

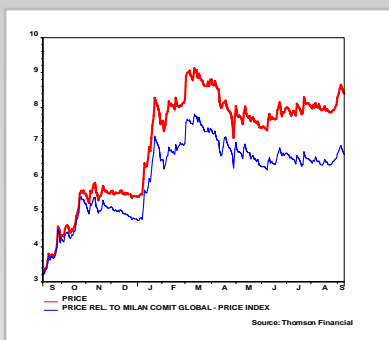


Small Caps Opportunity

D-mail

BUY
Target Price (Eu):
12.0
Current Price (Eu):
8.3

12 Months Performance



Source: Thomson Financial

Not just fancy goods...

- 3 business lines...
- ... each representing a good opportunity
- Marketing agreement and international expansion for Dmail, other acquisitions in the local media
- A dynamic manager and a good shareholder mix
- 1H will enjoy strong growth
- SOP highlights potential upside up to Eu12.0

Umberto Grimi

D-Mail - Key Figures

RIC	Sector	P	N. shares	Mkt Cap	Mkt float %	Vol. x000
DMA.MI	Direct mail	8.30	7.7	63	42%	44
	Sales	EBITDA	EBIT	Net profit	Nfp (adj)	BV
2003A	44.0	2.0	-3.2	-4.4	-4.5	21.5
2004A	44.8	4.3	0.7	1.9	-0.8	24.1
2005E	52.2	6.1	4.8	3.2	0.8	23.4
2006E	55.7	7.8	6.5	4.6	3.4	25.0
2007E	58.6	9.2	7.9	5.7	7.0	29.8
2008E	61.2	10.3	9.0	6.6	11.1	35.0
	P/E	P/BV	EV/EBITDA	EV/EBIT	Debt/Equity	Div.Yield
2003A	126.2	3.0	34.4	-21.3	0.21	0.0%
2004A	20.1	2.6	15.1	93.6	0.03	1.2%
2005E	16.7	2.7	10.2	13.0	cash	1.8%
2006E	12.2	2.5	7.7	9.3	cash	2.4%
2007E	10.0	2.1	6.1	7.1	cash	3.0%
2008E	8.8	1.8	5.1	5.8	cash	3.6%

Source: Intermonte SIM estimates

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Not just fancy goods...

3 business lines...

Dmail's forecast turnover of Eu 50mn in 2005 is split between: multi-channel sales of gifts and fancy goods (46%), distribution of consumer electronics to dept. stores through the company CAT (23%), a network of local weekly newspapers (31%).

... each representing a good opportunity

- 1 – Dmail's traditional business has the highest margin potential: given the very high fixed costs (Eu 4.5mn to publish and distribute the catalogue) and the high gross margins (goods are bought in China for few cents or euro and sold for a multiple of the cost), the increase in revenues will have a strong impact on margins: we expect EBITDA to more than double between 2004 and 2008.
- 2 – CAT is a little gem: operating in the distribution of consumer electronics (it buys goods in China and sells them to dept. stores and specialised shops), the company generates pretax profit of Eu 2mn on Eu 11mn turnover in a very competitive market climate.
- 3 – With 200,000 copies each week in the Lombardy region, Netweek is a strategic asset. Made up of 12 newspapers, Netweek is the second most important local network in Lombardy. Following the completion of a project to cover the entire area surrounding Milan, it is a very appealing asset for political reasons. The 2006 elections will boost results.

Marketing agreement and international expansion for Dmail, other acquisitions in the local media

- 1 – **Dmail:** benefiting from what seems to be an anti-cyclical business, Dmail sales started to grow double digit last summer and the trend is continuing. Management is trying to strike agreements with important brands to make Dmail the outsourcer for products/merchandising distribution. In addition it is expanding abroad (the next step after Portugal and Romania will be Holland);
- 2 – **CAT:** given that consumer electronics are best sold via the Internet, the best strategy for CAT will be to acquire an established online shop to distribute its high margin products;
- 3 – **Local media:** management intends to grow through further acquisitions trying to complete the "ring" of Milan and the surrounding area and basically to cover all the provinces in Lombardy in order to reach some 300,000 weekly copies. Netweek would then be a strategic asset in which national players (Corriere della Sera, Caltagirone) would be interested because of the important bearing it may have on the general election.

