Intermonte

Small Caps Opportunity

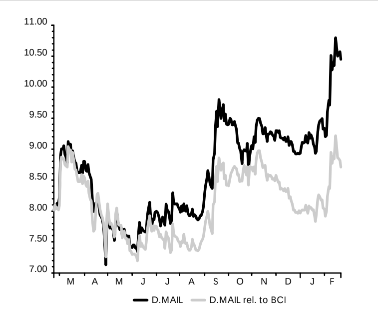
D.MAIL

BUY

Price (Eu): 10.4

Target Price (Eu): 15.0

D. Mail- 12M Performance



Source: Thomson Financial

A Company in Transformation

- A dynamic and highly committed CEO
- One strategic view, many value-accretive steps.
- Transaction price for local newspapers much higher than pure fundamentals suggest.
- 10% organic turnover growth attainable, good potential operating leverage.
- CAT: a nice problem to have…
- Valuation: increased to Eu15 (from Eu12) on local media and real estate.
- The company may change in size in 12-18 months.

D.Mail - Key Figures

RIC	Sector	Price	No. Shares	Mkt Cap	MKt Float %	Vol. x000
DMA.MI	Direct mail	10.40	7.7	80	42%	87,0
	Sales	**EBITDA**	**EBIT**	**Net Profit**	**Nfp (adj)**	**BV**
2003A	44.0	2.0	-3.2	-4.4	-4.5	21.5
2004A	45.2	4.1	2.5	n.a.	-0.8	24.1
2005A	49.5	5.0	3.3	n.a.	-1.6	24.1
2006E	54.1	5.9	4.2	3.4	0.7	26.3
2007E	58.2	7.1	5.4	4.5	3.1	29.3
2008E	63.2	8.2	6.5	5.5	5.9	32.9
	P/E	**P/BV**	**EV/EBITDA**	**EV/EBIT**	**Debt/Equity**	**Div.Yield**
2003A	-18.2	3.7	42.6	-26.3	0.21	0.0%
2004A	n.a.	3.3	19.7	32.5	0.03	1.0%
2005E	n.a.	3.3	16.4	24.5	0.07	1.4%
2006E	23.6	3.0	13.3	18.6	cash	1.9%
2007E	17.5	2.7	10.7	14.0	cash	2.4%
2008E	14.5	2.4	9.0	11.4	cash	2.9%

Source: Intermonte SIM estimates

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Investment Case

- **A dynamic and highly committed CEO.** Mr. De Carolis, who brought together the group of shareholders that acquired the company 1_ years ago and launched a mandatory takeover, is a creative entrepreneur who is wholly dedicated to rebuilding his reputation after a lucky break during the dot.com era somewhat unfairly left him with a rather controversial image. He has solid business relationships (he is connected to U. Cairo, the real estate developer, Percassi and the DeNora family in its venture), innovative ideas and delivery capabilities. He owns a 10% stake in the company.

- **One strategic view, many value-accretive steps.** Dmail's main strategy is to become the partner of many well known Italian brands for their direct sales, in Italy and abroad. Dmail's aim is to leverage on its logistic/distribution capabilities in Italy and on the agreement signed with the Dutch logistics company, Docdata, for the other European countries. We expect the company to make further acquisitions this year to add both industrial/distribution capabilities and content. We expect these steps to be value-accretive.

- **Transaction price for local newspapers much higher than pure fundamentals suggest.** We are convinced that should the "outsourcing" business succeed and generate strong results, management could be interested in dedicating more effort to this project. To do this the company could sell its local media business. We feel that if Dmail were to dispose of the local media business, the transaction price would be higher than fundamentals suggest, as recent deals in the sector show. Using the parameters employed in recent Caltagirone transactions, the local media business alone would be worth the group's total market cap.

