

# Hypoport AG

Buy | Target 163.00 EUR vs 139.00 EUR

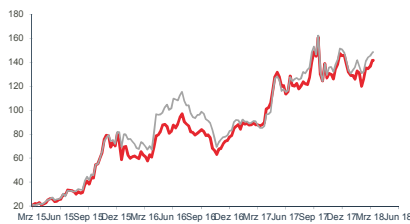
Price (09/04/2018) : 141.60 EUR | Upside : 15 %

	Est.chg	2018e	2019e
EPS		-4.3%	0.5%

## Revised valuation triggers upgrade to Buy

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Source ; Oddo BHF Securities, Fininfo

Capital			
<b>HYQ GY   HYQGn.DE</b>			
Market Cap (EURm)			842
Enterprise value (EURm)			826
Extrema 12 months	85.94	-	161.0
Free Float (%)			56.1
Performance (%)			
	1m	3m	12m
Absolute	12.4	0.4	62.6
Perf. rel. Country Index	13.3	7.1	65.2
Perf. rel. Property, holding	12.0	2.1	50.6
P&L			
	12/18e	12/19e	12/20e
Sales (EURm)	229	264	300
EBITDA (EURm)	37.5	44.4	52.0
Current EBIT (EURm)	29.2	34.5	40.4
Attr. net profit (EURm)	22.9	27.3	32.1
Adjusted EPS (EUR)	3.86	4.59	5.40
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	36.7	30.9	26.2
P/B (x)	8.0	6.3	5.1
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.2	1.8	2.3
EV/Sales (x)	3.66	3.13	2.69
EV/EBITDA (x)	22.4	18.6	15.5
EV/Current EBIT (x)	28.8	23.9	20.0
Gearing (%)	-8	-18	-26
Net Debt/EBITDA(x)	ns	ns	ns

### Next Events

03.05.2018	Q1 Results
04.05.2018	Annual General meeting
06.08.2018	H1 Results
05.11.2018	Q3 Results

We expect a strong improvement in group profitability in 2018e. For the long run, we expect Hypoport's Credit Platform to increase its market share by 1.2pp per year, leading to a share of >25% in the overall German mortgage market in 2027e (BHF's for 2017: 13.2%). Moreover, we see Hypoport, with its Smart Insurtech platform, in the pole position to establish a market standard for software solutions used by insurance brokers. Visibility on this business has increased in our view driven by the company's recent takeover streak, its establishment of a separate Insurance Platform segment, and a revenue increase from € 5.1m in 2016 to € 15.2m in 2017. Having reworked our valuation model, we lift our TP for Hypoport from € 139 to € 163 and upgrade to Buy.

### Strong EBIT improvement ahead

Although the company's flat EBIT in 2017 was disappointing, we consider the investment case still intact. The guidance miss was due solely to the rather volatile Institutional Clients segment, while the three other segments showed solid or even very strong performances last year.

Regarding 2018, management guides for revenue of € 220-240m (our previous estimate: € 218m; 2017: € 194.9m) and EBIT of € 26-31m (our previous estimate: € 30.2m; 2017: € 23.3m). Assuming Institutional Clients' EBIT recovers at least slightly in 2018e, we expect a strong improvement in group profitability. We forecast group EBIT to grow 72.9% from € 23.2m in 2017 to € 40.3m in 2020e (CAGR: 20.0%). We have raised our 2018e sales estimate, but slightly lowered our 2018e EBIT estimate. For the years beyond 2018, we have increased both our sales and EBIT estimates.

### Hypoport's Insurance Platform in the pole position

In the Insurance Platform segment, management expects organic revenue growth of c.50% in 2018 and does not rule out that this segment might break even already this year. In our view, however, this segment's earnings performance will also depend on the effects from further takeovers. Management stated that it is currently aiming to take over insurance portfolios in order to manage them efficiently via Hypoport's Smart Insur platform.

Due to its expertise in the insurance sector, its know-how gathered from expanding Europace, and its decisive embracing of the role of a market consolidator, we see Hypoport in the pole position to establish a market standard for software solutions used by insurance brokers. In 2018, the company will continue to focus on increasing market share by acquiring companies, investing in IT and using aggressive pricing structures. After the recent takeover streak, the establishment of a separate Insurance Platform segment, and revenue growth from € 5.1m in 2016 to € 15.2m in 2017, visibility on this segment's future development has improved in our view. Our revised valuation approach results in a new fair value per share of € 23.97 (old: € 12.53) for the Insurance Platform segment.

### TP increased from € 139.00 to € 163.00 – Upgrade to Buy

We have increased our target price for the Hypoport shares from € 139.00 to € 163.00 on the basis of our sum-of-the-parts valuation, mainly due to 1) a positive valuation effect from the roll-over of our DCF models from 2017-26e to 2018-27e, 2) a higher fair value per share (FVpS) of € 49.90 (old: € 31.53) for the Private Clients segment, and 3) a higher FVpS of € 24.12 (old: € 12.53) for the Insurance Platform segment. Our 2019e target P/E stands at 35.5x (EPS CAGR 2016-19e: 15.2%) We upgrade from Neutral to Buy.

