

DATAGROUP

IT services
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Absorbing acquisitions with a robust model

DATAGROUP's business model is relatively resilient to the COVID-19 crisis with a recurring revenue base of over 75%, mostly from its service-as-a-product contracts with German SMEs. In its reported H120 results to April 2020, the company announced organic revenue growth of 4%. COVID-19 has affected the acquisition of new projects and the integration of recently acquired companies, which prompted DATAGROUP to withdraw guidance in April. However, as mentioned during the results call, management does not expect a year-on-year decrease in EBITDA in FY20. Trading at 30.8x FY20e P/E and 22.9x FY21e P/E on consensus estimates, DATAGROUP is trading at a premium to peers.

Earnings driven by M&A; business model robust

DATAGROUP reported 23% revenue growth in H120, driven by the acquisition of Portavis this year, and IT-informatik and UBL in 2019. Organic revenue growth was 4%, which demonstrates the robustness of the model with over 75% of recurring service revenues, mainly from CORBOX, its cloud-enabling platform targeted at German SMEs. Acquisition-related P&L items had a large influence on results. EBITDA increased by almost 16% to €23.6m, driven by negative goodwill (badwill) from Portavis, partly offset by €5.5m in risk provisions for possible restructuring. EBIT decreased by 6%, while net profit increased 45% to €8.9m due to a one-off low tax rate as a result of limited taxation on badwill.

Absorbing acquisitions takes longer

DATAGROUP's business model is to acquire companies with a low valuation or in insolvency proceedings (IT-informatik), which it subsequently integrates into its efficient service platform. COVID-19 made it more difficult to transfer contracts from acquired companies and to win additional business, prompting it to withdraw guidance of EBITDA of at least €55m in FY20 provided at the March AGM. However, CEO Max Schaber indicated during the results conference call that he does not expect EBITDA to decline in FY20, implying a figure of at least €47m.

Valuation: Large premium to peers on FY20e P/E

DATAGROUP is trading at a premium to peers of 12% on FY20e P/E. Compared to peers that are more dependent on selling time or projects, DATAGROUP has a much more resilient business model. Furthermore, it has a solid track record of integrating acquisitions, creating cross-selling synergies from upselling additional services and a clear focus on the large German SME sector.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/18	272.1	34.5	1.55	0.45	34.6	0.8
09/19	306.8	46.9	1.74	0.60	30.8	1.1
09/20e	377.7	55.0	1.74	0.76	30.8	1.4
09/21e	409.0	61.7	2.34	0.89	22.9	1.7

Source: DATAGROUP, Refinitiv

Price €53.6
Market cap €447m

Share price graph



Share details

Code	D6H
Listing	Deutsche Börse Scale
Shares in issue	8.3m
Last reported net debt at 31 March	€61m

Business description

DATAGROUP is an IT outsourcing provider, focused on the German Mittelstand market. It offers the full range of IT services on a modular basis, through its CORBOX 'cloud enabling platform'. Services include service desk, end-user services, data centre services, application management and SAP services.

Bull

- A compelling growth strategy, scaling the business across the Mittelstand sector.
- Cloud services business model gives it an advantage over competitors.
- Centralised SLA-based approach with a focus on customer satisfaction puts company in a strong position to consolidate a fragmented market.

Bear

- Highly exposed to the German economy.
- Acquisitions bring risks, but DATAGROUP has a proven track record in integrating acquisitions.
- Increased debt levels, although the group is still well within its covenants.

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H120 results affected by M&A

On 14 May 2020, DATAGROUP reported its H120 results, which were severely affected by the effects of the acquisition of Portavis announced in January and closed early March. In addition to a small regular business impact of the acquisition, there was a significant €10m impact on other income related to the badwill recognised as a result of the transaction. The other two acquisitions completed in 2019 (IT-informatik and UBL) also had an impact. All in all, DATAGROUP reported 23% revenue growth, of which roughly 4% was organic according to the CEO's comment during the post-results conference call.

EBITDA increased almost 16% to €23.6m, driven by the badwill from Portavis, partly offset by €5.5m in risk provisions for possible restructuring. EBIT decreased by nearly 6% to €9.6m as a result of the negative EBIT contributions from Portavis and DATAGROUP Ulm (formerly IT-informatik). Like most technology companies, COVID-19 has only had a small impact on DATAGROUP's results for the quarter to April, as the lockdown effects only appeared in March. However, DATAGROUP needed extra temporary holding staff to match the growing organisation, while signing contracts with large customers, especially from Portavis, were subject to delays and led to higher launch costs.

Net profit increased 45% to €8.9m, mostly because of the limited taxation of badwill. Although only 68% of Portavis was acquired, it is fully included in DATAGROUP's net results. DATAGROUP is able to consolidate 100% of Portavis, because the sale of the participations of minority shareholders Sparkasse Bremen (holding 7% of Portavis shares) and Hamburger Sparkasse (holding 25%) to DATAGROUP is likely and it has therefore been accounted for as a purchase liability.

In the balance sheet, the acquisition of Portavis resulted in an expansion of the balance sheet by roughly €80m. This is the effect of higher cash and finance leases balanced by higher provisions, for both pensions (€30m) and the purchase obligation of the minority stakes in Portavis. The size of pension liabilities will vary with changes in interest rates and mortality tables. DATAGROUP's net debt came down from €66m to €61m at end H120.

