



Hypoport AG

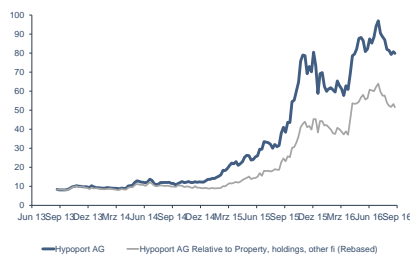
Buy → | Target 102.00 EUR vs 89.00 EUR ↗

Price (09/21/2016) : 79.85 EUR | Upside : 28 %

Est.chng	2016e	2017e
EPS	0.0%	0.0%

FinTech meets mortgages: poised for growth; TP raised to € 102

Thursday 22 September 2016



We reiterate our Buy rating and raise our TP from € 89 to € 102 (28% upside). Driven primarily by the Financial Service Providers segment (Europace), earnings should benefit mid-term from i/ structural trends supporting the German housing market, ii/ Europace's strong position, which attracts increasing volume, leading to market share growth and rising economies of scale, iii/ lower than perceived vulnerability to rising interest rates, iv) a highly scalable business model. Longer-term, further growth opportunities e.g. geographic growth could drive the equity story.

German mortgage market supported by structural trends

Housing demand in Germany is rising (e.g. due to net immigration) while the housing supply is hindered by a low number of building permits and more demanding requirements for new buildings. Demand for homes until 2025 is forecasted at c.310k p.a., while only 200k homes are currently being constructed per year. This results in a persistent annual gap that will support the upward trend in housing prices, and hence mortgage transaction volume. We assume a decline in mortgage volumes of -4% in 2016e (due to the Mortgage Credit Directive) followed by market growth of 1.5% per year from 2017e on.

Poised to gain further market share

Hypoport operates the number one internet platform for mortgages in Germany (Europace). Based on an in-depth analysis, we show that Europace's market share has risen steadily in recent years from 5.8% in 2010 to 13.0% in 2015. We think this trend will continue with market share growing 1% per year to 23% in 2025e. Europace's size advantages and economies of scale have resulted in a duopoly (i.e. Europace and Interhyp) protected by strong barriers to entry.

A highly scalable business model

Economies of scale are intrinsic to the business model since variable costs to run the Europace platform are very low, making the marginal cost of additional transaction volume close to zero. Its scalability is supported by the fact that Europace can be offered in a variety of forms (e.g. Genopace, Finmas) to cater to different client groups.

Valuation

We base our target price on a DCF-based sum-of-the-parts valuation. For the Financial Service Providers segment we derive a fair value of € 56.65/share, for the Private Clients segment € 28.30/share and for the Institutional Clients segment € 15.41/share. Adding to this net cash of € 2.27/share, we arrive at a fair value per share of € 102.64.

Buy; TP increased to € 102 (€ 89)

We reiterate our Buy rating on Hypoport and raise our TP from € 89 to € 102. Our 2018e target P/E is 24.3x (EPS CAGR 2015-18e: 17.4%). Our TP is based on a mortgage market CAGR of 1.5% and an increase in Europace's market share of 1pp per year. If we were to assume growth rates of the past 5 years, i.e. a market CAGR of 6% and c.1.5pp market share growth per year, our fair DCF value per share would be € 167.84. Assuming zero growth and zero market share gains, we derive a fair value of € 65.89.

—Hypoport AG —Hypoport AG Relative to Property, holdings, other fi (Rebased)

Capital

HYQ GY HYQGn.DE	
Market Cap (EURm)	490
Enterprise value (EURm)	476
Extrema 12 months	37.87 - 97.00
Free Float (%)	56.1

Performance (%)	1m	3m	12m
Absolute	-8.2	-7.4	102.8
Perf. rel. Country Index	-8.8	-8.0	111.9
Perf. rel. Property, holding	-9.2	-6.7	115.5

P&L	12/16e	12/17e	12/18e
Sales (EURm)	155	173	190
EBITDA (EURm)	30.6	34.5	38.5
Current EBIT (EURm)	25.0	28.4	31.8
Attr. net profit (EURm)	20.0	23.2	26.1
Adjusted EPS (EUR)	3.25	3.79	4.26
Dividend (EUR)	0.00	0.00	0.00

P/E (x)	24.6	21.1	18.8
P/B (x)	6.8	5.1	4.0
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.9	4.1	4.4
EV/Sales (x)	3.06	2.60	2.26
EV/EBITDA (x)	15.5	13.0	11.1
EV/Current EBIT (x)	19.0	15.8	13.4
Gearing (%)	-31	-44	-53
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

31.10.2016 Q3 Results

Dr. Oliver Pucker, CFA (Analyst)

+49 (69) 92 05 48 27

oliver.pucker@oddoseydler.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
21.09.16	Buy	102.00	79.85	Dr. Oliver Pucker, CFA
03.05.16	Buy	89.00	71.69	Ivo Višić
22.03.16	Buy	74.00	64.84	Ivo Višić
23.02.16	Buy	72.00	59.58	Ivo Višić
11.01.16	Neutral	77.00	73.68	Ivo Višić
02.11.15	Buy	64.00	56.00	Ivo Višić
21.10.15	Buy	57.00	49.99	Ivo Višić

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Table of contents

Investment thesis	5
Reiterate Buy; TP upped to € 102.00	5
Valuation: TP upped to € 102.00; Buy	8
EBIT bridge and estimates vs. consensus	9
Threats to our investment thesis	10
Top-down perspective	10
Macro view: The German housing market	12
Hypoport's competitive position	12
Most recent mortgage volume trends	16
Impact of EU Mortgage Credit Directive (MCD)	17
Mortgage volumes and interest rate exposure	18
Overall drivers for the German housing market	20
Business model	25
Financial Service Providers (Europace)	26
Private Clients	26
Institutional Clients	28
Scalability	29
Transaction fees	32
Further financials	33
Valuation and further growth opportunities	37
Valuation: TP increased to € 102.00 (89.00)	37
Further growth opportunities	42
Trading multiples	44
Peer comparison	44
P&L 2013 – 2018e	47

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INVESTMENT THESIS

Hypoport AG (HYQ), listed on the German SDAX, is at its core a FinTech company whose business model consists of two mutually supportive pillars:

- Europace, the **#1 platform for mortgages** in Germany.
- An independent financial **advisory business** (based on Europace) called Dr. Klein which brokers mortgage loans to consumers and also provides advisory services to institutional clients.

Reiterate Buy; TP upped to € 102.00

We reiterate our Buy on Hypoport and increase our target price to € 102.00 from € 89.00, implying upside potential of ~28%. We consider Hypoport a well-run company with a strong business model that should benefit in the mid-term from i/ structural trends that support the German housing market, ii/ Europace's strong market position, which attracts increasing volume, leading to market share growth and rising economies of scale, iii/ Hypoport's lower than perceived vulnerability to rising interest rates, iv) the strong scalability of the business model. Longer-term, further growth opportunities such as geographic growth could drive the equity story.

1. Structural trends supporting German housing market

Some market observers are already pointing out that Germany is currently in a **'housing bubble'** and that prices and market volumes will fall going forward. While we, too, do not expect overall market volume to grow as fast as in the past, we believe several factors will continue to support a **strong real estate market** in Germany:

- Demand for housing in Germany is rising (e.g. due to **net immigration** and a higher number of **one-person households**) while the housing supply (at least in the major cities) is hindered by the low number of building permits and more **demanding requirements** for new buildings (e.g. heat efficiency). According to Statista, annual demand for homes in Germany until 2025 will be c.310k while only c.200k homes are currently being constructed per year. The gap of 110k homes p.a. multiplied by 10 years results in a **cumulative shortfall of 1.1m** homes in Germany by 2025. This persistent annual gap supports the upward trend in housing prices, and thus mortgage transaction volume (=average housing price x number of transactions).
- Germany appears to have catch-up potential in terms of its **low ownership rate**, i.e. only about 46% of German households own their homes vs e.g. 85% in Spain or 58% in France.
- The German economy remains strong (e.g. highest credit rating in the world, solid macro figures), and the **low-interest environment** will likely persist for a longer period of time.

We do not expect a significant negative impact on the housing market from the new mortgage credit directive as the MCD i) only has a **slight negative impact on housing demand**, and ii) does **not lead to significant incremental costs** for mortgage suppliers or advisors (see p. 17).

Overall, we value Hypoport based on i/ an expected decline in mortgage volumes of -4% in 2016e and ii/ **relatively low market growth** of 1.5% per year from 2017e on (CAGR 2010-2015: 6%).

2. Hypoport is poised to win market share

Hypoport's Europace is the number-one internet platform for mortgage broking in Germany. In this market, Europace's market share has risen steadily from 5.8% in 2010 to 13.0% in 2015. This platform should in our view continue to gain market share going forward for several reasons.

- As a product group, mortgages have only marginal differentiation potential, i.e. competition is mostly on price (=mortgage interest rate) and loan duration. In addition, for most people, buying a home and thus selecting a mortgage is arguably the most important financial decision in their lifetime. As such, a centralized platform which increases **price transparency** provides significant value for consumers.
- As the leading internet mortgage broking platform in Germany, Europace's size advantages – greater choice and more attractive prices for customers, more market reach for suppliers – naturally attract a growing customer base, which in turn translates to rising **economies of scale**. Similar to other online platforms such as CTS Eventim's ticketing platform, economies of scale in mortgage broking platforms have resulted in a duopoly (i.e. Europace and ING's Interhyp) protected by strong barriers to entry. This puts Hypoport in a strong position to grow its market share going forward.
- Europace as an **IT outsourcing solution** can be significantly cheaper for banks than maintaining in-house operations. Used as a software-as-a-service solution, Europace saves banks the cost of developing (and continually updating) a proprietary platform. Economies of scale enable Hypoport to offer the software at a cheaper price compared to a self-developed software solution.

It should also be noted that Hypoport has **significant growth potential** in several market spaces. At present the company processes only a very small part of the mortgage business from the savings banks ('Sparkassen') and cooperative banks ('Volks- und Raiffeisenbanken'), i.e. in each case about only 2% of their overall transaction volume. Hypoport addresses these two market segments with two versions of Europace, Finmas and Genopace, that have been customised especially for Germany's savings banks and cooperative banks, respectively.

Another **area of growth** is the private banks space, where Europace currently has a market share of 33%. Here Europace is used as an outsourcing solution. As pointed out above, Europace as a software-as-a-service solution can be significantly cheaper for banks than maintaining in-house operations. We therefore think that Europace will gain market share in this market segment going forward.

The **online banking utilization rate** in Germany may provide an indication for the overall growth potential of Europace. Online banking has played a disruptive role in the banking sector due to its advantages over the bank teller model in terms of convenience and cost and time savings. Europace offers similar advantages over the traditional bank-based mortgage lending model in terms of convenience, lower costs, and greater transparency and choice. Thus, Europace's growth trajectory could be similar to that of online banking. In 2005, the share of German online banking users was 29% which increased to 49% in 2014.

Overall, due to its advantages and its strong market position, we model the market share of the Europace platform to increase by +1% per year until 2025 to 23.0%. In this context we note that Hypoport's market share has increased further in 2016, from 13.0% in 2015 to 13.4% in Q1 2016 and 14.8% in Q2 2016. We take this as an indication of the platform's growth potential going forward. In particular, according to a recent article in the *Börsenzeitung*, the Mortgage Credit Directive (MCD) seems to have pushed some less competitive solutions out of the market, while Europace, as a technologically superior solution, has **gained market share**.

3. Not only a play on low interest rates

A crucial question for Hypoport's equity story is therefore to what extent the increase in mortgage transaction volume at Europace is due to the low interest environment, and what will happen to that volume if mortgage interest rates rise again?

While it is very difficult to measure this effect due to confounding factors (i.e. GDP growth, sociocultural changes, etc.), our key takeaway overall is that i/ German mortgage volumes have been **relatively stable** in the past despite interest rate shifts, and ii/ **interest rate levels are not that critical** to the success of Hypoport's business model since mortgage volumes are not as strongly correlated to interest rates as one might think. Therefore (as discussed above), other structural factors should be taken into account such as the number of building permits and the overall ownership rate in Germany. Needless to say, however, an environment of rising interest rates would very likely have a negative impact on mortgage volumes and in turn on Hypoport.

4. The business model is highly scalable

Europace is essentially a large, highly scalable IT platform which by its nature is similar to Wirecard's IT platform or CTS Eventim's ticketing platform. The scalability is mainly due to two reasons:

- **Economies of scale** are an inherent part of the business model since variable costs to run the Europace platform are very low. The marginal cost of additional transaction volume is close to zero. The platform requires capital expenditures of about € 8m per year.
- Europace can be offered in a **variety of forms** to cater to different client groups (e.g. Finmas and Genopace). Essentially, Europace as a backend solution can be customized with different front-ends.

Due to Europace's high scalability, we expect its EBIT margin to rise as transaction volume increases. We assume a degree of operating leverage of on average 50% until 2025e for Europace, i.e. for every euro of incremental revenue (transaction fees), EBIT increases by € 0.50.

5. Further growth opportunities

Although not reflected in our current estimates, we see the following three additional major growth opportunities for Hypoport for the medium to long term:

- **Geographic growth:** Hypoport is currently active only in Germany.
- **Insurance Tech:** While the company's first foray into insurance was a big failure, its second approach looks much more promising.
- **Extending the product range into the real estate space:** Hypoport has several projects along the real estate value chain that look promising, such as real estate valuation and real estate funds, which it establishes as alternative financing vehicles to bank debt.

While it is difficult to put a number on these opportunities, and we do not include them in our valuation, we believe they could be drivers of the equity story in the future.

Valuation: TP upped to € 102.00; Buy

We base our target price on a sum of the parts valuation. For the Financial Service Providers segment we derive a fair value of **€ 56.65/share**, for the Private Clients segment **€ 28.30/share** and for the Institutional Clients segment **€ 15.41/share**. To this we add net cash of **€ 2.27/share** (€ 25.2m cash & cash equivalents less € 11.26m in financial liabilities divided by 6.1m shares outstanding), which takes us to a fair value per share of **€ 102.64**. We set our TP at € 102.00.

Total DCF value (sum-of-the-parts valuation)	
	Fair value per share (EUR)
DCF Financial Service Providers (Europace)	56.65
DCF Private Clients (Dr. Klein)	28.30
DCF Institutional Clients	15.41
Potential of other growth opportunities	not included
Net cash	2.27
Fair value per share (EUR)	102.64

Chart 1 - Source: Oddo Seydler Bank AG

We do not include the 'further growth' opportunities (e.g. Insurance Tech and geographic expansion) in our valuation, since the visibility as of now is too low.

We also ran a scenario analysis for the DCF value of Europace assuming various market CAGRs and market share growth rates.

Europace: Scenario analysis

	Description	DCF value
Scenario 1	Market CAGR of 0% in 2017-25e Market share CAGR of 0% in 2017-25e No operating leverage	€ 65.89
Scenario 2	Market CAGR of 1% in 2017-25e Market share CAGR of 0.5% in 2017-25e 40% operating leverage	€ 79.62
Base scenario	Market CAGR of 1.5% in 2017-25e Market share CAGR of 1% in 2017-25e 50% operating leverage	€ 102.64
Scenario 4	Market CAGR of 3% in 2017-25e Market share CAGR of 1.5% in 2017-25e 60% operating leverage	€ 141.50
Scenario 5	Market CAGR of 6% in 2017-25e Market share CAGR of 1.5% in 2017-25e 60% operating leverage	€ 167.84

Chart 2 - Source: Oddo Seydler Bank AG

Our base case scenario for the years 2017e to 2025e is 1.5% mortgage market CAGR, a 1.0pp market share growth per year and operating leverage of 50% for Europace. This leads to a fair DCF value of € 102.64.



If we assume the growth rates of the past 5 years, i.e. 6% market CAGR and 1.5pp market share growth per year we derive a fair DCF value of € 167.84 (based on an assumption of 60% operating leverage).

If we assume zero growth in market volume, zero growth in market share and no operating leverage, we still derive a fair value of € 65.89 which implies an arguably relatively low downside of 17.6% relative the current stock price.

EBIT bridge and estimates vs. consensus

The figure below shows our projected EBIT bridge from 2015 to 2018e: Overall, we expect group EBIT to grow by 64.5% from € 19.3m in 2015 to € 31.8m in 2018e (CAGR: 18.1%). This increase of € 12.5m can be broken down as follows: (1) € 3.4m from the Private Clients segment; (2) € 1.5m from the Institutional Clients segment; (3) –€ 0.2m related to negative market/mortgage volume growth; (4) € 3.9m from Europace market share gains; and (5) € 3.8m from the operating leverage of the Europace platform.

