



DICKER DATA LIMITED – HALF YEARLY RESULTS

MIXED RESULTS WITH DECLINING REVENUE BUT IMPROVING GROSS MARGIN

Newport Capital produced this report to provide Australian **wholesale clients and sophisticated investors** with an update on Dicker Data (ASX:DDR), a leading Australian wholesaler of IT products. Newport Capital acts as corporate advisors to Dicker Data and has had discussions with the Directors of Dicker Data on various occasions. However, all views and forecasts expressed in this report are based on publicly available information and reflect the analysts' estimates and opinion on Dicker Data. We provide no valuation and investment rating for Dicker Data.

DDR released its results for the first six months of FY2013 on 27th February 2013. The highlights from the company's half yearly report are as follows:

- Lower revenues** – DDR reported sales revenues of \$213.9 million in the reporting period, down by \$7.8 million or 3.6% from the prior corresponding period. The main contributor to the decline was the management's strategy to focus on selling higher margin products rather than meeting volume targets for vendor rebates in low margin high volume product groups. Lower revenues are also a reflection of the generally slow PC market in the second half of 2012.
- Further improvement in gross profit margin** – Despite the drop in revenue, Dicker Data managed to keep gross profit flat at \$16.2 million which implies a 7.6% gross margin. The main driver of the 0.3 percentage point increase in gross profit margin was the shift in the product mix towards higher margin product groups like servers and networking products. This improvement comes on the back of last year's 1.4 percentage point increase and was achieved in a sluggish market where new products failed to excite buyers and boost demand.
- Drop in operating profit** – EBITDA fell 7.8% to \$6.5 million while EBIT was \$6.2 million which is an 8.2% decrease over the previous corresponding period. Growth in operating expenses was driven by the increase in employee related expenses which, however, was partly offset by the decrease in other operating expenses.
- Continued high dividend payout ratio** – Dicker Data declared a total of 3c per share fully franked dividends (2c final and 1c interim dividend) during the reporting period, up from 2.93c in the first half of FY2012. This represents an approximately 116% payout ratio if calculated with NPAT achieved in the six months. The Board reaffirmed the previously announced dividend policy according to which DDR will pay dividends of up to 100% of net profit after tax on a quarterly basis.
- Warehouse expansion and new funding facility** – DDR announced the completion of a \$3 million warehouse expansion project and a new \$20 million purchase finance facility with Macquarie Bank in February 2013.

1H FY13 Income Statement – Summary

\$m	1H FY13A	1H FY12A	Chg. y/y
Revenue	213.9	221.7	-3.6%
Gross profit	16.2	16.2	+0.5%
EBITDA	6.5	7.0	-7.8%
EBIT	6.2	6.7	-8.2%
NPAT	3.3	3.7	-10.8%
Basic EPS – cents	2.58	2.90	-10.9%

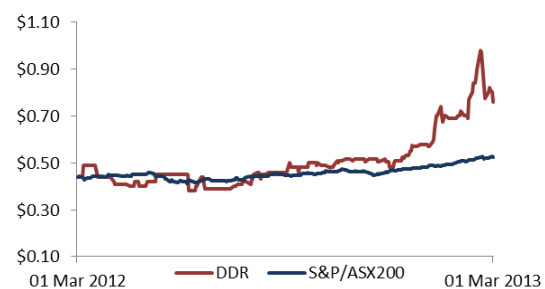
Equity Snapshot

\$0.76	DDR AU, DDR.AX
	1 March 2013
12-Month High (\$)	1.02
12-Month Low (\$)	0.57
Market Cap (\$m)	97.1
Enterprise Value (\$m)	137.6
Issued Share (m)	127.7
EPS FY2013F (cents)	6.8
Dividend Yield	7.2%
P/E	11.1x
EV/EBITDA	8.6x
P/BV	5.4x
P/OCF	10.8x

Summary of Financials

\$m	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue	286.7	385.2	456.6	446.4	455.3
EBITDA	8.8	13.1	16.1	16.1	17.8
EBIT	8.3	12.4	15.4	15.3	17.0
NPAT	4.5	6.1	8.3	8.7	9.9
Assets	82.6	121.1	127.5	128.1	129.3
Net Debt	30.6	28.6	46.9	47.7	48.1
Equity	14.2	16.8	18.5	20.3	22.3

Share Price Performance



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Detailed Half Yearly Financials