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## REVISED ESTIMATES AND VALUATION METHODOLOGY

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*After publication of its preliminary 2017 figures (see our update from 2 March), Hypoport published its annual report for 2017, which included the company's guidance for 2018. On this basis, we have adjusted our estimates for 2018-20e. We have also completely revised our DCF models for each segment, and for the first time value the Insurance Platform segment with a DCF model as well, setting our long-term estimates for this segment below management's guidance. Our sum-of-the-parts valuation for the group resulted in a fair value of € 163.97.*

### **2018: Insurance Platform contributes to further growth, additional takeovers seem likely**

#### **Wide guidance ranges reflect volatility of Institutional Clients business**

Management guides for revenue of €220-240m (our previous estimate: €218m) and EBIT of €26-31m (our previous estimate: €30.2m) in 2018e. Apparently, Hypoport's failure to meet its guidance last year led management to set relatively wide guidance ranges for 2018 in order due to the relatively volatile nature of the Institutional Clients business.

Regarding the Insurance Platform segment, management expects organic revenue growth of at least 50% in 2018, and does not rule out this segment breaking even already this year. In our view, however, this segment's earnings performance will also depend on the effects of further takeovers. Management stated that it is currently aiming to take over insurance portfolios in order to manage them efficiently via Hypoport's SMART INSURTECH platform ('SmIT'). First, it aims to acquire a small portfolio as a test run for the migration onto the platform and to check the platform for further optimisation potential.

Regarding capex in 2018, management has earmarked €13.8m mostly for i/ the expansion and refinement of the Credit Platform business unit, ii/ further digitalisation of the Institutional Clients division, and iii/ driving growth in the Insurance Platform unit. Please note that the capex guidance excludes payments for acquisitions.

The takeover of IWM Software AG was closed just at the beginning of 2018, but Hypoport had already made a prepayment of €8m for this acquisition in 2017. This resulted in an increase in other assets and a corresponding negative effect on operating cash flow last year. We now assume in our estimates that IWM's net assets will be directly booked against other assets in 2018, without any effect on cash flow.



## EBIT bridge and estimates vs. consensus

We have raised our 2018e sales estimate, but slightly lowered our 2018 EBIT estimate. For the years beyond 2018 we increased both our sales and EBIT estimates.

Chart 1 below shows our projected EBIT bridge from 2017 to 2020e: Overall, we expect group EBIT to grow by 73.2% from € 23.2m in 2017 to € 40.4m in 2020e, equating to a CAGR of 20.1%. This increase of € 17.1m can be broken down as follows: (1) € 7.9m from the Credit Platform segment; (2) € 7.6m from the Private Clients segment; (3) € 1.5m from the Institutional Clients segment; (4) € 3.2m from the Insurance Platform, and (5) a negative impact of € -3.2m from an increase in holding costs/consolidation effects.

EBIT bridge 2017 to 2020e

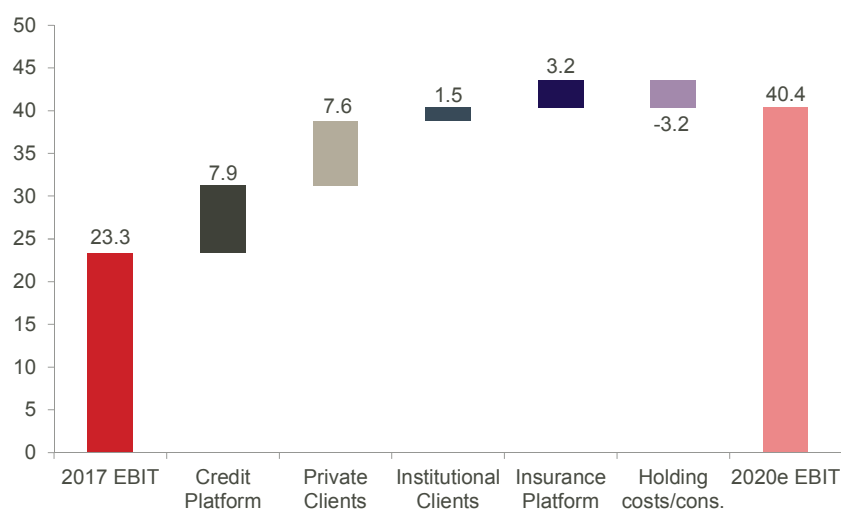


Chart 1 – Source: Oddo BHF Securities

Our earnings estimates are broadly in line with the Factset consensus figures.

