Research Report (Anno)

KPS AG

Return to high double-digit margin level achieved
-
Further potential from internationalisation in sight

Price target: 13.20 €

Rating: Buy

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 18

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

Date and time of completion of this research: 05/03/2019 (14:35 pm)
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Target price valid until: max. 31/12/2019

KPS AG*5a;7;11

Rating: Buy
Price target: 13.20 €

Current Price: 8.10 €
26.03.2019 / ETR 14:30
Currency: EUR

Key Information:

ISIN: DE000A1A6V48
WKN: A1A6V4
Ticker symbol: KSC

Number of shares³: 37.37
Market Cap³: 302.71
Enterprise Value³: 328.02
³in m. / in m EUR

Free Float: 36.1%

Transparency Level:
Prime Standard

Market Segment:
Regulated Market

Accounting Standard:
IFRS

Financial Year: 30/09/

Designated Sponsor:
Oddo Seydler Bank AG

Analysts:

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Cosmin Filker
filker@gbc-ag.de

* List of possible conflicts of interest on page 18

Company profile

Sector: Services

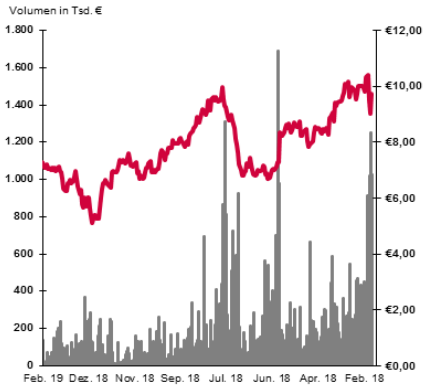
Focus: consulting for business transformation and process optimisation

Employees: 487 Stand: 30.09.2017

Established: 2000

Headquarter office: Unterföhring

CEO: Leonardo Musso



KPS is the leading transformation consultancy for companies throughout Europe that want to align their business model to clients within a very short time and implement innovative digital processes and technologies. KPS views companies holistically and combines merchandise management with B2B and B2C e-commerce processes and customer-oriented marketing and sales processes. The KPS rapid transformation method accelerates project initiatives by up to 50 percent. KPS is part of a successful partner network including SAP Gold Partners, SAP Hybris Platinum, Adobe Business, Intershop Premium, SAP ARIBA and SAP Concur Customer Implementation Partners. With around 1,000 consultants in 12 countries, KPS is continuously expanding its market position globally by undertaking trend-setting projects in the field of digital and technological transformation.

P&L in mEUR, financial year-end	30.09.2017	30.09.2018	30.09.2019e	30.09.2020e
Sales	160.30	172.22	179.97	188.97
EBITDA	26.41	20.02	26.47	28.76
EBIT	24.76	16.59	23.17	25.56
Net profit	19.80	9.83	15.31	17.08

Key figures in EUR				
Earnings per share	0.53	0.26	0.41	0.46
Dividend per share	0.35	0.35	0.35	0.35

Key Figures				
EV/Sales	2.05	1.90	1.82	1.74
EV/EBITDA	12.42	16.38	12.39	11.41
EV/EBIT	13.25	19.77	14.16	12.84
P/E	15.29	30.79	19.77	17.72
P/B		5.00		

Financial calendar
29.03.2019: General Shareholder Meeting
29.05.2019: HJ-report
09.08.2019: Q3-report

** Last research by GBC:
Date: publication/target price in EUR/rating
14.08.2018: RS / 12.50 / BUY
20.02.2018: RS / 16.60 / BUY
28.08.2017: RS / 18.00 / BUY

** The research studies indicated above may be viewed at www.gbc-ag.de, or requested from GBC AG, Halderstr. 27, D86150 Augsburg

EXECUTIVE SUMMARY

- The past financial year 2017/18 was characterised by costs of acquisitions as well as by falling revenues from a major customer. Thus, the historical momentum of double-digit growth was not continued and the EBITDA margin dropped. However, this development has already been reversed in the current financial year 2018/19. As early as in the first quarter of 2018/19, the historically high margin levels were achieved once again. We expect that this development will be able to be carried over for the full financial year 2018/19.

- In the past financial year 2017/18, revenue increased by 7.4% to €172.22 million (previous year: €160.30 million). While a major customer was responsible for a drop in revenue of €18 million, this was well offset by revenue contributions from acquisitions (€19.5 million). In addition, new transformation and consulting projects contributed to the further increase in revenue.

- In terms of profit, an EBITDA of €20.02 million was achieved compared to €26.41 million in the previous year. Thus, the EBITDA margin of 16.5% (FY 2016/17) dropped to 11.6% (FY 2017/18). However, in comparison to the previous year, the result quality improved as a result of a significant reduction in own work capitalised. Own work capitalised fell by 44.9% to €2.83 million (previous year: €5.14 million). The background to this development was mainly increased personnel expenses from the acquisitions. In future, however, this should be extremely positive for KPS, as the most important resource for a consulting company is staff, which are also generally difficult to obtain. Furthermore, thanks to the Spanish company, the average labour costs were reduced further, which should have a positive impact on margin development in the medium term.

- The company's current guidance is €170 to €180 million in revenue and an EBITDA of €22 to €27 million. The guidance shows that the company is increasingly focusing on an improvement in earnings and less on revenue growth in the current year. Excellent results have already been presented in the first quarter, with revenues increased by 16.5% to €44.4 million (previous year: €38.1 million) and a vastly improved EBITDA, which rose by 100% to €6.6 million (previous year: €3.3 million). Accordingly, the EBITDA margin significantly increased from 8.7% (Q1 17/18) to 14.9% (Q1 18/19). Extrapolated for the full year, this would result in revenue of €177.6 million and an EBITDA of €26.4 million. Accordingly, the upper end of the guidance would be reached, provided that the following quarters are similarly positive.

