax claims	4.6		8.6		8.6		8.6		8.6	
Total current assets	101.0	-8.6 %	148.8	47.3 %	185.1	24.4 %	210.4	13.7 %	234.8	11.6 %
Fixed assets	22.4		60.1		50.6		44.2		41.3	
Goodwill	46.6		64.0		64.0		64.0		64.0	
Other intangible assets	15.3		18.6		18.6		18.6		18.6	
Financial assets	1.8		14.1		14.1		14.1		14.1	
Deferred taxes	4.6		8.6		8.6		8.6		8.6	
Other fixed assets	23.8		5.9		5.9		5.9		5.9	
Total fixed assets	114.4	11.3 %	171.3	49.7 %	161.9	-5.5 %	155.5	-4.0 %	152.5	-1.9 %
Total assets	215.5	1.0 %	320.1	48.6 %	346.9	8.4 %	365.8	5.5 %	387.3	5.9 %
Equity & Liabilities										
Subscribed capital	8.3		8.3		8.3		8.3		8.3	
Reserves & other	32.3		32.3		32.3		32.3		32.3	
Revenue reserves	30.6		40.1		50.9		64.6		81.0	
Accumulated other comprehensive	-4.0		-6.8		-6.8		-6.8		-6.8	
Shareholder's equity	67.3	12.9 %	74.0	10.1 %	84.8	14.5 %	98.6	16.3 %	115.0	16.6 %
Shareholder's equity incl. minorities	67.3	12.9 %	74.0	10.1 %	84.8	14.5 %	98.6	16.3 %	115.0	16.6 %
Long-term liabilities										
Pension provisions	40.6		37.7		37.7		37.7		37.7	
Financial liabilities	54.9		131.4		131.4		131.4		131.4	
Tax liabilities	0.9		2.5		3.0		3.2		3.4	
Other liabilities	3.5		5.4		6.6		6.9		7.3	
Total long-term debt	100.0	-8.2 %	177.0	77.0 %	178.7	0.9 %	179.2	0.3 %	179.7	0.3 %
Short-term debt										
Other provisions	7.3		9.2		11.1		11.7		12.3	
Trade payables	5.4		9.1		11.0		11.6		12.2	
Other liabilities	36.4		53.2		64.4		67.9		71.4	
Total short-term debt	49.2	5.0 %	71.5	45.5 %	86.5	20.9 %	91.3	5.5 %	96.0	5.2 %
Total equity & liabilities	215.5	1.0 %	320.1	48.6 %	346.9	8.4 %	365.8	5.5 %	387.3	5.9 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2018	2019	2020e	2021e	2022e
Per share data (EUR)					
EPS	1.55	1.74	1.99	2.45	2.95
Book value per share	8.1	8.9	10.2	11.8	13.8
Free cash flow per share	2.4	2.4	2.3	0.0	0.0
Dividend per share	0.60	0.70	0.80	0.99	1.19
Valuation ratios					
EV/Sales	1.06	1.96	1.62	1.48	1.36
EV/EBITDA	8.4	12.8	10.6	9.6	8.8
EV/EBIT	14.2	25.5	21.2	17.1	14.0
P/E	40.2	35.7	31.3	25.3	21.1
P/B	8.1	8.9	10.2	11.8	13.8
Dividend yield (%)	2.1	1.1	1.2	1.5	1.8
Growth					
Sales growth (%)	21.9	12.7	20.9	5.5	5.2
EBITDA growth (%)	27.4	36.0	21.1	6.2	5.9
EBIT growth (%)	9.9	15.7	20.4	19.5	17.6
EPS growth (%)	9.6	12.7	14.2	23.4	20.4
Profitability ratios					
EBITDA margin (%)	12.7	15.3	15.3	15.4	15.5
EBIT margin (%)	7.5	7.7	7.7	8.7	9.7
Net margin (%)	4.7	4.7	4.5	5.2	6.0
Financial ratios					
Total equity (EUR m)	67.3	74.0	84.8	98.6	115.0
Equity ratio (%)	31.2	23.1	24.4	26.9	29.7
Net financial debt (EUR m)	56.8	121.6	98.8	77.8	57.7
Net debt/Equity	0.3	0.2	0.2	0.3	0.3
Interest cover	8.4	9.9	6.7	8.0	9.4
Net debt/EBITDA	1.6	2.6	1.7	1.3	0.9
Payout ratio (%)	38.8	40.2	40.2	40.2	40.2
Working Capital (EUR m)	27.8	55.5	67.2	70.8	74.5
Working capital/Sales	0.10	0.18	0.18	0.18	0.18

Source: Company data, Quirin Privatbank estimates

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The rating in this report are based on the analyst's expectation of the absolute change in stock price over a period of 6 to 12 months and reflect the analyst's view of the potential for change in stock price as a percentage. The BUY and SELL ratings reflect the analyst's expected high change in the value of the stock.

The levels of change expressed in each rating categories are:

BUY > +10%

HOLD <=-10% and < = +10%

SELL > -10%.

Analyst certification

Sebastian Droste, financial analyst, hereby certifies that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities or issuers discussed herein. In addition, I hereby certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report, nor is it tied to any specific investment banking transaction performed by the Bank or its affiliates.

Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
03.02.2020	72.00	Buy	
20.08.2019	54.00	Buy	
15.04.2019	46.00	Buy	15.04.2019

Bank distribution of ratings and in proportion to investment banking services can be found on the internet at the following address:

<https://www.quirinprivatbank.de/kapitalmarktgeschaeft/institutionelles-research>

Bank disclosures, conflict of interest on complete list of financial analysis on the last 12 month can be found on the internet at the following address:

<https://research.quirinprivatbank.de/content/disclosures>

Competent supervisory authority

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