- **10% organic turnover growth attainable, good potential operating leverage.** The existing businesses are growing at a steady and sustainable pace: local media are growing double digit thanks to advertising and the sale of digital services (website creation, news sale) to other media and to the City Councils covered by the network. The commerce business is benefiting from both a recovery of direct sales in Italy and international expansion. Given the high fixed costs (around Eu4mn for the print and distribution of the catalogue), turnover growth will bring high operating leverage the commerce division.

- **CAT: a nice problem to have…** The business, which consists of selling unbranded home appliances to shops and retail chains, which accounts for 20% of group turnover, needs a strategic review. The limited dimensions and the very competitive environment mean that the company may be forced to consider integrating with other players or selling the company. Nonetheless, impressively, until 2005 the business was the biggest contributor to group margins (half of pre-tax profit).

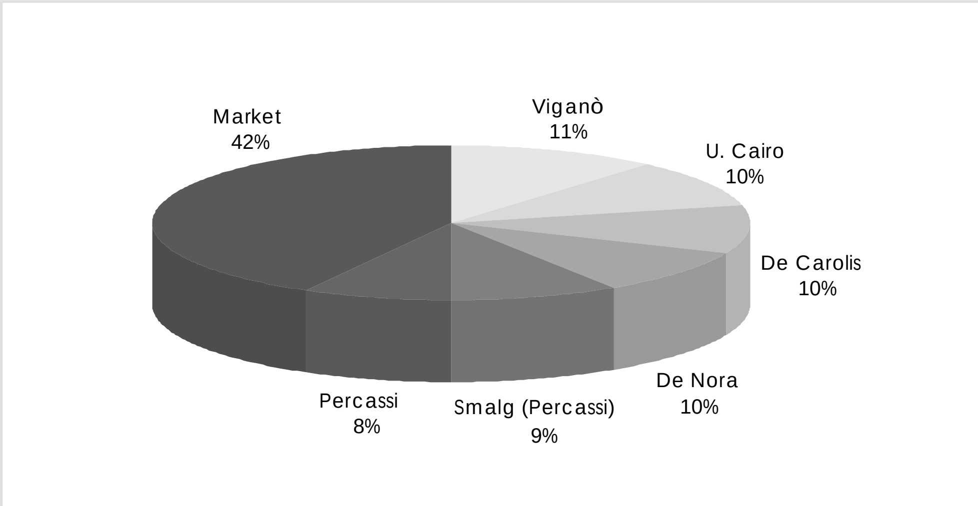
- **Valuation: increased to Eu15 (from Eu12) on local media and real estate.** We have increased our valuation for the local media business (from Eu45mn to Eu56mn), taking into consideration both the better results in 4Q and transaction multiples. Eu56mn means 2.9x turnover and Eu470 per weekly copy sold (vs. around Eu2000 per daily copy in recent transactions). Dmail commerce business is valued at Eu42mn, or 8x EBITDA. We have added Eu8mn, previously not calculated, as the value of the company's properties from which management is seeking ways to extract value.

- **The company may change in size in 12-18 months.** It would not be appropriate to judge the company on a stand-alone basis given its dynamic management and limited dimensions. Management's unofficial idea is to double turnover in the next few years, through both organic growth and acquisitions. In light of this, we think that the stock may double its market cap in 1-2 years.

Shareholders

This is the company's most important asset. De Carolis, who owns 10% of the company and organised the pool of shareholders that bought the company almost 2 years ago from the founder, has a brilliant mind and a good network of contacts. He manages the company with Mr. Viganò, who is the head of the Local Media division. The other shareholders are all businessmen with sound financial resources and potentially interesting activities for developing synergies with Dmail. Mr. Cairo entered 1 year after the other shareholders at a price of Eu7.60.

Dmail - Shareholders



Source: Consob

Business Areas

Dmail

Focused on the sale of fancy goods with the claim "useful and hard to find ideas" using a multichannel approach: goods are sold through shops (5 in Italy), call centres, via catalogue and on the internet.

The business has generated losses in the past as fixed costs are high, i.e. the cost of printing and distributing the catalogue. This costs around Eu4mn a year, while gross margin on the items sold (all acquired from China) is very high at more than 70%. Rising turnover will therefore allow for high operating leverage.

