CENTROBANCA
Gruppo UBI Banca

EXPRIVIA

Company Update — **Buy (maintained)**

15 March 2011 | **MARKET PRICE: EUR 1.01** | **TARGET PRICE: EUR 1.25 (unchanged)**

Growth story offset by rising competitive pressure

*We reiterate our **Buy** rating on Exprivia and have confirmed our target price at **EUR1.25** per share following 4Q10 results, which were broadly in line with our estimates, and the announcement of the acquisition of Realtech Italia. We maintained unchanged our target price as an average 3.8% downgrade in our 2011e-2013e EBITDA estimates due to higher competitive pressure has been offset the positive contribution of the deal. Our new estimates are for a healthy 8.8% CAGR in revenues and 11.5% CAGR in EBIT for 2011e-2013e respectively and include no contribution from further M&A activity (after Realtech), despite the Company having a solid track record in combining internal and external growth. Our positive view on the stock also reflects higher visibility in sales, an attractive and sustainable mix of earnings growth and dividend yield (4%) due to its well diversified business, coupled with an attractive P/E11e: 8.5x compared to 11.5x for its European peers. Our target price of **EUR1.25** per share implies an appealing upside of ca. 25%.*

> 4Q10 net revenues were EUR28.9 million (in line with our estimate) representing a year-on-year increase of 16% mainly due to the strong contribution of the Health & public sector - which also benefited from the consolidation of Prosap for EUR1 million - and of the Finance divisions.

> The 4Q10 EBITDA margin declined to 17.4% from 19.6% in 4Q09 due to the lower EBITDA of the Oil/Gas/Telecom and PAC/Transport/Utilities divisions coupled with the absence of any EBITDA contribution from Prosap. Exprivia reported a 6.1% annual decline in 4Q10 net profit due to higher than expected one-off provisions tax rate. FY10 DPS of EUR0.04 was in line with our estimates and FY09 while net debt of EUR39.8 million at 31 December 2010 was 6.5% below our forecast.

> Yesterday, Exprivia announced the acquisition of Realtech Italia for an estimated EV of EUR2.7 million. The acquisition will make Exprivia a leading player amongst SAP partners in Italy. It has a 1.7% negative impact on FY11 EPS but should be 1.5% accretive in 2012 and 2013, based on our estimates.

> We have upgraded our 2011e-2013e revenue estimates by 8.5% on average due to the contribution of Realtech Italia; we have downgraded our 2011e-2013e EBIT estimates by ca. 2.5% on average as we believe that the weak outlook for the domestic IT market could depress the average selling price and reduce the expected growth in the Company's operating profitability.

> We have also reduced our 2011e-2013e net profit forecast by ca. 6% per annum on average to factor in higher provisions and a higher tax rate while we have increased our net debt by 6% estimates on average for the acquisition of Realtech Italia.

Data

Shares Outstanding (m):	51.9	
Market Cap. (EURm):	52.3	
Enterprise Value (EURm):	87.3	
Free Float (%):	43%	
Av. Daily Trad. Vol. (m):	0.17	
Main Shareholder:	Abaco System (49.9%)	
Reuters/Bloomberg:	XPR.MI	XPR IM
52-Week Range (EUR)	0.77	1.20

Performance

	1m	3m	12m
Absolute	-12.7%	8.5%	-12.6%
Rel. to FTSE IT	-9.5%	3.6%	-10.1%

Financials

	2010	2011e	2012e
Revenues (EURm)	96.7	114.0	124.7
EBITDA (EURm)	15.3	16.9	18.7
Net Profit (EURm)	4.9	6.0	6.8
EPS (EUR)	0.10	0.12	0.13
CFPS (EUR)	0.21	0.18	0.20
BVPS (EUR)	1.28	1.35	1.44
DPS (EUR)	0.04	0.04	0.05

Ratios

	2010	2011e	2012e
EBITDA margin	15.2%	14.2%	14.5%
ROI	10.3%	11.2%	12.0%
ROAE	7.8%	8.8%	9.5%
Debt/Equity	0.6	0.6	0.6
Debt/EBITDA	2.8	2.6	2.4

Valuation

	2010	2011e	2012e
P/E (x)	10.5	8.7	7.6
P/CF (x)	4.9	5.6	5.0
P/BV (x)	0.8	0.7	0.7
Dividend Yield	4.0%	4.4%	5.0%
EV/Sales (x)	0.9	0.8	0.7
EV/EBITDA (x)	5.7	5.3	4.8
EV/CE (x)	0.8	0.8	0.7

Source: Centrobanca estimates

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Recent Developments

- Exprivia reported mixed 4Q10 results with revenues broadly in line with our estimates but with an EBIT and net profit below our expectations due to higher than expected provisions. The Company also announced net debt of almost EUR40 million, 6.5% below our estimate and a FY10 DPS of EUR0.04 in line with our estimate and FY09.
- Yesterday, Exprivia announced the acquisition of a 51% stake in Realtech Italia, an Italian company focused on IT solutions based on SAP platform. The enterprise value of the transaction (which should be finalized in 1H11) is ca. EUR3.1 million. Under the agreement Exprivia can buy an additional 49%.

