METZLER Capital Markets

Datagroup (D6H GY) | IT-Services

June 13, 2022

Benefiting from a trends towards IT outsourcing

We initiate coverage with Buy (PT: EUR 88.0; average of DCF and peer valuation). Datagroup (D6H) has positioned itself as leader in the structurally growing market of IT outsourcing with a clear focus on Mittelstand companies in Germany. Based on its structural set-up, its excellent and often long-lasting relationships, access to customers in Germany, and its comprehensive product offering which centres around standardized IT services (CORBOX) we see scope for healthy growth also in next years. Rising adoption of outsourced IT services and the need to digitize, should serve as growth drivers for years. The attractiveness of the company comprises of consistent and healthy top-line growth, a well diversified customer base, as well as a high (~75%) and still growing proportion of recurring revenues. With high single-digit top-line growth (CAGR 21-23e: 9.2%) we expect Datagroup to continue outpacing market growth (~6% p.a.) and see upside for the EBIT margin from 7.8% in '21 to 9.1% in '23e. Shares trade at a discount of more than 15% vs. peers whilst our DCF valuation points to a FV of EUR 96.

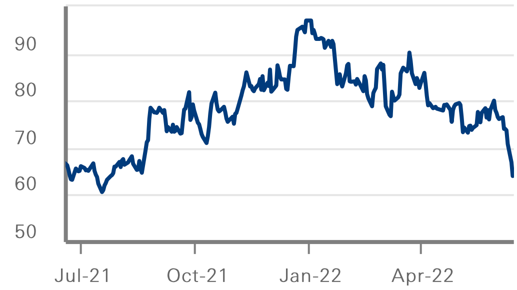
High customer satisfaction (as regularly visible in independent surveys) should translate into high customer stickiness. Together with the effects of its standardized and SLA based service approach this should allow for rising profitability. Acquisitions are seen as an efficient way to quickly gain access to qualified and skilled employees at low(er) cost and in a shorter way as well as a lever to further diversify the customer base and served industries. The latter is seen as an important structural development to mitigate and offset industry specific declines and to be more resilient in times of economic downturns.

Buy	**initiation of coverage**
Price*	**EUR 64.00**
Price target	**EUR 88.00**

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)[1]	651
Enterprise Value (EUR m)[1]	826
Free Float (%)[1]	42.3

Price (in EUR)[1]



Performance (in %)[1]	1m	3m	12m
Share	-13.7	-21.3	-6.3
Rel. to SDAX	-7.6	-10.4	24.3

Fundamentals (in EUR m)[1]	2018/19	2019/20	2020/21	2021/22e	2022/23e	2023/24e
Sales	307	358	445	493	530	565
EBITDA	47	42	67	74	83	88
EBIT	24	9	29	39	48	53
EPS adj. (EUR)	2.03	0.11	3.05	3.43	4.22	4.63
DPS (EUR)	0.70	0.70	0.10	1.10	1.20	1.30
BVPS (EUR)	8.89	7.94	11.32	14.40	17.06	20.05
Net Debt incl. Provisions	117	164	185	175	143	110
Ratios[1]	2018/19	2019/20	2020/21	2021/22e	2022/23e	2023/24e
EV/EBITDA	11.1	12.8	12.6	11.2	9.5	8.7
EV/EBIT	22.1	59.6	29.1	21.4	16.5	14.4
P/E adj.	23.9	424.3	26.0	22.7	18.5	16.8
Dividend yield (%)	1.4	1.6	0.1	1.4	1.5	1.7
EBITDA margin (%)	15.3	11.7	15.1	15.0	15.7	15.5
EBIT margin (%)	7.7	2.5	6.5	7.8	9.1	9.3
Net debt/EBITDA	2.5	3.9	2.8	2.4	1.7	1.3
PBV	5.5	5.6	7.0	5.4	4.6	3.9

[1]Sources: Bloomberg, Metzler Research

Sponsored Research

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Key Data

Company profile
CEO: Andreas Baresel | CFO: Oliver Thome | Pliezhausen, Germany

Major shareholders
HHS Beteiligungsgesellschaft mbH (53.6%), Management and Supervisory Board (4.1%)

Key figures

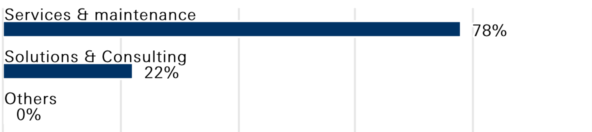
P&L (in EUR m)	2018/19	%	2019/20	%	2020/21	%	2021/22e	%	2022/23e	%	2023/24e	%
Sales	307	12.7	358	16.8	445	24.1	493	10.9	530	7.6	565	6.6
EBITDA	47	36.0	42	-10.8	67	60.9	74	9.5	83	13.1	88	5.4
EBITDA margin (%)	15.3	20.7	11.7	-23.6	15.1	29.6	15.0	-1.2	15.7	5.1	15.5	-1.1
EBIT	24	15.7	9	-62.0	29	223.3	39	32.9	48	24.7	53	9.6
EBIT margin (%)	7.7	2.6	2.5	-67.4	6.5	160.4	7.8	19.8	9.1	15.9	9.3	2.8
Financial result	-2	0.5	-2	-22.7	-2	18.9	-2	-19.4	-2	4.0	-2	4.1
EBT	22	17.4	7	-69.5	27	310.3	36	33.8	46	26.5	51	10.3
Taxes	7	28.0	6	-11.3	6	-3.9	12	88.1	14	25.7	16	8.5
Tax rate (%)	33.1	n.a.	96.2	n.a.	22.5	n.a.	31.7	n.a.	31.5	n.a.	31.0	n.a.
Net income	15	12.7	0	-98.3	21	n.m.	25	18.0	31	26.9	35	11.1
Minority interests	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Net Income after minorities	15	12.7	0	-98.3	21	n.m.	25	18.0	31	26.9	35	11.1
Number of shares outstanding (m)	8	0.0	8	0.0	8	0.0	8	0.2	8	0.0	8	0.0
EPS adj. (EUR)	2.03	11.0	0.11	-94.8	3.05	n.m.	3.43	12.6	4.22	23.0	4.63	9.8
DPS (EUR)	0.70	16.7	0.70	0.0	0.10	-85.7	1.10	n.m.	1.20	9.1	1.30	8.3
Dividend yield (%)	1.4	n.a.	1.6	n.a.	0.1	n.a.	1.4	n.a.	1.5	n.a.	1.7	n.a.

Cash Flow (in EUR m)	2018/19	%	2019/20	%	2020/21	%	2021/22e	%	2022/23e	%	2023/24e	%
Gross Cash Flow	4	-79.4	25	586.7	63	151.0	54	-13.9	70	28.3	73	4.7
Increase in working capital	0	n.a.	3	n.a.	13	n.a.	6	n.a.	7	n.a.	6	n.a.
Capital expenditures	19	28.4	22	20.1	11	-50.4	15	35.9	17	13.3	18	5.9
D+A/Capex (%)	125.6	n.a.	147.6	n.a.	346.4	n.a.	234.0	n.a.	207.1	n.a.	195.0	n.a.
Free cash flow (Metzler definition)	-15	-546.6	-1	96.3	39	n.m.	33	-15.4	46	39.2	49	5.5
Free cash flow yield (%)	-3.7	n.a.	-0.1	n.a.	5.9	n.a.	5.1	n.a.	7.1	n.a.	7.5	n.a.
Dividend paid	5	33.3	6	16.7	0	-100.0	1	n.a.	9	n.m.	10	9.1
Free cash flow (post dividend)	-42	-692.9	29	170.2	3	-88.0	12	252.2	37	200.5	39	4.7

Balance sheet (in EUR m)	2018/19	%	2019/20	%	2020/21	%	2021/22e	%	2022/23e	%	2023/24e	%
Assets	320	48.7	385	20.3	432	12.0	462	6.9	487	5.6	516	5.9
Goodwill	64	37.5	63	-2.4	103	64.9	103	0.0	103	0.0	103	0.0
Shareholders' equity	74	10.1	66	-10.7	94	42.5	120	27.5	142	18.5	167	17.5
Equity/total assets (%)	23.1	n.a.	17.2	n.a.	21.8	n.a.	26.0	n.a.	29.2	n.a.	32.4	n.a.
Net Debt incl. Provisions	117	111.0	164	39.8	185	13.0	175	-5.4	143	-18.3	110	-23.1
thereof pension provisions	38	-7.2	73	93.1	64	-12.0	66	3.0	68	3.0	70	3.0
Gearing (%)	158.2	n.a.	247.7	n.a.	196.3	n.a.	145.7	n.a.	100.4	n.a.	65.7	n.a.
Net debt/EBITDA	2.5	n.a.	3.9	n.a.	2.8	n.a.	2.4	n.a.	1.7	n.a.	1.3	n.a.

Structure

Sales by Segment 2021



Sources: Bloomberg, Metzler Research

Executive Summary

Specialist for IT outsourcing services especially for the Mittelstand

Datagroup is a one-stop-shop which enables its customers to fully outsource their IT infrastructure

Datagroup is among Germany's Top 5 IT service providers. It operates IT infrastructure and business applications with a clear focus on recurring cloud-related services. Customers can select from a range of solutions (e.g. Network Services, Application Management Services and SAP services) which are based on standardized processes and backed by service level agreements (SLAs). The company is a one-stop-shop for its customers which often outsource their IT processes completely to Datagroup on the basis of multi-year contracts.

Its structural setup with central supply units and decentralized sales & services give the company an edge in terms of quality and costs

Our positive stance is based on consistent and healthy top-line growth, a strongly diversified customer base, its focus on small & mid-sized companies and typical German Mittelstand companies (e.g. Boehringer, LH Technik, all not rated) mainly in Germany as well as a high but still growing proportion of recurring revenues. Its organizational and structural setup with central supply units and decentralized sales and services give the company an edge in terms of quality and costs. By offering centralized and standardized services based on an SLA approach, it continues gaining market share, especially vs. smaller competitors.

Customer focus and low customer concentration

Its core customers are mainly small & medium sized companies (annual revenue: ~EUR 100m to EUR 5bn) across the various industries and segments. No single customer accounts for more than 5% of group revenues whilst its top 5 customer stand for <10% of group revenues and gross profit. Losing one of these key accounts would hurt but clearly not derail the company on its growth path or even threaten the existence of the company. Customer satisfaction is rather high (as recently evidenced by a report on IT outsourcing in Germany by Whitelane Research). It ranks among the Top five service companies in Germany. This seems to be an elementary driver of comparatively high customer stickiness and renewal rates of almost 100%.

The Mittelstand opportunity - Growing IT complexity forces customers to switch to IT specialists

It is focused on the German Mittelstand market and capturing the market potential for IT outsourcing of companies with 250 IT users up to 20k IT users. There is a huge potential especially as SME's and Mittelstand companies typically still rely on their own in-house IT departments which tend to be more expensive and are increasingly facing ever more complex technologies (e.g., cloud, security) which require specialist know how.

Services are already almost completely cloud enabled

Its core services center around CORBOX which is a modular full service offering of standardized services and features. CORBOX services range from cloud-based data center services to security and big data. It is well positioned to provide IT services and to manage the complete IT infrastructure of its customers almost completely via cloud services.

It differentiates against competition with a focus on services and its CORBOX offering which is modular and SLA based service as a product approach

With its focus on services (hardware deliveries in FY'21 amounted to ~EUR 70m), Datagroup differentiates itself with an innovative service as a product approach with the CORBOX Service Suite and with the quality of its services. Due to its easy to use, highly flexible and advantageous CORBOX offering we see scope for the company to continue gaining new customers, to onboard them and hence to drive revenue growth as well as an increasing level of recurring revenues. Its focus on

SME’s gives it an advantage over larger players, which often tend to focus their product and service offering towards larger and often also global customers. In contrast to classical system houses, which tend to achieving EBITDA margins of 5-8%, Datagroup is capable of achieving EBITDA margins >15%.

Financials - Since its foundation in 1983, Datagroup has seen an impressive growth story

With strong and consistent growth (~15% p.a.) over the last decade, Datagroup has developed into one of the leading German IT service providers. Based on its structural set-up, its excellent and long-lasting relationships and access to customers, as well as its comprehensive product offering which centers around standardized IT services (CORBOX) we see scope for a continuation of healthy growth in next years. The intact outsourcing trend lays the basis for future growth. In 22e and 23e we forecast revenue growth of 10.9% and 7.6% to EUR 493m and EUR 530m, respectively, whilst EBIT should grow by 33% and 25% to EUR 38.6m and 48.1m with an implied increase in the operating margin of 2.6pp to 9.1% in '23e as Datagroup benefits from robotic process automation, rising efficiency and scaling.

Average contract duration of ~5 years limits competition and supports customer stickiness

With its wide service offering (service desk, end-user services, data center services, application management and SAP services), Datagroup allows customers to fully outsource their IT architecture and infrastructure in order to gain flexibility and to cope with an increasing level of complexity. Once a customer is on-boarded, this allows for decent contributions to Datagroup’s revenues and earnings whilst the average length of an average contract (~5 years) limits competition and supports customer loyalty and stickiness. This also serves as barrier to entry.

Low economic sensitivity - Datagroup as a resilient play on the continued trend towards IT outsourcing and cloud computing

The company stands out with low sensitivity to economic fluctuations. With its focus on managed services, which brings a high and still increasing proportion of recurring revenues (>75% of group revenues and >80% of the groups gross profit are derived from SLA's), Datagroup is perceived as less cyclically exposed than pure IT System houses which still tend to be highly dependent from hardware sales and availability which in the current market environment with global supply chain bottlenecks can severely impact fundamental development. It moreover seems rather resilient against worldwide economic developments as its basic IT services are often mission critical. In addition, Datagroup doesn’t have any specific sector risk and also no specific cluster risk within its customer base.