EBIT bridge: growth drivers 2015 to 2018e

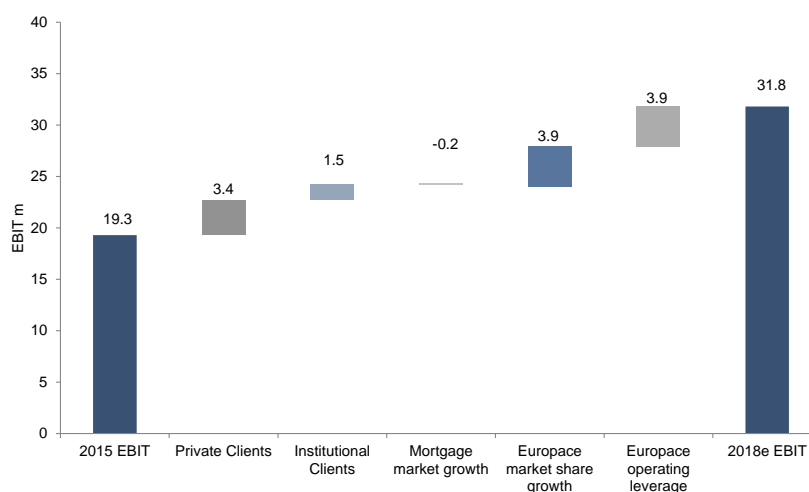


Chart 3 - Source: Oddo Seydler Bank AG

Our estimates are broadly in line with the consensus figures. However, it should be noted that Hypoport is currently only covered by 3 brokers (including Oddo Seydler).

Oddo Seydler estimates vs. consensus* (2016e-2018e)

(in EURm)	2016e	2017e	2018e
Revenues			
Oddo Seydler	155.2	172.8	189.6
BB consensus estimates	155.3	172.0	189.5
Deviation to consensus	-0.1%	0.5%	0.1%
EBIT			
Oddo Seydler	25.0	28.4	31.8
BB consensus estimates	24.7	28.8	33.2
Deviation to consensus	1.3%	-1.3%	-4.1%
EPS (Diluted)			
Oddo Seydler	3.25	3.79	4.26
BB consensus estimates	3.25	3.83	4.56
Deviation to consensus	0.2%	-1.1%	-6.6%

Chart 4 - Source: Bloomberg, Oddo Seydler Bank AG

*based on 3 estimates

Threats to our investment thesis

Longer-term, we see the following market-related threats to Hypoport's business model:

- **Decline in housing prices/turnover:** Overall mortgage volume comprises two components, i.e. (1) the number of transactions (turnover) and (2) the average price level. If housing transaction activity in Germany declines, e.g. due to higher market frictions (for example higher land transactions taxes), mortgage volumes would fall. Similarly, if housing prices should decline, e.g. due to a recession, mortgage volumes would also fall. Either case implies a negative impact on Hypoport.
- **Regulatory changes:** While the Mortgage Credit Directive in our view only had a temporary negative impact, further regulatory changes could have a significant negative long-term impact.
- **Competition from Internet Content Providers (ICPs):** We acknowledge a potential threat from ICPs such as Google encroaching on Hypoport's market, but consider this scenario unlikely, at least in the short to medium term. Reasons: (1) Google recently failed in its attempt to sell insurance and financial products online in the UK and the US (i.e. 'Google Compare' was shut down in March 2016). This shows that even for a well-established ICP player with strong market recognition, dominant user traffic, financial firepower and technological leadership, extending the business model to financial products is not easy. (2) The main problem an ICP like Google faces is getting content (i.e. mortgage products) on its platform. Banks will naturally choose the platform with the highest market share. This winner-takes-all mechanism makes it very difficult for ICPs or other latecomers to enter the market. (3) Europace also enjoys a key competitive advantage in terms of economies of scale due to its market reach, i.e. a new entrant would need to be able to offer its products significantly cheaper. Given Europace's dominant market position and the significant investments Hypoport has made in Europace of about € 50m in the last couple of years, we think this is an unlikely scenario.

On the other hand Hypoport could become a takeover target for deep-pocketed ICPs seeking to enter the online financial services space in Germany. This would be an upside risk to our target price.

- **A substantial increase in interest rates:** Hypoport's business development is heavily dependent on the overall volume of new mortgages to private households. While the mortgage volume is not as sensitive to increases in interest rates as one might think (see above), a substantial increase in interest rates would very likely still have a significant negative impact on Hypoport due to lower housing prices and in turn lower mortgage volumes.

Top-down perspective

The remainder of this report is divided into three sections:

- **(I) Macro view: The German housing market:** Since the company's main business is the brokerage of mortgages for private households, we discuss Hypoport's market position and growth drivers of the housing and mortgage market in Germany.
- **(II) Business model:** In this section we discuss the transaction-based business model and its scalability.
- **(III) Valuation and growth assumptions:** In the last section we value the company based on a sum-of-the-parts DCF valuation mode and discuss the underlying growth assumptions.



Overview: Top-down approach for Hypoport's equity story

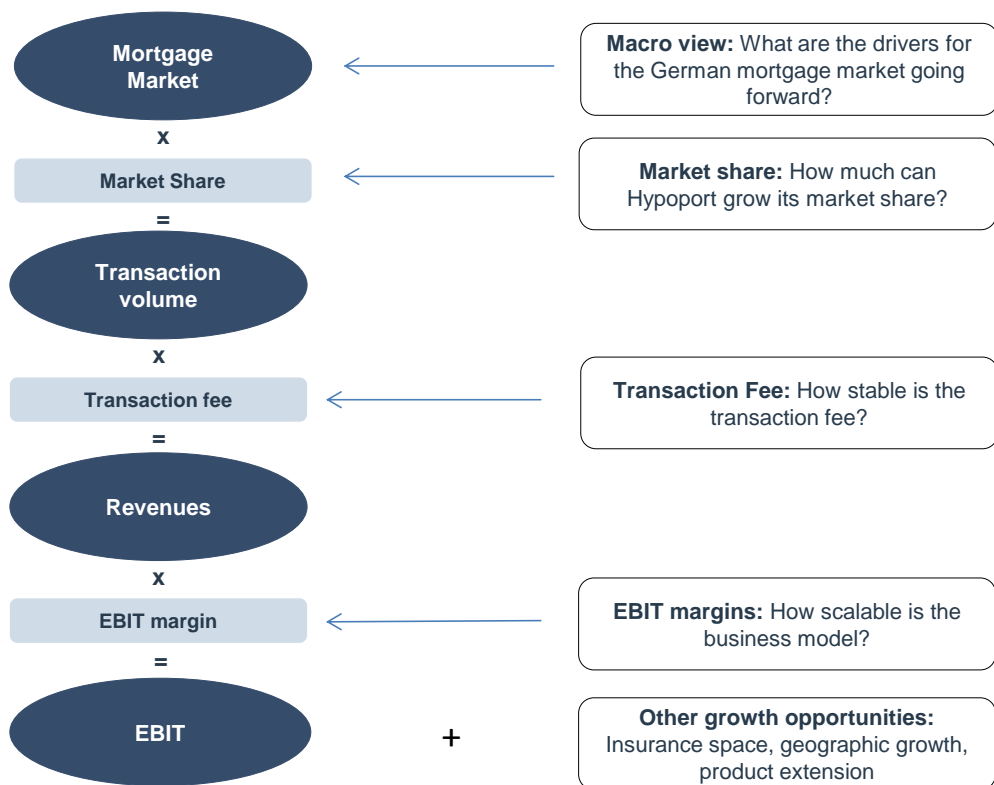


Chart 5 - Source: Oddo Seydler Bank AG

MACRO VIEW: THE GERMAN HOUSING MARKET

Hypoport's competitive position

New mortgage lending in Germany by banks to private households totalled € 244bn in 2015. In this market, Hypoport runs two different (but interconnected) business models:

- 1) With its **Europace** platform, Hypoport acts as a financial intermediary in the B2B market, i.e. it brings together credit supply from banks and credit demand from financial advisors. (Financial advisors advise private households as borrowers and arrange/broker loan agreements for them). Essentially, banks supply the Europace platform with mortgage loans, while financial advisors sell the mortgage loans to households. Hypoport receives a fee from the banks based on the transaction volume.
- 2) Hypoport also acts as an independent financial advisor itself and receives an additional fee from banks when its **Dr. Klein** subsidiary sells a loan agreement.

In 2015, about **13.0%** of the overall new mortgage volume in Germany was processed via the Europace platform. This platform has **strongly outperformed** the overall market in terms of volume growth: The overall mortgage lending volume of banks in Germany (national as well as international banks) to private households increased by ~34% from 2010 to 2015, implying a CAGR of around 6%, while transaction volume on the Europace platform grew at a CAGR of c.24.5% to € 45.2bn in same period.

Note that the Europace and the Bundesbank figures are not fully comparable for two reasons: (1) Europace's transaction volume also includes mortgages that were initiated and subsequently retracted, which account for about 20% of the total volume; and (2) Europace transaction volume also includes double-booked mortgages which account for about 10% (however, this is no longer the case from 2016 onwards). Therefore, for the years up to and including 2015 we adjust down Europace's transaction volume by 30% when calculating its market share. While this does not make Europace's transaction volume fully comparable to the Bundesbank's figures (e.g. the Bundesbank figures include all mortgage extensions while the Europace figures only include the extensions that are directly brokered by a bank), the Bundesbank figures still serve as reasonable proxy for the broad market.

Households' mortgage lending volume vs. Europace volume, 2010-2015 (in € bn)

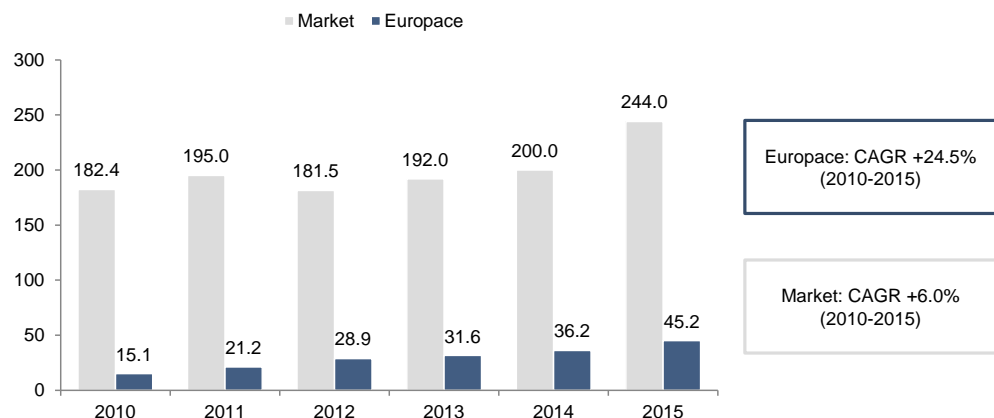


Chart 6 - Source: Deutsche Bundesbank; Company data; Oddo Seydler Bank AG

For consumers and credit suppliers (i.e. banks), Europace offers several advantages and can be used in three different ways:



- 1) The Europace **platform** is mainly used as a marketplace in which several banks offer mortgage loans and independent financial advisors (such as Dr. Klein) can select specific loans and sell them to households. To give a classic example, a private household wants to take out a mortgage to buy a house. The household talks to an independent financial advisor (who uses Europace). The financial advisor then selects the most favourable mortgage for the household from several hundred suppliers on the platform; i.e. the household enjoys the advantage of Europace's independent advisory feature. Europace is beneficial for the private household because of its high **price transparency**, i.e. because it enables the financial advisor to find the mortgage with the most favourable conditions for the household. Without Europace, the household would have to talk to all banks separately to get the same range of offers. Thus, Europace provides an easier and less time-consuming **market search** at lower transaction costs than the conventional mortgage lending process.

Europace's advantage for the credit supplier lies in the fact it accumulates leads (potential clients) via independent financial advisors and therefore increases the credit supplier's potential **market reach**. This is true in particular for small or new credit suppliers (new entrants or local providers) who lack a nationwide footprint and therefore effective market access. Moreover, Europace facilitates **asset-liability-management** for banks, allowing them to manage their credit exposure more efficiently (i.e. deciding whether to take a specific mortgage loan onto their balance sheet or not). In addition, Europace as an **IT solution** has potential advantages over a proprietary software solution (see also next bullet point).

- 2) Europace can also be used as an **IT outsourcing** tool for a specific credit supplier. (It is used this way by Postbank, for example). This enables a bank's sales agents to sell only loans from their own bank; the households can only choose from the mortgages offered by this specific bank (i.e. as is common practice in the traditional client-bank relationship in Germany). In this function, Europace is essentially a software-as-a-service (SaaS) solution.
- 3) A bank can also act as a supplier and independent advisor at the same time, offering both its own mortgage loans on Europace and those of other banks. (Commerzbank uses Europace in this way for private loans). Example: A private household talks to a Commerzbank sales agent and receives a variety of loan offerings, both from Commerzbank and other banks. By so doing, Commerzbank acts as an independent advisor, which makes it more competitive and credible. The bank still receives an advisory fee (if the private household selects a loan from a third-party bank). The bank can also **make a competitive counter-offer to the client**. Moreover, as pointed out above, the bank can decide whether it is favourable or not in terms of its credit exposure to take this loan onto its own balance sheet or not.

Europace has rapidly increased its market share – from 5.8% in 2010 to 13.0% in 2015 – and is currently the **#1 platform in Germany** in terms of processed mortgage transaction volume (note that as outlined above the reported transaction volume of Europace is adjusted down by 30% (factor of 0.7x). Interhyp's platform (owned by Dutch ING) has also grown strongly in the same period, from 3.8% in 2010 to 6.6% in 2015 (we make no adjustments made due to lack of transparency). The remaining ~80% of transaction volume in this market is processed by individual banks (e.g. Deutsche Bank) who have developed proprietary IT systems used at the point-of sale and act as credit suppliers and financial advisors at the same time. The combined market share of such banks has decreased from around 90.4% in 2010 to 80.4% in 2015.

Market shares of Europace and Interhyp, in € bn and %

	2010	2011	2012	2013	2014	2015
Europace reported	15.1	21.2	28.9	31.6	36.2	45.2
Europace adjusted	10.6	14.8	20.2	22.1	25.3	31.6
Interhyp	6.9	7.6	7.7	8.9	11.2	16.1
Market	182.4	187.2	189.3	195.0	200.0	244.0
Europace adjusted (%)	5.8%	7.9%	10.7%	11.3%	12.7%	13.0%
Interhyp (%)	3.8%	4.1%	4.1%	4.6%	5.6%	6.6%
Other (%)	90.4%	88.0%	85.2%	84.1%	81.7%	80.4%

Chart 7 - Source: Deutsche Bundesbank, company data, Oddo Seydler Bank AG

We believe Europace will **continue to gain significant market share in the future**, for several reasons:

- As a product group, mortgages have only marginal differentiation potential, i.e. competition is mostly on price (=mortgage interest rate) and loan duration. In addition, for most people, buying a home and thus selecting a mortgage is probably the most important financial decision in their lifetime. As such, a centralized platform which increases **price transparency** provides significant value for consumers.
- As the number one mortgage broking platform in Germany, Europace has a size advantage which translates to **economies of scale**. Similar to other online platforms such as CTS Eventim's ticketing platform, economies of scale in mortgage broking platforms have resulted in a duopoly protected by strong barriers to entry. This puts Hypoport in a strong position to grow its market share.
- Even for banks that decide to offer only their own mortgage products, Europace is an **IT outsourcing solution** that can be significantly cheaper. As a software-as-a-service solution, Europace obviates the need to develop (and continually update) a proprietary platform. Economies of scale enable Hypoport to offer the software at a cheaper price.

From a sales side perspective, mortgage brokers and private banks each account for about 20% of overall mortgage volume, savings banks for 35%, and cooperative banks 25% (see graphic below). Europace's market share is 50% in the mortgage broker space, about 33% in the private banks space, and 2% each in the savings banks and cooperative banks spaces.

Breakdown of Europace's market share from a sales perspective

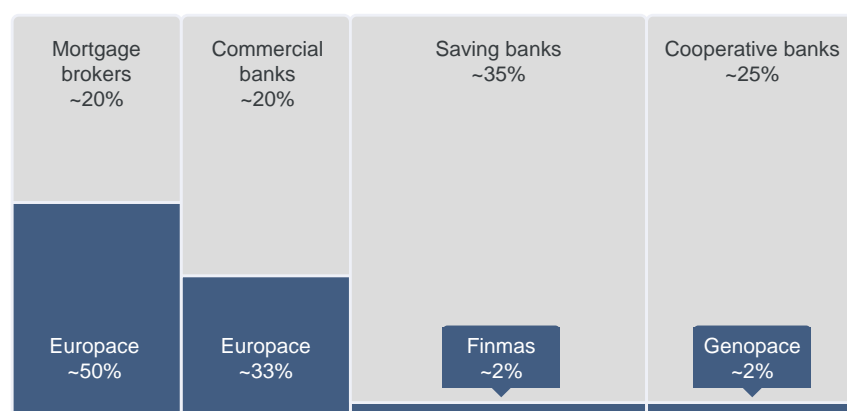


Chart 8 - Source: Company data; Oddo Seydler Bank AG

Based on the above, we can break down Europace's overall market share of 13.0% further as follows: about 7% (i.e. 50% out of 20% and taking into account a 30% discount due to methodological differences in recording the transaction volume as described above) of its market share comes from the mortgage broker space, about 5% from the commercial banks space and about 0.5% from



each from the savings banks and cooperative banks spaces (i.e. $7\%+5\%+0.5\%+0.5\% = 13.0\%$).

