



Research report (update)

KPS AG



**Guidance withdrawn
nevertheless, still undervalued.**

**Target price: 12.00 €
(previously: 13.80 €)**

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 11

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 the study: 29.06.2019 (11:00) – German Version: 24.06.2020 (17:00)

Date and time of first transmission: 30.06.2019 (09:30) – German Version: 25.06.2020 (09:30)

Validity of the price target: until max. 31.12.2021

KPS AG*5a;7;11

Rating: Buy

Target price: € 12.00
(previously: € 13.80)

Current price: € 6.04 / ETR
15.06.2020 - 17:17

Currency: EUR

ISIN: DE000A1A6V48
WKN: A1A6V4
Ticker symbol: KSC

Number of shares³: 37.41
Marketcap³: 225.97
Enterprise Value³: 233.69
in million / in million EUR

Free float: 36.1%

Level of transparency:
prime standard

market segment:
Regulated market

Accounting:
IFRS

Year end: 30.09.

Designated Sponsor:
Oddo Seydler Bank AG

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* Catalogue of possible conflicts of interest on page 11

Company profile

Industry: Services

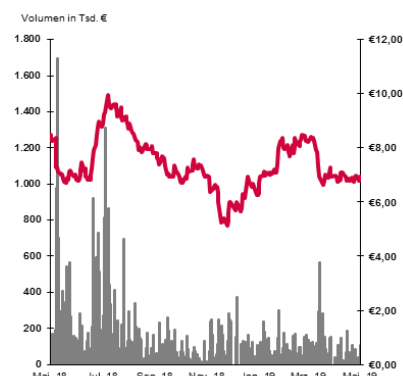
Focus: Transformation consulting, process optimization

Employees: 636 Status: 31.03.2020

Foundation: 2000

Head office: Munich

Board of Directors: Leonardo Musso



KPS is the leading European transformation consultant for innovative digital processes and technology implementation. KPS provides everything from strategy consulting to industry-specific process chains to the implementation of state-of-the-art technologies. The KPS team advises companies end-to-end and integrates merchandise management, B2B and B2C e-commerce with marketing and sales processes. Especially in a digital world with the customer in focus, the ability to quickly implement projects is a significant competitive advantage. The KPS Rapid-Transformation® method accelerates projects by up to 50% and the experience and industry knowledge of KPS consultants ensure the success of every project initiative. With around 1,100 consultants in nine countries, KPS is continuously expanding its global market position through trend-setting projects in digital and technological change.

P&L in EUR million \ FY end	30.09.2018	30.09.2019	30.09.2020e	30.09.2021e
Turnover	172.22	180.66	173.60	180.54
EBITDA	20.02	22.55	15.50	15.12
EBIT	16.59	18.80	12.00	11.92
Net profit for the year	9.83	12.19	7.54	7.55

Key figures in EUR				
Earnings per share**	0.26	0.33	0.20	0.20
Dividend per share	0.35	0.35	0.37	0.38

Key figures				
EV/Sales	1.36	1.29	1.35	1.29
EV/EBITDA	11.67	10.36	15.08	15.45
EV/EBIT	14.08	12.43	19.47	19.60
P/E RATIO	22.99	18.53	29.99	29.92
KBV		3.22		

Financial calendar
24.07.2020: Q3 Report 2018 /2019
probably 04.09.2020: Annual General Meeting

**last research by GBC:
Date: Publication / Target price in EUR / Rating
16.03.2020: RS / 13.80 / BUY
30.07.2019: RS / 13.20 / BUY
05.06.2019: RS / 13.20 / BUY
06.03.2019: RS / 13.20 / BUY

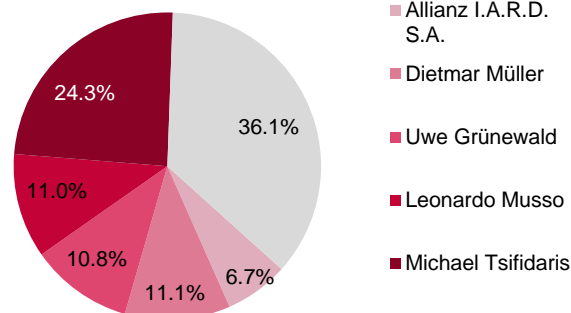
** the above mentioned research studies can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg

