

BE

4Q/FY15 Preview

BE - Key estimates and data					
Y/E December		2014A	2015E	2016E	2017E
Revenues	EURM	98.47	114.6	129.7	136.7
EBITDA	EUR M	12.93	14.97	18.62	21.25
EBIT	EUR M	6.11	8.76	12.06	14.88
Net Income	EUR M	1.04	3.35	5.93	7.79
Dividend ord.	EUR	0.01	0.01	0.02	0.02
Adj. EPS	EUR	0.01	0.02	0.04	0.06
EV/EBITDA	x	6.1	4.9	4.1	3.5
Adj. P/E	x	59.1	19.3	10.9	8.3

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

- 4Q/FY15E results preview.** BE is to disclose results on 14 March. We expect total revenues at EUR 114.6M in FY15E, about 16.4% yoy, mainly driven by the Business Consulting division (+20.8% yoy in 9M15A). We see EBITDA at EUR 15.0M (up 15.8% vs. FY14A), which implies an EBITDA margin of around 13.1%. We expect BE to close FY15E with a group net profit of EUR 3.4M (EUR 1.0M in FY14A). Lastly, we forecast a net financial position at EUR 7.3M, significantly improving from the EUR 21.7M posted in 9M14A mainly benefiting from a favourable NWC seasonality.
- Two recent acquisitions.** In February, BE announced the acquisition of 100% of Loc Consulting Ltd, a London based company principally focused on management consultancy for the consumer, public and financial services sectors and the acquisition of a 55% share capital of R&L AG, a German company specialised in consulting and IT solutions in the payments sector and, in particular, on SWIFT solutions. We positively view the news as we think that external growth will be crucial to increasing the group's size, strengthening its offer and reinforcing the internationalisation process. Furthermore, the acquisitions further strengthen the group's operations in strategic geographic areas, such as the UK and Germany, which we recall are the two key markets for BE's expansion strategy abroad.
- Estimates revision.** We revised our FY15E-17E estimates to factor in an expected higher revenue growth and a lower profitability due to an higher weighting of service costs (+30.6% yoy in 9M15A). We underline that, as regards FY16E-17E, we also incorporate our first estimate of the abovementioned effects of the two acquisitions.
- Valuation.** We based our valuation for BE on a DCF model to reflect the group's specific long-term prospects. We updated our DCF valuation after our estimates revision and the periodical revision of our risk-free rate to 1.75% (vs. 2.0% used in the previous research). **We derive a new target price of EUR 0.97/share (vs. 0.91/share previously), confirming our BUY recommendation on the stock.**
- Key risks.** We view the main risks as: 1) an environment characterised by challenging competition from big international operators; and 2) a high client concentration, with around 75% of revenues deriving from financial institutions.

BE – 4Q/FY15E results preview						
EUR M	4Q14A	4Q15E	Chg. %	FY14A	FY15E	Chg. %
Total revenues	28.7	35.4	23.3	98.5	114.6	16.4
EBITDA	4.5	5.5	23.2	12.9	15.0	15.8
EBIT	2.0	3.5	70.7	6.1	8.8	43.4
Group's net profit	NA	NA		1.0	3.4	NM
EBITDA margin %	15.6	15.6		13.1	13.1	
EBIT margin %	7.1	9.8		6.2	7.6	
Net profit margin%	NA	NA		1.1	2.9	

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

See page 5 for full disclosures and analyst certification

Banca IMI is Corporate Broker to BE

29 February 2016

BUY

Target Price: EUR 0.97
(from EUR 0.91)

Italy/IT System Integrators
Results Preview

Intesa Sanpaolo
Research Department

Gabriele Berti
Research Analyst
+39 02 8794 9821
gabriele.berti@intesasanpaolo.com

Corporate Brokerage Team
Alberto Francese
Gabriele Berti
Marta Caprini

Price performance, -1Y



Source: FactSet

Data priced on 25.02.2016			
Target price (€)	0.97		
Target upside (%)	102.79		
Market price (€)	0.48		
52Wk range (€)	0.66/0.36		
Market cap (€ M)	64.75		
No. of shares	134.9		
Free float (%)	35.3		
Major shr	Data Holding	2007	
(%)	33.4		
Reuters	BET.MI		
Bloomberg	BET IM		
FTSE IT All Sh	18723		
Performance %			
Absolute	Rel. to FTSE IT All		
-1M	2.9	-1M	11.6
-3M	-8.5	-3M	17.7
-12M	-9.3	-12M	13.0

Source: FactSet and Intesa Sanpaolo Research estimates

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Recent Events

Acquisition in the UK

On 18 February, BE announced the acquisition of 100% of Loc Consulting Ltd, a London based company principally focused on management consultancy for the consumer, public and financial services sectors (the company's key clients are Travelex, Royal Mail, Post Office and Credit Suisse).