Hypoport's currently very small share of the mortgage business from the savings banks and cooperative banks (only ~2% each), suggests **significant growth potential** in these two spaces. Hypoport addresses these two market segments with two versions of Europace that have been customised for the savings banks and cooperative banks:

- **Finmas** provides the Europace platform to German savings banks (Sparkassen). There are about 420 regional savings banks in Germany. Hypoport reports that 124 or c.30% these 420 are connected to Finmas.
- **Genopace** is a customized version of Europace available only to Germany's **cooperative banks** (i.e. Volksbanken & Raiffeisenbanken). There are 1,046 cooperative banks in Germany. Hypoport reports that 146 cooperative banks or c.14% of the total cooperative banks are connected to Genopace.

Another growth area is the commercial banks space, where Europace currently has a market share of 33%, i.e. where it is used as an **IT outsourcing** solution. As pointed out above, Europace is a software-as-a-service solution can be significantly cheaper for banks. We therefore think that Hypoport **will win market share** in this market space going forward.

The **online banking utilization rate** in Germany may provide an indication for the overall growth potential of Europace. Online banking has played a disruptive role in the banking sector due to its advantages over the bank teller model in terms of convenience and cost and time savings. Europace offers similar advantages over the traditional bank-based mortgage lending model in terms of convenience, lower costs, and greater transparency and choice. Thus, Europace's growth trajectory could be similar to that of online banking. In 2005, the share of German online banking users was 29%, which clearly exceeded the corresponding EU average (20%). From then until 2014, Germany's online banking share steadily increased to 49% while the corresponding EU average increased more strongly, from 20% to 45% (from 2005 to 2015). Overall however, the EU figure was still below the figure of German online banking users.

Share of German online banking users vs. EU average

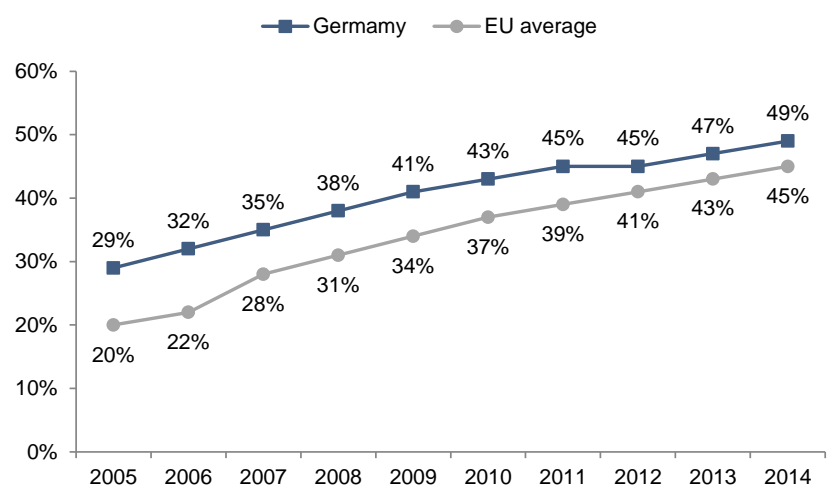


Chart 9 - Source: Eurostat, Oddo Seydler Bank AG

Overall, we believe banks that offer only their own product when advising clients will continue to lose market share going forward. Europace (13.0% market share in 2015) and Interhyp (6.6%) will benefit from this shift. Both companies provide a multi-vendor platform that is independent of the credit supplier.

Since **Interhyp** is no longer listed, there is only limited publicly available information on this company:

- Interhyp is owned by ING, which bought the company in 2008 for an EV/Sales multiple of around 4.3x and an EV/EBIT multiple of around 29x. Since ING is a bank, i.e. it competes with the banks that supply mortgages to the platform, Hypoport as an **'industry outsider'** has a competitive advantage.
- Similar to Europace, Interhyp has its own platform called eHyp. The main difference between Europace and Interhyp is that Interhyp, as an advisor, acts as a **pooler** on the supply side. In other words, a bank supplying credit interacts only with Interhyp as an advisor but not with independent advisors such as Dr. Klein.

Most recent mortgage volume trends

The Bundesbank recently published its new mortgage volume figures for July 2016, which showed a 20% yoy decrease (see rightmost column below).

Monthly new mortgages volumes July 2015 – July 2016

Month	Total new volume	Total p.q.	Total p.a.	Change yoy
Jul-15	25,308			33%
Aug-15	19,752			25%
Sep-15	19,161	64,221		16%
Oct-15	19,874			11%
Nov-15	18,426			14%
Dec-15	19,521	57,821	244,043	6%
Jan-16	18,507			-6%
Feb-16	18,776			10%
Mar-16	22,396	59,679		6%
Apr-16	17,859			-13%
May-16	17,968			-8%
Jun-16	21,409	57,236		-11%
Jul-16	20,287		-6.86%	-20%

Chart 10 - Source: Deutsche Bundesbank; Oddo Seydler Bank AG

Our key takeaways from the Bundesbank's July 2016 figures:

- 1) **Tough comparison base:** The July 2016 figures seem weak at first glance, but the June and July 2015 comparison bases were extremely strong, as mortgage volume was buoyed by the interest rate reduction in May 2015. Of the last 12 months, however, the July 2016 was the third-strongest month after March and June 2016.
- 2) **2016 volume ytd:** 2016 mortgage volume is down about 6.9% ytd. Considering however (1) the tough comparison base and (2) the negative impact of the Mortgage Credit Directive (see next section), 2016 volume seems quite robust.
- 3) **Impact on Hypoport:** Hypoport is currently seeing strong growth on its Europace platform and also appears to be gaining market share. Based on its ytd performance, Europace outperformed the overall mortgage market by c.20%. We therefore assume that transaction volume on Europace in July 2016 was flat yoy.
- 4) **Europace continues to win market share:** Europace changed its method of recording transaction volume in early 2016. It no longer counts mortgages that were double-booked. According to the company, this change decreases its transaction volume by about 10%, which effectively reduces the adjustment needed to make Europace's transaction volume more comparable to the Bundesbank figures from 30% to 20%. As shown in the figure below, based on the adjusted figure (i.e. under Hypoport's old methodology), Europace's market share increased to 13.4% in Q1 2016

and 14.8% in Q2 2016. Even when not accounting for the change in methodology, the market share increased to 13.5% in Q2 2016. In particular, the Mortgage Credit Directive (see below) seems to have forced some less competitive solutions out of the market, while Europace as a technologically superior solution, **gained market share**.

Europace's market share, Q1 2016 and Q2 2016

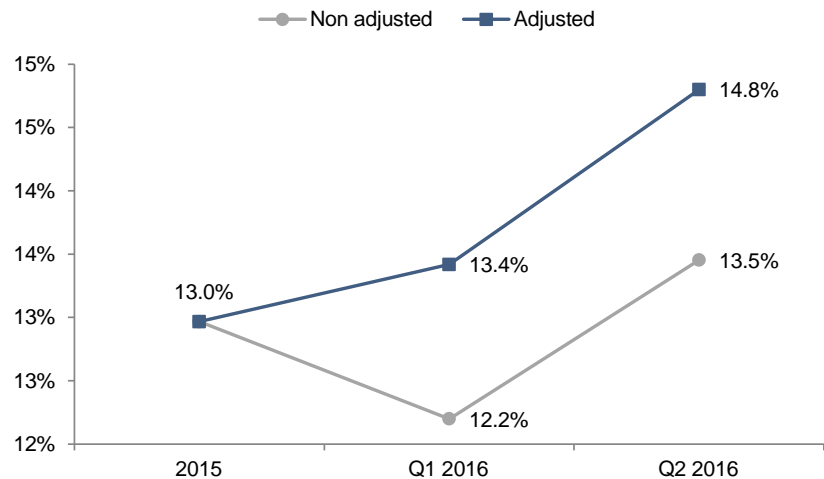


Chart 11 - Source: Deutsche Bundesbank; Company data; Oddo Seydler Bank AG

Impact of EU Mortgage Credit Directive (MCD)

The implementation of the EU Mortgage Credit Directive (Wohnimmobilienkreditrichtlinie) in Germany in March 2016 had a significant negative impact on the German housing market in Q2 16. Essentially, the directive requires stricter regulation of mortgage financing for private households. Besides **increased documentation** requirements, banks and independent advisors must also do more thorough credit assessments of households applying for mortgages including e.g. analyses of different scenarios such as unemployment. Furthermore, the role of the underlying property as collateral has been diminished; creditors are now obliged to focus solely on the borrower's capacity to repay the loan.

The new regulation has been implemented by banks and independent financial advisors, resulting in significant incremental costs and implementation issues, especially in Q2 2016. For example, saving banks in the German states of Baden-Württemberg and Bavaria reported a decrease in newly issued mortgage volume of 20% yoy in Q2 2016. This downturn was also reflected in the Bundesbank's Q2 figures: overall mortgage volume decreased 10.6% yoy in Q2 (see table on previous page).

Is this negative effect permanent or temporary? To answer this question we break down the negative impact into two factors – higher costs for credit suppliers (supply side) and lower housing demand (demand side):

- **Supply side:** The costs to the supply side from the Mortgage Credit Directive include the direct implementation costs (i.e. in Q2 2016 and before) and permanently higher costs related to increased documentation requirements and additional advisory services. The former costs are already digested, while we understand that the latter are not significant. Thus, in our view, the MCD will not have a permanent negative effect on the supply side.
- **Demand side:** On the demand side, the more thorough credit assessments required under the MCD may lead to an overall decrease in housing demand as some households may no longer qualify for a given mortgage. We believe this effect will be relatively small, however. In our view, the MCD will probably only effect borderline cases; some households that may have received a specific mortgage before may now no longer be able to obtain it. Such cases would constitute a low percentage of overall mortgages,



however. Furthermore, many real estate objects in metropolitan locations have several potential buyers, i.e. buyers with a higher credit score will step in to buy the object instead as a financial investment.

To summarise, we do not expect a significant negative impact on the housing market from the new mortgage credit directive as i) the MCD **only has a slight negative impact on housing demand**, and ii) does **not lead to significant incremental costs** for mortgage suppliers or advisors. As pointed out above, Europace as a technology leader **won market share** after the MCD was implemented.

Mortgage volumes and interest rate exposure

From January 2005 to July 2016, the average mortgage interest rate in Germany fell from 4.55% to 1.78%, while in the same period the volume of newly issued mortgages increased by roughly 40%, i.e. around 4% per year.

New mortgage volume and mortgage interest rates (January 2005 to July 2016)

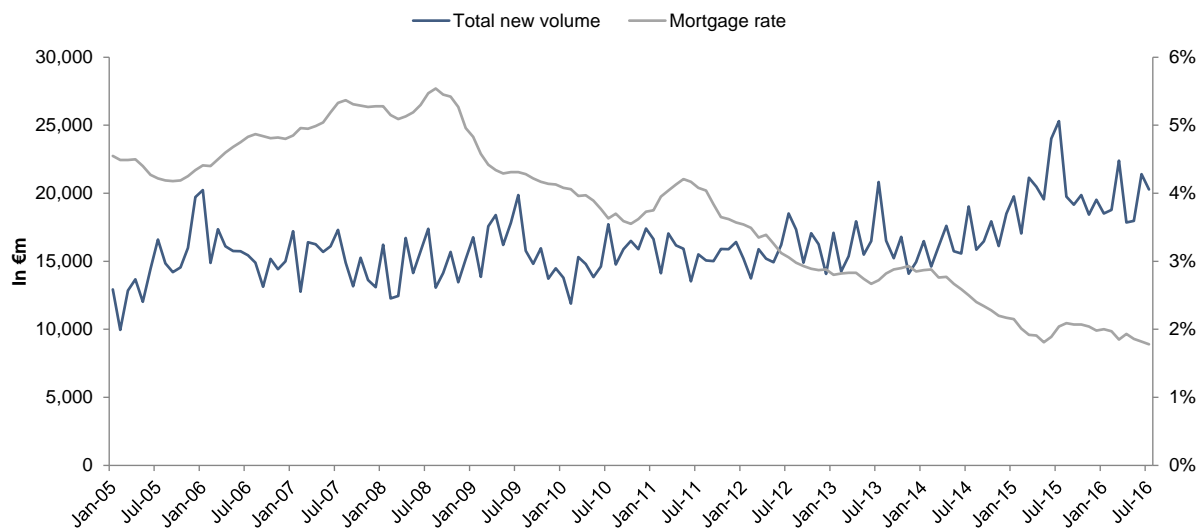


Chart 12 - Source: Deutsche Bundesbank; Oddo Seydler Bank AG

A crucial question for Hypoport’s equity story is therefore to what extent was the increase in mortgage volume driven by the low interest environment, and what would happen to Europace’s transaction volume if mortgage interest rates should rise again. While it is very difficult to measure this effect due to cofounding factors (i.e. GDP growth, sociocultural changes etc.), our key takeaway overall is that German mortgage volumes have been **relatively stable** in the past. Interest rate levels are **not that critical** to the success of Hypoport’s business model since mortgage volumes are not as strongly correlated to interest rates as one might think. Therefore (as we discuss in the next section), other factors should be taken into account such as the number of building permits and the overall ownership rate in Germany. Needless to say, however, an environment of rising interest rates would very likely have a negative impact on Hypoport.

As would be expected, there is a negative relationship between mortgage volume and interest rates, but the **correlation is less pronounced** than one might think. The correlation coefficient between the monthly change in volume and the one-month lagged interest rate is about -0.38 (i.e. R² of 0.15). While we are aware of the limitations of our analysis (e.g. delayed impact of interest rate changes), our overall takeaway is also supported by economic literature: A study by the Federal Reserve Bank of New York from 2015 (‘The Sensitivity of Housing Demand to Financing Conditions: Evidence from a Survey’) finds that changing the mortgage rate by 2 percentage points only changes the willingness to pay for a home by about 5 percent on average. Another study by the Federal Reserve Bank of San Francisco from 2015 comes to a similar



conclusion ('Interest Rates and House Prices: Pill or Poison?'): The authors find that the initial impact of a 1 percentage point increase in the short-term mortgage rate is relatively muted. After four years, mortgage lending volume declines about 2.8 percentage points. Similarly, house prices fall slowly at first, by the fourth year the accumulated decline is about 4.4%.

Monthly change in mortgage volume (horizontal) vs. monthly change in mortgage interest rate with 1-month lag (vertical)

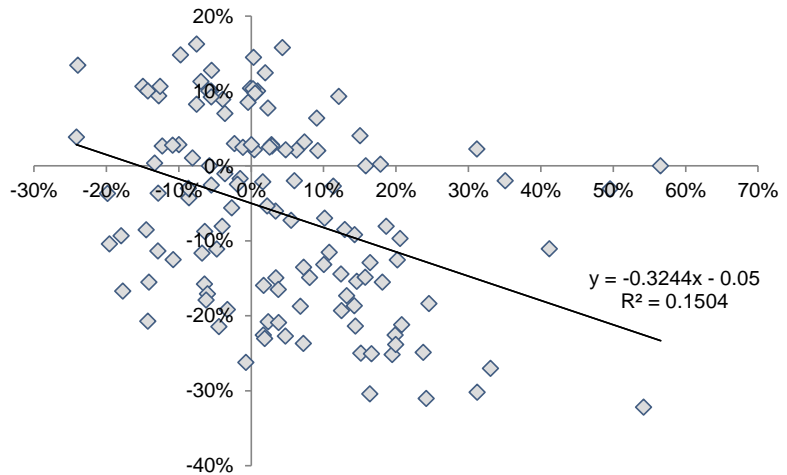


Chart 13 - Source: Deutsche Bundesbank; Oddo Seydler Bank AG

The chart below shows the monthly changes in volume and interest rates from January 2006 to July 2016.