COMPANY

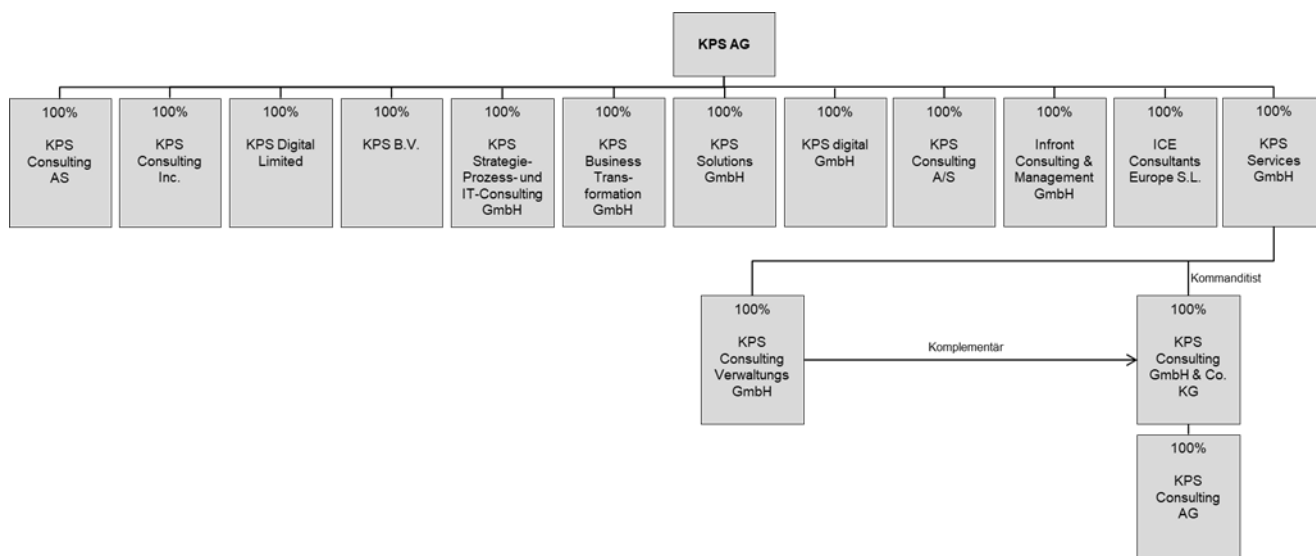
Shareholder structure

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

Source: KPS AG



Consolidated companies



Source: KPS AG

Important customers

The customer base of KPS AG includes a number of renowned corporations. Its focus is on the retail and consumer goods industries.



Source: KPS AG

BUSINESS DEVELOPMENT H1 2019/20

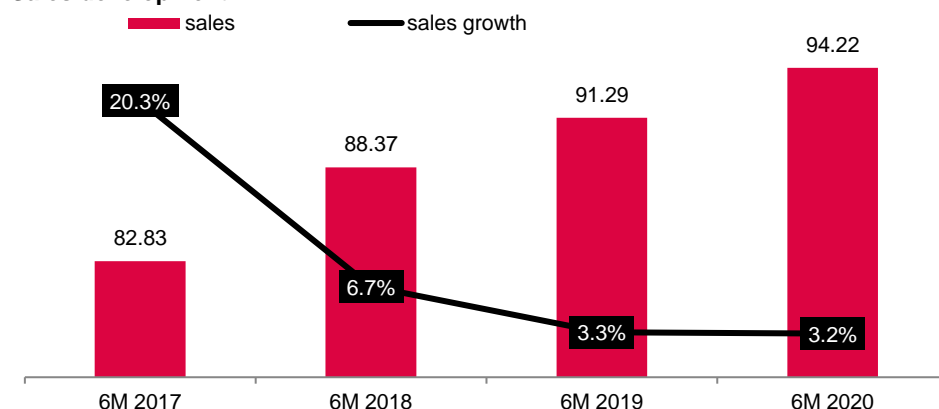
in million €	HY 2017/18	HY 2018/19	HY 2019/20
Revenue	88.37	91.29	94.22
EBITDA	9.37	13.23	9.19
EBITDA Margin	10.6%	14.5%	9.8%
EBIT	7.51	11.49	9.19
EBIT Margin	8.5%	12.6%	9.8%
Net result	5.48	7.40	5.89
EPS in €	0.15	0.20	0.16