- **For the current financial year 2018/19, we assume that revenue of €179.97 million will be generated and EBITDA of €26.47 million will be achieved. Our forecasts are therefore at the upper end of the guidance. We expect that, in the medium term, the cost burdens will continue to fall and that the cost-saving measures will take effect. Furthermore, in the long term, with the industrialisation of the consulting approach and the lower wage level in Spain, further economies of scale should be able to be achieved. On the basis of our forecast, we are increasing the stock price target to €13.20 (previously: €12.50) and we continue to assign it the BUY rating.**

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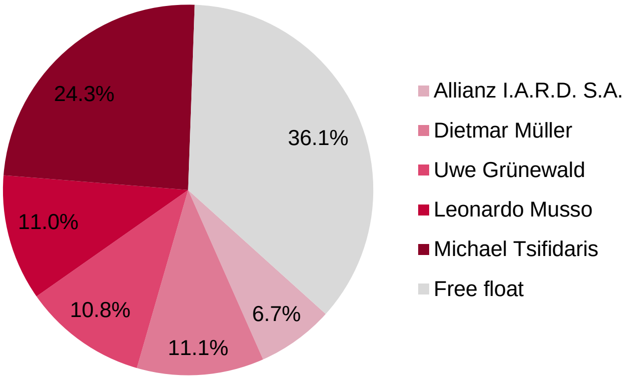
COMPANY

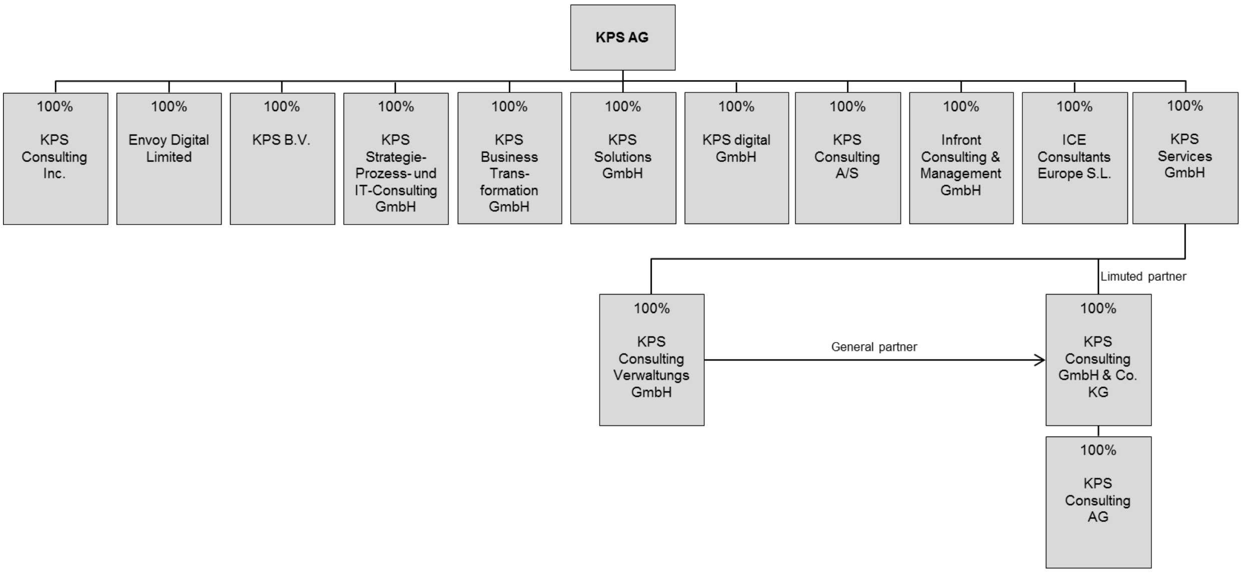
Shareholder structure

Shareholders	
Allianz I.A.R.D. S.A.	6.7%
Dietmar Müller	11.1%
Uwe Grünewald	10.8%
Leonardo Musso	11.0%
Michael Tsifidaris	24.3%
Freefloat	36.1%
Total	100.0%

Source: KPS AG



Consolidation scope



Source: KPS AG

Significant customers

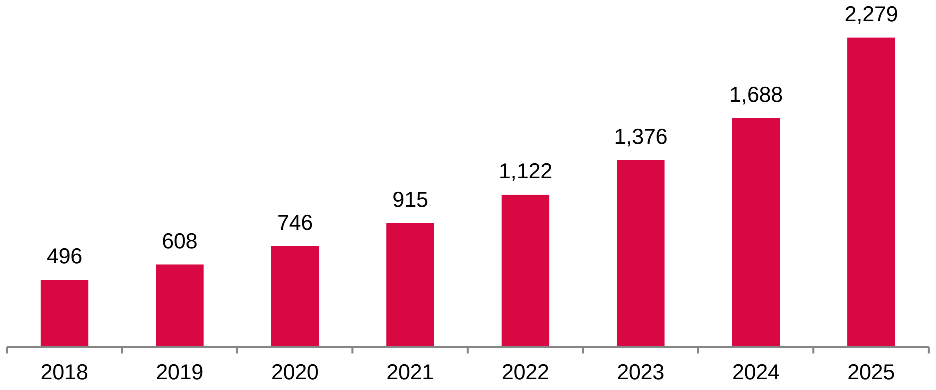
The customer base of KPS AG includes a number of renowned companies. The focus is on commerce and the consumer goods industry. Below are some selected references:

Source: KPS AG

Market and market environment

The market for digital transformation continued to develop dynamically. Research and Markets expects that the global market for digital transformation will grow from around USD 445 billion in 2017 to approximately USD 2,279 billion in 2025. According to Research and Markets, an average annual growth of 24.3% is expected between 2018 and 2025, although the term digital transformation covers a very broad spectrum.

Global market for digital transformation (in USD billions)



Source: Research and Markets

The background to this dynamic growth is, among other things, the pressure faced by many companies that postponed their digitalisation processes or that are experiencing strong competition. These companies need to push on with their internal digital transformation in the coming years. Since these processes are generally outside the core competencies of the companies in question, external consulting firms such as KPS are generally commissioned. In addition, external experts usually have the relevant expertise and can facilitate a more rapid implementation.

Other reasons for the high demand for digital transformation include, among other things, necessary capacity increases and the build-up of a robust infrastructure. Companies can use the new technologies and solutions to boost their own growth. Furthermore, the competitive pressure within the respective sectors leads to further incentives to invest in technology. The digital transformation can therefore, in some cases, also produce competitive advantages.