M&A is a core element of the group’ DNA and is seen as enabler for less costly growth

Acquisitions have been and will be a vital pillar of the company’s strategy in order to expand services, support revenue growth, improve customer and industry diversity. Potential targets include succession plans and restructuring cases. Datagroup has a successful takeover track record. Growing by ways of M&A seems less costly than growing organically whilst it helps getting quick(er) access to qualified IT personnel. As consolidation in the IT service industry in Germany is set to continue we believe that an active role of Datagroup in M&A will remain an important cornerstone of its strategic efforts to grow across its business activities. Future M&A adds upside potential and optionality to our investment case.

Valuation levels are appealing both in absolute and relative terms

With a PER '22e and '23e of ~19x and ~15x, respectively as well as an EV/EBITDA '22e and '23e of ~10x and ~8x, respectively shares are trading below its own trading history and a discount to peers of more than 15%. We expect this gap to be closed. Next to this, our DCF valuation (WACC: 7.5%; mid-term sales growth: ~6%, mid-term operating margin: ~9%) points to a FV of ~EUR 96. Using the blended average of both valuation methods, we derive at a combined FV of EUR 88.0, which we set as our PT underlining our Buy recommendation.

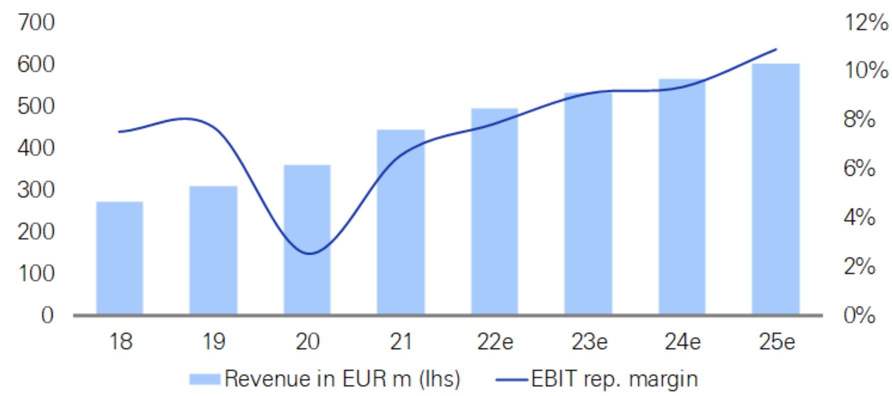
Investment Case

Company Background

Datagroup SE, headquartered in Pliezhausen near Stuttgart; Germany is a specialized provider of information technology (IT) services which designs, implements and operates IT infrastructure and business applications. The company's service and product portfolio ranges from pure IT consulting (e.g., IT architecture and IT landscape transformation), over software development and system Integration (e.g., mobile solutions) support, security and network services towards end user services.

Datagroup SE is the holding company of IT service provider Datagroup, which is active throughout Germany. With roughly 3,500 employees mainly in Germany, Datagroup is one of the top five multi-vendor IT system houses in the German IT market and we expect to generate approximately EUR 493bn in group sales in 22e. Operating profit, which is similar to EBIT 22e might reach EUR 40.5m according to our estimates.

Group: Revenue vs. EBIT margin evolution
in EUR m



Source: Company data, Metzler Research

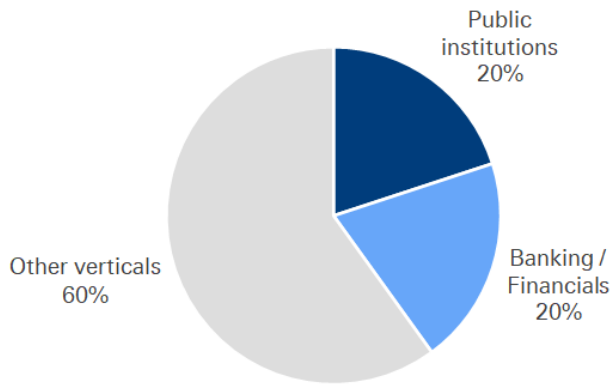
At the center of the company's service offering stands CORBOX which is a proprietary and module-based solution for IT outsourcing services ranging from data center services, network services, end user services, application management services, SAP services, printing services, communication and collaboration services, big data services, service desk services, security services, monitoring services, robotic process automation and continuity services.

Datagroup is among the leading independent IT service providers with a nationwide presence. It is almost completely focused on the German market (99% of group revenues). The registered offices and branches of Datagroup entities are exclusively based in Germany. Accordingly, a regional reporting doesn't provide any meaningful inside. With its focus on services (other than a couple of years ago, hardware deliveries are nowadays almost negligible) means that Datagroup differentiates itself from competition with innovative service as a product approach, with the CORBOX Service Suite and with the quality of its services (e.g., Services 24x7; high level of problem solutions already with 1st level support, low turn-around times).

Datagroup accompanies its customers along different stages during their IT transformation. There it targets to quickly enable and support customers to transform their legacy IT landscapes (e.g. organically grown or merged) into an up-to date, sophisticated as well as functional and flexible IT environment. Datagroup's solution division moreover focuses on customer-specific projects (e.g., automation of processes by ways of robotic process automation, or the development of applications) which helps freeing up a customer's IT specialists from repeating tasks.

Datagroup is a full-service provider for IT and Cloud Services which mainly targets companies with an annual turnover in the range of EUR 100m up to EUR 5bn. It moreover serves public institutions which in total stand for about 20% of group revenues.

Industry segmentation shows high diversity



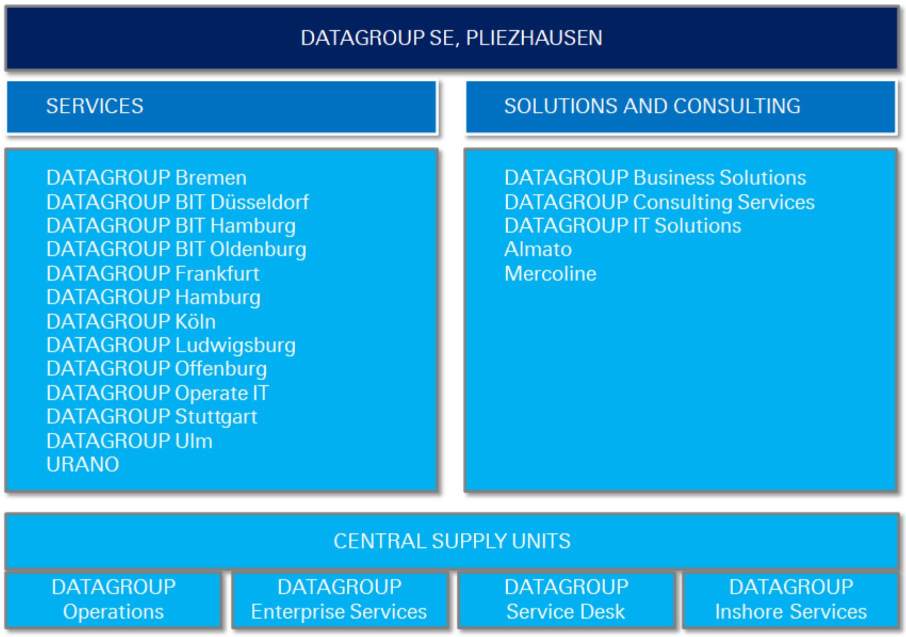
Source: Company data, Metzler Research

Its strong focus on customer satisfaction (pls. note in the latest survey from Whitelane, Datagroup again managed to be among the Top 4 services companies in terms of customer satisfaction) gives it an advantage over larger players, which often tend to focus their product and service offering towards larger and often also global customers. Among its target customers group of SME's and typical Mittelstand customers, Datagroup is often seen and perceived as a partner at eye level.

Group structure

Datagroup SE mainly includes the two operating subsidiaries and the central supply units listed in the chart below.

Group overview



Source: Company data, Metzler Research

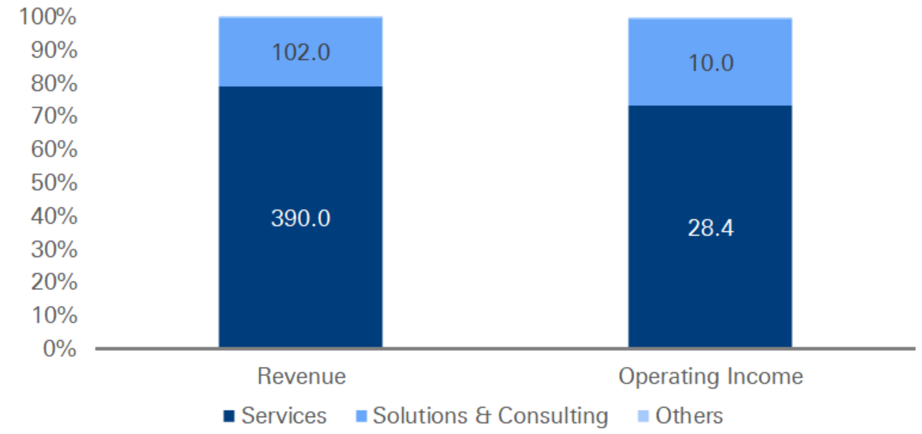
The operating subsidiaries of Datagroup SE are divided into two segments:

- Services ('21: ~78% of group revenues; 68% of group operating income),
- Solutions and Consulting ('21: ~22% of group revenues; 32% of group operating income).

In the segment "Services", the company clusters all subsidiaries which are primarily providing IT services such as the provisioning of IT workplaces (selection and procurement, on-site implementation, exchange and disposal of old equipment), service desk services as well as the services provided by the company's data centers.

In the "Solutions and Consulting" segment, the company has organized its subsidiaries and companies with a focus in providing highly qualified and specialized technology, the development of software and Consulting services with a focus on solutions.

Sales vs. Operating income by segment (data for FY '21)
in %



Source: Company data, Metzler Research

Shared services and central supply units support both segments

Datagroup pursues a decentralized strategy for the Group's organization. The two segments, Services and Solutions and Consulting are supported by shared services which comprise of Datagroup Operations, Datagroup Enterprise Services, Datagroup Service Desk, and Datagroup Inshore Services. These central supply units, are specialized production units, providing services for the Datagroup market units as internal competence and service centers within the Datagroup Group.

Operational leverage is based on centralizing individual services in order to benefit from synergy effects. Next to these central supply units which provide support for the individual companies, this also applies to the central controlling, financing, and management functions as well as central services such as accounting, human resources and the central IT services. As a result, Datagroup SE is able to provide a broad range of centralized and therfore efficient services for the group companies.

Customer focus

Focus on the Mittelstand which comprises of small and mid-sized companies up to EUR 5bn revenues p.a.

Datagroup works more or less exclusively for business customers and is focused on Mittelstand and partially even large companies as well as public authorities. In terms of size customers range from revenues of around EUR 100m up to EUR 5bn. Its core customers are mainly small & medium sized companies across the various industries and segments. No single customer accounts for more than 5% of group revenues.

A sample of customers

Source: Company data, Metzler Research

Typical Mittelstand companies and small & mid-sized enterprises (SME's) are Datagroup's targeted customers. Here, Datagroup's customer proximity across Germany is a key element of its success in the market as it allows the company to be in close proximity to its customers and thus to provide the necessary instant support and service.

Focussing on small and mid-sized companies is a vital strategy as these Mittelstand customers usually are interested in getting support from a locally focused rather than an international company where the focus is generally more orientated towards larger enterprises. The attractiveness of this segment for Datagroup is rather clear.

According to data from the European Union, there are close to 3.5m SME's in Germany. These represent around 99.6% of all businesses and account for around 54% of the economic added value and about 60% of employment in the private non-financial sector. In the entire EU, Germany's SME sector is one of the fastest expanding sectors at all.

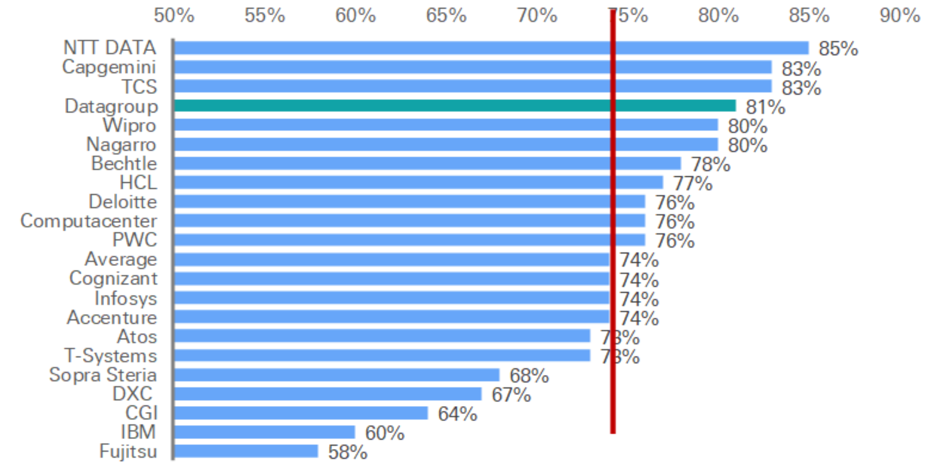
The segment is not only the market segment in the German IT market with the highest procurement volume (we estimate it to have a total volume of more than EUR 50bn) but also the one with lower purchasing volumes by individual customers and hence lower bargaining power at the customer side.