Change in monthly mortgage volume & change in monthly mortgage rate* (Jan 2006 to Jul 2016)

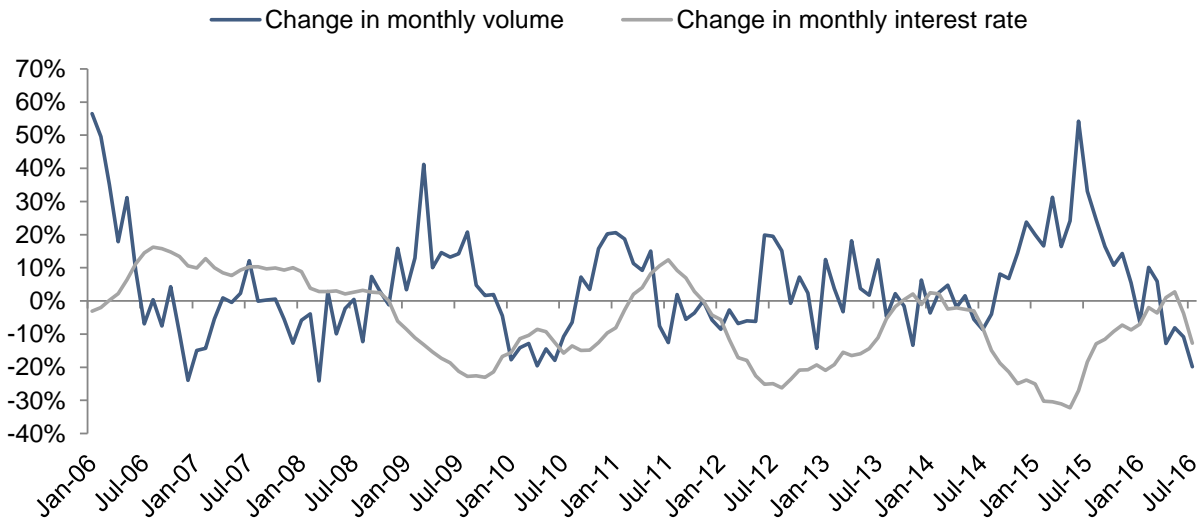


Chart 14 - Source: Deutsche Bundesbank; Oddo Seydler Bank AG

* With a 1-month lag

Overall drivers for the German housing market

Some market observers are already pointing out that Germany is currently in a 'housing bubble' and that prices and market volumes will fall going forward. While we, too, do not expect overall market volume to grow as fast as in the past; we believe several factors will continue to support a **strong real estate market** in Germany:

- Demand for housing in Germany is rising (e.g. due to **net immigration** and a higher number of **one-person households**) while the housing supply (at least in the major cities) is hindered by the low number of building permits and the **demanding requirements** for new buildings (e.g. heat efficiency). According to Statista, the annual demand for homes in Germany until 2025 will be c.310k p.a., while only 200k homes are currently being constructed per year. The gap of 110k homes p.a. multiplied by 10 years results in a **cumulative shortfall of 1.1m** homes in Germany by 2025. This persistent annual gap supports the upward trend in prices and rents since housing remains an essential basic human need.
- Germany appears to have catch-up potential in terms of its **low ownership rate**, i.e. only about 46% of German households own their homes vs e.g. 85% in Spain or 58% in France.
- The German economy remains strong (i.e. highest credit rating in the world, solid macro figures), and the **low-interest environment** will likely persist for a longer period of time.

Geographic and macroeconomic factors

Overall, we expect Germany's housing shortage in metropolitan areas to persist, at least for the short and medium term. The German housing market has several characteristics which in our view provide a strong environment for continued growth in the future.

Germany is a **federation**, split into 16 semi-sovereign states (*Länder*). As a result, Germany has a large number of cities and metropolitan areas, and GDP is relatively evenly distributed across the country. This contrasts sharply with other major European countries such as UK and France, which are both dominated by a single major city.

Germany's main metropolitan areas

Metropolitan area	Inhabitants (millions)	% of German population	Area in km ²	% of German GDP
Rhein-Ruhr	11.6	14.4%	7,110	14.9%
Berlin/Brandenburg	6.0	7.4%	30,370	6.1%
Rhein-Main	5.5	6.9%	14,800	8.4%
Stuttgart	5.3	6.5%	15,400	7.0%
Munich	5.5	6.8%	27,700	8.8%
Central Germany	6.8	8.4%	12,000	6.4%
Hamburg	5.1	6.3%	19,800	6.7%
Hanover-Wolfsburg	3.9	4.8%	18,901	4.5%
Nuremberg	3.4	4.3%	20,544	4.4%
Bremen-Oldenburg	2.7	3.4%	13,749	3.1%
Rhein-Neckar	2.4	2.9%	5,638	3.0%

Chart 15 - Source: BBSR, IKM; Oddo Seydler Bank AG



Germany's recent macroeconomic data also indicate several factors that support a strong housing market: Germany currently has the **lowest unemployment rate** in the Eurozone and the **highest credit rating** worldwide as well as the lowest government bond yield in the Eurozone.

Eurozone unemployment rates, %

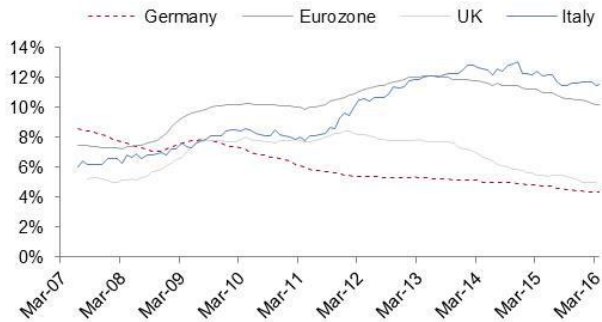


Chart 16 - Source: Bloomberg; Oddo Seydler Bank AG

Sovereign credit ratings

Country	S&P	Moody's	Fitch
France	Aau	Aa2	AA
Italy	BBB-u	Baa2	BBB+
Spain	BBB+	Baa2	BBB+
Germany	AAAu	Aaa	AAA
USA	AA+u	Aaa	AAA
Japan	A+u	A1	A
UK	AAu	Aa1	AA
Switzerland	AAAu	Aaa	AAA
China	AA-	Aa3	A+

Eurozone government bond yields

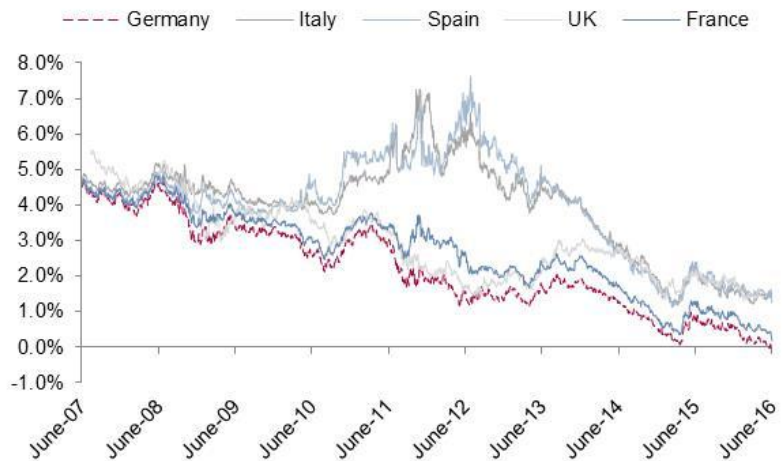


Chart 17 - Source: Bloomberg; Oddo Seydler Bank AG



Characteristics of the German residential market

In Germany about 54% of all residents live in rented housing vs. a European average of 30%, implying **catch-up potential for Germany in terms of home ownership**. In other European countries ownership rates can run as high as 85% (Spain).

Home ownership rates in Europe, %

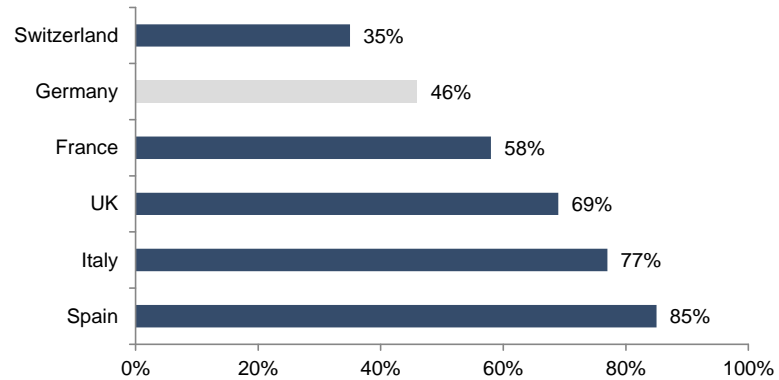


Chart 18 - Source: EUROCONSTRUCT; Oddo Seydler Bank AG

According to Destatis, the number of **1- and 2-person households** in Germany is expected to increase by about 12% to 33m by 2025, which in turn will increase demand for residential property.

Number of 1 and 2-person households (in thousands)

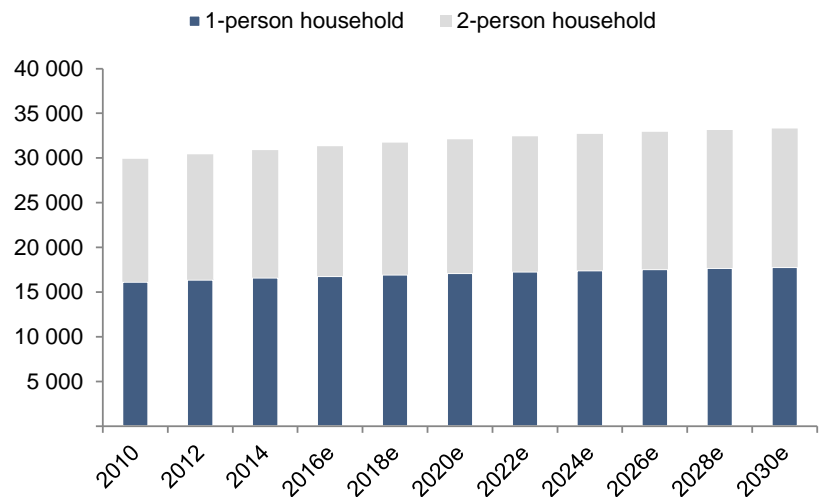


Chart 19 - Source: EUROCONSTRUCT; Oddo Seydler Bank AG

Another important factor is **net immigration**, which has been net positive every year since 2010. (2015 was an extreme outlier, with more than 1 million refugees coming to Germany due to European refugee crisis). Population/immigration growth increases housing demand.



Demographics: Immigration in Germany, 2003-2014

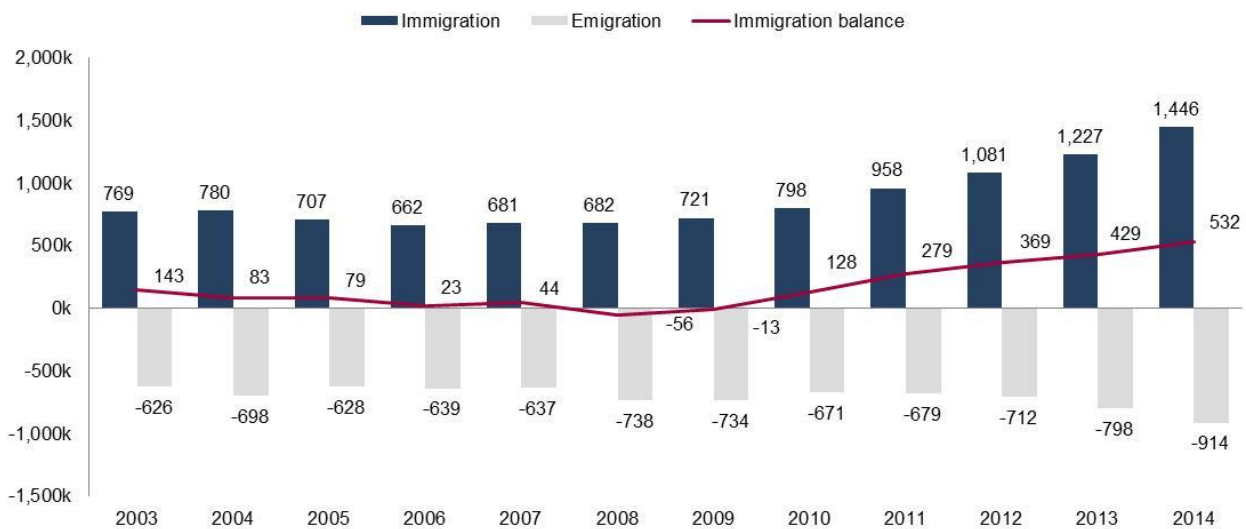


Chart 20 - Source: Destatis; Oddo Seydler Bank AG

Although housing construction has picked up sharply, housing completions are still far from sufficient to meet the demand in rapidly-growing large cities. The shortfall is mainly due to the low number of **building permits**, i.e. a shortage of building land. Moreover, in areas where space does become available or where housing density is to be increased, there are often vigorous opposition by existing residents, who want to preserve both the value of their homes and maintain green space in their cities.

Housing completions far exceed dwelling permits

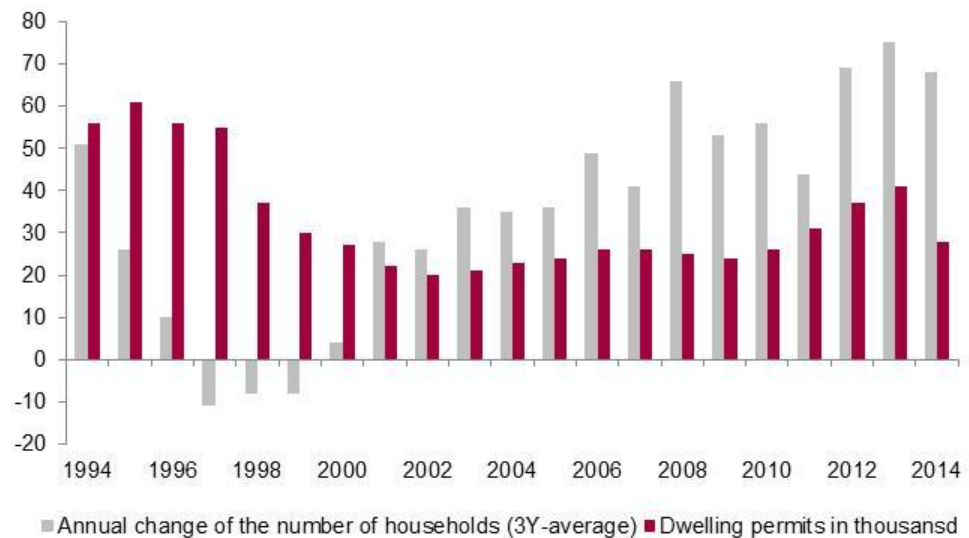


Chart 21 - Source: EUROCONSTRUCT; Oddo Seydler Bank AG

As a result of these factors, according to Statista, demand for homes in Germany until 2025 is about 310k p.a. However, only 200k homes are currently constructed per year. The annual shortfall of 110k homes multiplied by 10 years results in a **cumulative shortfall of 1.1m homes in Germany by 2025**. This persistent annual gap supports the upward trend in prices and rents since housing remains an essential human need. We believe construction companies and the companies constituting the mortgage ecosystem such as Hypoport will benefit from this situation.

Annual gap between housing construction and housing demand

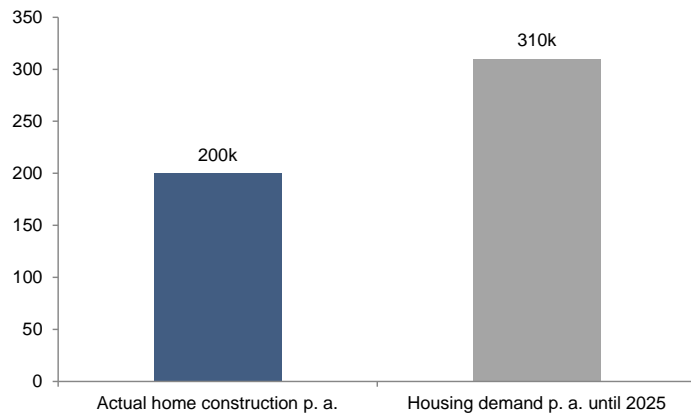
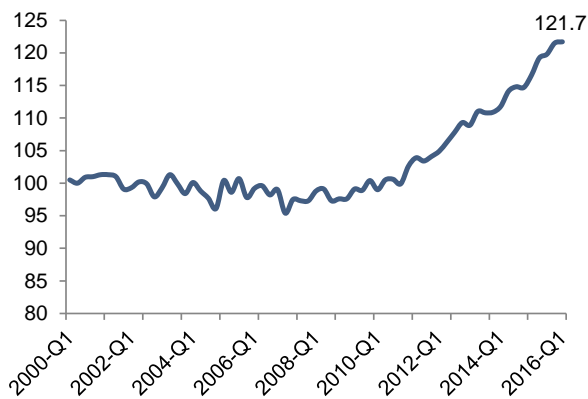


Chart 22 - Source: Statista; Oddo Seydler Bank AG

Against this backdrop, German housing prices have increased markedly, while across most of the Eurozone housing prices are falling, although German housing prices are **less volatile** than in the rest of EU. This is especially true when comparing German to EU housing prices before and after the Lehman collapse.

German residential house price index (2010=100)



EU residential house price index

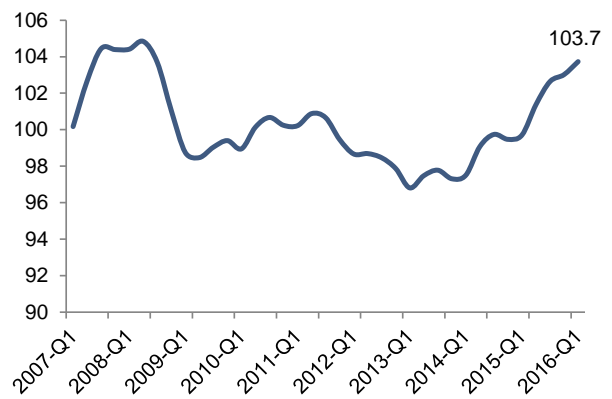


Chart 23 - Source: Destatis; Oddo Seydler Bank AG

BUSINESS MODEL

We show Hypoport's three business segments in the table below. The Financial Service Providers segment (Europace) is the group's core business with a group EBIT share of ~42% in 2015 and high scalability. At the end of the day, this segment is a **FinTech** business while the other two segments are basically less scalable **advisory** businesses (Private Clients segment is scalable via the number of franchisees).

