BANCA IMI

Equity Company Note

DATALOGIC

Profits Accelerating

DATALOGIC - Key estimates and data					
Y/E December		2010A	2011E	2012E	2013E
Revenues	EUR M	392.74	420.00	447.00	476.00
EBITDA	EUR M	49.76	55.07	76.71	85.79
EBIT	EUR M	34.68	36.88	60.65	69.62
Net income	EUR M	18.03	19.46	40.31	48.62
Dividend ord.	EUR	0.15	0.13	0.15	0.15
Adj. EPS	EUR	0.31	0.33	0.69	0.83
EV/EBITDA	x	8.10	7.01	4.54	3.60
Adj. P/E	x	18.11	16.77	8.10	6.71

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- **3Q11A revenue up to a record EUR 107.1M.** 3Q11A revenue increased by 6.6% to EUR 107.1M, driven by good performance in all the divisions. In particular, the Scanning division (49.5% of total revenue) grew by 8.5%, the Automation division (22.4% of total revenue) grew by 11.5%, and the Mobile division (21.6% of total revenue) inverted the negative trend and increased by 9.2%. The Business Development division, with a weighting of 8.8% on total revenue, grew by 4.1%. 9M11A revenues were EUR 317.3M, on track vs. our estimates, as they represented over 75% of our 2011E revenue (9M10 revenues were around 74% of FY10 revenues). Nine months revenues were negatively affected by the EUR appreciation vs. USD. Net of this effect, revenue would have grown by around 12%.

- **Profitability up, driven by gross margin, sustainable going forward**. EBITDA came in at EUR 16.8M, +30.2%. The EBITDA margin was 15.7% (+280bps vs. 3Q10), and net of around EUR 0.5M of extraordinary costs due to ADC supply chain restructuring accounted as administrative expenses, the EBITDA margin would have been 16.2%, confirming the hike already achieved in 2Q11 (over 17%). The EBITDA margin improvement is due to the gross margin (+70bps vs. 3Q10), and to a lower weighting on revenue of distribution costs (-80bps) and of administrative costs (-100bps). Management stated that the gross margin may be sustained by two other innovation cycles: firstly, mobile products (ongoing), secondly, fixed scanner products (end-2012), and by the shifting of ADC production to Vietnam (90% expected by 2012), which should further improve gross margin dynamics. In 9M11A Datalogic posted around EUR 9.1M of non-recurring costs related to the ADC supply chain restructuring (above and below EBITDA), out of around EUR 10.8M forecast for the full implementation, due by the year-end. We highlight that this restructuring should generate savings of around EUR 12.5M/year from 2012. Net income was EUR 9.4M, around 2.9x vs. 3Q10.

- **Estimates and valuation**. We slightly revised our 2011E estimates, while we confirmed 2012E and 2013E. In particular, for 2011E we confirmed revenue, increased EBITDA to EUR 55.1M, increased net income to EUR 19.5M, and reduced debt from EUR 67.1M to EUR 59.8M, incorporating the effect of a sale of own shares (EUR 10.8M). We value Datalogic with a DCF model, an 8.3% WACC (increasing from 8.1% due to a lower gearing mainly related to the sale of own shares), and a conservative 0% terminal value growth. **We obtain a target price of EUR 9.20/share (EUR 9.55/share previously) and rate the company a BUY**. Our new 2011E net income of EUR 19.5M, adjusted for non-recurring items net of taxes (EUR 10.8M, tax rate of 30%), implies a 23.2% discount vs. peers on 2011E P/E. It also makes our FY12E net income estimate of EUR 40M more "visible" (a 42.7% discount on 2012E P/E).

- **Key risks**. The Datalogic reference market is fragmented and characterised by intense competition. To survive in these markets, substantial R&D investments are needed (at a certain cost) and the launch of successful innovative commercial products is uncertain. The ongoing delocalisation of some important clients could require entry into the Latin American and Asian (Chinese and Indian) markets. The company is exposed to foreign currency translation effects: around 50% of revenues are non-EUR denominated.