The first signs of recovery from the traditionally poor direct sales in Italy, where many players have failed in the past, are encouraging for Dmail. Based on data from some years back (which should have not changed to any great extent, however), on average Italians spend less than 1/10 of the amount on direct sales that the French and British do and almost 1/20 of the amount spent by Germans.

Dmail - Direct Sales (1998 figures)

	Total (Eu bn)	Per Capita (Eu)	% Retail Sales
Germany	20.1	245.5	5.6
Uk	10.4	175.7	3.8
France	10.3	168.9	2.3
Spain	0.6	16.1	n.a.
Italy	**0.7**	**13.2**	**0.4**

Source: Intermonte SIM

In 2005 this division generated a turnover of Eu19.5mn, a 10% EBITDA margin and Eu1.6mn pre-tax profit.

Local Media

This is made up of a network of 18 weekly local newspapers all located in the Lombardy region. Total circulation is 166,000 copies, of which around 120,000 are sold weekly for around Eu1 (the remaining being free press), and the total readership is around 1,000,000.

The www.netweek.it website contains the digital format of the newspapers and is based on a subscription model.

Netweek - Home Page

Source: www.netweek.it

This is a strategic asset, which is growing at a very healthy pace thanks to advertising and content, with a very high political relevance. All the major newspaper publishers could be interested in this network: after L'Espresso's acquisitions of local daily newspapers over the last 10 years, Caltagirone has recently taken over as the player in the industry that is most active in buying local newspapers.

The business generated almost Eu17mn in turnover in 2005, with an 11% EBITDA margin and a pre-tax profit of Eu0.9mn.

CAT

The company sells unbranded household appliances in a traditional way, to shops and retail chains. It has a lean structure, with only 28 employees, and is very well managed.

The company operates in a tough market, as proved by one of its major competitors suffering financial difficulty, and needs to find strategic solutions as working with department stores and retail chains means suffering potential margin erosion.

The company generated around Eu11mn turnover in 2005, with an impressive 21% EBITDA margin and Eu1.6mn of pre-tax profit. It was the highest contributor to Dmail's group results and has a positive cash position.

Strategy

Dmail

- **International expansion**

  Dmail is trying to export its business model to other European countries. Portugal and Switzerland are already in place. Recently the company bought a store in Romania and launched its website. The Netherlands has also recently been added after the agreement reached with the company DocData.

  The business is not easily scalable, to us, as the brand has to be built in every country and there is the need for a certain level of acquisition costs and warehouse availability. Goods purchases and logistics /distribution allow for good synergies, however.

  So far the international presence (Portugal and Switzerland) hasn't produced important results (Eu3.5mn turnover, pre-tax breakeven) but with the opening up of the two new countries the figures should become more impressive as of this year.

- **B2B**

  Capitalising on the logistic/distribution platform put in place through the agreement with the Dutch company DocData that was signed at the end of 2005, Dmail created "D-store", a platform to be used for Italian brands that want to use it to sell their goods throughout Europe.

  Mr. De Carolis has had several discussions with Italian companies of the so-called "Made in Italy" in the last few months which should lead to some contracts being signed in the near future.

  It is not easy to estimate how big this business could become, as it is not even at the starting point, but the premises are in place for the creation of a new source of revenue and margins for the group with limited upfront investment.

Local Media

The company will continue to look for new investment opportunities to enlarge its presence in Lombardy and eventually into some other regions.

The most recent acquisitions turned out to be very cheap: La Martesana, a newspaper with 20,000 weekly copies, was acquired in June 2005 for a total outlay of Eu1.2mn. With this Dmail acquired a newspaper generating around Eu2mn turnover and more than Eu300,000 of pre-tax profit, with Eu179,000 net cash and a real estate asset worth a further Eu200,000.

At the end of 2005 20% of a Rep. Advertising Agency which works for 4 local weekly newspapers in Piedmont was acquired for a negligible amount. This allows the company to closely monitor the development of the newspapers and to be ready in the event that they are put up for sale.