KPS AG is making use of this excellent market environment and, according to the market research company Lünendonk, the company is still one of the top 10 German management consulting firms. According to Lünendonk, the German consulting market developed very strongly and grew by 12.5% in 2017. Thus, the German consulting firms are in line with the international level of growth. The background to the high growth is thought to be the good overall economic situation and the high demand for transformation among customer companies. The high demand is fuelled in particular by increasing digitalisation in all areas of life and work.

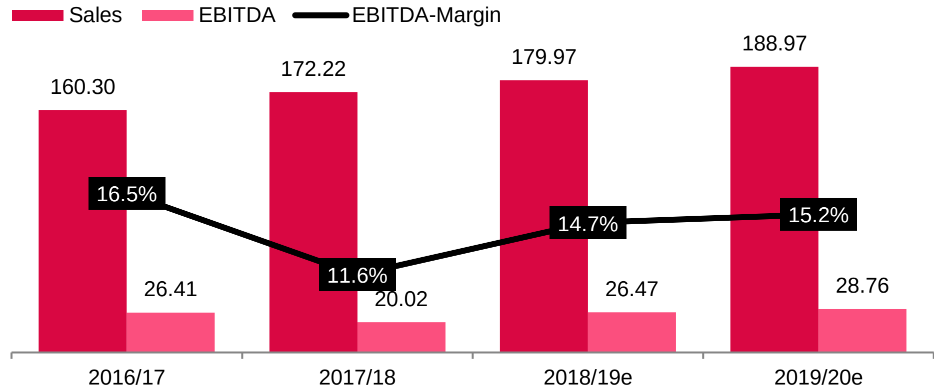
COMPANY PERFORMANCE AND FORECAST

Overview of key figures

	FY 2016/17	FY 2017/18	FY 2018/19e	FY 2019/20e
Sales	**160.30**	**172.22**	**179.97**	**188.97**
Capitalised own work	5.14	2.83	3.00	3.00
Other operating income	2.82	3.23	3.00	1.00
Total income	**168.26**	**178.29**	**185.97**	**192.97**
Cost of material	-67.57	-68.49	-70.00	-71.40
Gross Profit	**100.68**	**109.80**	**115.97**	**121.57**
Personnel expenses	-53.27	-62.19	-63.00	-65.52
Other operating expenses	-21.00	-27.59	-26.50	-27.30
EBITDA	**26.41**	**20.02**	**26.47**	**28.76**
Depreciation	-1.66	-3.43	-3.30	-3.20
EBIT	**24.76**	**16.59**	**23.17**	**25.56**
Interest income	1.22	0.01	0.00	0.00
Interest expenses	-0.13	-1.34	-1.30	-1.15
EBT	**25.84**	**15.27**	**21.87**	**24.41**
Income taxes	-6.04	-5.44	-6.56	-7.32
Net profit	***19.80***	***9.83***	***15.31***	***17.08***

Sales	160.30	172.22	179.97	188.97
EBITDA	26.41	20.02	26.47	28.76
EBITDA-Margin	*16.5%*	*11.6%*	*14.7%*	*15.2%*
EBIT	24.76	16.59	23.17	25.56
EBIT-Margin	*15.4%*	*9.6%*	*12.9%*	*13.5%*
Net profit	19.80	9.83	15.31	17.08
Net-Margin	*12.4%*	*5.7%*	*8.5%*	*9.0%*

Development of Sales, EBITDA (in m€) and EBITDA-Margin (in %)



Source: KPS, GBC

Business performance 2017/18

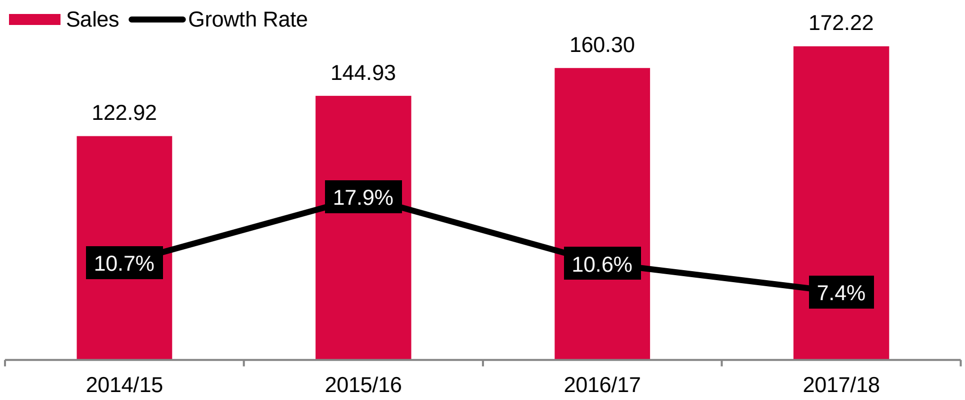
P&L (in m€)	FY 15/16	FY 16/17	FY 17/18
Sales	144.93	160.30	172.22
EBITDA	23.26	26.41	20.02
EBITDA-Margin	*16.0%*	*16.5%*	*11.6%*
EBIT	22.26	24.76	16.59
EBIT-Margin	*15.4%*	*15.4%*	*9.6%*
Net profit	19.28	19.80	9.83
EPS in €	0.52	0.53	0.26

Source: KPS, GBC

Revenue performance

In the financial year 2017/18, KPS AG increased its revenue by 7.4% to €172.22 million (previous year: €160.30 million). In addition to newly acquired projects, acquisitions made a significant contribution to revenue. This offset the drop in revenues from a major customer. Thus, the recorded revenue was slightly above the guidance of €160 to €170 million and also over our expectations of €170 million. That means we were entirely correct with our estimate of revenue at the upper end of the guidance.

