**ALSO: Corona accelerates the transformation**

The technology provider has structural growth potential thanks to its cloud business. The latest digitalization push should help to exploit it faster than expected.

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After a long period of moderate development, ALSO has turned into a success story over the past five years: The shares of the IT technology provider rose by 215% or more than 25% p.a. from the beginning of 2015 to the end of 2019. This year, the share price trend is even more spectacular: in the wake of the panic in the market, shares initially lost up to a third of their value to CHF 123 in just over two weeks in March. From this point, however, the price has risen by 90% to CHF 234. Since the beginning of the year, the shares have recorded a plus of 43% – placing them amongst the winners of the Corona crisis.

*Winners of the Corona Crisis*  
*ALSO Na., since 1.1.2015, in Fr.*

![Graph showing share price trend](themarket.ch)  
*Source: Bloomberg - Created with Datawrapper*

**Popular among fund managers**  
It is noticeable that ALSO is among the top positions in several Swiss small and mid-cap funds. The SaraSelect fund, managed today by Marc Possa, in which ALSO holds the second largest position with a share of 9%, has been a particularly long-term shareholder. 3V Invest Swiss Small & Mid Cap Fund, managed by Martin Lehmann, started investing in ALSO at the beginning of 2016. With a share of over 5%, the company is currently its third largest position.
Upon request, both Possa and Lehmann confirm that ALSO will remain a core investment in their funds despite the recent price increase. Possa particularly likes the company's ability to innovate: the company has "reinvented its business model by transforming itself from a pure distributor to a service provider".

**Capable of renewal**

In its current form, ALSO has existed since 2011, when the Swiss IT distributor merged with the German Actebis. The elevator manufacturer Schindler, initially one of the two major shareholders, has in the meantime sold its investment. Walter P. J. Droeg, who controls 51% of ALSO, has remained invested in the company. The free float is only 49%.

ALSO's traditional business is the wholesale of IT, consumer electronics and telecommunications equipment. It is combined in the Supply segment and contributed a good 78% to the Group's sales of €10.7 billion in 2019; this share is set to decline to 60% in the medium term. The traditional business generates a lot of sales but hardly any margin: its very low profitability used to deter many investors from an investment, says fund manager Lehmann. But ALSO continues to change and is expanding its other two business models: the Solutions segment offers solutions in which devices are configured to communicate with each other. It grows strongly and is expected to increase its revenue share from 18% at present to 30% in the medium term.

**Using the Cloud**

However, the view of the investors is firmly fixed on the Service segment, which is clearly growing most rapidly of all three and brings in the highest margins. With this business model ALSO provides the equipment needed for a workstation or entire IT landscapes including software, servers, back-up or cybersecurity as a service, based on a monthly payment. With €427 million, the Service segment most recently contributed 4% to Group sales.

The central tool for these services is the ALSO Cloud Marketplace, a platform that enables functionalities for billing, monitoring, security and configuration. With this virtual marketplace, the company utilizes the possibilities of cloud computing for its own needs. In 2019, the ALSO Cloud Marketplace generated 58% higher revenues of €217 million, in the first half of this year growth amounted to 43%.

**Seats as revenue base**

The central term in the cloud business is the ‘Seat’, which refers to a workplace with IT infrastructure. A Seat marks the end customer, which ALSO reaches via IT resellers and which can generate recurring revenues. For the past year, the company reported an astonishing 65% increase in Seats, from 2.3 to 3.8 million. In the first half of 2020, the ALSO Cloud platform recorded a further increase in paid seats, to already 4.8 million.

