



# Hypoport AG

Buy → | Target 139.00 EUR vs 102.00 EUR ↗

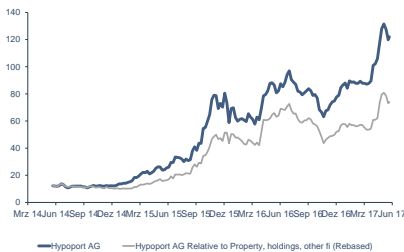
Price (20/06/2017) : 122.05 EUR | Upside : 14 %

Est.chg	2017e	2018e
EPS	-	-

**Strong momentum continues and new insurance tech business looks promising; TP raised to €139 from €102**

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Capital			
<b>HYQ GY   HYQGn.DE</b>			
Market Cap (EURm)			734
Enterprise value (EURm)			713
Extrema 12 months	63.06	-	132.5
Free Float (%)			56.1
Performance (%)			
	1m	3m	12m
Absolute	4.0	37.9	43.2
Perf. rel. Country Index	4.6	33.8	24.2
Perf. rel. Property, holding	1.4	25.9	17.9
P&L			
	12/17e	12/18e	12/19e
Sales (EURm)	194	218	242
EBITDA (EURm)	34.4	38.9	43.6
Current EBIT (EURm)	26.5	30.2	34.1
Attr. net profit (EURm)	21.7	24.7	28.0
Adjusted EPS (EUR)	3.53	4.03	4.56
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	34.6	30.3	26.7
P/B (x)	8.8	6.8	5.4
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.4	2.5	2.8
EV/Sales (x)	3.77	3.27	2.87
EV/EBITDA (x)	21.3	18.4	15.9
EV/Current EBIT (x)	27.6	23.7	20.3
Gearing (%)	-26	-37	-45
Net Debt/EBITDA(x)	ns	ns	ns

Next Events	
07.08.2017	Q2 Results
07.08.2017	Earnings Release
30.10.2017	Q3 Results

After a strong performance YTD, we consider the investment case still intact and see further upside potential. The new insurance tech segment looks very promising in our view, and we value it at €12.53/share. Moreover, as the #1 platform in the mortgage market, Europace continues to gain market share: in Q1 2017 Europace outperformed the market by 17pp and increased its market share by 2.4pp to 16.3%. We expect this solid momentum to continue and increase our expectation for market share gains from 1pp to 1.8pp per year going forward. We reiterate our Buy rating and increase our TP to €139 from €102.

## Promising new insurance tech business: € 12.53/share

Hypoport has established itself as the #1 platform for mortgages in Germany. The company is now aiming at repeating this success by targeting the insurance industry as a new market with a state-of-the-art insurance tech platform. Hypoport has made three acquisitions for this strategic move which are currently being integrated into one system. The target is to build a system that can reduce costs for insurance brokers by 70%, thereby adding value to an industry marred by shrinking margins in a highly competitive environment.

As the insurance industry as a whole is severely lagging in terms of digital transformation, we see this approach as very promising and underpinned by Hypoport's track record in successfully managing the digital transformation in the mortgage market. At the CMD last month, the company gave for the first time a very bullish long-term guidance for this new business segment: in 10 years, Hypoport plans to have €150m in revenues for this segment generating an EBIT margin of 40-50%. We now think that a value of € 12.53/share seems probable (while we hadn't included the segment before in our valuation).

## Strong market share gains to continue

Europace has rapidly increased its market share over the last couple of years from 5.8% in 2010 to 15.2% in 2016. In Q1 2017, market share increased further to 16.3%. While the overall mortgage market volume was flattish in Q1, with 0.3% yoy growth, the transaction volume on the Europace platform increased by about 17% yoy, i.e. an outperformance of 17pp vs. the market. We expect the market share gains for Europace to continue by 1.8pp per year which would lead to a market share of roughly one third in the overall German mortgage market in 2026e.

## Valuation: € 138.26 based on SOTP model

For the Financial Service Providers segment we derive a fair value of €80.18/share, for the Private Clients segment €31.53/share and for the Institutional Clients segment €14.13/share. To this we add a value of €12.53/share for the insurance tech business and deduct net debt of €0.12/share, which takes us to a fair value per share of €138.26.

## Buy reiterated, TP raised to € 139 (€ 102)

We reiterate our Buy rating on Hypoport and raise our TP from € 102 to € 139. Our 2018e target P/E is 34.4x (EPS CAGR 2017-19e: 14.9%). Our TP is based on a mortgage market CAGR of 1.0% and an increase in Europace's market share of 1.8pp per year. If we assume the growth rates of the past 5 years, i.e. 4% market CAGR and 2.2pp market share growth per year, we derive a DCF value of € 175.94/share (based on an assumption of 50% operating leverage).

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## STRONG MOMENTUM CONTINUES

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### i/ Very promising new insurance tech business

**10y guidance: € 150m revenues at 40-50% EBIT margin**

At the CMD last month the company gave a long-term guidance for the new insurance tech business for the very first time: In 10 years, Hypoport plans to generate € 150m in revenues for this segment at an EBIT margin of 40-50%. Reminder: Hypoport as a group generated revenues of € 155m in 2016 at an EBIT margin of 14.8%, i.e. the insurance tech business would be as big as the current business of the company in terms of revenues at an EBIT margin that would be significantly higher.

How is the € 150m revenue figure derived? Right now, total insurance premiums in the German insurance market are about € 200bn per year. Management believes that it can capture a market share of 10% in the next 10 years in this market, i.e. manage € 20bn in insurance premiums. Hypoport plans to charge a fee of 75bp per year on every € 1 of insurance premium which would lead to revenues of € 150m per year (more details below).

**Q1 2017: Revenues of € 3.8m; EBIT € -0.1m**

From now on, the insurance tech business will be reported as a separate segment: In Q1, the segment generated revenues of € 3.8m (i.e. about 8% of group revenues) with a slightly negative EBIT of € -0.1m. Of this revenue figure, about € 2.5m came from the three recent acquisitions and the remainder came from the insurance platform that was previously part of the Europace segment. Management stated that the focus is to grow sales and reach an inflection point, i.e. the priority is sales growth and not short-term profitability. However, in 2017 the segment should show a bottom-line result of around zero, according to management.