ODDO BHF estimates vs. consensus (2018e-2020e)

EURm	2018e	2019e	2020e
<b>Revenues</b>			
Oddo BHF estimates	229.4	263.6	299.7
Factset consensus estimates	223.4	251.7	251.7
Deviation to consensus	2.7%	4.7%	19.1%
<b>EBIT</b>			
Oddo BHF estimates	29.2	34.5	40.4
Factset consensus estimates	29.1	34.4	42.3
Deviation to consensus	0.5%	0.4%	-4.5%
<b>Basic EPS</b>			
Oddo BHF estimates	3.86	4.59	5.40
Factset consensus estimates	3.85	4.56	5.26
Deviation to consensus	0.2%	0.6%	2.6%

Chart 2 – Source: Factset, Oddo BHF Securities



## Valuation: TP raised to € 163, upgrade to Buy

Following a change in analyst, we have now completely revised our DCF valuation models for the segments and now raise our TP from € 139.00 to € 163.00 on the basis of our sum-of-the-parts valuation, mainly for the following reasons:

- (1) A positive valuation effect from the roll-over of our DCF models from 2017-26e to 2018-27e.
- (2) A higher fair value per share of € 49.90 (old: € 31.53) for the Private Clients segment: While we previously had assumed a constant EBIT margin for this segment going forward, we now expect the segment EBIT margin to increase going forward due to the high scalability and the relatively low capex requirements of this business segment.
- (3) A higher fair value per share of € 24.12 (old: € 12.53) for the Insurance Platform segment: While we had previously used a multiple-based approach in combination with a lump sum capex assumption, we have now switched to a DCF model to value this business segment. Due to the high forecast risk attached to this new business, we set our long-term estimates well below the management's guidance, and cautiously used a WACC of >10%.

In our view, Hypoport is best valued with a sum of the parts DCF valuation due to the different nature of the segments. Since there are no publicly listed peers that are sufficiently comparable in our view, we prefer a DCF approach to a multiple-based approach.

### Sum-of-the-parts valuation: overview

	Fair value per share (EUR)
DCF Credit Platform	77.40
DCF Private Clients	49.90
DCF Institutional Clients	12.02
Insurance Platform	24.12
Net debt	-0.35
Financial assets	0.88
<b>Total fair value per share (EUR)</b>	<b>163.97</b>

Chart 3 – Source: Oddo BHF Securities

Adding up the fair values for each business segment and deducting the group's net debt of € 0.35/share (€ 16.4m in financial liabilities less € 14.3m in cash divided by 5.95m shares outstanding), and adding financial assets of € 0.88 per share (mainly a stake in finconomy AG), we arrive at a fair value per share of € 163.97. We set our TP at € 163.

For the sake of simplicity, we allocated the estimated holding costs and consolidation effects to each segment's EBIT in our respective segment DCF models in proportion to the segment's share of group sales.

### Credit platform: € 77.40/share

Transaction volume in the Credit Platform segment (Europace and its sub-platforms) across all products rose to € 48.2bn in 2017 (2016: € 44.7bn; +8%



yoy). Transaction volume per sales day rose 10% yoy, from € 176m in 2016 to € 193m in 2017. Mortgage finance accounted for 78.8% of total transaction volume, building society loan contracts for 15.7%, and personal loans for 5.5%.

We model the mortgage finance share of revenues in the Credit Platform segment based on a top-down analysis, using the Bundesbank's figures for mortgage lending volume in Germany. In 2017, the Credit Platform's transaction volume attributable to mortgage finance rose 7% yoy to € 38.0bn – despite a 2.2% decline in the market as a whole. Please note, however, that Europace's volume figures are not fully comparable with those of the Bundesbank for two reasons: (1) Europace's transaction volume includes all mortgages that were initiated, including those that were subsequently retracted. We estimate the cancellation rate at ~20% of the total volume. (2) Large parts of the loan transactions posted by Hypoport in November and December were not closed until the following year. Therefore, Europace's transaction volume in 2017 less cancelled loan applications is neither congruent with Hypoport's volume of mortgages closed with the banks in 2017, nor comparable to the total market volume of closed mortgage financings (Bundesbank statistics).

Adjusted for cancellations, we estimate the market share of Hypoport's Credit Platform of the total German mortgage financing market at 13.2%.

#### Mortgage volume to households in Germany (EUR bn)

Month	New volume	Change yoy	Total per quarter	Change yoy	2017 total	Change yoy
Jan 17	19.8	7.0%				
Feb 17	17.8	-5.0%				
Mar 17	22.2	-0.9%	59.8	0.3%		
Apr 17	18.1	1.3%				
May 17	20.5	14.0%				
Jun 17	19.3	-9.9%	57.9	1.1%		
Jul 17	20.4	0.6%				
Aug 17	20.2	1.6%				
Sep 17	17.4	-6.8%	58.0	-1.4%		
Oct 17	18.1	1.2%				
Nov 17	18.8	-7.1%				
Dec 17	17.5	-18.4%	54.4	-8.6%	230.1	-2.2%
Jan 18	19.6	-0.8%				
Feb 18	18.8	5.6%				

Chart 4 – Source: Deutsche Bundesbank, Oddo BHF Securities

Our DCF valuation for the Credit Platform segment is based on the following assumptions