Revenue development (in € million) and growth rate (in %)

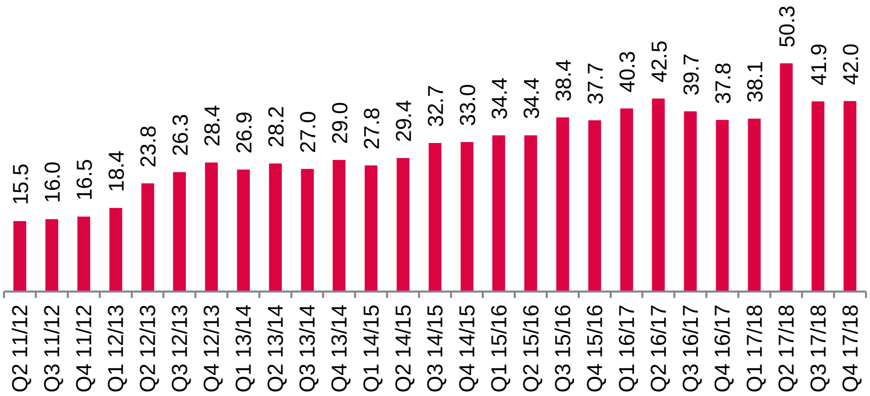


Source: KPS, GBC

A major customer was responsible for a fall in revenue of €18 million in the past financial year 2017/18. There are currently substantial business relationships with ongoing transformation and consulting projects which are still being completed. Therefore, we assume that the major customer will generate revenues with KPS in the coming years, but this revenue is likely to gradually fall. Despite this effect, KPS was able to further increase revenue and thus show that there is no excessive dependence on major customers.

The acquisitions made a valuable revenue contribution to this, namely ICE Consultants Europe S.L., Envoy Digital Ltd and Infront Consulting & Management GmbH. Overall, an inorganic revenue contribution of €19.5 million was generated. Specifically, €3.0 million was generated by Infront Consulting & Management, €3.9 million by Envoy Digital and €11.6 million by ICE Consultants Europe. According to management, the newly acquired companies are already benefiting from their association with KPS. For example, with the top-selling KPS in the background, the companies have already been able to pitch for larger projects and were given the opportunity to pitch for a number of new projects.

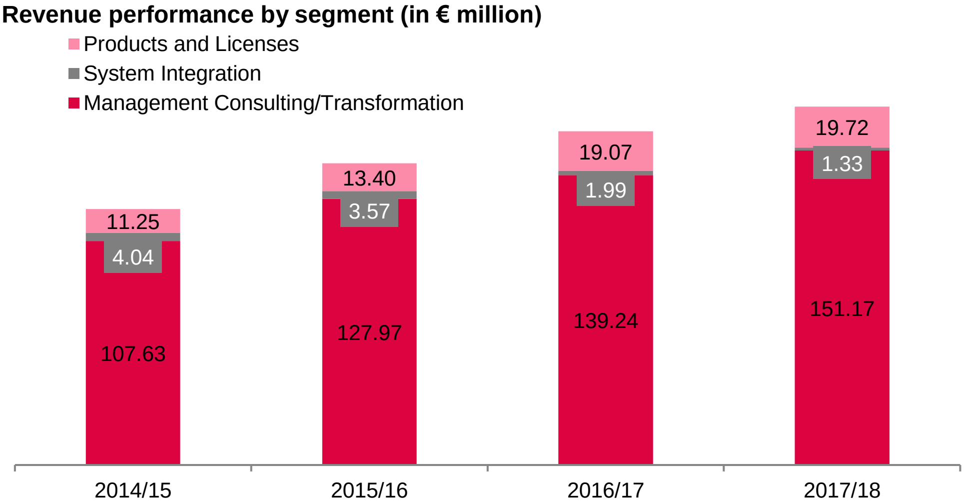
Quarterly revenue performance (in € million)



Source: KPS, GBC

Looking at the quarters, a heterogeneous distribution of revenue is still apparent. The different project timelines of 18 to 24 months and the accompanying uneven invoicing contribute to the relatively broad guidance of the company.

Revenue performance by segment (in € million)



Source: KPS, GBC

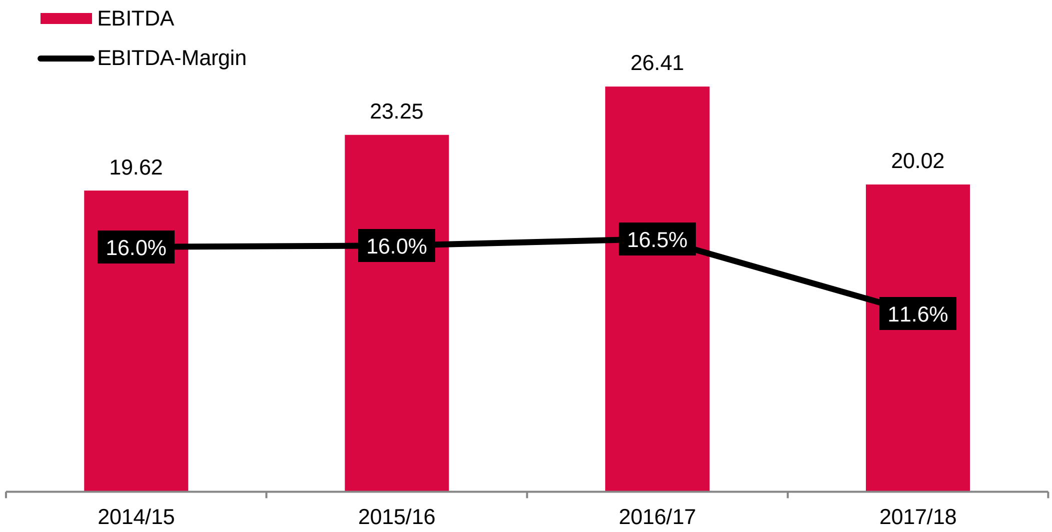
Looking at the segments, it is clear that Management Consulting/Transformation Consulting is still the dominant revenue driver. This segment increased by 8.6% to €151.17 million (previous year: €139.24 million) and remains the most profitable segment with 87.8% of total revenue. This development is driven by the company's strong market position and the rapid transformation method, which focusses on the areas of commerce and logistics. These good general conditions are also reflected in the consulting team's almost full workload.

Overall, the company recorded a very successful financial year and was able to more than compensate for the loss of revenue from the major customer.