4Q10 / FY10 results

The 4Q10 net revenues were in line with our estimate of EUR28.9 million, with a 16% year-on-year increase mainly due to the contribution of the finance division (+28.9% year-on-year) and of the health & local administration division (+25% year-on-year) which benefited from a contribution of ca. EUR 1 million from Prosap (Exprivia acquired a 51.1% stake in this Spanish Company on 4 October 2010).

Figure 1. Exprivia – 4Q10 / FY10 results review: breakdown of revenues

(EURm)	4Q09	4Q10	Chg YoY	4Q10e	Delta vs Cbe	FY09	FY10	Chg YoY
Finance	3.34	4.31	28.9%	2.66	61.9%	10.05	11.65	15.8%
Industry & Media	3.38	3.50	3.4%	5.49	-36.3%	11.60	13.10	13.0%
PAC, Transport, Utilities	3.50	3.90	11.5%	4.16	-6.2%	14.78	14.14	-4.3%
Oil, gas e telecom	3.88	3.49	-10.2%	3.22	8.3%	12.76	11.87	-7.0%
Health & Public sector *	10.53	13.16	25.0%	12.62	4.3%	35.31	43.94	24.5%
Other	0.31	0.58	91.5%	0.75	-22.4%	1.23	1.96	58.8%
Total	**24.94**	**28.93**	**16.0%**	**28.90**	**0.1%**	**85.74**	**96.66**	**12.7%**

Source: Company data, Centrobanca estimates

EBITDA was EUR5.3 million in 4Q10 which was broadly in line with our estimate and that reported in 4Q09, implying a decline in the EBITDA margin to 17.4% from 19.6% in 4Q09. This decline is mainly due to the lower operating profitability of the PAC/Transport/Utilities and Oil/Gas/Telecom divisions coupled with an absence of any EBITDA contribution from Prosap.

Exprivia reported EBIT of EUR3.86 million in 4Q10 which was 12% below that reported in 4Q09 and 14% below our estimate due to higher than expected one-off provisions on receivables (EUR0.48 million).

The 4Q10 net profit declined by 6.1% year-on-year due to lower EBIT and a higher than expected tax rate: 45.8% compared to our estimate of 42.1%.

Net debt at 31 December 2010 of EUR39.8 million was slightly below the EUR40.5 million reported at end-September 10 and our estimate of EUR42.5 million due to a better than expected payment of receivables during the quarter. Exprivia also announced a FY10 DPS of EUR0.04 which offers a 3.9% yield.

Figure 2. Exprivia – 4Q10 / FY10 results review

(EURm)	4Q09	4Q10	Chg YoY	4Q10e	Delta vs Cbe	FY09	FY10	Chg YoY
Net revenues	24.9	28.9	16.0%	28.9	0.1%	85.7	96.7	12.7%
VoP	26.3	30.3	15.1%	31.3	-3.0%	90.1	100.0	11.0%
EBITDA	**5.2**	**5.3**	**1.9%**	**5.3**	**-0.4%**	**14.7**	**15.3**	**3.9%**
EBITDA margin	*19.6%*	*17.4%*		*16.9%*		*16.3%*	*15.2%*	
D&A	-0.8	-1.4	82.0%	-0.8	75.7%	-2.9	-3.4	14.7%
EBIT	**4.4**	**3.9**	**-12.2%**	**4.5**	**-14.0%**	**11.7**	**11.9**	**1.3%**
EBIT margin	*16.7%*	*12.7%*		*14.4%*		*13.0%*	*11.9%*	
Net financial charges	-0.4	-0.6	49.2%	-0.5	10.5%	-2.1	-1.9	-7.3%
Associates & others	-0.5	0.0	-	0.0	-	-0.5	0.0	-
Pre-tax profit	**3.5**	**3.2**	**-7.8%**	**3.9**	**-17.5%**	**9.2**	**10.0**	**8.2%**
Taxes	-1.7	-1.5	-12.5%	-1.7	-10.1%	-4.2	-5.0	20.9%
Minorities & discontinued ops	0.0	-0.1	n.m.	-0.1	-	0.0	0.0	n.m.
Net profit	**1.8**	**1.7**	**-6.1%**	**2.2**	**-23.4%**	**5.0**	**4.9**	**-1.8%**
Net debt	39.3	39.8	1.3%	42.5	-6.5%	39.3	39.8	1.3%