Sources: KPS, GBC

Development of sales

At € 94.22 million (previous year: € 91.29 million) in the first half of 2019/20, sales were in line with expectations and a slight growth of 3.2% (previous year: 3.3%) was achieved despite the corona crisis. The reason for the nevertheless positive sales trend was an increased investment in marketing and sales offensives. This enabled the company to decouple itself from the general negative economic trend. The BDU business climate index quoted by the company fell by 29.9 points to 70.4 points, although KPS AG as a service provider in the digitization industry should generally be less affected by the general business climate.

Sales development



Sources: KPS, GBC

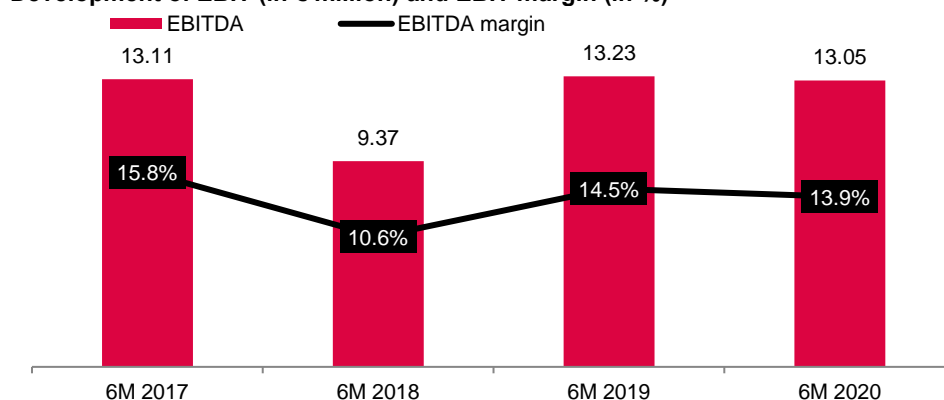
The corona crisis nevertheless affected KPS AG to some extent, which led to the suspension of some projects. According to the management, however, this does not mean a loss of sales, but a postponement to a later date. In addition, KPS AG was already optimally positioned to implement the social distancing regulations well before the corona crisis. Remote workstations via VPN are being used more and more and, even before the crisis, remote solutions were already being used extensively for the rollout of digitalisation solutions.

The pausing of the transformation projects is reflected in the segment report. At € 84.95 million (previous year: € 85.08 million), the Transformation Consulting segment remained at the level of the previous year. The growth driver was thus the Products/Licenses segment, which was very dynamic with growth of 27.8% to € 8.55 million (previous year: € 5.55 million).

Development of earnings

At € 13.05 million (previous year: € 13.23 million), EBITDA for the first half of 2019/20 was almost at the same level as in the previous year. Due to the first-time application of IFRS 16, there was a cash-neutral positive earnings effect of € 2.5 million. In addition, higher earn-out provisions of € 1.1 million (previous year: € 0.7 million) were formed due to the better than expected development of the Spanish subsidiary ICE Consultants Europe S.L. As a result of the corona crisis, general value adjustments of € 0.8 million were recorded, which also had an effect on earnings. Adjusted for the above-mentioned effects, EBITDA amounted to € 12.5 million (previous year: € 13.9 million) and was thus 10.1% below the adjusted figure for the previous year.