The acquired company should report FY15 revenues of GBP 6.7M, with an EBITDA of about GBP 0.7M and a positive cash position of GBP 2.3M. The deal was finalised for a total consideration of GBP 3.95M (including cash position) which should imply a transaction EV/EBITDA (2015) of about 2.4x. The acquisition was finalised through iBe TSE Ltd, the subsidiary of the Be Group in the UK.

Acquisition in Germany

On 3 February, BE announced the acquisition of a 55% share capital in R&L AG, a German company specialised in consulting and IT solutions in the payments sector and, in particular, on SWIFT solutions.

The acquisition of R&L AG was finalised through Targit GmbH, an existing subsidiary of the BE Group in Germany. The purchase price for 55% of the share capital was set at EUR 1.47M. In FY15A, R&L AG reported an estimated turnover of EUR 2.7M, an EBITDA of EUR 300k and a positive cash position of EUR 800k. The agreement also foresees an option to acquire the residual 45% in May 2020.

Overall, we positively view the news as we think that external growth will be crucial to increasing the group's size, strengthening its offer and reinforcing the internationalisation process. Furthermore, the acquisitions further strengthen the group's operations in strategic geographic areas, such as the UK and Germany, which we recall are the two key markets for BE's expansion strategy abroad.

Estimates Revision

We revised our FY15E-17E estimates to factor in an expected higher revenue growth and lower profitability due to an higher weighting of service costs (+30.6% yoy in 9M15A).

We underline that, as regards FY16E-17E, we also incorporate our first estimate of the abovementioned effects of the two acquisitions.

BE – 2015E-2017E Estimates Revision									
EUR M	2015E Old	2015E New	Chg. %	2016E Old	2016E New	Chg. %	2017 Old	2017E New	Chg. %
Total revenues	107.5	114.6	6.6	113.8	129.7	13.9	120.9	136.7	13.0
EBITDA	15.8	15.0	-5.1	18.0	18.6	3.6	20.2	21.3	5.1
EBITDA margin %	14.7	13.1		15.8	14.4		16.7	15.6	
EBIT	9.6	8.8	-8.4	11.6	12.1	4.2	13.0	14.9	14.2
EBIT margin %	8.9	7.6		10.2	9.3		10.8	10.9	
Net profit	4.1	3.4	-19.2	5.7	5.9	4.2	6.8	7.8	15.4
Net debt (- Cash)	13.7	7.3	-46.9	15.4	9.4	-38.8	10.3	5.7	-44.2

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

Valuation

We based our valuation for BE on a DCF model to reflect the group's specific long-term prospects. We updated our DCF valuation after our estimates revision and the periodical revision of our risk-free rate to 1.75% (vs. 2.0% used in the previous research). **We derive a new target price of EUR 0.97/share (vs. 0.91/share previously), confirming our BUY recommendation on the stock.**

The main assumptions in our three-stage DCF model are as follows:

- Explicit estimates until 2017E;
- In 2018-23, we assume a sales CAGR of 3.8%, an average EBIT margin of 10.4%, a 3.5% capex/sales equal to D&A/sales and a stable net working capital to sales ratio at 8.0%;
- The terminal value at 2024, in which we assumed flat revenues compared with our 2023 assumption and an EBIT margin at 8.5% (equal to 2014-17 average). We cautiously set a 0% perpetuity growth rate;
- For the WACC calculations, we used our updated risk-free rate at 1.75% (vs. 2.0% used in the previous research), a risk premium at 5.50%, a Beta of 1.0 (Source: Bloomberg) and a gearing ratio of 30%. As a result we derived a WACC of 5.83% (5.98% previously).

The table below summarises our DCF model.

