CENTROBANCA
Gruppo UBI Banca

EXPRIVIA

Company update **Buy (maintained)**

12 April 2010 ***MARKET PRICE: EUR1.17 TARGET PRICE: EUR1.38 (from EUR1.30)***

Data

Shares Outstanding (m):	50.7	
Market Cap. (EURm):	59.3	
Enterprise Value (EURm):	92.6	
Free Float (%):	29.0%	
Av. Daily Trad. Vol. (m):	0.128	
Main Shareholder:	Abaco Systems (51.2%)	
Reuters/Bloomberg:	XPR.MI	XPR IM
52-Week Range	1.0	1.4

Performance

	1m	3m	12m
Absolute	1.4%	-7.1%	17.0%
Rel. to FTSE IT	-2.0%	-4.8%	-11.5%

Financials

	2009	2010E	2011E
Revenues (EURm)	85.7	91.0	96.0
EBITDA (EURm)	14.7	16.6	17.5
Net Profit (EURm)	5.1	5.8	6.8
EPS (EUR)	0.100	0.113	0.135
CFPS (EUR)	0.145	0.167	0.193
BVPS (EUR)	1.208	1.291	1.385
DPS (EUR)	0.040	0.040	0.044

Ratios

	2009	2010E	2011E
EBITDA margin	17.1%	18.2%	18.2%
ROI	11.1%	11.9%	12.1%
ROAE	8.5%	9.1%	10.1%
Debt/Equity	0.6	0.6	0.5
Debt/EBITDA	2.7	2.4	2.1

Valuation

	2009	2010E	2011E
P/E (x)	11.0	10.3	8.7
P/CF (x)	7.6	7.0	6.1
P/BV (x)	0.9	0.9	0.8
Dividend Yield	3.6%	3.4%	3.8%
EV/Sales (x)	1.0	1.0	0.9
EV/EBITDA (x)	6.0	5.6	5.0
EV/CE (x)	0.9	0.9	0.8

Source: Centrobanca estimates

Mix and cost control to outperform

After a positive 4Q09, with an EBITDA margin that grew to 20.9% (from 20.3% in 4Q08) despite an 11.4% slowdown in revenues, we expect a further improvement in fundamentals driven by a continuous upgrading of the product mix and cost cuts which are already bearing fruit. Therefore, we have increased slightly the sales and margin prospects for 2010-11 although we expect Exprivia to be hit by a higher tax rate, thus penalizing the bottom line (EPS down 1.5% vs. our previous estimates). Our target price has risen to EUR1.38 per share (from EUR1.30) on the back of our new estimates and the sector re-rating. Buy reiterated.

> Exprivia had a good operating performance in the 4Q09, with an EBITDA margin of 20.9% (vs. our expectation of 20.5%), driven by effective cost cuts and a favourable business mix. Nevertheless, the net result was below our estimate due to a tax much higher than expected rate (45.2% for the full year).

> There is expected to be a further decline in the Italian IT market in 2010 (-3%) after the drop in 2009 (-8.1%). However, Exprivia should continue to outperform thanks to its presence in resilient business niches (health and local administration, industry and media). We expect a 5.8% growth in sales, also due to recent acquisitions. Margins should improve further on the back of product mix improvements and further effective cost cuts. 2011 and 2012 should benefit from the expected recovery in the Italian IT market.

> Overall, we have fine tuned our estimates, included 2012 forecasts, and slightly increased revenues and EBITDA estimates. However, the bottom line includes a higher tax rate, which lowers the EPS by around 1.5% in 2010-11. Our target price has been increased to EUR1.38 (from EUR1.30) reflecting our new estimates and the sector re-rating.

> We confirm our positive view on Exprivia, which could benefit further from i) its strong exposure to higher margin businesses (the Health division contributed 42.2% of revenues in 4Q09, up from 40.8% in 9M09), ii) increased use of near-shoring, which could allow an increased saving in commercial and labour costs, and iii) its expansion strategy, in Italy and abroad, through acquisitions and partnerships with small companies.