Hypoport: Overview of business segments

	Clients	Business	Scalability	Revenue share 2015	EBIT share 2015
Financial Service Providers	B2B	Fin-Tech	High	31%	42%
Private Clients	B2C	Advisory	Low	57%	31%
Institutional Clients	B2B	Advisory	Low	12%	27%

Chart 24 - Source: Company data; Oddo Seydler Bank AG

The vast majority of Hypoport's business is related to **mortgages** (including building finance loans, i.e. 'Bausparen'), i.e. more than 95% of overall business, while the remainder is personal loans.

Transaction volume breakdown by segment

In €m	EUROPACE	Dr. Klein	Institutional clients
Transaction volume (total)	45,200	9,000	2,080
Building finance	17.2%	2.0%	
Personal loans	4.2%	2.5%	
Mortgage finance	78.6%	95.5%	100.0%

Chart 25 - Source: Company data; Oddo Seydler Bank AG

Financial Service Providers (Europe)

The business model for the Financial Service Providers segment (i.e. Europe) is shown in the figure below.

Financial Service Providers: Business model (B2B)



Chart 26 - Source: Company data; Oddo Seydler Bank AG

Europace is a **B2B platform** which connects banks with financial advisors, i.e. banks put their products on the platform, financial advisors then sell those products from the platform to households (see also the first section of this report beginning on p. 12 for more details).

Hypoport receives an **upfront fee** on mortgage financing transactions upon contract closing. The fee is based on the size and duration of the mortgage and is calculated as follows: for each year of the mortgage, Hypoport receives one basis point of the mortgage amount. The fee is discounted with a factor depending on the maturity of the loan, on average about 0.8x (more precisely, Hypoport receives 8bp for a 10 year mortgage, 10bp for a 13 year mortgage and 12bp for an 15 year mortgage). For example, in 2015 the average amount of a mortgage on the Europace platform was around € 163,000 with a duration of 12.5 years. Hypoport therefore received on average around $12.5 \times 1\text{bp} \times 0.8 = 10\text{bp}$ per mortgage (i.e. an average fee per mortgage of € 163). The fees for building loans ('Bausparen') are very similar, i.e. on average there is a fee of 10bp.

The fee that Hypoport receives per mortgage therefore increases with the size and duration of a mortgage. The absolute fee rises with the general real estate price level and therefore automatically adjusts for inflation. In terms of duration it is important to keep in mind that Hypoport benefits in the short-term from longer durations (i.e. higher fees) while at the same time the refinancing period becomes longer, which means that subsequent fees are shifted to a later point in time.

A major advantage offered by the Europace platform is its **flexibility**. Europace is essentially a **large IT platform** that can be configured to the specific needs of the customer. As cited earlier (see Postbank example on p.13), Europace can be configured to show only mortgages offered by a specific bank. As a backend solution, Europace can also be equipped with new front-ends. For example, this is what Hypoport did for its cooperation with check24.

Private Clients

The Private Clients segment mainly comprises Hypoport's financial advisory **B2C business**, Dr. Klein. Dr Klein essentially sells financial products to private clients. Its business is based on the Europace platform, i.e. Dr. Klein acts as one of the independent financial advisors that broker mortgages to households.

Dr. Klein has about 200 branches, of which only 7 flagship stores are owned directly by Dr. Klein, while the remainder belongs to a franchise system owned by about 180 different franchisees. Consequently, the vast majority of the 486 sales agents are not directly employed by Dr. Klein. A competitive advantage over traditional financial advisors is Dr. Klein's **product supplier independence**, i.e. Dr. Klein's sales agents advise clients in selecting the most favourable product for them Dr. Klein is not itself a product supplier.

For every mortgage sold by Dr. Klein, the credit supplier pays about 170bp of the overall mortgage amount as a fee to Hypoport. Hypoport keeps about 1/3 (i.e. about 60bp) of this fee while the other 2/3 go to the franchisee.

Private Clients: Business model (B2C)

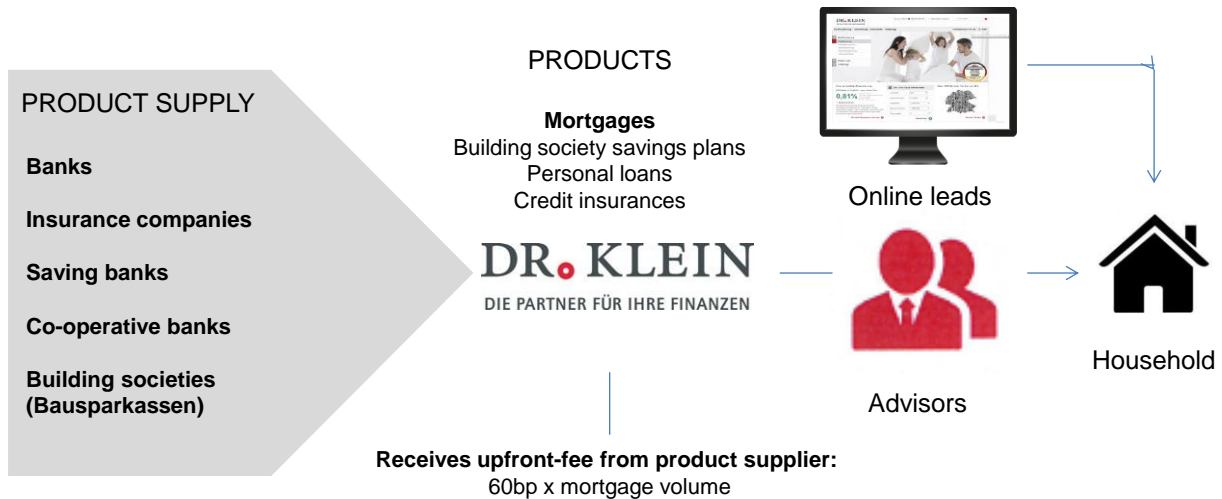


Chart 27 - Source: Company data; Oddo Seydler Bank AG

On the Dr. Klein website (with about 680,000 unique visitors per month according to Alexa) clients can check for available mortgages online. The main purpose of the website is to **generate leads**, i.e. clients who will (hopefully) talk to a consultant at a Dr. Klein branch afterwards.

Dr. Klein: Website (available in German only)

Chart 28 - Source: Company data; Oddo Seydler Bank AG

As an independent advisor, Dr. Klein selects the most favourable products for its clients from a broad product portfolio provided by about **360 banks and insurance companies** (which Hypoport calls 'affiliated partners'). The graphic below (left) provides an example of some of the affiliated partners, while the bar chart (right) shows the growth in its number of affiliated partners. Overall, the number of partners on the platform has increased from 152 in Q1 2011 to 360 in Q2 2016.

A selection of Europace affiliated partners



Number of affiliated partners 2011-2016

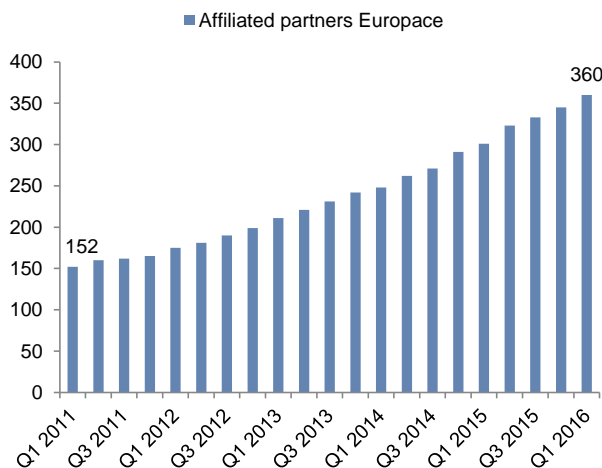


Chart 29 - Source: Company data; Oddo Seydler Bank AG

In addition, Hypoport operates the online platform **vergleich.de**, which provides an online comparison platform for consumer loans and mortgages. The difference between vergleich.de and Dr. Klein is that vergleich.de clients are referred directly to the product supplier, i.e. without a Dr. Klein branch as an intermediary.

Institutional Clients

The Institutional Clients segment acts as a financial services provider for government-related property investors. The segment is essentially a **large-project-driven advisory business**, i.e. its degree of standardization is very low.

The client base here mainly consists of municipal and cooperative housing associations, i.e. **social housing projects**. Hypoport receives fees for consulting services provided to its clients. A standard example would be a social housing project with a price of about € 50m. For consulting on financing, planning and execution, Hypoport's would usually receive a fee of about 0.6% of this, i.e. about € 0.3m for this sample project. Since the consulting teams are usually rather small, this segment has the highest margins in the group with an EBIT margin of 38.0% in 2015.

Scalability

A crucial question for the equity story is the scalability of Hypoport's business model. While the Private Clients and Institutional Clients segment have **limited scalability** due their high manpower requirements (i.e. advisors are needed to support clients), the Europace platform (i.e. the Financial Service Providers segment) is a fundamentally different story: Europace is essentially a large, highly scalable IT platform which by its nature is similar to Wirecard's IT platform or CTS Eventim's ticketing platform. The scalability is mainly due to two reasons:

- **Economies of scale** are an inherent part of the business model since variable costs to run the Europace platform are very low. The marginal cost of additional transaction volume is close to zero. The platform requires capital expenditures of about € 8m per year.
- Europace can be offered in a **variety of forms** to cater to different client groups (e.g. Genopace, Finmas). Essentially, Europace as a backend solution can be customized with different front-ends.

The figure below provides an overview of the transaction volume of the three different segments in 2015, the transaction fees and the realized EBIT figures:

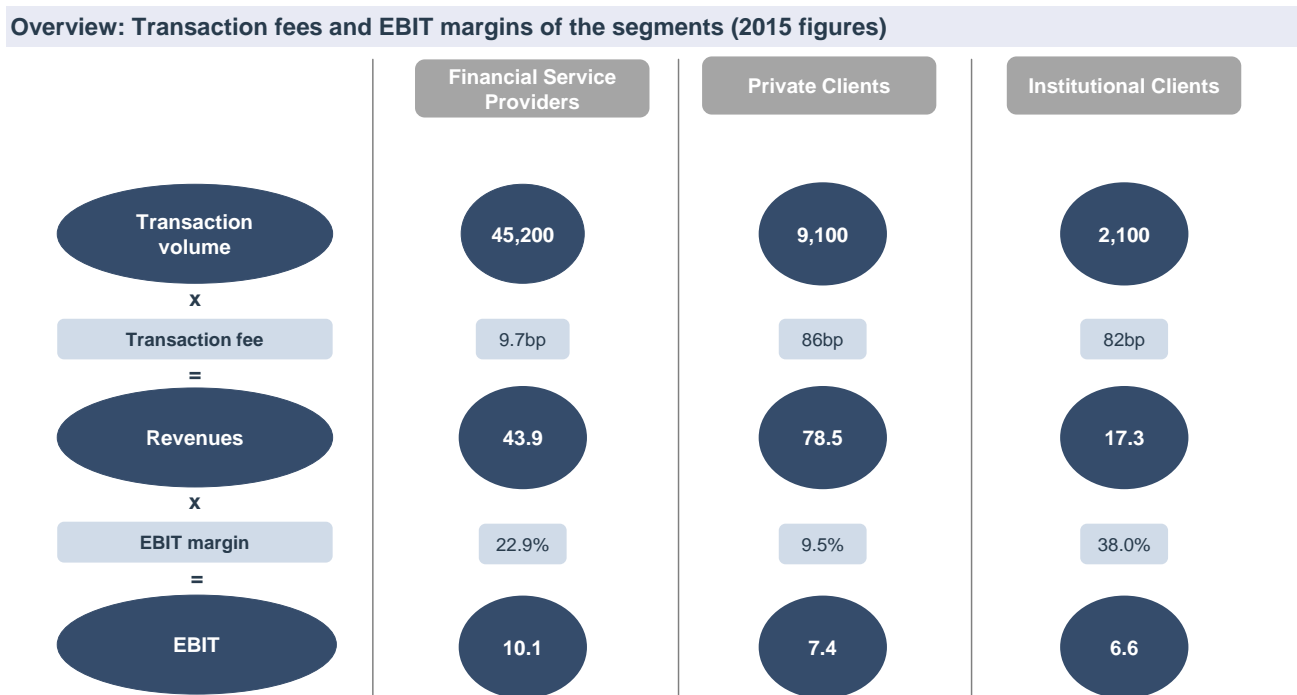


Chart 30 - Source: Company data; Oddo Seydler Bank AG

The table below shows the EBIT margin trend by segment from 2011 to H1 2016, which also shows the big differences in scalability: The EBIT margin in the Financial Service Providers segment has increased continuously from 8.0% in 2011 to 22.9% in 2015 due to operating leverage. The EBIT margin continued to increase to 23.8% in H1 2016. In the Private Clients segment, the EBIT margin only increased from 7.1% in 2011 to 9.5% in 2015, however, showing the limited scalability of this segment. At the end of the day, all clients in this segment must be advised personally. The EBIT margin increased to 11.9% in H1 2016. The Institutional Clients segment has the highest EBIT margin in the group, 38.0% in 2015, due to efficient personnel management. The EBIT margin decreased to 27.9% in H1 2016 due to a relatively smaller amount of projects in this segment.

EBIT margin by segment 2011 – H1 2016

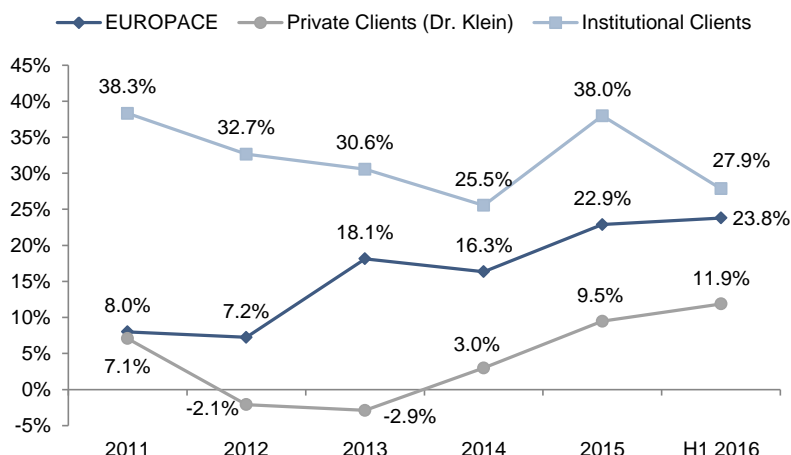
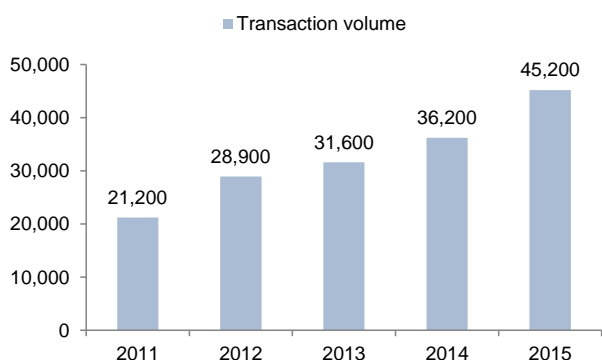


Chart 31 - Source: Company data; Oddo Seydler Bank AG

Note that transaction volume on the Europace platform increased from € 21.2bn in 2011 to € 45.2bn in 2015, i.e. equating to a **CAGR of 20.8%**, while revenues and EBIT increased at CAGRs of 19.7% and 56.1% respectively. The disproportionately strong EBIT growth demonstrates the scalability of the Europace platform.

Financial Service Providers: Transaction volume 2011-15, € m



Financial Service Providers: Revenues and EBIT, 2011-15, € m

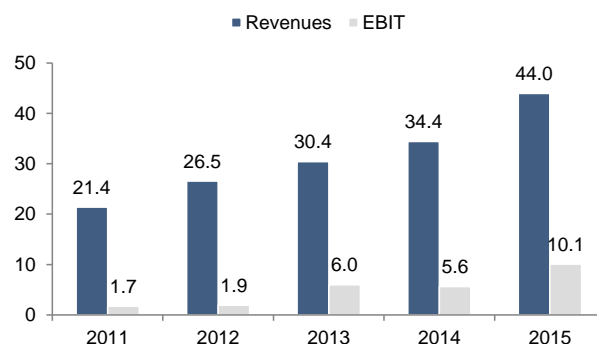
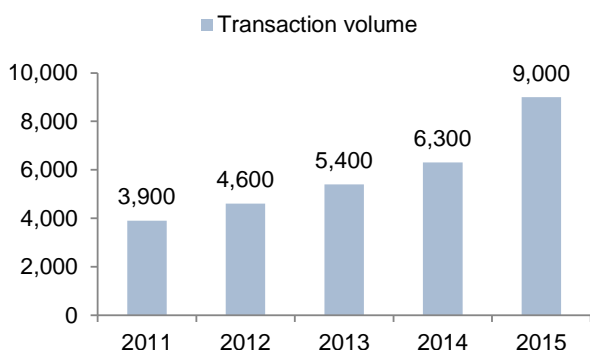


Chart 32 - Source: Company data; Oddo Seydler Bank AG

Transaction volume in the Private Clients segment grew at a **CAGR of 25.7%** from 2011 to 2015 to € 9bn in 2015; in the same period, revenues increased from € 51.8m to € 78.6m (CAGR: 11.0%) and EBIT from € 3.7m to € 7.4m (CAGR: 18.9%).

