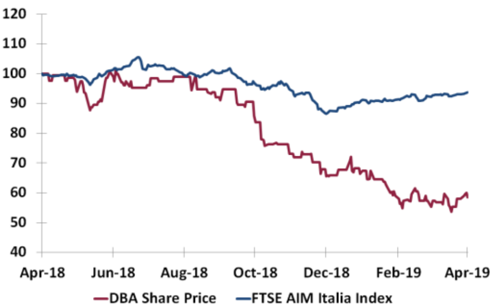
D B A GROUP

# OUTPERFORM

**Current Share Price (€): 2.22**
**Target Price (€): 4.14**

### DBA Group - 1Y Performance




Source: S&P Capital IQ - Note: 18/04/2018=100

### Company data

| | |
|---|---|
| ISIN number | IT0005285942 |
| Bloomberg code | DBA IM |
| Reuters code | DBA.MI |
| Share Price (€) | 2.22 |
| Date of Price | 18/04/2019 |
| Shares Outstanding (m) | 11.5 |
| Market Cap (€m) | 25.5 |
| Market Float (%) | 44.0% |
| Daily Volume | 300 |
| Avg Daily Volume YTD | 5,603 |
| Target Price (€) | 4.14 |
| Upside (%) | 87% |
| Recommendation | OUTPERFORM |

### Share price performance

| | 1M | 3M | 1Y |
|---|---|---|---|
| DBA - Absolute (%) | 2% | -13% | -42% |
| FTSE AIM Italia (%) | 1% | 3% | -6% |
| 1Y Range H/L (€) | | 3.85 | 2.04 |
| YTD Change (€)/% | | -0.35 | -14% |

Source: S&P Capital IQ

### Analysts

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# 2018 progress on core industries and services builds revenues and backlog visibility, at the expense of margins and invested capital

### 2018 revenues 11% up and backlog 20% up, EBITDA stays in the 10% region, working capital and debt increase

FY18 revenues of €47m, +11% YoY, driven by the core industries and services portfolio progressions and increasing delivery on international expansion targets. Adjusted EBITDA of 4.8m, 10% margin vs 11% in 2017, that would impair Price Adjustment Shares conversion, and net income at breakeven moderate the success, while €10m higher invested capital adds financial debt to the picture.

### Sea port and airport projects expand the networked infrastructure portfolio, adding more industries to the Open Fiber substantial backlog

New international projects in telco, transport and logistic sectors, together with a substantial share of engineering and project management gained in the Open Fiber project, build solid steps in the direction of DBA's corporate strategy.

- Optic fiber engagement by Italtel extended until 2020
- Additional engagement on the Azerbaijani Optic Fiber
- Upgrade of Milan Malpensa and Linate airports
- Port Community system (PCS) for Rijeka Port Authority in Croatia

### Increasing visibility of revenues helps confidence in revenue projections

We consider the high rank of certain projects and the growing presence as network specialist in infrastructures diversified geographically and by industry, as credible supports as to the ability to generate repeat engagements. We confirm our revenue targets, also based on the expectation of increasing turnover from acquisitions, a proven DBA task and competence. We have fine-tuned our estimates to factor in a lower profitability level and the higher investment in WIP.

### Time to call into question the careless market trend?

We see that DBA is progressing along its strategy of building value by technological foundations and internationalization over the mid/long-term. The wider engineering industry in 2018 suffered value drops and DBA did too, but its fundamentals are overall unchanged and the infrastructures in the geographies where DBA is present are increasingly populating the front pages. We see the share price drop in the last months unrelated to the performance of DBA and attributable to different market dynamics.
We also note that Management intends to propose a buyback program.

### Target Price €4.14 per share (from €4.41), OUTPERFORM recommendation confirmed

We see quality of engagements and international achievements steps on the value path and deem reasonable to rely on our DCF model, that on updated estimates lands at €4.14 per undiluted share, from €4.41 per diluted share of our prior note, 87% upside on current share price, as such we reiterate our OUTPERFORM rating on the stock.