See page 6 for full disclosures and analyst certification

16 November 2011

BUY

Target Price: EUR 9.20 (from EUR 9.55)

IT & Technology Results Note

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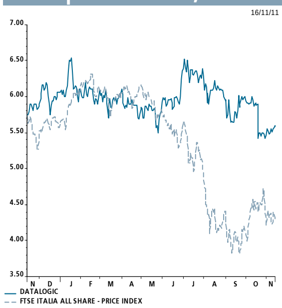
Price performance, -1Y



Source: Thomson Reuters

Data priced on 15.11.2011	
Target price (€)	9.20
Target upside (%)	64.68
Market price (€)	5.59
52-week range (€)	6.5/5.4
Market cap (€ M)	326.42
No. of shares (M)	58.45
Free float (%)	24.6
Major shareholder (%)	Hydra, 66.96
Reuters	DAL.MI
Bloomberg	DAL IM
FTSE It All Shares	16080

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	-5.3	-1M	0.3
-3M	-8.1	-3M	-4.7
-12M	-2.9	-12M	22.7

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

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3Q11 Results

3Q11A revenue increased by 6.6% to EUR 107.1M, in particular:

- The Scanning division, with a weighting of 49.5% on total revenue, grew by 8.5%;
- The Business Development division, with a weighting of 8.8% on total revenue, grew by 4.1%;
- The Mobile division, with a weighting of 21.6% on total revenue, inverted the negative trend and increased by 9.2%;
- The Automation division, with a weighting of 22.4% on total revenue, grew by 11.5%.

9M11A revenues were EUR 317.3M, on track vs. our estimates, as they represented over 75% of our 2011E revenue (9M10 revenues were around 74% of FY10 revenue). Nine months revenues were negatively affected by the EUR appreciation vs. USD. Net of this effect, revenue would have grown by around 12%.

Note that Datalogic is also exposed to the USD in terms of COGS and operating expenses. In 9M11A, at EBITDA level, the net effect of the euro appreciation was negligible (EUR -0.2M).

Datalogic – Quarterly revenue trend 1Q10A-3Q11A

EUR M	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A
Total Revenue	89.5	101.3	100.4	101.5	105.0	105.3	107.1
Mobile	20.7	21.2	21.2	24.6	21.2	20.6	23.2
Automation	19.0	24.4	21.5	25.8	24.4	24.4	24.0
Scanning	42.1	47.2	48.8	43.5	50.9	50.8	53.0
Business dev.	7.9	8.7	9.1	7.7	8.6	9.6	9.4

Source: Company data

3Q11A EBITDA came in at EUR 16.8M, a 30.2% growth, and slightly better than our estimates (+2%).

The EBITDA margin was 15.7% (+280bps vs. 3Q10), and net of around EUR 0.5M of extraordinary costs due to ADC supply chain restructuring accounted as administrative expenses, the EBITDA margin would have been 16.2%.

Overall, in 9M11A Datalogic posted around EUR 9.1M of non-recurring costs related to the ADC supply chain restructuring (above and below EBITDA), out of around EUR 10.8M forecast for the full implementation, due by year-end. We highlight that this restructuring should generate savings of around EUR 12.5M/year from 2012E.

Datalogic - Key 3Q11A results data

EUR M	1Q11A	2Q11A	3Q11E	3Q11A	% chg vs. 3Q10A	% chg vs. 3Q11E
Revenue	105.0	105.3	107	107.1	6.6	0.1
Gross operating margin	49.4	53.3	NA	49.9		
Gross operating margin/revenue (%)	47.1	50.6	NA	46.6		
EBITDA	14.9	16.9	16.5	16.8	30.2	1.8
EBITDA margin	14.2	16.0	15.4	15.7		
EBIT	11.1	5.8	12.5	13.1	48.5	4.6
Net income	5.7	2.2	7.3	9.4	194.5	29.1
Net debt	71.2	71.9	70	70.9	-23.9	1.2

A: actual; E: estimates. Source: Company data and Intesa Sanpaolo Research

This EBITDA margin improvement is due to the gross margin (+70bps vs. 3Q10), and to a lower weighting on revenue of distribution costs (-80bps), and administrative costs (-100bps).