Private Clients: Transaction volume 2011-15, EUR m



Private Clients: Revenues/EBIT 2011-15, EUR m

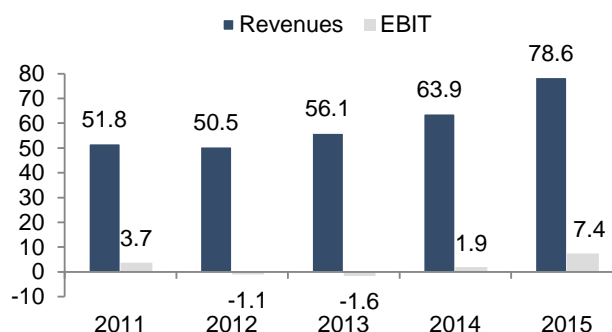
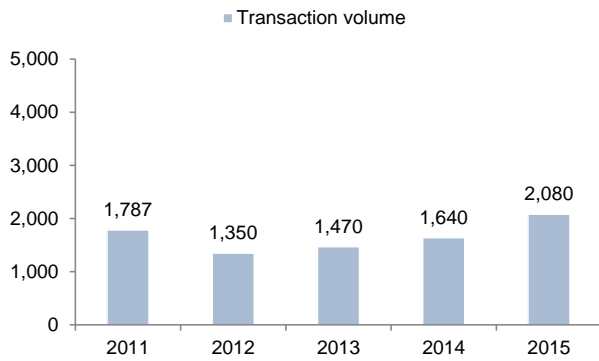


Chart 33 - Source: Company data; Oddo Seydler Bank AG



As stated above, the performance of the Institutional Clients segment is driven by large individual consulting projects with basically no scalability. From 2011 to 2015, transaction volume in this segment increased from € 1.79bn to € 2.1bn (CAGR: 16.4%), revenues increased to € 17.3m (CAGR: 8.9%), and EBIT to € 6.6m (CAGR: 8.9%).

Institutional Clients: Transaction volume 2011-15, € m



Institutional Clients: Revenues/EBIT 2011-15, € m

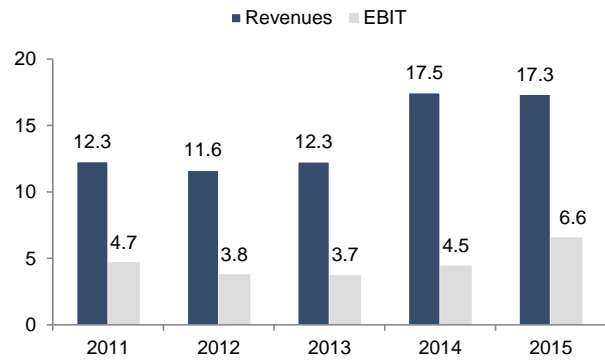
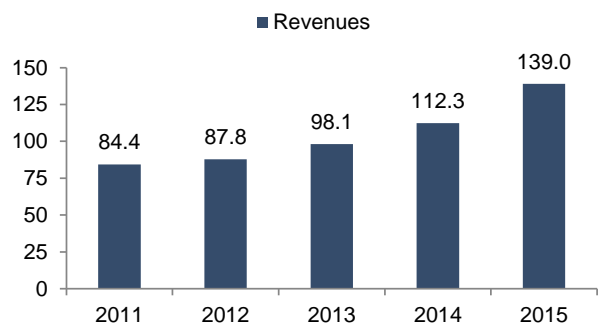


Chart 34 - Source: Company data; Oddo Seydler Bank AG

On a group level, revenues increased from € 84.4m in 2011 to € 139.0m in 2015 (CAGR: 13.3%), while EBIT increased from € 6.8m to € 19.3m (CAGR: 29.8%) over the same period. EBIT margin on a group level rose from 8.1% in 2011 to 13.9% in 2015.

Group revenues 2011-15, € m



Group EBIT 2011-15, € m

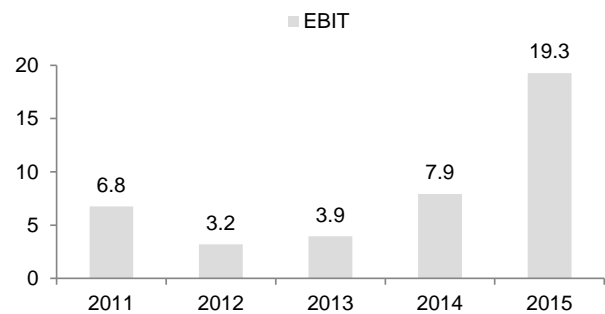


Chart 35 - Source: Company data; Oddo Seydler Bank AG

Transaction fees

Another crucial question is whether the transaction fee will come under pressure going forward. The figure below shows the development of Europace's transaction fee (in bp) from 2011 to H1 2016:

Europace transaction fee (in bp), 2011 – H1 2016

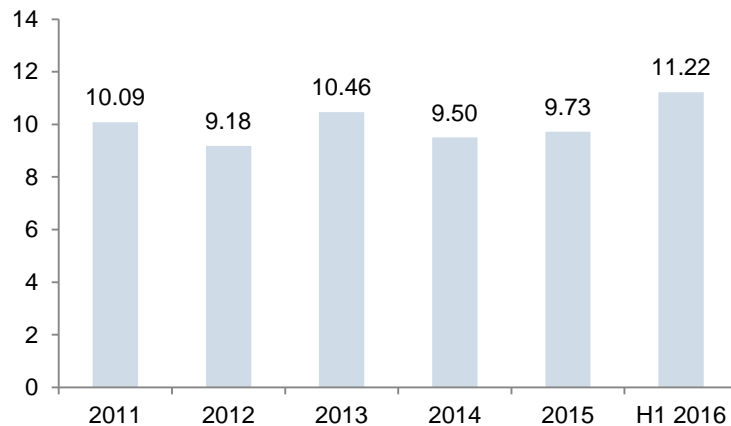


Chart 36 - Source: Company data; Oddo Seydler Bank AG

As explained above (see p.16), Europace changed the way it calculates its transaction volume in Q1 2016. As a result of this methodological change, the Europace transaction volume decreased by c.10%. (Note: this has no direct economic consequences.) Since revenues were not affected by this change, the transaction fee (i.e. revenues/transaction volume) increased by about 10% in H1 2016. However, it is important to note that this change has no financial implications, i.e. no change in the underlying business fundamentals.

Going forward, we do not expect significant pressure on the transaction fee.

- As the #1 platform in Germany, Europace has a size advantage which translates to **economies of scale**. Similar to other online platforms such as CTS Eventim's ticketing platform, economies of scale in mortgage broking platforms have resulted in a duopoly protected by strong barriers to entry. We think that a price war between Europace and Interhyp is an unlikely threat since ultimately both players would lose.
- The transaction fee has been **very stable** in the past and the average transaction fee of about 10bp is economically relatively small.
- The fact that Europace is used as an **IT outsourcing** solution shows that Europace can be significantly cheaper for banks. As such, Europace obviates the need to develop (and continually update) a proprietary platform. Economies of scale enable Hypoport to offer the software at a cheaper price. From a bank perspective, Europace also has the advantage that it is a 'pay-per-use' business model, i.e. there are no fixed costs.

Further financials

► Overview of key financial figures

The following table below gives a brief overview of Hypoport's most important financial figures:

Overview of key financial figures, 2011 - 2015					
In €m (exc. EPS)	2011	2012	2013	2014	2015
Transaction volume (total)	26,887	34,850	38,470	44,060	56,280
thereof Dr. Klein	3,900	4,600	5,400	6,300	9,000
thereof EUROPACE	21,200	28,900	31,600	36,120	45,200
thereof Institutional Clients	1,787	1,350	1,470	1,640	2,080
Group revenues	84.4	87.8	98.1	112.1	138.9
thereof Dr. Klein	51.8	50.5	56.1	63.9	78.5
thereof EUROPACE	21.4	26.5	30.3	34.3	44.0
thereof Institutional Clients	12.3	11.6	12.3	14.4	17.3
Consolidation	-1.1	-0.9	-0.5	-0.5	-0.9
Group profitability & Cash Flow					
EBITDA	11.5	8.1	8.1	12.7	25.1
EBIT	6.8	3.2	3.9	7.9	19.3
EPS	0.60	-0.13	0.51	0.96	2.63
Operating cash flow	4.7	7.8	9.9	8.4	26.7
Free cash flow	-1.1	1.3	4.2	2.2	19.6

Chart 37 - Source: Company data, Oddo Seydler Bank AG

► EPS

EPS increased from € 0.60 in 2011 to € 2.62 in 2015 (CAGR: 44.6%).

Earnings per share 2011-2015

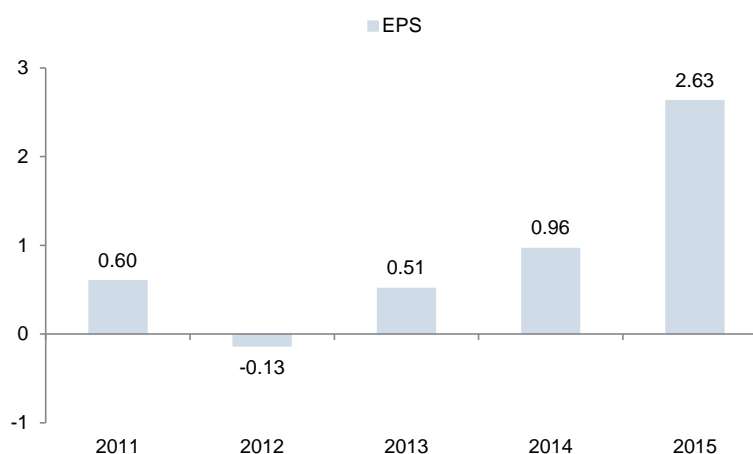


Chart 38 - Source: Company data; Oddo Seydler Bank AG

► Tax rate

The tax rate decreased from 25.8% in 2011 to 16.9% in 2015. The main reason for the low tax rate is that a large majority of the Europace revenues are booked at a **subsidiary in Ireland** (Hypoport Mortgage Market Ltd) at a low corporate tax rate of 12.5%.

Tax rate 2011-2015

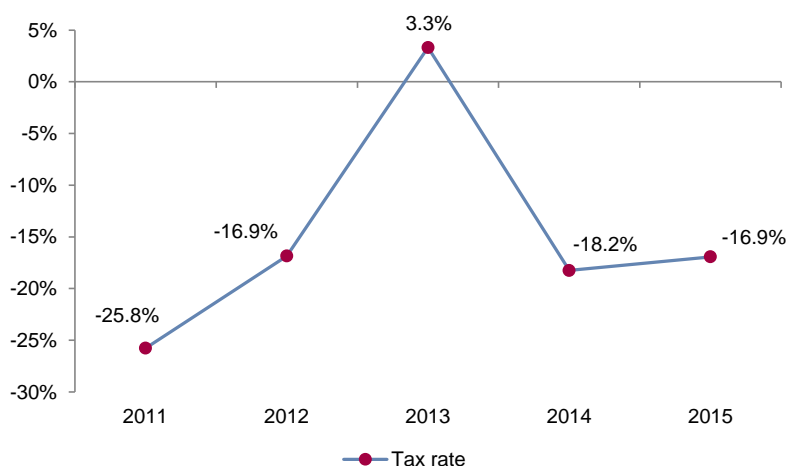


Chart 39 - Source: Company data; Oddo Seydler Bank AG

Net debt, dividend policy

Net debt was continuously reduced from € 12.1m in 2011 to a **net cash position of € 14.0m** in 2015.

Hypoport has never paid a dividend and management also says it has no plans to do so in the future. Instead, management wants to focus on share repurchases. At the end of H1 2016, the company held 185,115 treasury shares equating to 2.99% of its share capital.

Net debt 2011-15, € m

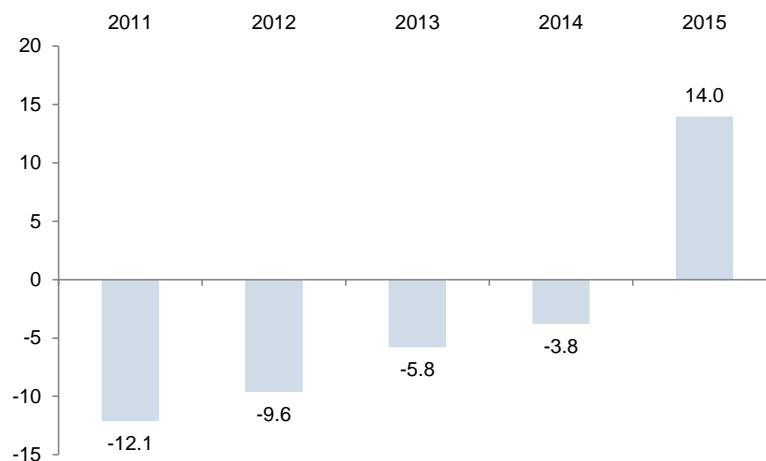


Chart 40 - Source: Company data; Oddo Seydler Bank AG

Free cash flow and cash conversion

The charts below show the company's free cash flow and cash conversion performance for 2011 to 2015.

Free cash flow, 2011-2015

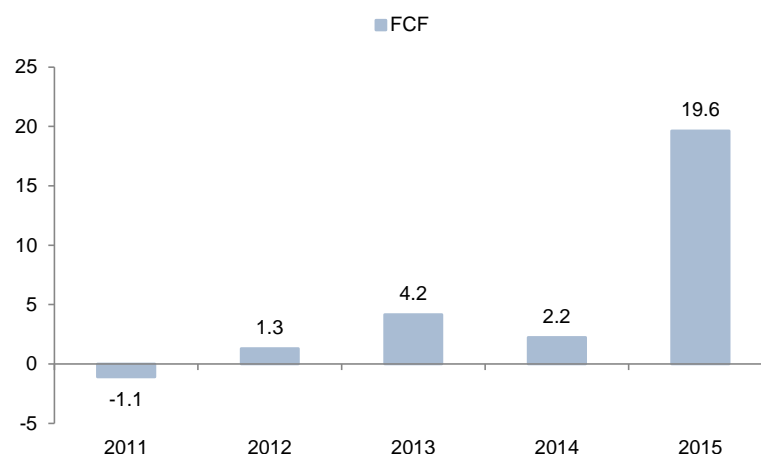


Chart 41 - Source: Company data; Oddo Seydler Bank AG

Cash conversion 2011-2015

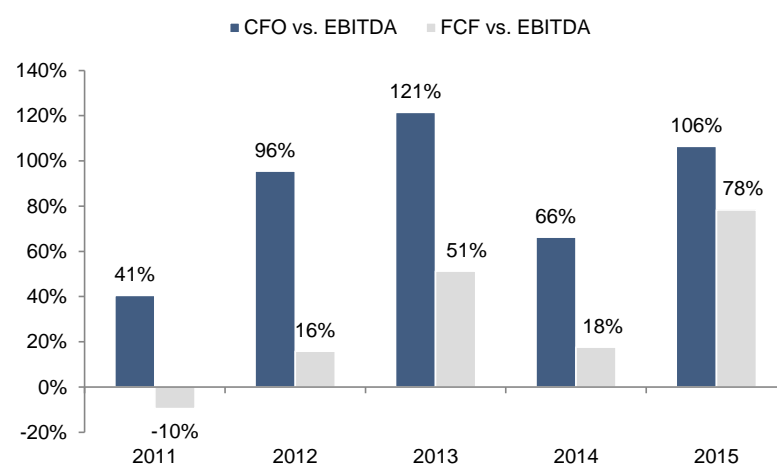


Chart 42 - Source: Company data; Oddo Seydler Bank AG

Business performance, H1 2016

Breakdown by segment:

- Financial Service Providers segment:** Revenue up 17% yoy to € 24.0m (H1 2015: € 20.5m); EBIT up 13% yoy to € 5.7m (H1 2015: € 5.1m).
- Private Clients Business segment:** Revenue up 7% yoy to € 42.2m (H1 2015: € 39.3m), EBIT up +41% yoy to € 5.0m (H1 2015: € 3.5m).
- Institutional Clients Business segment:** Revenue down 2% yoy to € 7.9m (H1 2015: € 8.1m); EBIT down 23% yoy to € 2.2m (H1 2015: € 2.9m).
- 2016 guidance:** Hypoport reiterated its guidance for the full year 2016, i.e. revenue and earnings growth "just into the double digits, both at the group level and at each of the three business units".