### Key financials and estimates

| €m | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| **Revenues** | 42.6 | 47.2 | 52.9 | 56.9 |
| **EBITDA** | 4.9 | 4.8 | 7.3 | 8.3 |
| *Margin* | *11%* | *10%* | *14%* | *15%* |
| **Net Income** | 1.0 | 0.4 | 2.3 | 2.9 |
| **Net (Debt) Cash** | 1.7 | (9.7) | (5.6) | (0.6) |
| **Equity** | 24.6 | 23.6 | 25.9 | 28.8 |

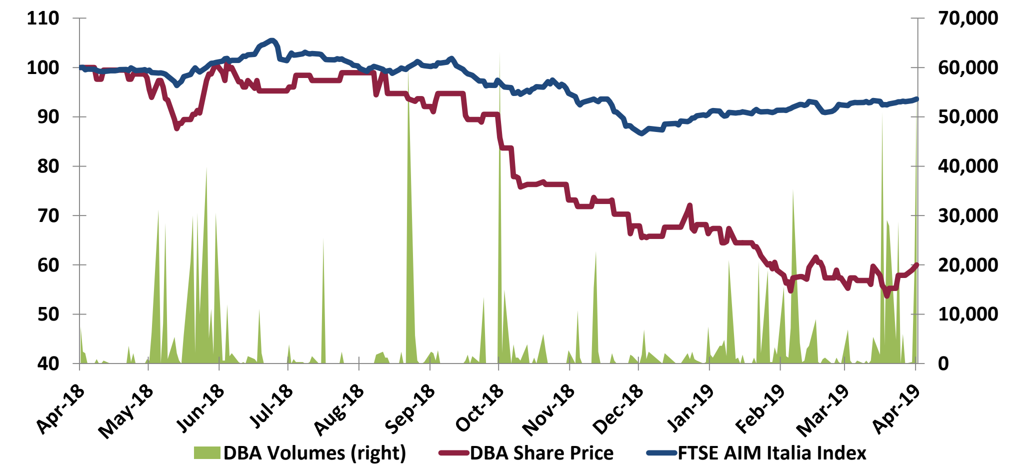
Source: Company data 2016-18A, EnVent Research 2019-20E

# Market update

DBA 1Y share price range €2-3.85, with beginning price at €3.80, a 40% decrease

In the same period, the FTSE AIM Italia Index decreased by 6%

## DBA - 1Y Share price performance and trading volumes

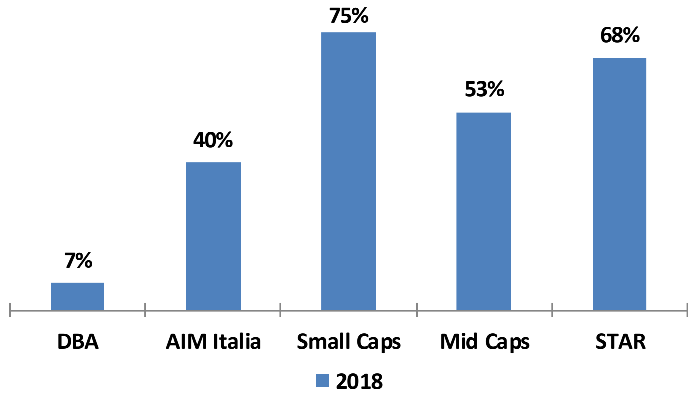



Source: EnVent Research on S&P Capital IQ - Note: 17/04/2018=100

Low volumes: 1m shares traded in 2018

Average daily volume YTD 5,700 shares

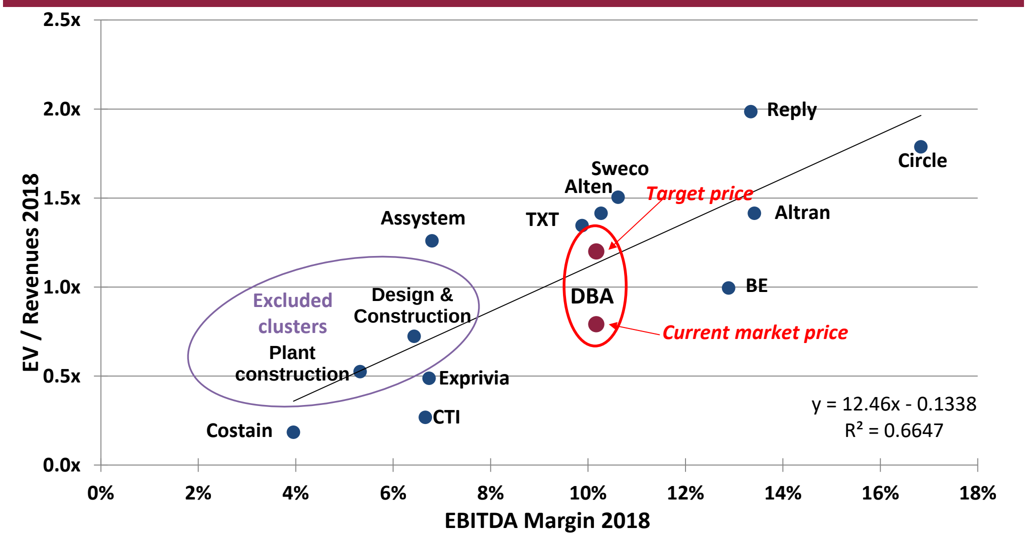
## DBA - Liquidity analysis and velocity turnover




Source: EnVent Research on Bloomberg - Note: The velocity turnover is the ratio of total traded shares to total ordinary shares in a given period.

