

## Company update

## Hold (maintained)

22 December 2010

MARKET PRICE: EUR2.81 TARGET PRICE: EUR2.57 (from EUR2.81)

## Data

Shares Outstanding (m):	4.4
Market Cap. (EURm):	12.4
Enterprise Value (EURm):	35.4
Free Float (%):	54.1%
Av. Daily Trad. Vol. (m):	0.004
Main Shareholder:	Mr Farina 19.4%
Reuters/Bloomberg:	ITWY.MI ITW IM
52-Week Range	2.7 3.8

## Performance

	1m	3m	12m
Absolute	-1.7%	-18.6%	-22.3%
Rel. to FTSE IT	-2.0%	-19.1%	-16.1%

## Financials

	Sept09	Sept10	Sept11E
Revenues (EURm)	104.2	109.8	117.8
EBITDA (EURm)	1.5	0.3	2.2
Net Profit (EURm)	-1.3	-2.4	-0.0
EPS (EUR)	-0.283	-0.553	-0.011
CFPS (EUR)	-0.111	-0.237	0.215
BVPS (EUR)	3.055	2.477	2.465
DPS (EUR)	0.000	0.000	0.000

## Ratios

	Sept09	Sept10	Sept11E
EBITDA margin	1.4%	0.3%	1.9%
ROI	1.6%	nm	4.0%
ROAE	nm	nm	nm
Debt/Equity	1.4	2.0	2.0
Debt/EBITDA	13.2	75.5	9.5

## Valuation

	Sept09	Sept10	Sept11E
P/E (x)	nm	nm	nm
P/CF (x)	nm	nm	13.1
P/BV (x)	0.9	1.1	1.1
Dividend Yield	0.0%	0.0%	0.0%
EV/Sales (x)	0.3	0.3	0.3
EV/EBITDA (x)	22.2	nm	15.3
EV/CE (x)	1.0	1.1	1.1

Source: Centrobanca estimates

## Poor performance in France

Despite poor 4Q09/10 results in terms of profitability, we maintain our Hold rating because of the negative earnings momentum, which, in our view, should have bottomed. Our target price moves from EUR2.81 to EUR2.57 per share reflecting a lower DCF valuation (we extended our model into 2010/11 and incorporated higher net debt). Despite having built strong relationships with top vendors of fast growing IT applications and software (e.g. for security and virtualization) and leading positions in the Mediterranean area (Italy, France, Portugal, Spain, Greece and Turkey), since the beginning of the economic crisis in 2008/09, Itway has suffered from increased price competition resulting in margin erosion.

- Itway's 4Q09/10 sales grew 5.6% YoY to EUR22.7 million, due to the positive performance of the VAD business (+6.4% YoY), mainly in Turkey. Margins were negative in 4Q09/10 while we were expecting slightly positive figures. Fierce price competition is putting pressure on Itway's margins; the company strategy to defend volumes and business relations in its main markets is further depressing profitability. The NFP increased more than our estimate (by EUR3.9 million to EUR18.3 million) as Itway is providing financial support to its clients thereby putting some strain on its balance sheet.
- Following our last note in September 2010, when we drastically reduced our estimates, this time we have left unchanged our forecasts for 2010/11E and for 2011/12E as the outlook for the European IT market has not improved. Only the Turkish IT market is expected to perform well next year.
- Itway's management is forecasting a slight increase in sales and a sound recovery in profitability in 2010/11. Predictions for security and virtualization software, the major part of Itway's business, are for double digit growth in the medium term; in addition, the rightsizing of personnel and operating costs carried out in both 2008/09 and 2009/10 should sustain a recovery in profitability.
- The new target price, generated by the weighted average of the DCF valuation (70% weighting) and a peer group analysis (30%), is EUR2.57 per share, 8.4% lower than the previous target price. The NFP reported at September 2010 (EUR22.2 million) gives a lower DCF valuation (from EUR2.70 to EUR2.40 per share) having extended our model into 2010/11.

