

BE

4Q/FY14 Results

BE - Key estimates and data					
Y/E December		2014A	2015E	2016E	2017E
Revenues	EUR M	98.47	107.5	113.8	120.9
EBITDA	EUR M	12.93	15.77	17.98	20.22
EBIT	EUR M	6.11	9.57	11.57	13.03
Net Income	EUR M	1.04	4.15	5.70	6.75
Dividend ord.	EUR	0.01	0.01	0.02	0.02
Adj. EPS	EUR	0.01	0.03	0.04	0.05
EV/EBITDA	x	6.1	5.9	5.3	4.5
Adj. P/E	x	59.1	18.9	13.7	11.6

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

- 4Q/FY14A results.** BE reported another good set of results, slightly above our estimates in terms of top line and EBITDA, while slightly below in terms of net result, mainly due to a higher than expected impact of company's taxes. In particular, total operating revenues were EUR 98.5M, up 19.3% vs. FY13A and +4% compared to our estimates. This significant improvement yoy was due to the Business Consulting area, which recorded revenues of EUR 60.8M (+69.8% yoy). The group registered also a significant increase in the weighting of foreign activities (+64.7% yoy). EBITDA came in at EUR 12.9M, +15.4% yoy and up by about 7.3% vs. our forecast. The EBITDA margin stood at 13.1% (13.6% in 2013). EBIT was up by 42.3% to EUR 6.1M (EUR 4.3M in FY13A). The net profit was EUR 1.0M vs. EUR 0.4M posted in FY13A and EUR 1.4M in our estimates. The net financial position stood at EUR 17.0M, improving vs. the EUR 19.5M recorded as at YE13A (EUR 22.4M in our estimates).
- Recent events and outlook.** Overall, BE reported a strong financial performance in 2014. In particular, we positively view the reduction of net indebtedness achieved despite the acquisition of the German company, Targit. Moreover, we believe that another positive surprise is represented by the dividend proposed (EUR 0.75M), which, although small in absolute terms, in our view, confirmed the group's increasing focus on the market. The group disclosed a positive outlook and expects further growth in 2015, also thanks to the recent initiatives undertaken to diversify its solution offerings and to increase the group's internationalisation. We highlight that in January BE signed a memorandum of understanding with a primary European banking group for a total value of EUR 73M for 2015-17. The agreement relates to the provision of ICT Consulting services to all European countries in which the bank operates. According to the company, the memorandum of understanding should be translated into a service agreement by 2 April 2015.
- Estimates revision.** Following the FY14A results we maintained our 2015E-17E revenues, EBITDA and EBIT forecasts. As for the bottom line we increased our forecast as a result of both the lower financial charges expected, having included in our financial model the stronger than expected debt reduction registered in 2014, and a slightly lower tax rate arising from the IRAP reform approved with the stability law.
- 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 2.0% (vs. 3.0% used in the previous research). **We derive a new target price at EUR 0.91/share** (vs. 0.67/share previously), **and based on the 57% upside we change our recommendation to BUY** (from Add).
- Key risks.** We view the main risks as: 1) an environment characterised by a challenging competition from big international operators; and 2) a high client concentration, with around 75% of revenues deriving from financial institutions.

See page 9 for full disclosures and analyst certification

18 March 2015

BUY (from Add)

Target Price: EUR 0.91
(from EUR 0.67)

Italy/IT System Integrators
Company Update

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Price performance, -1Y



Source: FactSet

Data priced on 16.03.2015

Target price (€)	0.91
Target upside (%)	57.09
Market price (€)	0.58
52Wk range (€)	0.64/0.37
Market cap (€M)	78.24
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	24473

Performance %			
Absolute	Rel. to FTSE IT All		
-1M	7.9	-1M	-0.7
-3M	20.9	-3M	-2.5
-12M	56.8	-12M	39.1

Source: FactSet and Intesa Sanpaolo Research estimates

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4Q/FY14A Results

BE reported another good set of results, slightly above our estimates in terms of top line and EBITDA, while slightly below in terms of net result, mainly due to a higher than expected impact of company taxes.

