ODDO BHF
CORPORATES & MARKETS

Vectron Systems AG

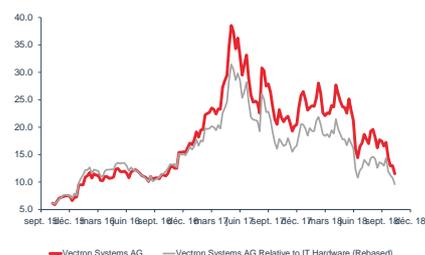**Buy** ➜ | Target 26.60 € vs 25.00 € ↗
Price (09/11/2018) : 11.52 €| Upside : 131%

	Revision	2018e	2019e
EPS		ns	23.3%

Monetizing the installed customer base via data-mining and cloud-services cooperation, supported by regulatory-driven POS upgrade cycle

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Vectron Systems AG — Vectron Systems AG Relative to IT Hardware (Rebased)

Source: Oddo BHF Securities, Fininfo

Capital	
**V3S GR	V3SG.DE**	
Market Cap (€m)	76
Enterprise value (€m)	78
Extrema 12 months (€)	11.52 – 28.05
Free Float (%)	44.0

Performance (%)	1m	3m	12m
Absolute	-33.2	-37.5	-49.6
Perf. rel. Country Index	-31.9	-33.4	-46.3
Perf. rel. IT Hardware	-29.9	-30.6	-47.0

P&L	12/18e	12/19e	12/20e
Sales (€m)	25.9	49.7	60.2
EBITDA (€m)	-3.1	6.3	10.5
Current EBIT (€m)	-3.5	5.9	10.0
Attr. net profit (€m)	-3	3.9	6.8
Adjusted EPS (€)	-0.49	0.59	1.03
Dividend (€)	0.00	0.09	0.15
P/E (x)	ns	19.6	11.2
P/B (x)	7.1	5.2	3.7
Dividend Yield (%)	0.0	0.8	1.3
FCF yield (%)	ns	3.4	6.8
EV/Sales (x)	3.10	1.57	1.22
EV/EBITDA (x)	ns	12.3	7.0
EV/Current EBIT (x)	ns	13.3	7.3
Gearing (%)	26	1	-21
Net Debt/EBITDA (x)	ns	0.0	ns

Next Events

We have remodelled our estimates to incorporate Vectron's refined business model, which in our view significantly improves its risk/reward profile versus its earlier digital transformation approach initiated under the former CEO. The focus remains on "monetizing the installed customer base (200k POS worldwide incl. 120k in Germany, 25-30% market shares of the German, Austrian, Swiss and Benelux hospitality markets) via data-mining and cloud-services," i.e. transforming Vectron's business from hardware-centric to data-centric. This conversion will be supported by the approaching POS upgrade cycle in 2019-2020e driven by the German tax authorities' requirement that all POS systems be manipulation-proof by 2020. The side-effect of this regulation is that it will elevate Vectron's POS landscape to 100% cloud-readiness by 2021e in terms of both POS hardware and POS software (current readiness level: 60%).

Advanced digital strategy significantly improves risk/reward profile

Vectron is executing its revised digital transformation cloud strategy mainly via third-party technology and service partnerships instead of developing the essential cloud services in-house as originally envisioned under the GetHappy initiative. Vectron's core competitive advantage is its control of access points (POS cash registers) for lucrative cloud services. Its proprietary POS operation system (OS) software acts as a gatekeeper to control which cloud services the POS has the most comfortable access to. (Note: same reasoning behind the web browser war between Google and Microsoft). Vectron is now setting up its own POS-connected cloud platform infrastructure as its new revenue growth engine. These revenues will take the form of data- and service-based transaction fees, mainly from third parties, which in turn will receive direct, real-time access to a large share of the fragmented German hospitality market. This approach is less costly, quicker to implement, and reduces the risks attached to an in-house cloud and data-mining approach.

Cloud strategy now based on 4 growth pillars

Besides its core POS business, Vectron's cloud strategy is now based on 4 growth pillars: i/ The DeutschlandCard (DC) cooperation, in which Vectron and DC share bonus-point-related transaction fees paid by POS owners for usage of the loyalty system. Depending on the consumer acceptance level, this business alone could rapidly become a sales and earnings contributor worth FVpS of c.€ 16.73 assuming medium- to long-term DC penetration of 15%. ii/ Big-data-related data mining (DM) business, where Vectron channels real-time raw POS data to global brand companies (e.g. Coca-Cola) and wholesale distributors (e.g. Metro) for data-mining fees based on the number of POSs accessed and data points retrieved. Assuming Vectron attracts 40,000 POSs, this could easily equate to c.FVpS of € 2.87. iii/ Broking premium real-time POS access for third-party web services like Apple Pay, Paypal, and Opentable. iv/ Establishing proprietary cloud services in the areas of fiscal memory, re-supply management, digital time-sheet mgmt and bonvito add-ons such as promotional drawings.

Implementing revised digital initiative, our base-case TP is € 26.60

Implementing these promising initiatives into our sum of the parts valuation model, we now value i/ the traditional core POS business line at € 7.02, ii/ the DeutschlandCard cooperation at € 16.73, and iii/ an initial DM brokerage business at a minimum of € 2.87 with significant upside if POS data-mining access can be expanded towards 60-70k. Our new TP of € 26.60 (€ 25.00) implies target EV/sales multiples of 3.5 for 2019e and 2.9 for 2020e, which is not demanding assuming the recurring nature of the potentially increasing digital revenues. We maintain our Buy rating but note that 2018 remains a transition year with negative EBIT.

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Content

ANALYSIS OF BUSINESS SEGMENTS

We have revisited the stock and now incorporate Vectron's refined, advanced business model, which will monetize the installed customer base also via data-mining and cloud-services, i.e. transforming Vectron's business from hardware-centric to data-centric. Having said that, Vectron's hardware-driven POS core business remains the central, enabling element in this transformation. The group's new cloud strategy is based on 4 growth pillars:

I. The DeutschlandCard (DC) cooperation, in which Vectron and DC share bonus-point-related transaction fees paid by POS owners for usage of the DC loyalty system. Depending on the consumer acceptance level, this business alone could quickly become a major sales and earnings contributor for the group.

II. Big-data-related data mining (DM) business, where Vectron channels real-time raw POS data to global brand companies (e.g. Coca-Cola) and wholesale distributors (e.g. Metro) for data mining fees based on the number of POSs accessed and data points retrieved.

III. Broking premium real-time POS access for third-party web services like Apple Pay, Paypal, and Opentable.

IV. Establishing proprietary cloud services in the areas of fiscal memory, re-supply management, time sheet management and bonvito add-ons such as promotional prize drawings and coupons.