## Analyst

Jacopo Tagliaferri

jacopo.maria.tagliaferri@centrobanca.it

Tel. +39 02 7781 4593

Website: [www.centrobanca.it](http://www.centrobanca.it)

**Key Financials**

(EURm)	Sept2009	Sept2010	Sept2011E	Sept2012E
Revenues	104.2	109.8	117.8	120.4
EBITDA	1.5	0.3	2.2	3.0
EBIT	0.5	-1.1	1.2	2.0
NOPAT	0.3	-1.1	0.9	1.4
Free Cash Flow	-9.5	-0.8	0.9	0.2
Net Capital Employed	33.0	31.3	30.3	30.5
Shareholders' Equity	13.5	10.9	10.9	11.3
Net Financial Position	19.5	22.2	21.3	21.1

Source: Company data, Centrobanca estimates

**Key Profitability Drivers**

	Sept2009	Sept2010	Sept2011E	Sept2012E
Capital Turnover	3.1	3.4	3.8	3.8
Financial Leverage	2.4	2.9	2.8	2.7
Net Profit Margin	nm	nm	nm	0.4%
NOPAT Margin	0.3%	nm	0.8%	1.2%
Free Cash Flow Margin	nm	nm	0.8%	0.2%
ROAE	nm	nm	nm	4.0%
ROI	1.6%	nm	4.0%	6.4%
ROCE	1.2%	nm	2.9%	4.6%

Source: Company data, Centrobanca estimates

**Key Valuation Ratios**

	Sept2009	Sept2010	Sept2011E	Sept2012E
P/E (x)	nm	nm	nm	28.1
P/BV (x)	0.9	1.1	1.1	1.1
P/CF (x)	nm	nm	13.1	8.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	22.2	nm	15.3	11.4
EV/EBIT (x)	nm	nm	27.6	17.1
EV/CE (x)	1.0	1.1	1.1	1.1

Source: Company data, Centrobanca estimates

**Key Value Drivers**

	Sept2009	Sept2010	Sept2011E	Sept2012E
Payout	0.0%	0.0%	0.0%	0.0%
Cost of Equity	9.3%	9.3%	9.3%	9.3%
WACC	5.9%	5.5%	5.5%	5.6%
EP Spread	-18.0%	-29.3%	-9.8%	-5.3%
EVA Spread	-4.8%	-8.9%	-2.6%	-0.8%

Source: Company data, Centrobanca estimates

### Recent Developments

- Itway's sales in 4Q09/10 increased 5.6% YoY to EUR22.68 million, due to a positive performance from the VAD business (+6.4% YoY), mainly in Turkey.
- 4Q09/10 profitability was negative while we had forecast a slightly positive result. Fierce price competition, especially in the distribution business, is putting pressure on Itway's gross margin. The company's strategy of defending volumes (and business relations) in its main markets (e.g. Italy and France) is further depressing margins.
- EBITDA was negative for EUR0.42 million in 4Q09/10, EBIT for EUR1.07 million, penalized by the write-off of goodwill of EUR0.3 million in the French subsidiary.
- In the third quarter, the NFP deteriorated EUR3.9 million to EUR22.2 million: Itway is providing some financial support to its clients, which has translated into higher trade receivables that have yet to be offset by better payment terms.

Figure 1. Itway – 4Q09/10 and FY09/10 results

(EURm)	4Q08/09A	4Q09/10A	% Chg.	4Q09/10E	delta	FY08/09A	FY09/10A	% Chg.
<b>Sales</b>	<b>21.48</b>	<b>22.68</b>	<b>5.6%</b>	<b>21.48</b>	<b>5.6%</b>	<b>104.17</b>	<b>109.76</b>	<b>5.4%</b>
<b>EBITDA</b>	<b>-0.05</b>	<b>-0.42</b>	<b>nm</b>	<b>0.35</b>	<b>nm</b>	<b>1.47</b>	<b>0.29</b>	<b>-80.0%</b>
EBITDA margin (%)	nm	nm	-	1.6%	-	1.4%	0.3%	-
<b>EBIT</b>	<b>-0.34</b>	<b>-1.07</b>	<b>nm</b>	<b>0.10</b>	<b>nm</b>	<b>0.48</b>	<b>-1.11</b>	<b>nm</b>
EBIT margin (%)	nm	nm	-	0.5%	-	0.5%	nm	-
<b>Pre-Tax Profit</b>	<b>-0.29</b>		<b>-</b>	<b>-0.20</b>	<b>-</b>	<b>-1.30</b>	<b>-0.98</b>	<b>-</b>
Pre-Tax Margin (%)	-0.63	-1.34	nm	-0.10	-112.9%	-0.82	-2.08	nm
<b>Net Income</b>	<b>nm</b>	<b>nm</b>	<b>-</b>	<b>nm</b>	<b>-</b>	<b>-1.30</b>	<b>-2.44</b>	<b>87.7%</b>
Net Debt	19.41	22.21	14.4%	17.50	26.9%	19.41	22.21	14.4%

