CENTROBANCA
Gruppo UBI Banca

EXPRIVIA

Company Update

Buy (maintained)

20 December 2010

MARKET PRICE: **EUR0.94** TARGET PRICE: **EUR1.25** (from **EUR1.15**)

Data

Shares Outstanding (m):	51.9	
Market Cap. (EURm):	48.6	
Enterprise Value (EURm):	83.5	
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	1.30

Performance

	1m	3m	12m
Absolute	-12.8	10.0	-22.4
Rel. to FTSE IT	-10.9	11.5	-13.9

Financials

	2009	2010e	2011e
Revenues (EURm)	85.8	96.6	106.1
EBITDA (EURm)	14.7	15.3	16.9
Net Profit (EURm)	5.1	5.4	6.3
EPS (EUR)	0.10	0.11	0.12
CFPS (EUR)	0.15	0.16	0.17
BVPS (EUR)	1.22	1.26	1.34
DPS (EUR)	0.04	0.04	0.04

Ratios

	2009	2010e	2011e
EBITDA margin	16.3%	15.1%	15.3%
ROI	11.1%	11.0%	11.9%
ROAE	8.5%	8.6%	9.5%
Debt/Equity	0.6	0.7	0.6
Debt/EBITDA	2.7	2.8	2.5

Valuation

	2009	2010e	2011e
P/E (x)	10.9	8.9	7.6
P/CF (x)	7.2	6.0	5.4
P/BV (x)	0.9	0.7	0.7
Dividend Yield	3.6%	4.3%	4.7%
EV/Sales (x)	1.0	0.9	0.8
EV/EBITDA (x)	6.0	5.5	4.9
EV/CE (x)	0.9	0.8	0.7

Source: Centrobanca estimates

A resilient growth story

*Following 3Q10 results above our estimates and the presentation of an ambitious new business plan, we confirm our **Buy** rating and increase our target price to **EUR1.25** per share from **EUR1.15**. This upgrade mainly reflects higher 2010-2013 revenue and EBITDA estimates (+9.3% p.a. and +12.9% p.a. respectively) as we believe that Exprivia will continue to outperform the weak Italian IT market due to its strong market knowledge and good relationships in the health & public sector coupled with an aggressive and flexible approach in the other sectors. In addition, the 3Q10 results showed that the Company is benefiting from the decline in costs related to some multi-year orders. However, our new FY13 EBITDA estimate remains ca. 9% below that in the new business plan as we think that the tough conditions expected in the domestic IT market will make it difficult for the FY13 target to be met. Our positive view on Exprivia reflects higher visibility in sales, an appealing and sustainable mix of earnings growth and dividend yield due to its well diversified business, coupled with an attractive P/E11e: 7.6x compared to 10.4x for its European peers.*

> 3Q10 net revenues were EUR21.3 million, compared to our estimate of EUR20.7 million, an increase of 10.3% year-on-year. This was mainly due to the Health & public sector and the Industry & media divisions which both reported strong demand.

> In October, management presented a 2010-2013 business plan which, in our view, set challenging targets. Exprivia expects 2013 value of production to be EUR140 million (2009-2013 CAGR of +11.7%) and EBITDA to be EUR22.5 million (2009-2013 CAGR of +12.7%). Both figures are well above our old forecasts. Management guidance on FY10 results was also above our old estimates, which, given that we are in 4Q, must be achievable.

> We have upgraded our FY10e estimates for revenues by 6.1%, EBITDA by 9.7% and EPS by 8%. These are now broadly in line with Company guidance. We have also upgraded our 2011 and 2012 forecasts for revenues by an average of ca. 10.5% and for EPS by ca. 14%. We now expect higher net debt in the 2010-2012 period (up ca. 19.2%) mainly due to higher NWC. The latter assumption is because we are convinced that the revenue growth is likely to imply a higher number of payment days for receivables.

> Our new target price of **EUR1.25** per share is 8.9% above our previous target and offers potential upside of 33.6%. Our target derives from a weighted average of a DCF valuation (EUR1.34) based on long term conservative assumptions (1% of perpetuity growth) and a relative valuation based on EV/EBITDA and P/E (EUR1.04).

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Recent Developments

- Exprivia reported strong 3Q10 results which were above our estimates and were mainly due to a better than expected operating performance in the Health & public sector division.
- At the end of October, management presented a new business plan, targeting a 2009-2013 CAGR of 11.7% in the value of production and a FY13 EBITDA of EUR22.5 million. The Company also stated that FY10 gross sales would be above EUR100 million and that FY10 net profit would be ca. EUR5.4 million; both these figures were above our estimates.