**Business model: Europace for insurance brokers**

The overall idea behind the insurance tech business is to build a system similar to Europace for insurance brokers, i.e. a B2B IT system for insurance brokers that manages insurance contracts after closing and provides price comparisons. At the end of the day, the insurance business is an outsourcing solution for backend operations of the insurance industry. Similar to Europace, the idea is to have an IT solution which will enable front-ends such as independent brokers or comparison websites like check24 to focus on selling the contracts while the administrative functions and the management of the contracts is outsourced to Hypoport.

Hypoport aims to build a system that can **reduce costs for insurance brokers by 70%**. Management stated that it sees a very big market opportunity here since insurance brokers are currently under heavy pressure to maintain profitability. For providing this service, Hypoport targets to charge a fee of 75bp per year on the overall volume.

To build this new platform, Hypoport has made three acquisitions (total investment so far: ~ € 10m) which are currently being integrated into one system:

**(1) NKK Programm Service AG (acquired in June 2016):** NKK is a software company which develops and maintains an insurance inventory system, i.e. a system that allows insurance brokers to keep track of the insurance products they have sold and maintain linkages to the underlying insurance company.

**(2) Maklersoftware.com (acquired in January 2017):** Maklersoftware.com is an IT company specialized in insurance solutions. The company offers cloud services and provides consulting support based on customer data, e.g. a recommendation for a specific insurance product based on personal details of the client.

**Overview: Integration of the three acquisitions into one system**

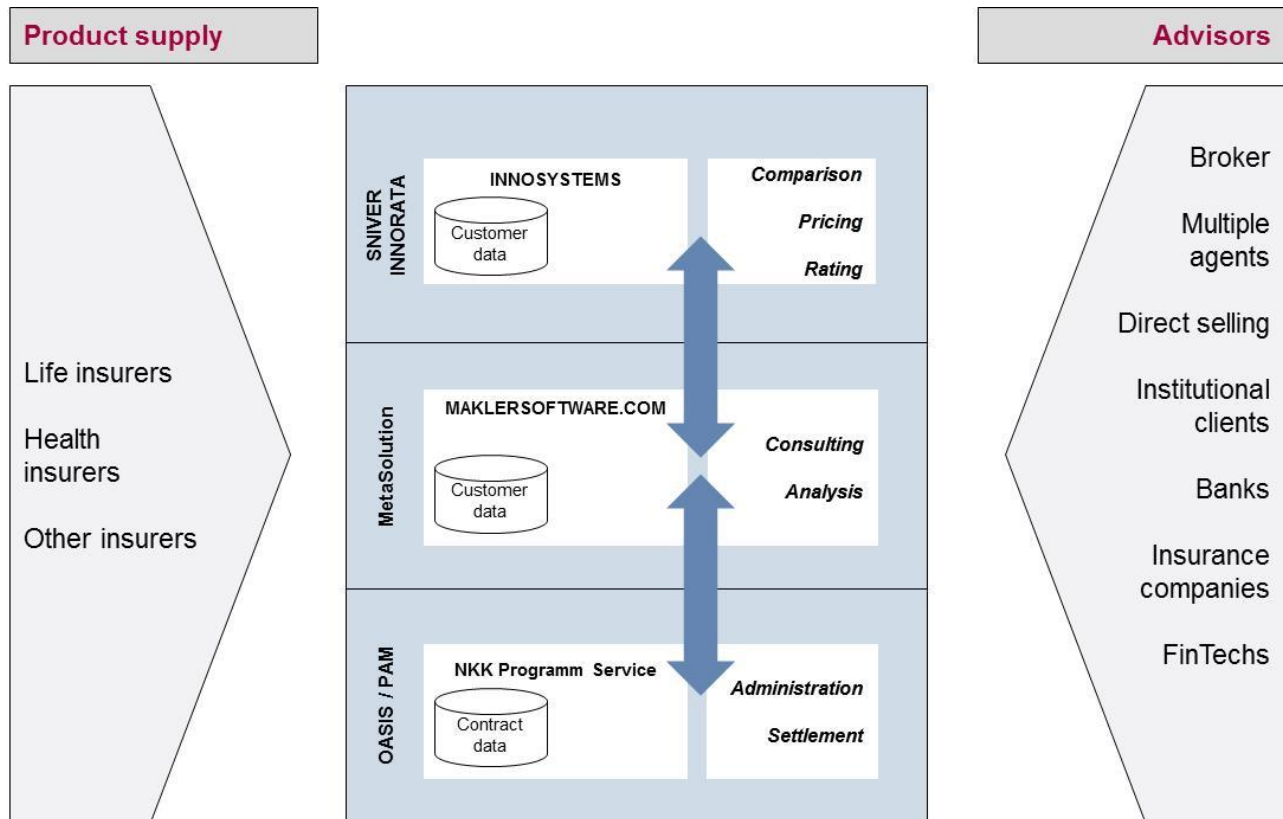


Chart 1 - Source: Company data; Oddo Seydler Bank AG

**For comparison: Europace business model**



Chart 2 - Source: Company data; Oddo Seydler Bank AG

**(3) Innosystems GmbH (acquired in January 2017):** Innosystems is developing software to compare individual insurance products.