- Total mortgage volume in Germany: We expect a flat market trend in 2018e due to a continuing lack of supply. In our model, we cautiously set the long-term annual growth rate in mortgage volume at only 0.3%.
- Hypoport's market share in mortgage financing: As we expect Hypoport to gain further market share driven by its technological advantages and strong market position, we assume the strong growth of the Credit Platform will continue in 2018e and following. In our model, we assume Hypoport's market share rises by +1.2pp per year to >25% by 2027e (our estimate for 2017: 13.2%). Based on our assumption of 0.3% market growth p.a., this corresponds to a transaction volume of € 59bn in mortgage financing (adjusted for cancellations).
- Building society loan contracts: The transaction volume of building society loan contracts on Hypoport's Credit Platform was up 9% in 2017, and we expect its growth to stay around this level for the next few years.
- Personal loans: We assume that the state-of-the-art technology of the personal loans front end (KreditSmart) will continue to attract additional customers and generate double-digit volume growth in the medium term (2017: +15%), but we also note that this growth is still coming from a low







an Irish subsidiary (Hypoport Mortgage Market Ltd). Our tax rate assumption going forward is thus 12.5% for this segment.

- Capex requirements: Given that Europace competes with the in-house solutions of potential clients (banks), we assume Hypoport will continue to make significant investments in its Credit Platform going forward (€ 8.0m in capex in 2018e, which will still increase significantly in the long run).
- Our assumptions regarding the various cost of capital parameters lead us to a WACC of 6.98%.
- Terminal value phase: To calculate terminal value we apply a long-term FCF growth rate of 2.00%, which we consider reasonable given the company's growth prospects for its underlying business.

Based on the above assumptions, we derive a fair value of € 460.2m, translating into a fair value of € 77.40 (old: € 80.18) per share for the Credit Platform.

## Private Clients: € 49.90/share

Our DCF valuation for the Private Clients segment is based on the following assumptions:

- Revenue growth: We expect revenues to grow at a CAGR of 15.4% until 2020e and a CAGR of 4.3% from 2020e to 2027e.
- EBIT margin: In contrast to previously, we now expect an increase in Private Clients' EBIT margin due to the high scalability and the relatively low capex requirements of this business segment.

### DCF: Private Clients

EURm	PHASE 1			PHASE 2						PHASE 3	
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	∞
Sales	97.4	112.0	126.6	135.4	143.6	150.8	156.8	161.5	166.3	170.5	
yoy growth	18.4%	15.0%	13.0%	7.0%	6.0%	5.0%	4.0%	3.0%	3.0%	2.5%	
EBIT	14.6	17.1	19.7	21.3	22.7	23.9	25.0	25.9	26.8	27.7	
Margin as % of sales	15.0%	15.3%	15.6%	15.7%	15.8%	15.9%	16.0%	16.1%	16.1%	16.2%	
Margin as % of gross profit	38.9%	39.7%	40.5%	40.7%	40.9%	41.2%	41.4%	41.6%	41.9%	42.1%	
EBIT incl. allocated holding costs and consolidation	10.8	12.7	15.0	16.4	17.8	19.1	20.3	21.3	22.3	23.2	
Margin as % of sales	11.1%	11.4%	11.8%	12.1%	12.4%	12.7%	12.9%	13.2%	13.4%	13.6%	
Income tax on EBIT	-3.3	-3.8	-4.5	-4.9	-5.3	-5.7	-6.1	-6.4	-6.7	-6.9	
Depreciation and amortisation (incl. allocated holding costs and consolidation)	1.6	2.1	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.4	
Change in net working capital	-2.1	-2.0	-2.1	-1.9	-1.9	-1.9	-1.9	-1.8	-1.5	-0.5	
Net capital expenditure	-1.2	-1.5	-1.7	-2.0	-2.2	-2.4	-2.6	-2.8	-2.9	-2.4	
<b>Free cash flow</b>	<b>5.9</b>	<b>7.5</b>	<b>9.0</b>	<b>10.1</b>	<b>10.8</b>	<b>11.5</b>	<b>12.1</b>	<b>12.7</b>	<b>13.6</b>	<b>15.7</b>	
<b>Present values</b>	<b>5.6</b>	<b>6.7</b>	<b>7.6</b>	<b>8.0</b>	<b>8.1</b>	<b>8.1</b>	<b>8.1</b>	<b>8.0</b>	<b>8.0</b>	<b>8.7</b>	<b>219.7</b>
Present value Phase 1	20.0										
Present value Phase 2	57.0										
Present value Phase 3	219.7										
<b>Total present value</b>	<b>296.7</b>										

Risk free rate	0.78%	Target equity ratio	80.0%
Equity risk premium	7.23%	Beta (fundamental)	0.9
Debt risk premium	1.50%	<b>WACC</b>	<b>6.04%</b>
Tax shield (Phase 3)	30.0%	<b>Terminal growth</b>	<b>2.00%</b>