Development of EBIT (in € million) and EBIT margin (in %)



Sources: KPS, GBC

On the cost side, the cost of materials rose in particular due to the acquisition of software for a customer project, increasing by 8.1% to € 34.84 million (previous year: € 32.24 million). This led to an increase in the cost of materials ratio from 35.3% to 37.0%. Pure external services remained almost constant at around € 31 million. At € 33.87 million (previous year: € 33.76 million), personnel expenses also remained at the previous year's level.

Thus, despite the corona crisis, a stable revenue and earnings performance was reported for the first half of 2019/20.

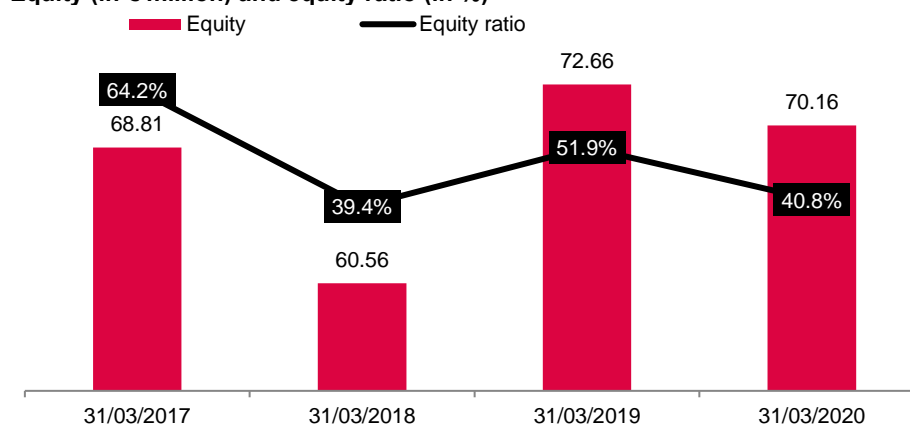
Balance sheet and financial situation

in million €	31.03.2018	31.03.2019	31.03.2020
Equity	60.56	72.66	70.16
Equity ratio (in %)	39.4%	51.9%	40.8%
Operating fixed assets	82.72	79.80	80.21
working capital	15.63	11.62	10.95
net debt	25.32	7.21	14.67

Sources: KPS, GBC

The company continues to be well positioned in terms of its balance sheet. Shareholders' equity decreased to € 70.16 million (31.03.2019: € 72.66 million) due to the lower balance sheet profit. At the same time, the equity ratio fell significantly to 40.8% (31.03.2019: 51.9%) due to the first-time application of IFRS 16. Due to the recognition of leasing liabilities, the balance sheet total increased by € 26.72 million. Adjusted for the IFRS 16 effect, the equity ratio is 48.3%, which nevertheless reflects a decline.

Equity (in € million) and equity ratio (in %)



Sources: KPS, GBC

In addition, net debt rose to € 14.67 million (31.03.2019: € 7.21 million), which is mainly due to a decrease in liquid funds to € 6.90 million (31.03.2019: € 9.99 million) and an increase in bank liabilities to € 21.40 million (31.03.2019: € 17.20 million). The KPS balance sheet is therefore well prepared for the corona crisis.

FORECAST AND EVALUATION

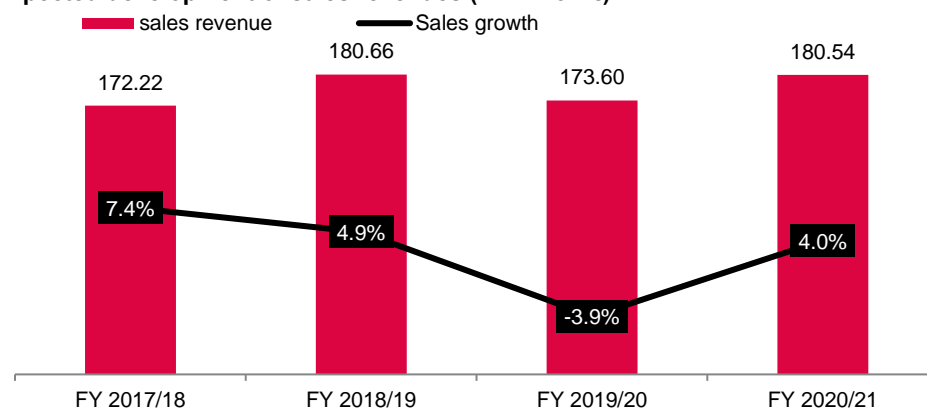
P&L account (in million €)	FY 2018/19	FY 2019/20e	FY 2020/21e
Revenue	180.66	173.60	180.54
EBITDA	22.55	15.50	15.12
EBITDA margin	12.5%	8.9%	8.4%
EBIT	18.80	12.00	11.92
EBIT Margin	10.4%	6.9%	6.6%
Net profit for the year	12.19	7.54	7.55
EPS in €	0.33	0.20	0.20