Source: Company data, Centrobanca estimates

Acquisition of Realtech Italia

Yesterday, Exprivia announced the acquisition of a 51% stake in Realtech Italia, an Italian company focus on consultant IT services and on application management based on SAP platform. Realtech reported in 2010 revenues for EUR10.7 million, a negative EBTIDA of EUR1.2 million and a net loss of EUR1.2 million, with a net debt at 31 December 2010 of EUR1.8 million.

We estimate that the Enterprise Value of the deal is EUR3.1 million and the impact on Exprivia's net debt is equal to EUR2.7 million due to EUR0.45 million paid to shareholders for the 51% stake, additional EUR0.45 million as Earn-out if Realtech Italia will reach a certain FY11 profitability target and EUR0.75 million as a capital increase. The agreement also allows Exprivia to buy an additional 49% at a price based on the economic results of Realtech Italia in 2012 and in 2013.

According to the management of Exprivia, the deal will strengthen the market positioning of the Company in the Industry, transport and services markets in the North and in the Centre of Italy, with over 50 primary client. In addition, Expriva will become a leading player amongst SAP partners in Italy

We consider fair the price paid by Exprivia as the deal implies an EV/Sales10e equal to 0.29x which is well below the average EV/Sales10e of its Italian and European peers (0.5x) due to its negative profitability.

Based on our estimates, the acquisition has a 1.7% negative impact on FY11 EPS but should be 1.5% accretive in 2012 and 2012, based on our estimates.

Financial Projections

- We have upgraded our 2011e-2013e revenue estimates by 8.5%on average to factor in the acquisition of Realtech Italia which we expect to be fully consolidated from 1 May 2011. We have kept our 2011e-2013e revenues estimates on a like-for-like basis unchanged due to the strong market knowledge and good relationships in the health & public sector coupled with an aggressive and flexible approach in the other sectors which should allow Exprivia to continue to outperform the flat Italian IT market.
- We confirm our 2011e-2013e EBITDA estimates as the negative impact related to higher competitive pressure in the IT domestic market has been offset by the expected contribution of Realtech Italia, which could be considered a turnaround story. Excluding Realtech, our 2011e-2013e EBITDA forecasts on a like-for-like basis would have been cut by 2.3% per annum on average.
- We have also downgraded our 2011e-2013e EBIT estimates by 2.4% on average due to a slight increase (ca. EUR0.2 million per annum on average) in provisions due to an expected weak economic enviroment and higher D&A related to the M&A. However, Exprivia will maintain a healthy 11.5% CAGR in EBIT for 2010-2013.
- Consequently, we have reduced our 2011-2013 net profit estimates by an average 5.7% also due to the fact that we have assumed a tax rate of 50% compared to a previous estimate of 49%.

Figure 3. Exprivia – Income statement and net debt projections: new vs old estimates

(EUR)	2011e		2012e		2013e	
	Old	New	Old	New	Old	New
Net revenues	**106.1**	**114.0**	**114.2**	**124.7**	**123.9**	**134.9**
% change New vs Old		*7.4%*		*9.2%*		*8.8%*
Value of production	110.5	118.4	118.6	129.1	128.3	139.2
% change New vs Old		*7.2%*		*8.9%*		*8.6%*
EBITDA	**16.9**	**16.9**	**18.5**	**18.7**	**20.5**	**20.4**
% change New vs Old		*-0.4%*		*1.0%*		*-0.3%*
EBIT	**14.1**	**13.8**	**15.6**	**15.4**	**17.7**	**17.1**
% change New vs Old		*-2.6%*		*-1.2%*		*-3.4%*
Pre-tax profit	**12.4**	**11.9**	**13.9**	**13.6**	**16.1**	**15.3**
% change New vs Old		*-4.1%*		*-2.5%*		*-4.8%*
Net profit	**6.3**	**6.0**	**7.1**	**6.8**	**8.2**	**7.6**
% change New vs Old		*-6.0%*		*-4.4%*		*-6.6%*
Net financial debt	**42.9**	**43.9**	**41.9**	**44.5**	**40.3**	**43.9**
% change New vs Old		*2.4%*		*6.2%*		*9.1%*

Source: Centrobanca estimates

Valuation

> Our target price of **EUR1.25** per share remains unchanged and implies an appealing upside of ca. 25%.