Management stated that the gross margin may be sustained by two other innovation cycles, firstly, mobile products (ongoing), secondly, fixed scanner products (end-2012), and by the shifting of ADC production to Vietnam (90% expected by 2012), which should further improve gross margin dynamics.

In the table below we report the EBITDA margin breakdown by division.

Datalogic – Quarterly EBITDA margin trend 1Q10A- 3Q11A

%	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A
Total EBITDA	11.8	15.1	12.9	10.8	14.2	16.0	15.7
Mobile	12.6	13.5	11.9	9.8	10.8	12.7	10.4
Automation	6.8	14.9	14.3	11.3	14.8	14.7	15.9
Scanning	11.9	13.5	13.6	8.5	15.7	19.7	17.4
Business dev.	13.9	13.8	7.8	-1.4	9.3	8.3	11.6

Source: Company data

Net income came in at EUR 9.4M, around 2.9x vs. 3Q10.

Net debt came in at EUR 70.8M (EUR 70M in our estimates).

Datalogic – Quarterly trade working capital to revenue ratio trend 1Q10A- 3Q11A

%	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A
Total trade WC	18.4	19.1	17.0	15.0	15.4	15.2	16.3
Mobile	13.7	14.3	14.0	10.0	11.3	13	14.7
Automation	28.8	27.0	26.0	22.0	20.8	20	19.7
Scanning	16.0	17.1	14.0	12.0	13	13.2	15.2
Business dev.	9.5	9.6	12.0	11.0	11.9	9.1	11.1

Source: Company data

Outlook and change of estimates

9M11A net income was EUR 17.2M (incorporating around EUR 9.1M of extraordinary costs) and was higher than our FY11E estimates (EUR 14.5M).

Management expects an organic net debt ratio in 2011E of around 1x, also thanks to the cash-flow related to the sale of 2M own shares finalised in October, which was EUR 10.8M.

In light of the 9M11 results we slightly revised our 2011E estimates, while we confirmed 2012E and 2013E. In particular in 2011E we:

- Maintained revenue unchanged at EUR 420M;
- Increased EBITDA from EUR 53.8M to EUR 55.1M;
- Increased net income from EUR 14.5M to EUR 19.5M;
- Reduced debt from EUR 67.1M to EUR 59.8M, also incorporating the effect of the abovementioned sale of own shares.

Valuation

DCF valuation

We value Datalogic with a DCF model, using the following key assumptions in our valuation:

- a risk-free rate of 4.75%, an equity risk premium of 5.75%;
- A gearing of around 27% (32% before), mainly due to the sale of own shares;
- An increase in WACC from 8.1% to 8.3%, due to a lower gearing
- A conservative 0% terminal value growth;
- LT EBIT is calculated starting from 2013E EBITDA, and depreciation equals capex.

We obtain a target price of EUR 9.20/share (EUR 9.55/share previously) and rate the company a BUY.

Datalogic – DCF calculation (2011E-13E)

	2011E	2012E	2013E	LT
EBIT	36.9	60.7	69.6	76.3
Tax	-10.5	-17.3	-20.8	-26.6
Depreciation	15.7	16.1	16.2	0.0
NOPAT	42.1	59.4	65.0	49.6
WC	-3.0	0.3	0.3	0.0
Capex	-14.0	-8.9	-9.5	0.0
FCF	25.1	50.8	55.7	49.6
Discounted FCF	25.1	46.9	47.5	39.1
WACC (%)	8.3			
TV growth (%)	0.0			
Sum	119			
TV	471			
EV	591			
Debt FY10A	76			
Treasury shares	23			
Equity	537			
Shares	58.4			
Target price	9.20			

Source: Intesa Sanpaolo Research estimates

Multiples comparison

In the tables below we show Datalogic's peers' key financial indicators and P/E and EV/EBITDA.