Source: GBC

Sales forecasts

On April 27, 2020, the company published that the guidance for the current fiscal year 2019/20 will be withdrawn. Previously, the guidance had provided for revenues in the amount of € 181-191 million and EBITDA of € 28-36 million. On the one hand, despite the corona crisis, additional projects and customers were won, but on the other hand, some projects were paused and the further development of new and existing customers can no longer be planned by the management. Against the background of the current development and the presumably longer sales cycles, combined with pauses in existing projects, we expect a slight decline in sales and earnings. The guidance issued leaves a lot of room for interpretation, but we nevertheless assume that the majority of existing projects will be continued and that there will only be a slight decline in sales in the current 2019/20 financial year. We expect sales revenues to decline by 3.9% to € 173.60 million (previous year: € 180.66 million) in the current financial year 2019/20 and to increase again by 4.0% to € 180.54 million in the financial year 2020/21.

Expected development of sales revenues (in million €)



Source: GBC

Against the background of higher expenses for sales offensives in combination with ongoing projects, there should only be a slight decline in sales. We assume that the corona crisis will also be used to some extent as a driver for digitization campaigns, as home office solutions have been used more frequently and online retailing has also benefited from this development. KPS should benefit from this in the medium term as a pan-European provider for transformation projects.

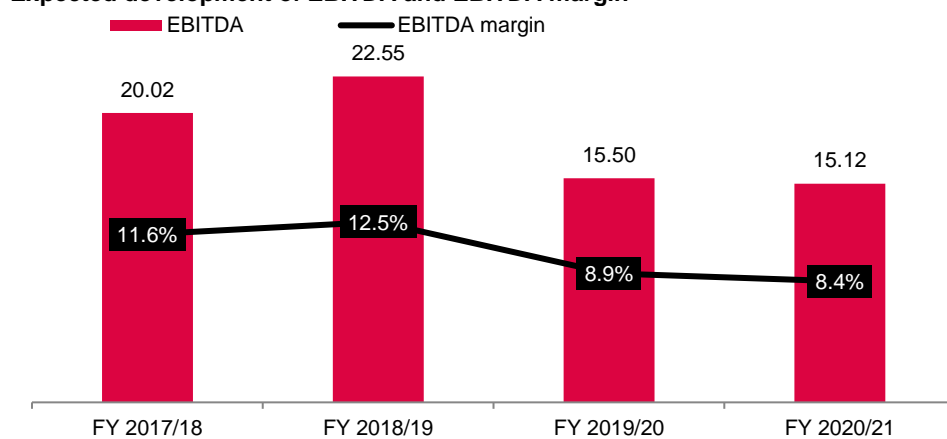
Earnings forecasts

With the withdrawal of the guidance, we expect a significant decline in earnings to reflect a conservative scenario. On the one hand, the management does not expect any further

earn-out burdens; on the other hand, increased use could be made of sales initiatives to represent medium-term sales growth.

Due to the short-term burdens from the corona crisis, we are forecasting a decline in EBITDA to € 15.50 million for the current 2019/20 financial year (previous year: € 22.55 million), and to € 15.12 million for the 2020/21 financial year.

Expected development of EBITDA and EBITDA margin



Source: GBC

Against the background of the reduced forecast, we are lowering our price target to € 12.00 (previously: € 13.20) and continue to assign a Buy rating due to the still very high upside potential of 98.7%.

