Itway (ITW.IM) — HOLD

Sector: IT / Distribution

1H'08/09 results: once again affected by the crisis

June 16, 2009

Investment view

- Itway is active in the marketing and licensing of technologies for e-business and security solutions. The holding Itway Spa is at the head of three business units: Itway VAD (Value Added Distributors), Business-e (Enterprise) and Itway Academy (Education).
- Itway operates mainly in the Italian IT market (60% of the revenues in 1H'08/09) and has established a strong position in the Mediterranean area (France, Spain, Greece and Turkey).
- In May 2009 Itway established the business unit "Virtualization" which will operate in all the countries of South Europe where the company is present in order to aggressively push new products into the market; the estimated turnover is around 20M€.

1H'08/09 results

- Itway revenues decreased 8.0% yoy to 57.7M€. The higher drop was registered by the Italian market (-13%). The VAD business unit suffered from a heavy decline of its revenues (down nearly 9%) and of its Ebit (down nearly 60%).
- Both Ebitda and Ebit registered a drop, respectively -55% and -66%, due to the volume reduction and the delays in the implementation of the cost cutting plan.
- The net financial position was negative (debt) for 16.8M€, in line with the figure published at December 31, 2008 thanks to an efficient WC management.

Valuation

- Our model returns a 4.36€ target value, which implies a 12% upside.
- For the fiscal year 2008/2009 we estimate revenues decreasing 5.7% and a net operating margin of 1.6%, down 130bps yoy. The estimates for the European IT market foresee an IT Italian market down 5% whereas the French, Spanish, Greek and Turkish markets will decrease between 1.5% and 4%. *(sources: SIRMI and EITO).*

Risks

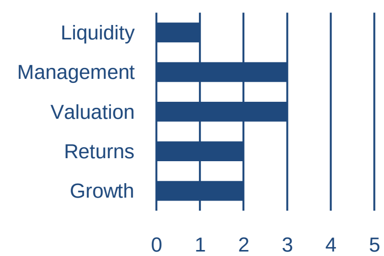
- The financial crisis is reducing IT investments of large companies, impacting both volumes and prices. Unfortunately, despite some recovery signals, the market distress will continue at least until the end of the year. In addition, the dollar volatility could penalize Itway profitability.

Forecast	07/08A	08/09E	09/10E	10/11E
Sales (€M)	111.9	105.5	107.8	111.5
EBITDA (€M)	4.1	2.7	3.2	3.5
EPS (€)	0.15	0.03	0.12	0.17

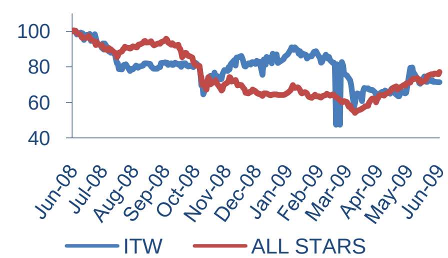
Valuation	07/08A	08/09E	09/10E	10/11E
EV/EBITDA	7.3	11.8	9.5	8.2
P/E	30.8	140.1	33.7	22.6
Dividend yield	2.8%	3.4%	-0.6%	-2.7%
ROCE after tax	7.8%	3.5%	4.6%	5.1%
EV/CE	1.2	1.1	1.1	1.0

Key Data	
Price (€)	3.88
Target Price (€)	4.36
Upside/(downside)%	12%
Market cap (€M)	17.1
EV (FY'08/09e, €M)	31.7

Investment Profile — from 1 worst to 5 best



Stock data	
Ticker Bloomberg	ITW.IM
N° of shares (M)	4.4
Free float	52%
Main shareholder	Mr Farina (17.4%)
Daily trading volume	2,800 shares



Share Price perf (%)	3M	6M	1Y
Absolute	-5.0%	-14.4%	-28.6%
Rel. to All Stars	-38.0%	-33.8%	-6.5%

Jacopo Tagliaferri
Equity analyst
Tel: +39 02 76 00 96 52
j.tagliaferri@twiceresearch.it

Last results (1H'08-09)

In the first semester of the fiscal year (September – March) the effects of the financial crisis continued to affect the group results. Both revenues and profitability decreased due to the sudden drop in the demand and the delay in the cost cutting plan.