3Q10 results

3Q10 net revenues reached EUR21.3 million in comparison with our estimate of EUR20.7 million, with a 10.3% year-on-year increase mainly due to the contribution of the health and local administration business unit which benefited of new multi-year orders and of the Industry & Media division which reported a strong demand for its products (evolved warehouse management systems and complex manufacturing execution systems).

Figure 1. Exprivia – 3Q10 results: breakdown of revenues

(EURm)	3Q09	3Q10	Chg YoY	3Q10e	Delta vs Cbe	9M09	9M10	Chg YoY	9M10e
Finance	2.29	2.65	15.6%	2.50	6.0%	6.71	7.34	9.3%	7.19
Industry & Media	2.43	3.12	28.2%	2.90	7.5%	8.22	9.61	16.9%	9.39
Pac, transport, utilities	4.10	3.09	-24.7%	3.50	-11.7%	11.28	10.24	-9.2%	10.65
Oil, gas e telecom	2.65	2.74	3.6%	2.90	-5.6%	8.88	8.38	-5.6%	8.54
Health & public sector	7.64	9.43	23.5%	8.70	8.4%	24.78	30.78	24.2%	30.05
Other	0.17	0.25	45.4%	0.20	26.5%	0.93	1.38	48.1%	1.32
Total net revenues	**19.29**	**21.28**	**10.3%**	**20.70**	**2.8%**	**60.80**	**67.73**	**11.4%**	**67.15**

Source: Company data, Centrobanca estimates

Figure 2. Exprivia – 3Q10 / 9M10 results

(EURm)	3Q09	3Q10	Chg YoY	3Q10e	Delta vs Cbe	9M09	9M10	Chg YoY	9M10e
Net revenues	19.29	21.28	10.3%	20.70	2.8%	60.80	67.73	11.4%	67.15
VoP	20.00	21.51	7.6%	21.10	2.0%	63.80	69.73	9.3%	69.31
EBITDA	**3.16**	**4.16**	**31.7%**	**3.70**	**12.5%**	**9.50**	**9.98**	**5.0%**	**9.52**
EBITDA margin	*15.8%*	*19.3%*	-	*17.9%*	-	*14.9%*	*14.3%*	*0.0%*	*14.2%*
D&A	-0.74	-0.65	-12.1%	-0.78	-15.9%	-2.17	-1.96	-9.4%	-2.09
EBIT	**2.42**	**3.51**	**45.2%**	**2.93**	**20.0%**	**7.34**	**8.02**	**9.3%**	**7.44**
EBIT margin	*12.1%*	*16.3%*	-	*13.9%*	-	*11.5%*	*11.5%*	*0.0%*	*10.7%*
Net financial charges	-0.46	-0.45	-2.2%	-0.38	18.7%	-1.66	-1.31	-21.1%	-1.24
Associates & others	0.00	0.00	-	0.00	-	0.00	0.00	-	0.00
Pre-tax profit	**1.96**	**3.07**	**56.1%**	**2.55**	**20.2%**	**5.68**	**6.71**	**18.2%**	**6.19**
Taxes	-1.08	-1.50	39.8%	-1.00	50.4%	-2.46	-3.54	43.9%	-3.04
Minorities & others	0.12	0.06	n.m.	0.00	-	0.00	0.07	n.m.	0.01
Net profit	**1.00**	**1.62**	**61.1%**	**1.55**	**4.3%**	**3.21**	**3.23**	**0.6%**	**3.17**
Net debt	40.44	40.45	-	40.50	-0.1%	40.44	40.45	0.0%	40.50

Source: Company data, Centrobanca estimates

3Q10 EBITDA jumped by 31.7%, beating our forecast by 12.5%. The strong increase in EBITDA is due to the fact that the costly start of some multi-year orders is now over and the Company is benefiting from the decline in these costs.

Exprivia reported EUR3.5 million of EBIT in 3Q10 compared to EUR2.4 million in 3Q09. This was due to higher EBITDA and a 12.1% year-on-year decline in D&A whereas we had expected a slight increase. The 3Q10 net profit increased 61.1% year-on-year but was only 4.3% above our forecast as financial charges and taxes were higher than expected.

Net debt at 30 September 2010 was in line with our estimate and was in line with the figure reported at 30 June 2010.