> Exprivia presents an attractive valuation, trading at >17% discount to peers on P/E.

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Key Financials

(EURm)	2009	2010E	2011E	2012E
Revenues	85.7	91.0	96.0	102.5
EBITDA	14.7	16.6	17.5	18.8
EBIT	11.7	13.4	14.0	15.0
NOPAT	7.9	9.0	9.4	10.1
Free Cash Flow	-2.8	0.3	6.1	6.3
Net Capital Employed	100.9	106.3	107.1	108.1
Shareholders' Equity	61.3	65.4	70.2	75.3
Net Financial Position	39.3	40.5	36.4	32.4

Source: Company data, Centrobanca estimates

Key Profitability Drivers

	2009	2010E	2011E	2012E
Capital Turnover	0.8	0.8	0.8	0.9
Financial Leverage	1.6	1.6	1.5	1.4
Net Profit Margin	5.9%	6.3%	7.1%	7.1%
NOPAT Margin	9.2%	9.8%	9.8%	9.8%
Free Cash Flow Margin	-3.3%	0.4%	6.3%	6.1%
ROAE	8.5%	9.1%	10.1%	10.0%
ROI	11.1%	11.9%	12.1%	12.8%
ROCE	7.4%	7.9%	8.1%	8.6%

Source: Company data, Centrobanca estimates

Key Valuation Ratios

	2009	2010E	2011E	2012E
P/E (x)	11.0	10.3	8.7	8.1
P/BV (x)	0.9	0.9	0.8	0.8
P/CF (x)	7.6	7.0	6.1	5.6
Dividend Yield (%)	3.6%	3.4%	3.8%	4.3%
EV/Sales (x)	1.0	1.0	0.9	0.8
EV/EBITDA (x)	6.0	5.6	5.0	4.5
EV/EBIT (x)	7.5	6.9	6.3	5.6
EV/CE (x)	0.9	0.9	0.8	0.8

Source: Company data, Centrobanca estimates

Key Value Drivers

	2009	2010E	2011E	2012E
Payout	40.1%	35.3%	32.7%	34.7%
Cost of Equity	9.1%	9.1%	9.1%	9.1%
WACC	7.4%	7.4%	7.6%	7.8%
EP Spread	-0.6%	-0.0%	1.0%	0.9%
EVA Spread	0.7%	1.3%	1.2%	1.6%

Source: Company data, Centrobanca estimates

Recent Developments

- Revenues were down 11.4% in 4Q09 and 6.1% in the full year despite the weak market scenario (the Italian IT market was down 8.1% in 2009, with hardware down 14.8%, software down 3.6% and services down 6.5%). This confirms Exprivia's resilience that stems from a healthy business mix focused on public administration and health (>40% of sales), its innovative business model (near-shoring) and its continuous market share gains (Exprivia now ranks 28th amongst the IT software and services companies in Italy compared with its 39th last year). As expected, the telecom, oil & gas and banking, finance and insurance divisions were weak last year (-20% and -11% respectively) while industry and media, and health and the local administration divisions increased their revenues (+1% and +6% respectively).
- The favourable business mix boosted the EBITDA margin, which reached 20.9% in 4Q09 and 16.3% for the full year, beating our expectations. In particular, Exprivia was able to cut significantly the Hw/Sw purchasing (>EUR1 million positive impact) and external consultant costs, more than offsetting the increase in labour costs (+3.7%, now representing 60.7% of sales vs. 55.6% in 2008).
- Lower financial charges helped raise 4Q09 pre-tax profit 6.1% (+1.3% for the full year), but the labour intensive profile of the business and the burden of deferred and pre-paid taxes increased taxation by 50% vs. 4Q08 and the tax rate to >45% for the full year (vs. 24.2% in 2008). Consequently, the net income was EUR1.8 million (-18% YoY) in the final quarter giving net profit of EUR5 million in 2009, down 26%.
- Net debt increased slightly to EUR39.2 million (vs. EUR35.3 million at Dec-08), mostly due to the acquisition of Aurora Web (EUR2.1 million), finalised in June 2009, and the distribution of a dividend of EUR2 million. Gearing reached 64% and net debt/EBITDA 2.7x (60% and 2.3x respectively at Dec-08).
- The proposed DPS is EUR0.04 per share, payable on 29 April.
- Exprivia also announced a new commercial partnership in Bulgaria in order to distribute its CreditonWeb product (which supports the whole process of credit lending). The agreement enhances Exprivia's European coverage.