Sensitivity analysis						
Terminal growth rate (Phase 3)						
	1.0%	1.5%	2.0%	2.5%	3.0%	
<b>WACC</b>	<b>5.04%</b>	54.01	59.92	67.78	78.73	95.03
	<b>5.54%</b>	47.49	51.91	57.57	65.09	75.57
	<b>6.04%</b>	42.28	45.67	<b>49.90</b>	55.31	62.51
	<b>6.54%</b>	38.02	40.68	43.92	47.97	53.15
	<b>7.04%</b>	34.47	36.60	39.14	42.24	46.11

<b>Fair value of business segment</b>	<b>296.7</b>
Number of shares outstanding (m)	5.9
<b>Fair value per share (EUR)</b>	<b>49.90</b>



Further assumptions:

- Tax rate: We assume an income tax rate of 30%.
- Capex requirements: We assume low capex (even below the segment's level of depreciation and amortisation over the first few years) in line with historical capex.
- Our assumptions regarding the various cost of capital parameters lead us to a WACC of 6.04%.
- Terminal value phase: To calculate terminal value we apply a long-term FCF growth rate of 2.00%, which we believe is reasonable considering the growth prospects of the company's underlying business.

Based on these assumptions, we derive a value of € 296.7m for the Private Clients segment, translating into a fair value of € 49.90 (old: € 31.53) per share.

## Institutional Clients: € 12.02/share

Our central assumptions for the Institutional Clients business are the following:

- Revenue growth: We expect revenues to grow at a CAGR of 3.9% until 2020e and 2.0% p.a. between 2020e and 2027e.
- EBIT margin: We expect the EBIT margin to stay constant at c.30% in the long run.

### DCF: Institutional Clients

	EURm	PHASE 1			PHASE 2						PHASE 3	
		2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	∞
Sales		20.3	21.1	21.7	22.2	22.6	23.1	23.5	24.0	24.5	25.0	
yoy growth		4.8%	4.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
EBIT		5.6	6.3	6.5	6.7	6.8	6.9	7.1	7.2	7.4	7.5	
Margin as % of sales		27.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	
Margin as % of gross profit		27.8%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	
EBIT incl. allocated holding costs and consolidation		4.8	5.5	5.7	5.9	6.0	6.2	6.4	6.5	6.7	6.8	
Margin as % of sales		23.6%	26.1%	26.2%	26.5%	26.7%	26.9%	27.0%	27.2%	27.3%	27.4%	
Income tax on EBIT		-1.4	-1.7	-1.7	-1.8	-1.8	-1.9	-1.9	-2.0	-2.0	-2.1	
Depreciation and amortisation (incl. allocated holding costs and consolidation)		0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
Change in net working capital		-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1	
Net capital expenditure		-1.5	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3	-1.3	-0.9	
<b>Free cash flow</b>		<b>2.2</b>	<b>3.3</b>	<b>3.5</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>	<b>4.0</b>	<b>4.1</b>	<b>4.7</b>	
<b>Present values</b>		<b>2.1</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>46.5</b>
Present value Phase 1		7.9										
Present value Phase 2		17.1										
Present value Phase 3		46.5										
<b>Total present value</b>		<b>71.5</b>										

Risk free rate	0.78%	Target equity ratio	80.0%
Equity risk premium	7.23%	Beta (fundamental)	1.1
Debt risk premium	2.50%	<b>WACC</b>	<b>7.16%</b>
Tax shield (Phase 3)	30.0%	<b>Terminal growth</b>	<b>2.00%</b>

Sensitivity analysis					
Terminal growth rate (Phase 3)					
	1.0%	1.5%	2.0%	2.5%	3.0%
<b>WACC</b>	<b>6.16%</b>	12.95	13.92	15.11	16.63
	<b>6.66%</b>	11.72	12.48	13.40	14.54
	<b>7.16%</b>	10.69	11.29	<b>12.02</b>	12.90
	<b>7.66%</b>	9.81	10.30	10.88	11.58
	<b>8.16%</b>	9.06	9.46	9.94	10.49

Chart 7 – Source: Oddo BHF Securities



Further assumptions:

- Tax rate: We assume an income tax rate of 30%.
- Capex requirements: We assume capex slightly above depreciation and amortisation.
- Our assumptions regarding the various cost of capital parameters lead us to a WACC of 7.16%.
- Terminal value phase: To calculate terminal value we apply a long-term FCF growth rate of 2.00%, which we consider reasonable based on the growth prospects of company's underlying business.

Based on these assumptions, we derive an equity value of € 71.5m, translating into a fair value of € 12.02 (old: € 14.13) per share.

## Insurance Platform: € 24.12/share

Management expects organic revenue growth of 50% in 2018, and does not rule out that this segment could break even already this year. Management reconfirmed its long-term guidance for the Insurance Platform segment, which it had given for the first time at its CMD in May 2017. Assuming that total insurance premiums in Germany remain at an annual level of about € 200bn, management believes it can capture a 10% share of this market in the next 10 years (which we interpret as by 2027), i.e. that it can transact € 20bn in insurance premiums. Hypoport plans to charge an annual fee of 75bp on every € 1 of insurance premium which would lead to revenues of € 150m per year. Based on its experience with Europace, management assumes that the Insurance Platform will achieve an EBIT margin of 40-50% as a percentage of the segment's gross profit.