In particular, total operating revenues were EUR 98.5M, up 19.3% vs. FY13A and +4% compared to our estimates. This significant improvement yoy was due to the Business Consulting area, which recorded revenues of EUR 60.8M (+69.8% yoy). The group also registered a significant increase in the weighting of foreign activities (+64.7% yoy).

EBITDA came in at EUR 12.9M, +15.4% yoy and up by about 7.3% vs. our forecast. The EBITDA margin stood at 13.1% (13.6% in 2013A). EBIT was up by 42.3% to EUR 6.1M (EUR 4.3M in FY13A).

Net profit was EUR 1.0M vs. EUR 0.4M posted in FY13A and EUR 1.4M in our estimates.

Net financial position stood at EUR 17.0M, improving vs. the EUR 19.5M recorded as at YE13A (EUR 22.4M in our estimates).

BE - 4Q/FY14A results										
EUR M	4Q13A	4Q14A	% chg.	4Q14E	A/E %	FY13A	FY14A	% chg.	FY14E	A/E %
Total revenues	20.5	28.7	40.1	25.0	14.8	82.5	98.5	19.3	94.8	3.9
EBITDA	3.1	4.5	44.2	3.6	24.5	11.2	12.9	15.4	12.0	7.3
EBIT	1.2	2.0	67.9	2.3	-11.8	4.3	6.1	42.3	6.4	-4.3
Pre-tax profit	0.6	1.3	NM	1.8	-26.2	1.9	3.8	NM	4.3	-11.2
Group's net profit	NA	NA		NA		0.4	1.0	NM	1.4	-25.6
EBITDA margin %	15.2	15.6		14.4		13.6	13.1		12.7	
EBIT margin %	5.9	7.1		9.3		5.2	6.2		6.7	
Net profit margin%	NA	NA		NA		0.4	1.1		1.5	

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

Earnings Outlook

Overall, BE reported a strong financial performance in 2014. In particular, we positively view the reduction of net indebtedness achieved despite the acquisition of the German company, Targit. Moreover, we believe that another positive surprise is represented by the dividend proposed (EUR 0.75M), which, although small in absolute terms, in our view, confirmed the group's increasing focus on the market.

The group disclosed a positive outlook and expects further growth in 2015, also thanks to the recent initiatives undertaken to diversify its solutions offering and to increase the group's internationalisation.

We highlight that in January, BE signed a memorandum of understanding with a primary European banking group for a total value of EUR 73M for 2015-17. The agreement relates to the provision of ICT Consulting services to all European countries in which the bank operates. According to the company, the memorandum of understanding should be translated into a service agreement by 2 April 2015.

Estimates Revision

Following FY14A results we maintained our 2015E-17E revenues, EBITDA and EBIT forecasts. As regards the bottom line we increased our forecast as a result of both the lower financial charges expected, having included in our financial model the stronger than expected debt reduction registered in 2014, and a slightly lower tax rate arising from the IRAP reform approved with the stability law.

BE – 2015E-17E estimates revision									
EUR M	2015E Old	2015E New	Chg. %	2016E Old	2016E New	Chg. %	2017 Old	2017E New	Chg. %
Total revenues	107.5	107.5	0.0	113.8	113.8	0.0	120.9	120.9	0.0
EBITDA	15.8	15.8	0.0	18.0	18.0	0.0	20.2	20.2	0.0
EBITDA margin %	14.7	14.7		15.8	15.8		16.7	16.7	
EBIT	9.6	9.6	0.0	11.6	11.6	0.0	13.0	13.0	0.0
EBIT margin %	8.9	8.9		10.2	10.2		10.8	10.8	
Net profit	3.7	4.1	11.0	5.2	5.7	9.0	6.3	6.8	7.3
Net debt	19.9	13.7	-31.1	16.1	15.4	-4.7	11.3	10.3	-9.2

Source: Intesa Sanpaolo Research estimates

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 2.0% (vs. 3.0% used in the previous research). We derive a new **target price of EUR 0.91/share** (vs. 0.67/share previously), and based on the 57% **upside we change our recommendation to BUY** (from Add).