Earnings performance

The EBITDA saw a decline to €20.02 million, after €26.41 million was posted in the previous year. As a result, the EBITDA margin of 16.5% in the previous year fell to 11.6%. Accordingly, the result was slightly below our EBITDA prediction of €20.76 million.

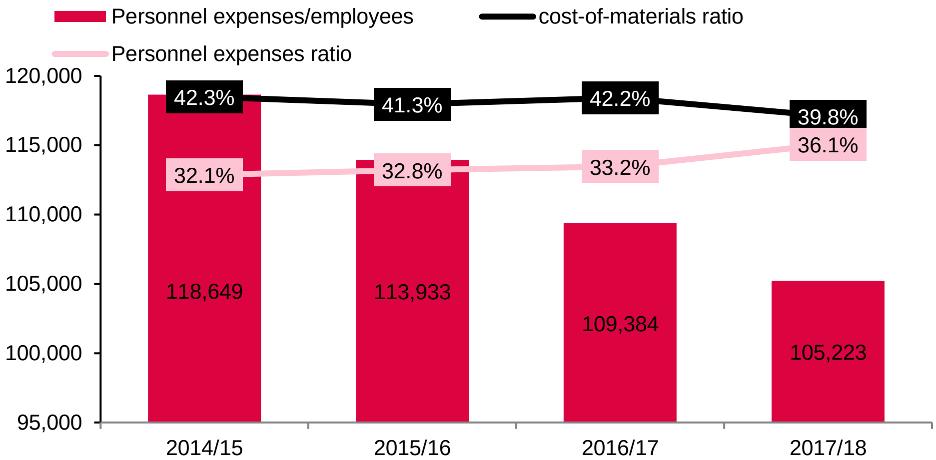
Development of EBITDA (in € millions) and EBITDA margin (in %)



Source: KPS, GBC

The positive thing here is that own work capitalised fell significantly and only made a contribution of €2.83 million (previous year: €5.14 million). The result quality was therefore improved further. In addition, personnel expenses also increased disproportionately by 16.7% to reach €62.19 million (previous year: €53.27 million). This increase is mainly due to the acquisitions. The personnel expansion is a positive, as one of the biggest challenges for a consulting firm is attracting qualified employees. At the same time, personnel expenses are one of the largest items in the P&L. The acquisition of the medium-sized company therefore produced an employee base of 65 workers in Spain (entire company: 591 employees). KPS benefits here from the generally lower wage level in Spain and was thus able to gradually reduce personnel costs per employee. While the personnel expenses ratio continued to rise, reaching 36.1% (previous year: 33.2%), the cost of materials ratio was reduced to 39.8% (previous year: 42.2%). This is in line with the long-term strategy of increasingly relying on in-house employees compared to freelancers, which increase cost of materials. Although freelancers can be used more flexibly, they generally have higher charges. In our opinion, this development should be welcomed.

Development of the key cost drivers



Source: KPS, GBC

In the course of the acquisitions, M&A-related depreciation and amortisation of €2.58 million (previous year: €0.84 million) was incurred, reducing the EBIT. Our EBIT forecast for the financial year 2017/18 amounted to €16.26 million and was therefore slightly below the EBIT achieved, €16.59 million (previous year: €24.76 million), representing an EBITDA margin of 9.6% (previous year: 15.4%). Accordingly, the EBIT margin was significantly below the level of previous years, yet the margin was nevertheless still at a very high level. According to management, the historically significant double-digit margin level is expected to be achieved again. With the industrialisation of the consulting approach, the process factory in Dortmund and a gradual reduction of the average personnel expenses, this objective should be achievable. Particularly in view of the detrimental effect on earnings caused by the decline in revenues from the major customer as well as the costs from the acquisitions, there was a higher burden in the financial year 2017/18. In total, annual net profit of €9.83 million was achieved (previous year: €19.80 million). According to the annual report, the Management Board and Supervisory Board are planning to suggest to shareholders the same dividend as in the previous year, namely €0.35 per share. The planned dividend payment therefore amounts to €13.09 million and is thus partly paid from capital. At the same time, such a high dividend promises a dividend yield significantly above 5%, which should be extremely attractive for many investors.

Balance sheet and financial situation

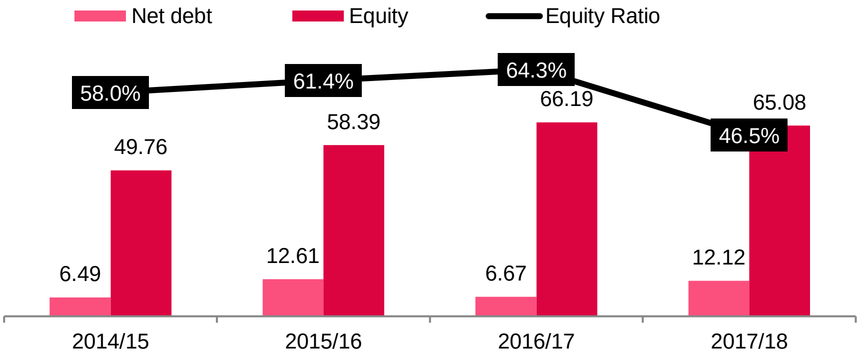
in m€	30.09.2016	30.09.2017	30.09.2018
Equity	58.39	66.19	65.08
Equity Ratio	*61.4%*	*64.3%*	*46.5%*
Operating Assets	33.64	43.28	79.76
Working Capital	1.70	12.26	7.51
Net Debt	-12.61	-6.67	12.12

Source: KPS, GBC

In terms of the balance sheet, the company is still very well positioned, but there were significant changes in the equity ratio. While the equity remained almost the same as the previous year at €65.08 million (previous year: €66.19 million), due to the acquisitions, debt increased significantly.