For an overview of the insurance tech business model, see the figure below:

**Overview: Insurance tech business model**

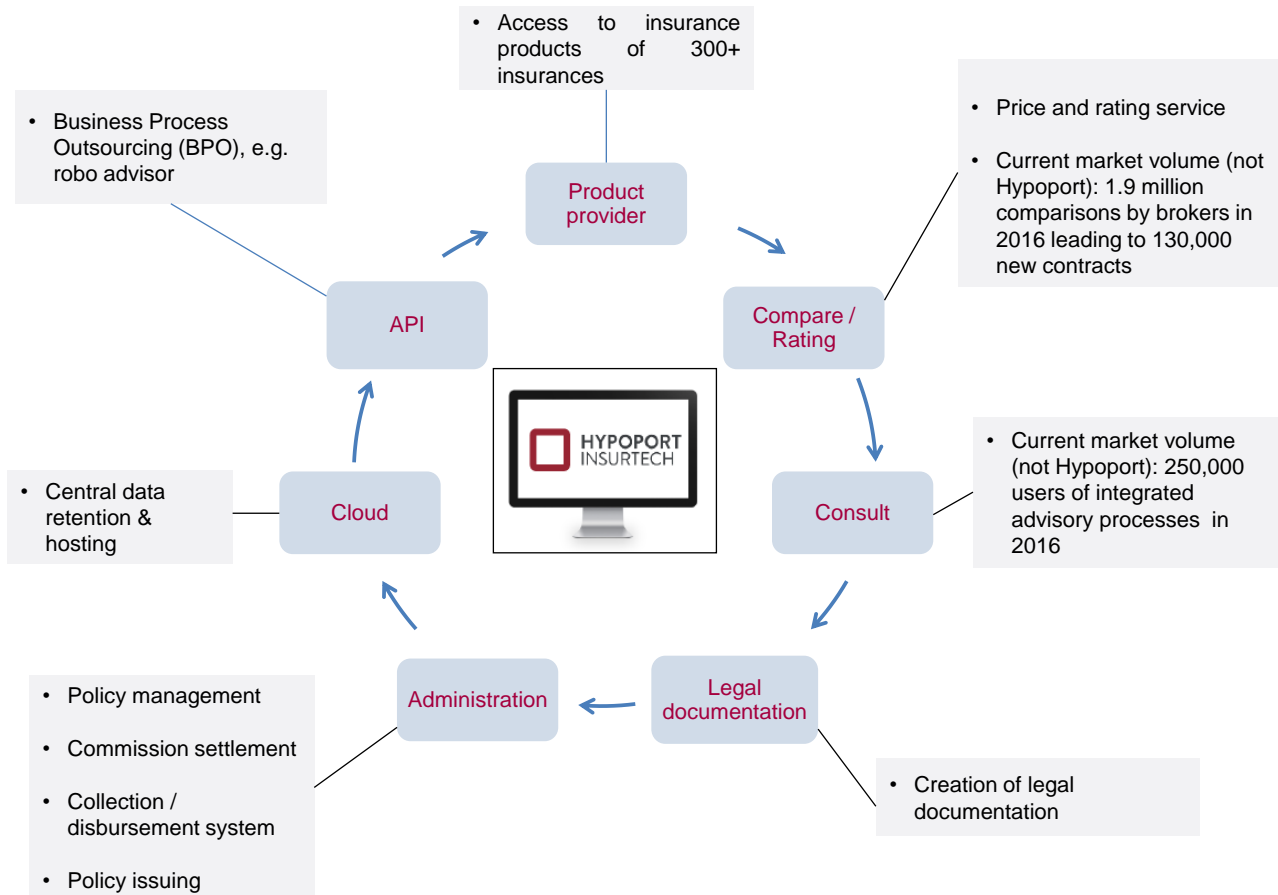


Chart 3 - Source: Company data; Oddo Seydler Bank AG

**1) Product provider:** Similar to Europace (where all major retail banks in Germany are available as credit suppliers), Hypoport must have a significant amount of insurance product providers on the platform.

**2) Compare / Rating:** Hypoport will provide a platform to compare the insurance products on the platform (see previous bullet point). The comparison platform will be based on Innosystems. The compare feature will be a crucial part of the business model similar to the compare feature for mortgages implemented in Europace

**3) Consult:** In addition to providing a comparison of different products, Hypoport will also support consultants in the sales process for insurance. In this context the **Maklersoftware.com** acquisition is important, since the company provides consulting support based on customer data, e.g. a recommendation for a specific insurance product based on personal details of the client.

**4) Legal documentation:** In order to comply with legal requirements in Germany, consultants need to document the sales / consulting process. Hypoport wants to integrate the necessary software into the platform.

**5) Administration:** The administration process (i.e. the backend process) is a crucial outsourcing tool that Hypoport wants to provide, e.g. the management of insurance policies after closing. For example, billing operations could be outsourced. In this context, the **NKK Programm Service AG** acquisition will be crucial.

**6) Cloud:** In combination with 5), Hypoport will store the data in a cloud based system, similar to Europace.

**7) API (application programming Interface):** Since all functions will be fully digitalized, Hypoport will also provide several interfaces, e.g. to digitally transfer the contracts.

#### Insurance premiums in Germany 2012 – 2016 (in € bn)

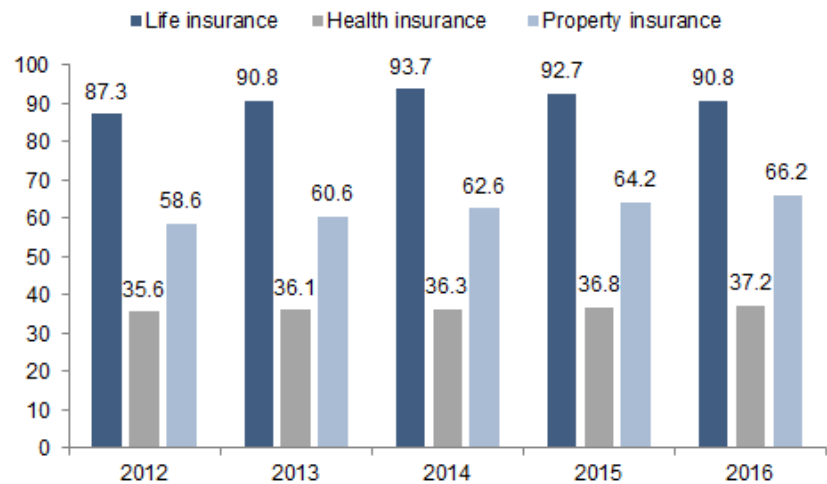


Chart 4 - Source: Bundesbank, Company data, Oddo Seydler

A crucial difference to the Europace business model is the way the fee is paid: For mortgages sold via Europace, Hypoport receives an **upfront fee** on mortgage financing transactions upon contract closing. The fee is based on the size and duration of the mortgage. On average, the fee for Europace in the mortgage space is around 10bp which implies a fee of less than 1bp per year based on an average mortgage duration of about 12.5 years. The fee for the insurance platform will be different since it will be **charged yearly** instead of an upfront fee.