Please note that our revenue growth estimate of 52% for the Insurance Platform as well as our estimates for the following years are purely organic. Since Hypoport targets further acquisitions in this segment, our current growth assumption is only hypothetical, and we will have to change our estimates when acquisitions are made in the future.

Our central assumptions for our DCF model for the Insurance Platform business are the following:

- Revenue growth: We expect revenues to grow at a CAGR of 40.1% until 2020e and at a CAGR of 19.6% between 2020e and 2027e. This results in revenue of € 146.4m in 2027e, slightly below the company's guidance of € 150m.
- EBIT margin: We expect the EBIT margin as a percentage of gross profit to rise above 40% by 2027e (guidance: 40-50% within 10 years).

Further assumptions:

- Tax rate: We assume an income tax rate of 30%.
- Capex requirements: We assume that the Insurance Platform, as soon as it is fully set up and optimised, will require less capex than Europace on an annual basis, as it will not have to compete with in-house solutions of the product suppliers (as is the case with Europace).
- Weighted average cost of capital (WACC): Due to the high forecast risk related to this relatively new business, we cautiously applied a beta of 1.6, which resulted in a WACC of >10% in our DCF valuation.
- Terminal value phase: To calculate terminal value we apply a long-term FCF growth rate of 2.00%, which we consider reasonable based on the growth prospects of the company's underlying business.

Based on the above assumptions, we derive an equity value of € 143.4.0m, corresponding to a fair value of € 24.12 (old: € 12.53) per share.



**DCF: Insurance Platform**

	EURm	PHASE 1			PHASE 2						PHASE 3	
		2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	∞
Sales		23.1	31.5	41.9	54.4	69.4	86.7	106.3	127.5	142.8	146.4	
yoy growth		52.0%	36.0%	33.0%	30.0%	27.5%	25.0%	22.5%	20.0%	12.0%	2.5%	
EBIT		-0.4	0.6	2.0	4.4	8.3	13.3	19.7	28.1	36.4	42.5	
Margin as % of sales		-1.8%	2.0%	4.8%	8.0%	12.0%	15.3%	18.5%	22.0%	25.5%	29.0%	
Margin as % of gross profit		-2.6%	2.9%	7.0%	11.4%	17.1%	21.9%	26.4%	31.4%	36.4%	41.4%	
EBIT incl. allocated holding costs and consolidation		-1.3	-0.6	0.5	2.4	6.0	10.5	16.4	24.4	32.5	38.6	
Margin as % of sales		-5.7%	-1.9%	1.1%	4.4%	8.6%	12.1%	15.5%	19.1%	22.8%	26.4%	
Income tax on EBIT		0.4	0.2	-0.1	-0.7	-1.8	-3.2	-4.9	-7.3	-9.8	-11.6	
Depreciation and amortisation (incl. allocated holding costs and consolidation)		2.0	2.5	3.2	3.8	4.7	5.8	7.0	8.2	9.1	9.2	
Change in net working capital		-0.5	-0.6	-0.7	-0.7	-0.9	-1.1	-1.3	-1.4	-1.3	-0.5	
Net capital expenditure		-4.7	-6.1	-7.2	-7.5	-8.2	-8.8	-9.6	-10.3	-11.2	-9.2	
<b>Free cash flow</b>		<b>-4.1</b>	<b>-4.6</b>	<b>-4.3</b>	<b>-2.8</b>	<b>-0.2</b>	<b>3.2</b>	<b>7.6</b>	<b>13.5</b>	<b>19.4</b>	<b>26.6</b>	
<b>Present values</b>		<b>-3.8</b>	<b>-3.9</b>	<b>-3.3</b>	<b>-2.0</b>	<b>-0.1</b>	<b>1.8</b>	<b>3.9</b>	<b>6.2</b>	<b>8.1</b>	<b>10.0</b>	<b>126.5</b>
Present value Phase 1		-11.0										
Present value Phase 2		27.9										
Present value Phase 3		126.5										
<b>Total present value</b>		<b>143.4</b>										

Risk free rate	0.78%	Target equity ratio	80.0%
Equity risk premium	7.23%	Beta (fundamental)	1.6
Debt risk premium	2.50%	<b>WACC</b>	<b>10.05%</b>
Tax shield (Phase 3)	30.0%	<b>Terminal growth</b>	<b>2.00%</b>

<b>Sensitivity analysis</b>						
<b>Terminal growth rate (Phase 3)</b>						
	<b>1.0%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	
<b>9.05%</b>	26.46	28.12	30.01	32.20	34.74	
<b>9.55%</b>	23.86	25.26	26.85	28.66	30.75	
<b>WACC</b>	<b>10.05%</b>	21.58	22.78	<b>24.12</b>	25.64	27.37
	<b>10.55%</b>	19.57	20.60	21.74	23.02	24.48
	<b>11.05%</b>	17.79	18.67	19.65	20.74	21.97