Datalogic - Key financial indicators

%	Price (EUR)	Mkt cap (EUR M)	Revenue CAGR 10-12E	EBITDA CAGR 10-12E	Net income CAGR 10-12E	Debt/EBITDA 2011E (x)
Intermec	5.72	341	17.3	80.8	NM	-1.3
Zebra Tech.	28.09	1,459	4.0	13.7	16.3	-0.3
Psion	0.61	86	4.8	29.4	55.7	-1.9
Zetes Industries	15.99	86	2.0	1.8	1.0	-0.4
Datalogic*	5.59	326	6.7	24.2	49.5	1.1

NM: not meaningful; Source: Factset consensus *Intesa Sanpaolo estimates

Our new 2011E net income of EUR 19.5M, adjusted for non-recurring items net of taxes (EUR 10.8M, tax rate of 30%), implies a 23.2% discount vs. peers on 2011E P/E. It also makes our FY12E net income estimate of EUR 40M more "visible" (a 42.7% discount on 2012E P/E).

Datalogic - Multiples comparison

			EV/EBITDA		P/E	
x	Price (EUR)	Mkt cap (EUR M)	2011E	2012E	2011E	2012E
Intermec	5.72	341	6.1	4.8	22.1	13.6
Zebra Tech.	28.09	1,459	9.1	7.7	15.8	14.7
Psion	0.61	86	3.7	3.1		21.9
Zetes Industries	15.99	86	4.2	3.9	11.5	10.0
Median			5.2	4.4	15.8	14.1
Datalogic*	5.59	326	7.0	4.5	12.1**	8.1
Premium/(Discount) vs. peers			35.5	4.3	-23.2	-42.7

Source: Factset consensus *Intesa Sanpaolo estimates ** Adjusted by non-recurring (EUR 10.8M), net of taxes (30% rate).

DATALOGIC - Key figures					
			Ordinary		Rating
Sector	IT & Technology	Mkt price EUR/Share	5.59		**BUY**
REUTERS CODE	DAL.MI	Target price EUR/Share	9.20		
Values per share (EUR)	2009A	2010A	2011E	2012E	2013E
No. ordinary shares (M)	58.45	58.45	58.45	58.45	58.45
No. NC saving/preferred shares (M)	-	-	-	-	-
Total no. of shares (M)	58.45	58.45	58.45	58.45	58.45
Adj. EPS	-0.21	0.31	0.33	0.69	0.83
CFPS	0.09	0.58	0.60	0.96	1.11
BVPS	2.00	2.40	2.71	3.23	3.79
Dividend Ord	-	0.15	0.13	0.15	0.15
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	2009A	2010A	2011E	2012E	2013E
Sales	311.97	392.74	420.00	447.00	476.00
EBITDA	19.63	49.76	55.06	76.71	85.79
EBIT	-5.58	34.68	36.88	60.65	69.62
Pre-tax income	-12.84	28.18	29.94	57.59	69.46
Net income	-12.16	18.03	19.46	40.31	48.62
Adj. net income	-12.16	18.03	19.46	40.31	48.62
Cash flow (EUR M)	2009A	2010A	2011E	2012E	2013E
Net income before minorities	-12.16	18.03	19.46	40.31	48.62
Depreciation and provisions	17.43	15.90	15.70	16.05	16.17
Change in working capital	11.51	20.53	-3.00	0.27	0.29
Operating cash flow	16.78	54.46	32.16	56.64	65.08
Capital expenditure	-7.30	-7.86	-14.00	-8.94	-9.52
Other (uses of Funds)	-1.10	-22.61	6.70	-	-
Free cash flow	8.38	24.00	24.86	47.70	55.56
Dividends and equity changes	-1.93	-	-8.16	-9.73	-16.13
Net cash flow	6.45	24.00	16.70	37.97	39.44
Balance sheet (EUR M)	2009A	2010A	2011E	2012E	2013E
Net capital employed	217.19	216.66	217.96	210.58	203.64
of which associates	-	-	-	-	-
Net debt/-cash	100.50	76.50	59.80	21.83	-17.61
Minorities	-	-	-	-	-
Net equity	116.70	140.16	158.17	188.75	221.24
Market cap	326.42	326.42	326.42	326.42	326.42
Minorities value	-	-	-	-	-
Enterprise value (*)	426.92	402.92	386.22	348.25	308.82
Stock market ratios (x)	2009A	2010A	2011E	2012E	2013E
Adj. P/E	-26.84	18.11	16.77	8.10	6.71
P/CEPS	61.95	9.62	9.28	5.79	5.04
P/BVPS	2.80	2.33	2.06	1.73	1.48
Dividend yield (% ord)	-	2.69	2.26	2.68	2.68
Dividend yield (% sav)					
EV/sales	1.37	1.03	0.92	0.78	0.65
EV/EBITDA	21.74	8.10	7.01	4.54	3.60
EV/EBIT	-76.58	11.62	10.47	5.74	4.44
EV/CE	1.97	1.86	1.77	1.65	1.52
D/EBITDA	5.12	1.54	1.09	0.28	-0.21
D/EBIT	-18.03	2.21	1.62	0.36	-0.25
Profitability & financial ratios (%)	2009A	2010A	2011E	2012E	2013E
EBITDA margin	6.29	12.67	13.11	17.16	18.02
EBIT margin	-1.79	8.83	8.78	13.57	14.63
Tax rate	5.24	36.03	35.00	30.00	30.00
Net income margin	-3.90	4.59	4.63	9.02	10.21
ROE	-10.42	12.86	12.31	21.36	21.98
Debt/equity ratio	0.86	0.55	0.38	0.12	-0.08
Growth (%)		2010A	2011E	2012E	2013E
Sales		25.89	6.94	6.43	6.49
EBITDA		153.43	10.68	39.36	11.84
EBIT		722.10	6.33	64.47	14.78
Pre-tax income		319.54	6.25	92.33	20.61
Net income		248.21	7.96	107.12	20.61
Adj. net income		248.21	7.96	107.12	20.61