DBA's profitability in the region of its core business peers indicates a trade discount market attitude

## DBA Peer group - Regression analysis and DBA target positioning




Source: EnVent Research on S&P Capital IQ, April 2019

## Period facts: New projects, substantial share of engineering and project management services in the Open Fiber project

**Optic fiber Italtel engagement extended until 2020**

The Italtel engagement on design of optic fiber networks has been extended until 2020 for additional €5.5mm bringing the total value of the contract to €18.5m.

**Repeated contract from the Azerbaijani Ministry of Transport, Communications and High Technologies**

The Azerbaijani Ministry of Transport, Communications and High Technologies hired DBA for two engagements of advisory services on the optic fiber network in Baku.

**Upgrade of Milan Malpensa and Linate airports**

DBA will lead the 4-year renovation project of Milan Malpensa and Linate airports. Works include terminal access facilities, commercial areas, redevelopment of buildings, car parking and flight infrastructure.

**Port Community system (PCS) for Rijeka Port Authority in Croatia**

Port Community system (PCS) for Rijeka Port Authority in Croatia, in the framework of the telematics infrastructures needed for the digital Silk Road (2019).

**No conversion of PAS into ordinary shares**

The target required for the Price Adjustment Shares conversion into Ordinary Shares (2018 EBITDA of €6m with a floor of €4.8m) has not been met. Accordingly, we consider unchanged the present number of shares.

**Scouting for M&A**

DBA is currently scouting companies for further opportunities.

## Revenues increase 11%, lower than expected, year-end backlog spikes at 20%

DBA's revenues in 2018 were €47.2m, +11% YoY, slightly lower than our projection. Backlog is estimated at over €47m as of March 2019, +20% YoY. Adjusted EBITDA was €4.8m, 10% margin, in line with 2017, when margin reached 11% on revenues. Net income was €0.4m, vs €1m in 2017.
TWC increased by over 50% to €20m, mainly driven by receivables and WIP at year-end. The operating cash flow before WC dynamics was €3.5m, consistently with prior year. Working capital and capex used over €13m, bringing financial debt close to €10m (€1.7m cash at year-end 2017).

## Outlook

**Flat financials, brilliant operational outlook**

Our view on the 2018 DBA performance is that on the operating side the key objectives are being pursued according to the strategy and expectations.

### Open Fiber advances

**A key player within the Open Fiber project**

On the domestic market Telco Industry DBA is a key player within the Open Fiber giant project, which is expected to close the serious digital communication gap affecting Italy. We are aware of the technical and organizational complexity of the project, and of the additional complexity generated by the sometimes-conflicting interests involved, both political and economic. Despite its size if compared to other larger engineering companies, DBA looks steadily placed among the *Telco* engineering players.

### Backlog up

**2019-21: visibility of revenues**

Beyond the appearances, i.e. 2018 domestic revenues at same overall level of 2017, the present domestic Telco portfolio and backlog give a mid-term revenue visibility more comfortable of that of 2017 at the IPO, when brilliant margins and sound WC scores were the outcome of engagements close to the end.

**Eastward investments payback**

On the international side we see that the 2018 trend is more than rewarding. As anticipated by H1 2018, according to our estimates the value of engagements in Eastern geographies show a growth close to 50%, a delivery on promises well over expectations.
On the port logistics industry segment, engagements in five Italian and five international eastward ports tell about a substantial market recognition.

## Financial projections

**Consolidated Profit and Loss**

| €m | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| **Revenues** | **42.6** | **47.2** | **52.9** | **56.9** |
| *YoY %* | *2.7%* | *10.8%* | *12.2%* | *7.5%* |
| Personnel | (16.0) | (19.0) | (19.7) | (21.1) |
| Services | (17.7) | (17.7) | (20.7) | (22.2) |
| Other operating costs | (4.0) | (5.6) | (5.3) | (5.3) |
| **Operating costs** | **(37.7)** | **(42.4)** | **(45.6)** | **(48.6)** |
| **EBITDA** | **4.9** | **4.8** | **7.3** | **8.3** |
| *Margin* | *11.5%* | *10.2%* | *13.8%* | *14.6%* |
| D&A | (1.9) | (1.6) | (2.3) | (2.5) |
| **EBITA** | **3.0** | **3.2** | **5.1** | **5.8** |
| *Margin* | *6.9%* | *6.8%* | *9.5%* | *10.2%* |
| Goodwill amortization | (0.5) | (1.2) | (1.2) | (1.2) |
| **EBIT** | **2.4** | **2.0** | **3.9** | **4.7** |
| *Margin* | *5.7%* | *4.2%* | *7.4%* | *8.2%* |
| IPO costs | (0.3) | (0.4) | 0.0 | 0.0 |
| Interest | (0.2) | (0.3) | (0.2) | (0.2) |
| Write-down of shareholdings | 0.0 | 0.0 | 0.0 | 0.0 |
| **EBT** | **1.9** | **1.4** | **3.7** | **4.5** |
| *Margin* | *4.5%* | *2.9%* | *7.0%* | *7.9%* |
| Income taxes | (0.9) | (1.0) | (1.4) | (1.6) |
| **Net Income** | **1.0** | **0.4** | **2.3** | **2.9** |
| *Margin* | *2.4%* | *0.8%* | *4.4%* | *5.1%* |