Due to the different phases of execution we have focused our modeling and analysis on the two most significant growth pillars of its new Cloud strategy, i.e. Deutschland Card and Data Mining, which will be added to Vectron's central POS model.

POS: Vectron's core business

Core business driven by fiscal regulation affecting cash registers going into effect in 2020

Vectron is currently setting up its own POS-connected cloud platform infrastructure as its new future source of group revenues. The success of the connected cloud initiatives and partnerships is, however, directly related to its core business, POS.

In POS we expect a strong upgrade cycle in 2019-2021e driven by the German tax authorities' requirement that all POS systems be manipulation-proof by 2020. The side-effect of this regulation is that it will elevate Vectron's POS landscape to 100% cloud-readiness by 2021 in terms of both POS hardware and POS software (current readiness level: 60%e). In our view, this is the key enabler for Vectron's cloud initiatives.

Vectron's core competitive advantage is that it already controls the vital access points (POS cash registers) for lucrative cloud services. Its proprietary POS operation system (OS) software acts as a gatekeeper for human-machine interfacing and as such it can control which cloud services the POS has the most comfortable access to. (Note: the same reasoning lay behind the web browser war between Google and Microsoft).

Our modeling and valuation of the core business POS is based on the following assumptions:

- Vectron has roughly 120,000 POS units installed in Germany. Due to the 2020 regulatory cash register requirements, we expect hardware, software and attached services to be updated by merchants over the coming 3 years.

- We assume that 40% of all Vectron's German POS units will need a hardware update and 60% of all Vectron's German POS units will need a software update.

- We assume that 40% of Vectron's current installed POS base will be upgraded in 2019e, 40% in 2020e and the remaining 20% in 2021e.

- We assume an average price for a hardware upgrade of € 1300 and for the software upgrade c.€ 100. Our estimates for revenues from the new regulations are shown in Table 1.

Core Business: Impact of new German cash register regulation on revenues			
Vectron's installed POS base in Germany (units)			**120 000**
Revenues generated by POS hardware upgrade(€m)			**62.4**
POS hardware upgrade in % of total POS installed			40%
POS hardware upgrade price/ unit (€)			1 300
	2019e	**2020e**	**2021e**
POS hardware upgrade % of revenues split - 2019-21e	40%	40%	20%
POS hardware upgrade revenues split - 2019-21e	**25.0**	**25.0**	**12.5**
Revenues generated by POS software upgrade (€m)			**7.2**
POS software upgrade in % of total POS installed			60%
POS software upgrade revenue/ unit (€)			100
	2019e	**2020e**	**2021e**
POS software upgrade % of revenues split - 2019-21e	40%	40%	20%
POS software upgrade revenues split - 2019-21e	**2.9**	**2.9**	**1.4**

Table 1 – Source: Company data, Oddo BHF Securities

According to our calculations, Vectron achieves a recurring replacement revenue baseline on the POS hardware side of roughly € 17m per year. We expect that this general replacement revenue will already cover roughly 60% of the assumed regulatory effects from Table 1. Consequently, the remaining ~40% of the effects are added on top of the baseline as shown in Table 2.

We have applied the same procedure also for the POS software and POS service sub-segments (Table 2).

Core business: Our forecasts through to 2027e

Revenues (€m)	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Core business revenues (€m)	**25.9**	**38.0**	**41.2**	**33.0**	**27.6**	**27.9**	**28.2**	**29.0**	**29.3**	**29.6**
yoy	-20%	47%	8%	-20%	-16%	1%	1%	3%	1%	1%
POS hardware revenues	**17.0**	**26.2**	**26.2**	**21.6**	**17.0**	**17.0**	**17.0**	**17.5**	**17.5**	**17.5**
yoy	*-16%*	*54%*	*0%*	*-18%*	*-21%*	*0%*	*0%*	*3%*	*0%*	*0%*
% of total core business revenues	*66%*	*69%*	*64%*	*66%*	*62%*	*61%*	*60%*	*60%*	*60%*	*59%*
Regulatory effect	0.0	9.2	9.2	4.6	0.0	0.0	0.0	0.5	0.5	0.5
General revenues driven by replacement	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
POS software revenues	**1.9**	**3.3**	**3.6**	**3.3**	**3.1**	**3.4**	**3.7**	**4.0**	**4.3**	**4.6**
yoy	*-30%*	*72%*	*9%*	*-7%*	*-7%*	*10%*	*9%*	*8%*	*8%*	*7%*
% of total core business revenues	*7%*	*9%*	*9%*	*10%*	*11%*	*12%*	*13%*	*14%*	*15%*	*16%*
Regulatory effect	0.0	1.1	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
General revenues driven by replacement	1.9	2.2	2.5	2.8	3.1	3.4	3.7	4.0	4.3	4.6
POS services revenues	**7.0**	**8.5**	**11.4**	**8.0**	**7.5**	**7.5**	**7.5**	**7.5**	**7.5**	**7.5**
yoy	*-26%*	*21%*	*34%*	*-30%*	*-6%*	*0%*	*0%*	*0%*	*0%*	*0%*
% of total core business revenues	*27%*	*22%*	*28%*	*24%*	*27%*	*27%*	*27%*	*26%*	*26%*	*25%*
Regulatory effect	0.0	1.0	3.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0
General revenues driven by replacement	7.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Core business EBIT	**-3.5**	**4.1**	**6.8**	**5.3**	**3.7**	**3.8**	**3.8**	**3.9**	**4.0**	**4.1**
yoy	*-300%*	*-217%*	*67%*	*-23%*	*-29%*	*1%*	*1%*	*3%*	*1%*	*5%*
Consolidate group margin contribution	*100%*	*70%*	*68%*	*53%*	*35%*	*26%*	*20%*	*16%*	*16%*	*16%*
EBIT margin	*-13.5%*	*10.7%*	*16.6%*	*16.0%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*14.0%*

Table 2 – Source: Company data, Oddo BHF Securities

Core business: valuation

We apply a DCF valuation approach for Vectron's core business, POS, which includes the fiscal regulatory effects in Germany.

We expect 2018 to be a transition year with a potential EBIT loss, while the POS upgrade cycle in 2019-2021e should not only add significant revenues to the POS segment but also elevate the segment's EBIT margins above 15%.

Other assumptions are a Beta of 1.1 and cost of debt at 3%. We set the market premium at 7.23% and the risk-free rate at 0.78%. The WACC therefore works out to only 7.2%, mirroring the recurring nature of the replacement business.

Our DCF model renders a fair value per share of € 7.02 for the core POS business unit.