Income Statement

\$m	1H FY12A	1H FY13A
Total Revenue	221.7	213.9
Cost of Sales	-205.5	-197.7
Gross Profit	16.2	16.2
<i>Gross margin</i>	7.3%	7.6%
Employee Benefits	-6.2	-7.4
Other Expenses	-3.0	-2.3
EBITDA	7.0	6.5
<i>EBITDA margin</i>	3.2%	3.0%
Deprec&Amort	-0.3	-0.3
EBIT	6.7	6.2
Net Interest Expense	-1.5	-1.4
EBT	5.2	4.7
Tax Expense	-1.6	-1.4
NPAT	3.7	3.3
Basic EPS – cents	2.90	2.58
DPS – cents	2.93	3.00
Dividend Payout Ratio	101%	116%

Balance Sheet

\$m	FY12A	1H FY13A
Cash	0.2	1.9
Accounts Receivables	68.7	54.4
Inventories	41.3	44.1
Other CA	0.0	0.0
Total Current Assets	110.2	100.3
PP&E	16.6	19.4
Other NCA	0.6	0.7
Total NCA	17.3	20.1
Total Assets	127.5	120.4
Accounts Payable	58.5	56.9
S/T Debt	46.1	41.8
Other CL	1.9	1.2
Total CL	106.6	99.9
L/T Debt	1.0	0.7
Other NCL	1.4	1.8
Total NCL	2.3	2.5
Total Liabilities	108.9	102.4
Shareholders' Equity	18.5	18.0

Dicker Data reported mixed results for the first six months of FY2013. Revenues were down by 3.8% but gross profit was flat implying that crucial gross profit margin further increased from the previous corresponding period. Operating profits were also down mainly due to the increase in employee related expenses. The main driver of the increase in staff related expenses were provisions for annual and long service leave (up \$172k) and sales commissions (up \$180k). These non-cash items accounted for circa 75% of the total increase in opex. Although net profit after tax was 10.8% lower than in PCP the company declared 3c per share dividend during the six months up from 2.93c in the first six months of the previous financial year. The Board left the existing dividend policy in place and issued positive guidance for the FY2013 full year financial performance of the company.

The half yearly results suggest that market conditions are more challenging in the IT products distribution sector than in previous years but the management is doing a good job in driving up gross profit margins by shifting the product mix towards high margin product groups. As expressed in our previous reports, we see the management's capability to raise gross margin as a very positive and crucial skill. This combined with a very tightly run and controlled operation has made Dicker Data a stand out performer in its sector in recent years.

During the reporting period Dicker Data declared a 2c per share final dividend for FY2012 as well as a 1c per share interim dividend. This takes total dividend payments in the last 12 months to 5.43c per share (fully franked) which implies a 16.71% dividend yield – excluding franking credits – for investors who bought shares at the start of 2012.

In February 2013, Dicker Data announced that it signed a new inventory purchase finance facility with Macquarie Bank. The new \$20 million facility will most likely be used to take better advantage of the early settlement discounts ('ESD') offered by HP, Dicker Data's largest supplier. The announcement did not disclose details about the terms of the facility hence it is



difficult to quantify the impact it can have on gross margins and ultimately on the bottom line. However, based on DDR's inventory turnover rate and that ESD in the sector is usually between 1-1.5%, we calculated that interest payable on the new facility cannot be more than approximately 12% to make it worthwhile for the company to replace vendor financing. It is not difficult to see that the management could negotiate a deal with Macquarie that works for Dicker Data while benchmark interest rates are at historical lows. However, it is questionable how much headroom the company has should the declining trend in interest rates change.

Also in February, the company announced the completion of the expansion of its warehouse. The project, that cost \$3 million, added another 5,000 sqm to Dicker Data's existing 4,000 sqm warehouse space. This investment is a proof of the management's positive view of the company future performance. Dicker Data has a track record of increasing revenues and profitability every time it added extra warehouse space or moved into a larger facility. However, it remains to be seen how the company will fund the extra inventory to fill the bigger warehouse and whether it can turn the increased level of inventory into extra revenue with acceptable profit margins.

Financial Guidance and Outlook

Based on the reported half-yearly numbers we have revised our FY2013 and FY2014 forecast for the company's financials.