#### Scenario analysis: What could it be worth?

In terms of valuation, there are four major drivers:

- i/ What **market share** can Hypoport reach? The company targets a market share of 10% in a € 200bn market in 10 years.
- ii/ What is the **yearly fee** that Hypoport can charge? Currently Hypoport plans to receive 75bp per year per € 1 of insurance premium.
- iii/ What **profitability** can Hypoport reach in this segment? Hypoport aims to generate an EBIT margin of 40-50%.
- iv/ What further investments will Hypoport make in the new segment? As of now, the company has made three acquisitions for about € 10m.

We analyse 5 different scenarios for the insurance tech segment below. To calculate the NPV, we project the EBIT based on the assumptions i-ii/ and then apply an EBIT multiple of 10x which we think is on the conservative side (Hypoport currently trades at a 2017e EV/EBIT of 27.1x). We then deduct the assumed further investments (assumption iv/; see description in scenario analysis) and calculate the NPV per share based on 6.0m shares outstanding and a discount rate of 10%.



### Insurance Tech: Scenario Analysis

	Description	EBIT in 10y	NPV per share
Failure	Failure No further investments	0	€ -1.67
Very limited success	Market share of 1% Fee of 10bp per year Profitability of 10% in EBIT No further investments	€ 0.2m	€ 0.13
1% market share	Market share of 1% Fee of 75bp per year Profitability of 20% in EBIT € 5m in further investments	€ 3.0m	€ 2.50
5% market share	Market share of 5% Fee of 75bp per year Profitability of 30% in EBIT € 20m in further investments	€ 22.5m	€ 12.53
Blue-sky scenario	Market share of 10% Fee of 75bp per year Profitability of 50% in EBIT € 30m in further investments	€ 75m	€ 45.62

Chart 5 - Source: Oddo Seydler

At the end of the day, the insurance tech platform is similar to a start-up business, i.e. visibility is relatively low. However, Hypoport has a track record in successfully managing the transformation for the mortgage market. Due to low visibility it is difficult to put a firm view on the value of the insurance tech business. We think that scenario 4 (i.e. 5% market share) is most probable and therefore use the corresponding value of € 12.53/share for our company valuation (see p.13).

## ii/ Europace: Outperformance continues in Q1

Europace has rapidly increased its market share over the last couple of years - from 5.8% in 2010 to 15.2% in 2016, based on our calculations. In Q1 2017, market share increased further to 16.3% vs. 13.9% in Q1 2016 (i.e. +2.4pp). While the overall market volume in Q1 was flattish with 0.3% yoy growth, the transaction volume on the Europace platform increased by about 17% yoy, i.e. an outperformance of 17 percentage points vs. the market.

### Development of Europace's market share 2015 to Q1 2017



Chart 6 - Source: Bundesbank, Company data, Oddo Seydler

Europace is currently the #1 platform in Germany in terms of processed mortgage transaction volume. However, the current market share of 16.3% still leaves plenty of room for further growth. We assume that Europace will grow by 1.8pp until 2026 which would lead to a market share of roughly one third of the overall market (see p.15 for more details).

Interhyp (owned by Dutch ING) has also grown strongly in the same period, from 3.8% in 2010 to 7.6% in 2016. The remaining ~78% 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 77.7% in 2016.

### Transaction volumes and market share 2010 – Q1 2017

	2010	2011	2012	2013	2014	2015	2016*	Q1 2017
Europace	15.1	21.2	28.9	31.6	36.2	45.2	44.7	12.2
Europace adjusted	10.6	14.8	20.2	22.1	25.3	31.6	35.8	9.8
Interhyp	6.9	7.6	7.7	8.9	11.2	16.1	18.0	n/a
Market	182.4	187.2	189.3	195.0	200.0	244.0	235.3	59.8
Europace adjusted (%)	5.8%	7.9%	10.7%	11.3%	12.7%	13.0%	15.2%	16.3%
Interhyp (%)	3.8%	4.1%	4.1%	4.6%	5.6%	6.6%	7.7%	n/a
Other (%)	90.4%	88.0%	85.2%	84.1%	81.7%	80.4%	77.2%	n/a

Chart 7 - Source: Company data; Oddo Seydler

\*Calculation adjusted from 2016 on

We expect the market share gains for Europace to continue for several reasons:

- (1) 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.
- (2) 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 attracts a growing customer base, which in turn translates into 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.

- (3) 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.

Currently Postbank (#1 in Germany in terms of mortgage sales) and Bank Santander (#4) use Europace as an IT outsourcing solution. The #2 and #3 in the market (i.e. Deutsche Bank and Commerzbank) currently do not use Europace but operate proprietary IT systems. According to Hypoport's management, however, switching to Europace would be significantly cheaper for banks than maintaining in-house operations. An example: To replace its old IT system a major bank would probably have to pay around € 100m vs € 7m per year for the use of Europace as an outsourcing solution. Switching to Europace would also eliminate ongoing maintenance cost and would avoid the project risk of developing a new IT system. Management also mentioned that banks with proprietary IT systems may find themselves confronted with a new (unforeseen) regulation that their own system cannot implement. Switching to Europace would eliminate this risk.

- (4) 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.

In Q1 2017, the transaction volume on Genopace and Finmas was up 52% and 63%, respectively, i.e. **momentum significantly increased** in the market space where Europace is still relatively weak.