Vectron Systems AG

Core business: DCF

EURm	PHASE 1			PHASE 2							PHASE 3
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	∞
Sales	25.9	38.0	41.2	33.0	27.6	27.9	28.2	29.0	29.3	29.6	
YoY growth	-20.0%	46.8%	8.4%	-20.0%	-16.3%	1.1%	1.1%	2.8%	1.0%	1.0%	
EBIT	-3.5	4.1	6.8	5.3	3.7	3.8	3.8	3.9	4.0	4.1	
EBIT margin	-13.5%	10.7%	16.6%	16.0%	13.5%	13.5%	13.5%	13.5%	13.5%	14.0%	
Income tax	0.5	-1.1	-1.9	-1.3	-0.9	-0.9	-1.0	-1.2	-1.2	-1.2	
Depreciation and amortisation	0.4	0.4	0.4	0.7	0.7	0.8	1.0	1.0	1.0	1.0	
Change in net working capital	-0.1	-0.1	-0.1	0.4	1.1	0.5	0.2	0.1	0.0	0.0	
Net capital expenditure	-0.8	-1.6	-1.9	-1.5	-1.2	-1.1	-1.1	-1.0	-1.0	-1.0	
Free cash flow	**-3.5**	**1.7**	**3.3**	**3.6**	**3.3**	**3.0**	**2.9**	**2.8**	**2.8**	**2.9**	
Present values	**-3.5**	**1.5**	**2.8**	**2.8**	**2.5**	**2.1**	**1.9**	**1.7**	**1.5**	**1.5**	**30.0**

Present value Phase 1	0.9	2%	Risk free rate	0.78%	Target equity ratio	75.0%
Present value Phase 2	14.0	31%	Equity risk premium	7.23%	Beta (fundamental)	1.1
Present value Phase 3	30.0	67%	Debt risk premium	3.00%	**WACC**	**7.2%**
Total present value	44.8	100%	Tax shield	30.0%	**Terminal growth**	**2.0%**

+ Excess cash	13.2	
- Financial debt	-11.7	
Fair value of equity	46.3	
Number of shares (m)	6.6	
Fair value per share (€)	**7.02**	

Sensitivity analysis
Terminal growth (Phase 3)

WACC	1.0%	1.5%	2.0%	2.5%	3.0%
6.2%	7.54	8.10	8.79	9.66	10.82
6.7%	6.84	7.28	7.81	8.47	9.31
7.2%	6.25	6.60	7.02	7.53	8.17
7.7%	5.74	6.03	6.37	6.77	7.27
8.2%	5.31	5.55	5.82	6.15	6.54

Table 3 – Source: Company data, Oddo BHF Securities

DeuschlandCard (DC) cooperation

A loyalty cooperation in the German hospitality market

Vectron has signed a letter of intent concerning with DeutschlandCard (DC) for a loyalty platform cooperation addressing the German hospitality market. The DC platform enables cardholders to collect rebate points when buying food and beverages in participating shops and restaurants. The fact that Vectron has access to 120k installed POS units i.e. roughly 30% of the fragmented hospitality market in Germany, makes them an ideal cooperation partner for DC.

Vectron will receive a fee based on the % of transaction revenue generated at Vectron POS that will be connected to DC end-users.

The fees received from DC are expected to carry a high margin since the most of the infrastructure and execution of the loyalty system is already up and running with DC.

Our modeling and valuation of Vectron's promising DC cooperation business is based on the following assumptions:

- Vectron has currently 80,000 POS units installed in Germany that are online-ready. Due to the 2020 regulation-based upgrade cycle, we expect this base to expand to 120,000 POS by 2020/21.

- We assume an average transaction revenue generated per POS of c.€ 2,000, increasing marginally as a result of the loyalty program. Based on 312 days per year, a POS unit is assumed to generate € 0.620m in end-user transaction revenue per year.

- We assume the DC usage penetration rate in the hospitality market increases from 1.5% in 2019e to stabilize around 15% after 2024e.

- Similar to DC's competitor Payback, we assume a DC income of 75% on every DC rebate € generated by DC end-users, which then is split between DeutschlandCard, Vectron and Vectron's distributer network at 40%, 40%, and 20% respectively.

- Due to Vectron's low capex and opex requirements, we assume a margin increase from 15% in 2019e to 40% after 2024e.

In our view, this corporation could become highly scalable and profitable for Vectron. The main wildcard is the acceptance level of the DC in the end-user community i.e. the potential DC penetration rate relative to total POS-generated transaction revenue within Vectron's POS customer base.

Our forecast for revenues from the DC cooperation is presented in the following table (base scenario).

DeutschlandCard: Our forecasts through to 2027e (base scenario)

DeutschlandCard (DC)	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Total POS in Germany	**120 000**	**120 000**	**120 000**	**120 000**	**120 000**	**120 000**	**120 000**	**120 000**	**120 000**	**120 000**
# of POS available for Online data processing i.e.	80 000	80 000	120 000	120 000	120 000	120 000	120 000	120 000	120 000	120 000
% of total	67%	67%	100%	100%	100%	100%	100%	100%	100%	100%
Base-case scenario	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**	**2027e**
Transaction volume (€) / POS / day	2 000	2 010	2 030	2 060	2 100	2 140	2 180	2 220	2 260	2 300
# of days / year (6 days week)	312	312	312	312	312	312	312	312	312	312
Total transaction volume (€m) / POS / year	0.62	0.63	0.63	0.64	0.66	0.67	0.68	0.69	0.71	0.72
Total transaction volume (€m) / year	49 920	50 170	76 003	77 126	78 624	80 122	81 619	83 117	84 614	86 112
DC - Penetration rate	0.0%	1.5%	3.5%	5.5%	7.5%	10.0%	13.0%	15.0%	15.0%	15.0%
Processed transaction volume via DC (€m) / year	0	753	2 660	4 242	5 897	8 012	10 610	12 468	12 692	12 917
Rebate points as % of DC transaction volume	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
Rebate points in €m generated	0.0	9.6	34.0	54.2	75.4	102.4	135.7	159.4	162.3	165.1
Collected fees in % of rebate points generated	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Total collected fees (€m)	0.0	7.2	25.5	40.7	56.5	76.8	101.7	119.6	121.7	123.9
Vectron's share	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Vectron's DC related revenues (€m) / year	0.0	2.9	10.2	16.3	22.6	30.7	40.7	47.8	48.7	49.5
Opex	0.0	-2.5	-8.4	-13.0	-17.0	-21.5	-26.5	-28.7	-29.2	-29.7
EBIT	0.0	0.4	1.8	3.3	5.7	9.2	14.2	19.1	19.5	19.8
EBIT margin	0%	15%	18%	20%	25%	30%	35%	40%	40%	40%
EBT	0.0	0.4	1.8	3.3	5.7	9.2	14.2	19.1	19.5	19.8
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxes expenses	0.0	0.1	0.6	1.0	1.7	2.8	4.3	5.7	5.8	5.9
Net income	0.0	0.3	1.3	2.3	4.0	6.5	10.0	13.4	13.6	13.9
Net income margin	0%	11%	13%	14%	18%	21%	25%	28%	28%	28%

Table 4 – Source: Company data, Oddo BHF Securities

In our bull scenario, we increase the penetration rate of DC usage as a % of total POS transactions generated, from 1.8% in 2019e to stabilize around 20% after 2024e.