Figure 1. Exprivia – 4Q09 and 2009 results

(EUR m)	4Q09A	% Chg.	4Q08A	2009A	% Chg.	2008A
Sales	24.9	-11.4%	28.1	90.1	-6.1%	95.9
EBITDA	5.2	-8.8%	5.7	14.7	-3.7%	15.2
Margin (%)	20.9%		20.3%	16.3%		15.9%
EBIT	4.4	-2.2%	4.5	11.7	-4.1%	12.2
Margin (%)	17.7%		16.0%	13.0%		12.8%
Pre tax profit	3.5	6.1%	3.3	9.2	1.3%	9.1
Net Result	**1.8**	**-18.2%**	**2.2**	**5.1**	**-26.4%**	**6.9**

Source: Centrobanca

Financial projections

- Exprivia highlighted a low visibility for the Italian IT market, with a slight negative trend (-3.1% forecast). In this scenario, we believe the company should continue to outperform the market, also sustained by the new acquisitions.
- After having completed the internal reorganization, centralizing all the staff functions, Exprivia should proceed to centralize the IT system and the logistic, thus further reducing the G&A costs.
- Overall, we have revised slightly up our 2010-11 revenues estimates to factor in the recent acquisitions, the successful completion of some tenders in the PA and steady growth in the health sector.
- EBITDA margin has been left unchanged this year and in 2011, but slightly increased in 2012 thanks to a more careful recruitment policy both for employees and co-workers which should further reduce production costs.
- The steady trend expected for D&A and stable financial charges should allow a healthy pre-tax profit growth. However, the tax burden, tied to the labour intense profile of the group's business mix, could limit the net profit improvement (2009-2012e CAGR of 13%). Net debt should remain broadly stable around EUR40 million with gearing of 0.5-0.6x in 2010 but decline in 2011-12 due to higher advance payments which should decrease the NWC,
- We have also given forecasts for 2012 when we expect top line growth of close to 7%, due to the recovery of IT market and a further improvement in the EBITDA margin, which should lead to 7% growth in the net result.

Figure 2. Exprivia – New vs. old estimates

(EURm)		New Estimates			Old Estimates	
	2009A	2010E	2011E	2012E	2010E	2011E
Sales	90.1	95.4	100.4	106.9	93	98
% Change	-6.1%	5.8%	5.2%	6.5%	3.2%	5.2%
EBITDA	**14.7**	**16.6**	**17.5**	**18.8**	**16.2**	**17.2**
Margin (%)	**16.3%**	**17.4%**	**17.4%**	**17.6%**	**17.4%**	**17.6%**
EBIT	11.7	13.4	14.0	15.0	13.1	13.9
Margin (%)	13.0%	14.0%	14.0%	14.1%	14.1%	14.2%
Net Profit	5.1	6.2	6.8	7.3	6.3	6.9
EPS	**0.10**	**0.12**	**0.13**	**0.14**	**0.12**	**0.14**
% Change		-1.2%	-1.8%			
Net debt	39.3	40.5	36.4	32.4	39.2	37.5