**Breakdown of Europace's market share from a sales perspective**

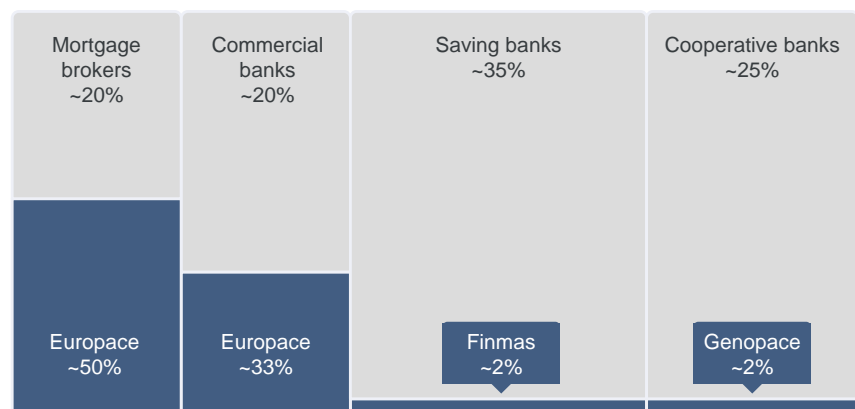


Chart 8 - Source: Company data; Oddo Seydler Bank AG

The development of the overall market volume is shown in the figure below: In 2016, overall mortgage volume was down -3.6%. In Q1 2017, the volume was up +0.3%. Ytd, the market is up 0.5% vs. 2016.

#### Bundesbank figure: mortgage volume to households in Germany

Month	Total new volume	Total p.q.	Total p.a.	Change yoy
Jan-16	18,507			-6.4%
Feb-16	18,776			10.1%
Mar-16	22,396	<b>59,679</b>		6.0%
Apr-16	17,859			-12.8%
May-16	17,968			-8.1%
Jun-16	21,409	<b>57,236</b>		-10.9%
Jul-16	20,287			-19.8%
Aug-16	19,902			0.8%
Sep-16	18,685	<b>58,874</b>		-2.5%
Oct-16	17,913			-9.9%
Nov-16	20,224			9.8%
Dec-16	21,400	<b>59,537</b>	<b>-3.6%</b>	9.6%
Jan-17	19,804			7.0%
Feb-17	17,838			-5.0%
Mar-17	22,196	<b>59,838</b>	<b>0.3%</b>	-0.9%
Apr 17	18,087		<b>0.5%</b>	1.3%

Chart 9 - Source: Bundesbank, Oddo Seydler

**Reminder:** 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.

### iii/ Other topics for the equity story

- **Guidance 2017:** The company reiterated its 2017 guidance of low double-digit growth in terms of revenues and EBIT. At the recent CMD, management indicated that the ~30% growth in Q1 will probably not be delivered for the full-year, but the full-year performance should be significantly above 10%. In terms of segments, all segments are on track according to the company as shown in the Q1 performance. However, the institutional clients business will remain very volatile on a quarterly basis as it has been in the past.
- **Will Deutsche Bank switch to Europace?** Negotiations are ongoing, in our view. Reminder: Postbank which already uses Europace as a SaaS solution will now be integrated into DB. Since it is unlikely that DB will use two different IT systems, a switch to Europace has become more likely. We estimate a revenue impact of about € 7m on Europace in this case.
- **CEO shareholding:** CEO Mr. Slabke stated that contrary to some market rumors he does NOT plan to sell shares (i.e. his shareholding remains at 36.3%).
- **Use of cash:** Management mentioned that it will invest in two ways: (1) Further acquisitions are planned for the insurance tech business; (2) A new potential share repurchase program.
- **CapEx:** Investments in 2017 (excluding M&A) should be around € 10m in 2017 after around € 9m in 2016.

## iv/ Valuation: TP raised to € 139; Buy

We increase our TP from € 102.00 to € 139.00 for the following reasons:

- (1) We add € 12.53/share for the insurance business. See section i/ of this report for a detailed scenario analysis.
- (2) We increase our growth prospects for Europace as follows: We increase the expected market share gains to 1.8 percentage points (PP) per year in the 2017-26e time period. So far we had expected market share gains of 1 PP. For reference: Market share gains were 2.2 PP in 2016 and 2.4PP in Q1 2017.
- (3) We roll-over our DCF model and update our cost of capital estimate with most recent data.

We base our target price on a sum of the parts valuation. For the Financial Service Providers segment we derive a fair value of **€ 80.18/share**, for the Private Clients segment **€ 31.53/share** and for the Institutional Clients segment **€ 14.13/share**. To this we add a value of **€ 12.53/share** for the insurance tech business and deduct net debt of **€ 0.12/share** (€19.70m cash & cash equivalents less €20.40m in financial liabilities divided by 6.0m shares outstanding), which takes us to a fair value per share of **€ 138.26**. We set our TP at € 139.

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

	Fair value per share (EUR)
DCF Financial Service Providers (Europace)	80.18
DCF Private Clients (Dr. Klein)	31.53
DCF Institutional Clients	14.13
Insurance Tech business	12.53
Net debt	-0.12
<b>Fair value per share (EUR)</b>	<b>138.26</b>

Chart 10 - 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 multiples approach, since there are no publicly listed peers for Hypoport.

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).

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 -1% in 2017-25e Market share CAGR of 0.5PP in 2017-25e No operating leverage	€ 82.22
Scenario 2	Market CAGR of 0% in 2017-25e Market share CAGR of 1PP in 2017-25e 40% operating leverage	€ 106.20
Base scenario	Market CAGR of 1.0% in 2017-25e Market share CAGR of 1.8PP in 2017-25e 50% operating leverage	€ 138.26
Scenario 4	Market CAGR of 3% in 2017-25e Market share CAGR of 2PP in 2017-25e 50% operating leverage	€ 150.69
Scenario 5	Market CAGR of 4% in 2017-25e Market share CAGR of 2.2% in 2017-25e 50% operating leverage	€ 175.94

Chart 11 - Source: Oddo Seydler Bank AG

Our base case scenario for the years 2017e to 2025e is 1.0% mortgage market CAGR, a 1.8pp market share growth per year and operating leverage of 50% for Europace. This leads to a fair value of € 138.26/share (including € 12.53/share for the insurance tech business).