DeutschlandCard: Our forecasts through to 2027e (bull scenario)

Bull scenario	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Transaction volume (€) / POS / day	2 000	2 010	2 030	2 060	2 100	2 140	2 180	2 220	2 260	2 300
# of days / year (6 days week)	312	312	312	312	312	312	312	312	312	312
Total transaction volume (€m) / POS / year	0.62	0.63	0.63	0.64	0.66	0.67	0.68	0.69	0.71	0.72
Total transaction volume (€m) / year	49 920	50 170	76 003	77 126	78 624	80 122	81 619	83 117	84 614	86 112
DC - Penetration rate	0.0%	1.8%	5.0%	8.0%	10.0%	13.0%	17.0%	20.0%	20.0%	20.0%
Processed transaction volume via DC (€m) / year	0	903	3 800	6 170	7 862	10 416	13 875	16 623	16 923	17 222
Rebate points as % of DC transaction volume	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
Rebate points in €m generated	0.0	11.5	48.6	78.9	100.5	133.2	177.4	212.5	216.4	220.2
Collected fees in % of rebate points generated	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Total collected fees (€m)	0.0	8.7	36.4	59.2	75.4	99.9	133.0	159.4	162.3	165.1
Vectron's share	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Vectron's DC related revenues (€m) / year	0.0	3.5	14.6	23.7	30.2	40.0	53.2	63.8	64.9	66.1
Opex	0.0	-2.5	-8.4	-13.0	-17.0	-21.5	-26.5	-28.7	-29.2	-29.7
EBIT	0.0	1.0	6.2	10.6	13.2	18.4	26.8	35.1	35.7	36.3
EBIT margin	0%	29%	43%	45%	44%	46%	50%	55%	55%	55%
EBT	0.0	1.0	6.2	10.6	13.2	18.4	26.8	35.1	35.7	36.3
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxes expenses	0.0	0.3	1.9	3.2	4.0	5.5	8.0	10.5	10.7	10.9
Net income	0.0	0.7	4.3	7.5	9.2	12.9	18.7	24.5	25.0	25.4
Net income margin	0%	20%	30%	32%	31%	32%	35%	39%	39%	39%

Table 5 – Source: Company data, Oddo BHF Securities

DC cooperation: valuation

We also apply a DCF valuation for Vectron's DC cooperation, which is based on the fees generated from the DC loyalty program.

We assume the DC cooperation starts generating fee-based revenues in 2019. EBIT margins should grow significantly due to the reduced technical involvement of Vectron in the DC cooperation.

Due to the low visibility and remaining uncertainties of this cooperation, which is still to be executed, we have applied a WACC of 12%.

Our DCF model renders a fair value of € 16.73 per share for Vectron's DC-based business in our base scenario.

DeutschlandCard cooperation valuation: DCF (Base scenario)

DCF	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	Terminal
NOPAT	0.0	0.3	1.3	2.3	4.0	6.5	10.0	13.4	13.6	13.9	
+D&A	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
- Capex	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
FCFF	0.0	0.3	1.3	2.3	4.0	6.5	10.0	13.4	13.6	13.9	
Present value	0.0	0.3	1.0	1.6	2.4	3.9	6.1	8.1	8.3	8.4	70.3
Total presetn value	110.41										
+ Excess cash	0.00										
- Financial debt	0.00										
Fair value of equity	110.41										
# of shares	6.60										
Fair value / share (€)	16.73		WACC			12%					

Table 6 – Source: Company data, Oddo BHF Securities

Applying our bull scenario, our DCF model renders a fair value per share of € 31.59.

Valuation of DeutschlandCard cooperation: DCF (bull scenario)

DCF	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	Terminal
NOPAT	0.00	0.71	4.35	7.45	9.24	12.91	18.74	24.55	24.99	25.43	
+D&A	0.00	0.00	0.00	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
- Capex	0.00	0.00	0.00	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
FCFF	0.00	0.71	4.35	7.45	9.24	12.91	18.74	24.55	24.99	25.43	
Present value	0.00	0.62	3.36	5.11	5.62	7.85	11.40	14.93	15.20	15.47	128.92
Total presetn value	208.48										
+ Excess cash	0.00										
- Financial debt	0.00										
Fair value of equity	208.48										
# of shares	6.60										
Fair value / share (€)	31.59		WACC			12%					

Table 7 – Source: Company data, Oddo BHF Securities

Data mining (DM) business

Broking real-time raw POS data to global brands

We have identified Vectron's big-data related data mining business as the group's second promising future growth engine after the DC cooperation. Here Vectron will channel real-time raw POS data to global brand companies (e.g. Coca-Cola) and wholesale distributors (e.g. Metro) in exchange for data-mining fees based on the number of POSs accessed and data points retrieved. This approach is less costly, quicker to implement, and reduces the risks attached to an in-house data-mining approach.

Vectron's POS customer base generate masses of valuable transactional data that can be used for analyzing purchasing behavior to estimate future demand and manage supply and marketing initiatives. Major brands and wholesale distributers are ascribing more and more importance to such intelligence, especially as this business information data becomes available in real time and is retrievable from a broad population.

So far, this massive amount of valuable data has remained unused, but Vectron has now created a promising business model to monetize this unused resource.

Our modeling and valuation of the core business POS is based on the following assumptions:

- POS owners who give access to their raw data will receive financing for their POS hardware.

- For this financing, we adopt a simplified approach with a POS hardware financing price of € 1300 (incl. set-up services) that will be depreciated over the expected life of the hardware (7 years), corresponding to a continuous POS financing of € 15 per POS per month.

- Based on our discussions with management, we assume that this business model breaks even at a minimum of 30,000 POS connected, provided that two data-mining customers such as Metro and Coca-Cola make use of this service.

- For our base case we assume Vectron accesses 40,000 POS for raw data retrieval and channels this data to two paying data mining customers. We also assume a data fee increase of +0.2 basis points per additionally connected +10,000 POS.

In our base-case scenario these assumptions result in recurring EBIT of c.€ 1.4m p.a., equating to an EBIT margin of 15.4%.

In our scenario 3, which assumes 50,000 data-retrievable POS (+25% vs. base case), the recurring EBIT contribution already increases roughly two-fold to € 3.4m p.a. and equating to an EBIT margin of 26.7%.

