

Buy (old: Buy)

23.08.2024

EUR 11.70 (old: EUR 11.70)

Strongly improved Q2 in line with est. + promising AI acquisition

Yesterday, **NFON released its Q2/H1 report**, which displays strongly improved profitability as well as a sequential acceleration in growth. Moreover, the company announced the takeover of botario GmbH, a specialist in AI-based communication solutions.

Q2 sales increased by 4.4% to € 21.3m (eNuW: € 21.6m), based on an increased seat base of 665k (+3.8% yoy, eNuW: 666k) as well as up-selling effects in connection with NFON's premium solutions, which led to an improved blended ARPU of € 9.87 at H1 (+2% yoy; eNuW: € 9.92 in Q2). While non-recurring hardware sales continued to decrease (-19% to € 1.1m), recurring revenues grew disproportionately by 6% yoy to € 20.2m, implying a strong **recurring revenue ratio of 94.9%**.

Adj. EBITDA improved again strongly with yoy growth of 88% to € 2.7m (eNuW: € 2.9m; reported EBITDA of € 2.3m), implying a margin of 12.7%. Main reasons for this were an improved gross margin of 84.9% (+0.8pp yoy) as well as continuous efficiency gains on the personnel (-5pp yoy) and other OpEx (-4.5pp yoy) level. Another highlight of the release was the **strong FCF of € 1.8m**, a significant advancement compared to the € -1.1m in H1 '23, following the improved operating performance.

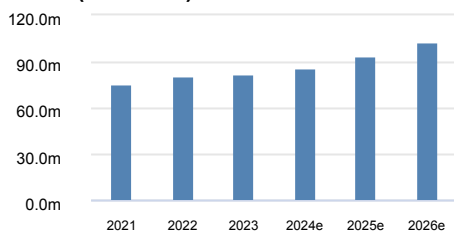
Guidance confirmed. On this basis, management reiterated its FY guidance of recurring sales growth in the mid- to upper-single-digit-%-range with a recurring sales ratio of >90% as well as adj. EBITDA of € 10-12m. Given that the lower end only requires 3.4% recurring sales growth (eNuW: 6.1%) at a 11.1% margin in H2 (eNuW: 13.3%).

Promising acquisition. On Wednesday, NFON announced the acquisition of botario GmbH. The company specializes in the development of advanced AI solutions for business communication, i.e. voice- and phonebots as well as livechats. In our view, botario, which is already boasting a strong client portfolio (Cewe, AXA, Remondis), is seen to be an excellent addition especially to NFON's contact center solutions, thus creating additional value for customers and partners. Moreover, the low penetration among the NFON client base should allow for meaningful synergies coming into effect. **Importantly: botario is highly profitable with an FY '23 EBITDA margin of 30%** and sales of € 2.1m. Going forward, management predicts 40% annual sales growth, which appears in reach following a 100+% CAGR over the past years, with at least stable margins, thus accelerating growth and simultaneously promoting *-continued-*

Y/E 31.12 (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	75.9	80.8	82.3	86.4	94.4	102.5
Sales growth	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
Adj. EBITDA	-1.3	-1.0	8.4	11.5	14.8	17.8
Net debt (if net cash=0)	-22.6	-7.4	-2.4	-3.9	-8.3	-14.4
FCF	-9.7	-12.4	1.0	1.5	4.4	6.1
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0
EPS pro forma	-0.54	-0.94	-0.05	0.15	0.35	0.47
Adj. EBITDA margin	-1.7%	-1.2%	10.2%	13.3%	15.7%	17.4%
ROCE	-12.5%	-19.8%	-0.8%	5.3%	11.0%	15.2%
EV/sales	3.5	1.2	1.2	1.1	1.0	0.9
EV/adj. EBITDA	-204.6	-94.5	11.8	8.5	6.3	4.9
PER	-11.5	-6.5	-129.3	39.9	17.8	13.2
Adjusted FCF yield	-1.6%	-7.8%	4.6%	7.5%	10.7%	9.0%