Competition in this segment is less pronounced in our view as larger service providers are usually more focussed on the larger clients and really small customers are relying more on regionally focussed IT service provider and IT system houses. The latter ones are usually only active in their specific region rather than across Germany and are also not suitable in providing support and services across the border.

High customer satisfaction as driver for growth (e.g., from up-selling) and key pillar for lower economic sensitivity

In the customer satisfaction ranking of the study on IT outsourcing in Germany (in total 830 outsourcing and cloud sourcing contracts were rated by customers) conducted by market research institute Whitelane and consulting company Navisco, Datagroup ranks fourth among the Top 10 outsourcing and IT service providers. In total, 21 IT service providers were part of the survey. This seems to be major driver of comparatively high customer stickiness and renewal rates of almost 100%.

Customer satisfaction (outsourcing in Germany)



Source: WhiteLane

Customers primarily value comprehensive know how of business processes, the general flexibility as well as the broad transformation services of Datagroup

According to the study most of the participants were satisfied with their IT service provider(s) as around 92% saw their IT sourcing relationships being rated as satisfactory. With a score of 85%, NTT DATA (not rated) achieved the top spot ahead of Capgemini and TCS which both recorded a satisfaction level of 83%. Datagroup with a score of 81% came in ahead of Wipro and Nagarro (formerly Allgeier) which both scored a satisfaction level of 80%).

For end-user services, contractual flexibility, business understanding and transformation quality, Datagroup even ranked as number one whilst it was ranked as number two in the area of cloud capabilities which are becoming more and more relevant. Worth noting is that Datagroup is far above the average in all disciplines.

Product and service offering

Datagroup provides basic IT services as well as the foundation for a company's digitalization with the help of its CORBOX, the modular full IT outsourcing portfolio, as well as its solutions in the Consulting and IT Solutions segment. The comprehensive portfolio covers different scenarios of a customer's digitization requirements.

The company's service and product portfolio ranges from pure IT consulting (e.g., IT architecture and IT landscape transformation), over software development and system Integration (e.g., mobile solutions) support, towards end user services.

Its core service offering centers around CORBOX which is a modular full service offering of standardized services and features. Corbox services range from cloud-based data center services to security and big data. It comprises a total of 9 sets of IT services, which cover the essential elements of a company's IT. These core services are furthermore enhanced by offering project related services. This also includes reselling of IT. The other CORBOX services such as end-user services are provided at local sites in all important economic regions of Germany.

The group's CORBOX "cloud-enabling platform" is highly scalable, benefiting from a centralized approach

At the center of the company's service offering stands CORBOX which is a proprietary and module-based solution for IT outsourcing services ranging from data center services, network services, end user services, application management services, SAP services, printing services, communication and collaboration services, big data services, service desk, security services, monitoring services, robotic process automation and continuity services.

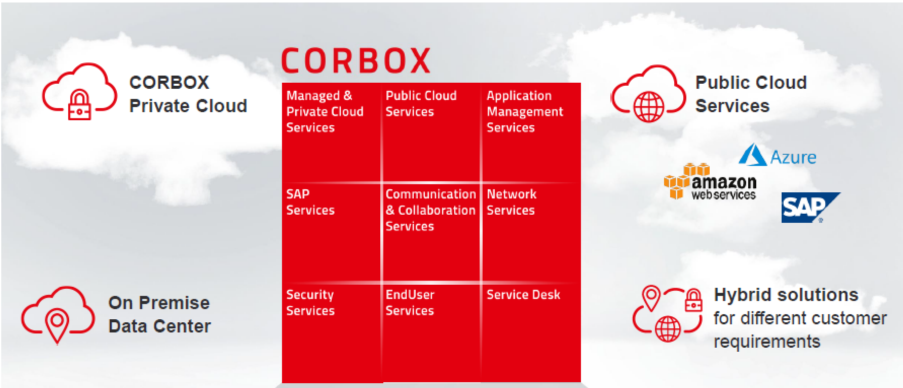
CORBOX is a concept of industrialization employed in the IT space

The CORBOX portfolio of services ranges from private and public cloud services to end user services. As all service processes are standardized, Datagroup is well positioned to operate key functions and digital systems of its customers. Hence, CORBOX covers the entire spectrum of IT services which allows customers to fully outsource their IT processes.

CORBOX services are based on standardized processes which translate into operational leverage

CORBOX is a modular suite of IT services which are based on a "Service-as-a-Product" approach. In total CORBOX offers nine different service families with ISO-certified services. Due to its modular design, CORBOX modules can be flexibly combined and thus offer customer not only reliable qualtiy but also high flexibility. CORBOX solutions are mainly cloud-based services which are based on standardized processes. Via defined service level agreements (SLAs) which are usually based on fixed price contracts provides customers with high visibility with regard to their IT costs. This makes IT a reliable and efficient means of production, enabling customers to advance the digital transformation of their business.

The CORBOX offering



Source: Company data, Metzler Research

With CORBOX, Datagroup offers its Mittelstand customers an opportunity to adopt new and advanced technologies. This not only allows them to benefit from increasing productivity and efficiency but also helps to reduce costs, complexity, and risks. Using CORBOX is more advantageous for these often small(er) companies and organizations than having to rely on their own in-house IT infrastructure. By using CORBOX, customers benefit from the scale of Datagroup and their ability to provide services remotely as well as via shared service desks.

CORBOX takes the role of a cloud enabling platform

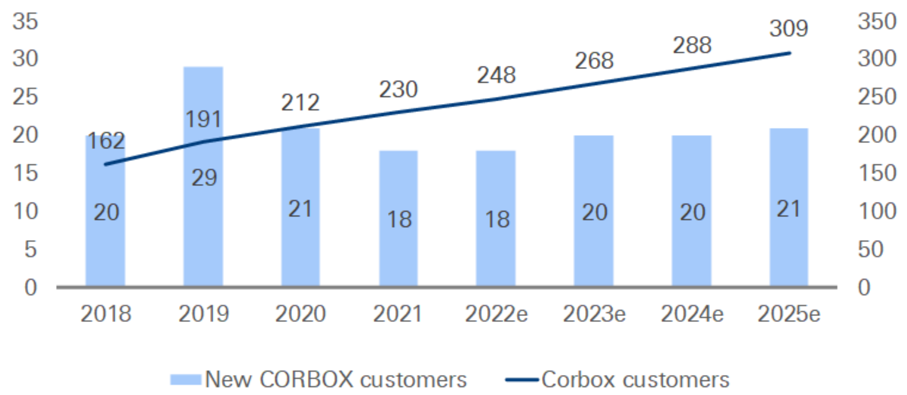
Datagroup offers support over the entire life cycle from migration of applications into the cloud to orchestration. Datagroup provides for continued optimization so the customer's requirements to the cloud landscape are optimally met even when conditions change.

IT is becoming increasingly more complex, whilst the challenges, especially in security, are growing. Companies need experienced experts to master them. This is exactly the opportunity for Datagroup with its comprehensive CORBOX offering.

CORBOX is a modular system of flexibly combinable services that cover the entire range of corporate IT operations.

Whether cloud services or innovative automation solutions such as Robots-as-a-Service, CORBOX remains the future-proof basis for the successful digitization of customers.

CORBOX: Customer development
in EUR bn



Source: Company data, Metzler Research

CORBOX offers resilient growth potential - there is scope for the company to gain market share in services for SMEs, particularly from its larger competitors

At the end of last year, Datagroup had around 230 CORBOX customers with long-term contracts. Datagroup therefore still has huge market opportunities and we expect it to gain market share (e.g. for 23e we forecast that Datagroup will have almost 270 CORBOX customers). Datagroup expects to win new customers because of its reliable and direct service approach, its broad yet standardised product offering, its eye-level service, its competitive pricing and because of the dissatisfaction of its target customer group due to the negligence of a larger supplier.

With its focus on the sale of IT services via CORBOX, Datagroup offers SMEs in Germany the opportunity to outsource their IT completely. The market in Germany is still very fragmented and larger IT service provider like Datagroup have to compete with a vast number of smaller in most cases just regionally focussed smaller players.

The total market potential for CORBOX is seen to amount to around 5,000 potential CORBOX customers in Germany alone by looking into the customer segment with annual revenues in the range of EUR 100m to EUR 5bn. In this customer segment, Datagroup expects to be able to replace competitors and incumbents that often have a different focus.

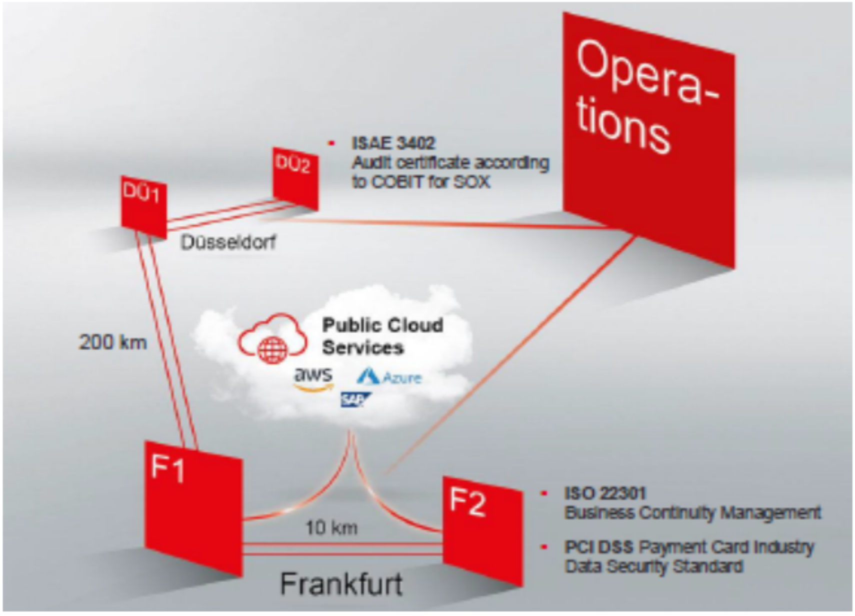
Not at least due to trends like cloud computing and digitalization we believe that outsourcing of IT will continue to increase in the German market. This should especially be the case for small & midsized companies as the increased complexity and rising need for secure, stable and reliable IT architecture raises the need to get support from IT specialists.

With its wide service offering, Datagroup seems well positioned as one-stop-shop for its customers. Services include service desk, end-user services, data center services, application management and SAP services. Often customers outsource their IT processes completely to Datagroup on the basis of multi-year contracts. Once on-boarded, this allows for decent contributions to Datagroup's revenues and earnings whilst the average length of an average contract (around 4.5 years) limits competition. It moreover is a means to support customer loyalty and stickiness. The intact outsourcing trend lays the basis for future growth.

An optimized production model

For the provision of its services, Datagroup relies on its production model which is based on a sophisticated combination of local and central production. In total the company is present in four data centres across Germany (pls note it does not own the facilities). Its focus is on two data centres in Frankfurt (state-of-the-art co-location facilities), which are mirrored.

It offers data center infrastructure in Germany with colocation and public cloud integration



Source: Company data, Metzler Research

Highly standardized processes and services are combined with proximity to customers

Key elements of the service provisioning such as service desk, data center operations, application management and SAP services are combined in central supply units. Thanks to the specialization and better utilization of experts and systems, this structural setup allows for economies of scale and quality advantages.

Contrary to this centralized approach, other CORBOX services such as end user services are provided at local sites in all important economic regions of Germany.

The combined production model with local market units and centralized supply units makes it possible for Datagroup to produce all CORBOX services in Germany in an efficient manner and with a high and advanced level of quality and security. Highly standardized processes and services are combined with proximity to customers.

A production model with virtually centralized supply units

Source: Company data, Metzler Research

Strategy

Datagroup will maintain its objective to further expand its position as a leading IT service provider for German Mittelstand companies with the highest customer satisfaction. The Group continues to make further investments in the continuous improvement of the CORBOX portfolio offering to address the specific needs of customers regarding so-called hybrid cloud models amongst others.

Furthermore, Datagroup is working on different projects to improve productivity. By centralizing and standardizing the production units and continuing to digitize business processes, Datagroup expects to achieve cost savings and to further improve and harmonize production processes.

Datagroup will moreover continue to examine possibilities for the acquisition of companies on a selective basis. The main focus lies on smaller Mittelstand service providers which complement the company's existing footprint due to their local presence or strengthen the customer portfolio and service offering. It is also conceivable to make an acquisition to complement the existing range of services from a reasonable technological perspective. The Management Board will examine takeover possibilities with great care.

Market and competition - Competitive landscape and position - Datagroup competes in a highly fragmented market

The market for information technology is characterized by strong competition. Alongside a large number of companies operating regionally or Germany-wide, major international companies also provide IT services.

In Germany alone, Datagroup competes with more than 80k IT companies. They offer products and IT services and thus address similar customers and customer groups. However, it has to be noted that the vast majority of these 80k IT companies are divergent in terms of size, service offering and specialization. Important for Datagroup is that most of these companies are relatively small (annual turnover of up to EUR 5 m) and in most cases they only provide their services on a local scale rather than throughout Germany or the entire D-A-CH region.

The company's CORBOX “cloud-enabling platform” is highly scalable. It benefits from a high level of standardization and its centralized approach This gives the company a competitive advantage in particular against smaller domestic IT service providers. Larger international IT services competitors seem to focus their efforts more on larger enterprise customers. Accordingly, Datagroup’s management has found an attractive niche market for the company’s service offering in a still highly fragmented market which should enable the company to deliver above industry top-line growth also over the mid-to long-term.