H1 2016 vs. H1 2015

In €m (exc. EPS)	H1 2016	H1 2015	Δ%
Transaction volume (total)	26,060	28,230	-7.7%
<i>thereof Dr. Klein</i>	3,900	4,300	-9.3%
Building finance	0.052	0.113	-54.0%
Personal loans	0.144	0.094	53.2%
Mortgage finance	3,900	4,300	-9.3%
<i>thereof EUROPACE</i>	21,300	22,900	-7.0%
Building finance	16,700	18,200	-8.2%
Personal loans	1,200	900	33.3%
Mortgage finance	3,400	3,800	-10.5%
<i>thereof Institutional Clients</i>	760	1,030	-26.2%
	H1 2016	H1 2015	Δ%
Group revenues	73.9	67.5	9.5%
<i>thereof Dr. Klein</i>	42.1	39.3	7.3%
<i>thereof EUROPACE</i>	23.8	20.1	18.4%
<i>thereof Institutional Clients</i>	7.9	8.1	-1.8%
	H1 2016	H1 2015	Δ%
Group profitability & CF			
EBITDA	13.5	11.8	14.5%
EBIT	11.1	9.1	22.3%
EPS	1.44	1.23	16.9%
Operating cash flow	5.6	8.0	-29.1%
Free cash flow	-1.0	4.4	-123.7%

Chart 43 - Source: Company data; Oddo Seydler Bank AG

VALUATION AND FURTHER GROWTH OPPORTUNITIES

Valuation: TP increased to € 102.00 (89.00)

We base our target price on a sum-of-the-parts valuation. To summarise, for the Financial Service Providers segment (Europace) we derive a fair value of € 56.65/share, for the Private Clients segment € 28.30/share and for the Institutional Clients segment € 15.41/share. To this value we add net cash of € 2.27/share (€ 25.2m cash & cash equivalents less € 11.26m in financial liabilities divided by 6.1m shares outstanding), which takes us to a fair value per share of € 102.64.

We do not include the 'other growth' opportunities mentioned earlier (e.g. Insurance Tech and geographic expansion) in our valuation, since the visibility is too low for now. We nevertheless think that Hypoport has several promising growth opportunities which could be triggers for the stock going forward.

Total DCF value (sum-of-the-parts valuation)

	Fair value per share (EUR)
DCF Financial Service Providers (Europace)	56.65
DCF Private Clients (Dr. Klein)	28.30
DCF Institutional Clients	15.41
Potential of other growth opportunities	not included
Net cash	2.27
Fair value per share (EUR)	102.64

Chart 44 - Source: Oddo Seydler Bank AG

In our view Hypoport is best valued with a sum of the parts DCF valuation due to the different nature of the segments: The Financial Service Providers segment (Europace) can be seen as the Fin-Tech core of the business with high scalability while the other two segments are basically less scalable advisory businesses. We prefer a DCF approach to a multiple approach, since there are no publicly listed peers for Hypoport. (For the sake of completeness we nonetheless show a peer group valuation.)

For the sake of simplicity, we do not model inter-segmental effects separately, i.e. our segment EBIT figures already include segment reconciliations (i.e. group EBIT = sum of segment EBITs).

Financial Service Providers (Europace): € 56.62/share

We model the operating profit of the Europace platform based on a top-down analysis (see table below).

Europace's EBIT is driven by

- Total mortgage volume in Germany:** While we think that going forward overall market volume is unlikely to grow as fast as in the past, we believe that there are several factors that will support a strong real estate market in Germany as pointed out above (see p. 20). For 2016e, we expect a decrease in volume of yoy -4% due to the Mortgage Credit Directive. For the years thereafter until 2025e, we expect a moderate increase in mortgage volume of 1.5% per year.
- Market share of Europace:** Europace has gained significant market share in recent years and is currently the #1 mortgage brokering platform in Germany in terms of processed transaction volume. Its market share has more than doubled from 5.8% in 2010 to 13.0% in 2015. Due to its advantages (as outlined beginning on p. 12) and its strong market position we expect the market share of the Europace platform to increase by +1% per year until 2025 up to 23.0%.
- Transaction volume:** Based on the two assumptions above, we calculate the transaction volume (i.e. total market volume times market share). However, as we pointed out on p. 16, due to a change in how Europace calculates its transaction volume, its transaction volume is about 10% lower from 2016 on (without economic implications).
- Transaction fee:** We think it is unlikely that the transaction fee will come under pressure as pointed out beginning on p. 32. We therefore expect the transaction fee to be stable at 11.1bp going forward. Here we note again that due to the methodological change in the transaction volume from 2016e on (see last bullet point) the transaction fee increased from 9.7bp to about 11.1bp.
- Revenues:** Based on our assumptions regarding transaction volume and the transaction fee, we project revenues to increase to € 87.9m in 2025e, i.e. at a CAGR of 7.2% from 2016e.
- EBIT margin:** Due to the high scalability of Europace (as outlined starting on p. 29), we expect the EBIT margin to increase with transaction volume. We assume a degree of operating leverage of 50% on average until 2025e (i.e. a € 0.50 increase in EBIT for every € 1.00 increase in revenue), leading to an Europace EBIT CAGR of 12.6% in the 2016 to 2025e time period.

Europace: Top-down estimates for volume, market share, margins

(Euro m / Unit m)	2015	2016e*	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Total mortgage volume (in € bn)	244.0	234.3	237.8	241.4	245.0	248.7	252.4	256.2	260.0	263.9	267.9
yoy (in %)	22.0%	-4.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Market Share Europace (in %)	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%	19.0%	20.0%	21.0%	22.0%	23.0%
yoy (in bp)	0.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Transaction volume Europace (in € bn)	45.2	42.1	45.8	49.6	53.4	57.4	61.6	65.8	70.1	74.5	79.1
yoy (in %)	-6.9%	8.8%	8.3%	7.9%	7.5%	7.1%	6.9%	6.6%	6.3%	6.1%	0.0%
Transaction Fee (in bp)	9.7	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	0.0
yoy (in %)	2.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revenues (in € m)	44.0	46.8	50.9	55.1	59.4	63.8	68.4	73.1	77.9	82.8	87.9
yoy (in %)	27.8%	6.3%	8.8%	8.3%	7.9%	7.5%	7.1%	6.9%	6.6%	6.3%	6.1%
EBIT margin (in %)	22.9%	24.5%	26.1%	27.7%	29.2%	30.7%	32.2%	33.6%	35.0%	36.3%	37.3%
yoy (in bp)	6.5%	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%	1.3%	1.0%
EBIT (in € m)	10.1	11.4	13.3	15.2	17.3	19.6	22.0	24.5	27.2	30.1	32.8
yoy (in %)	78.9%	13.8%	15.9%	14.9%	13.7%	13.0%	12.4%	11.5%	11.0%	10.3%	9.0%

* From 2016e on the transaction volume and transaction fee are adjusted for change in calculation method.

Chart 45 - Source: Oddo Seydler Bank AG

DCF: Financial Service Providers (Europace)

EURm	PHASE 1			PHASE 2							PHASE 3
	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	∞
Sales	46.8	50.9	55.1	59.4	63.8	68.4	73.1	77.9	82.8	87.9	
YoY growth	6.3%	8.8%	8.3%	7.9%	7.5%	7.1%	6.9%	6.6%	6.3%	6.1%	
EBIT	11.4	13.3	15.2	17.3	19.6	22.0	24.5	27.2	30.1	32.8	
EBIT margin	24.5%	26.1%	27.7%	29.2%	30.7%	32.2%	33.6%	35.0%	36.3%	37.3%	
Income tax on EBIT (cash tax rate)	-1.4	-1.7	-1.9	-2.2	-2.4	-2.8	-3.1	-3.4	-3.8	-4.1	
Depreciation and amortisation	4.7	5.1	5.5	5.9	6.4	6.8	7.3	7.8	8.3	9.8	
% of sales	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	11.1%	
Change in net working capital	-0.9	-1.0	-1.1	-1.2	-1.3	-1.4	-1.5	-1.6	-1.7	-1.8	
Net capital expenditure	-8.0	-8.2	-8.4	-8.6	-8.8	-9.0	-9.2	-9.4	-9.6	-9.8	
Free cash flow	5.8	7.5	9.3	11.3	13.4	15.7	18.1	20.7	23.3	26.9	
Present values	5.6	6.8	7.9	8.9	9.8	10.6	11.3	12.0	12.5	13.4	249.0
Present value Phase 1	20.3										
Present value Phase 2	78.5										
Present value Phase 3	249.0										
Total present value	347.8										

Risk free rate	2.50%	Target equity ratio	80.0%
Equity risk premium	6.00%	Beta (fundamental)	1.00
Debt risk premium	2.50%	WACC	7.50%
Tax shield	30.0%	Terminal growth	2.0%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.5%	61.08	65.72	71.40	78.50	87.63
	7.0%	55.11	58.82	63.28	68.73	75.54
	7.5%	50.08	53.10	56.65	60.93	66.16
	8.0%	45.79	48.27	51.16	54.58	58.68
	8.5%	42.09	44.15	46.53	49.30	52.58

Fair value of equity	347.8
Number of shares (m)	6.1
Fair value per share (EUR)	56.65

Chart 46 - Source: Oddo Seydler Bank AG

Other assumptions:

- **Tax rate:** Even though the company generates almost 100% of its revenues in Germany, it books a significant portion of its Europace revenues through an Irish subsidiary (Hypoport Mortgage Market Ltd) with a corporate tax rate of 12.5%. This is also our tax rate assumption going forward.
- **CapEx requirements:** We assume € 8m in CapEx in 2016e for Europace which increases to € 9.8m in 2025e.
- **Weighted average cost of capital (WACC):** Based on current long-term German federal bond yields, we set the risk-free rate at 2.5%. We assume an equity risk premium of 6.0% and a debt risk premium of 2.50%. We apply a beta of 1.0 to our DCF valuation which is based on an OLS regression of Hypoport's daily returns on daily SDAX returns over the last two years. Additionally, we assume a long-term target equity ratio of 80%. These assumptions lead us to a WACC of 7.50%.
- **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 and the long-term global economic outlook. We assume constant margins.

Based on the above assumptions, we derive a fair value (FV) of equity of € 347.8m, translating into a fair value of € 56.65/share for the Europace platform.



Further growth opportunities

We note three major growth opportunities for Hypoport not reflected in our current estimates, which we discuss in more detail in this section:

- **Geographic growth:** Hypoport is currently active only in Germany.
- **Insurance Tech:** While the company's first foray into insurance was a big failure, its second approach looks much more promising.
- **Extending the product range into the real estate space:** Hypoport has several projects along the real estate value chain that look promising, such as real estate valuation and real estate funds, which it establishes as alternative financing vehicles to bank debt.

► Geographic growth

At present Hypoport only generates revenues in Germany. Since Europace is a highly scalable IT platform, expansion into other European countries would seem like a natural progression. While overall Hypoport is currently focusing on the German market to generate growth, growth opportunities outside of Germany look very promising and will probably come into play at a later point in time. While it is difficult to put a number on these opportunities, and we do not include them in our valuation, investors should nevertheless be aware of their significant potential.

Several conditions must be met for a successful market entry into another country:

- **Significant number of independent advisors:** The Europace model relies on matching up financial product suppliers with independent advisors. Hence, a significant number of local independent advisors must be available in the target market. This requirement rules out certain European markets such as Spain, where banks traditionally also assume role of advisor, so that there are very few independent advisors in Spain.

In contrast, although real estate financing volume is clearly lower in the Netherlands than in Germany, the Dutch market is more advanced than Germany in terms of distribution. Independent advisors have a share of 50-60% of the mortgage market, making the Dutch intermediary market significantly larger than its German counterpart.

- **Cooperation with local player:** A stand-alone market entry would probably not be feasible, since the success of Europace critically depends on sufficient content of the platform from the supply side, i.e. mortgage financing options from banks. A co-operation with a large local player would therefore make the most sense.
- **Sufficient market size:** Since entering a foreign market requires significant operational capacity (e.g. management, IT), the target market needs to be sufficiently large to make economic sense for Hypoport.

According to the Hypoport, strategies for growth outside of Germany are not currently a top priority. While Austria would probably be too small for entry at this stage, the Netherlands and France look promising. Here we should note, however, that an earlier attempt to launch the Europace business model in the Netherlands ended in failure during the financial crisis.

Hypoport and the Netherlands-based Hypothekenservicer Stater B.V established a joint venture in January 2007 with the aim to connect Dutch financial institutions to EUROPACE. Stater (a 100% subsidiary of ABN AMBRO Bank) is a mortgage specialist that controls some 50% of the ~€ 170bn Dutch mortgage market. However, this JV was dissolved in 2012 because it failed to reach critical mass in the wake of the financial crisis.

► Insurance Tech

Hypoport's first step into the insurance market was in 2005, when the company decided to also sell insurance products through its consultants in the Private Clients segment. It is important to note, however, that the insurance products were not linked to Europace, i.e. the insurance companies, as product suppliers, did not use the platform. Thus, the business model was based solely on insurance sales and not on insurance IT.

This business model did not work out for Hypoport and the company generated a loss of about € 3m in 2015 in its insurance business. The main reason was the crisis in the German insurance market caused by low interest rates and the regulation of provisioning for health and life-insurance products. As a result, Hypoport faced:

- **Intense competition:** The insurance industry is highly competitive and margins have been shrinking. An increasing share of insurance contracts (e.g. property and casualty insurance or motor insurance) are being sold online on platforms such as check24 at relatively low fees, while insurance products with larger fees such as life insurance are no longer attractive due to the low-interest environment.
- **Limited competitive advantages:** At the same time, Dr. Klein as an advisory business only has a significant competitive advantage when selling more complex insurance products for higher fees such as life insurance products. Given the demise of life insurance (see above) in this low-interest world, the market has been continuously shrinking.
- **High cancellation rates:** Due to the low-interest environment, the guaranteed interest rate on life insurance policies was lowered in many cases, which precipitated cancellations. Such cancellations had a negative one-off impact of about € -3m in 2015 (i.e. commissions had to be reimbursed).

As a result, Hypoport has changed its strategy. It has downsized its existing insurance business and guides that this business will have a neutral impact in 2016 (i.e. break-even after € 3m loss in 2015). Instead, it has now shifted its focus to insurance tech.

Hypoport's overall goal is to use its existing IT expertise to build a platform for the insurance space similar to Europace in the mortgage space. As a first step towards this goal, in June 2016 Hypoport acquired NKK Programm Service AG. The net purchase price was € 3.4m, and NKK generated net income of about € 0.3m in 2015. NKK's core product is a software solution that provides insurance brokers and financial service providers with administration, invoicing, financial planning and reporting tools. Customers include insurance brokers, independent advisors (Dr. Klein was also a customer), distributors, underwriting agents and specialist insurers.

Overall, the insurance tech story is similar to the company's geographic growth opportunities: The opportunities are significant and will probably come into play at a later point in time. While it is difficult to put a number on these opportunities, and we do not include them in our valuation, investors should nevertheless be aware of their significant potential. The overall volume of insurance premiums was around € 190bn in 2015 in Germany.

► Extending into real estate

Hypoport is currently working on expanding its business in two areas of the real estate space:

- **Real estate valuation:** Hypoport acquired a real estate valuation company on 1 July 2016 in an asset deal (we assume the purchase price was below € 0.5m; financials were not disclosed). The new entity currently has about 50 employees. Hypoport's goal with this new business is to capture a larger piece of the real estate value chain: When a real estate object is financed with a mortgage, the bank

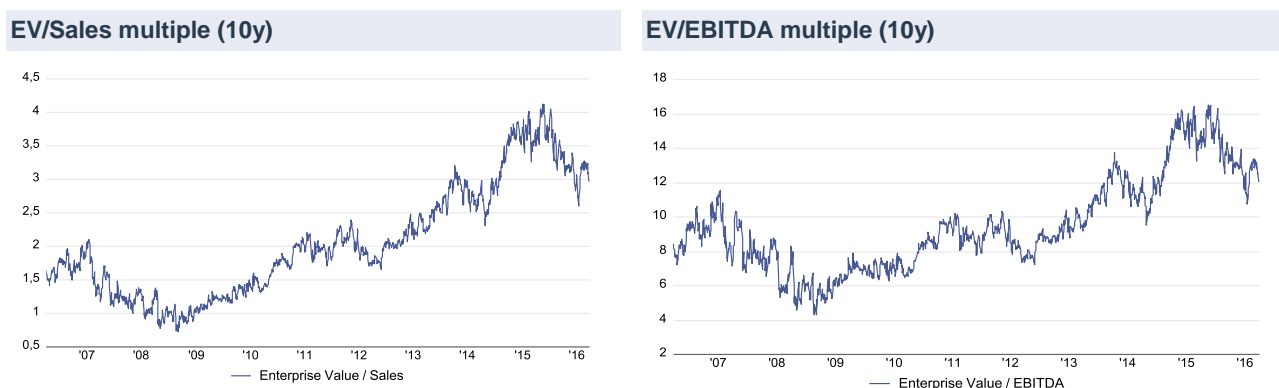
issuing the mortgage usually requires a valuation of the property. The newly purchased business now enables Hypoport, as an intermediary between the bank and the household, to provide this service.

- Hypoport invest:** In its Institutional Clients segment, Hypoport mainly advises municipal and cooperative housing associations in social housing projects. The funding for these projects usually takes the form of bank loans. As an alternative means of financing, Hypoport launched its first real estate fund in H1 2016 where outside investors provide the financing for the projects (both debt and hybrid equity). The overall volume is currently in the € 20m range, i.e. fee income is negligible.

Overall, extending products and services along the real estate value chain makes sense for Hypoport. The income generated by these new business ventures is not economically significant in the overall group picture, but could be in the future.

Trading multiples

With a performance of ~550% in 2015 and ~2% ytd, Hypoport is currently trading close to an all-time high. In terms of its valuation multiples, the stock is trading close to a 10-year high on EV/Sales and EV/EBITDA.