Talking to The Market, Gustavo Möller-Hergt, CEO of ALSO, cites three reasons for the strong growth rate: firstly, this reflects the normal, ongoing migration of IT offerings to the cloud, and secondly, software manufacturers are offering more and more cloud-enabled applications. He sees the third reason for the recent increase in Seats in the Corona crisis, which is increasingly prompting end customers to "go to the cloud".
The scalability
The question now is how the company can continue to strongly increase revenues from the cloud business. Möller-Hergt refers to the scalability of the business model. One of the prerequisites is that ALSO offers its services exclusively through resellers and does not directly approach end customers. Möller-Hergt names two basic ways in which ALSO can expand its cloud business. In particular, according to him, recurring revenues per Seat / workstation can be increased. Cost for workplace infrastructure at the end customer varies greatly, depending on the industry and country. Möller-Hergt assumes average annual costs of CHF 5,700 for a Swiss workstation – last year less than CHF 150 or 3% in revenue of these total costs were claimed by ALSO. According to Möller-Hergt, a share of 15 to 20% should be achievable: "We assume being able to monetize up to 1000 Fr. per Seat annually."

Acquisitions: part of the strategy
The other way to increase recurring revenues from the cloud business is to further increase the number of Seats. According to Möller-Hergt, this can be done in countries where ALSO is already active or in countries where this does not yet apply. Acquisitions are an option for geographic expansion: Acquisitions are, a clearly defined part of the corporate strategy. Since 2012, ALSO has made nineteen acquisitions in total. At the beginning of the year Möller-Hergt told The Market that "acquisitions in Spain and Portugal" might be very interesting, as well as countries in Eastern Europe where ALSO could strengthen its position. In 2019, 61% of the Group's sales were focused on Germany, the Netherlands and Switzerland.

Preliminary objectives
ALSO's promising growth potential must ultimately be reflected in its targets: the Group is aiming for an operating profit at EBITDA level of € 250 to 310 million in the medium term – an increase of 25 to almost 60% compared with last year's figure of € 197 million. From 2015 to 2019, ALSO was able to increase its EBITDA by 8.9% per year, with an annual increase in sales of 8.2%. Most recently, it achieved EBITDA margin of over 1.8%. Fund manager Possa believes that a value of 2.5 to 3% should be the target and be achievable.

ALSO CEO senses trends
A lot is in flux at ALSO. With the expansion of the Cloud business in particular and the accelerated trend towards digitization in general, opportunities are arising for the company and this can shift its targets. Möller-Hergt plays a key role in seizing these opportunities: the German-Peruvian has a double mandate as Chairman of the Board of Directors and CEO of ALSO, which is frowned upon under the rules of good corporate governance. In this case, however, fund manager Possa considers the solution with the double mandate to be the best. He describes the ALSO CEO as an outstanding entrepreneurial personality: "Möller-Hergt senses the trends."
Fund manager Lehmann is of a similar opinion and describes the solution with the double mandate as a "stroke of luck for the company". For him, Möller-Hergt is an important reason to invest in ALSO. Lehmann adds that the German-Peruvian always manages to win people over. A third fund manager emphasizes that Möller-Hergt is doing "a good job" and is also marketing his business very well, too.
Valuation not too high
This leaves the question as to whether the ALSO shares are still trading at reasonable prices after this year’s price increase. Measured against the consensus estimate for earnings in 2021, they have a price-earnings ratio of 19 – which does not seem too high, given the generally high market valuations.
Swiss Rock Asset Management is slightly overweight in ALSO. Martin Schlatter, Head of Equities at the asset manager, considers the shares to be reasonably valued in terms of the ratio of enterprise value to EBIT (according to Bloomberg data this ratio is 16). All in all, the analysis based on quantifiable factors results in a neutral assessment for ALSO.
Lehmann of 3V Asset Management does not consider the valuation of ALSO as too high. He points out that the transformation of the company is far from completed, the development of the cloud business being rather at the beginning. For the fund manager, it is also a matter of trust that the ALSO management will be able to implement its plans in the right way: "So far, they have consistently delivered what they promised.

Stock remains recommendable
The Market states that ALSO shares are no longer a bargain, but remain recommendable. The company is growing reliably and is solidly financed. Despite the many acquisitions, the company had net liquidity of € 0.5 million as of mid-year, excluding leases. The management, with Möller-Hergt at the helm, has earned a great deal of trust with its track record. Anyone who invests in ALSO is counting on the company being able to seize growth opportunities, too.