Data mining: expected revenue based on different scenarios

	Break even	Base	Scenario 3	Scenario 4	Scenario 5
Break even at 30,000 POS participating in data mining program					
# of POS available for Online data processing	30 000	40 000	50 000	60 000	70 000
Ave. POS Price (€) / system	1 300	1 300	1 300	1 300	1 300
Transaction volume (€m) / POS / year	0.62	0.63	0.63	0.64	0.66
Depreciation period (month)	84	84	84	84	84
Monthly costs (in 36 months) (€) / system	-15	-15	-15	-15	-15
Financing costs (€m)/ year	-5.6	-7.4	-9.3	-11.1	-13.0
Transaction volume (€m) from participating POS / year	18 720	25 085	31 668	38 563	45 864
Basis point fee of transactionc volume	1.5 bp	1.8 bp	2.0 bp	2.3 bp	2.5 bp
Revenues / data mining customer	**2.81**	**4.39**	**6.33**	**8.68**	**11.47**
# of data customers (Coca Cola, Metro)	2.0	2.0	2.0	2.0	2.0
Total revenues from data mining (€m)	**5.62**	**8.78**	**12.67**	**17.35**	**22.93**
EBIT	**0.04**	**1.35**	**3.38**	**6.21**	**9.93**
EBIT margin	0.8%	15.4%	26.7%	35.8%	43.3%
EBT	**0.04**	**1.35**	**3.38**	**6.21**	**9.93**
Tax rate	30%	30%	30%	30%	30%
Net income / loss	**0.03**	**0.95**	**2.37**	**4.35**	**6.95**

Table 8 – Source: Company data, Oddo BHF Securities

Data mining: Valuation based on PE multiple

Break even scenario	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
# of POS available for Online data processing	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000
Total revenues from data mining (€m)	0.0	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Financing costs (€m)/ year	0.0	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6
EBT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Net income / loss	0.00	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
PE		20								
Fair value of equity		0.62								
# of shares		6.60								
Fair value / share (€)		**0.09**								

Base-case scenario	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
# of POS available for Online data processing	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000
Total revenues from data mining (€m)	0.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Financing costs (€m)/ year	0.0	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4
EBIT	0.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
EBIT margin	0.0%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
EBT	0.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Net income / loss	0.00	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
PE		20								
Fair value of equity		18.92								
# of shares		6.60								
Fair value / share (€)		**2.87**								

Scenario 3	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
# of POS available for Online data processing	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000
Total revenues from data mining (€m)	0.0	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7
Financing costs (€m)/ year	0.0	-9.3	-9.3	-9.3	-9.3	-9.3	-9.3	-9.3	-9.3	-9.3
EBIT	0.0	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
EBIT margin	0.0%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%
EBT	0.0	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Net income / loss	0.00	2.37	2.37	2.37	2.37	2.37	2.37	2.37	2.37	2.37
PE		20								
Fair value of equity		47.34								
# of shares		6.60								
Fair value / share (€)		**7.17**								

Table 9 – Source: Company data, Oddo BHF Securities

Consolidated group results

Picking up speed after transition year 2018

2018 will remain a transition year for Vectron. We estimate 2018e consolidated group sales to come in at c.€25.9m. This revenue decrease of 20% yoy is mainly due to the wait-and-see mode of Vectron's customer base ahead of the next regulatory-driven POS update cycle, to begin next year. Consequently, 2018e EBIT could now easily end up significantly negative, i.e. at €-3.5m, due to the combination of stable OPEX and a softer top line.

For 2019e we expect the top line to expand sharply driven by i/ the regulatory effect on Vectron's POS core business, which should generate record sales north of € 35m, and ii/ the first revenue contributions from the new DC cooperation and new data mining contracts.

On the profitability side, we therefore expect EBIT to turn significantly positive again in 2019e, swinging to € 5.9m – which would equate to a double-digit EBIT margin close to 12% – driven by the core business returning to profitability and the contribution of € 1.4m from data-mining (DM) and € 0.4m from DC.

For 2020e, the positive effects of the German regulatory requirements for cash registers will continue while the DC cooperation should gather pace based on increasing consumer acceptance. We estimate 2020e consolidated group revenue at € 60.2m, up 21% yoy.

The group EBIT margin should continue to grow in 2020e, we estimate to 17%, mainly driven by record margins in the core business. We estimate the core business to generate 2020e EBIT of € 6.8m, equating to a margin of 16.6%. In our base case, EBIT in DM remains rather stable at € 1.4m whereas EBIT from the DC cooperation could already generate EBIT margins of c.18%.

For 2021e and 2022e, since the regulatory requirements for cash registers must be implemented in 2020, we expect the impact of this regulation to wear off. We anticipate decreases in core business sales in these two years of c.-20% and c.-16% respectively. However, this adverse effect should be offset by DC revenue growth, which should stabilize consolidated total group revenues at € 58m in 2021e an € 59m in 2022e.

Regarding group EBIT, we expect a slight fall-off in 2021e followed by a resumption of growth in 2022e and beyond due to an increasing contribution from a highly profitable DC.

Vectron Systems: Our revenues forecasts through to 2027e (Base scenario)

Revenues (€m)	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Total group revenues	**25.9**	**49.7**	**60.2**	**58.0**	**59.0**	**67.4**	**77.7**	**85.6**	**86.8**	**87.9**
yoy	*-20%*	*92%*	*21%*	*-4%*	*2%*	*14%*	*15%*	*10%*	*1%*	*1%*
Core business revenues (€m)	**25.9**	**38.0**	**41.2**	**33.0**	**27.6**	**27.9**	**28.2**	**29.0**	**29.3**	**29.6**
yoy	*-20%*	*47%*	*8%*	*-20%*	*-16%*	*1%*	*1%*	*3%*	*1%*	*1%*
In % of total group revenue	*100%*	*77%*	*68%*	*57%*	*47%*	*41%*	*36%*	*34%*	*34%*	*34%*
DC revenues	**0.0**	**2.9**	**10.2**	**16.3**	**22.6**	**30.7**	**40.7**	**47.8**	**48.7**	**49.5**
yoy	*-*	*-*	*253%*	*59%*	*39%*	*36%*	*32%*	*18%*	*2%*	*2%*
In % of total group revenue	*0%*	*6%*	*17%*	*28%*	*38%*	*46%*	*52%*	*56%*	*56%*	*56%*
Data mining revenues	**0.0**	**8.8**	**8.8**	**8.8**	**8.8**	**8.8**	**8.8**	**8.8**	**8.8**	**8.8**
yoy	*-*	*-*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
In % of total group revenue	*0%*	*18%*	*15%*	*15%*	*15%*	*13%*	*11%*	*10%*	*10%*	*10%*

Table 10 – Source: Company data, Oddo BHF Securities

Vectron Systems AG

Vectron Systems: Our EBIT forecasts through to 2027e (Base scenario)