Charts 49 - Source: Factset, Oddo Seydler Bank AG

Peer comparison

It is difficult to compile a peer group for Hypoport, which in our view limits the explanatory power of a peer group comparison. In particular, Interhyp, Hypoport's only real competitor, is not listed. We therefore prefer a DCF methodology to value the stock. Nevertheless, we provide a peer group comparison for the sake of completeness. In our peer group we include MLP, Wirecard, Ferratum and Grenke Leasing.

Peer Group: Financials														
Company name	Market cap.	EV	Sales			EBITDA			EBIT			EPS (EUR)		
			2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
MLP AG	416.0	-253.9	605.3	619.3	621.5	37.1	55.1	48.8	20.8	38.5	32.8	0.13	0.27	0.27
WIRECARD AG	5,544.4	4,708.6	1,027.7	1,269.2	1,520.4	304.3	385.6	470.5	244.9	316.6	393.6	1.86	2.15	2.65
FERRATUM OYJ	402.8	466.1	158.0	219.7	296.0	24.8	36.2	50.7	23.0	33.9	48.0	0.73	1.23	1.71
GRENKE AG	2,557.6	4,701.9	346.3	378.5	460.3	144.0	163.0	n.a.	129.0	153.0	n.a.	6.67	7.77	9.02
Average	2,230.2	2,405.7	534.3	621.7	724.5	127.5	160.0	190.0	104.4	135.5	158.1	2.3	2.9	3.4
Median	1,486.8	2,584.0	475.8	498.9	540.9	90.6	109.0	50.7	76.0	95.8	48.0	1.3	1.7	2.2

Chart 50 - Source: Bloomberg, Oddo Seydler Bank AG

Peer Group: Multiples

Company name	EV / Sales			EV / EBITDA			EV / EBIT			P / E		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
MLP AG	-0.4	-0.4	-0.4	-6.8	-4.6	-5.2	-12.2	-6.6	-7.7	28.6	13.9	14.4
WIRECARD AG	4.6	3.7	3.1	15.5	12.2	10.0	19.2	14.9	12.0	24.1	20.9	16.9
FERRATUM OYJ	3.0	2.1	1.6	18.8	12.9	9.2	20.2	13.7	9.7	25.4	15.0	10.9
GRENKE AG	13.6	12.4	10.2	32.7	28.8	n.a.	36.4	30.7	n.a.	26.0	22.3	19.2
Average	5.2	4.5	3.6	15.0	12.3	4.7	15.9	13.2	4.6	26.0	18.0	15.3
Median	3.8	2.9	2.3	17.1	12.5	9.2	19.7	14.3	9.7	25.7	18.0	15.6

Chart 51 - Source: Bloomberg, Oddo Seydler Bank AG

Applying the average multiples of the three stocks in our peer group to our estimates for Hypoport, we derive a fair stock price of € 72.25. However, as pointed out previously, we think that the peer group valuation has only limited applicability for Hypoport due to the impaired comparability within the peer group.

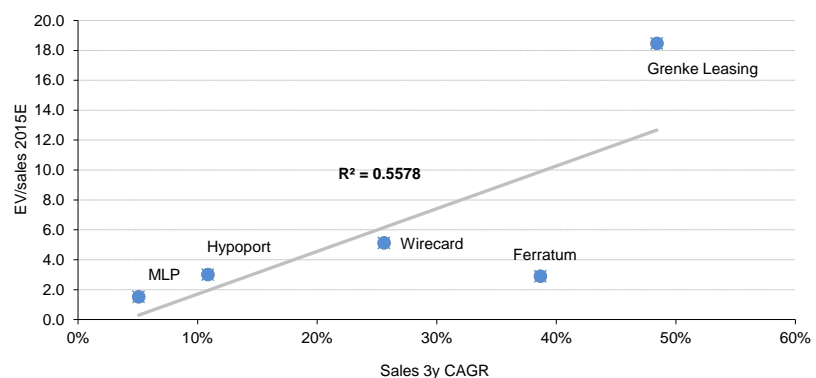
Valuation based on multiples

EURm, except EPS (EUR)	Sales			EBITDA			EBIT			EPS		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
Hypoport AG: Financial estimates Oddo Seyc	155.2	172.8	189.6	30.6	34.5	38.5	0.0	0.0	0.0	3.25	3.79	4.26
Applied multiples: Peer group median	3.8	2.9	2.3	17.1	12.5	9.2	19.7	14.3	9.7	25.7	18.0	15.6
Enterprise value (derived)	584.6	503.8	442.9	524.8	433.1	353.6	-0.7	-0.5	0.0	-	-	-
+ Excess cash and marketable se	25.2											
- Financial debt	11.3											
- Minority interest (estimated mark	0.0											
Market capitalization (derived)	621.1	540.3	479.4	561.3	469.6	390.1	35.8	36.0	36.5	512.7	417.3	408.7
Median	443.5											
Premium (discount) vs. Peer Group	0%											
Fair market capitalization (after	443.5											
Number of shares (m)	6.138											
Fair value per share (EUR)	72.25											

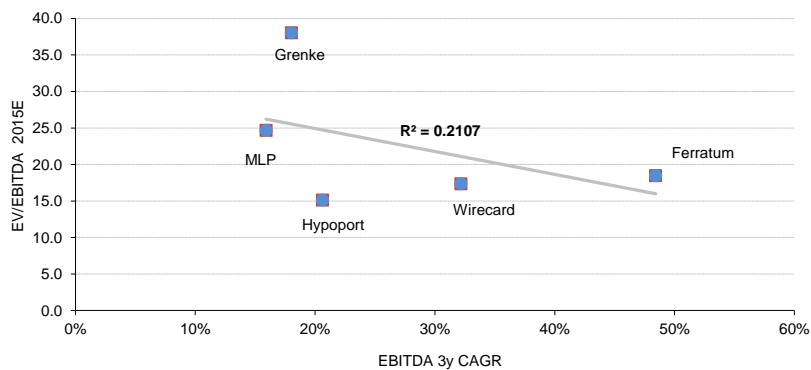
Chart 52 - Source: Bloomberg, Oddo Seydler Bank AG

Plotting the multiples shows a counter-intuitive, negative relationship between growth and EV/EBITDA multiples. This again indicates that the peer group comparison has very limited validity as valuation approach for Hypoport at present.

EV/Sales vs. 3y sales CAGR (2016e-18e)



EV/EBITDA vs. 3y sales CAGR (2016e-18e)



Charts 53 - Source: Factset, Oddo Seydler Bank AG (both charts)

P&L 2013 – 2018e

P&L: 2013-2018e						
IFRS	2013	2014	2015	2016e	2017e	2018e
Revenues	98.1	112.3	139.0	155.2	172.8	189.6
<i>YoY growth</i>	11.8%	14.5%	23.7%	11.7%	11.3%	9.7%
Selling expenses	-49.1	-55.9	-67.3	-74.1	-82.0	-89.4
<i>% of total revenue</i>	-50.1%	-49.8%	-47.9%	-47.7%	-47.4%	-47.1%
Gross Profit	49.0	56.4	71.7	81.1	90.8	100.2
<i>Gross Profit margin in %</i>	49.9%	50.2%	51.6%	52.3%	52.6%	52.9%
Own work capitalised	4.2	4.2	4.7	6.4	7.0	7.8
<i>% of total revenue</i>	4.3%	3.7%	4.3%	4.1%	4.0%	4.1%
Other operating income	2.8	1.8	2.2	2.5	2.8	3.0
<i>% of total revenue</i>	2.8%	1.6%	1.6%	1.6%	1.6%	1.6%
Cost of materials	0.0	0.0	0.0	0.0	0.0	0.0
<i>% of total revenue</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Personnel expenses	-32.7	-35.3	-38.2	-43.0	-48.0	-53.0
<i>% of total revenue</i>	-33.3%	-31.5%	-28.0%	-28.0%	-28.0%	-28.0%
Other operating expenses	-15.2	-14.5	-15.2	-16.5	-18.2	-19.8
<i>% of total revenue</i>	-15.5%	-12.9%	-11.2%	-10.7%	-10.6%	-10.5%
Income from investments valued at equity	0.0	0.1	0.0	0.2	0.2	0.2
<i>% of total revenue</i>	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
EBITDA	8.1	12.7	25.1	30.6	34.5	38.5
<i>EBITDA margin in %</i>	8.3%	11.3%	18.0%	19.7%	20.0%	20.3%
Depreciation, amortisation exp. & impairment loss	4.2	4.8	5.8	-5.6	-6.1	-6.6
EBIT	3.9	7.9	19.3	25.0	28.4	31.8
<i>EBIT margin in %</i>	4.0%	7.1%	13.9%	16.1%	16.5%	16.8%
Financial result	-0.9	-0.7	-0.1	-0.6	-0.5	-0.4
EBT	3.1	7.3	19.1	24.5	28.0	31.5
<i>EBT margin in %</i>	3.1%	6.5%	13.8%	15.8%	16.2%	16.6%
Taxes on income & def.	0.1	-1.3	-3.2	-4.5	-4.8	-5.4
<i>% of EBT</i>	3.3%	-18.2%	-16.9%	-18.5%	-17.0%	-17.0%
Profit/loss from continuing operations, net of tax	3.2	5.9	15.9	20.0	23.2	26.1
<i>as % of total revenue</i>	3.2%	5.3%	11.4%	12.9%	13.4%	13.8%
Profit/loss from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit/loss for the year	3.2	5.9	15.9	20.0	23.2	26.1
<i>Net profit margin in %</i>	3.2%	5.3%	11.4%	12.9%	13.4%	13.8%
Attributable to non-controlling/minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Attributable to Hypoport AG shareholders	3.2	5.9	15.9	20.0	23.2	26.1
Weighted number of shares , basic in million shares	6.14	6.14	6.04	6.14	6.14	6.14
Weighted number of shares , diluted in million shares	6.14	6.14	6.04	6.14	6.14	6.14
EPS Basic	0.51	0.96	2.63	3.25	3.79	4.26
EPS Diluted	0.51	0.96	2.63	3.25	3.79	0.00

Chart 54 - Source: Company data, Oddo Seydler Bank AG

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Price 79.85EUR

Upside 27.74%

TP 102.00EUR

	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
PER SHARE DATA (EUR)								
Adjusted EPS	0.60	-0.13	0.51	0.96	2.63	3.25	3.79	4.26
Reported EPS	0.60	-0.13	0.51	0.96	2.63	3.25	3.79	4.26
Growth in EPS(%)	13.2%	ns	ns	88.0%	ns	23.8%	16.4%	12.5%
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	-0.10	0.20	0.67	0.37	3.24	1.49	3.25	3.53
Book value per share	5.01	4.81	5.34	6.29	8.68	11.79	15.57	19.83
Number of shares market cap	6.19	6.16	6.14	6.14	6.04	6.14	6.14	6.14
Number of diluted shares	6.19	6.16	6.14	6.14	6.04	6.14	6.14	6.14
VALUATION	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	11.95	12.15	10.46	13.78	80.50	97.00		
12m lowest price	6.95	6.95	7.03	8.67	12.16	53.59		
(*) Reference price	9.42	8.94	8.27	11.01	33.28	79.85	79.85	79.85
Capitalization	58.4	55.1	50.7	67.6	201	490	490	490
Restated Net debt	11.1	9.7	5.9	3.9	-13.5	-22.7	-42.6	-64.3
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	2.5	1.9	0.5	1.0	2.1	8.1	2.1	2.1
Enterprise Value	72.0	66.7	57.1	72.5	190	476	450	428
P/E (x)	15.7	ns	16.1	11.4	12.7	24.6	21.1	18.8
P/CF (x)	6.4	58.8	5.2	4.4	5.7	15.3	16.2	14.7
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	ns	2.3%	8.1%	3.3%	9.7%	1.9%	4.1%	4.4%
P/B incl. GW (x)	1.88	1.86	1.55	1.75	3.84	6.77	5.13	4.03
P/B excl. GW (x)	1.88	1.86	1.55	1.75	3.84	6.77	5.13	4.03
EV/Sales (x)	0.85	0.76	0.58	0.65	1.36	3.06	2.60	2.26
EV/EBITDA (x)	6.3	8.2	7.0	5.7	7.6	15.5	13.0	11.1
EV/EBIT (x)	10.7	20.9	14.5	9.1	9.8	19.0	15.8	13.4
(*) historical average price								
PROFIT AND LOSS (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	84	88	98	112	139	155	173	190
EBITDA	11.5	8.1	8.1	12.7	25.1	30.6	34.5	38.5
Depreciations	-4.7	-4.9	-4.2	-4.8	-5.8	-5.6	-6.1	-6.6
Current EBIT	6.8	3.2	3.9	7.9	19.3	25.0	28.4	31.8
Published EBIT	6.8	3.2	3.9	7.9	19.3	25.0	28.4	31.8
Net financial income	-0.7	-0.9	-0.9	-0.7	-0.1	-0.6	-0.5	-0.4
Corporate Tax	-1.6	-0.4	0.1	-1.3	-3.2	-4.5	-4.8	-5.4
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)	-0.7	-2.8	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	3.7	-0.8	3.1	5.9	15.9	20.0	23.2	26.1
Adjusted attributable net profit	3.7	-0.8	3.1	5.9	15.9	20.0	23.2	26.1
BALANCE SHEET (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	27.9	27.7	29.6	31.0	31.9	30.3	27.5	25.4
Tangible fixed assets	2.5	2.6	2.2	2.2	2.6	2.5	2.3	2.0
WCR	12.4	10.7	6.9	9.0	4.9	17.4	23.7	30.6
Financial assets	2.2	0.5	0.8	1.6	1.9	1.9	1.9	1.9
Ordinary shareholders equity	31.0	29.6	32.8	38.6	52.4	72.4	95.6	122
Minority interests	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Shareholders equity	31.3	29.8	33.1	38.9	52.7	72.6	95.9	122
Non-current provisions	2.5	1.9	0.5	1.0	2.1	2.1	2.1	2.1
Net debt	11.1	9.7	5.9	3.9	-13.5	-22.7	-42.6	-64.3
CASH FLOW STATEMENT (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA	11.5	8.1	8.1	12.7	25.1	30.6	34.5	38.5
Change in WCR	-4.4	1.2	3.7	-3.0	2.9	-12.5	-6.3	-6.9
Interests & taxes	-1.4	-1.5	-1.5	-1.3	-2.9	-5.1	-5.2	-5.7
Others	-1.0	-0.1	-0.5	0.0	1.6	0.6	1.0	0.7
Operating Cash flow	4.7	7.8	9.9	8.4	26.7	13.7	24.0	26.6
CAPEX	-5.3	-6.5	-5.7	-6.2	-7.1	-4.5	-4.1	-4.9
Free cash-flow	-0.6	1.2	4.1	2.2	19.6	9.2	19.9	21.7
Acquisitions / disposals	-0.5	0.1	0.0	0.0	0.0	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	-0.6	0.0	0.0	-2.3	0.0	0.0	0.0
Others	-2.6	0.4	-1.4	-1.2	-4.6	-1.1	-1.1	-1.1
Change in net debt	-1.1	0.7	4.2	1.9	17.3	9.2	19.9	21.7
GROWTH MARGINS PRODUCTIVITY	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales growth	26.1%	4.0%	11.8%	14.5%	23.7%	11.7%	11.3%	9.7%
Lfi sales growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current EBIT growth	5.1%	-52.7%	23.5%	ns	ns	30.0%	13.6%	11.9%
Growth in EPS(%)	13.2%	ns	ns	88.0%	ns	23.8%	16.4%	12.5%
Net margin	4.4%	-0.9%	3.2%	5.3%	11.4%	12.9%	13.4%	13.8%
EBITDA margin	13.6%	9.3%	8.3%	11.3%	18.0%	19.7%	20.0%	20.3%
Current EBIT margin	8.0%	3.6%	4.0%	7.1%	13.9%	16.1%	16.5%	16.8%
CAPEX / Sales	-6.2%	-7.4%	-5.8%	-5.5%	-5.1%	-2.9%	-2.4%	-2.6%
WCR / Sales	14.7%	12.2%	7.0%	8.0%	3.5%	11.2%	13.7%	16.1%
Tax Rate	25.8%	16.9%	-3.3%	18.2%	16.9%	18.5%	17.0%	17.0%
Normative tax rate	-23.8%	-53.2%	-31.1%	-20.1%	-28.3%	-30.3%	-25.8%	22.2%
Asset Turnover	2.1	2.1	2.5	2.8	3.4	3.5	3.3	3.4
ROCE post-tax (normative tax rate)	20.8%	11.7%	13.0%	23.6%	60.6%	72.9%	69.0%	44.5%
ROCE post-tax hors GW (normative tax rate)	20.8%	11.7%	13.0%	23.6%	60.6%	72.9%	69.0%	44.5%
ROE	12.8%	-2.7%	10.1%	16.6%	34.9%	32.0%	27.7%	24.1%
DEBT RATIOS	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing	36%	33%	18%	10%	-26%	-31%	-44%	-53%
Net Debt / Market Cap	0.19	0.18	0.12	0.06	-0.07	-0.05	-0.09	-0.13
Net debt / EBITDA	0.97	1.20	0.72	0.31	ns	ns	ns	ns
EBITDA / net financial charges	ns	ns	ns	ns	ns	ns	ns	ns