Ultimately this could be a saleable asset in the coming years. When this happens, we are convinced that it will lead to valuations which will include a hard to quantify "political premium". Our feeling is that it may happen should the B2B business reach a significant size.

CAT

Although it has been a very profitable business up to now, Cat is in need of a strategic review. It is currently too small for the very competitive market in which it operates.

The best option for the group would be to capitalise on the very good margins generated by Cat until 2005 and try to sell it to other players in the sector: it is interesting to compare the pre-tax margins generated by CAT last year (15%) with the best operating margin generated by De Longhi in its history (9.7% in 2002).

Financials

Profit & Loss

Dmail - Consolidated Profit & Loss

(Eu mn)		2003	2004	2005	2006	2007	2008
Revenues		**n.a.**	**42.7**	**46.5**	**50.9**	**54.9**	**59.5**
Other revenues		n.a.	2.4	3.0	3.2	3.3	3.7
Total turnover		44.0	45.2	49.5	54.1	58.2	63.2
Cogs		-14.4	-14.2	-14.9	-15.8	-16.6	-18.0
Services		-20.6	-18.8	-22.3	-24.6	-26.4	-28.7
Value added		9.0	12.1	12.3	13.8	15.2	16.6
	margin	*20%*	*27%*	*25%*	*25%*	*26%*	*26%*
Labor		-5.9	-5.5	-5.7	-5.8	-6.1	-6.3
Other operating costs		-1.1	-2.5	-1.6	-2.0	-2.0	-2.1
Ebitda		**2.0**	**4.1**	**5.0**	**5.9**	**7.1**	**8.2**
	margin	*4%*	*9%*	*10%*	*11%*	*12%*	*13%*
Deprec and prov		-5.2	-1.6	-1.6	-1.7	-1.7	-1.7
Ebit		**-3.2**	**2.5**	**3.3**	**4.2**	**5.4**	**6.5**
	margin	*-7%*	*5%*	*7%*	*8%*	*9%*	*10%*
Net financials		-1.1	-0.4	-0.6	-0.4	-0.4	-0.4
Pretax profit		**-4.3**	**2.1**	**2.7**	**3.8**	**5.1**	**6.1**
Tax		-1.1	n.a.	n.a.	-0.5	-0.5	-0.6
Minorities		1.0	n.a.	n.a.	0.0	0.0	0.0
Net profit		**-4.4**	**n.a.**	**n.a.**	**3.4**	**4.5**	**5.5**

Source: Intermonte SIM estimates

We expect the group to continue to show high single-digit growth in turnover over the next 3 years and a CAGR for EBITDA of 18% thanks to the operating leverage of Dmail's commerce business.

Dmail - Revenues Breakdown

(Eu mn)		2004	2005	2006	2007	2008
Dmail Italy		17.6	19.5	21.9	24.0	26.2
	growth		*11%*	*12%*	*9%*	*9%*
Dmail Foreign		3.3	3.5	4.0	4.8	5.7
	growth		*6%*	*14%*	*19%*	*19%*
CAT		11.9	10.8	10.2	9.8	9.8
	growth		*-9%*	*-6%*	*-4%*	*0%*
Total commerce		**32.8**	**33.9**	**36.1**	**38.5**	**41.7**
	growth		*3%*	*7%*	*7%*	*8%*
Local media		**13.7**	**16.9**	**19.4**	**21.1**	**23.0**
	growth		*23%*	*15%*	*9%*	*9%*
Holding and eliminations		**-1.3**	**-1.4**	**-1.4**	**-1.4**	**-1.4**
Total revenues		**45.2**	**49.5**	**54.1**	**58.2**	**63.2**
	growth		*9%*	*9%*	*8%*	*9%*