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

Key assumptions

- Explicit period until 2017E, assuming a 2014A-17E sales CAGR of 7.1% and 2017 EBIT margin at 10.8%;
- In the 2018-23 period, which assumes a sales CAGR of 3.8%, an average EBIT margin of 10.5%, a 3.7% capex/sales equal to D&A/sales and a stable net working capital to sales ratio at 7.1%;
- The terminal value at 2024, in which we assumed flat revenues compared with our 2023 assumption and an EBIT margin at 9.0% (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 2.0%, 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 5.98% (vs. 6.85% previously).

The table below summarises our DCF model.

BE - WACC calculation (%)		BE – 2014A-24E Key assumptions (%)	
Gearing ratio	30	Sales 2014A-24E CAGR	4.5
Risk-free rate	2.0	Perpetual growth rate	0.0
Risk premium	5.5	EBIT margin 2014A-24E avg.	9.8
Beta (x)*	1.0	EBIT 2014A-24E CAGR	8.5
Required return	7.5	Tax rate 2014A-24E avg.	38.6
WACC	5.98	Capex to sales 2014-24E avg.	3.6
		Working capital to sales 2014A-24E	5.1

Source: Intesa Sanpaolo Research estimates, *Bloomberg

Source: Intesa Sanpaolo Research estimates

BE - DCF valuation (EUR M)	
Forecast cashflow	56
Terminal value	83
Enterprise value	140
Net cash (debt)@ 2014A	-17.0
Equity value	123
Number of shares (M)	134.9
Equity value per share (EUR)	0.91

Source: Intesa Sanpaolo Research estimates

BE – Sensitivity (EUR/share)					
Perpetual growth rate %	-1	-0.5	0	0.5	1
Discount rate %					
4.98%	0.98	1.04	1.12	1.21	1.32
5.48%	0.90	0.95	1.00	1.08	1.16
5.98%	0.82	0.86	0.91	0.97	1.04
6.48%	0.76	0.79	0.83	0.88	0.93
6.98%	0.70	0.73	0.76	0.80	0.85