EBIT (€m)	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Total group EBIT	**-3.5**	**5.9**	**10.0**	**9.9**	**10.7**	**14.3**	**19.4**	**24.4**	**24.8**	**25.3**
yoy	-	-	*71%*	*-1%*	*9%*	*34%*	*35%*	*26%*	*2%*	*2%*
EBIT margin	*-13%*	*12%*	*17%*	*17%*	*18%*	*21%*	*25%*	*28%*	*29%*	*29%*
Core business EBIT	**-3.5**	**4.1**	**6.8**	**5.3**	**3.7**	**3.8**	**3.8**	**3.9**	**4.0**	**4.1**
yoy	-	-	*67%*	*-23%*	*-29%*	*1%*	*1%*	*3%*	*1%*	*5%*
Consolidated group margin contribution	*100%*	*70%*	*68%*	*53%*	*35%*	*26%*	*20%*	*16%*	*16%*	*16%*
EBIT margin	*-13.5%*	*10.7%*	*16.6%*	*16.0%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*14.0%*
DC EBIT	**0.0**	**0.4**	**1.8**	**3.3**	**5.7**	**9.2**	**14.2**	**19.1**	**19.5**	**19.8**
yoy	-	-	*324%*	*77%*	*74%*	*63%*	*55%*	*34%*	*2%*	*2%*
Consolidated group margin contribution	*0%*	*7%*	*18%*	*33%*	*53%*	*64%*	*73%*	*78%*	*79%*	*78%*
EBIT margin	*0%*	*15%*	*18%*	*20%*	*25%*	*30%*	*35%*	*40%*	*40%*	*40%*
Data mining EBIT	**0.0**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**
yoy	-	-	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Consolidated group margin contribution	*0%*	*23%*	*13%*	*14%*	*13%*	*9%*	*7%*	*6%*	*5%*	*5%*
EBIT margin	*0%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*

Table 11 – Source: Company data, Oddo BHF Securities

Vectron Systems: P&L forecast of the group

(31 December)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	**22.7**	**21.4**	**22.4**	**25.9**	**33.7**	**32.4**	**25.9**	**49.7**	**60.2**
YoY growth	0.7%	-5.6%	4.7%	15.4%	30.4%	-4.0%	-20.0%	91.8%	21.2%
of which Core business	22.7	21.4	22.4	25.9	33.7	32.4	25.9	38.0	41.2
% revenues contribution	100%	100%	100%	100%	100%	100%	100%	77%	68%
of which DC							0.0	2.9	10.2
% revenues contribution							0%	6%	17%
of which Data mining							0.0	8.8	8.8
% revenues contribution							0%	18%	15%
Total output	**22.7**	**21.4**	**22.4**	**25.9**	**33.7**	**32.4**	**25.9**	**49.7**	**60.2**
Material expenses	-9.7	-9.8	-10.0	-11.7	-15.4	-14.6	-12.2	-26.2	-33.3
Gross profit	**13.0**	**11.6**	**12.4**	**14.2**	**18.3**	**17.7**	**13.7**	**23.5**	**26.9**
in % of total output	57.2%	54.4%	55.2%	54.8%	54.4%	54.8%	53.0%	47.2%	44.7%
Personnel costs	-5.7	-5.9	-6.3	-7.1	-8.6	-9.7	-10.1	-10.5	-9.7
Other operating income	0.6	1.5	0.9	1.1	0.4	0.6	0.3	0.3	0.3
Other operating expenses	-6.1	-5.7	-5.6	-5.6	-6.6	-7.0	-7.0	-7.0	-7.0
EBITDA	**1.8**	**1.5**	**1.6**	**2.6**	**3.6**	**2.3**	**-3.1**	**6.3**	**10.5**
Amortization and depreciation	-0.9	-0.6	-0.5	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4
EBIT	**0.9**	**1.0**	**1.0**	**2.1**	**3.1**	**1.7**	**-3.5**	**5.9**	**10.0**
in % of sales	3.9%	4.5%	4.6%	8.0%	9.2%	5.4%	-13.5%	11.8%	16.7%
of which Hardware	0.9	1.0	1.0	2.1	3.1	1.7	-3.5	4.1	6.8
% revenues contribution	100%	100%	100%	100%	100%	100%	100%	70%	68%
of which DC							0.0	0.4	1.8
% revenues contribution							0%	7%	18%
of which Data mining							0.0	1.4	1.4
% revenues contribution							0%	23%	13%
Net financial result	0.1	0.1	0.1	-0.2	-0.1	-0.1	-0.3	-0.3	-0.4
EBT	**1.0**	**1.0**	**1.1**	**1.8**	**3.0**	**1.7**	**-3.8**	**5.5**	**9.7**
Income taxes	-0.2	-0.3	-0.3	-0.7	-1.0	-0.6	0.5	-1.7	-2.9
Net income including minorities	**0.3**	**0.4**	**0.5**	**1.2**	**2.0**	**1.1**	**-3.3**	**3.9**	**6.8**
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income attributable to shareholders	**0.3**	**0.4**	**0.5**	**1.2**	**2.0**	**1.1**	**-3.3**	**3.9**	**6.8**
in % of sales	1.4%	1.7%	2.3%	4.6%	5.8%	3.3%	-12.6%	7.8%	11.3%
Shares outstanding (in millions)	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Earnings per share (EUR)	**0.05**	**0.06**	**0.08**	**0.18**	**0.30**	**0.16**	**-0.49**	**0.59**	**1.03**
Dividend per share (EUR)	**0.05**	**0.05**	**0.05**	**0.07**	**0.11**	**0.07**	**0.00**	**0.09**	**0.15**

Table 12 – Source: Company data, Oddo BHF Securities

VALUATION

Sum of the parts

FVpS from aggregations results at € 26.62

Our sum-of-the-parts valuation represents the sum of our individual valuations of each business segment as a standalone entity.

We remain conservative in our approaches as we assume a base scenario for both DC and data mining segments.

Our aggregated fair value per share stands at € 26.62.

Vectron AG	
Sum of the parts valuation	
Core business (€/share)	7.02
DeutschlandCard (€/share)	16.73
Data mining (€/share)	2.87
Fair value (€/share)	**26.62**

Table 13 – Source: Company data, Oddo BHF Securities

DCF valuation

DCF confirms SOTP

To calculate our group WACC, we applied a 0.78% risk free rate and a market risk premium of 7.23%. Further, we use a debt risk premium of 3% and a tax shield of 30% and a beta of 1.4 given that the company is embracing a new business model.

A WACC of 8.8% is within the corridor demarcated by the risk profiles of Vectron's individual business, i.e. the Core business WACC of 7.2% and the DC cooperation WACC of 12%.

In calculating group DCF, we use our base-case scenarios for the DC cooperation and the DM business.