(*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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Valuation methodology (long-term horizon: 12M)

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We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

Equity rating key: (long-term horizon: 12M)

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Equity rating key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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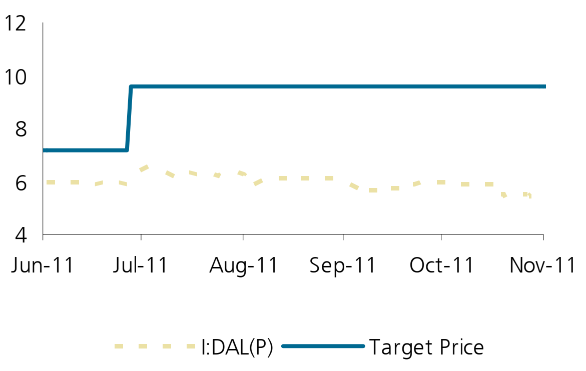
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
25-May-11	BUY	7.15	5.60
28-Jun-11	BUY	9.55	5.90
25-Jul-11	BUY	9.55	6.36
1-Aug-11	BUY	9.55	6.39

Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at November 2011)

Number of companies subject to recommendations: 94 (**)	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	42	22	31	3	1
of which Intesa Sanpaolo's Clients % (*)	61	50	43	67	-

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category. (**) The total number of companies covered is 103

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term ‘long/short’ vs. long-term ‘buy/sell’). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Banca IMI discloses interests and conflicts of interest, as defined by: Articles 69-quater and 69-quinquies, of Consob Resolution No.11971 of 14.05.1999, as subsequently amended and supplemented; the NYSE’s Rule 472 and the NASD’s Rule 2711; the FSA Policy Statement 04/06 “Conflicts of Interest in Investment Research – March 2004 and the Policy Statement 05/03 “Implementation of Market Abuse Directive”, March 2005. The Intesa Sanpaolo Group maintains procedures and organisational mechanisms (Information barriers) to professionally manage conflicts of interest in relation to investment research. We provide the following information on Intesa Sanpaolo Group’s conflicts of interest:

1 The Intesa Sanpaolo Group has a conflict of interest inasmuch as it plans to solicit investment banking business or intends to seek compensation from the Company in the next three months.

2 The Intesa Sanpaolo Group has an equity stake above 1% in DATALOGIC S.p.A.

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