Our target price of **EUR1.25** per share is the weighted average of two fair values from a DCF model and from relative valuations and excludes any potential upside from external growth (such as the contribution of small and mid size acquisitions).

We continue to attribute a lower weighting to the fair value derived from relative approaches due to the difficulty in comparing Exprivia with other companies in the IT sector (both in and outside Italy). The majority of European peers have huge exposure to the most cyclical markets. Exprivia derives most of its revenues from long term contracts in the Health sector which is mainly owned by public entities.

Figure 4. Exprivia – Valuation summary

Valuation method	**Weight**	**Fair value (EUR)**
DCF (**4.3%** Risk-free rate, **7.4%** WACC, **0.5%** perpetual growth rate)	70%	1.36
Relative valuation (**EV/EBITDA** and **P/E** based on 2011 and 2012 estimates)	30%	0.99
Target price		**1.25**
Current market price		1.01
Upside / (downside) potential		23.8%

Source: Centrobanca

Figure 5. Exprivia - P/E, EV/EBITDA and EV/Sales comparison

(x)	P/E		EV / EBITDA		EV/Sales	
	2011e	**2012e**	**2011e**	**2012e**	**2011e**	**2012e**
Steria (Groupe)	9.3	8.0	4.6	4.1	0.4	0.4
Computacenter	11.6	10.8	4.9	4.3	0.2	0.2
Sopra Group	10.8	9.9	6.0	5.2	0.7	0.6
Ordina	13.2	9.8	7.7	5.4	0.5	0.4
GFI Informatique	7.5	7.4	5.1	4.5	0.4	0.4
Devoteam	11.4	8.9	4.1	3.5	0.3	0.3
Tieto	10.8	9.9	5.2	4.6	0.6	0.5
Kewill	8.7	12.4	5.5	4.3	1.0	0.9
Cap Gemini	15.9	13.5	5.5	4.6	0.5	0.5
Atos Origin	12.4	9.9	4.7	3.4	0.4	0.3
Logica	9.6	8.6	6.3	5.5	0.6	0.5
Reply	12.4	10.3	4.4	3.6	0.2	0.2
Engineering	6.9	6.4	3.5	3.0	0.4	0.4
Noemalife	16.9	13.1	4.4	3.7	0.9	0.7
TXT e-solutions	9.8	8.7	2.4	2.2	0.4	0.4
AVERAGE	**11.1**	**9.8**	**5.0**	**4.1**	**0.4**	**0.4**
Exprivia	8.7	7.6	5.3	4.8	0.8	0.7
Premium/(discount)	**-21.7%**	**-22.4%**	**5.8%**	**15.2%**	**73.0%**	**92.7%**

Source: FactSet, Centrobanca estimates

Income Statement

(EURm)	2010	2011e	2012e	2013e
Sales	96.7	114.0	124.7	134.9
Value of production	100.0	118.4	129.1	139.2
EBITDA	**15.3**	**16.9**	**18.7**	**20.4**
EBITDA margin	*15.2%*	*14.2%*	*14.5%*	*14.7%*
D&A	-3.4	-3.1	-3.3	-3.3
EBIT	**11.9**	**13.8**	**15.4**	**17.1**
EBIT margin	*11.9%*	*11.6%*	*11.9%*	*12.3%*
Net financial charges	-1.9	-2.0	-2.1	-2.1
Associates & others	0.0	0.0	0.0	0.0
Pre-tax profit	**10.0**	**11.9**	**13.6**	**15.3**
Taxes	-5.0	-6.0	-6.8	-7.6
Net profit	**4.93**	**5.96**	**6.80**	**7.64**

Source: Company data, Centrobanca estimates

Balance Sheet

(EURm)	2010	2011e	2012e	2013e
Net working capital	34.0	39.1	44.2	48.7
Net fixed assets	86.4	86.8	86.8	85.9
M/L term funds	-11.3	-11.4	-11.6	-11.8
Capital employed	**109.1**	**114.4**	**119.4**	**122.7**
Shareholders' equity	65.8	69.7	74.0	77.9
Minorities	0.8	0.8	0.8	0.8
Shareholders' funds	66.6	70.5	74.9	78.8
Net financial debt	42.5	43.9	44.5	43.9