Revised Earnings Estimates

\$m	1H FY13A	FY13E	FY13E	FY13E	FY14E	FY14E	FY14E
		Prior	Current	Change	Prior	Current	Change
Total Revenue	213.9	497.7	446.4	-10%	532.6	455.3	-15%
Gross profit	16.2	38.8	34.4	-11%	42.6	36.4	-14%
EBITDA	6.5	18.4	16.1	-13%	20.8	17.8	-15%
Deprec&Amort	-0.3	-0.7	-0.8	7%	-0.7	-0.8	7%
EBIT	6.2	17.7	15.3	-14%	20.1	17.0	-15%
Net Interest Expense	-1.4	-3.8	-2.9	-24%	-3.8	-2.9	-24%
EBT	4.7	13.9	12.4	-11%	16.2	14.1	-13%
Tax Expense	-1.4	-4.2	-3.7	-11%	-4.9	-4.2	-14%
NPAT	3.3	9.8	8.7	-11%	11.4	9.9	-13%
Basic EPS – cents	2.6	7.6	6.8	-11%	8.9	7.7	-13%
DPS – cents	3.0	6.1	5.5	-11%	7.1	6.2	-13%
Dividend Payout Ratio	116%	80%	80%	0%	80%	80%	0%

According to our updated forecast sales revenues in FY2013 will be 446.4 million, 2.2% lower than in FY2012. Gross profit will grow 1.2% to \$34.4 million in FY2013 while EBITDA will be flat at \$16.1 million. Due to lower interest and tax payments, NPAT is forecast to grow 5.3% to \$8.7 million.

The further improvement in gross profit margin is very encouraging. The new Macquarie facility will enhance Dicker Data's ability to take advantage of the ESD available from HP. This alone should add another few tens of basis points to gross margins. Although, this will be somewhat offset by the additional interest payments, net impact on the bottom line is expected to be positive. We believe that there is further room to grow gross margin by moving towards a higher margin product mix. Focusing on higher margin product groups would not only improve



profitability but it would also help the management to keep the business's working capital needs under tight control. We forecast gross profit margin to grow from 7.4% in FY2012 to 7.7% in FY2013 and 8.0% in FY2014.

Overall market conditions are expected to remain challenging. Microsoft's Windows 8 operating system failed to give a boost to PC sales in the first half of the financial year. Demand for ultrabooks – high end laptops – and laptops with touch screens has been lacklustre. As new and better models come to market and price points come down a bit in these product categories, demand is expected to pick up. However, this will more likely happen only in FY2014. The approaching federal elections in this September are also expected to create some level of uncertainty which could cause organisations to postpone decisions on capital investment projects. Therefore, we forecast a slight drop in revenues for FY2013 and a rebound in sales for FY2014.

Based on the reaffirmed dividend policy, we maintain our dividend payout ratio target at 80% for FY2013 and FY2014. Given the forecasted growth in net profit after tax this implies fully franked per share dividend payments of 5.5c in FY2013 and 6.2c in FY2014.

Recently, rumours appeared in the press the Ingram Micro, one of the world largest IT products distributors and a major competitor of DDR in the Australian market, was considering a takeover offer for the company. The information has not been confirmed by any reliable source hence we do not want to comment on this. However, it is worthwhile noting that as the largest independent player in the market Dicker Data can be an attractive acquisition target to strategic buyers that are looking to enter the Australian market or to bulk up their local operations.



Income Statement and Ratio Analysis

Income Statement

\$ in millions	FY12A	FY13E
Revenue	456.6	446.4
Other Income	0.0	0.0
Total Revenue	456.6	446.4
Consumables Used	-423.9	-414.8
Direct Rebates	1.2	2.7
Gross Profit	34.0	34.4
Employee Benefits Expense	-12.8	-13.4
Other Expenses	-5.1	-4.9
Total Operating Expenses	-17.9	-18.3
EBITDA	16.1	16.1
Depreciation and Amortisation	-0.7	-0.8
EBIT	15.4	15.3
Interest Expense	-3.1	-2.9
EBT Before Abs.	12.3	12.4
Income Tax Expense	-4.0	-3.7
NPAT Before Abs	8.3	8.7
Abnormals Before Tax	0.0	0.0
Tax on Abnormals	0.0	0.0
Net Abnormals	0.0	0.0
NPAT After Abs.	8.3	8.7