Source: Company data 2017-18A; EnVent Research 2019-20E

**Consolidated Balance Sheet**

| €m | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| Work in progress | 0.9 | 1.3 | 1.5 | 1.6 |
| Inventory | 0.0 | 0.1 | 0.1 | 0.1 |
| Trade receivables | 19.1 | 24.0 | 25.7 | 26.6 |
| Trade payables | (6.9) | (5.4) | (7.8) | (8.3) |
| Trade Working Capital | 13.2 | 20.1 | 19.5 | 20.1 |
| Other assets (liabilities) | (1.8) | (3.3) | (2.1) | (2.3) |
| **Net Working Capital** | **11.4** | **16.7** | **17.3** | **17.8** |
| Intangible assets | 5.6 | 6.2 | 5.9 | 5.4 |
| Goodwill | 3.5 | 8.0 | 6.9 | 5.7 |
| Property, plant and equipment | 3.3 | 3.5 | 2.7 | 1.9 |
| Equity investments and financial assets | 0.7 | 0.7 | 0.7 | 0.7 |
| **Non-current assets** | **13.1** | **18.4** | **16.1** | **13.7** |
| **Provisions** | **(1.5)** | **(1.8)** | **(1.9)** | **(2.0)** |
| **Net Invested Capital** | **23.0** | **33.3** | **31.6** | **29.5** |
| | | | | |
| **Net Debt (Cash)** | **(1.7)** | **9.7** | **5.6** | **0.6** |
| **Equity** | **24.6** | **23.6** | **25.9** | **28.8** |
| **Sources** | **23.0** | **33.3** | **31.6** | **29.5** |

Source: Company data 2017-18A; EnVent Research 2019-20E

**Consolidated Cash Flow**

| €m | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| **EBIT** | **2.4** | **2.0** | **3.9** | **4.7** |
| Current taxes | (0.9) | (1.0) | (1.4) | (1.6) |
| D&A | 2.4 | 2.6 | 3.4 | 3.7 |
| Provisions | (0.3) | 0.3 | 0.1 | 0.1 |
| **Cash flow from P&L operations** | **3.6** | **3.9** | **6.1** | **6.8** |
| Trade Working Capital | (4.3) | (6.9) | 0.6 | (0.6) |
| Capex - intangibles | (3.8) | (1.0) | (1.0) | (1.0) |
| Capex - acquisitions | (0.5) | (5.7) | 0.0 | 0.0 |
| Capex - PPE | (1.7) | (1.3) | (0.2) | (0.2) |
| Other assets and liabilities | (1.4) | 1.5 | (1.2) | 0.2 |
| **Cash flow minus capex and working capital** | **(8.1)** | **(9.4)** | **4.3** | **5.2** |
| IPO costs | (0.3) | (0.4) | 0.0 | 0.0 |
| Interest | (0.2) | (0.3) | (0.2) | (0.2) |
| Depreciation of shareholdings | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity investments and financial assets | 0.6 | 0.1 | 0.0 | 0.0 |
| Paid-in Capital - IPO proceeds (2017) | 12.0 | 0.0 | 0.0 | 0.0 |
| Capex - IPO costs | (1.6) | 0.0 | 0.0 | 0.0 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 |
| Consolidation adjustments | 0.0 | (1.4) | 0.0 | 0.0 |
| **Net cash flow** | **2.4** | **(11.4)** | **4.1** | **5.0** |
| Net (Debt) Cash - Beginning | (0.7) | 1.7 | (9.7) | (5.6) |
| Net (Debt) Cash - End | 1.7 | (9.7) | (5.6) | (0.6) |
| **Change in Net (Debt) Cash** | **2.4** | **(11.4)** | **4.1** | **5.0** |