Small system houses still account for the majority of the market with the top 20 IT system houses being able to generate annual revenues >EUR 50 m

Only about 20 companies, including Bechtle (BC8 GY; Buy; PT EUR 58) , Cancom and Datagroup, are larger IT Service providers active in Germany. According to the Federal Statistical Office, the group of medium-sized IT companies with annual revenues of approximately EUR 50 to 250 m comprises about 120 companies. In total, we therefore see only two dozen companies capable of really competing with Datagroup as one of the market leaders which in our view is set to continue gaining market share in a still highly fragmented market mainly due to its one-stop offering of increasingly complex IT services, its clear focus on customers in terms of size and regions, but also due to an ongoing falling out of the market of smaller IT Service providers as well as the trend towards outsourcing.

Consolidation in the IT-services industry is likely to continue

IT-System Houses and service providers are increasingly becoming responsible for the planning (IT architecture), supply and the management of the IT infrastructure of customers.

The European IT-services industry is highly fragmented and heterogeneous as the product offering often differs materially. In many case the IT service providers address different customer segments or industries. differences can be in terms of geographical scope, focused industries and especially in terms of size (e.g., small companies, ‘Mittelstand’ or large enterprise customers).

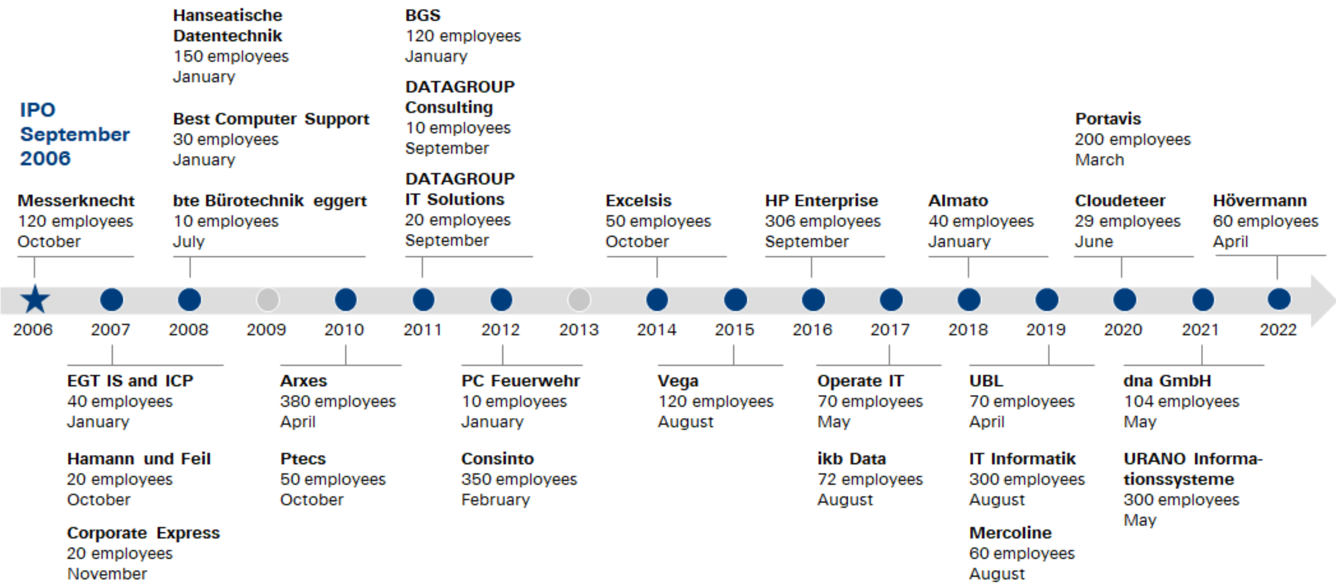
The German IT industry is still rather fragmented. Even larger IT System houses and IT service providers such as Bechtle with annual revenues 22e of EUR 5.8bn (domestic revenues around EUR 3.7bn) are far from being close to have dominant position.

Over the last decade the IT-System House and IT service industry has been characterized by a wave of consolidation. As a result of increasing complexity and rising demand for special skills, consolidation in the industry is likely to continue. At the same time, we still see a vital opportunity for smaller and locally focused IT service providers which best serve smaller business as well as small and home offices (So-Ho). More mid-sized IT companies should in our view be the ones which are most exposed to be taken over.

M&A is part of the DNA of the company

Since the IPO in 2006, the company made numerous acquisitions to provide customers with as many services as possible from a single source and, at the same time, to somewhat reduce the complexity of the IT market. In total the company has acquired 23 companies and successfully integrated them into the group.

Since its IPO, the company has been strongly active in acquiring companies, capabilities and know-how



Source: Company data, Metzler Research

The key rationale behind the acquisitions is to be seen in a number of factors which include:

- expanding the overall product and service portfolio,
- acquiring additional employees (capacity and skills),
- expanding the regional presence of company.

Acquisitions are seen as a quick and efficient means to quickly gain access to qualified and skilled employees at a comparatively low cost and without the need to educate and train them which can be costly and time consuming. Across the IT industry there is a major and growing lack of qualified IT specialists. Accordingly, competition is intense. This is especially the case in metropolitan areas. Besides, acquisitions are a lever to more quickly diversify the customer base and industries which is seen as an important structural development to mitigate and offset industry specific declines and to be more resilient in times of economic downturns.

As consolidation in the IT service industry in Germany is set to continue we believe that an active role of Datagroup in M&A will remain an important cornerstone of its strategic efforts to grow across its business activities.

Key M&A criteria

The company has a rather successful track record in acquiring and restructuring temporarily underperforming companies

Datagroup has a long-lasting and strong track record in acquiring companies, to enhance its capabilities and skills. Over the course of recent years if not to say over more than the last decade the company has shown its willingness to acquire already well-established businesses as well as struggling companies and to turn them around by transitioning the acquired organizations to Data group's more effective business model to eventually become value accretive.

Key elements of successful integration include the introduction and use of Datagroup’s centralised support, a virtualized and centralized service desk, common HR and finance and accounting functions, aligned marketing. On top the acquired business benefit from scale effects in the use of data centre assets.

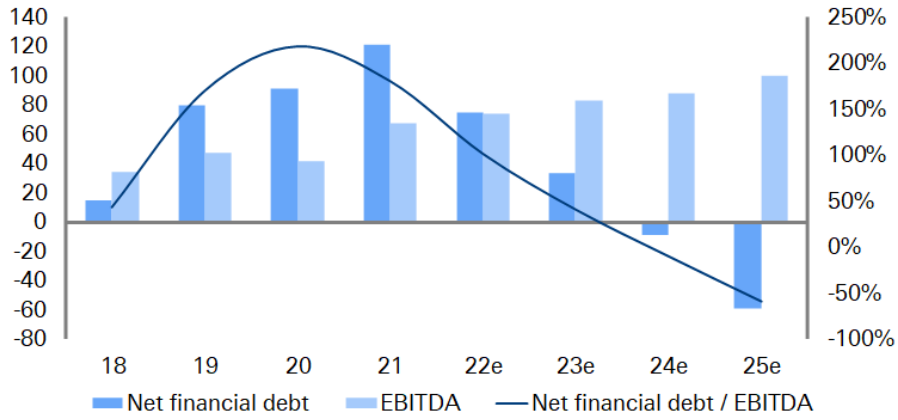
Employees which become part of the company as a result of an acquisition are virtually integrated in working processes. This allows them to continue living in their usual living environment. Almost from day one new personnel can thus contribute and help tp provide services to the customers.

Its M&A strategy is based on a couple of criteria. Any takeover target needs to have its headquarters in Germany, it needs to have a focus on IT Services which are mainly provided to German Mittelstand companies. Datagroup is specifically looking for company with annual revenues in the range EUR 5m to EUR 50m with a high level of recurring revenues. Datagroup prefers to acquire companies with no industry specialization which brings in employees with specialist knowledge. At current Datagroup aims particularly to acquire company’s which are experts in new technologies such as RPA, AI, cyber security, and cloud.

In the acquiring process, the profitability level of a takeover target plays a rather minor role as the company pursues a strategy of acquiring both profitable companies and even restructuring cases. The most important and decisive factor for the acquisition and integration of a company into the Datagroup organization is the underlying potential of the takeover target with regard to eventually being able to reach profitability in the long term under the helm of Datagroup.

We believe that Datagroup is prepared to lever its balance sheet up to about 2.5x net financial debt / EBITDA. By also taking into account its current balance sheet figures and metrics (e.g., net financial debt 22e of around EUR 109m, a gearing (net financial debt/equity) of around 90% as well as a net financial debt/EBITDA ratio of around 150%) we see (limited) scope for further acquisitions in the near term. In our view, acquisitions will likely focus on company’s and business models which help broadening the customer base as well as the company's footprint. Hence, such deals should prove margin accretive, not only for the segment, but also on a group level.

Declining net financial debt provides scope for further M&A
in EUR m

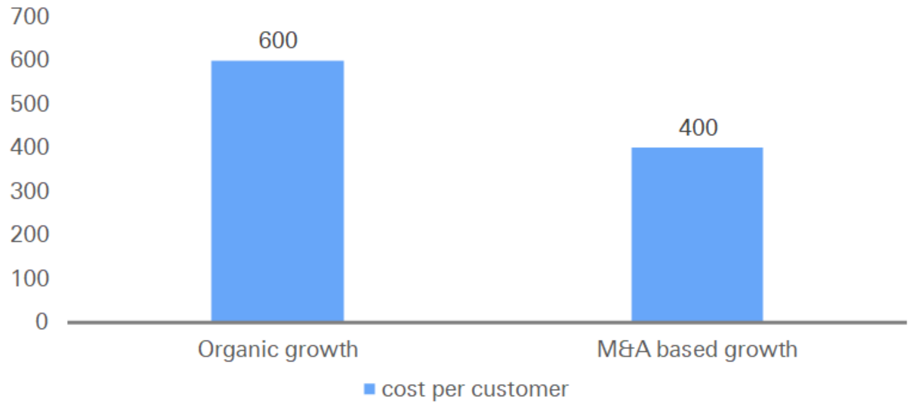


Source: Company data, Metzler Research

Growing by ways of M&A seems less costly than growing organically

Looking back and taking the experience of the last decade the company believes that growth induced by M&A is less costly than organic growth. According to the company's own calculations, generating incremental revenues by ways of organic efforts requires spending around EUR 600k per customer. In contrast, driving incremental revenue growth as a result of an acquisition on average requires spending only around EUR 400k per customer. This is one of the reasons why the company has been and will continue to be rather active in terms of M&A. It has to be noted that in times of elevated purchase prices this calculation becomes less appealing.

M&A based growth is cheaper than driving organic growth
in EUR k per customer



Source: Company data

Key risks for the future development of the group are as follows:

- The increasing lack of well qualified and highly skilled IT professionals could eventually be a risk for the group to be able to drive future growth
- A deteriorating economic development bears the risk of push outs and delays of IT projects and even IT outsourcing.
- Its focus on SME's bears the risk that the potential customer base shrinks in case of an economic decline and even recessionary market environment as this would most certainly impact IT budgets of these companies.
- The ongoing shift of IT services into the cloud provides a major opportunity for IT service companies like Datagroup. Nevertheless, cloud services might become more commoditized which in turn could eventually translate into intensifying price pressure and downside risks to the group's profitability.
- As an IT company which bases its service offering on service level agreements with fixed prices, we see a risk on the further evolution of the company's profitability in an increasingly inflationary environment.
- Cyber attacks are gaining momentum and have the potential to derail arranged and agreed service levels. In such a scenario we see the reputation for the group in danger which over the mid-term could harm the company's growth outlook.
- The company is comparatively active in M&A with regular acquisitions. This bears the risk of integration failures and/or overpaying which subsequently could lead to additional costs or write downs.

End-markets likely to display a (slight) slowdown in growth in 2022

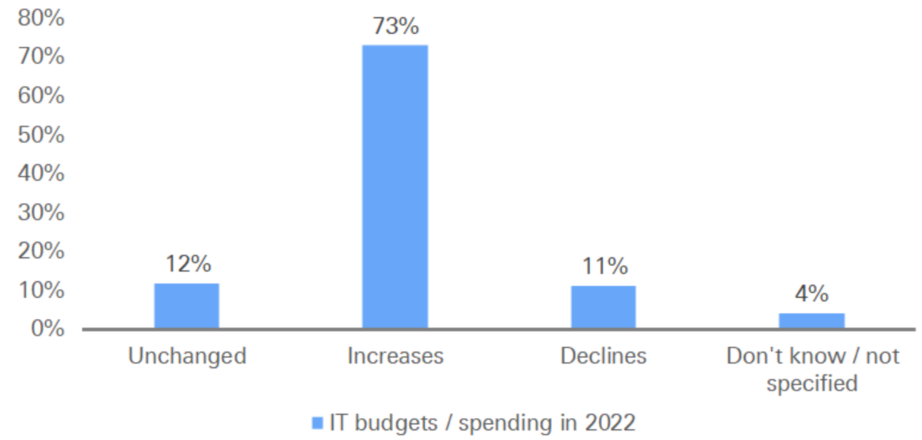
Digitization is fundamentally changing the economy. Accordingly, companies across the industries need to adapt. Increasing complexity of technologies and IT structures, continuous changes, the regular introduction of new innovations, the increasing influence of regulation is compounded by a permanent and deteriorating lack of IT specialists. Hence organizations, corporates and public institutions increasingly need to rely on support from outside (e.g., from IT service companies). The combination of all these factors plays in the hands of Datagroup which is a full service one stop IT service supplier.