Evaluation

KPS AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2019/20 and 2020/21 in phase 1, the forecast for the years 2021/22 to 2026/27 is carried out in the second phase using value drivers. We expect revenue growth of 10.9%. We have assumed an EBITDA margin target of 17.0%. We have taken the tax rate into account at 30% in phase 2 and phase 3. In the third phase, a residual value will be determined by means of the perpetual annuity after the end of the forecast horizon. We assume a growth rate of 2.0% in the terminal value.

Determination of the cost of capital

The weighted average cost of capital (WACC) of KPS AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) (Technical Committee for Company Valuations and Business Administration). It is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points.

The currently used value of the risk-free interest rate is 1.00% (previously: 1.00 %).

As a reasonable expectation of a market premium, we apply the historical market premium of 5.50 %. This is supported by historical analyses of stock market returns. The market premium reflects by what percentage the equity market is expected to outperform low-risk government bonds.

According to the GBC estimation method, a beta of 1.41 is currently determined (previously: 1.41).

Using the assumptions made, the cost of equity is calculated at 8.8% (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of 100% of the cost of equity, the weighted average cost of capital (WACC) is 8.8%.

Evaluation result

Future cash flows are discounted on the basis of the entity approach. We have calculated the corresponding cost of capital (WACC) at 8.8%. The resulting fair value per share at the end of the 2018/19 financial year corresponds to a price target of €12.00 (previously: €13.80).

DCF model

KPS AG - Discounted cash flow (DCF) analysis

Value drivers of the DCF model after the estimate phase:

consistency - phase		final - Phase	
Sales growth	10.9%	perpetual growth in sales	2.0%
EBITDA margin	17.0%	perpetual EBITA - margin	17.0%
AFA to operating fixed assets	6.6%	effective tax rate at final value	30.0%
Working capital to sales	1.0%		

three-stage DCF model:

Phase in EUR mil- lion	estimate		consistency						final Final value
	FY 19/20e	FY 20/21e	FY 21/22e	FY 22/23e	FY 23/24e	FY 24/25e	FY 25/26e	FY 26/27e	
Sales (US)	173.60	180.54	200.21	222.01	246.18	272.99	302.72	335.69	
<i>US Change</i>	-3.9%	4.0%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	2.0%
<i>US to operating fixed assets</i>	2.17	2.26	2.61	3.02	3.48	4.01	4.59	5.19	
EBITDA	15.50	15.12	34.03	37.74	41.85	46.41	51.46	57.07	
<i>EBITDA margin</i>	8.9%	8.4%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	
EBITDA	12.00	11.92	28.76	32.68	36.99	41.74	46.97	52.71	
<i>EBITDA Margin</i>	6.9%	6.6%	14.4%	14.7%	15.0%	15.3%	15.5%	15.7%	17.0%
Taxes on EBITDA	-3.78	-3.76	-8.63	-9.80	-11.10	-12.52	-14.09	-15.81	
<i>to EBITDA</i>	31.5%	31.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
ECI (NOPLAT)	8.22	8.17	20.13	22.88	25.90	29.22	32.88	36.90	
Return on investment	10.5%	10.4%	25.6%	29.1%	34.1%	39.9%	46.4%	53.5%	59.9%
Working Capital (WC)	-1.26	-1.31	2.00	2.22	2.46	2.73	3.03	3.36	
<i>WC to turnover</i>	-0.7%	-0.7%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
<i>Investments in WC</i>	-0.05	0.05	-3.31	-0.22	-0.24	-0.27	-0.30	-0.33	
Operating fixed assets (OAV)	79.99	79.95	76.67	73.61	70.75	68.08	65.99	64.64	
<i>AFA on OAV</i>	-3.50	-3.20	-5.28	-5.06	-4.86	-4.67	-4.49	-4.36	
<i>AFA to OAV</i>	4.4%	4.0%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	
<i>Investments in OAV</i>	-3.61	-3.16	-2.00	-2.00	-2.00	-2.00	-2.40	-3.00	
Invested capital	78.73	78.64	78.68	75.83	73.22	70.81	69.02	67.99	
EBITDA	15.50	15.12	34.03	37.74	41.85	46.41	51.46	57.07	
Taxes on EBITDA	-3.78	-3.76	-8.63	-9.80	-11.10	-12.52	-14.09	-15.81	
Total investments	-6.90	-6.22	-8.54	-5.45	-2.24	-2.27	-2.70	-3.33	
<i>Investments in OAV</i>	-3.61	-3.16	-2.00	-2.00	-2.00	-2.00	-2.40	-3.00	
<i>Investments in WC</i>	-0.05	0.05	-3.31	-0.22	-0.24	-0.27	-0.30	-0.33	
<i>Investments in good will</i>	-3.23	-3.11	-3.23	-3.23	0.00	0.00	0.00	0.00	
Free cash flows	4.82	5.15	16.86	22.49	28.51	31.62	34.67	37.92	581.04