<b>Fair value of business segment</b>	<b>143.4</b>
Number of shares outstanding (m)	5.9
<b>Fair value per share (EUR)</b>	<b>24.12</b>

Chart 8 – Source: 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](http://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
09.04.18	Buy	163.00	141.60	Martin Decot
15.01.18	Neutral	139.00	131.60	Martin Decot
30.10.17	Buy	139.00	124.25	Martin Decot
23.10.17	Neutral	139.00	120.75	Martin Decot

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](http://www.securities.oddo-bhf.com)

Recommendation split		Buy	Neutral	Reduce
Our whole coverage	(414)	50%	40%	9%
Liquidity providers coverage	(130)	45%	49%	5%
Research service coverage	(58)	55%	40%	5%
Investment banking services	(46)	76%	20%	4%

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Have those responsible for the drafting of the present document acquired securities from the issuer concerned by the present financial analysis?		No
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	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
<b>PER SHARE DATA (EUR)</b>								
Adjusted EPS	0.51	0.96	2.63	3.00	3.10	3.86	4.59	5.40
<b>Reported EPS</b>	<b>0.51</b>	<b>0.96</b>	<b>2.63</b>	<b>3.00</b>	<b>3.10</b>	<b>3.86</b>	<b>4.59</b>	<b>5.40</b>
Growth in EPS(%)	ns	88.0%	ns	14.2%	3.3%	24.5%	18.9%	17.6%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	0.67	0.37	3.24	1.50	-0.40	1.77	2.49	3.20
Book value per share	5.34	6.29	8.68	10.62	13.90	17.75	22.34	27.73
Number of shares market cap	6.14	6.14	6.04	6.01	5.94	5.95	5.95	5.95
Number of diluted shares	6.14	6.14	6.04	6.01	5.94	5.95	5.95	5.95
<b>VALUATION</b>								
12m highest price	10.46	13.78	80.50	97.00	161	148		
12m lowest price	7.03	8.67	12.16	53.59	77.48	120		
(*) Reference price	8.27	11.01	33.28	75.07	114	142	142	142
Capitalization	50.7	67.6	201	451	676	842	842	842
Restated Net debt	5.9	3.9	-13.5	-11.7	2.0	-8.5	-23.3	-42.4
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	0.5	1.0	2.1	10.9	7.1	7.1	7.1	7.1
<b>Enterprise Value</b>	<b>57.1</b>	<b>72.5</b>	<b>190</b>	<b>451</b>	<b>685</b>	<b>841</b>	<b>826</b>	<b>807</b>
P/E (x)	16.1	11.4	12.7	25.0	36.7	36.7	30.9	26.2
P/CF (x)	5.2	4.4	5.7	16.0	27.3	27.3	22.9	19.5
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	8.1%	3.3%	9.7%	2.0%	ns	1.2%	1.8%	2.3%
P/B incl. GW (x)	1.55	1.75	3.84	7.07	8.18	7.98	6.34	5.11
P/B excl. GW (x)	1.55	1.75	3.84	7.07	8.18	7.98	6.34	5.11
EV/Sales (x)	0.58	0.65	1.36	2.88	3.52	3.66	3.13	2.69
EV/EBITDA (x)	7.0	5.7	7.6	15.9	22.7	22.4	18.6	15.5
<b>EV/EBIT (x)</b>	<b>14.5</b>	<b>9.1</b>	<b>9.8</b>	<b>19.4</b>	<b>29.4</b>	<b>28.8</b>	<b>23.9</b>	<b>20.0</b>
(*) historical average price								
<b>PROFIT AND LOSS (EURm)</b>								
Sales	98	112	139	157	195	229	264	300
EBITDA	8.1	12.7	25.1	28.3	30.1	37.5	44.4	52
Depreciations	-4.2	-4.8	-5.8	-5.1	-6.8	-8.3	-9.9	-11.5
<b>Current EBIT</b>	<b>3.9</b>	<b>7.9</b>	<b>19.3</b>	<b>23.2</b>	<b>23.3</b>	<b>29.2</b>	<b>34.5</b>	<b>40.4</b>
Published EBIT	3.9	7.9	19.3	23.2	23.3	29.2	34.5	40.4
Net financial income	-0.9	-0.7	-0.1	-0.4	-0.3	-0.5	-0.4	-0.2
Corporate Tax	0.1	-1.3	-3.2	-4.8	-4.6	-5.8	-6.9	-8.1