Equity fell slightly due to the small balance sheet profit in 2017/18 in conjunction with the dividend payment of €0.35 (2016/17). Furthermore, non-current liabilities increased in particular; on the one hand, due to provisions for future earn-out payments for the acquisitions, amounting to €10.20 million (previous year: 0.00) and, on the other hand, due to long-term financial liabilities totalling €12.40 million (previous year: 0.00) with a term of 4.5 years to finance the corporate acquisitions. In this context, the current liabilities also rose. In relation to maturity, for example, €3.8 million of the non-current liabilities were reclassified as current liabilities as well as earn-out liabilities above €7.1 million (previous year: €0.6 million). In addition, to ensure liquidity, a loan of €5.00 million was taken. Thus, total assets increased by 36.0% to €139.87 million (previous year: €102.83 million), which, given equity on the level of the previous year, led to a reduction of the equity ratio of 64.3% (30/09/2017) to 46.5% (30/09/2018). Nevertheless, the equity ratio still very high at 46.5%.

Development of capital and net liquidity (in € million)



Source: KPS, GBC

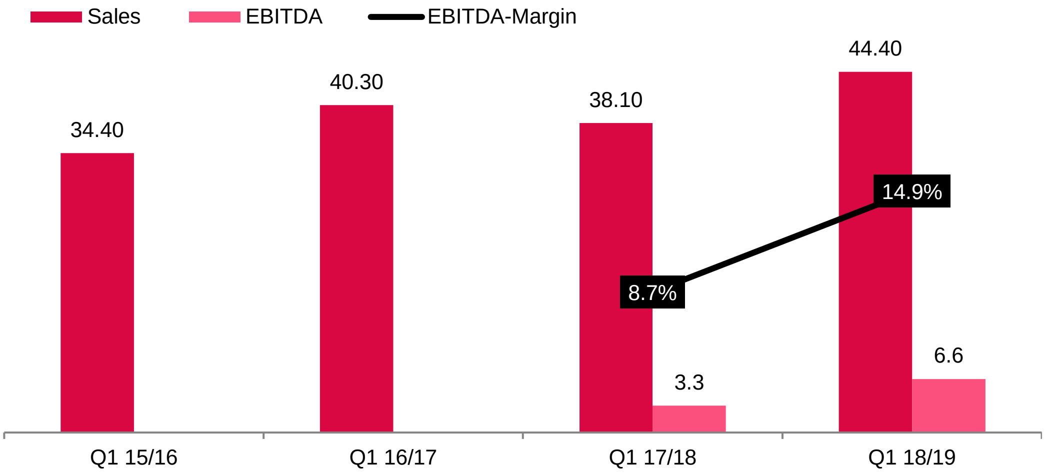
Despite the decrease in earnings in the financial year 2017/18, the operating cash flow increased by 6.3% to €17.85 million (previous year: €16.79 million), which speaks in favour of the operational strengths of the company. The acquisitions made saw cash flow from investment activities amount to -€24.88 million (previous year: -€12.39 million), but the CAPEX fell to -€3.42 million (previous year: -€5.96 million).

Overall, KPS is in a very solid position and the acquisitions should contribute to an improvement in the operating result in future.

Business development in Q1 2018/19

In the first quarter of 2018/19, KPS has already shown that the company is on a very good trajectory in relation to the guidance. The revenue and in particular the EBITDA were at the upper end of the guidance when extrapolated to the whole of the year. With €44.4 million in revenues, an increase of 16.5% was achieved (previous year: €38.1 million) and the EBITDA doubled to €6.6 million (previous year: €3.3 million). The background to the good revenue growth was the achievement of major milestones in customer projects, which could therefore continue to be billed.

Development of revenue, EBITDA* and the EBITDA margin*



*Source: KPS, GBC; *EBITDA was not published in Q1 15/16 and Q1 16/17*

According to management, in the current financial year, there are still slight burdens from M&A activities, yet the investments made will pay off. At the same time, the division of labour could produce synergies in the Group as a whole. For example, the on-average low labour costs in Spain could be used to relatively further reduce costs.

Furthermore, management was able to achieve an improvement in customer concentration. While two years ago, around 80% of revenues still came from 10% to 15% of customers, this year 80% of revenues are expected to come from 30% to 35% of clients. This should significantly reduce the dependence on individual customers. The broader basis could also be achieved by the takeovers of smaller projects with a volume of €10 million each. The smaller and shorter projects allow for several projects to be taken on. At the same time, the assumption of several projects represents a challenge. This challenge can be achieved, on the one hand, by the industrialisation of the consulting approach and, on the other hand, by the new Design Centre in Dortmund, which is expected to play a key role in coordinating the projects.

Overall, the KPS strategy seems to be working. Thus the significant double-digit profit level was achieved again. If the coming quarters also turn out to be so positive, the upper end of the guidance should be achieved.

SWOT-Analyse

Strengths	Weaknesses
• Strong market position with customers in the consumer products and retail sectors • Solid balance sheet ratios with a 58% equity ratio and €6.5 million net liquidity • Full utilisation of consulting staff and extensive order book • Rapid Transformation Method represents a competitive advantage • Reduced dependency on few key customers	• The rising number of projects and project volumes require a sharp increase in the number of employees, which could lead to bottlenecks depending on the availability of personnel resources • Long project run times can result in irregular invoicing
Opportunities	**Threats**
• Takeover of getit GmbH has expanded KPS AG's product range in terms of digital business processing consulting and provides the potential for up-selling • SAP service partner status allows KPS to conclude SAP licensing and maintenance agreements which can have an additional impact on sales • The increasing expansion into foreign markets, in particular Scandinavia, harbours new revenue potential • Exploiting new customer sectors can generate additional potential sales	• Increasing price pressure in the consulting industry could bring consultants' daily rates under pressure • Competitors could copy Rapid Transformation and reduce the competitive advantage of KPS AG • A decline in winning assignments could result in sub-optimal capacity utilisation of the consulting staff • The loss of a major customer could have a negative impact on the revenue and earnings situation of KPS AG