Source: Intermonte SIM estimates

Dmail - Ebitda Breakdown

(Eu mn)		2004	2005	2006	2007	2008
Dmail Italy		1.4	2.0	2.8	3.4	3.8
	growth		*45%*	*40%*	*19%*	*14%*
Dmail Foreign		0.1	0.1	0.1	0.3	0.4
	growth		*-49%*	*22%*	*270%*	*70%*
CAT		2.8	2.3	2.2	2.1	2.0
	growth		*-18%*	*-5%*	*-4%*	*-2%*
Total commerce		**4.3**	**4.4**	**5.1**	**5.7**	**6.3**
	growth		*2%*	*16%*	*12%*	*11%*
Local media		**1.1**	**1.9**	**2.6**	**3.2**	**3.7**
	growth		*84%*	*33%*	*25%*	*15%*
Holding and eliminations		**-1.2**	**-1.3**	**-1.7**	**-1.8**	**-1.9**
Total ebitda		**4.1**	**5.0**	**5.9**	**7.1**	**8.2**
	growth		*21%*	*20%*	*20%*	*14%*

Source: Intermonte SIM estimates

Until 2005, CAT was the highest contributor to the group's pre-tax profit. With the expected growth in Dmail's turnover and thanks to the operating leverage of this division we already expect CAT's contribution to decline from 40% of the group's aggregate pre-tax profit (before consolidation adjustments) to 27% as of 2006.

Dmail - Pretax Breakdown

(Eu mn)		2004	2005	2006	2007	2008
Dmail Italy		1.0	1.6	2.4	3.0	3.4
	growth		*56%*	*54%*	*22%*	*16%*
Dmail Foreign		0.0	0.0	-0.2	0.1	0.2
	growth		*n.m.*	*n.m.*	*n.m.*	*n.m.*
CAT		2.1	1.6	1.5	1.5	1.4
	growth		*-21%*	*-4%*	*-6%*	*-3%*
Total commerce		**3.1**	**3.2**	**3.8**	**4.5**	**5.0**
	growth		*4%*	*21%*	*17%*	*13%*
Local media		**0.2**	**0.9**	**1.5**	**2.1**	**2.6**
	growth		*350%*	*75%*	*44%*	*23%*
Holding and eliminations		**-1.2**	**-1.3**	**-1.5**	**-1.6**	**-1.6**
Total pretax profit		**2.1**	**2.7**	**3.8**	**5.1**	**6.1**
	growth		*30%*	*41%*	*32%*	*20%*

Source: Intermonte SIM estimates

Balance Sheet

The company has a sound financial structure. It has basically no debt (the Eu1.5mn at the end of 2005 is easily explained by the acquisition of both treasury shares and the real estate asset in Romania) and working capital is stable at a reasonable 24% of sales.

Dmail - Consolidated Balance Sheet

(Eu mn)	2003	2004	2005	2006	2007	2008
Inventories	4.7	5.1	5.4	6.0	6.4	7.0
Current assets	16.8	18.4	20.0	21.4	23.0	25.0
Current liabilities	-14.0	-12.7	-13.5	-15.2	-16.2	-17.5
Net working capital	**7.5**	**10.8**	**12.0**	**12.1**	**13.2**	**14.4**
Tangible assets	7.7	7.2	6.8	6.6	6.1	5.6
goodwill	10.7	6.8	6.8	6.8	6.8	6.8
Other intangibles	2.5	2.0	2.0	2.0	2.0	2.0
Intangible assets	13.2	8.8	8.8	8.8	8.8	8.8
Participations	0.4	0.6	0.6	0.6	0.6	0.6
Fixed assets	**21.2**	**16.6**	**16.2**	**16.0**	**15.5**	**15.0**
Funds	-2.7	-2.5	-2.5	-2.5	-2.5	-2.5
Net capital employed	**26.0**	**24.9**	**25.6**	**25.6**	**26.2**	**26.9**
Financed by:						
Net (debt) / cash	**-4.5**	**-0.8**	**-1.6**	**0.7**	**3.1**	**5.9**
Shareholders Funds	21.5	23.4	23.4	25.7	28.7	32.2
Minorities	0.0	0.6	0.6	0.6	0.6	0.6
Group's Net Equity	**21.5**	**24.1**	**24.1**	**26.3**	**29.3**	**32.9**
Net capital employed	**26.0**	**24.9**	**25.6**	**25.6**	**26.2**	**26.9**