If we assume the growth rates of the past 5 years, i.e. 4% market CAGR and 2.2pp market share growth per year we derive a fair DCF value of € 175.94 (based on an assumption of 50% operating leverage).

If we assume zero growth in market volume, 1.0pp growth in market share and 40% operating leverage, we still derive a fair value of € 106.20 which implies an arguably relatively low downside of 12.9% relative the current stock price.

### EBIT bridge and estimates vs. consensus

The figure below shows our projected EBIT bridge from 2016 to 2019e: Overall, we expect group EBIT to grow by 47.0% from € 23.2m in 2016 to € 34.1m in 2019e (CAGR: 13.7%). This increase of € 10.9m can be broken down as follows: (1) € 3.1m from the Private Clients segment; (2) € 1.1m from the Institutional Clients segment; (3) € 0.5m related to negative market/mortgage volume growth; (4) € 3.7m from Europace market share gains; and (5) € 2.5m from the operating leverage of the Europace platform.

### EBIT bridge: growth drivers 2016 to 2019e

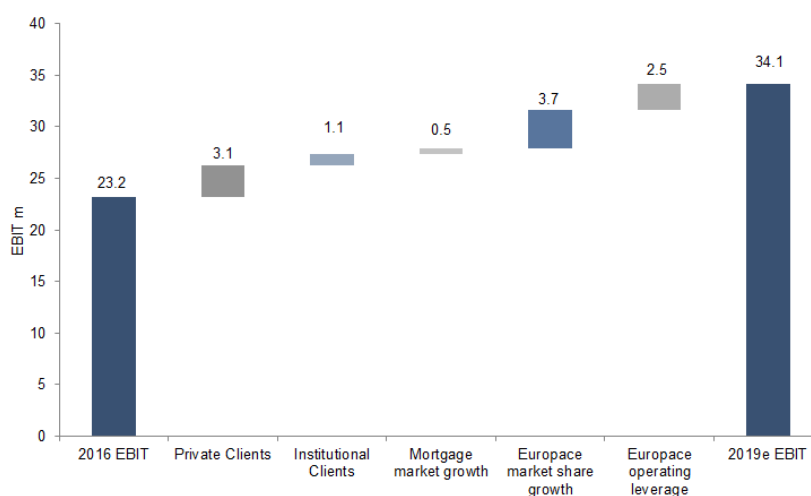


Chart 12 - Source: Oddo Seydler Bank AG

Our estimates are broadly in line with the consensus figures. However, it should be noted that Hypoport is currently only covered by 4 brokers (including Oddo Seydler).

### Oddo Seydler estimates vs. consensus\* (2017e-2019e)

(in EURm)	2017e	2018e	2019e
<b>Revenues</b>			
Oddo Seydler	194.2	217.9	241.5
BB consensus estimates	185.8	209.3	233.7
Deviation to consensus	4.5%	4.2%	3.4%
<b>EBIT</b>			
Oddo Seydler	26.5	30.2	34.1
BB consensus estimates	27.7	32.1	38.8
Deviation to consensus	-4.0%	-6.0%	-12.1%
<b>EPS (Diluted)</b>			
Oddo Seydler	3.53	4.03	4.56
BB consensus estimates	3.63	4.26	5.09
Deviation to consensus	-2.8%	-5.4%	-10.4%

Chart 13 - Source: Bloomberg, Oddo Seydler Bank AG

\*based on 4 estimates

### Financial Service Providers (Europace): € 80.18/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. For 2017e, we expect an increase in volume yoy of +1.0% due to the Mortgage Credit Directive. For the years until 2026e, we also expect a moderate increase in mortgage volume of 1.0% 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 almost tripled from 5.8% in 2010 to 15.2% in 2016. Due to its advantages

and its strong market position, we expect the market share of the Europace platform to increase by +1.8pp per year until 2026e up to 33.2%.

- **Transaction volume:** Based on the two assumptions above, we calculate the transaction volume (i.e. total market volume times market share).
- **Transaction fee:** We think it is unlikely that the transaction fee will come under pressure. We therefore expect the transaction fee to be stable at 12.0bp going forward. Here we note again that due to a methodological change in the recoding of the transaction volume from 2016 on the transaction fee increased from 9.7bp to about 12.0bp.
- **Revenues:** Based on our assumptions regarding transaction volume and the transaction fee, we project revenues to increase to € 129.3m in 2026e, i.e. at a CAGR of 9.2% from 2017e.
- **EBIT margin:** Due to the high scalability of Europace, we expect the EBIT margin to increase with transaction volume. We assume a degree of operating leverage of 50% on average until 2026e (i.e. a € 0.50 increase in EBIT for every € 1.00 increase in revenue), leading to a Europace EBIT CAGR of 14.4% in the 2017 to 2026e time period.

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

(Euro m / Unit m)	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
<b>Total mortgage volume (in € bn)</b>	<b>237.6</b>	<b>240.0</b>	<b>242.4</b>	<b>244.8</b>	<b>247.3</b>	<b>249.7</b>	<b>252.2</b>	<b>254.8</b>	<b>257.3</b>	<b>259.9</b>
yoy (in %)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
<b>Market Share Europace (in %)</b>	<b>17.0%</b>	<b>18.8%</b>	<b>20.6%</b>	<b>22.4%</b>	<b>24.2%</b>	<b>26.0%</b>	<b>27.8%</b>	<b>29.6%</b>	<b>31.4%</b>	<b>33.2%</b>
yoy (in bp)	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
<b>Transaction volume Europace (in € bn)</b>	<b>50.5</b>	<b>56.4</b>	<b>62.4</b>	<b>68.5</b>	<b>74.8</b>	<b>81.2</b>	<b>87.7</b>	<b>94.3</b>	<b>101.0</b>	<b>107.8</b>
yoy (in %)	13.0%	11.7%	10.7%	9.8%	9.1%	8.5%	8.0%	7.5%	7.1%	6.8%
<b>Transaction Fee (in bp)</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>
yoy (in %)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Revenues (in € m)</b>	<b>60.5</b>	<b>67.6</b>	<b>74.8</b>	<b>82.2</b>	<b>89.7</b>	<b>97.3</b>	<b>105.1</b>	<b>113.0</b>	<b>121.1</b>	<b>129.3</b>
yoy (in %)	13.0%	11.7%	10.7%	9.8%	9.1%	8.5%	8.0%	7.5%	7.1%	6.8%
<b>EBIT margin (in %)</b>	<b>26.3%</b>	<b>27.9%</b>	<b>29.4%</b>	<b>30.9%</b>	<b>32.4%</b>	<b>33.8%</b>	<b>35.2%</b>	<b>36.5%</b>	<b>37.5%</b>	<b>38.5%</b>
yoy (in bp)	2.0%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%	1.3%	1.0%	1.0%
<b>EBIT (in € m)</b>	<b>15.9</b>	<b>18.8</b>	<b>22.0</b>	<b>25.4</b>	<b>29.0</b>	<b>32.8</b>	<b>36.9</b>	<b>41.2</b>	<b>45.4</b>	<b>49.7</b>
yoy (in %)	22.3%	18.5%	16.6%	15.4%	14.4%	13.2%	12.5%	11.5%	10.1%	9.6%