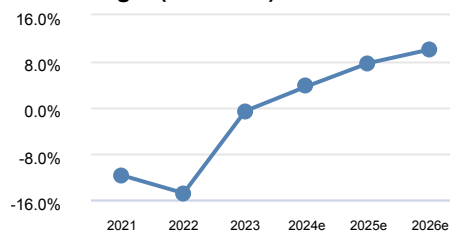
Source: Company data, NuWays, Close price as of 21.08.2024

Sales (2021-26e)



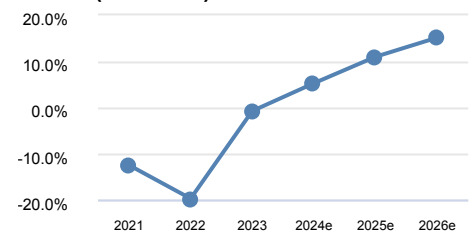
Source: NuWays Research

EBIT margin (2021-26e)



Source: NuWays Research

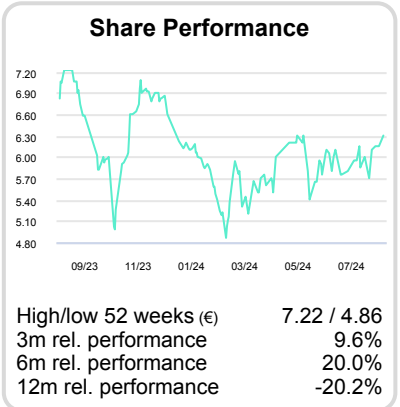
ROCE (2021-26e)



Source: NuWays Research

Company description

NFON is the German market leader for integrated business communication. NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications.



Market data

Share price (in €)	6.30
Market cap (in € m)	101.9
Number of shares (in m pcs)	16.6
Enterprise value (in € m)	97.9
Ø trading volume (6 months)	3,049

Identifier

Bloomberg	NFN GR
Reuters	NFN
WKN	A0N4N5
ISIN	DE000A0N4N52

Key shareholders

Milestone Venture Capital	31.9%
AOC	27.6%
Universal	8.3%
Teslin	7.0%
Morgan Stanley	6.0%
Free Float	19.2%

Estimates changes

	2024e	2025e	2026e
Sales	0%	0%	0%
EBIT	0%	0%	0%
EPS	0%	0%	0%

Comment on changes

Guidance

- ARR: mid- to upper-single-digit- growth & >90% ratio
- Adj. EBITDA: € 10-12m

margin expansion at NFON. While the acquisition price was not disclosed, it is said to be in the "lower double-digit €m" range (eNuW: € 15-20m, 24-32x EBITDA). whereby a partial cash payment (60%) and a three year earn-out period were agreed upon. The cash component will be partially financed via debt (€ 5m undrawn credit line) and existing funds (€ 13.5m liquid assets as of H1 '24).

Further detail on the strategic integration of botario will be provided during the company's CMD on 11 September. Mind you, that until closing we are not including the acquisition into our model.

Besides this, the operational integration of Deutsche Telefon Standard (DTS) should offer further **optimization potential from H2 onwards**. Management aims to fully integrate DTS in H2 '24e, resulting in the elimination of duplicate structures (i.e. sales, HR, accounting, product development) and hence creating significant margin upside going forward.

Valuation continues to appear attractive, as shares are trading at only 1.1x EV/Sales '24e (9.6x EV/EBIT-DA) despite the significant operating improvements over the past quarters. The stock hence remains part of our NuWays Alpha List. **BUY** with an unchanged **€ 11.70 PT** based on DCF.