In the annual survey by Capgemini of the IT budgets for 2022 of companies in Germany, Austria and Switzerland, almost three quarter of the respondents stated that they would be increasing their IT budgets. This is the highest figure since the survey began in 2003.

Additionally, almost a third of the participants and companies surveyed stated that they would be increasing their IT budgets by more than 10% in 2022 compared to only one fifth of respondents in the previous year.

About 11% will cut their IT spending, compared to just under 15% last year. Only 5% of the companies plan to reduce their budget by more than 10%.

IT budgets / spending in 2022
in %

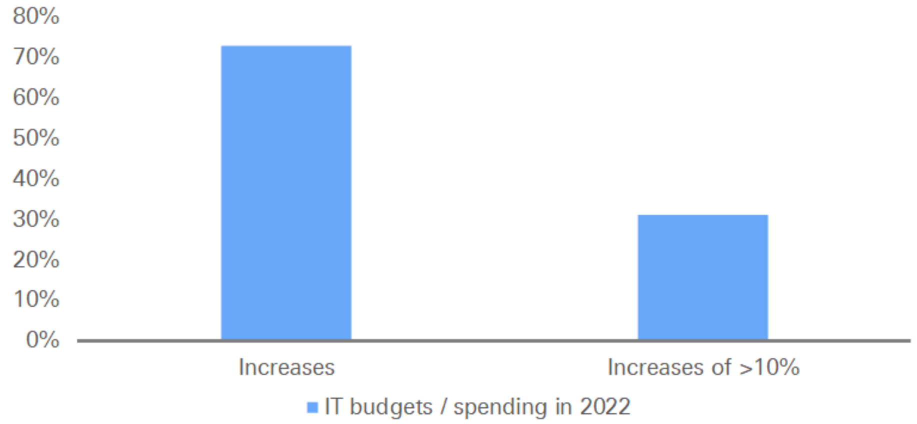


Source: Capgemini survey

The forecasts for 2023 are also very positive: just under 73% of respondents expect higher spending, and almost a third expect increases of more than 10%.

IT spending outlook for 2023 remains upbeat, too

in %



Source: Company data, Metzler Research

German IT market 2022 with growth of 5.9% yoy

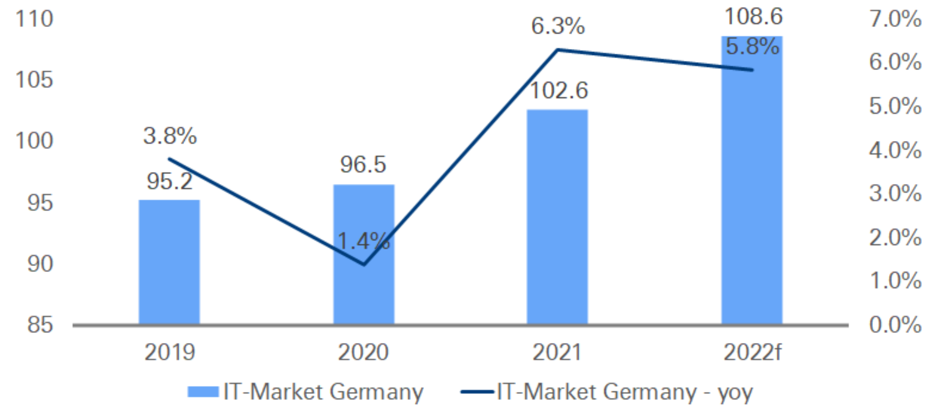
In 2021, industry wide sales exceeded the threshold of EUR 100bn for the first time. The market research institute Bitkom estimates the total volume of the German IT market in '21 which doesn't include revenues from consumer electronics and telecommunication services at EUR 102.5bn. Growth dynamics of the IT market in Germany strengthened throughout the year. This led to growth of around 6.3% yoy in the German IT market in 2022, as compared to only +1.3% in the prior year. The performance in the individual segments in Germany was mixed, too. The hardware business jumped by 8.3% yoy thus showing the highest growth of the three sub segments. Revenues from IT Services increased a further 3.7% whilst the software segment continued to display high growth (+8.0%).

Information technology grows in all segments

As in the previous year, the market for information technology will grow far above average in 2022 and further expand its importance as the largest industry segment.

For the current year 2022, Bitkom prognoses that the overall IT market will increase by 5.9% to EUR 108.6bn. Continued growth in demand and spending for information technology reflects the trend towards new workplace concepts such as home office and hybrid working as well as the need of organization to digitize their business processes to become more productive, more efficient, as well as more resilient.

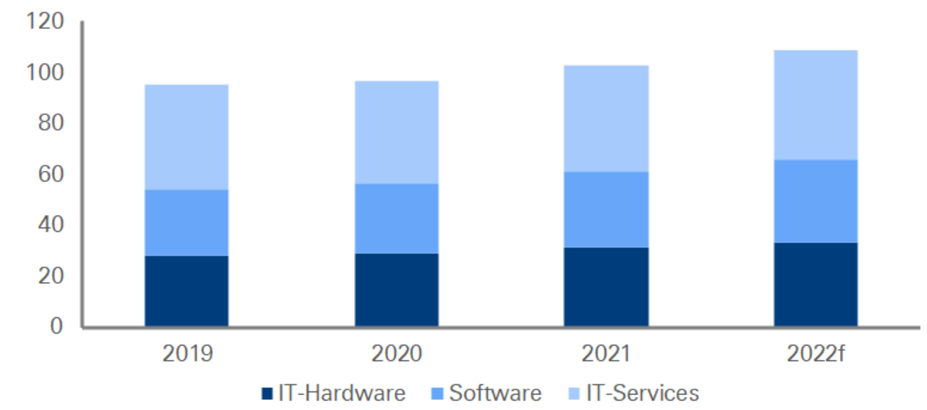
German IT market volume expected to increase further
in EUR bn



Source: Bitkom

Among the sub-segments of the German IT market the software segment, which is particularly driven by the cloud business, is forecasted to show the strongest increase of 9.0% to EUR 32.4bn whilst spending related to IT hardware is seen growing by 5.7% yoy. The largest sub-subsegment IT services business, which includes IT consulting, is seen growing steadily by 3.9% to EUR 43.0bn

German IT market volume by segment
in EUR bn



Source: Bitkom

Cloud transformation is a mega trend but there a several other important trends which require IT service support

The big trend that is expected to drive expansion now and in the future is cloud transformation. A vast majority of companies and organisation (more than 80%) is looking for effective and efficient way to move processes and workloads to the cloud. From the perspective of a IT service provider like Datagroup this should prove a solid to strong foundation for further increasing demand in the current year as well as in next years even against the background of a potential recession. Other important topics and trends which can be expected to fuel demand for outsourcing and IT services include:

- IT modernisation,
- Process optimisation,
- Digital workplace,
- ERP conversion (e.g. migration to S4/HANA),
- CRM (customer relationship management),
- Internet of things (IoT),
- Artificial intelligence/machine learning.
- Data analytics,
- Software development and implementation,
- Security.

Financials

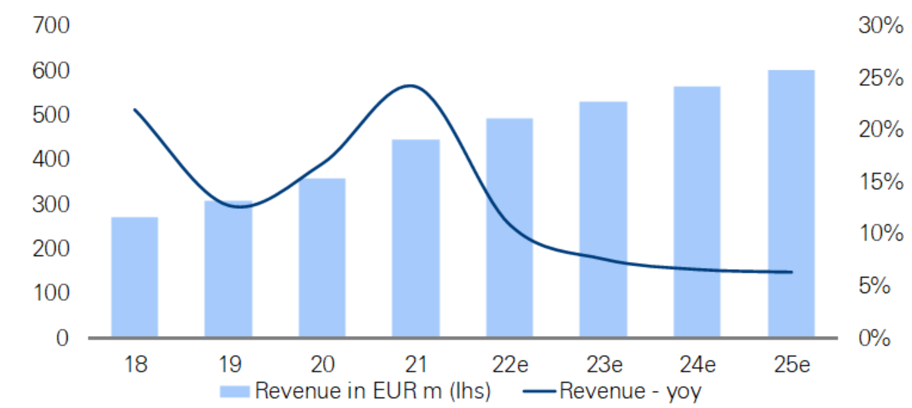
Top-line growth set to continue but at a slower pace than before

Following several years of strong top-line growth (3-year average growth: 17.9% p.a.; 5-year average growth: 20.6% p.a.) at Datagroup, which includes M&A effects, we expect the company to remain in growth mode also in '22e and '23e. Both business activities should be able to contribute albeit with divergent momentum. As the company should have left behind its basic investments in its own data centers, we expect capex and depreciation and amortization to decline in relation to group revenues.

Datagroup positions itself as a one-stop and vendor-independent provider of IT services. It aims to deliver integrated IT Solutions from a single source. In 22e and 23e we forecast revenue growth of 10.9% and 7.6% to EUR 493m and EUR 530m, respectively, whilst EBIT should grow by around 33% and around 25% to EUR 38.6 and 48.1m with an implied increase in the operating margin of 2.6 percentage points towards an EBIT margin 23e of 9.1%.

In addition, the company stands out with a rather low sensitivity to economic fluctuations. This is based on its high level of recurring revenues which we estimate to account for >75% of group revenues.

Revenue growth abating but still above end-market
in EUR m



Source: Company data, Metzler Research

Datagroup faces high demand for managed services, IT and cloud enabled solutions from its German Mittelstand customers. This success is in our view based on its advanced and strongly competitive CORBOX solutions offering (including rich software features, significant cost and time savings, greater transparency, and higher stability).

Historically, Datagroup has easily grown faster than its targeted German IT service markets which according to data from Bitkom is forecasted to grow by 5.9% in the current year '22. Stripping out the hardware business and solely looking at the IT Service business, Bitkom projects the market volume in Germany to grow by around 3.9%.

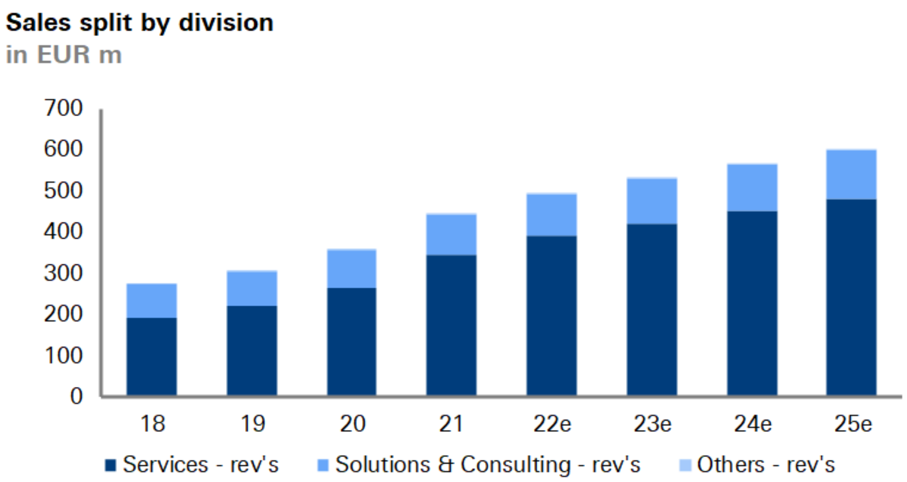
We expect high top-line growth to continue in the next two years as well as we forecast revenues to grow by 9.2% (CAGR 21-23e). Our forecast is mainly the result of the organic development whereas Datagroup might even continue to add additional growth by ways of acquisitions such as the recent acquisition of Hövermann IT which adds annual revenues of around EUR 9-10m.

IT Services segment

More specifically we expect the IT Services activity to grow with an average growth rate of around 10% (CAGR 21-23e). Among the key drivers we see ongoing efforts across the customer base in terms of the digitalization of companies. We expect Datagroup to continue benefitting from the further progressing consolidation in the IT service market within Germany. Particularly the company's focus on business with outsourcing and cloud services will present major opportunities in the future as well.

Solutions & Consulting

In the much smaller business activity Solutions & Consulting (range of services consists of highly qualified and specialized technology and solutions consultants as well as software developers) we forecast lower revenue growth rates of around 5% p.a. (CAGR 21-23e).



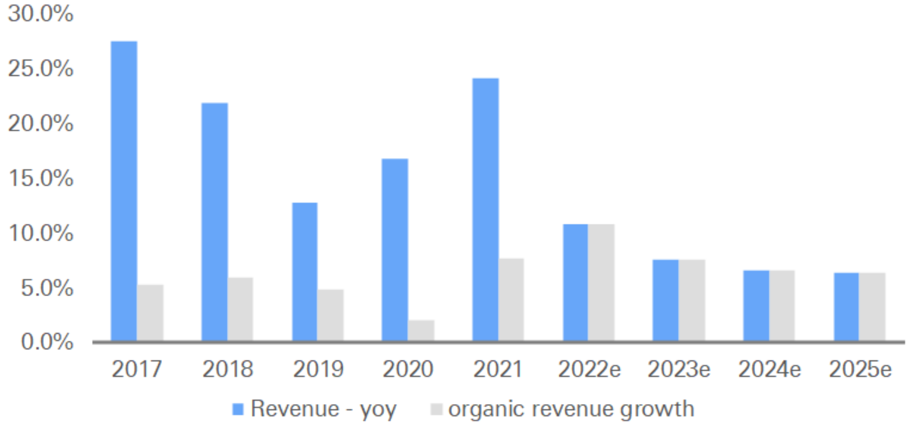
Source: Company data, Metzler Research

Organic revenue growth development

As shown in the subsequent chart, revenue growth of Datagroup is regularly supported by the comparatively high number of acquisitions. Stripping out the effects from adding revenues via acquisitions, organic growth for the group averaged around 15% over the last ten years and about 4.9% over the last three years. This compares to an average reported growth of around 18% p.a. over the last three years.