Source: Company data 2017-18A; EnVent Research 2018-20E

**Ratio analysis**

| **KPIs** | **2017** | **2018** | **2019E** | **2020E** |
|---|---|---|---|---|
| ROE | 4% | 2% | 9% | 10% |
| ROS (EBIT/Revenues) | 6% | 4% | 7% | 8% |
| ROIC (NOPAT/Invested Capital) | 9% | 7% | 12% | 14% |
| DSO | 136 | 153 | 145 | 140 |
| DPO | 95 | 69 | 90 | 90 |
| TWC/Revenues | 31% | 43% | 37% | 35% |
| NWC/Revenues | 27% | 35% | 33% | 31% |
| Net Debt / EBITDA | n.m. | 2.0x | n.m. | n.m. |
| Net Debt / Equity | n.m. | 0.4x | n.m. | n.m. |
| Net Debt / (Net Debt+Equity) | n.m. | 0.3x | n.m. | n.m. |
| Cash flow from P&L operations / EBITDA | 74% | 81% | 83% | 82% |
| FCF / EBITDA | neg. | neg. | 58% | 62% |

Source: Company data 2017-18A; EnVent Research 2018-20E

## Valuation

### Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.9% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, April 2019)
- Market return: 14% (3Y average. Source: Bloomberg, April 2018)
- Market risk premium: 12%
- Beta: Unlevered 0.9; Re-levered 1.2 (Median of selected industry peers. Source: Bloomberg, April 2019)
- Cost of equity: 15.6%
- Cost of debt: 3% (Source: average historical rate)
- Tax rate: 24% (IRES)
- 30% debt/(debt + equity) as target capital structure
- WACC at 12%
- Perpetual growth rate after explicit projections 3%
- Terminal Value assumes an EBITA margin of 12%

**DCF Valuation**

| €m | | 2017 | 2018 | 2019E | 2020E | Perpetuity |
|---|---|---|---|---|---|---|
| **Revenues** | | **42.6** | **47.2** | **52.9** | **56.9** | **58.3** |
| **EBITDA** | | **4.9** | **4.8** | **7.3** | **8.3** | **8.2** |
| *Margin* | | *11.5%* | *10.2%* | *13.8%* | *14.6%* | *14.0%* |
| **EBITA** | | **3.0** | **3.2** | **5.1** | **5.8** | **7.0** |
| *Margin* | | *6.9%* | *6.8%* | *9.5%* | *10.2%* | *11.9%* |
| Taxes | | (0.8) | (0.9) | (1.4) | (1.6) | (1.9) |
| **NOPAT** | | **2.1** | **2.3** | **3.6** | **4.2** | **5.0** |
| D&A | | | | 2.3 | 2.5 | 1.2 |
| Provisions | | | | 0.1 | 0.1 | 0.1 |
| **Cash flow from operations** | | | | **6.0** | **6.8** | **6.3** |
| Trade Working Capital | | | | 0.6 | (0.6) | (0.3) |
| Capex | | | | (1.2) | (1.2) | (1.2) |
| Other assets and liabilities | | | | (1.2) | 0.2 | 0.0 |
| **Unlevered free cash flow** | | | | **4.2** | **5.1** | **4.8** |
| WACC | 12% | | | | | |
| Long-term growth (G) | 3% | | | | | |
| **Discounted Cash Flows** | | | | **4.2** | **4.6** | |
| Sum of Discounted Cash Flows | 8.8 | | | | | |
| **Terminal Value** | | | | | | **54.2** |
| Discounted TV | 48.5 | | | | | |
| **Enterprise Value** | **57.4** | | | | | |
| Net Debt as of 31/12/18 | (9.7) | | | | | |
| Minorities as of 31/12/18 | (0.0) | | | | | |
| **Equity Value** | **47.6** | | | | | |

| **DCF - Implied multiples** | **2017** | **2018** | **2019E** | **2020E** |
|---|---|---|---|---|
| EV/Revenues | 1.3x | 1.2x | 1.1x | 1.0x |
| EV/EBITDA | 11.8x | 12.0x | 7.8x | 6.9x |
| EV/EBITA | 19.4x | 18.0x | 11.3x | 9.9x |
| P/E | 47.2x | 122.3x | 20.5x | 16.4x |

Source: EnVent Research

## Multiples update

The industry has suffered some fluctuations since last year. However, the trend looked inverted during the last three months. DBA share price 12 months drop has been over 40% more than average of industry peers. The updated market multiples suggest a share price range of €5-6, that leaves room for upside. However, the high side values reliability is arguable, because driven by EBITDA multiples that might be misleading, being abnormally high as an effect of lower than expected operating profit among peers.

Implied DCF multiples are overall consistent with the lower side of market multiples and become more conservative along projections, thus we continue to rely on the DCF model.