Financials

Profit and loss (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net sales	75.9	80.8	82.3	86.4	94.4	102.5
<i>Sales growth</i>	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0
Total sales	75.9	80.8	82.3	86.4	94.4	102.5
Other operating income	0.6	1.1	0.9	0.9	0.9	1.0
Material expenses	14.5	14.4	13.0	13.8	14.6	15.4
Personnel expenses	31.7	37.4	34.9	35.0	36.1	38.4
Other operating expenses	32.3	35.3	28.6	28.3	30.2	32.3
EBITDA	-2.0	-5.3	6.8	10.2	14.4	17.4
Adjustments	0.7	4.3	1.6	1.3	0.4	0.4
Adj. EBITDA	-1.3	-1.0	8.4	11.5	14.8	17.8
Depreciation	3.2	3.3	3.5	3.3	3.3	3.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	3.7	3.4	3.9	3.8	3.8	3.8
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	-9.0	-12.0	-0.5	3.2	7.3	10.4
Interest income	0.0	0.0	0.2	0.3	0.3	0.5
Interest expenses	0.3	0.2	0.4	0.5	0.5	0.5
Investment income	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	-0.3	-0.2	-0.2	-0.2	-0.1	-0.0
Recurring pretax income from continuing operations	-9.2	-12.2	-0.7	3.0	7.1	10.3
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	-9.2	-12.2	-0.7	3.0	7.1	10.3
Income tax expense	0.4	0.1	0.1	0.5	1.4	2.6
Net income from continuing operations	-8.9	-15.6	-0.8	2.6	5.7	7.7
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	-8.9	-15.6	-0.8	2.6	5.7	7.7
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (reported)	-8.9	-15.6	-0.8	2.6	5.7	7.7
Average number of shares	16.6	16.6	16.6	16.6	16.6	16.6
EPS reported	-0.54	-0.94	-0.05	0.15	0.35	0.47

Profit and loss (common size)	2021	2022	2023	2024e	2025e	2026e
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Sales growth</i>	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
Increase/decrease in finished goods and work-in-process	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other operating income	0.7%	1.3%	1.1%	1.0%	1.0%	1.0%
Material expenses	19.0%	17.8%	15.8%	16.0%	15.5%	15.0%
Personnel expenses	41.8%	46.3%	42.4%	40.5%	38.2%	37.5%
Other operating expenses	42.6%	43.7%	34.7%	32.7%	32.0%	31.5%
EBITDA	-2.6%	-6.5%	8.3%	11.8%	15.3%	17.0%
Adjustments	0.9%	5.3%	1.9%	1.5%	0.4%	0.4%
Adj. EBITDA	-1.7%	-1.2%	10.2%	13.3%	15.7%	17.4%
Depreciation	4.2%	4.1%	4.2%	3.8%	3.5%	3.2%
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	4.9%	4.3%	4.7%	4.4%	4.0%	3.7%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (inc revaluation net)	-11.8%	-14.9%	-0.6%	3.7%	7.7%	10.1%
Interest income	0.0%	0.0%	0.2%	0.4%	0.4%	0.4%
Interest expenses	0.4%	0.2%	0.4%	0.6%	0.5%	0.5%
Investment income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial result	neg.	neg.	neg.	neg.	neg.	neg.
Recurring pretax income from continuing operations	-12.1%	-15.1%	-0.8%	3.5%	7.6%	10.1%
Extraordinary income/loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings before taxes	-12.1%	-15.1%	-0.8%	3.5%	7.6%	10.1%
Tax rate	3.4%	-1.1%	-14.2%	15.0%	20.0%	25.0%
Net income from continuing operations	-11.7%	-19.3%	-1.0%	3.0%	6.1%	7.5%
Income from discontinued operations (net of tax)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	-11.7%	-19.3%	-1.0%	3.0%	6.1%	7.5%
Minority interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net profit (reported)	-11.7%	-19.3%	-1.0%	3.0%	6.1%	7.5%

Source: Company data, NuWays

Balance sheet (EUR m)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	30.0	34.0	35.4	38.1	41.0	44.0
Property, plant and equipment	8.2	8.7	11.6	10.7	9.8	9.0
Financial assets	0.6	0.7	0.7	0.7	0.7	0.7
FIXED ASSETS	38.8	43.5	47.7	49.5	51.4	53.6
Inventories	0.2	0.1	0.1	0.1	0.1	0.1
Accounts receivable	10.9	9.3	9.0	9.5	10.3	11.2
Other assets and short-term financial assets	3.6	3.1	4.0	4.0	4.0	4.0
Liquid assets	27.7	13.2	12.3	13.8	18.2	24.3
Deferred taxes	2.4	0.3	0.8	0.8	0.8	0.8
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT ASSETS	44.7	26.0	26.2	28.2	33.5	40.5
TOTAL ASSETS	83.5	69.4	73.9	77.7	84.9	94.1