Source: Company data

Key Ratios

	FY10A	FY11A	FY12A	FY13E	FY14E
Profitability					
Gross Margin	6.9%	7.1%	7.4%	7.7%	8.0%
EBITDA Margin	3.1%	3.4%	3.5%	3.6%	3.9%
EBIT Margin	2.9%	3.2%	3.4%	3.4%	3.7%
EBT Margin	2.3%	2.6%	2.7%	2.8%	3.1%
NOPAT Margin	2.0%	2.4%	2.3%	2.4%	2.6%
Profit Margin Before Abs.	1.6%	1.8%	1.8%	2.0%	2.2%
Profit Margin After Abs.	1.6%	1.6%	1.8%	2.0%	2.2%
Return on Equity	31.9%	36.6%	44.6%	42.9%	44.4%
Return on Assets	5.5%	5.8%	6.5%	6.8%	7.6%
Growth					
Revenue Growth	6.9%	34.4%	18.5%	-2.2%	2.0%
EBITDA Growth	11.3%	48.2%	23.3%	-0.2%	10.5%
EBIT Growth	11.9%	48.8%	24.8%	-0.6%	11.0%
EBT Growth	17.4%	54.6%	21.9%	1.5%	13.3%
NPAT Before Abs. Growth	18.3%	55.2%	17.9%	5.3%	13.3%
Reported NPAT Growth	18.3%	35.6%	35.0%	5.3%	13.3%
Leverage					
Debt/Equity	2.2x	1.7x	2.5x	2.4x	2.2x
Debt/Total Capital	0.7x	0.6x	0.7x	0.7x	0.7x
EBIT/Interest	4.6x	5.4x	4.9x	5.3x	5.9x
Asset Utilization					
Days in Receivables	48	48	53	54	51
Payables to COGS	13.2%	20.4%	13.8%	13.5%	13.0%
Days Payable O/s.	55	55	57	51	48
Inventories to COGS	9.1%	11.2%	9.8%	11.0%	11.0%
Inventory Turnover Days	36	33	35	38	40
Liquidity					
Current Ratio	1.0	1.0	1.0	1.0	1.1
Quick Ratio	0.6	0.6	0.6	0.6	0.6
Working Capital (\$m)	27.5	30.8	51.5	52.2	55.4

Source: Company data, Newport Capital estimates



Summary of Financials

Financial year ending June, expressed in Australian Dollars

Income Statement (\$m)	FY10A	FY11A	FY12A	FY13E	FY14E
Total Revenue	286.7	385.2	456.6	446.4	455.3
EBITDA	8.8	13.1	16.1	16.1	17.8
D&A	-0.5	-0.7	-0.7	-0.8	-0.8
EBIT	8.3	12.4	15.4	15.3	17.0
Net Interest Expense	-1.8	-2.3	-3.1	-2.9	-2.9
EBT	6.5	10.1	12.3	12.4	14.1
Tax Expense	-2.0	-3.0	-4.0	-3.7	-4.2
Preference Dividends	0.0	0.0	0.0	0.0	0.0
NPAT Before Abs.	4.5	7.0	8.3	8.7	9.9
Reported NPAT	4.5	6.1	8.3	8.7	9.9
Shares on Issue	120.0	125.0	126.5	127.7	127.7

Source: Company data, Newport Capital estimates

Cash Flow Statement (\$m)	FY10A	FY11A	FY12A	FY13E	FY14E
EBIT(Aft Abs.)	8.3	11.1	15.4	15.3	17.0
Dep. & Amor.	0.5	0.7	0.7	0.8	0.8
Net Interest (Exp.)/Inc.	-1.5	-2.3	-3.1	-2.9	-2.9
Tax (Exp.)	-1.5	-2.7	-4.0	-3.7	-4.2
Change in WC (Inc.)/Dec	-7.9	-3.4	-20.6	-0.7	-3.2
Other Operating Items	-0.2	1.5	-1.3	0.3	0.0
Operating Cash Flow	-2.3	5.0	-13.0	9.0	7.5
Cash Paid for PP&E	-7.2	-2.2	-1.1	-3.1	0.0
Sale of PP&E	0.0	1.8	0.3	0.0	0.0
Net Capex.	-7.2	-0.4	-0.7	-3.1	0.0
Purchase of Subsidiaries	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-7.2	-0.4	-0.7	-3.1	0.0
Proceeds from Issues	0.0	0.5	0.3	0.0	0.0
Dividends Paid	-2.2	-2.4	-4.9	-6.4	-7.9
Inc./(Dec) in Borrowings	12.1	-2.7	18.5	0.8	0.4
Other Financing CF	-0.3	0.0	0.0	0.0	0.0
Financing Cash Flow	9.5	-4.6	14.0	-5.5	-7.5
Net Cash Flow	0.0	0.0	0.2	0.4	0.0

Source: Company data, Newport Capital estimates

Per Share Statistics (\$)	FY10A	FY11A	FY12A	FY13E	FY14E
Reported EPS – cents	3.8	4.9	6.5	6.8	7.7
Normalised EPS – cents	3.8	5.6	6.5	6.8	7.7
DPS - Ex. Special – cents	1.8	1.0	5.4	5.5	6.2
DPS – cents	1.8	3.3	5.4	5.5	6.2
Dividend Payout Ratio	48.6%	58.5%	81.9%	80.0%	80.0%
Dividend Yield	4.6%	8.2%	6.5%	7.2%	8.1%
NTA Per Share	0.118	0.134	0.147	0.159	0.174