Following a decline in organic growth rates from around 6% towards a mere 2% in the period from '18 to '20, the company has managed to reinvigorate its organic growth in FY 21 (7.7%). In the current fiscal year '22e, the company has already started well as it delivered strong revenue growth in H1 FY'22 of around 17% yoy. Organic growth over the last 12 months came in at 4.2% vs last year. Latest m'ment comments point to a continuation of this development also in next quarters.

Revenue growth: Reported vs organic
in %



Source: Company data, Metzler Research

Outsourcing trend fully intact

Digitization is fundamentally changing the economy. Accordingly, companies across all industries are seeing the need to adapt their organizations and processes in order to stay competitive. Due the increasing complexity of new technologies and IT structures, the need for ongoing adoption of new technologies and innovations as well as the further risen lack of well-trained IT specialists outsourcing is increasingly becoming a major success factor for companies.

In the study conducted by market researcher Lunendonk & Hossenfelder on the market for IT consulting and IT services in Germany, 59 % of companies surveyed said they were interested in a closer cooperation with full-service IT service providers in the future. The study also found that user companies are planning to increase their IT budgets for 2022.

A separate study conducted by Bitkom found that focussing on core business is the main driver for organizations in Germany planning to outsource more (66%), followed by access to innovation (62%) and more scalability to business needs (58%). In contrast to the majority of Europe, cost reduction is not considered one of the most influential outsourcing drivers, cited by just 49%. At the same time many companies (56%) are lacking specialists to accelerate their own digitization. In total, 71% of all respondents aim to outsource their IT tasks at the same rate or more than last year. More than 40% are even planning to outsource more in the next two years.

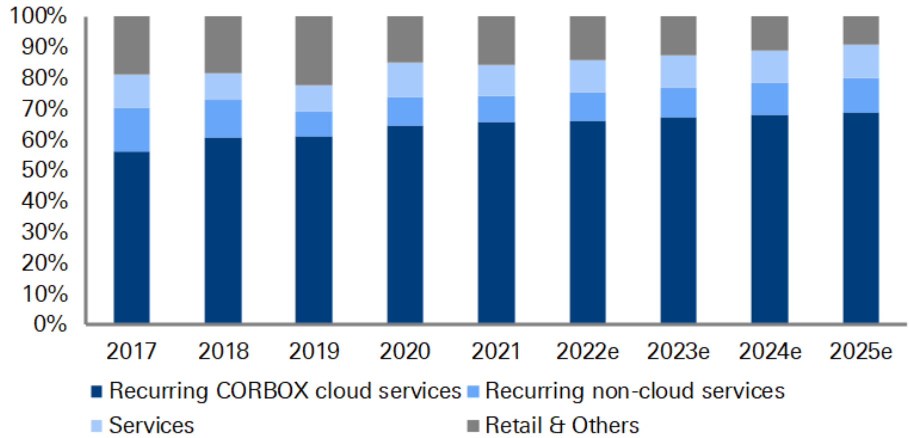
By industry, most outsourcing is predicted for the energy and utilities sector with 56%, followed by the manufacturing and chemicals sector with 50%. In contrast, only 36% of financial services organizations are planning to increase their level of outsourcing while one in five respondents from the sector are planning to insource (8% above the overall average for Germany).

Increasing digitization and cloud shift as driver of demand and growth

The continuing trend towards digitization and cloudification of IT systems, not only in the private sector but also for public authorities, is an opportunity for Datagroup to offer additional services to existing customers or attract new customers for the comprehensive CORBOX service portfolio. Datagroup responds to new technologies by providing related offers to its customers, for instance in cloud technologies, and consistently updates its service offering.

Sales split - licenses vs. recurring vs. consulting

in %

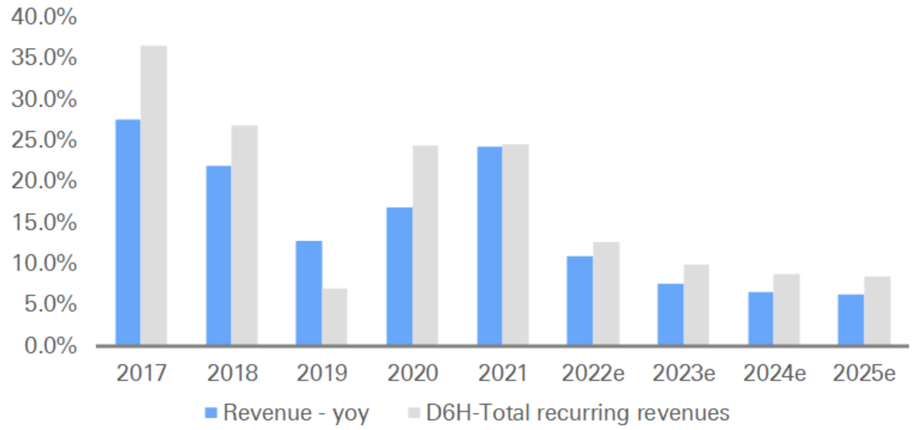


Source: Company data, Metzler Research

Recurring revenues become even more important thus raising the visibility

In '20 and '21, recurring revenues which are derived from CORBOX cloud services as well as from recurring non-cloud services rose by about 25% p.a. to EUR 293m in '21 thus easily surpassing the 20.5% yoy growth p.a. in group revenues over the same period.

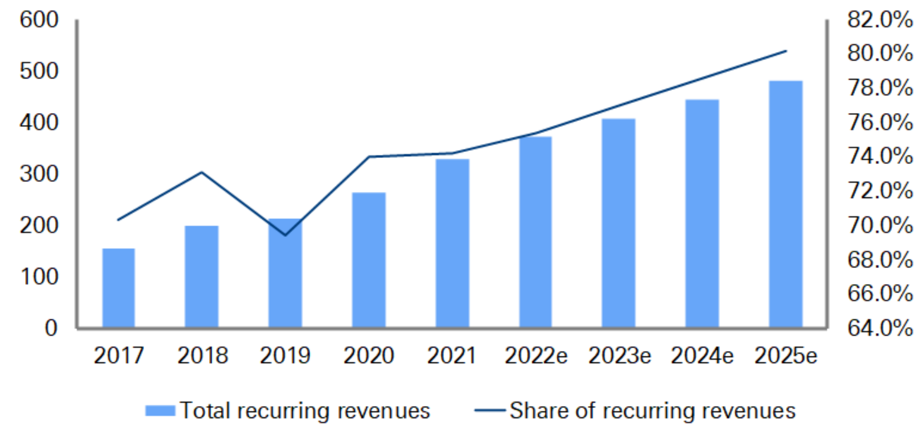
Recurring revenues are growing faster than reported revenues
in %



Source: Company data, Metzler Research

As a result, the level of recurring revenues has climbed almost a further 5 percentage points to a level of around 74%. Looking forward we expect a further increase in recurring revenues of around 5 percentage towards a level of almost 80% by '25e. This highlights the ongoing momentum in revenues related to longer term contracts. The increasing level of recurring revenues should help raising the visibility and stability of the business going forward.

Share of recurring revenues
in EUR m



Source: Company data, Metzler Research

Earnings and profitability with further upside and above peer levels

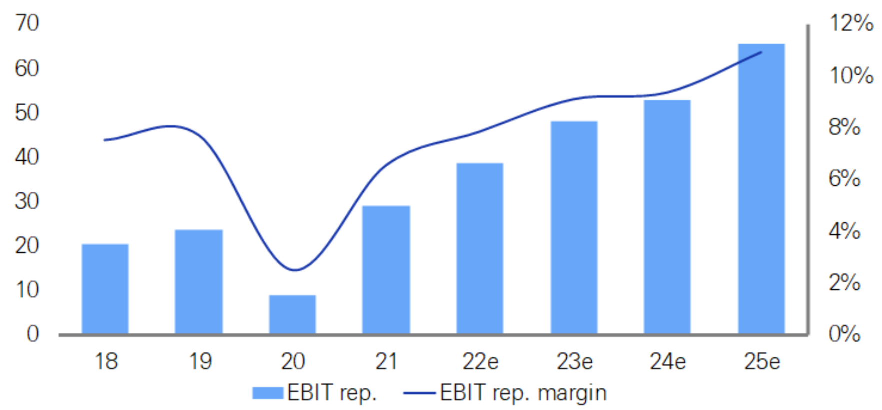
In '21, Datagroup achieved an EBIT of EUR 29.1m, which corresponded with an EBIT margin of 6.5%. On an adjusted basis (excluding one offs and ppa amortization), EBIT FY'21 came in at EUR 34.7m and a respective margin of 7.8%. This compares with an EBIT adjusted margin of 7.2% and 7.7% in the two preceding years and shows the slight upward trend in operating profitability.

By centralizing and standardizing the production units and continuing to digitize business processes, Datagroup is working on different projects to improve productivity. The further improvement and harmonization of production processes should help to achieve further cost savings.

With the intensified use of AI (artificial intelligence) and especially RPA (robotic process automation), m'ment aims to further drive the productising of its offered services to an even higher degree. These efforts are important measures to more than offset rising procurement costs as well as rising wages.

On the earnings side, steady margin improvements should also be achievable beyond the current financial year thanks to increasing economies of scale and the rising share of higher-value services. In addition, operating profitability is set to benefit from a relatively declining impact of depreciation and amortization in the aftermath of the investment phase.

EBIT margin with upside
in EUR m



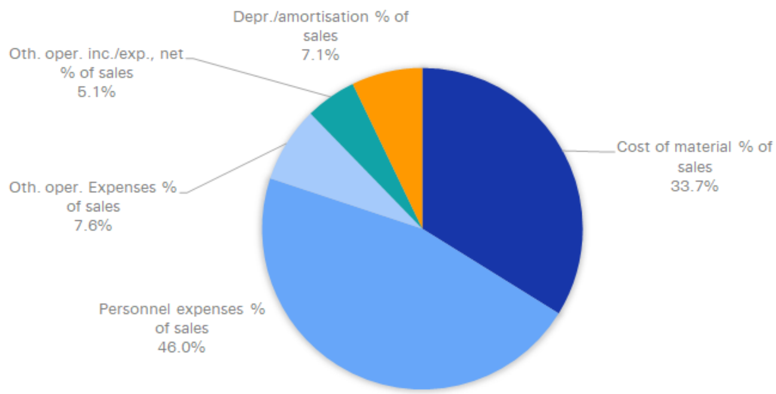
Source: Company data, Metzler Research

Development of costs and the company's cost structure

As an IT Service company with a focus on managed IT services company, the company is heavily dependent on the productivity and reliability of its employees. Looking at the cost structure of the group shows that the company is able to generate high gross margins (21: 66.3%; 5-year average 69.7%).

Its single largest cost block is however related to its employee base. Personnel expenses of the group account for 47.9% of group revenues (5-year average: 50.7%). The declining personnel expenses ratio against the background of generally increasing salaries in the IT environment shows already the success of the company in substituting personnel expenses by ways of automation of repetitive tasks and processes and the benefit from rising scale and industrialization of its product and service offering.

FY'22e: Cost structure is dominated by personnel expenses



Source: Company data, Bloomberg, Metzler Research

Increasing use of RPA should support margin expansion

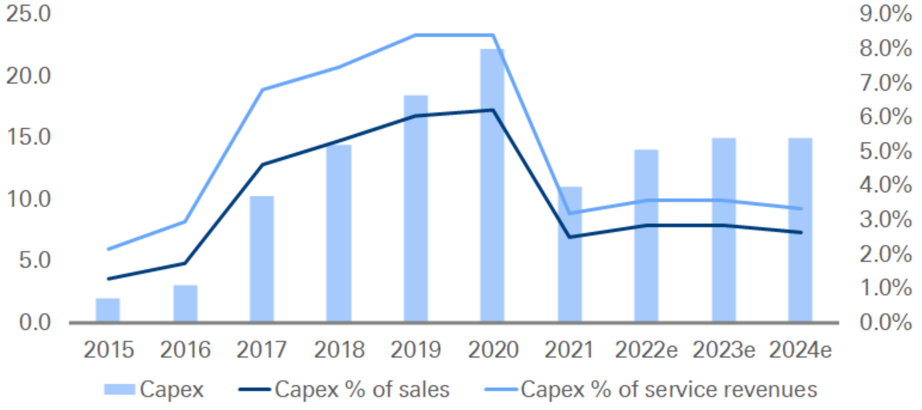
Looking ahead we think that the further increasing scale, the rising revenues form CORBOX services which tend to be more automated especially for repetitive tasks and further efforts of the group to streamline and optimize its services via robotic process automation and standardization should translate into increasing profitability and hence rising operating margins.