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

Chart 14 - Source: Oddo Seydler Bank AG



### DCF: Financial Service Providers (Europace)

EURm	PHASE 1			PHASE 2						PHASE 3	
	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	∞
Sales	60.5	67.6	74.8	82.2	89.7	97.3	105.1	113.0	121.1	129.3	
YoY growth	13.0%	11.7%	10.7%	9.8%	9.1%	8.5%	8.0%	7.5%	7.1%	6.8%	
EBIT	15.9	18.8	22.0	25.4	29.0	32.8	36.9	41.2	45.4	49.7	
EBIT margin	26.3%	27.9%	29.4%	30.9%	32.4%	33.8%	35.2%	36.5%	37.5%	38.5%	
EBIT (with inter-segment consolidation)	12.7	15.1	17.6	20.3	23.2	26.3	29.6	33.0	36.3	39.8	
EBIT margin	21.0%	22.3%	23.5%	24.7%	25.9%	27.0%	28.1%	29.2%	30.0%	30.8%	
Income tax on EBIT (cash tax rate)	-2.0	-2.4	-2.7	-3.2	-3.6	-4.1	-4.6	-5.1	-5.7	-6.2	
Depreciation and amortisation	6.1	6.8	7.5	8.2	9.0	9.7	10.5	11.3	12.1	12.9	
% of sales	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Change in net working capital	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0	-1.1	-1.1	-1.2	-1.3	
Net capital expenditure	-9.0	-9.2	-9.4	-9.6	-9.8	-10.0	-10.2	-10.4	-10.6	-12.9	
<b>Free cash flow</b>	<b>7.2</b>	<b>9.6</b>	<b>12.2</b>	<b>14.9</b>	<b>17.9</b>	<b>20.9</b>	<b>24.2</b>	<b>27.6</b>	<b>30.9</b>	<b>32.3</b>	
<b>Present values</b>	<b>6.9</b>	<b>8.6</b>	<b>10.2</b>	<b>11.7</b>	<b>13.1</b>	<b>14.3</b>	<b>15.4</b>	<b>16.4</b>	<b>17.2</b>	<b>16.8</b>	<b>351.4</b>
Present value Phase 1	25.8										
Present value Phase 2	104.9										
Present value Phase 3	351.4										
<b>Total present value</b>	<b>482.1</b>										

Risk free rate	0.78%	Target equity ratio	80.0%
Equity risk premium	7.23%	Beta (fundamental)	1.00
Debt risk premium	2.50%	<b>WACC</b>	<b>6.87%</b>
Tax shield	30.0%	<b>Terminal growth</b>	<b>2.0%</b>

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	5.9%	86.69	94.33	103.95	116.41	133.23
	6.4%	77.41	83.37	90.69	99.90	111.84
	6.9%	69.74	74.47	<b>80.18</b>	87.19	96.01
	7.4%	63.30	67.12	71.65	77.11	83.83
	7.9%	57.81	60.94	64.60	68.94	74.17

Fair value of equity	482.1
Number of shares (m)	6.0
<b>Fair value per share (EUR)</b>	<b>80.18</b>

Chart 15 - 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 € 9m in CapEx in 2017e for Europace which increases to € 10.8m in 2026e.
- Weighted average cost of capital (WACC):** Based on current long-term European government bond yields, we set the risk-free rate at 0.78%. We assume an equity risk premium of 7.23% and a debt risk premium of 2.50%. We apply a beta of 1.0 to our DCF valuation which we think is fair given the stability of the business model (an OLS regression of Hypoport's weekly returns on daily SDAX returns over the last ten years yields an adjusted beta of 0.72). Additionally, we assume a long-term target equity ratio of 80%. These assumptions lead us to a WACC of 6.87%.
- 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 € 482.1m, translating into a fair value of € 80.18/share for the Europace platform.





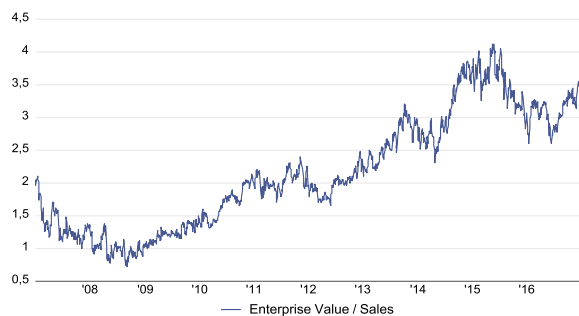


Based on these assumptions, we derive an equity value of € 85.0m, translating to a fair value of € 14.13/share.