- The revenues decreased 8% yoy to 57.7M€. The higher drop was registered in Italy (-13%) in the period between December and February, from March the trend reversed. In France and Greece the crisis effects have been extremely intense from January 2009 until May, whereas Iberian and Turkish markets registered a revenues performance in line with the previous year.
- The Ebitda was 1.2M€ (-54.9% yoy), it represents 2.0% of revenues; due to the volume and the gross margin decrease.
- The Ebit was 0.7M€ (-66.0% yoy). It represents 1.2% of revenues, in line with the Ebitda decrease.
- The net results decreased significantly and it turned negative for 0.2M€.
- The net financial position was negative (debt) for 16.8M€, essentially in line with the NFP at December 31, 2008 (16.7M€) thanks to an effective WC management.

M€	2Q'08/09	2Q'07/08	% var	1H'08/09	1H'07/08	% var
Revenues	25.5	27.2	-6.1%	57.7	62.7	-8.0%
Ebitda	0.3	0.9	-66.5%	1.2	2.6	-54.9%
Ebitda margin	*1.2%*	*3.3%*		*2.0%*	*4.1%*	
Ebit	-0.1	0.6	-115.5%	0.7	2.1	-66.0%
Ebit margin	*neg.*	*2.4%*		*1.2%*	*3.3%*	
Net result				-0.2	0.7	-134.3%
Net financial position (debt)				16.8	8.7	92.6%

The business unit VAD (Value Added Distribution), core activity of the group, registered a decrease in volumes, mainly due to the drop of the Italian market. Also the division profitability decreased, not balanced by the announced rightsizing plan, because of the delay in the dismissing of 16% of the Italian workforce.

The business unit Enterprise, through the subsidiary Business-e, recorded a result less negative than the 1Q'0809 thanks to the recovery of the investments of the Italian small & medium companies. However both the Ebit and the Ebt were still negative.

M€	1H'08/09	1H'07/08	% var
VAD			
Revenues	47.3	51.7	-8.7%
Ebitda	1.0	2.2	-52.0%
Ebitda margin	*2.2%*	*4.2%*	
Ebit	0.7	1.8	-59.5%
Ebit margin	*1.6%*	*3.5%*	
Ebt	0.2	1.5	-85.9%
ENTERPRISE			
Revenues	10.4	10.9	-4.6%
Ebitda	0.1	0.4	-71.4%
Ebitda margin	*1.0%*	*3.4%*	
Ebit	-0.0	0.3	-113.1%
Ebit margin	neg.	*2.3%*	
Ebt	-0.2	-0.0	-781.5%

Valuation

We made some fine tuning to our last valuation dated April 01, 2009. The model we used to value Itway, a 5-year DCF with detailed estimates for the period 2008-2013, returns a fair value of 4.36€.

We made the following assumptions:

- Sales for the business unit VAD will decrease (-6.0%) in the fiscal year 08/09. For the following years we foresee a growth of 2% in 09/10 and of 3% in 10/11. The business unit Enterprise will decrease (-4.0%) in 08/09 and grow 3% and 5% respectively in 09/10 and 10/11.
- The net operating margin of the group will decrease to 1.6% of revenues in the FY'08/09 due to the volume reduction and the delays in the cost cutting plan, it will come back to 2.9% of revenues in the long term, a sustainable level.
- In 2008-2009 the capex will amount to 3M€ due to the purchase of a new HQ building in Milan. For the following years we don't foresee huge investments, the capex will approach to a constant percentage (0.9%) of sales.
- The stressed market conditions will impact the working capital; it will grow to 13% of sales during the current fiscal year, in the long term we set it equal to 11% of revenues.
- As a consequence of the working capital deterioration, Itway will generate, in 08/09, negative cash flows. As a result we estimate an increase of the financial debt to 13.8M€ from 9.4M€ in FY'07/08. The trend will reverse in the following years.