End of Investment Cycle – Depreciation returns to normal

A few years ago, Datagroup started increasing its investment activity. Starting with the financial year 2017/18, the company significantly raised its investment to revenue ratio from around 1.7% of group revenues (roughly 3% of the groups service revenues) towards a peak level of around 6.2% of group revenues in FY 19/20. The whole investment cycle lasted from FY 17/18 to FY 20/21. It was the result of management ambition to increase its data center capabilities and capacities. It has to be noted that Datagroup pursues a strategy of operating its data centers in Germany in the colocation model (colocation = renting of secured, electrified and cooled areas in which computers and storage are installed). This means that capex is only spent on computer technology, maximum security, perfect connection / geo-redundancy and maximum flexibility. Consequently, fixed costs are not an obstacle to growth.

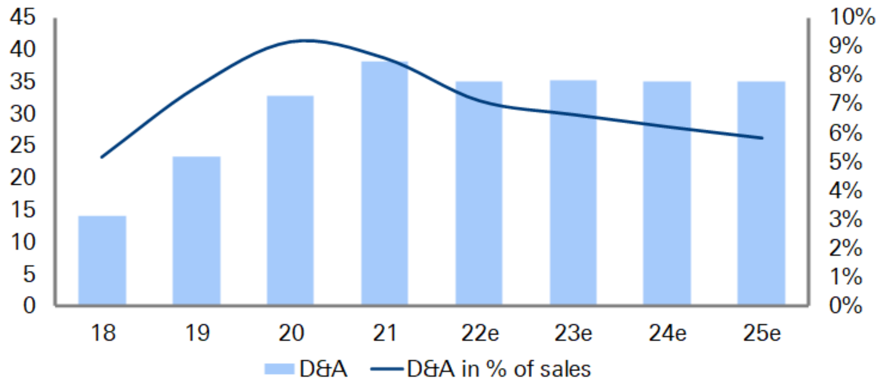
Now that the investment phase has come to an end, we believe that the company will largely be able to deliver future revenue growth within its existing structure. Accordingly, the capex to revenue ratio should remain within a range of 2.8% to 3.2% of group revenues. This corresponds with annual capex spending of around EUR 15m for the current financial year as well as about UER 17-18m in the next two financial years.

The investment cycle seems over
in EUR m



Source: Company data, Metzler Research

D&A should have peaked
in EUR m

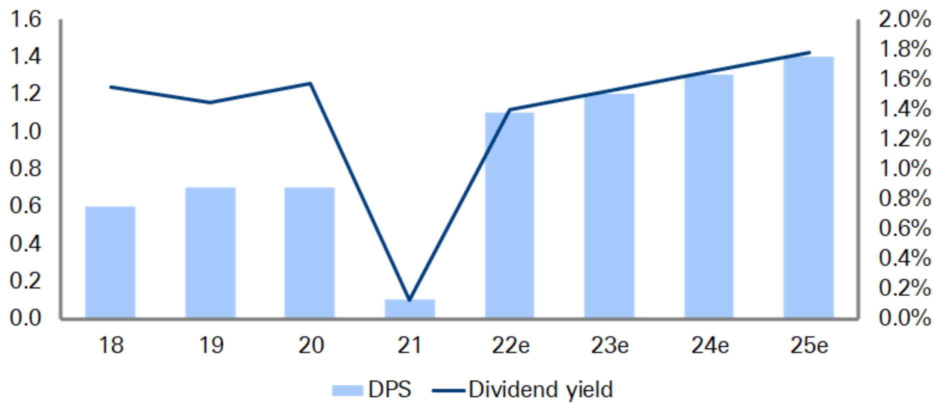


Source: Company data, Metzler Research

A clear dividend policy with a focus on keeping funds in-house in order to drive top-line growth

Datagroup pursues a clear dividend policy with which it aims to support the company's growth strategy. Management sees ongoing good growth potential in the IT environment as a result of the mega-trend digitization. Priority number one thus remains in using future profits to finance the growth and development of the business. Taking a look at the pay-out ratio we find that despite this focus on funding of growth opportunities the payout ratio still amounted to an average of around 40% over the last five years. For the current financial year 2022e we expect Datagroup's management to propose a dividend of EUR 1.1 (pay-out ratio of ~37%).

DPS and dividend yield
in EUR



Source: Company data, Metzler Research

Valuation

Valuation - Well below average historical levels and with a discount of more than 15% to peers

Our valuation is based on a DCF valuation and a peer comparison, which deliver fair values of ~EUR 96 and ~EUR 80, respectively. Using the blended average of both valuation methods, we derive at a combined fair value of EUR 88.0 for the shares which we set as our price target underlining our Buy recommendation.

Since the beginning of the year, Datagroup shares (YTD performance: -34%) have performed poorly thus underperforming both the TecDAX (YTD: -27%) and the SDAX (YTD: -25%). Accordingly, Datagroup shares are now trading at a PER '22e and '23e of ~19x and ~15x, respectively as well as an EV/EBITDA '22e and '23e of ~10x and about 8x, respectively. As a result, shares are currently trading well below average multiples (more than 30% below its 5-year average) as well as earlier peak multiples (more than 50% below its maximum trading multiples).

Valuation at the current share price and at our new price target

	Valuation @ price	64.0			Valuation @ PT	88.0		
	2021	2022e	2023e	12m fwd	2021	2022	2023	12m fwd
P/Sales	1.2x	1.1x	1.0x	1.0x	1.6x	1.5x	1.4x	1.4x
EV/EBITDA	**10.7x**	**9.6x**	**8.1x**	**9.0x**	**13.6x**	**12.3x**	**10.5x**	**11.5x**
EV/EBIT	24.7x	18.4x	14.1x	16.4x	31.6x	23.6x	18.2x	21.2x
P/E adj.	**21.0x**	**18.7x**	**15.2x**	**17.1x**	**28.9x**	**25.7x**	**20.9x**	**23.5x**

Source: Company data, Metzler Research

At our price target of EUR 88.0, Datagroup would trade at a PER adj. 12m fwd of around 24x as well as EV/EBITDA 12m fwd level of around 12x. We view these multiples as reasonable in light of the expected development of fundamentals in the next few years. Implied multiple levels at our price target would mean a discount of around 25% on average across these two valuation metrics compared to Datagroup's average valuation levels recorded over the last three years.

Trading below historical averages - Multiple expansion has however been accompanied with improving fundamentals

At the current share price, Datagroup's shares are trading more than 30% below the long-term average recorded over the last five years. We think that this is just a temporary situation where technology exposed companies are out of favour. As soon as markets are stabilizing and normalizing again we think the advantages of Datagroup's business model will again come to the fore and again be in favour of investors. The high level of customer stickiness and recurring revenues will clearly mitigate the full impact of current headwinds. Increasing complexity of IT and hence the need for specialists like Datagroup which enable customers to transform and to digitize their processes and business models is rather increasing than abating. This will remain a key driver for the groups fundamental development in next years and a justify rising valuation levels.

Our peer comparison points to a multiple based fair value of EUR 80

Discount of more than 15% to peer valuation levels

Based on our peer group comparison, we believe a multiple-based fair value of EUR 80 is reasonable. Taking into account, EV/EBITDA and PER adj. multiples for both 22e and 23e, Datagroup shares are currently already trading with a discount of more than 15% vs our selected peer group.

Comparing key metrics for Datagroup like sales growth (CAGR 2021–23e: ~9.2% vs. 12.0% for its peers) and operative earnings growth (EBITDA CAGR 2021–23e: 11.3% vs. 19.2% for its peers) a slight discount appears justified. By also taking into account 1) the much higher profitability level of Datagroup (its EBITDA margin of >15% is more than four percentage points above peer average), and 2) its already high level of recurring revenues of more than 74%, we believe that Datagroup should trade at least in line with its peers.

In our peer comparison, we include 1) Germany-based companies such as Adesso SE, Bechtle, Cancom, Allgeier and Nagarro SE, 2) UK based IT specialist Softcat PLC as well as US based IT hardware and service provider CDW Corp.

In some areas Datagroup also competes with T-Systems and IBM. Yet their activities in Datagroup's market segment mark only a fraction of group revenues. Thus, we refrain from including T-Systems and IBM.

Peer comparison

	BB	Price	M.cap	EV/EBITDA		P/E adj.		Sales CAGR	EBITDA margin	
	ticker	LCY	2022	22e	23e	22e	23e	'20 - '22e	22e	23e
Adesso SE	ADN1 GY	153.4	997.6	11.4x	9.3x	27.4x	22.7x	14.9%	12.1%	12.2%
Allgeier SE	AEIN GY	34.5	393.6	7.8x	5.9x	20.0x	14.0x	18.9%	12.4%	13.5%
Bechtle AG	BC8 GY	36.6	4,606.6	9.9x	9.1x	18.6x	17.1x	9.0%	7.9%	7.7%
Cancom SE	COK GY	32.8	1,263.6	5.3x	4.6x	21.2x	18.0x	7.2%	9.3%	9.4%
Nagarro SE	NA9 GY	112.2	1,545.7	14.9x	10.7x	30.8x	21.8x	34.2%	13.9%	15.1%
Softcat PLC	SCT LN	12.5	2,497.6	15.1x	17.9x	22.2x	23.9x	5.3%	11.2%	9.1%
CDW Corp/DE	CDW US	162.5	21,956.3	13.3x	12.1x	16.9x	15.5x	12.0%	8.5%	8.7%
Peers (mean)				**11.1x**	**9.9x**	**22.5x**	**19.0x**	**12.0%**	**10.8%**	**10.8%**
Datagroup*	**D6H GY**	**64.0**	**534**	**9.6x**	**8.1x**	**18.7x**	**15.2x**	**9.2%**	**15.0%**	**15.7%**
Datagroup vs. Peers (mean)				**-13%**	**-18%**	**-17%**	**-20%**	**-2.8pp**	**4.2pp**	**4.9pp**

Source: Bloomberg, Metzler Research * = Metzler coverage

Selected peers at a glance

Adesso SE

Adesso SE provides information technology services. The Company offers software development, maintenance and support, managed IT, and planning services. Adesso serves automotive, banks, energy, healthcare, retail, life sciences, public authorities, media, and insurance industries in Europe.

Allgeier SE

Allgeier SE is a consultancy and service company in the German-speaking world.

The Company offers a full-service approach in its three divisions of IT Solutions, IT Services and recruiting, from the design to the implementation and operation of IT landscapes.

Bechtle AG (Buy; PT EUR 58)

Bechtle is a German IT service and trading company which targets at SMEs and the public sector. Its comprehensive portfolio comprises IT equipment as well as operation services to provide customers with IT infrastructure, availability and reliability but also data security. It convinces, in our view, with a clear focus on customers in terms of size and region but also with continuous above-market revenue growth. Its System House division offers a wide range of IT services like consulting, support, procurement and managed services to clients in Germany, Switzerland and Austria. The E -Commerce division provides IT procurement and online services in many European countries. Bechtle was the largest system house in Germany in 2018.

CANCOM SE

CANCOM SE is an integrated information technology (IT) services provider. The Company provides IT products and services. CANCOM's products and services include security, network and system solutions, communication, storage, backup and archive services, and IT management.

Nagarro SE

Nagarro SE provides information technology services. The Company offers enterprise and application lifecycle solutions, infrastructure management, digital commerce, IoT, product engineering, and consulting services. Nagarro serves customers worldwide.

Softcat PLC

Softcat PLC provides information technology services. The Company offers commodity sourcing, software licensing, e-procurement, unified communications, and managed services. Softcat serves customers in the United Kingdom.

CDW

CDW - Corporation of Delaware provides information technology products and services. The Company offers hardware, software, computer peripherals, cloud computing, mobile devices, network communication, and security solutions. CDW serves business, government, education, and healthcare customers throughout North America.

The DCF valuation approach delivers a fair value of EUR 96 per share

Key determinants used in our DCF valuation

Our DCF valuation delivers a fair value of EUR 96 per share by using key assumptions like medium-term sales growth of ~6% coupled with a medium-term operating margin increasing by more than 1 percentage point to 9% at the end of the transition period. For the terminal value period we have assumed FCF growth of 2.5% p.a. We also applied a WACC of 7.5%.

In the following table, we have summarized our key assumptions and parameters applied to the DCF valuation.

DCF model renders a fair value per share of 96.1

in %		in EUR m	
WACC	7.5%	**Enterprise value**	**977**
Cost of debt	2.7%	Present value	371
Cost of equity	9.6%	Terminal value	607
Beta	1.2	Net debt	-175
Market risk premium	6.5%	Equity value	802
Long-term debt interest	2.7%	**DCF value per share (in EUR)**	**96.1**

Source: Company data, Metzler Research

In 2022e and 2023e, we forecast Datagroup's revenues to increase by ~11% yoy and ~8% yoy respectively. Over the medium-term, we forecast Datagroup to achieve average top-line growth of almost 7% (CAGR 2021-25e). Afterwards, revenue growth momentum is likely to moderate also as a result of the base effect. Average revenue growth of around 6% during the transition period (2025e to 20230) would still be around double as high as expected global GDP growth or about triple as high as German GDP growth.

In addition to ongoing above-average top-line growth, we also incorporated a gradually rising EBIT margin from 7.8% in 22e to around 9.6% in 25e and around 11% in 30e. In our view, this assumption should still be conservative as rising scale and the positive impact from robotic process automation which is yet to unfold should allow for rising profitability.

DCF sensitivity

As usual, our DCF valuation approach is highly sensitive to changes in key assumptions like the applied WACC as well as the assumed long-term growth. Applying a 1 percentage point higher WACC of 8.5% instead of 7.5% as used in our base case would reduce our DCF-based fair value by around EUR 19 per share to ~EUR 77 while applying a 1 percentage point higher long-term growth of 3.5% (as compared to our base case of FCF growth of 2.5% p.a.) would lift our DCF-based fair value for the shares to ~EUR 115 and thus by around 19%.