Source: Intesa Sanpaolo Research estimates

BE - Key data						
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector		Free float (%)	Reuters Code
BUY	Ord 0.91	Ord 0.58	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	78.24	78.24	78.24	
Adj. EPS	0.00	0.01	0.03	0.04	0.05	
CFPS	0.05	0.05	0.07	0.09	0.10	
BVPS	0.34	0.34	0.38	0.41	0.45	
Dividend ord	0	0.01	0.01	0.02	0.02	
Income statement (EUR M)						
	2013A	2014A	2015E	2016E	2017E	
Sales	84.42	98.47	107.5	113.8	120.9	
EBITDA	11.21	12.93	15.77	17.98	20.22	
EBIT	4.29	6.11	9.57	11.57	13.03	
Pre-tax income	1.91	3.81	7.94	10.26	11.73	
Net income	0.37	1.04	4.15	5.70	6.75	
Adj. net income	0.37	1.04	4.15	5.70	6.75	
Cash flow (EUR M)						
	2013A	2014A	2015E	2016E	2017E	
Net income before minorities	0.4	1.2	4.4	6.0	7.1	
Depreciation and provisions	6.9	6.8	6.2	6.4	7.2	
Others/Uses of funds	0.3	-0.7	2.8	0.2	0.1	
Change in working capital	6.2	0.3	-5.5	-7.5	-1.9	
Operating cash flow	13.8	7.7	7.9	5.1	12.5	
Capital expenditure	-12.7	-2.3	-4.0	-5.0	-5.0	
Financial investments	0	0	0	0	0	
Acquisitions and disposals	0	0	0	0	0	
Free cash flow	1.1	5.4	3.9	0.1	7.5	
Dividends	0	0	-0.8	-1.7	-2.4	
Equity changes & Other non-operating items	11.0	-2.9	0	0	0	
Net cash flow	12.1	2.5	3.1	-1.6	5.1	
Balance sheet (EUR M)						
	2013A	2014A	2015E	2016E	2017E	
Net capital employed	65.4	63.2	64.9	70.7	70.3	
of which associates	0	0	0	0	0	
Net debt/-cash	19.5	17.0	13.7	15.4	10.3	
Minorities	0.3	0.5	0.6	0.9	1.2	
Net equity	45.6	45.7	50.5	54.5	58.9	
Minorities value	0	0	0	0	0	
Enterprise value	49.6	79.2	92.8	94.8	90.1	
Stock market ratios (x)						
	2013A	2014A	2015E	2016E	2017E	
Adj. P/E	80.7	59.1	18.9	13.7	11.6	
P/CFPS	4.7	8.7	7.8	6.6	5.8	
P/BVPS	0.65	1.3	1.5	1.4	1.3	
Payout (%)	0	40	40	40	40	
Dividend yield (% ord)	0	1.2	2.2	3.1	3.6	
FCF yield (%)	3.6	8.8	4.9	0.1	9.6	
EV/sales	0.59	0.80	0.86	0.83	0.75	
EV/EBITDA	4.4	6.1	5.9	5.3	4.5	
EV/EBIT	11.6	13.0	9.7	8.2	6.9	
EV/CE	0.76	1.3	1.4	1.3	1.3	
D/EBITDA	1.7	1.3	0.87	0.85	0.51	
D/EBIT	4.5	2.8	1.4	1.3	0.79	
Profitability & financial ratios (%)						
	2013A	2014A	2015E	2016E	2017E	
EBITDA margin	13.3	13.1	14.7	15.8	16.7	
EBIT margin	5.1	6.2	8.9	10.2	10.8	
Tax rate	79.8	67.2	45.0	41.6	39.4	
Net income margin	0.4	1.1	3.9	5.0	5.6	
ROCE	6.6	9.7	14.8	16.4	18.5	
ROE	0.9	2.3	8.6	10.8	11.9	
Interest cover	1.8	2.7	5.9	8.8	10.0	
Debt/equity ratio	42.5	36.7	26.9	27.7	17.1	
Growth (%)						
	2014A	2015E	2016E	2017E		
Sales	16.6	9.2	5.9	6.2		
EBITDA	15.4	22.0	14.0	12.4		
EBIT	42.3	56.6	21.0	12.6		
Pre-tax income	98.8	NM	29.3	14.3		
Net income	NM	NM	37.3	18.5		
Adj. net income	NM	NM	37.3	18.5		

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

Notes

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Valuation methodology (long-term horizon: 12M)

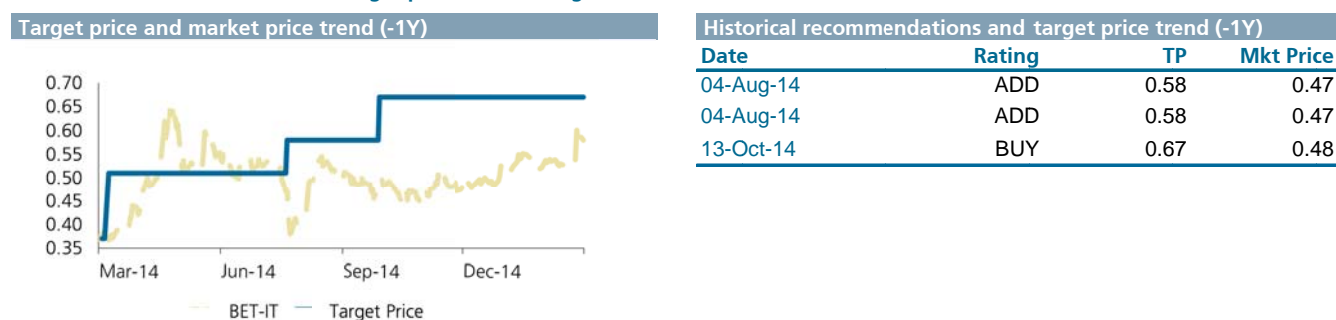
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Equity rating key: (long-term horizon: 12M)

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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
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
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MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)



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

Intesa Sanpaolo Research Rating Distribution (at February 2015)					
Number of companies considered: 93	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	52	24	25	0	0
of which Intesa Sanpaolo's Clients % (*)	77	68	43	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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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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