Source: Intermonte SIM estimates

Cashflow

Dmail - Cash Generation

(Eu mn)	2003	2004	2005	2006	2007	2008
Initial NFP	**-4.4**	**-4.5**	**-0.8**	**-1.6**	**0.7**	**3.1**
Ebitda	2.0	4.1	5.0	5.9	7.1	8.2
Capex	-0.8	1.3	-1.2	-1.5	-1.2	-1.2
WC change	-0.2	-4.5	-1.2	-0.1	-1.1	-1.2
Cash taxes	-1.1	0.0	0.0	-0.5	-0.5	-0.6
Interest expenses	-1.1	-0.4	-0.6	-0.4	-0.4	-0.4
Other cash items	1.0	3.2	-2.0	0.0	0.0	0.0
Dividends	0.0	0.0	-0.8	-1.1	-1.5	-1.9
Final NFP	**-4.5**	**-0.8**	**-1.6**	**0.7**	**3.1**	**5.9**
Average		**-2.6**	**-1.2**	**-0.4**	**1.9**	**4.5**

Source: Intermonte SIM estimates

Q4'05 Results

4Q results were very satisfactory and well above expectations which we lowered a few months ago.

Dmail - Quarterly Results

(Eu mn)		1H'04	1H'05	%	Q3'04	Q3'05	%	Q4'04	Q4'05	%
D.Mail Italy										
	turnover	8.4	9.5	14%	3.7	4.2	14%	4.9	5.4	9%
	ebitda	0.7	0.8	10%	0.2	0.4	94%	0.5	0.9	75%
D.Mail foreign										
	turnover	1.5	1.7	14%	0.9	0.8	-6%	0.9	1.0	6%
	ebitda	0.0	0.0	35%	0.1	0.0	-95%	0.0	0.0	5%
CAT										
	turnover	6.1	5.7	-7%	2.0	1.9	-7%	3.5	3.1	-12%
	ebitda	1.5	1.3	-17%	0.2	0.3	12%	1.0	0.8	-26%
Local Media										
	turnover	7.1	8.2	16%	2.8	3.7	31%	3.7	4.8	29%
	ebitda	0.7	1.0	34%	0.1	0.2	99%	0.2	0.7	247%
Consolidated	**turnover**	**22.4**	**24.8**	**11%**	**9.2**	**10.0**	**9%**	**13.5**	**14.6**	**8%**
	ebitda	2.8	2.5	-9%	0.2	0.5	197%	1.2	1.9	66%

Source: Intermonte SIM estimates

Valuation

Valuing the different businesses separately, we reach a fair value of Eu15 (from the previous Eu12).

Dmail - SOP Valuation

LOCAL 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*
2006 local media sales	19.4		
Average transaction multiple	2.9		
Ev Local media (A)	56		
Equal to (Eu per copy)	470		
COMMERCE ITALY			
2006 Ebitda	5.0		
Multiple of the traditional retail	7.0		
multiple applied to Dmail	8.0		
EV Commerce (B)	40		
FOREIGN ACTIVITY			
2007 Turnover	4.8		
multiple applied to Dmail	1.0		
EV Commerce (C)	5		
GROUP			
Total EV (A+B+C)	101		
Cash (end 2006)	1		
Own shares	1		
Real estate	8		
Tax shield	4		
Equity value	115		
N. shares	7.7		
Value per share	**15.1**		

Source: Intermonte SIM estimates

Compared to our previous valuation we have slightly increased the value of the local media in our revised estimates. Furthermore we have added the value of the real estate assets as the company indicated it will find ways to extract value from its Eu8mn real estate portfolio.

Dmail also owns 94,000 shares, which were bought in the last few months of 2005.