BE - WACC calculation (%)		BE – 2014A-24E Key assumptions (%)	
Gearing ratio	30	Sales 2016E-24E CAGR	5.8
Risk-free rate	1.75	Perpetual growth rate	0.0
Risk premium	5.5	EBIT margin 2014A-24E avg.	9.5
Beta (x)*	1.0	EBIT 2014A-24E CAGR	9.2
Required return	7.3	Tax rate 2014A-24E avg.	37.8
WACC	5.83	Capex to sales 2014-24E avg.	3.4
		Working capital to sales 2014A-24E	4.2

Source: Intesa Sanpaolo Research estimates, *Bloomberg

Source: Intesa Sanpaolo Research estimates

BE - DCF valuation (EUR M)	
Forecast cashflow (2016-23)	45
Terminal value	94
Enterprise value	139
Net cash (debt)@ 2015E	-7.3
Equity value	131
Number of shares (M)	134.9
Equity value per share (EUR)	0.97

Source: Intesa Sanpaolo Research estimates

BE – Sensitivity (EUR/share)					
Perpetual growth rate %	-1	-0.5	0	0.5	1
Discount rate %					
4.83	1.05	1.12	1.21	1.32	1.45
5.33	0.96	1.01	1.08	1.16	1.26
5.83	0.87	0.92	0.97	1.04	1.12
6.33	0.80	0.84	0.88	0.94	1.00
6.83	0.74	0.77	0.81	0.85	0.90

Source: Intesa Sanpaolo Research estimates

BE - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector		Free float (%)	Reuters Code	
BUY	Ord 0.97	Ord 0.48	IT System Integrators		35.3	BET.MI	
Values per share (EUR)			2013A	2014A	2015E	2016E	2017E
No. ordinary shares (M)			134.9	134.9	134.9	134.9	134.9
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			134.9	134.9	134.9	134.9	134.9
Market cap			29.94	61.57	64.75	64.75	64.75
Adj. EPS			0.00	0.01	0.02	0.04	0.06
CFPS			0.05	0.01	0.07	0.09	0.10
BVPS			0.34	0.34	0.36	0.41	0.47
Dividend ord			0	0.01	0.01	0.02	0.02
Income statement (EUR M)			2013A	2014A	2015E	2016E	2017E
Revenues			84.42	98.47	114.6	129.7	136.7
EBITDA			11.21	12.93	14.97	18.62	21.25
EBIT			4.29	6.11	8.76	12.06	14.88
Pre-tax income			1.91	3.81	6.82	10.72	13.98
Net income			0.37	1.04	3.35	5.93	7.79
Adj. net income			0.37	1.04	3.35	5.93	7.79
Cash flow (EUR M)			2013A	2014A	2015E	2016E	2017E
Net income before minorities			0.4	1.2	3.8	6.4	8.4
Depreciation and provisions			6.9	6.8	6.2	6.6	6.4
Others/Uses of funds			0.3	-0.7	0.4	0.5	0.5
Change in working capital			6.2	-2.9	4.0	-5.0	-3.8
Operating cash flow			13.8	4.5	14.4	8.5	11.5
Capital expenditure			-12.7	-2.3	-4.0	-8.6	-5.0
Financial investments			0	0	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			1.1	2.2	10.4	-0.1	6.5
Dividends			0	0	-0.8	-1.9	-2.8
Equity changes & Other non-operating items			11.1	0.3	0	0	0
Net cash flow			12.2	2.6	9.6	-2.1	3.7
Balance sheet (EUR M)			2013A	2014A	2015E	2016E	2017E
Net capital employed			65.4	63.1	55.3	64.7	69.4
of which associates			0	0	0	0	0
Net debt/-cash			19.5	17.0	7.3	9.4	5.7
Minorities			0.3	0.5	0.9	2.6	3.2
Net equity			45.6	45.7	47.1	52.7	60.5
Minorities value			0	0	0	0	0
Enterprise value			49.6	79.2	73.2	77.2	73.7
Stock market ratios (x)			2013A	2014A	2015E	2016E	2017E
Adj. P/E			80.7	59.1	19.3	10.9	8.3
P/CFPS			4.7	33.3	7.0	5.3	4.7
P/BVPS			0.65	1.3	1.3	1.2	1.0
Payout (%)			0	40	40	40	40
Dividend yield (% ord)			0	1.2	3.0	4.3	5.0
FCF yield (%)			3.6	3.6	16.0	-0.2	10.0
EV/sales			0.59	0.80	0.64	0.59	0.54
EV/EBITDA			4.4	6.1	4.9	4.1	3.5
EV/EBIT			11.6	13.0	8.4	6.4	5.0
EV/CE			0.76	1.3	1.3	1.2	1.1
D/EBITDA			1.7	1.3	0.49	0.50	0.27
D/EBIT			4.5	2.8	0.83	0.78	0.39
Profitability & financial ratios (%)			2013A	2014A	2015E	2016E	2017E
EBITDA margin			13.3	13.1	13.1	14.4	15.6
EBIT margin			5.1	6.2	7.6	9.3	10.9
Tax rate			79.8	67.2	45.0	40.0	40.0
Net income margin			0.4	1.1	2.9	4.6	5.7
ROCE			6.6	9.7	15.8	18.6	21.4
ROE			0.9	2.3	7.2	11.9	13.8
Interest cover			1.8	2.7	4.5	9.0	16.5
Debt/equity ratio			42.5	36.7	15.2	17.0	9.0
Growth (%)				2014A	2015E	2016E	2017E
Sales				16.6	16.4	13.2	5.4
EBITDA				15.4	15.8	24.4	14.1
EBIT				42.3	43.4	37.6	23.4
Pre-tax income				98.8	79.2	57.2	30.4
Net income				NM	NM	77.1	31.3
Adj. net income				NM	NM	77.1	31.3