Source: Centrobanca estimates

Valuation

- Following our estimates revision and the sector re-rating, our target price increases to EUR1.38 per share (from EUR1.30); it is based on the weighted average of a DCF and a relative valuation.
- The DCF is based on a risk-free rate of 4.2%, with a risk premium of 4%, a beta of 1.22 and long term free cash flow growth of 0.5%. Our DCF valuation implies an EV/EBITDA multiple of 4.3x at terminal value.
- Our relative valuation is based on a multiples comparison (P/E and EV/EBITDA) and gives a fair value of EUR1.18 per share. The lower weight we attribute to the relative valuation is due to the different business mix of the company's peers compared to that of Exprivia, which is widely exposed to the public sector.
- At current market price the shares, trading at a ca. 17% discount on 2010-12 P/E are at a ca. 8.5% premium on 2010-12 EV/EBITDA; we believe that this is due to the company's higher debt, a consequence of the high level of revenues that come from the public sector.

Figure 3. Exprivia – Valuation map

Valuation		Fair value (EUR)
1	DCF - 70%	1.47
2	Relative valuation - 30%	1.18
	Weighted Average	**1.38**
	current market price	1.17
	Upside /(downside) potential	+18.4%

Source: Centrobanca estimates for Exprivia, Factset consensus for competitors

Figure 4. Exprivia – P/E and EV/EBITDA vs those of its main peers

	P/E			EV/EBITDA		
(x)	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**
Steria (Groupe)	12.3	10.6	9.4	5.7	5.0	4.2
Computacenter	10.8	9.9	9.2	5.3	4.5	3.8
Sopra Group	12.2	10.6	8.6	7.1	6.1	4.8
Ordina	10.7	9.4	7.1	6.0	5.0	3.8
GFI Informatique	10.1	7.6	5.8	6.1	5.2	4.2
Devoteam	12.6	9.6	7.6	5.0	3.8	2.5
Tieto Oyj	13.1	11.4	9.9	6.5	5.5	4.8
Kewill	11.6	10.9		6.6	5.5	
Cap Gemini	20.1	14.8	12.6	6.1	4.8	4.1
Atos Origin	13.9	11.7	10.3	5.1	4.4	3.6
Logica	11.2	10.3	9.6	7.4	6.6	5.9
Reply	15.7	12.6	10.9	4.4	3.5	3.0
Engineering	7.6	7.0	6.6	3.4	3.0	2.7
NoemaLife	20.8	16.4	13.0	5.6	4.6	3.8
TXT E Solutions	14.5	9.8	8.7	3.4	2.9	2.7
Average ex-Exprivia	**13.1**	**10.8**	**9.2**	**5.6**	**4.7**	**3.8**
Exprivia	10.3	8.7	8.1	5.6	5.1	4.5
premium/(discount)	**-21.6%**	**-19.8%**	**-11.9%**	**0.4%**	**8.1%**	**17.0%**

Source: Centrobanca estimates for Exprivia, TXT and Engineering, Factset for competitors

Income Statement

(EURm)	2009	2010E	2011E	2012E
Net Revenues	85.8	91.0	96.0	102.5
EBITDA	14.7	16.6	17.5	18.8
EBITDA margin	17.1%	18.2%	18.2%	18.3%
EBIT	11.7	13.4	14.0	15.0
EBIT margin	13.7%	14.7%	14.6%	14.6%
Net financial income /expense	-2.1	-2.0	-2.0	-2.2
Associates & Others	0.0	-0.5	0.0	0.0
Profit before taxes	9.2	10.9	12.0	12.8
Taxes	-4.2	-5.1	-5.1	-5.5
Minorities&discounted operations	-0.0	0.0	0.0	0.0
Net Income	5.1	5.8	6.8	7.3