2010-2014 business plan

The Company expects value of production (VoP) of EUR140 million in 2013 compared to our old estimate of EUR109 million and the EUR90.1 million reported in 2009. Foreign revenues should rise to ca. 10% of total revenues from the current level of 3%. The strong increase in Group revenues in the business plan is due to the double digit growth (between 10% and 17%) expected in all the reference markets of the Group; health, banking and finance, industry and media, telecommunications, Oil & Gas, PA/transports/utilities.

Figure 3. Exprivia – Key guidance in the new business plan

(EURm)	2009	2010e	2011e	2012e	2013e	2010-2013 CAGR	2013e (External growth)
VoP	90.1	100.5	-	-	140.0	11.7%	200.0
EBITDA	14.7	14.9	-	-	22.5	12.7%	30.0
EBITDA margin	*16.3%*	*15.6%*	-	-	*16.1%*	-	*15.0%*
EBIT	11.7	-	-	-	19.3	-	27.1
EBIT margin	*13.0%*	-	-	-	*13.8%*	-	*13.6%*
Net profit	5.1	5.4	-	-	9.5	20.7%	13.1
Net debt	39.3	41.6	-	-	29.5	-	69.5
Net debt / EBITDA	2.7x	2.8x	-	-	1.3x	-	2.3x

Source: Company data

Exprivia aims to have EBITDA of EUR22.5 million in 2013, a figure that is ca. 40% above our old forecast. This figure implies that the Company would not have any operating profitability deterioration and would have an expected 2013 EBITDA margin of 16.1%, which is broadly in line with that reported in 2009.

In our view, despite the management's proven track record, these targets are challenging as the Italian IT market is expected to be fairly flat in the next four years with increased competition in selling prices as regional health and public administration budgets are almost certain to be reduced.

According to the Company, net debt at the end of 2013 should decline to EUR29.5 million from the EUR41.6 million expected at the end of 2010; our old estimate for FY2010e net debt was lower at EUR38 million. The management also confirmed the current dividend policy (a payout ratio of ca. 40%).

These targets are based on the current consolidation area although the new business plan also assumes significant external growth. With acquisitions Exprivia aims to reach FY13 revenues of EUR200 million, with a FY14 EBITDA target of EUR30 million and a FY14 net profit target of EUR13.1 million. Net debt would increase to EUR69.5 million as the external growth would mainly be financed by new debt. However, the management underlined that the Net debt / EBITDA ratio will be maintained at under 2.5x.

Management also gave a guidance on FY10 results which exceeded our previous forecasts by 7.2% for EBITDA and by 8.0% for net profit.

Financial Projections

- Following 3Q10 results and new FY10 guidance from the Company, we have upgraded our estimates for FY10 revenues by 6.1%, for EBITDA by 9.7% and for EPS by 8% mainly due to a higher than expected contribution from the health and public sector division, partially offset by higher taxes.
- We have also upgraded our 2011 and 2012 forecasts for revenues by an average ca. 10.5% and for pre-tax profit by an average ca. 23%. We have also increased our 2011 and 2012 EPS estimates by 14% on average as we have assumed a tax rate of 49% compared to a previous estimate of 45%.
- However, our FY13 EBITDA forecasts remain around 9% below the target of the new business plan as we believe that the tough conditions in the domestic IT market will make the management growth targets hard to achieve.
- We have increased our 2010-2012 net debt estimates by 19.2% on average to reflect higher NWC as we believe that the expected revenue growth could mean a higher number of payment days for receivables.

Figure 4. Exprivia – Revised 2010-2012 estimates and our new 2013 estimates

(EURm)	2010e		2011e		2012e		2013e
	Old	New	Old	New	Old	New	New
Net revenues	91.1	96.6	96.0	106.1	102.5	114.2	123.9
% change		*6.1%*		*10.5%*		*11.4%*	
Value of production	95.5	101.0	100.4	110.5	106.9	118.6	128.3
% change		*5.7%*		*10.0%*		*10.9%*	
EBITDA	13.9	15.3	14.7	16.9	16.2	18.5	20.5
% change		*9.7%*		*14.9%*		*14.0%*	
EBIT	11.0	12.5	11.8	14.1	13.2	15.6	17.7
% change		*13.5%*		*19.8%*		*18.4%*	
Pre-tax profit	9.1	10.6	10.0	12.4	11.4	13.9	16.1
% change		*16.5%*		*24.3%*		*21.9%*	
Net profit	5.0	5.4	5.5	6.3	6.3	7.1	8.2
% change		*8.0%*		*15.2%*		*13.0%*	
Net financial debt	38.0	42.5	36.2	42.9	33.0	41.9	40.3
% change		*11.8%*		*18.5%*		*27.1%*	

Source: Centrobanca estimates

Valuation

> We are increasing our target price to **EUR1.25** per share from **EUR1.15** due to our new higher earnings estimates and the re-rating of the main European IT services stocks.