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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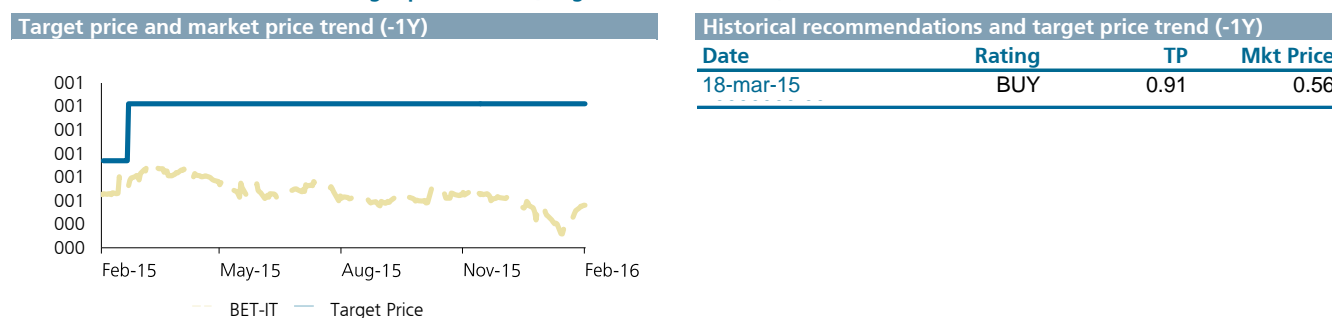
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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
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ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market 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
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
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Historical recommendations and target price trends (long-term horizon: 12M)



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

Intesa Sanpaolo Research Rating Distribution (at February 2016)						
Number of companies considered: 100	BUY	ADD	HOLD	REDUCE	SELL	
Total Equity Research Coverage relating to last rating (%)	37	30	33	0	0	
of which Intesa Sanpaolo's Clients % (*)	78	67	61	0	0	

(*) 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

Valuation methodology (short-term horizon: 3M)

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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
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Intesa Sanpaolo Research Department – Head of Research Department: Gregorio De Felice**Head of Equity & Credit Research**

Giampaolo Trasi	+39 02 8794 9803	giampaolo.trasi@intesasnpaolo.com
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Equity Research

Monica Bosio	+39 02 8794 9809	monica.bosio@intesasnpaolo.com
Luca Bacoccoli	+39 02 8794 9810	luca.bacoccoli@intesasnpaolo.com
Antonella Frongillo	+39 02 8794 9688	antonella.frongillo@intesasnpaolo.com
Manuela Meroni	+39 02 8794 9817	manuela.meroni@intesasnpaolo.com
Gian Luca Pacini	+39 02 8794 9818	gianluca.pacini@intesasnpaolo.com
Elena Perini	+39 02 8794 9814	elena.perini@intesasnpaolo.com
Bruno Permutti	+39 02 8794 9819	bruno.permutti@intesasnpaolo.com
Roberto Ranieri	+39 02 8794 9822	roberto.ranieri@intesasnpaolo.com
Meris Tonin	+39 02 8794 1119	meris.tonin@intesasnpaolo.com