Source: Company data, Centrobanca estimates

Cash Flow Statement

(EURm)	2010	2011e	2012e	2013e
NFP Beginning of Period	39.3	39.8	43.9	44.5
Net profit	4.9	6.0	6.8	7.6
D&A	3.4	3.1	3.3	3.3
Change in Funds & TFR	2.3	0.2	0.2	0.2
Gross Cash Flow	**10.6**	**9.2**	**10.3**	**11.2**
Change in NWC	-4.3	-5.1	-5.1	-4.5
Operating Cash Flow	**6.4**	**4.1**	**5.2**	**6.7**
Capex	-4.9	-3.5	-3.5	-3.5
Acquisitions & disposals	0.0	-2.7	0.0	0.0
Free Cash Flow	**1.5**	**-2.1**	**1.7**	**3.2**
Dividend paid	-2.0	-2.1	-2.3	-2.6
Change in consolidation area & other	0.0	0.0	0.0	0.0
Change in NFP	**-0.5**	**-4.2**	**-0.6**	**0.6**
NFP End of period	39.8	43.9	44.5	43.9

Source: Company data, Centrobanca estimates

Financial Ratios

	2010	2011e	2012e	2013e
Net margin (%)	4.9%	5.0%	5.3%	5.5%
ROE (%)	7.8%	8.8%	9.5%	10.1%
ROIC - after tax (%)	6.9%	7.5%	8.0%	8.6%
Net financial debt / Equity (x)	0.6	0.6	0.6	0.6
Net financial debt / EBITDA (x)	2.8	2.6	2.4	2.2
NOPAT (EURm)	8.0	9.2	10.3	11.5
ROACE (%)	7.6%	8.2%	8.8%	9.5%

Source: Company data, Centrobanca estimates

Per Share Data

(EUR)	2010	2011e	2012e	2013e
EPS	0.10	0.12	0.13	0.15
DPS	0.04	0.04	0.05	0.05
Payout	41.8%	38.1%	37.9%	36.2%
Op. CFPS	0.12	0.08	0.10	0.13
Free CFPS	0.03	-0.04	0.03	0.06
BVPS	1.28	1.35	1.44	1.51

Source: Company data, Centrobanca estimates

Stock Market Ratios

(x)	2010	2011e	2012e	2013e
P/E	10.5	8.7	7.6	6.8
P/OpCFPS	8.1	12.6	10.0	7.8
P/FreeCFPS	33.9	-24.8	30.8	16.3
P/BVPS	0.8	0.7	0.7	0.7
Dividend yield	4.0%	4.4%	5.0%	5.3%
Free Cash Flow Yield	2.9%	-4.0%	3.2%	6.1%
EV (EURm)	87.3	88.6	88.9	88.1
EV/Sales	0.9	0.8	0.7	0.7
EV/EBITDA	5.7	5.3	4.8	4.3
EV/EBIT	7.4	6.4	5.8	5.2
EV/Capital Employed	0.8	0.8	0.7	0.7

Source: Company data, Centrobanca estimates

Growth Rates

(%)	2010	2011e	2012e	2013e
Growth net sales	12.7%	17.9%	9.4%	8.1%
Growth EBITDA	4.0%	10.6%	10.9%	9.1%
Growth EBIT	1.3%	15.8%	12.0%	11.0%
Growth net profit	-2.2%	20.8%	14.1%	12.4%

Source: Company data, Centrobanca estimates

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The outcome of the checks carried out is reported below:

- *A conflict of interest exists for the UBI Group inasmuch as it holds business relations with Exprivia SpA;*
- *A conflict of interest exists for the UBI Group inasmuch as Centrobanca acts as Specialist for Exprivia Spa.*

On the basis of the checks carried out no other conflict of interest arose.

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The Centrobanca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating *system is listed below:*

Buy: if the target price is 10% higher than the market price.
Hold: if the target price is 10% below or 10% above the market price.
Sell: if the target price is 10% lower than the market price.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.
Market price: closing price on the day before the issue date of the report, appearing on the first page.

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Distribution of ratings

For further information regarding quarterly rating statistics and descriptions, please refer to Centrobanca's website www.centrobanca.it.

Historical recommendations and target prices

Date	Rating	Target Price (EUR)	Market Price (EUR)
02.12.2009	Buy	1.30	1.13
12.04.2010	Buy	1.38	1.17
01.09.2010	Buy	1.15	0.91
20.01.2010	Buy	1.25	0.94