We arrive at a fair value per share of € 26.61, which confirms our SOTP FVpS of € 26.62.

Group DCF

EURm	PHASE 1			PHASE 2							PHASE 3
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	∞
Sales	25.9	49.7	60.2	58.0	59.0	67.4	77.7	85.6	86.8	87.9	
YoY growth	-20.0%	91.8%	21.2%	-3.6%	1.7%	14.3%	15.2%	10.2%	1.4%	1.3%	
EBIT	-3.5	5.9	10.0	9.9	10.7	14.3	19.4	24.4	24.8	25.3	
EBIT margin	-13.5%	11.8%	16.7%	17.0%	18.2%	21.3%	25.0%	28.5%	28.6%	28.8%	
Income tax	0.5	-1.1	-1.9	-2.5	-2.7	-3.6	-4.9	-7.3	-7.4	-7.6	
Depreciation and amortisation	0.4	0.4	0.4	0.9	0.9	1.0	1.2	1.2	1.2	1.2	
Change in net working capital	-0.1	-0.1	-0.1	-0.1	-0.2	-1.5	-1.8	-1.4	-0.2	0.5	
Net capital expenditure	-0.8	-1.6	-1.9	-1.7	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2	
Free cash flow	**-3.5**	**3.4**	**6.4**	**6.5**	**7.3**	**9.0**	**12.6**	**15.6**	**17.1**	**18.3**	
Present values	**-3.4**	**3.1**	**5.3**	**4.9**	**5.1**	**5.7**	**7.3**	**8.3**	**8.3**	**8.1**	**121.4**

Present value Phase 1	5.0	3%	Risk free rate	0.78%	Target equity ratio	75.0%
Present value Phase 2	47.8	27%	Equity risk premium	7.23%	Beta (fundamental)	1.4
Present value Phase 3	121.4	70%	Debt risk premium	3.00%	**WACC**	**8.8%**
Total present value	174.2	100%	Tax shield	30.0%	**Terminal growth**	**2.0%**

+ Excess cash	13.2
- Financial debt	-11.7
Fair value of equity	175.7
Number of shares (m)	6.6
Fair value per share (€)	**26.61**

Sensitivity analysis
Terminal growth (Phase 3)

	WACC	1.0%	1.5%	2.0%	2.5%	3.0%
	7.8%	28.69	30.37	32.34	34.68	37.50
	8.3%	26.24	27.63	29.25	31.14	33.38
	8.8%	24.11	25.28	26.61	28.16	29.98
	9.3%	22.25	23.23	24.35	25.64	27.12
	9.8%	20.60	21.44	22.39	23.46	24.69

Table 14 – Source: Company data, Oddo BHF Securities

- **Valuation method**

  Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

- **Sensitivity of the result of the analysis/ risk classification:**

  The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

- **Our stock market recommendations**

  Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.
  Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).
  Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).
  Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

- **The prices of the financial instruments used and mentioned in this document are the closing prices.**
- **All publications by Oddo BHF concerning the companies covered and mentioned in this document are available on the research site:** www.securities.oddo-bhf.com

Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
19/07/18	Buy	25.00	16.50	Henning Steinbrink
19/09/17	Buy	34.00	28.70	Henning Steinbrink
14/09/17	Buy	20.09	29.80	Henning Steinbrink

In accordance with Article 20 of European Regulation No. 596/2014 (Market Abuse Regulation), a list of all recommendations on any financial instrument or issuer that have been disseminated over the past twelve months is available by clicking on the following link www.securities.oddo-bhf.com

Recommendation split				
		Buy	**Neutral**	**Reduce**
Our whole coverage	(473)	53%	40%	8%
Liquidity providers coverage	(96)	54%	42%	4%
Research service coverage	(27)	63%	30%	7%
Investment banking services	(36)	69%	25%	6%

Risk of conflict of interest:

Investment banking and/or Distribution	
Has Oddo BHF, managed or co-managed in the past 12 months a public offering of securities for the subject company/ies?	No
Has Oddo BHF, received compensation for investment banking services from the subject company/ies in the past 12 months or expects to receive or intends to seek compensation for investment banking services from the subject company/ies in the last 12 months?	No
Research contract between Oddo group & the issuer	
Oddo BHF and the issuer have agreed that Oddo BHF will produce and disseminate investment recommendations on the said issuer as a service to the issuer	No
Liquidity provider agreement and market-making	
At the date of the distribution of this report, does Oddo BHF,act as a market maker or has Oddo BHF, signed a liquidity provider agreement with the subject company/ies?	Yes
Significant equity stake	
Does Oddo BHF, own 5% or more of any class of common equity securities of the subject company/ies?	No
Does the subject company beneficially own 5% or more of any class of common equity of Oddo BHF or its affiliates?	No
Disclosure to Company	
Has a copy of this report ; with the target price and/or rating removed, been presented to the subject company/ies prior to its distribution, for the sole purpose of verifying the accuracy of factual statements ?	No
Have the conclusions of this report been amended following disclosure to the company/ies and prior its distribution?	No
Additional material conflicts	
Is Oddo BHF, aware of any additional material conflict of interest?	No
Personal conflicts of interest	
Have those responsible for the drafting of the present document acquired securities from the issuer concerned by the present financial analysis?	No
Have those responsible for the drafting of the present document received remuneration directly linked to investment firm service transactions or any other kind of transaction they carry out or any trading commissions they, or any legal person who is part of the same group, receive?	No

Statement of conflict of interests of all companies mentioned in this document may be consulted on Oddo BHF: www.securities.oddo-bhf.com

Vectron Systems AG

Monday 12 November 2018

V3S GR | V3SG.DE	**Buy**				Price 11.52EUR		
Electronics | Germany	Upside	130.90%			TP 26.60EUR		