A dynamic manager and a good shareholder mix

Following last year's takeover, the entrepreneur Adrio De Carolis is in charge of the company. He brought Percassi (retail developer) and Cairo (who recently acquired a 10% stake from other shareholders) with him. Mr De Carolis's dynamism will exploit these shareholders' businesses (just think of the advantages of distributing the costly catalogue through Cairo's successful magazines).

1H will mark a relevant growth

After growing 11% in 1Q, we expect the strong trend to be confirmed in 1H. Local newspapers, benefiting from the regional elections held in Spring 2005, will show a 15-16% growth in turnover. Dmail should show similar growth and, as far as we know, the trend should have continued into September.

SOP highlights potential upside

Local media valuations are subject to a degree of uncertainty given the premium applied for the strategic nature of the asset, which is difficult to quantify. Nonetheless the EV/sales multiple of other transactions gives a good indication. 2.5x 2005 sales gives us a valuation of Eu40mn. As for commerce, instead of applying the high multiples of the benchmark company KarstadtQuelle (16x EV/EBITDA), which is undergoing a restructure, we prefer to apply a slight premium to the traditional retail sector (which trades at 6.5-7x EV/EBITDA), or an 8x multiple, yielding a valuation of Eu43mn. With cash and tax shield we reach a fair value of Eu12.0. There are many possible ways in which there could be a rise in estimates and target price.

Turnover and Ebitda Breakdown

	2003	2004	2005	2006	2007	2008
Dmail	16.8	19.5	22.9	25.8	28.4	30.8
CAT	11.7	11.7	11.4	11.4	11.4	11.4
Total commerce	28.5	31.2	34.4	37.3	39.9	42.2
<i>growth</i>		9%	10%	8%	7%	6%
Local Media*	15.5	13.6	17.8	18.4	18.7	19.0
<i>growth</i>		-12%	31%	3%	2%	2%
Turnover	44.0	44.8	52.2	55.7	58.6	61.2
<i>growth</i>		2%	16%	7%	5%	5%

* including newly acquired Martesana newspaper as of 1/1/05 (Eu2mn turnover)

	2003	2004	2005	2006	2007	2008
Commerce	2.3	4.1	5.3	6.7	8.0	9.1
margin	8.0%	13.2%	15.5%	17.9%	20.2%	21.6%
Local media*	0.4	1.1	1.7	2.0	2.1	2.1
margin	2.8%	8.1%	9.7%	11.1%	11.1%	11.2%
other&elimination	-0.7	-1.0	-0.9	-0.9	-0.9	-0.9
Ebitda	2.0	4.3	6.1	7.8	9.2	10.3
margin	4.5%	9.5%	11.8%	14.0%	15.8%	16.9%

* including newly acquired Martesana newspaper as of 1/1/05 (Eu0.3mn ebitda)

Source: Intermonte SIM

SOP Valuation

MEDIA

Most recent transactions in Italy

	EV	Sales	EV/sales
Il Gazzettino	230	60	3.8
Società Editrice Adriatica	24	10	2.5
Nuovo Quotidiano Puglia	31	10	3.3
Average			2.9
2005 Dmail sales	17.8		
Lowest transaction multiple	2.5		
Ev Local media	45		

COMMERCE

2005 Ebitda	5.3
Multiple of the traditional retail	7.0
multiple applied to Dmail	8.0
EV Commerce	43

GROUP

Total EV	88
Cash (end 2005)	1
Tax shield	4
Equity value	92
N. shares	7.7
Value per share	12.1

Source: Intermonte SIM

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