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	3.1	5.9	15.9	18.0	18.4	22.9	27.3	32.1
<b>Adjusted attributable net profit</b>	<b>3.1</b>	<b>5.9</b>	<b>15.9</b>	<b>18.0</b>	<b>18.4</b>	<b>22.9</b>	<b>27.3</b>	<b>32.1</b>
<b>BALANCE SHEET (EURm)</b>								
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	29.6	31.0	31.9	41.7	56.0	67.8	73.0	78.8
Tangible fixed assets	2.2	2.2	2.6	2.6	4.4	8.3	10.4	12.3
WCR	6.9	9.0	4.9	10.8	27.3	23.8	28.6	33.6
Financial assets	0.8	1.6	1.9	2.3	4.2	4.5	4.9	5.3
Ordinary shareholders equity	32.8	38.6	52.4	63.8	82.6	106	133	165
Minority interests	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Shareholders equity	33.1	38.9	52.7	64.1	82.9	106	133	165
Non-current provisions	0.5	1.0	2.1	4.9	7.1	7.1	7.1	7.1
<b>Net debt</b>	<b>5.9</b>	<b>3.9</b>	<b>-13.5</b>	<b>-11.7</b>	<b>2.0</b>	<b>-8.5</b>	<b>-23.3</b>	<b>-42.4</b>
<b>CASH FLOW STATEMENT (EURm)</b>								
<b>EBITDA</b>	<b>8.1</b>	<b>12.7</b>	<b>25.1</b>	<b>28.3</b>	<b>30.1</b>	<b>37.5</b>	<b>44.4</b>	<b>52.0</b>
Change in WCR	3.7	-3.0	2.9	-7.5	-16.1	-5.0	-4.7	-5.0
Interests & taxes	-1.5	-1.3	-2.9	-3.4	-4.8	-6.3	-7.3	-8.3
Others	-0.5	0.0	1.6	-0.7	-0.6	-0.3	-0.3	-0.4
Operating Cash flow	9.9	8.4	26.7	16.7	8.7	25.9	32.1	38.3
CAPEX	-5.7	-6.2	-7.1	-7.7	-11.1	-15.4	-17.3	-19.2
<b>Free cash-flow</b>	<b>4.1</b>	<b>2.2</b>	<b>19.6</b>	<b>9.0</b>	<b>-2.4</b>	<b>10.5</b>	<b>14.8</b>	<b>19.1</b>
Acquisitions / disposals	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	-2.3	-6.9	0.0	0.0	0.0	0.0
Others	-1.4	-1.2	-4.6	3.5	14.9	-1.1	-4.3	-4.0
Change in net debt	4.2	1.9	17.3	-3.4	-12.5	10.5	14.8	19.1
<b>GROWTH MARGINS PRODUCTIVITY</b>								
Sales growth	11.8%	14.5%	23.7%	12.7%	24.4%	17.7%	14.9%	13.7%
<b>Lfi sales growth</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Current EBIT growth	23.5%	ns	ns	20.6%	0.3%	25.4%	18.2%	17.0%
Growth in EPS(%)	ns	88.0%	ns	14.2%	3.3%	24.5%	18.9%	17.6%
Net margin	3.2%	5.3%	11.4%	11.5%	9.5%	10.0%	10.3%	10.7%
<b>EBITDA margin</b>	<b>8.3%</b>	<b>11.3%</b>	<b>18.0%</b>	<b>18.1%</b>	<b>15.5%</b>	<b>16.3%</b>	<b>16.9%</b>	<b>17.3%</b>
<b>Current EBIT margin</b>	<b>4.0%</b>	<b>7.1%</b>	<b>13.9%</b>	<b>14.8%</b>	<b>12.0%</b>	<b>12.7%</b>	<b>13.1%</b>	<b>13.5%</b>
CAPEX / Sales	-5.8%	-5.5%	-5.1%	-4.9%	-5.7%	-6.7%	-6.6%	-6.4%
WCR / Sales	7.0%	8.0%	3.5%	6.9%	14.0%	10.4%	10.8%	11.2%
Tax Rate	-3.3%	18.2%	16.9%	20.8%	19.9%	20.2%	20.2%	20.2%
Normative tax rate	-31.1%	-20.1%	-28.3%	-30.3%	-25.8%	22.2%	ns	79.6%
Asset Turnover	2.5	2.8	3.4	3.3	2.7	2.4	2.5	2.5
<b>ROCE post-tax (normative tax rate)</b>	<b>13.0%</b>	<b>23.6%</b>	<b>60.6%</b>	<b>64.1%</b>	<b>41.1%</b>	<b>24.2%</b>	<b>ns</b>	<b>7.0%</b>
ROCE post-tax hors GW (normative tax rate)	13.0%	23.6%	60.6%	64.1%	41.1%	24.2%	ns	7.0%
ROE	10.1%	16.6%	34.9%	31.0%	25.2%	24.4%	22.9%	21.6%
<b>DEBT RATIOS</b>								
Gearing	18%	10%	-26%	-18%	2%	-8%	-18%	-26%
Net Debt / Market Cap	0.12	0.06	-0.07	-0.03	0.00	-0.01	-0.03	-0.05
<b>Net debt / EBITDA</b>	<b>0.72</b>	<b>0.31</b>	<b>ns</b>	<b>ns</b>	<b>0.07</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>
EBITDA / net financial charges	ns	ns	ns	ns	ns	ns	ns	ns

Source: ODDO BHF Securities, Fininfo