## Target Price

The DCF valuation model based on our estimates - that no longer implies the full conversion of PAS into ordinary shares - yields a Target Price of €4.14 per undiluted share (from €4.41 per diluted share), with a potential upside of 87% on the current share price. As a consequence, we confirm our OUTPERFORM recommendation on the stock.

Please refer to important disclosures at the end of this report.

| DBA Price per Share | € |
|---|---|
| **Target Price - diluted** | **3.67** |
| **Target Price - undiluted** | **4.14** |
| Current Share Price (18/04/2019) | 2.22 |
| **Premium (Discount) on diluted TP** | **65%** |
| **Premium (Discount) on undiluted TP** | **87%** |

Source: EnVent Research

# Annex

## Peer Group - Market Multiples

| Company | EV/REVENUES | | | EV/EBITDA | | | EV/EBIT | | | P/E | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019E | 2020E | 2018 | 2019E | 2020E | 2018 | 2019E | 2020E | 2018 | 2019E | 2020E |
| **DBA** | **0.8x** | **0.7x** | **0.7x** | **7.8x** | **5.0x** | **4.4x** | **16.0x** | **9.3x** | **7.8x** | **67.3x** | **10.9x** | **8.8x** |
| Core business peers | | | | | | | | | | | | |
| **Altran Technologies** | 1.4x | 1.3x | 1.2x | 10.5x | 8.0x | 7.7x | 13.6x | 10.2x | 9.6x | 35.1x | 12.4x | 10.6x |
| **Alten** | 1.4x | 1.3x | 1.2x | 13.8x | 11.9x | 11.2x | 14.7x | 12.8x | 12.0x | 20.4x | 17.3x | 16.1x |
| **Sweco** | 1.5x | 1.5x | 1.4x | 14.2x | 12.5x | 11.9x | 17.3x | 16.8x | 15.7x | 20.9x | n.a. | n.a. |
| **Assystem** | 1.3x | 1.1x | 1.1x | 18.5x | 14.9x | 13.5x | 21.7x | 17.1x | 15.3x | 27.2x | 15.2x | 13.5x |
| **Reply** | 2.0x | 1.8x | 1.6x | 14.9x | 12.5x | 11.6x | 15.9x | 14.0x | 12.8x | 21.5x | 20.1x | 18.3x |
| **Mean** | **1.5x** | **1.4x** | **1.3x** | **14.4x** | **12.0x** | **11.2x** | **16.6x** | **14.2x** | **13.1x** | **25.0x** | **16.2x** | **14.6x** |
| **Median** | **1.4x** | **1.3x** | **1.2x** | **14.2x** | **12.5x** | **11.6x** | **15.9x** | **14.0x** | **12.8x** | **21.5x** | **16.2x** | **14.8x** |
| IT Consulting - Italy | | | | | | | | | | | | |
| **Exprivia** | 0.5x | 0.5x | 0.5x | 7.2x | 6.3x | 5.9x | 14.4x | 10.9x | 9.6x | neg. | 9.1x | 6.1x |
| **BE** | 1.0x | 0.9x | 0.9x | 7.7x | 5.9x | 5.6x | 10.5x | 8.4x | 7.8x | 27.0x | 14.6x | 13.5x |
| **TXT e-solutions** | 1.3x | 1.2x | 1.1x | 13.6x | 4.9x | 9.2x | 25.9x | 11.9x | 16.2x | n.m. | 35.2x | 33.2x |
| **Circle** | 1.8x | 1.5x | 1.1x | 10.6x | 5.6x | 9.2x | 11.1x | 8.3x | 16.2x | 17.2x | 13.0x | 33.2x |
| **Mean** | **0.9x** | **0.9x** | **0.8x** | **9.5x** | **5.7x** | **6.9x** | **17.0x** | **10.4x** | **11.2x** | **27.0x** | **19.6x** | **17.6x** |
| **Median** | **1.0x** | **0.9x** | **0.9x** | **7.7x** | **5.9x** | **5.9x** | **14.4x** | **10.9x** | **9.6x** | **27.0x** | **14.6x** | **13.5x** |

Source: EnVent Research on S&P Capital IQ, update 17/04/2019

# Investment Case

## Company

DBA Group SpA (DBA) is an Italian Technology Consulting company, specialized in infrastructure connectivity and lifecycle management. With a workforce of 525 people covering Italy, the Balkans, the Caucasus and Russia, targeting the whole Eurasia region, the Group has a track record of 25 years of growth, both organic and through acquisitions.