Source: Company data

Figure 2. Itway – FY09/10 results by business unit

(EURm)	FY09/10A	FY08/09A	FY09/10A	FY08/09A
	VAD		Enterprise	
<b>Sales</b>	<b>91.14</b>	<b>85.67</b>	<b>18.62</b>	<b>18.50</b>
change YoY (%)	6.4%		0.6%	
<b>EBITDA</b>	<b>0.49</b>	<b>1.30</b>	<b>-0.20</b>	<b>0.17</b>
EBITDA margin (%)	0.5%	1.5%	nm	0.9%
<b>EBIT</b>	<b>-0.65</b>	<b>0.58</b>	<b>-0.46</b>	<b>-0.11</b>
EBIT margin (%)	nm	0.7%	nm	nm
<b>Pre-tax profit</b>	<b>-1.40</b>	<b>-0.37</b>	<b>-0.68</b>	<b>-0.45</b>
Pre-tax margin (%)	nm	nm	nm	nm

Source: Company data

### Financial Projections

- › Since our report in September, the outlook for the European market has not improved. The sentiment in the Italian IT market remains negative: big companies and the Public Administrations are not yet increasing their IT budgets. Demand in the European countries in which Itway operates (France, Spain, Portugal and Greece) should also stay weak. Only the Turkish IT market, where Itway has an expanding presence, is expected to deliver a good performance in 2011.
- › Consequently we have left our forecasts for 2010/11E and for 2011/12E, already cut in September, unchanged.
- › Predictions for security and virtualization software, which are value added products, are for double digit growth in the medium term and this should facilitate a recovery in Itway's margins: the company has worked hard in the last two years to adjust its cost base to the new market environment.

## Valuation

- Our target price moves from EUR2.81 to EUR2.57 per share, reflecting a lower DCF valuation (we extended our model into 2010/11, incorporating the NFP reported at September 2010).

*Figure 4. Itway - Target price*

*We have attributed only a marginal weighting to the multiple analysis due to the significant differences in size and sales mix between Itway and its peers.*

	Equity value (EURm)	per share (EUR)	Weight
<b>Multiple analysis</b>	<b>13.2</b>	<b>2.98</b>	<b>30%</b>
<b>DCF</b>	<b>10.6</b>	<b>2.40</b>	<b>70%</b>
<b>Target price</b>		<b>2.57</b>	

Source: Centrobanca estimates

*Figure 5 Itway - DCF fair value estimate*

*Our Terminal Value represents 73.7% of Itway's EV.*

<b>(A) Discounted free cash flow 2010/11-2015/16 (EURm)</b>	<b>8.8</b>
FCF terminal year (EURm)	2.2
WACC	7.0%
Terminal growth	1.5%
Terminal Value (EURm)	39.7
<b>(B) Discounted terminal value (EURm)</b>	<b>24.7</b>
<b>(A+B) Operating activities value (EURm)</b>	<b>33.5</b>
Net Debt Sept10 (EURm)	-22.2
Minorities (EURm)	0.0
Pension Fund FY08/09 (EURm)	-0.7
<b>Equity Value (EURm)</b>	<b>10.6</b>
Number of shares (million)	4.4
<b>Value per share (EUR)</b>	<b>2.40</b>

Source: Centrobanca estimates

*Figure 6. Itway - Sensitivity analysis*

*A 50 bps increase in WACC implies a 27.6% reduction in our fair value.*

g / WACC	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
5.5%	3.1	3.7	4.5	5.4	6.6	8.2	10.5
6.0%	2.3	2.8	3.4	4.2	5.1	6.3	7.8
6.5%	1.7	2.1	2.6	3.2	3.9	4.8	5.9
<b>7.0%</b>	1.2	1.5	1.9	<b>2.40</b>	3.0	3.6	4.5
7.5%	0.7	1.0	1.4	1.7	2.2	2.7	3.4
8.0%	0.3	0.6	0.9	1.2	1.5	2.0	2.5
8.5%	0.0	0.2	0.4	0.7	1.0	1.4	1.8