Sensitivity

		Growth (%) in phase III				
	96.1	**1.5%**	**2.0%**	**2.5%**	**3.0%**	**3.5%**
	6.5%	104.2	113.3	124.8	0.0	159.1
	7.0%	92.8	100.0	108.8	119.9	134.0
WACC (%)	**7.5%**	83.4	89.2	**96.1**	104.5	115.1
	8.0%	75.4	80.1	85.6	92.3	100.4
	8.5%	68.5	72.4	76.9	82.2	88.6

Source: Metzler Research

Balance sheet

(in EUR m)	2018/19	%	2019/20	%	2020/21	%	2021/22e	%	2022/23e	%	2023/24e	%
Assets	320	48.7	385	20.3	432	12.0	462	6.9	487	5.6	516	5.9
Fixed assets	**172**	**49.9**	**204**	**18.9**	**253**	**24.3**	**259**	**2.0**	**247**	**-4.7**	**237**	**-4.0**
Intangible fixed assets	83	33.7	89	7.5	146	64.5	154	5.4	149	-3.6	143	-3.6
Goodwill	64	37.5	63	-2.4	103	64.9	103	0.0	103	0.0	103	0.0
Other intangible assets	19	22.0	26	41.4	43	63.6	51	18.3	45	-10.8	40	-11.9
Tangible assets	60	168.8	81	34.6	70	-13.6	62	-11.0	50	-20.0	38	-22.9
Technical plant and equipment	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Financial assets	29	-4.9	34	19.0	37	9.4	42	13.4	48	13.8	55	14.2
Other financial assets	15	-48.4	32	117.2	36	12.6	37	3.0	38	3.0	39	3.1
Current assets	**149**	**47.3**	**161**	**8.3**	**155**	**-3.8**	**169**	**8.8**	**205**	**21.4**	**242**	**18.1**
Inventories	19	866.7	7	-63.5	4	-45.8	4	10.9	4	7.6	5	6.6
Receivables and other assets	78	31.8	90	15.5	107	19.2	114	6.5	121	6.2	128	5.5
Cash and cash items	47	22.6	64	34.7	44	-31.0	50	14.1	79	57.0	109	38.0
Deferred taxes	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Shareholders' equity and liabilities	320	48.7	385	20.3	432	12.0	462	6.9	487	5.6	516	5.9
Shareholders' equity	**74**	**10.1**	**66**	**-10.7**	**94**	**42.5**	**120**	**27.5**	**142**	**18.5**	**167**	**17.5**
Subscribed capital	8	0.0	8	0.0	8	0.0	8	0.0	8	0.0	8	0.0
Reserves	66	11.5	58	-12.0	86	48.7	112	30.1	134	19.9	159	18.6
Minority interests	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Outside capital	**244**	**65.4**	**303**	**24.3**	**330**	**8.9**	**333**	**1.2**	**337**	**1.0**	**341**	**1.2**
Liabilities	206	89.6	230	11.7	249	8.3	249	-0.1	249	0.0	249	0.2
Financial debt	131	139.3	155	18.3	165	6.3	159	-3.5	154	-3.4	149	-3.3
Accounts payable, trade	9	68.4	12	36.9	11	-8.6	13	12.2	14	7.6	15	6.6
Other liabilities	65	35.4	62	-5.1	72	16.8	76	5.5	81	5.6	85	5.7
Deferred taxes liabilities	3	164.9	2	-2.6	8	227.0	8	2.0	8	2.0	8	2.0
Balance sheet total	320	48.7	385	20.3	432	12.0	462	6.9	487	5.6	516	5.9

Sources: Bloomberg, Metzler Research

Profit & loss account

(in EUR m)	2018/19	%	2019/20	%	2020/21	%	2021/22e	%	2022/23e	%	2023/24e	%
Sales	307	12.7	358	16.8	445	24.1	493	10.9	530	7.6	565	6.6
Change in finished goods and work in progress	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Own work capitalised	15	n.m.	9	-40.2	-0	-102.4	-1	-577.1	6	494.5	10	64.7
Total output	**322**	**18.0**	**367**	**14.1**	**444**	**21.0**	**492**	**10.6**	**536**	**9.1**	**575**	**7.2**
Other operating income	11	96.1	20	78.5	12	-38.7	11	-6.6	13	17.4	14	7.9
Operating expenses	309	19.9	378	22.2	428	13.1	464	8.6	501	8.0	537	7.0
Cost of materials	105	31.2	119	13.0	149	25.5	166	11.0	178	7.4	189	6.3
Personnel expenses	153	13.7	188	22.7	213	13.3	231	8.5	249	7.8	271	8.9
Depreciation and amortization	23	65.6	33	41.1	38	16.5	35	-8.2	35	0.3	35	-0.3
Write-downs on intang. fixed assets and tang. assets	23	65.6	33	41.1	38	16.5	35	-8.2	35	0.3	35	-0.3
Other operating expenses	27	-5.1	38	39.2	27	-29.6	32	19.5	39	20.8	41	5.1
EBIT	24	15.7	9	-62.0	29	223.3	39	32.9	48	24.7	53	9.6
Financial result	-2	0.5	-2	-22.7	-2	18.9	-2	-19.4	-2	4.0	-2	4.1
Income from investments	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Interest income (net)	-1	-36.9	-2	-170.3	-2	18.9	-2	-19.4	-2	4.0	-2	4.1
Result of ordinary activities	**22**	**17.4**	**7**	**-69.5**	**27**	**310.3**	**36**	**33.8**	**46**	**26.5**	**51**	**10.3**
EBT	22	17.4	7	-69.5	27	310.3	36	33.8	46	26.5	51	10.3
Taxes on income	7	28.0	6	-11.3	6	-3.9	12	88.1	14	25.7	16	8.5
Tax rate (%)	33.1	9.1	96.2	190.9	22.5	-76.6	31.7	40.6	31.5	-0.6	31.0	-1.6
Net income	15	12.7	0	-98.3	21	n.m.	25	18.0	31	26.9	35	11.1
Minority interests	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Minority rate (%)	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
Net Income after minorities	15	12.7	0	-98.3	21	n.m.	25	18.0	31	26.9	35	11.1
Unappropriated consolidated net income	5	33.3	6	16.7	0	-100.0	1	n.a.	9	n.m.	10	9.1
Adjustment calculation												
Net Income after minorities	15	12.7	0	-98.3	21	n.m.	25	18.0	31	26.9	35	11.1
Adjustments of net income	2	1.7	1	-73.9	4	595.2	4	-11.8	4	-2.0	4	-1.1
Adjustment rate (%)	16.5	-9.8	252.1	n.m.	20.7	-91.8	15.5	-25.3	12.0	-22.7	10.7	-11.0
Adj. net income after minorities	17	11.0	1	-94.8	25	n.m.	29	12.9	35	23.0	39	9.8
Number of shares outstanding	8	0.0	8	0.0	8	0.0	8	0.2	8	0.0	8	0.0
EPS (EUR)	1.74	12.7	0.03	-98.3	2.52	n.m.	2.97	17.7	3.77	26.9	4.18	11.1
EPS adj. (EUR)	2.03	11.0	0.11	-94.8	3.05	n.m.	3.43	12.6	4.22	23.0	4.63	9.8

Sources: Bloomberg, Metzler Research

Cash flow/ratios/valuation

	2018/19	%	2019/20	%	2020/21	%	2021/22e	%	2022/23e	%	2023/24e	%
Cash Flow/ Net Debt (in EUR m)												
Gross Cash Flow	4	-79.4	25	586.7	63	151.0	54	-13.9	70	28.3	73	4.7
Increase in working capital	0	n.a.	3	n.a.	13	274.0	6	-51.8	7	7.0	6	-3.9
Capital expenditures	19	n.a.	22	n.a.	11	n.a.	15	n.a.	17	n.a.	18	n.a.
D+A/Capex (%)	125.6	n.a.	147.6	n.a.	346.4	n.a.	234.0	n.a.	207.1	n.a.	195.0	n.a.
Free cash flow (Metzler definition)	-15	-546.6	-1	96.3	39	n.m.	33	-15.4	46	39.2	49	5.5
Free cash flow yield (%)	-3.7	n.a.	-0.1	n.a.	5.9	n.a.	5.1	n.a.	7.1	n.a.	7.5	n.a.
Dividend paid	5	33.3	6	16.7	0	-100.0	1	n.a.	9	n.m.	10	9.1
Free cash flow (post dividend)	-42	-692.9	29	170.2	3	-88.0	12	252.2	37	200.5	39	4.7
Net Debt incl. Provisions	117	111.0	164	39.8	185	13.0	175	-5.4	143	-18.3	110	-23.1
Gearing (%)	158.2	n.a.	247.7	n.a.	196.3	n.a.	145.7	n.a.	100.4	n.a.	65.7	n.a.
Net debt/EBITDA	2.5	n.a.	3.9	n.a.	2.8	n.a.	2.4	n.a.	1.7	n.a.	1.3	n.a.
Ratios (in %)												
Liquidity												
Quick ratio	145.4	n.a.	136.3	n.a.	132.9	n.a.	137.3	n.a.	159.4	n.a.	180.0	n.a.
Current ratio	166.7	n.a.	142.4	n.a.	136.2	n.a.	140.8	n.a.	163.0	n.a.	183.7	n.a.
Pay-out ratio	34.5	n.a.	666.0	n.a.	3.3	n.a.	32.1	n.a.	28.4	n.a.	28.1	n.a.
Balance sheet structure												
Equity/total assets	23.1	n.a.	17.2	n.a.	21.8	n.a.	26.0	n.a.	29.2	n.a.	32.4	n.a.
Equity to fixed assets	43.2	n.a.	32.4	n.a.	37.2	n.a.	46.5	n.a.	57.8	n.a.	70.7	n.a.
Long-term capital to total assets	58.7	n.a.	48.5	n.a.	52.8	n.a.	53.5	n.a.	53.9	n.a.	54.6	n.a.
Long-term capital to fixed assets and inventories	98.6	n.a.	88.7	n.a.	88.6	n.a.	94.0	n.a.	104.7	n.a.	116.7	n.a.
Liabilities to equity (leverage)	278.0	n.a.	347.5	n.a.	264.1	n.a.	206.9	n.a.	174.5	n.a.	148.8	n.a.
Profitability/efficiency												
Working capital to sales	18.1	n.a.	12.2	n.a.	13.3	n.a.	12.7	n.a.	12.6	n.a.	12.5	n.a.
EBIT margin	7.7	n.a.	2.5	n.a.	6.5	n.a.	7.8	n.a.	9.1	n.a.	9.3	n.a.
EBITDA margin	15.3	n.a.	11.7	n.a.	15.1	n.a.	15.0	n.a.	15.7	n.a.	15.5	n.a.
Net ROS	4.7	n.a.	0.1	n.a.	4.7	n.a.	5.0	n.a.	5.9	n.a.	6.2	n.a.
Cash flow margin	1.2	n.a.	7.0	n.a.	14.2	n.a.	11.0	n.a.	13.1	n.a.	12.9	n.a.
ROE (after Tax/Min.)	20.5	n.a.	0.4	n.a.	26.2	n.a.	23.1	n.a.	24.0	n.a.	22.6	n.a.
Productivity												
Average number of employees ('000)	2.2	19.0	2.6	15.5	2.9	10.9	3.1	9.7	3.3	5.0	3.5	5.0
Sales per employee (EUR '000)	137.1	-5.3	138.6	1.1	155.2	12.0	156.8	1.0	160.6	2.5	163.1	1.5
EBIT per employee (EUR '000)	10.6	-2.8	3.5	-67.1	10.1	191.6	12.3	21.1	14.6	18.7	15.2	4.4
Valuation												
PER adj.	23.9	n.a.	424.3	n.a.	26.0	n.a.	22.7	n.a.	18.5	n.a.	16.8	n.a.
PBV	5.5	n.a.	5.6	n.a.	7.0	n.a.	5.4	n.a.	4.6	n.a.	3.9	n.a.
EV/EBITDA	11.1	n.a.	12.8	n.a.	12.6	n.a.	11.2	n.a.	9.5	n.a.	8.7	n.a.
EV/EBIT	22.1	n.a.	59.6	n.a.	29.1	n.a.	21.4	n.a.	16.5	n.a.	14.4	n.a.
Dividend yield (%)	1.4	n.a.	1.6	n.a.	0.1	n.a.	1.4	n.a.	1.5	n.a.	1.7	n.a.

Sources: Bloomberg, Metzler Research

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Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation * Previous	Current	Current price **	Price target *	Author ***
Issuer/Financial Instrument (ISIN): Bechtle (DE0005158703)					
13.05.2022	Buy	Buy	40.41 EUR	58.00 EUR	Schmidt, Holger
21.03.2022	Hold	Buy	48.27 EUR	58.00 EUR	Schmidt, Holger
11.02.2022	Hold	Hold	46.41 EUR	53.00 EUR	Schmidt, Holger
01.02.2022	Hold	Hold	52.72 EUR	64.00 EUR	Schmidt, Holger
12.11.2021	Hold	Hold	64.90 EUR	64.00 EUR	Schmidt, Holger
26.10.2021	Hold	Hold	64.94 EUR	64.00 EUR	Schmidt, Holger
22.09.2021	Buy	Hold	67.16 EUR	62.00 EUR	Schmidt, Holger
27.07.2021	Buy	Buy	56.43 EUR	62.67 EUR	Schmidt, Holger

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein

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