Discounted Cash Flow	**FY'08/09**	**FY'09/10**	**FY'10/11**	**FY'11/12**	**FY'12/13**
Sales	**105.5**	**107.8**	**111.5**	**114.8**	**116.0**
Sales growth	*-5.7%*	*2.2%*	*3.4%*	*3.0%*	*1.0%*
EBIT	**1.7**	**2.2**	**2.4**	**2.8**	**3.4**
Margin	*1.6%*	*2.0%*	*2.2%*	*2.4%*	*2.9%*
Taxes	**-0.6**	**-0.7**	**-0.8**	**-0.9**	**-1.1**
Tax rate	*-33.0%*	*-33.0%*	*-33.0%*	*-33.0%*	*-33.0%*
NOPAT	**1.1**	**1.4**	**1.6**	**1.8**	**2.3**
Depreciation	**1.0**	**1.0**	**1.1**	**1.1**	**1.2**
% of sales	*0.9%*	*0.9%*	*1.0%*	*1.0%*	*1.0%*
Capex	**-3.0**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
% of sales	*-2.8%*	*-0.9%*	*-0.9%*	*-0.9%*	*-0.9%*
Var. Working Capital	-2.0	0.8	-0.4	0.7	-0.1
Free Cash Flow	**-2.8**	**2.2**	**1.3**	**2.7**	**2.2**
PV of FCF	-2.7	2.0	1.1	2.1	1.6

Enterprise Value (€M)	**29.4**
of which TV actualized (€M)	**26.9**
Net Debt (FY'07/08) (€M)	9.4
Minorities (€M)	0
Pensions (i.e. TFR; €M)	0.8
Equity value (€M)	19.2
Number of Shares (M)	4.4
Equity value per share (€)	**4.36**
Upside	***12%***

Risk free rate	4.6%
Market premium	4.5%
Unlevered Beta	**0.9**
Ke : cost of equity	8.7%
Kd : cost of debt	6.0%
Tax rate	27.5%
Cost of debt after tax	4.4%
Market cap	17.1
Net debt	9.4
Debt / EV	35.6%
WACC	**7.1%**
g	**1%**

Sensitivity analysis		**Long-term growth rate**						
		-0.5%	*0.0%*	*0.5%*	***1.0%***	*1.5%*	*2.0%*	*2.5%*
WACC	*5.6%*	4.8	5.4	6.1	6.9	8.0	9.3	11.1
	6.1%	4.2	4.7	5.2	5.9	6.7	7.7	9.0
	6.6%	3.6	4.0	4.5	5.1	5.7	6.5	7.5
	7.1%	3.2	3.5	3.9	**4.36**	4.9	5.6	6.3
	7.6%	2.7	3.1	3.4	3.5	4.2	4.8	5.4
	8.1%	2.4	2.7	2.9	3.0	3.6	4.1	4.6
	8.6%	2.1	2.3	2.5	2.6	3.1	3.5	3.9

FINANCIALS

Income statement (€M)	07/08A	08/09E	09/10E	10/11E
Sales	**111.9**	**105.5**	**107.8**	**111.5**
COGS	24.5	21.4	21.6	22.3
Gross Profit	87.4	84.1	86.3	89.2
EBITDA	4.1	2.7	3.2	3.5
Depreciation, Amortization	0.9	1.0	1.0	1.1
EBIT	3.2	1.7	2.2	2.4
Net Financial Results	-1.5	-1.5	-1.4	-1.3
Income tax	-1.1	-0.1	-0.2	-0.4
Net result	0.7	0.1	0.5	0.8
EPS (€)	**0.15**	**0.03**	**0.12**	**0.17**
DPS (€)	**0.13**	**-0.02**	**-0.10**	**-0.15**

Balance sheet (€M)	07/08A	08/09E	09/10E	10/11E
LONG LIVED ASSETS	14.1	16.1	16.1	16.0
WC	11.8	13.7	12.9	13.4
CAPITAL EMPLOYED	**25.8**	**29.8**	**29.0**	**29.3**
EQUITY	15.4	15.0	15.9	17.4
MINORITY INTEREST	0.0	0.0	0.0	0.0
PROVISIONS	0.2	0.2	0.2	0.2
PENSIONS (e.g. TFR)	0.8	0.8	0.8	0.8
NET DEBT	9.4	13.8	12.1	11.0
CAPITAL INVESTED	**25.8**	**29.8**	**29.0**	**29.3**