SHAREHOLDERS EQUITY	63.2	47.8	47.2	50.7	57.4	66.2
MINORITY INTEREST	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities to banks	3.3	4.1	8.5	8.5	8.5	8.5
Bonds (long-term)	0.0	0.0	0.0	0.0	0.0	0.0
other interest-bearing liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	2.2	0.0	0.0	0.0	0.0	0.0
Other provisions and accrued liabilities	2.8	2.3	3.1	3.1	3.1	3.1
NON-CURRENT LIABILITIES	8.3	6.4	11.6	11.6	11.6	11.6
Short-term liabilities to banks	1.7	1.8	1.4	1.4	1.4	1.4
Accounts payable	6.1	4.2	5.0	5.2	5.7	6.2
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0
Accrued taxes	0.0	0.3	0.8	0.8	0.8	0.8
Other liabilities (incl. from lease and rental contracts)	2.8	6.5	5.8	5.8	5.8	5.8
Deferred taxes	1.3	2.5	2.2	2.2	2.2	2.2
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT LIABILITIES	12.0	15.3	15.2	15.4	15.9	16.4
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	83.5	69.4	73.9	77.7	84.9	94.1

Balance sheet (common size)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	35.9%	49.0%	47.9%	49.1%	48.2%	46.7%
Property, plant and equipment	9.8%	12.6%	15.7%	13.7%	11.5%	9.6%
Financial assets	0.8%	1.0%	0.9%	0.9%	0.8%	0.7%
FIXED ASSETS	46.5%	62.6%	64.6%	63.7%	60.5%	57.0%
Inventories	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%
Accounts receivable	13.1%	13.4%	12.1%	12.2%	12.2%	11.9%
Other assets and short-term financial assets	4.3%	4.5%	5.4%	5.1%	4.7%	4.2%
Liquid assets	33.1%	19.0%	16.6%	17.8%	21.5%	25.8%
Deferred taxes	2.9%	0.4%	1.1%	1.1%	1.0%	0.9%
Deferred charges and prepaid expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CURRENT ASSETS	53.5%	37.4%	35.4%	36.3%	39.5%	43.0%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SHAREHOLDERS EQUITY	75.7%	68.9%	63.8%	65.3%	67.6%	70.3%
MINORITY INTEREST	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term liabilities to banks	4.0%	5.8%	11.5%	10.9%	10.0%	9.0%
Bonds (long-term)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
other interest-bearing liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions for pensions and similar obligations	2.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Other provisions and accrued liabilities	3.4%	3.3%	4.2%	4.0%	3.7%	3.3%
NON-CURRENT LIABILITIES	10.0%	9.2%	15.7%	14.9%	13.7%	12.3%
Short-term liabilities to banks	2.0%	2.6%	1.9%	1.8%	1.7%	1.5%
Accounts payable	7.3%	6.1%	6.7%	6.7%	6.7%	6.6%
Advance payments received on orders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accrued taxes	0.0%	0.4%	1.1%	1.0%	1.0%	0.9%
Other liabilities (incl. from lease and rental contracts)	3.4%	9.4%	7.8%	7.4%	6.8%	6.1%
Deferred taxes	1.6%	3.6%	2.9%	2.8%	2.6%	2.3%
Deferred income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CURRENT LIABILITIES	14.3%	22.0%	20.5%	19.8%	18.7%	17.4%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, NuWays