Source: Company data, Centrobanca estimates

Balance Sheet

(EURm)	2009	2010E	2011E	2012E
Net working capital	29.7	32.9	31.3	29.8
Net Fixed assets	80.1	82.6	85.1	87.8
M/L term funds	8.9	9.1	9.3	9.5
Capital employed	100.9	106.3	107.1	108.1
Shareholders' equity	61.3	65.4	70.2	75.3
Minorities	0.4	0.4	0.4	0.4
Shareholders' funds	61.7	65.8	70.6	75.7
Net financial debt/(cash)	39.3	40.5	36.4	32.4

Source: Company data, Centrobanca estimates

Cash Flow Statement

(EURm)	2009	2010E	2011E	2012E
NFP Beg. of Period	35.3	39.3	40.5	36.4
Group Net Profit	5.1	5.8	6.8	7.3
Minorities	0.0	0.0	0.0	0.0
D&A	2.6	2.9	3.2	3.4
Change in Funds & TFR	-0.3	-0.1	-0.2	-0.2
Gross Cash Flow	7.4	8.5	9.8	10.5
Change In Working Capital	-4.5	-2.8	2.0	1.8
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	2.9	5.6	11.8	12.4
Capex	-4.9	-5.3	-5.7	-6.1
Other Investments	0.0	0.0	0.0	0.0
Disposals	-0.8	0.0	0.0	0.0
Free Cash Flow	-2.8	0.3	6.1	6.3
Dividends Paid	-2.0	-2.0	-2.0	-2.2
Other & Chg in Consolid. Area	0.3	0.0	0.0	0.0
Chg in Net Worth & Capital Incr.	0.3	0.0	-0.0	0.0
Change in NFP	-4.3	-1.7	4.1	4.0
NFP End of Period	39.5	40.9	36.4	32.4

Source: Company data, Centrobanca estimates

Financial Ratios

(%)	2009	2010E	2011E	2012E
Net Margin	5.9%	6.3%	7.1%	7.1%
ROE	8.5%	9.1%	10.1%	10.0%
ROIC - after tax	7.4%	7.9%	8.1%	8.6%
Net Fin. Debt/Equity (x)	0.6	0.6	0.5	0.4
Net Fin. Debt/EBITDA (x)	2.7	2.4	2.1	1.7
NOPAT(EURm)	7.9	9.0	9.4	10.1
ROACE	8.1%	8.6%	8.8%	9.3%

Source: Company data, Centrobanca estimates

Per Share Data

(EUR)	2009	2010E	2011E	2012E
EPS	0.100	0.113	0.135	0.144
DPS	0.040	0.040	0.044	0.050
Op. CFPS	0.057	0.111	0.232	0.244
Free CFPS	-0.056	0.007	0.120	0.124
BVPS	1.208	1.291	1.385	1.485

Source: Company data, Centrobanca estimates

Stock Market Ratios

(x)	2009	2010E	2011E	2012E
P/E	11.0	10.3	8.7	8.1
P/OpCFPS	19.3	10.5	5.0	4.8
P/Free CFPS	-19.6	171.9	9.8	9.5
P/BVPS	0.9	0.9	0.8	0.8
Div. Yield (%)	3.6%	3.4%	3.8%	4.3%
Free Cash Flow Yield (%)	-5.1%	0.6%	10.2%	10.6%
EV (EURm)	88.2	92.6	88.3	84.1
EV/Sales	1.0	1.0	0.9	0.8
EV/EBITDA	6.0	5.6	5.0	4.5
EV/EBIT	7.5	6.9	6.3	5.6
EV/Capital Employed	0.9	0.9	0.8	0.8

Source: Company data, Centrobanca estimates

Growth Rates

(%)	2009	2010E	2011E	2012E
Growth Group Net Sales	-5.1%	6.1%	5.5%	6.8%
Growth EBITDA	-4.1%	13.0%	5.6%	7.3%
Growth EBIT	-4.6%	13.9%	4.9%	7.1%
Growth Net Profit	-26.0%	13.7%	18.6%	6.9%

Source: Company data, Centrobanca estimates

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Date	Rating	TP	MKT Price
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