Source: Centrobanca estimates

*Figure 7. Itway- Cash Flow projections*

*We expect the CAGR10/11-15/16E in sales to be 2.1% and free cash flow generation to be on average EUR1.9 million.*

(EURm)	FY10/11E	FY11/12E	FY12/13E	FY13/14E	FY14/15E	FY15/16E	TV
<b>Sales</b>	<b>117.8</b>	<b>120.4</b>	<b>123.0</b>	<b>125.5</b>	<b>128.0</b>	<b>130.5</b>	<b>132.5</b>
growth yoy (%)	7.3%	2.2%	2.2%	2.0%	2.0%	2.0%	1.5%
<b>EBIT</b>	<b>1.3</b>	<b>2.0</b>	<b>2.5</b>	<b>2.5</b>	<b>3.2</b>	<b>3.9</b>	<b>3.6</b>
ROS %	1.1%	1.7%	2.0%	2.0%	2.5%	3.0%	2.7%
Cash taxes on EBIT	-0.4	-0.7	-0.8	-0.8	-1.1	-1.3	-1.2
<b>NOPAT</b>	<b>0.8</b>	<b>1.3</b>	<b>1.7</b>	<b>1.7</b>	<b>2.1</b>	<b>2.6</b>	<b>2.4</b>
D&A	1.0	1.0	1.0	1.0	1.0	1.0	1.1
(Capex)	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.1
NWC requirements	0.9	-0.3	0.9	-0.3	-0.3	-0.3	-0.2
<b>Free Cash Flow</b>	<b>1.8</b>	<b>1.1</b>	<b>2.7</b>	<b>1.4</b>	<b>1.9</b>	<b>2.3</b>	<b>2.2</b>
<b>Implied ratios</b>	<b>FY10/11E</b>	<b>FY11/12E</b>	<b>FY12/13E</b>	<b>FY13/14E</b>	<b>FY14/15E</b>	<b>FY15/16E</b>	<b>TV</b>
Sales/CE	3.8	3.8	4.0	4.1	4.1	4.2	4.2
Capex/D&A	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Capex/Sales	0.8%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%
Capex/CE	2.9%	2.9%	3.0%	3.3%	3.3%	3.3%	3.4%
NWC/Sales	12.0%	12.0%	11.0%	11.0%	11.0%	11.0%	11.0%

Source: Centrobanca estimates

*Figure 8. ITWAY – Main peers (IT distribution business) multiples comparison*

*We have not included EV multiples due to the significant differences in size and sales mix between Itway and its peers.*

	P/BV		
	Dec10	Dec11	Dec12
Esprinet S.p.A.	1.23	1.08	0.95
Tech Data Corp.	1.08	0.84	
Ingram Micro Inc.	1.06		
Arrow Electronics Inc.	1.34	1.08	0.93
Also Holding AG	1.51	1.77	1.55
<b>AVERAGE</b>	<b>1.24</b>	<b>1.19</b>	<b>1.15</b>
Itway multiples	1.16	1.16	1.12
<b>Premium/discount</b>	<b>-7.1%</b>	<b>-2.9%</b>	<b>-2.8%</b>
<b>Itway implicit TP</b>	<b>3.07</b>	<b>2.94</b>	<b>2.93</b>
Upside/downside	7.7%	3.0%	3.0%

Source: Centrobanca, Factset

**Income Statement**

(EURm)	Sept2009	Sept2010	Sept2011E	Sept2012E
Net Revenues	104.2	109.8	117.8	120.4
EBITDA	1.5	0.3	2.2	3.0
EBITDA margin	1.4%	0.3%	1.9%	2.5%
EBIT	0.5	-1.1	1.2	2.0
EBIT margin	0.5%	nm	1.1%	1.7%
Net financial income /expense	-1.3	-1.0	-1.0	-1.0
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	-0.8	-2.1	0.3	1.0
Taxes	-0.4	-0.4	-0.3	-0.6
Minorities & discontinued ops	0.0	0.0	0.0	0.0
Net Income	-1.3	-2.4	-0.0	0.4