Source: Company data, Newport Capital estimates

Balance Sheet (\$m)	FY10A	FY11A	FY12A	FY13E	FY14E
Cash	0.0	0.0	0.2	0.6	0.6
Debtors	38.3	63.6	68.7	62.5	63.7
Inventories	24.4	40.1	41.3	45.3	46.1
Curr. Investments	0.0	0.0	0.0	0.0	0.0
Other CA	1.5	0.0	0.0	0.0	0.0
Total Curr. Assets	64.1	103.7	110.2	108.4	110.4
Investments	0.0	0.0	0.0	0.0	0.0
PP&E	18.2	16.6	16.6	19.0	18.2
Goodwill	0.0	0.0	0.0	0.0	0.0
FITB	0.3	0.8	0.6	0.7	0.7
Other NCA	0.0	0.0	0.0	0.0	0.0
Total NCA	18.4	17.4	17.3	19.6	18.9
Total Assets	82.6	121.1	127.5	128.1	129.3
Accounts Payable	35.2	72.8	58.5	55.6	54.5
Current Provisions	0.2	0.4	0.6	0.7	0.7
S/T Debt	30.4	27.6	46.1	47.6	48.1
Other CL	1.2	1.2	1.3	1.3	1.3
Total CL	67.0	102.1	106.6	105.3	104.6
Non-Current A/P	0.0	0.0	0.0	0.0	0.0
L/T Debt	0.3	1.0	1.0	0.7	0.7
Non-Current Provisions	0.1	0.1	0.2	0.3	0.3
Deferred Income Tax	1.0	1.2	1.2	1.5	1.5
Other NCL	0.0	0.0	0.0	0.0	0.0
Total NCL	1.4	2.2	2.3	2.5	2.5
Total Liabilities	68.4	104.3	108.9	107.8	107.1
Share Capital	0.0	0.5	0.8	0.8	0.8
Reserves Ex. SPR	0.4	0.4	0.4	0.4	0.4
Retained Profits	13.8	15.8	0.0	0.0	0.0
Convertible Equity	0.0	0.0	17.3	19.1	21.1
Outside Equity	0.0	0.0	0.0	0.0	0.0
Total Equity	14.2	16.8	18.5	20.3	22.3
ND/(ND+E)	68.3%	63.0%	71.7%	70.1%	68.4%

Source: Company data, Newport Capital estimates

Multiples	FY10A	FY11A	FY12A	FY13E	FY14E
EV/Sales	0.4x	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	13.8x	9.5x	8.9x	9.0x	8.2x
EV/EBIT	14.7x	10.0x	9.3x	9.4x	8.5x
P/E	20.2x	15.5x	11.6x	11.1x	9.8x
P/E (Before Abs.)	20.2x	13.5x	11.6x	11.1x	9.8x
P/BV	6.4x	5.7x	5.2x	4.8x	4.4x
P/OCF	n/a	19.0x	n/a	10.8x	13.0x

Source: Company Data, Newport Capital estimates



Peer Comparison

Company			EV/EBITDA (x)	EV/EBIT (x)	P/E (x)	P/BV (x)	Dividend		EPS CAGR 2010-12	Collection	Inventory	Payable
Name	Ticker	LCY					EV (m)	Payout Ratio		Period (Days)	Turnover (Days)	o/s. (Days)
Ingram Micro	IM	USD	3,274	5.86	6.70	9.40	0.78	0.0%	1.3%	47.9	33.3	55.8
Synnex	SNX	USD	1,501	5.37	5.89	9.38	1.08	0.0%	6.8%	47.8	36.0	40.7
Synnex Tech	2347	TWD	109,557	12.87	21.65	12.57	2.17	85.7%	1.7%	46.5	58.4	40.4
Avnet	AVT	USD	5,864	5.54	6.12	9.10	1.21	0.0%	18.9%	66.5	40.2	54.7
Tech Data	TECD	USD	1,573	3.91	4.56	11.21	0.99	0.0%	3.4%	39.7	29.2	45.6
NetComm	NTC	AUD	29	6.33	15.10	22.00	1.46	0.0%	n/a	61.1	61.5	36.0
Cellnet	CLT	AUD	4	4.43	8.77	18.21	0.62	512.2%	n/a	57.1	40.8	64.5
Median				5.54	6.70	11.21	1.08		3.4%	47.9	40.2	45.6
Mean				6.33	9.83	13.12	1.19		6.4%	52.4	42.7	48.3
Dicker Data*	DDR	AUD	131	8.15	8.52	10.84	5.02	87.1%	12.7%	50.0	37.6	50.8

* TTM values

Source: Company data, Bloomberg, Newport Capital estimates

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