Forecasts and model assumptions

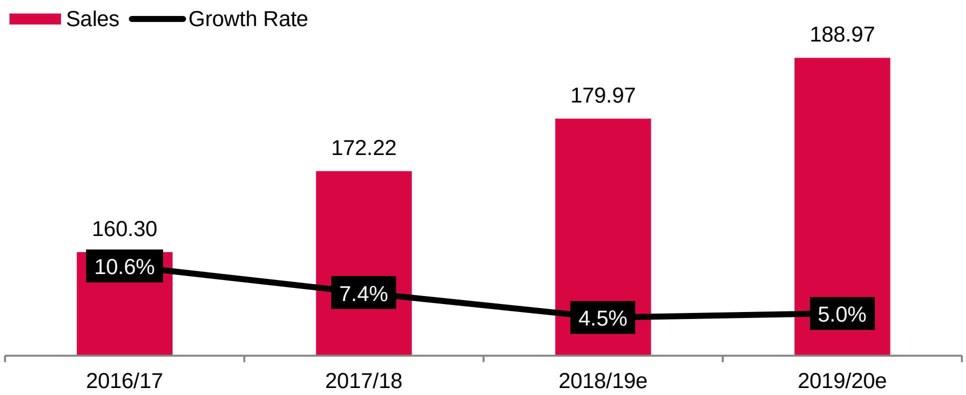
P&L (in m€)	FY 2017/18	FY 2018/19e	FY 2019/20e
Sales	172.22	179.97	188.97
EBITDA	20.02	26.47	28.76
EBITDA-Margin	*11.6%*	*14.7%*	15.2%
EBIT	16.59	23.17	25.56
EBIT-Margin	*9.6%*	*12.9%*	13.5%
Net profit	9.83	15.31	17.08
EPS in €	0.26	0.41	0.46

Source: GBC

Revenue forecasts

Currently, the company is planning to continue to push the internationalisation strategy and increase margins through the industrialisation of the consulting approach. Current KPS guidance is €170.0 to €180.0 million in revenue and an EBITDA of between €22.0 and €27.0 million. After revenues in the amount of €172.22 million in the financial year 2018/19, the guidance would in the worst case assume a fall in revenue of 1.3%. Assuming the upper end of the guidance is achieved, this would equate to revenue growth of 4.5%. This would be significantly below the double-digit growth level of the past. The decline in revenues from the major customer is expected to remain a significant reason for this. However, we believe that, in the medium term, the company will return to a more dynamic growth path, but the effects of the major customer are still likely to affect the financial year 2019/20.

Expected revenue development (in € million)



Source: GBC

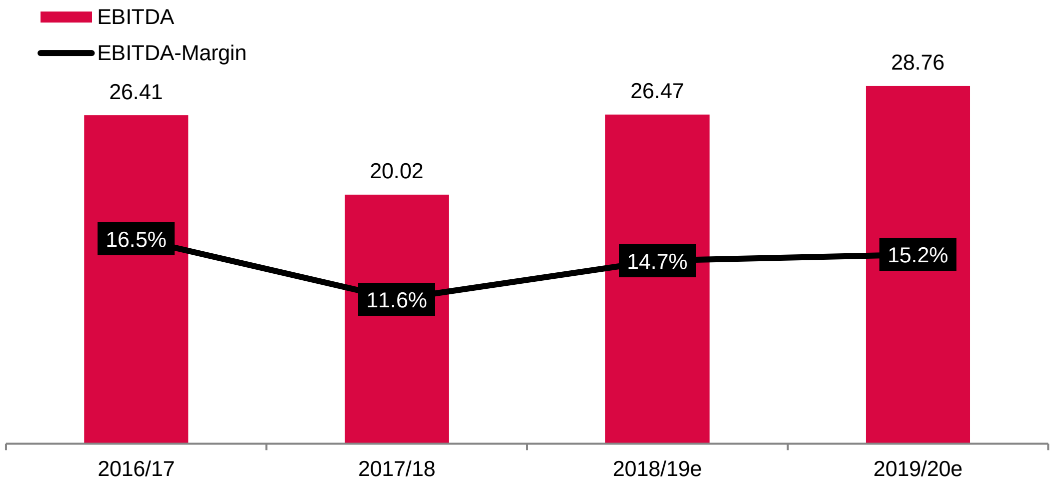
In our opinion, the major revenue drivers are likely to be the internationalisation strategy and the improved client focus thanks to the acquired companies. On the one hand, for example, Infront in Hamburg should place a stronger focus on strategic consulting and, on the other hand, additional business should be acquired via the foreign companies, such as ICE Consultants. In terms of the takeover of Envoy Digital from England, it remains to be seen how the development of Brexit will affect revenue development in Great Britain. Currently, we are assuming that the field of digital transformation consulting will also be less affected by a hard Brexit. Overall, the acquisitions are expected to benefit from the strong name of KPS in the background, as the turnover volumes of the total group means that pitches for large projects are also possible. According to management, there are currently no further acquisitions pending, unless there is an extremely attractive purchase opportunity.

Earnings forecasts

With the current earning guidance, a relatively wide range was used. This states that the EBITDA will be €22.0 to €27.0 million. With the current result of the first quarter, the company is generally around the upper limit of the guidance. If the results of the first quarter can be reproduced in the next three quarters, the EBITDA would amount to €26.4 million (4 x €6.6 million) and would therefore be at the upper end of the guidance.

We assume for the current financial year 2018/19 an EBITDA of €26.47 million (previous year: €20.02 million), representing an EBITDA margin of 14.7% (previous year: 11.6%). This is expected to be followed by continued above-average EBITDA growth in the financial year 2019/20 to €28.76 million, or an EBITDA margin of 15.2%.

Expected development of EBITDA and the EBITDA margin



Source: GBC

We assume that the company is back on the path of the historically high profitability, with an EBITDA margin of over 15%. The reasons for this are the low labour costs in Spain and the switch to the increasing use of the company's own employees rather than freelancers.

In addition, increasing internal digitisation is expected to further improve margins. The development of innovative products, reflected in the own work capitalised in the P&L, should also allow for a broader client base to be addressed. Furthermore, an improved margin is expected to be achieved through even stronger industrialisation of the consulting approach. In our opinion, this development will be further intensified by the new Design Centre in Dortmund.

The past financial year 2017/18 was characterised by acquisition costs and a decline in revenue from a major customer. This led to a significant decline in profit. We assume that these negative effects will be less significant in the financial year 2018/19 and therefore a significant margin improvement should be achieved.