# Drivers

## Industry drivers

**Infrastructure investment.** According to Oxford Economics, global infrastructure investment is expected to keep growing through the next decade, to reach an annual average of $3.2trn between 2016 and 2040, compared to $2.0trn between 2007 and 2015, a 60% increase. At the same time, the need for infrastructure exceeds the expected investments, a permanent gap linked to GDP growth. Moreover, investments will be uneven geographically between mature and emerging countries, according to GDP geographical region-by-region forecast.

**Connectivity.** In Huawei's Global Connectivity Index 2017 study, most of the countries in the rankings saw their overall scoring improved on the prior year, based on certain indicators that cover five technology enablers: broadband, data centers, cloud, big data, Internet of Things (IoT). Key areas where inequality is present include mobile broadband, IT workforce per capita, ICT investment per GDP, apps downloaded per capita and IoT installed base per capita.

**Broadband evolution calls for new expansion cycles in Europe.** Basic broadband is available to everyone in the EU, while fixed-line technologies cover 98% of homes. Next Generation Access (NGA) technologies call for continuous investment even in well-covered areas, that is becoming the rule and a recurring driver for infrastructure investment in the industry. According to the European Commission, deployment of 4G mobile (LTE) reached 96% of homes covered by at least one operator, and will be followed by other updated of mobile standards. Rural coverage improved substantially: 4G went up from 36% in 2015 to 80% in 2016; NGA is available in 40% of rural homes, compared to 30% in 2015. These gaps will continue to be created and closed-off periodically.

**Broadband in Italy.** By 2020 Italy will be equipped with nationwide outlaid uniform broadband technology, closing off the competition gap with major industrial economies.
The Open Fiber wholesale-only venture of Italian utility Enel and state-owned lender CDP plans to invest €6.5bn to build out a fiber-to-the-home network in 250 major cities rolling out broadband cable, in areas witnessing digital divide, all over the country. DBA is engaged through a framework contract and as of today has been assigned approximately 30% of the first two clusters work, out of the total of four representing phase one of the plan.

**Internet of Things riding the wave.** Internet of Things connects devices such as everyday consumer objects and industrial equipment into the internet, enabling information gathering and management of devices via software increasing efficiency, allowing for new services, and achieving health, safety, or environmental benefits. IoT is emerging as the third wave of internet development, impacting individuals' lives, workplace productivity and overall consumption. McKinsey estimates the IoT market to be worth $900m in 2015, growing to $3.7bn in 2020 (32.6% CAGR), with a potential economic impact on GDP of $2.7 to $6.2trn until 2025.

**Urbanization and mobility.** Global population growth (1-2% YoY over the last 65 years, according to United Nations) and migration into urban areas together result in a growing number of large and highly populated cities, especially in emerging countries, requiring more and more investment in infrastructure and connectivity programs, mainly in residential areas, industrial sites, commercial property and social infrastructure. National and local governments are faced with promoting investment to harmonize and rationalize private and public transportation. Custom-made digitization and Internet of Things will be inevitable solutions.

## Company drivers

**A focused portfolio.** DBA provides consulting services to private clients and retains a valuable flexibility in shifting focus between market sectors depending on demand. The client base is diversified across industries: Telco, Transportation and Logistics, Oil & Gas, Real Estate. In all industries most of DBA's clients are large corporations. This kind of client portfolio minimizes receivable risk and working capital investment. The diversity of services and end-markets reflects the accumulated experience and expertise aside from a healthy balanced portfolio approach.

**Multidisciplinary skills and integrated business model built around Infrastructure Lifecycle**. DBA's service is designed for it to become the O*ne Stop Business Partner* for its clients, a provider of the key competencies needed during the lifecycle of infrastructure that are critical to their business. This is made possible by a *One of a Kind* business model: a combination and synergy of multidisciplinary teams providing conception, planning, digitization, connectivity, operation and maintenance of critical infrastructure. The dedicated business units Process & Automation - ICT, Project Management, and Engineering provide their services on a stand-alone or combined basis and in one or more phases of the infrastructure lifecycle.

**Value creation for clients.** DBA's business history reveals that its teams assisted some of the major industry players and delivered value by providing know-how, reducing their project cost and lead time, and optimizing their development, realization and marketing processes. These achievements, that in the long-run generate repeat work, sustain prices and reduce marketing costs, build reputation and competitive advantage that qualify DBA as *Strategic Supplier*, not just a *reliable supplier*.

**Experience and execution.** Experience and a successful track record of project execution are critical factors when proposing for technology and engineering consulting engagements. Better than on-time delivery, and within budget, is a key determinant of clients' decision-making process. Proven expertise and successful delivery of previous assignments are a dooropener for the tenders and, ultimately, drive award of projects, as testified by the regular flow of new work from top clients in recent years.