Our new 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 less weight 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 peers have huge exposure to the most cyclical markets. Exprivia derives most of its revenues from long term contracts in the Health sector.

Figure 5. Exprivia – Valuation summary

Valuation method	Weight	Fair value (EUR)
DCF (**4.3%** Risk-free rate, **7.4%** WACC, **0.5%** perpetual growth rate)	70%	1.34
Relative valuation (**EV/EBITDA** and **P/E** based on 2010-2012 estimates)	30%	1.04
Target price		1.25
Current market price		0.94
Upside / (downside) potential		33.6%

Source: Centrobanca

Figure 6. Exprivia – P/E, EV/EBITDA and EV/Sales comparison

(x)	P/E			EV/EBITDA			EV/Sales		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
Steria (Groupe)	9.4	8.3	7.5	4.8	4.2	3.8	0.4	0.4	0.4
Computacenter	12.8	11.6	10.7	5.3	5.4	4.6	0.2	0.2	0.2
Sopra Group	11.2	9.8	8.7	6.1	5.2	4.4	0.6	0.6	0.5
Ordina	24.2	11.2	8.4	12.6	6.9	5.0	0.5	0.4	0.4
GFI Informatique	7.9	6.1	6.4	4.9	4.5	4.1	0.4	0.3	0.3
Devoteam	12.5	9.5	8.4	5.1	3.9	3.0	0.4	0.3	0.3
Tieto	12.9	11.2	10.5	6.3	5.3	4.8	0.7	0.6	0.6
Kewill	8.8	8.1	7.7	7.9	5.1	4.0	1.4	0.9	0.8
Cap Gemini	17.1	13.7	11.7	5.9	4.7	3.8	0.5	0.4	0.4
Atos Origin	14.0	12.1	10.5	5.5	4.7	4.0	0.6	0.5	0.5
Logica	10.4	9.6	8.9	7.0	6.2	5.4	0.6	0.6	0.5
Reply	21.0	10.5	10.5	4.9	3.3	2.7	0.2	0.2	0.2
Engineering	7.8	6.9	6.4	3.9	3.5	3.0	0.5	0.4	0.4
Noemalife	25.5	18.2	14.2	5.6	4.6	3.8	1.1	0.9	0.8
TXT e-solutions	14.5	9.8	8.7	2.8	2.4	2.2	0.4	0.4	0.4
AVERAGE	**14.0**	**10.4**	**9.3**	**5.9**	**4.7**	**3.9**	**0.5**	**0.4**	**0.4**
Exprivia	8.9	7.6	6.8	5.5	4.9	4.5	0.9	0.8	0.7
Premium/(discount)	**-36.5%**	**-27.1%**	**-26.8%**	**-7.3%**	**6.1%**	**14.2%**	**87.9%**	**86.5%**	**95.2%**

Source: FactSet, Centrobanca estimates

Income Statement

(EURm)	2009	2010e	2011e	2012e	2013e
Sales	85.7	96.6	106.1	114.2	123.9
Value of production	90.1	101.0	110.5	118.6	128.3
EBITDA	**14.7**	**15.3**	**16.9**	**18.5**	**20.5**
EBITDA margin	*16.3%*	*15.1%*	*15.3%*	*15.6%*	*16.0%*
D&A	-2.9	-2.8	-2.8	-2.9	-2.8
EBIT	**11.7**	**12.5**	**14.1**	**15.6**	**17.7**
EBIT margin	*13.0%*	*12.4%*	*12.8%*	*13.2%*	*13.8%*
Net financial charges	-2.2	-2.0	-1.9	-1.9	-1.9
Associates & others	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	**9.2**	**10.6**	**12.4**	**13.9**	**16.1**
Taxes	-4.2	-5.2	-6.1	-6.8	-7.9
Net profit	**5.1**	**5.4**	**6.3**	**7.1**	**8.2**