Exhibit 1: Key H120 figures

€000s	H119	H120	Change %
Revenues	138,722	170,010	22.6
Services & maintenance	114,674	143,039	24.7
Trade	23,977	26,794	11.7
Other	71	177	149.3
Own work capitalised	302	633	109.6
Total revenues	139,024	170,643	22.7
Material expenses/purchased services	(39,184)	(53,476)	36.5
Gross profit	99,840	117,167	17.4
Personnel expenses	(70,577)	(89,017)	26.1
Other income	2,630	15,028	471.4
Other expenses	(11,478)	(19,539)	70.2
EBITDA	20,415	23,639	15.8
Depreciation from PPA	(1,852)	(2,036)	9.9
Other depreciation	(8,335)	(11,967)	43.6
EBIT	10,228	9,636	(5.8)
Financial result	(1,122)	(1,160)	3.4
EBT	9,106	8,476	(6.9)
Taxation	(2,946)	449	(115.2)
Net income	6,160	8,925	44.9
Average number of shares (000's)	8,331	8,331	0.0
EPS (€)	0.74	1.07	44.9

Source: Company data

Guidance withdrawn, but business model is resilient

At the AGM on 3 March, DATAGROUP guided for revenue to grow to more than €375m (previous year €307m) and EBITDA to over €55m (previous year €46.9m) in FY20. However, this guidance was withdrawn on 27 April on the back of the coronavirus pandemic.

Although DATAGROUP's existing business is relatively resilient to the COVID-19 crisis, with over 75% of revenues being contract-based recurring service contracts, there is some negative impact on winning new business. We have seen this for other companies in the sector as well.

DATAGROUP's recurring revenue base is founded on its fully outsourced offering of cloud-enabling service-as-a-product contracts for German SMEs with 250–5,000 workstations. Its core product, CORBOX, offers companies a modular portfolio of nine groups of IT services ranging from service desk services to managed and private cloud solutions. Within CORBOX, third-party cloud solutions such as Microsoft, Amazon Web Services and SAP can be integrated with additional services and combined with DATAGROUP's own cloud and outsourcing services. DATAGROUP has access to and owns data centres (colocation centres) in Germany with an ISO security certification.

With the COVID-19 situation, demand for these services has been stable; demand for these types of services will probably increase in the medium term due to the trend for working at home, which increases the demand for workstations and cloud solutions.

However, organic revenue growth is limited, as winning new business is difficult in current market conditions. On the other hand, the impact of the acquisition of IT-Informatik (now DATAGROUP Ulm) and UBL Informationssysteme in 2019, and especially Portavis in FY20, will be significant. Portavis has major customers like Sparkasse Hamburg and Sparkasse Bremen, and DATAGROUP expects it to contribute c €30m to FY20 revenues and c €60m in revenues on an annualised basis (roughly 10% of group turnover).

DATAGROUP has a successful M&A track record, acquiring companies with a low valuation or even in insolvency proceedings (eg IT-informatik), which it subsequently integrates into its efficient service platform. Over the last four years, organic growth was 4–6% and inorganic growth 8–12%, while profit margins increased. All in all, consensus expectations are for 23% revenue growth to €378m for FY20, which seems realistic, given the acquisitions combined with limited organic growth.

In terms of profitability, according to the company, DATAGROUP Ulm has been loss making at the EBITDA level, but is nearing break-even now. In FY21, DATAGROUP Ulm will contribute positively to EBITDA, according to management's comment during the analyst conference call. However, there are project postponements at the robotics software specialist Almato (acquired in 2018) and some negative effects in the very large contract with NRW Bank. Partly caused by and combined with extraordinary factors from the COVID-19 crisis, these factors could lead to delayed project start-ups, affecting both revenues and profitability. This has prompted DATAGROUP to withdraw the guidance for EBITDA of over €55m for FY20. However, during the analyst conference call, CEO Max Schaber mentioned that he does not expect a decline in EBITDA in FY20, which implies a figure of at least €47m. On the longer-term ambition of reaching an EBIT margin of 9%, he said it might take longer than previously envisaged, now likely in FY23.

Valuation

DATAGROUP is trading at a premium of 12% on FY20e P/E and a discount of 21% on FY20e EV/EBITDA vs its peers. Compared to peers that are more dependent on selling time or projects, DATAGROUP has a much more resilient business model, with a recurring revenue base of over 75%. Furthermore, it has a solid track record of integrating acquisitions, creating cross-selling synergies from upselling additional services and a clear focus on the large German SME sector.

Exhibit 2: Peer group comparison

	Market cap	P/E (x)			EV/EBITDA (x)		
	(local CCY m)	2019	2020e	2021e	2019	2020e	2021e
Allgeier	€333	20.7	15.7	11.9	7.1	6.2	5.4
ATOS	€6896	N/A	9.4	8.3	N/A	6.5	6.1
Bechtle	€6497	38.0	37.0	31.8	20.7	20.1	17.9
Cancom	€2079	39.6	32.8	26.1	13.0	12.4	10.9
CENIT	€76	11.0	27.4	12.1	4.7	7.2	4.3
GFT	€224	11.2	16.6	12.3	7.0	8.7	7.3
QSC	€159	N/A	N/A	N/A	0.8	N/A	19.2
S&T	US\$1498	30.6	32.1	23.9	13.7	13.4	11.0
SNP Schneider	€274	N/A	53.3	27.6	20.8	20.4	13.4
USU Software	€183	24.9	31.6	21.9	18.8	22.2	14.8
All for One Steeb	€182	11.1	18.0	12.9	5.6	4.9	4.2
Peer average		23.4	27.4	18.9	11.2	12.2	10.4
DATAGROUP	€447	30.8	30.8	23.0	11.3	9.6	8.6
Premium/(discount)		32%	12%	22%	1%	-21%	-17%

Source: Refinitiv. Note: Priced at 22 May 2020. Valuation multiples for Datagroup are not calendarised.

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