Corporate Broking Research

Alberto Francese	+39 02 8794 9815	alberto.francese@intesasnpaolo.com
Gabriele Berti	+39 02 8794 9821	gabriele.berti@intesasnpaolo.com
Marta Caprini	+39 02 8794 9812	marta.caprini@intesasnpaolo.com

Technical Analysis

Corrado Binda	+39 02 8021 5763	corrado.binda@intesasnpaolo.com
Sergio Mingolla	+39 02 8021 5843	antonio.mingolla@intesasnpaolo.com

Research Clearing & Production

Anna Whatley	+39 02 8794 9824	anna.whatley@intesasnpaolo.com
Bruce Marshall	+39 02 8794 9816	robert.marshall@intesasnpaolo.com
Annita Ricci	+39 02 8794 9823	annita.ricci@intesasnpaolo.com
Wendy Ruggeri	+39 02 8794 9811	wendy.ruggeri@intesasnpaolo.com
Elisabetta Bugliesi (IT support)	+39 02 8794 9877	elisabetta.bugliesi@intesasnpaolo.com

Banca IMI SpA**Institutional Sales**

Catherine d'Aragon	+39 02 7261 5929	catherine.daragon@bancaimi.com
Carlo Cavalieri	+39 02 7261 2722	carlo.cavalieri@bancaimi.com
Stefan Gess	+39 02 7261 5927	stefan.gess@bancaimi.com
Francesca Guadagni	+39 02 7261 5817	francesca.guadagni@bancaimi.com
Federica Repetto	+39 02 7261 5517	federica.repetto@bancaimi.com
Daniela Stucchi	+39 02 7261 5708	daniela.stucchi@bancaimi.com
Marco Tinessa	+39 02 7261 2158	marco.tinessa@bancaimi.com
Mark Wilson	+39 02 7261 2758	mark.wilson@bancaimi.com

Corporate Broking

Carlo Castellari	+39 02 7261 2122	carlo.castellari@bancaimi.com
Laura Spinella	+39 02 7261 5782	laura.spinella@bancaimi.com

Sales Trading

Lorenzo Pennati	+39 02 7261 5647	lorenzo.pennati@bancaimi.com
-----------------	------------------	------------------------------

Equity Derivatives Institutional Sales

Emanuele Manini	+39 02 7261 5936	emanuele.manini@bancaimi.com
Umberto De Paoli	+44 207 894 2456	umberto.depaoli@bancaimi.com
Francesca Dizione	+39 02 7261 2759	francesca.dizione@bancaimi.com
Enrico Ferrari	+39 02 7261 2806	enrico.ferrari@bancaimi.com
Alessandro Monti	+44 207 894 2412	alessandro.monti@bancaimi.com

Banca IMI SpA – Head of Market Hub: Gherardo Lenti Capoduri**E-commerce Distribution**

Alessandra Minghetti	+39 02 7261 2973	alessandra.minghetti@bancaimi.com
Francesco Riccardi	+39 02 7261 2089	francesco.riccardi@bancaimi.com
Umberto Menconi	+39 02 7261 5492	umberto.menconi@bancaimi.com
Filippo Besozzi	+39 02 7261 5922	filippo.besozzi@bancaimi.com
Fabio Del Gobbo (London Office)	+44 207 894 2432	fabio.delgobbo@bancaimi.com

Brokerage & Execution

Sergio Francolini	+39 02 7261 5859	sergio.francolini@bancaimi.com
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Banca IMI Securities Corp.**US Institutional Sales**

Larry Meyers	+1 212 326 1241	larry.meyers@bancaimi.com
Barbara Leonardi	+1 212 326 1232	barbara.leonardi@bancaimi.com
Greg Principe	+1 212 326 1233	greg.principe@bancaimi.com

Banca IMI SpA

Largo Mattioli, 3
20121 Milan, Italy
Tel: +39 02 7261 1

Banca IMI Securities Corp.

1 William Street
10004 New York, NY, USA
Tel: (1) 212 326 1100

Banca IMI London Branch

90 Queen Street
London EC4N 1SA, UK
Tel +44 207 894 2600