Margin (%)	07/08A	08/09E	09/10E	10/11E
Gross Margin	78.1%	79.7%	80.0%	80.0%
EBITDA Margin	3.7%	2.5%	2.9%	3.2%
EBIT Margin	2.9%	1.6%	2.0%	2.2%
Net Margin	0.6%	0.1%	0.5%	0.7%

Ratios	07/08A	08/09E	09/10E	10/11E
ROCE after tax	**7.8%**	**3.5%**	**4.6%**	**5.1%**
ROE	4.2%	0.8%	3.2%	4.3%
Capital Turnover	**4.5**	**3.6**	**3.8**	**3.9**
Net Debt / EBITDA	**2.5**	**5.5**	**4.1**	**3.3**
Gearing	66.2%	97.8%	81.0%	68.0%
WC / Sales	**10.5%**	**13.0%**	**12.0%**	**12.0%**
Amortization / Sales	0.8%	0.9%	0.9%	1.0%
Capex / Sales	**1.8%**	**2.8%**	**0.9%**	**0.9%**

Growth (%)	07/08A	08/09E	09/10E	10/11E
Sales growth	1.2%	-5.7%	2.2%	3.4%
EBIT growth	4.7%	-48.1%	28.2%	12.5%
Net growth	8.3%	-81.4%	316.0%	48.8%

Cash Flow statement (€M)	07/08A	08/09E	09/10E	10/11E
Cash Flow	1.6	1.1	1.5	1.9
+/- Var. Working Capital	0.8	-2.0	0.8	-0.4
Operating Cash Flow	**2.3**	**-0.8**	**2.3**	**1.4**
Op. Cash Flow / Sales	2.1%	-0.8%	2.1%	1.3%
Capex	-2.1	-3.0	-1.0	-1.0
FCF	**0.3**	**-3.8**	**1.3**	**0.4**
FCF / Sales	0.3%	-3.6%	1.2%	0.4%

Valuation	07/08A	08/09E	09/10E	10/11E
EV/Sales	**0.27**	**0.30**	**0.28**	**0.26**
EV/EBITDA	**7.3**	**11.8**	**9.5**	**8.2**
EV/EBIT	9.4	18.9	13.9	11.9
P/E	**30.8**	**140.1**	**33.7**	**22.6**
P/B	1.31	1.14	1.07	0.98
EV/CE	**1.21**	**1.09**	**1.06**	**1.01**
P/FCF	68.8	-4.4	13.3	40.8
FCF Yield	**1.5%**	**-22.5%**	**7.5%**	**2.5%**
Dividend yield	**2.8%**	**3.4%**	**-0.6%**	**-2.7%**

Stock data	07/08A	08/09E	09/10E	10/11E
Number of Shares (M)	4.4	4.4	4.4	4.4
Avg share price over LTM (€)	4.58	3.88	3.88	3.88
Market cap (€M)	**20.2**	**17.1**	**17.1**	**17.1**
Enterprise Value (€M)	30.3	31.7	30.0	28.9

See Legend for all definitions

Source: Company data, Twice Research estimates

LEGEND

EV or Enterprise Value = Market capitalization + Net Debt + Pension (i.e. TFR)

CE or Capital Employed = Fixed Assets + Working Capital

Fixed Assets = Tangible + Intangible + Financial assets

WC or Working Capital = Stocks + Trade Accounts Receivables + Other current assets + Deferred and prepayment – Trade Accounts Payables - Other current liabilities - Deferred and prepayment

Net Debt = Interest Bearing Liabilities – Cash – Securities

IC or Invested Capital = Shareholders' Equity + Minorities + Net Debt + Pension (i.e. TFR)