Source: Company data, Centrobanca estimates

Balance Sheet

(EURm)	2009	2010e	2011e	2012e	2013e
Net working capital	29.7	34.7	38.5	41.5	44.5
Net fixed assets	80.1	82.0	83.0	83.8	83.8
M/L term funds	-8.9	-9.1	-9.3	-9.4	-9.6
Capital employed	**100.9**	**107.6**	**112.2**	**115.9**	**118.7**
Shareholders' equity	61.3	64.7	68.9	73.6	78.0
Minorities	0.4	0.4	0.4	0.4	0.4
Shareholders' funds	61.7	65.1	69.3	74.0	78.4
Net financial debt	39.3	42.5	42.9	41.9	40.3

Source: Company data, Centrobanca estimates

Cash Flow Statement

(EURm)	2009	2010e	2011e	2012e	2013e
NFP Beginning of period	35.3	39.3	42.5	42.9	41.9
Net profit	5.1	5.4	6.3	7.1	8.2
Amortisation	2.9	2.8	2.8	2.9	2.8
Change in Funds & TFR	-0.3	-0.1	-0.2	-0.2	-0.2
Gross Cash Flow	**7.7**	**8.0**	**9.0**	**9.8**	**10.7**
Change in NWC	-4.5	-5.0	-3.8	-3.1	-3.0
Operating Cash Flow	**3.2**	**3.1**	**5.2**	**6.8**	**7.7**
Capex	-4.9	-3.3	-3.5	-3.5	-3.5
Acquisitions & disposals	-0.8	-1.0	0.0	0.0	0.0
Free Cash Flow	**-2.5**	**-1.2**	**1.7**	**3.3**	**4.2**
Dividend paid	-2.0	-2.0	-2.1	-2.3	-2.6
Change in perimeter area & other	0.3	0.0	0.0	0.0	0.0
Change in NFP	**-3.9**	**-3.3**	**-0.4**	**1.0**	**1.7**
NFP End of period	39.3	42.5	42.9	41.9	40.3

Source: Company data, Centrobanca estimates

Financial Ratios

	2009	2010e	2011e	2012e	2013e
Net margin (%)	5.6%	5.4%	5.7%	6.0%	6.4%
ROE (%)	8.5%	8.6%	9.5%	10.0%	10.8%
ROIC - after tax (%)	7.4%	7.4%	7.9%	8.5%	9.4%
Net financial debt / Equity (x)	0.6	0.7	0.6	0.6	0.5
Net financial debt / EBITDA (x)	2.7	2.8	2.5	2.3	2.0
NOPAT (EURm)	7.9	8.4	9.5	10.4	11.9
ROACE (%)	8.1%	8.0%	8.6%	9.2%	10.1%

Source: Company data, Centrobanca estimates

Per Share Data

(EUR)	2009	2010e	2011e	2012e	2013e
EPS	0.10	0.11	0.12	0.14	0.16
DPS	0.04	0.04	0.04	0.05	0.06
Op. CFPS	0.06	0.06	0.10	0.13	0.15
Free CFPS	-0.05	-0.02	0.03	0.06	0.08
BVPS	1.22	1.26	1.34	1.43	1.51

Source: Company data, Centrobanca estimates

Stock Market Ratios

(x)	2009	2010e	2011e	2012e	2013e
P/E	10.9	8.9	7.6	6.8	5.9
P/OpCFPS	17.3	15.8	9.3	7.1	6.2
P/FreeCFPS	-22.0	-38.8	28.5	14.7	11.4
P/BVPS	0.9	0.7	0.7	0.7	0.6
Dividend yield	3.6%	4.3%	4.7%	5.3%	6.1%
Free Cash Flow Yield	-4.5%	-2.6%	3.5%	6.8%	8.8%
EV (EURm)	87.5	83.5	83.7	82.5	80.6
EV/Sales	1.0	0.9	0.8	0.7	0.7
EV/EBITDA	6.0	5.5	4.9	4.5	3.9
EV/EBIT	7.5	6.7	5.9	5.3	4.6
EV/Capital Employed	0.9	0.8	0.7	0.7	0.7

Source: Company data, Centrobanca estimates

Growth Rates

(%)	2009	2010e	2011e	2012e	2013e
Growth net sales	-5.1%	12.7%	9.8%	7.6%	8.5%
Growth EBITDA	-4.1%	4.1%	10.8%	9.4%	10.5%
Growth EBIT	-4.6%	6.6%	12.9%	10.4%	13.6%
Growth net profit	-26.0%	7.3%	16.7%	12.2%	15.2%

Source: Company data, Centrobanca estimates

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Analyst Declaration

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Historical recommendations and target price

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