**Sustainability as value added.** DBA supports its clients to comply with the environmental and safety regulations applying to their business. As an example, DBA's port management system product ensures implementation of environmental and sustainability management tools.

**Quality of personnel.** DBA's success strongly depends on the ability to attract and retain qualified staff, allocate skilled labor resources to profitable high growth markets, allowing to secure new contracts and renewing existing ones. An ability that is conditioned by staff motivation and satisfaction. One of DBA's key values is commitment to job protection, quality of life at work and welfare in the workplace.

**Sound revenues and cost per headcount.** Significant headcount utilization levels are a key to DBA's profitability. In the last years per-capita revenue was in the region of €80-90k. Labor cost was consistently under 50% of revenues. Per-capita cost was in the region of €40k.

**A defensive engineering consulting operator.** DBA's services are primarily consulting engagements, including engineering design studies, project management and outsourcing support. This makes its business model inherently more defensive compared to engineering service companies, given that many competitors also undertake direct investment in the projects, exposing them to payback risk.

**Meticulous M&A activity.** The Management of DBA has a proven track record of identifying, executing and integrating acquisitions, with a hyper-focused strategy leading to meticulous deal scouting and completion. In the last five years they have successfully executed four acquisitions, of which two cross-border.

**Management-Shareholder alignment of interests.** Key managers are also shareholders of the Company and are directly involved in the execution of the Group's growth strategy, leveraging on their engineering and architecture background, entrepreneurial experience and industry expertise.

**Absence of litigation and disputes.** In the wider engineering and construction industry, global operations produce frequent litigation linked to a number of foreign jurisdictions and legal systems governing intellectual property, large-scale infrastructure projects, construction and engineering projects, joint ventures, etc. So far DBA has not been involved in other than immaterial litigations or disputes with clients, contractors, developers, suppliers, engineers and other related parties.

## Challenges

**Infrastructure investment cycles.** Macroeconomic cycles are a determinant of changes to private sector infrastructure spending or to government public infrastructure capex budgets. Demand for DBA's services is growing, but at the same time it is vulnerable to economic downturn and changes in the private sector's and governments' infrastructure spending, which may result in clients delaying, curtailing or canceling proposed and existing projects. Operation and maintenance contracts on completed projects represent a mitigation factor.

**Revenue concentration.** In 2016, the top five clients accounted for 59% of consolidated revenues; top ten 70%. DBA's revenues in 2017 were concentrated in Italy (70%) and on Telco industry accounts (42%). However, detailed engagement analysis shows that top clients assign multiple and diversified projects over the years, leading to a substantial dilution of risk.

**Delays in projects and challenging payment terms.** Part of DBA's internationalization strategy is participation in tenders whose financing may come from governments and/or international institutions. While governments and other institutions' spending is a driver for industry growth, at the same time, limited or insufficient public funding might cause delays in projects, thereby exposing contractors to slow capital turnover or claims in payments.

**Execution delivery risk.** Delivering services which are not in line with client expectations due to cost/time overruns, and quality issues, may impact margins and reputation.

**International markets exposure.** Revenues coming from foreign operations have been boosted by acquisitions in Eastern Europe. Currently, the Company plans to intensify its promotional efforts in the Balkans, the Caucasus and in Central Asia, focusing on a mix of geographies that offer growth opportunities. However, these countries imply political and financial risks, that may bring currency exposure and cash flow impact.

**Staff utilization, charge-out rates and retention rates.** Changes in staff utilization rates impact billable hours, sales and margins. Ability to pass-through higher labor costs through higher charge-out rates also impacts margins. Strong economic growth in certain countries may influence local wage costs and retention rates.

**Acquisition and integration risk.** Acquisitions could be value accretive or dilutive based on valuations paid and market trends. Higher than expected integration costs when consolidating acquisitions into the Group may also impact margins. Given its size, larger acquisitions will be targeted in order to be material to the growth of the business, but these can carry greater integration risk.

**Increasing competition.** The fragmented competitive arena, populated by a small number of large players with multinational reach, together with a large number of small specialists exercising pressure on prices, is a permanent feeder of fierce competition.

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Rating rationale:

OUTPERFORM: stocks are expected to have a total return of at least 20% in the mid-term;

NEUTRAL: stocks are expected to have a performance consistent with market or industry trend and appear less attractive than Outperform rated stocks;

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| Date | Recommendation | Target Price (€) | Share Price (€) |
|---|---|---|---|
| 01/06/2018 | OUTPERFORM | 5.05 | 3.40 |
| 07/11/2018 | OUTPERFORM | 4.41 | 2.90 |
| 18/04/2019 | OUTPERFORM | 4.14 | 2.22 |

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