Source: Company data, Centrobanca estimates

**Balance Sheet**

(EURm)	Sept2009	Sept2010	Sept2011E	Sept2012E
Net working capital	16.2	15.0	14.1	14.4
Net Fixed assets	17.5	17.1	17.0	16.9
M/L term funds	-0.8	-0.8	-0.8	-0.8
Capital employed	33.0	31.3	30.3	30.5
Shareholders' equity	13.5	10.9	10.9	11.3
Minorities	0.0	0.0	0.0	0.0
Shareholders' funds	13.5	10.9	10.9	11.3
Net financial debt/(cash)	19.5	22.2	21.3	21.1

Source: Company data, Centrobanca estimates

**Cash Flow Statement**

(EURm)	Sept2009	Sept2010	Sept2011E	Sept2012E
NFP Beginning of Period	-9.4	-19.5	-22.2	-21.3
Group Net Profit	-1.3	-2.4	-0.0	0.4
Minorities	0.0	0.0	0.0	0.0
D&A	1.0	1.4	1.0	1.0
Change in Funds & TFR	-0.2	0.0	0.0	0.0
Gross Cash Flow	-0.5	-1.0	1.0	1.4
Change In Working Capital	-4.4	1.2	0.9	-0.3
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	-4.9	0.2	1.8	1.1
Capex	-4.5	-0.9	-0.9	-0.9
Other Investments	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Free Cash Flow	-9.5	-0.8	0.9	0.2
Dividends Paid	-0.6	0.0	0.0	0.0
Other & Chg in Consolid. Area	0.0	0.0	0.0	0.0
Chg in Net Worth & Capital Incr.	-0.0	0.0	0.0	0.0
Change in NFP	-10.0	-0.8	0.9	0.2
NFP End of Period	-19.5	-20.2	-21.3	-21.1

Source: Company data, Centrobanca estimates

**Financial Ratios**

(%)	Sept2009	Sept2010	Sept2011E	Sept2012E
Net Margin	nm	nm	nm	0.4%
ROE	nm	nm	nm	4.0%
ROIC - after tax	1.2%	nm	2.9%	4.6%
Net Fin. Debt/Equity (x)	1.4	2.0	2.0	1.9
Net Fin. Debt/EBITDA (x)	13.2	75.5	9.5	7.0
NOPAT(EURm)	0.3	-1.1	0.9	1.4
ROACE	1.2%	nm	2.9%	4.8%

Source: Company data, Centrobanca estimates

**Per Share Data**

(EUR)	Sept2009	Sept2010	Sept2011E	Sept2012E
EPS	-0.283	-0.553	-0.011	0.100
DPS	0.000	0.000	0.000	0.000
Op. CFPS	-1.116	0.034	0.411	0.256
Free CFPS	-2.144	-0.172	0.207	0.052
BVPS	3.055	2.477	2.465	2.565

Source: Company data, Centrobanca estimates

**Stock Market Ratios**

(x)	Sept2009	Sept2010	Sept2011E	Sept2012E
P/E	nm	nm	nm	28.1
P/OpCFPS	nm	81.7	6.8	11.0
P/Free CFPS	nm	nm	13.6	54.0
P/BVPS	0.9	1.1	1.1	1.1
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	nm	nm	7.4%	1.9%
EV (EURm)	32.6	35.4	34.4	34.2
EV/Sales	0.3	0.3	0.3	0.3
EV/EBITDA	22.2	nm	15.3	11.4
EV/EBIT	nm	nm	27.6	17.1
EV/Capital Employed	1.0	1.1	1.1	1.1

Source: Company data, Centrobanca estimates

**Growth Rates**

(%)	Sept2009	Sept2010	Sept2011E	Sept2012E
Growth Group Net Sales	-6.9%	5.3%	7.3%	2.2%
Growth EBITDA	-64.6%	-80.0%	nm	33.3%
Growth EBIT	-85.3%	nm	nm	nm
Growth Net Profit	nm	nm	nm	nm

Source: Company data, Centrobanca estimates

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- A conflict of interest exists for the UBI Group inasmuch as Centrobanca acts as Specialist for IT WAY S.p.A..

On the basis of the checks carried out no other conflict of interest arose.

### Frequency of updates

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### Valuation methodology

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**Ranking system**

The Centrobanca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

Buy: if the target price is 10% higher than the market price.

Hold: if the target price is 10% below or 10% above the market price.

Sell: if the target price is 10% lower than the market price.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

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**Historical recommendations and target prices**

Date	Rating	Target Price (EUR)	Market price (EUR)
18 June 2010	HOLD	3.41	3.37
1 September 2010	HOLD	2.81	3.17