PER SHARE DATA (€)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Adjusted EPS	0.06	0.08	0.18	0.30	0.16	-0.49	0.59	1.03
Reported EPS	0.11	0.12	0.18	0.30	0.16	-0.49	0.59	1.03
Growth in adjusted EPS	18.8%	39.3%	ns	66.1%	-45.3%	ns	ns	74.8%
Net dividend per share	0.05	0.05	0.07	0.11	0.07	0.00	0.09	0.15
FCF to equity per share	-0.02	0.23	0.17	0.05	-0.45	-0.57	0.39	0.78
Book value per share	1.47	1.48	1.17	2.25	2.17	1.61	2.20	3.14
Number of shares market cap (m)	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60
Number of diluted shares (m)	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60
VALUATION (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
12m highest price (€)	2.68	2.67	7.52	16.22	39.25	28.05		
12m lowest price (€)	1.76	1.80	2.47	6.62	14.86	11.52		
(*) Reference price (€)	2.27	2.30	4.48	11.15	24.73	11.52	11.52	11.52
Capitalization	15.0	15.2	29.6	73.6	163	76.0	76.0	76.0
Restated Net debt	-2.3	-3.2	-1.2	-6.6	-1.5	2.7	0.1	-4.4
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.7	0.9	2.0	3.2	1.7	1.7	1.7	1.7
Enterprise Value	**13.4**	**12.9**	**30.3**	**70.2**	**163**	**80.4**	**77.8**	**73.3**
P/E (x)	40.0	29.1	25.0	37.5	152	ns	19.6	11.2
P/CF (x)	16.7	16.0	11.7	19.7	4 440	ns	17.6	10.5
Net Yield	2.0%	2.0%	1.5%	1.0%	0.3%	0.0%	0.8%	1.3%
FCF yield	ns	10.1%	3.8%	0.5%	ns	ns	3.4%	6.8%
P/B incl. GW (x)	1.55	1.55	3.83	4.95	11.38	7.14	5.23	3.67
P/B excl. GW (x)	1.55	1.55	3.83	4.95	11.38	7.14	5.23	3.67
EV/Sales (x)	0.62	0.58	1.17	2.08	5.04	3.10	1.57	1.22
EV/EBITDA (x)	8.8	8.3	11.5	19.4	72.4	ns	12.3	7.0
EV/Current EBIT (x)	**13.9**	**12.6**	**14.7**	**22.7**	**93.5**	**ns**	**13.3**	**7.3**

(*) historical average price

PROFIT AND LOSS (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Sales	21.4	22.4	25.9	33.7	32.4	25.9	49.7	60
EBITDA	1.5	1.6	2.6	3.6	2.3	-3.1	6.3	10.5
Depreciations	-0.6	-0.5	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4
Current EBIT	**1.0**	**1.0**	**2.1**	**3.1**	**1.7**	**-3.5**	**5.9**	**10.0**
Published EBIT	1.0	1.0	2.1	3.1	1.7	-3.5	5.9	10.0
Net financial income	0.1	0.1	-0.2	-0.1	-0.1	-0.3	-0.3	-0.4
Corporate Tax	-0.3	-0.3	-0.7	-1.0	-0.6	0.5	-1.7	-2.9
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	0.7	0.8	1.2	2.0	1.1	-3.3	3.9	6.8
Adjusted attributable net profit	**0.4**	**0.5**	**1.2**	**2.0**	**1.1**	**-3.3**	**3.9**	**6.8**
BALANCE SHEET (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	0.7	0.6	0.5	0.4	1.5	1.6	1.9	2.5
Tangible fixed assets	0.9	0.8	0.8	0.7	0.6	1.0	1.8	2.7
WCR	5.8	5.0	6.2	9.3	10.4	10.6	10.7	10.9
Financial assets	0.6	1.0	1.0	1.0	1.9	1.9	1.9	1.9
Ordinary shareholders equity	9.7	9.8	7.7	14.9	14.3	10.7	14.5	20.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	9.7	9.8	7.7	14.9	14.3	10.7	14.5	20.7
Non-current provisions	0.7	0.9	2.0	3.2	1.7	1.7	1.7	1.7
Net debt	**-2.3**	**-3.2**	**-1.2**	**-6.6**	**-1.5**	**2.7**	**0.1**	**-4.4**
CASH FLOW STATEMENT (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
EBITDA	**1.5**	**1.6**	**2.6**	**3.6**	**2.3**	**-3.1**	**6.3**	**10.5**
Change in WCR	-0.7	0.9	-1.0	-3.0	-1.5	-0.1	-0.1	-0.1
Interests & taxes	-0.1	-0.5	-0.2	-0.2	-1.7	0.5	-1.7	-2.9
Others	-0.5	-0.1	0.1	0.4	-0.6	-0.3	-0.3	-0.4
Operating Cash flow	0.2	1.8	1.5	0.8	-1.5	-3.0	4.2	7.1
CAPEX	-0.4	-0.3	-0.4	-0.4	-1.5	-0.8	-1.6	-1.9
Free cash-flow	**-0.1**	**1.5**	**1.1**	**0.3**	**-3.0**	**-3.8**	**2.6**	**5.1**
Acquisitions / disposals	0.0	0.0	0.0	0.0	-0.9	0.0	0.0	0.0
Dividends	-0.3	-0.3	-0.5	-0.7	-1.6	-0.4	0.0	-0.6
Net capital increase	0.0	0.0	0.0	5.9	0.0	0.0	0.0	0.0
Others	0.0	-0.3	1.1	-3.4	-0.2	10.0	0.0	0.0
Change in net cash	-2.4	0.9	-1.9	5.4	-5.1	-4.2	2.7	4.5
GROWTH MARGINS PRODUCTIVITY	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Sales growth	-5.6%	4.7%	15.4%	30.4%	-4.0%	-20.0%	91.8%	21.2%
Lfl sales growth	-	-	-	-	-	-	-	-
Current EBIT growth	9.3%	6.3%	ns	49.3%	-43.4%	ns	ns	70.9%
Growth in adjusted EPS	18.8%	39.3%	ns	66.1%	-45.3%	ns	ns	74.8%
Net margin	1.7%	2.3%	4.6%	5.8%	3.3%	-12.6%	7.8%	11.3%
EBITDA margin	**7.1%**	**7.0%**	**10.2%**	**10.7%**	**7.0%**	**-11.8%**	**12.7%**	**17.4%**
Current EBIT margin	**4.5%**	**4.6%**	**8.0%**	**9.2%**	**5.4%**	**-13.5%**	**11.8%**	**16.7%**
CAPEX / Sales	-3.2%	-1.4%	-1.6%	-1.3%	-4.7%	-3.2%	-3.2%	-3.2%
WCR / Sales	26.9%	22.5%	23.8%	27.5%	32.2%	40.8%	21.6%	18.1%
Tax Rate	28.5%	29.7%	35.6%	33.7%	35.2%	14.0%	30.0%	30.0%
Normative tax rate								
Asset Turnover	2.8	3.2	3.7	3.8	2.8	2.0	3.6	4.0
ROCE post-tax (normative tax rate)	-	-	-	-	-	-	-	-
ROCE post-tax hors GW (normative tax rate)	-	-	-	-	-	-	-	-
ROE	3.8%	5.4%	13.5%	17.4%	7.4%	-26.1%	30.8%	38.5%
DEBT RATIOS	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Gearing	-24%	-32%	-16%	-45%	-10%	26%	1%	-21%
Net Debt / Market Cap	-0.15	-0.21	-0.04	-0.09	-0.01	0.04	0.00	-0.06
Net debt / EBITDA	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**0.02**	**ns**
EBITDA / net financial charges	-21.7	-24.5	11.5	30.0	25.5	-10.2	18.9	29.8

Source: ODDO BHF Securities, SIX