Cash flow statement (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net profit/loss	-8.9	-15.6	-0.8	2.6	5.7	7.7
Depreciation of fixed assets (incl. leases)	3.2	3.3	3.5	3.3	3.3	3.3
Amortisation of goodwill & intangible assets	3.7	3.4	3.9	3.8	3.8	3.8
Other costs affecting income / expenses	0.0	3.4	0.9	0.0	0.0	0.0
Cash flow from operating activities	-3.5	-5.8	4.6	6.8	9.4	7.3
Increase/decrease in inventory	-0.3	0.1	-0.0	0.0	-0.0	-0.0
Increase/decrease in accounts receivable	-0.9	2.1	-0.6	-0.5	-0.9	-0.9
Increase/decrease in accounts payable	1.2	-0.8	0.0	0.2	0.5	0.5
Increase/decrease in other working capital positions	0.0	0.1	0.0	0.0	0.0	0.0
Increase/decrease in working capital	-0.1	1.5	-0.6	-0.3	-0.4	-0.4
Cash flow from operating activities	-1.8	-3.9	6.8	9.3	12.4	14.4
CAPEX	7.9	8.5	5.9	7.8	8.0	8.3
Payments for acquisitions	0.6	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.1	0.0	0.0	0.0	0.0
Cash flow from investing activities	-8.5	-8.4	-5.9	-7.8	-8.0	-8.3
Cash flow before financing	-10.2	-12.3	1.0	1.5	4.4	n.a.
Increase/decrease in debt position	-11.0	-2.1	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	25.8	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	-1.9	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	-0.1	0.0	0.0	0.0	0.0
Cash flow from financing activities	14.8	-2.1	-1.9	0.0	0.0	0.0
Increase/decrease in liquid assets	4.6	-14.5	-0.9	1.5	4.4	n.a.
Liquid assets at end of period	27.7	13.2	12.3	13.8	18.2	24.3

Key ratios (EUR m)	2021	2022	2023	2024e	2025e	2026e
P&L growth analysis						
Sales growth	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
EBITDA growth	-186.0%	161.9%	-229.1%	50.4%	40.8%	21.1%
EBIT growth	394.5%	34.4%	-95.8%	-728.4%	128.6%	41.8%
EPS growth	261.6%	75.6%	-95.0%	-424.1%	123.9%	35.2%
Efficiency						
Sales per employee	238.7	226.4	215.1	442.4	460.0	524.4
EBITDA per employee	-6.3	-14.8	17.8	52.3	70.2	89.2
No. employees (average)	318	357	383	195	205	195
Balance sheet analysis						
Avg. working capital / sales	5.1%	-4.6%	2.3%	-2.0%	-1.0%	-1.3%
Inventory turnover (sales/inventory)	489.6	928.6	722.3	722.3	722.3	722.3
Accounts receivable turnover	52.4	41.9	39.7	40.0	40.0	40.0
Accounts payable turnover	29.3	19.0	22.0	22.0	22.0	22.0
Cash flow analysis						
Free cash flow	-9.7	-12.4	1.0	1.5	4.4	6.1
Free cash flow/sales	-12.7%	-15.4%	1.2%	1.8%	4.7%	6.0%
FCF / net profit	108.6%	79.5%	neg.	60.7%	76.8%	78.9%
Capex / sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Solvency						
Net debt	-22.6	-7.4	-2.4	-3.9	-8.3	-14.4
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest paid / avg. debt	2.3%	1.8%	4.9%	6.3%	5.0%	6.3%
Returns						
ROCE	-12.5%	-19.8%	-0.8%	5.3%	11.0%	15.2%
ROE	-14.1%	-32.7%	-1.7%	5.0%	10.0%	11.7%
Adjusted FCF yield	-1.6%	-7.8%	4.6%	7.5%	10.7%	9.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
DPS	0.0	0.0	0.0	0.0	0.0	0.0
EPS reported	-0.54	-0.94	-0.05	0.15	0.35	0.47
Average number of shares	16.6	16.6	16.6	16.6	16.6	16.6
Valuation ratios						
P/BV	1.6	2.1	2.2	2.0	1.8	1.5
EV/sales	3.5	1.2	1.2	1.1	1.0	0.9
EV/EBITDA	-133.4	-17.9	14.6	9.6	6.5	5.0
EV/EBIT	-30.0	-7.9	-195.8	30.7	12.8	8.4

Source: Company data, NuWays

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Company	Disclosures
NFON AG	2

Historical target price and rating changes for NFON AG

Company	Date	Analyst	Rating	Target Price	Close
NFON AG	18.01.2024	Sennewald, Philipp	Buy	EUR 11.70	EUR 6.10
	23.11.2023	Sennewald, Philipp	Buy	EUR 11.30	EUR 7.08

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The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate of 7.5%. The operating cash flow is calculated as EBITDA less maintenance capex and taxes.

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According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under: www.nuways-ag.com

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