DA = depreciation and amortization

CF or cash flow = net result + depreciation and amortization

FCF = free cash flow

NOPAT = net operating profit after tax

COGS = cost of goods sold

Gross Profit Margin = net sales – cost of goods sold

EBITDA = Earning before interests, taxes, depreciation and amortization

EBIT = Earning before interests, taxes

ROCE = return on capital employed after tax

ROE = return on equity

ROA = return on assets

Capital Turnover = Sales / Capital Employed

Gearing = Net Debt / Shareholders' equity

PE = price to earnings

PB = price to book

FCF yield = FCF / market capitalization

EPS = Earnings per share (fully diluted)

DPS = dividend per share (fully diluted)

Risk free rate = 10 years Italian Government Bond (e.g. BTP)

Unlevered Beta = Beta / [1 + (1 – t) (D / E)]

WACC = Ke * E / EV + Kd (1 – t) * D / EV

DISCLAIMER

Analyst Certification

The analysts who prepared this report write their own opinions and their remuneration has not been, and will not be, geared to the recommendations or views expressed in this study, neither directly nor indirectly. The financial analysts or their relatives are not manager, company director or adviser of the Issuer. TWICE SIM S.P.A. and TWICE RESEARCH Srl have adopted internal procedures to ensure the independence of their financial analysts and to prescribe appropriate rules of conduct.

Disclaimer

This recommendation has been prepared by TWICE RESEARCH Srl's financial analysts and is published by TWICE SIM S.P.A., an authorized intermediary, written in the CONSOB's register at number 80. This analysis is based on information deemed to be reliable and originating from the company under analysis or other reliable sources, for the completeness and accuracy of which TWICE RESEARCH Srl and TWICE SIM S.P.A. assume no liability. TWICE RESEARCH Srl and TWICE SIM S.P.A. are used to show a draft of the study to the Investor Relations Office of the Issuer to check the information contained, not to valuating them. The financial instruments herein are valorized at the reference price of the day before the publication, where the valorization is different it is indicated.

Coverage policy

TWICE RESEARCH Srl and TWICE SIM S.P.A. intend to provide continuous coverage of the financial instrument analyzed in this document and to produce additional reports in conjunction with the release of periodic financial data and related significant company and market events occurring within the sphere of activities of the issuing company. During the last 12 months TWICE RESEARCH Srl and TWICE SIM S.P.A. have been drawing recommendations as follows:

Data: 01 April 2009	Target Price: 3.9€	Rating: HOLD
Data: 20 June 2008	Fair Value: 7.9€	

Specific disclosures

Pursuant to Article 69-quarter and 69-quinquies of CONSOB regulation no. 11971/99 we hereby declare that TWICE SIM S.P.A. has a specific interest in the issuing company, as well as the financial instruments and transactions mentioned in the analysis, as a result of:
- Issuing of recommendation;
- Business relations;
- Its role as Specialist in the Star segment for the company Itway;
- Its occasional long and short positions in the financial instruments mentioned in the analysis or the execution of related transactions.

The analysis is drawn up with care, clearness and disclosure.

It is released solely for information purposes and is in no way to be considered an offer to sell, underwrite, or trade, or a recommendation of any kind to purchase, underwrite, or trade financial instruments or, in general, to invest in the related securities. TWICE RESEARCH Srl and TWICE SIM S.P.A. may not be held liable for any effects resulting from the use of this report. In particular, and in consideration of the fact that past performance is not an indicator of future earnings, TWICE RESEARCH Srl and TWICE SIM S.P.A. provide no guarantee that investments goals will be met, nor does the company assume responsibility for any imprecision in the data report and/or elaborated upon in the report. Any reproduction, in whole or in part, of this report without the express written consent of TWICE SIM S.P.A. is prohibited. It is not intended for and should in no way be transmitted or otherwise distributed neither in the United States, Canada, Australia, or Japan, nor in any other nation in which distribution requires prior authorization by the proper authorities.

Valuation methodology

Company valuations are based on the following valuation methods: discounted cash flow method (DCF), asset-based evaluation method and multiples-based models (for examples PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT etc.). The financial analyst chooses the valuation method that prefers.