VALUATION

Model assumptions

We rated KPS AG using a three-stage DCF model. Starting with the concrete estimations for 2018/19 and 2019/20 in phase 1, in the second phase, from 2020/21 to 2025/26, our forecast uses value drivers. Here we expect a sales increase of 11.0 %. We have assumed an EBITDA margin target of 17.0%. We have taken into account tax rates of 30.0 %. Additionally, a residual value is determined in the third phase by using the perpetual annuity by the end of the forecast horizon. As the final value, we assume a growth rate of 2.0%.

Determination of capital costs

The weighted average cost of capital (WACC) of KPS AG is calculated using equity costs and debt costs. The market premium, the company-specific beta, as well as the risk-free interest rate have to be determined in order to determine the equity cost.

The risk-free interest rate is derived in accordance with the recommendations of the expert committee for company valuations and business administration (FAUB) of the IDW (Institut der Wirtschaftsprüfer in Deutschland e.V.) from the current interest rate yield curves for risk-free bonds. The zero bond interest rates according to the Svensson method published by the German Federal Bank form the underlying basis. To smooth out short-term market fluctuations, we use the average yields over the previous three months and round up the result to 0.25 basis points. **The value of the currently used risk-free interest rate is 1.00% (before: 1.25%).**

We set the historical market premium of 5.50% as a reasonable expectation of the market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the stock market is expected to be more profitable than low-risk government bonds.

According to GBC estimates, we have determined a beta of 1.41 (before: 1.41).

Based on these assumptions, the calculated equity costs amount to 8.8 % (beta multiplied by the risk premium plus the risk-free interest rate). Since we assume a sustainable weighting of the equity costs of 90 %, the resulting weighted average costs of capital (WACC) amount to 8.1%.

Evaluation result

The discounting of future cash flows is based on the entity approach. In our calculation, the result for the corresponding weighted average costs of capital (WACC) is 8.1%. The resulting fair value per share at the end of the 2018/19 financial year corresponds to the target price of € 13.20 (before: 12.50€). We have adjusted our target price because of the changed outlook and adjusted forecast.

DCF-Modell

KPS AG - Discounted cash flow (DCF) model scenario

Value driver of the DCF - model according to estimate phase:

consistency - Phase	
Sales growth	11.0%
EBITDA-Margin	17.0%
Depreciation to fixed assets	6.6%
Working Capital to sales	8.3%

final - Phase	
Eternal growth rate	2.0%
Eternal EBITA - margin	17.0%
Eternal effective tax rate	30.0%

Three phases - Model:

phase	estimate		consistency						final
in €m	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	Terminal Value
Sales	179.97	188.97	209.72	232.75	258.30	286.67	318.14	353.07	
Sales change	4.5%	5.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	2.0%
Sales to fixed assets	2.24	2.33	2.65	3.02	3.44	3.92	4.46	5.07	
EBITDA	26.47	28.76	35.65	39.57	43.91	48.73	54.08	60.02	
EBITDA-margin	14.7%	15.2%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	
EBITA	23.17	25.56	30.33	34.38	38.87	43.82	49.30	55.35	
EBITA-Margin	12.9%	13.5%	14.5%	14.8%	15.0%	15.3%	15.5%	15.7%	17.0%
Taxes on EBITA	-6.95	-7.67	-9.10	-10.31	-11.66	-13.15	-14.79	-16.61	
Taxes to EBITA	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	16.22	17.89	21.23	24.07	27.21	30.68	34.51	38.75	
Return on capital	18.6%	19.1%	22.0%	24.9%	28.2%	31.8%	35.6%	39.7%	43.3%
Working Capital (WC)	13.17	15.38	17.41	19.32	21.44	23.79	26.41	29.31	
WC to sales	7.3%	8.1%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	
Investment in WC	-5.67	-2.21	-2.03	-1.91	-2.12	-2.35	-2.61	-2.90	
Operating fixed assets (OAV)	80.44	81.24	79.22	77.03	74.98	73.07	71.28	69.61	
Depreciation on OAV	-3.30	-3.20	-5.32	-5.19	-5.05	-4.91	-4.79	-4.67	
Depreciation to OAV	4.1%	3.9%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	
Investment in OAV	-3.98	-4.00	-3.30	-3.00	-3.00	-3.00	-3.00	-3.00	
Capital employed	93.61	96.62	96.62	96.34	96.42	96.86	97.69	98.92	
EBITDA	26.47	28.76	35.65	39.57	43.91	48.73	54.08	60.02	
Taxes on EBITA	-6.95	-7.67	-9.10	-10.31	-11.66	-13.15	-14.79	-16.61	
Total investment	-12.87	-9.44	-8.56	-8.14	-8.35	-7.08	-5.61	-5.90	
Investment in OAV	-3.98	-4.00	-3.30	-3.00	-3.00	-3.00	-3.00	-3.00	
Investment in WC	-5.67	-2.21	-2.03	-1.91	-2.12	-2.35	-2.61	-2.90	
Investment in Goodwill	-3.23	-3.23	-3.23	-3.23	-3.23	-1.72	0.00	0.00	
Free cash flows	6.65	11.65	17.99	21.11	23.90	28.51	33.68	37.52	672.43

Value operating business (due date)	513.02	542.81
Net present value explicit free cash flows	122.66	120.92
Net present value of terminal value	390.35	421.89
Net debt	19.85	22.43
Value of equity	493.17	520.39
Minority interests	0.00	0.00
Value of share capital	493.17	520.39
Outstanding shares in m	37.37	37.37
Fair value per share in €	**13.20**	13.92

Cost of Capital:

Riskfree rate	1.0%
Market risk premium	5.5%
Beta	1.41
Cost of Equity	8.8%
Target weight	90.0%
Cost of Debt	2.5%
Target weight	10.0%
Taxshield	28.7%
WACC	**8.1%**

Return on Capital	WACC				
	7.1%	**7.6%**	**8.1%**	**8.6%**	**9.1%**
42.3%	15.77	14.22	12.94	11.87	10.96
42.8%	15.93	14.37	13.07	11.98	11.06
43.3%	16.09	14.51	**13.20**	12.10	11.16
43.8%	16.26	14.65	13.32	12.21	11.26
44.3%	16.42	14.79	13.45	12.32	11.36

ANNEX

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