Value of operating business (reporting date)	441.95	475.60
<i>Present value of explicit FCFs</i>	119.55	124.90
<i>Present value of the continuing value</i>	322.40	350.71
Net debt	17.00	26.59
Value of equity capital	424.96	449.01
Minority interests	0.00	0.00
Value of the share capital	424.96	449.01
Shares outstanding in million	37.41	37.41
Fair value of the share in EUR	11.36	12.00

Calculation of the cost of capital:

<i>risk-free return</i>	1.0%
<i>Market risk premium</i>	5.5%
<i>Beta</i>	1.41
<i>Cost of equity</i>	8.8%
<i>Target weighting</i>	100.0%
<i>Cost of debt</i>	2.5%
<i>Target weighting</i>	0.0%
<i>Tax shield</i>	28.7%
WACC	8.8%

		WACC				
		7.8%	8.3%	8.8%	9.3%	9.8%
ROI	58.7%	14.05	12.85	11.84	10.97	10.23
	59.2%	14.15	12.94	11.92	11.05	10.29
	59.7%	14.25	13.03	12.00	11.12	10.36
	60.2%	14.35	13.12	12.08	11.19	10.43
	60.7%	14.45	13.21	12.16	11.27	10.49

ANNEX

Research under MiFID II

1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

II.

Section 1 Disclaimer and exclusion of liability

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Legal information and disclosures as required by section 85 of Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)

This information can also be found on the internet at the following address:

<http://www.gbc-ag.de/de/Offenlegung>

Section 2 (I) Updates

A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

Section 2 (II) Recommendation/ Classifications/ Rating

Since 1/7/2006 GBC AG has used a 3-level absolute share rating system. Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months. Previously the ratings related to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are defined based on the categories described below, including reference to the expected returns. Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification, but can result in a revision of the original recommendation.

The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $\geq + 10\%$.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $> - 10\%$ and $< + 10\%$.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is $\leq - 10\%$.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

Section 2 (III) Past recommendations

Past recommendations by GBC on the current analysis/analyses can be found on the internet at the following address:

<http://www.gbc-ag.de/de/Offenlegung>

Section 2 (IV) Information basis

For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc.) which GBC believes to be reliable. In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends.

Section 2 (V) 1. Conflicts of interest as defined in section 85 of the Securities Trading Act (WpHG) and in section 20 of Market Abuse Regulation (MAR)

GBC AG and the analysts concerned hereby declare that the following potential conflicts of interest exist for the company/companies described, at the time of this publication, and in so doing meet the requirements of section 85 of the Securities Trading Act (WpHG) and Section 20 of Market Abuse Regulation (MAR). A detailed explanation of potential conflicts of interest is also listed in the catalogue of potential conflicts of interest under section 2 (V) 2.

In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (5a,7,11)

section 2 (V) 2. Catalogue of potential conflicts of interest

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- (5) a) GBC AG or a legal entity affiliated with it has concluded an agreement with this company or issuer of the analysed financial instrument in the previous 12 months on the preparation of research reports for a fee. Under this agreement, the draft financial analysis (excluding the valuation section) was made available to the issuer prior to publication.
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