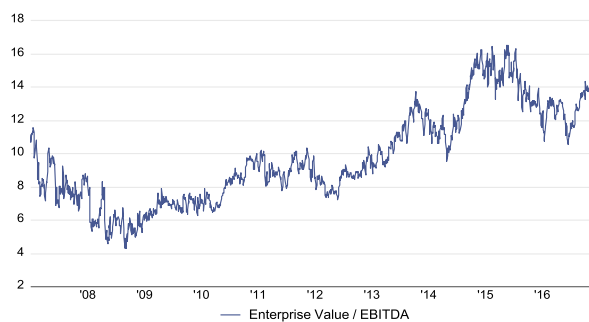
### Trading multiples

With a YTD performance of ~55% after ~-3% in 2016, 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.

EV/Sales multiple (10y)



EV/EBITDA multiple (10y)



Charts 18 - Source: Factset, Oddo Seydler Bank AG



**Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

**Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

**Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.  
 Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).  
 Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).  
 Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

**The prices of the financial instruments used and mentioned in this document are the closing prices.**

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**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
19.06.17	Buy	139.00	122.80	Dr. Oliver Pucker, CFA
22.09.16	Buy	102.00	83.29	Dr. Oliver Pucker, CFA

Recommendation split		Buy	Neutral	Reduce
Our whole coverage	(424)	47%	44%	9%
Liquidity providers coverage	(153)	48%	48%	5%
Research service coverage	(66)	52%	45%	3%
Investment banking services	(46)	65%	30%	4%

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Oddo & Cie and the issuer have agreed that Oddo & Cie will produce and disseminate investment recommendations on the said issuer as a service to the issuer	Yes
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Disclosure to Company	
Has a copy of this report ; with the target price and/or rating removed, been presented to the subject company/ies prior to its distribution, for the sole purpose of verifying the accuracy of factual statements ?	No
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**Buy**

Price 122.05EUR

Upside 13.89%

TP 139.00EUR

PER SHARE DATA (EUR)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Adjusted EPS	-0.13	0.51	0.96	2.63	3.00	3.53	4.03	4.56
<b>Reported EPS</b>	<b>-0.13</b>	<b>0.51</b>	<b>0.96</b>	<b>2.63</b>	<b>3.00</b>	<b>3.53</b>	<b>4.03</b>	<b>4.56</b>
Growth in EPS(%)	ns	ns	88.0%	ns	14.2%	17.6%	14.2%	13.2%
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	0.20	0.67	0.37	3.24	1.50	1.70	3.00	3.45
Book value per share	4.81	5.34	6.29	8.68	10.62	13.93	17.96	22.52
Number of shares market cap	6.16	6.14	6.14	6.04	6.01	6.14	6.14	6.14
Number of diluted shares	6.16	6.14	6.14	6.04	6.01	6.14	6.14	6.14
VALUATION	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
12m highest price	12.15	10.46	13.78	80.50	97.00	132		
12m lowest price	6.95	7.03	8.67	12.16	53.59	77.48		
(*) Reference price	8.94	8.27	11.01	33.28	75.07	122	122	122
Capitalization	55.1	50.7	67.6	201	451	749	749	749
Restated Net debt	9.7	5.9	3.9	-13.5	-11.7	-22.1	-40.6	-61.7
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	1.9	0.5	1.0	2.1	10.9	4.9	4.9	4.9
<b>Enterprise Value</b>	<b>66.7</b>	<b>57.1</b>	<b>72.5</b>	<b>190</b>	<b>451</b>	<b>732</b>	<b>713</b>	<b>692</b>
P/E (x)	ns	16.1	11.4	12.7	25.0	34.6	30.3	26.7
P/CF (x)	58.8	5.2	4.4	5.7	16.0	26.1	23.4	20.7
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	2.3%	8.1%	3.3%	9.7%	2.0%	1.4%	2.5%	2.8%
P/B incl. GW (x)	1.86	1.55	1.75	3.84	7.07	8.76	6.80	5.42
P/B excl. GW (x)	1.86	1.55	1.75	3.84	7.07	8.76	6.80	5.42
EV/Sales (x)	0.76	0.58	0.65	1.36	2.88	3.77	3.27	2.87
EV/EBITDA (x)	8.2	7.0	5.7	7.6	15.9	21.3	18.4	15.9
<b>EV/EBIT (x)</b>	<b>20.9</b>	<b>14.5</b>	<b>9.1</b>	<b>9.8</b>	<b>19.4</b>	<b>27.6</b>	<b>23.7</b>	<b>20.3</b>
(*) historical average price								
PROFIT AND LOSS (EURm)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Sales	88	98	112	139	157	194	218	242
EBITDA	8.1	8.1	12.7	25.1	28.3	34.4	38.9	43.6
Depreciations	-4.9	-4.2	-4.8	-5.8	-5.1	-7.9	-8.7	-9.5
<b>Current EBIT</b>	<b>3.2</b>	<b>3.9</b>	<b>7.9</b>	<b>19.3</b>	<b>23.2</b>	<b>26.5</b>	<b>30.2</b>	<b>34.1</b>
Published EBIT	3.2	3.9	7.9	19.3	23.2	26.5	30.2	34.1
Net financial income	-0.9	-0.9	-0.7	-0.1	-0.4	-0.5	-0.4	-0.4
Corporate Tax	-0.4	0.1	-1.3	-3.2	-4.8	-4.4	-5.1	-5.7
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)	-2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	-0.8	3.1	5.9	15.9	18.0	21.7	24.7	28.0
<b>Adjusted attributable net profit</b>	<b>-0.8</b>	<b>3.1</b>	<b>5.9</b>	<b>15.9</b>	<b>18.0</b>	<b>21.7</b>	<b>24.7</b>	<b>28.0</b>
BALANCE SHEET (EURm)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	27.7	29.6	31.0	31.9	41.7	27.5	25.4	23.0
Tangible fixed assets	2.6	2.2	2.2	2.6	2.6	2.3	2.0	1.6
WCR	10.7	6.9	9.0	4.9	10.8	25.0	33.7	43.3
Financial assets	0.5	0.8	1.6	1.9	2.3	2.3	2.3	2.3
Ordinary shareholders equity	29.6	32.8	38.6	52.4	63.8	85.5	110	138
Minority interests	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Shareholders equity	29.8	33.1	38.9	52.7	64.1	85.8	111	139
Non-current provisions	1.9	0.5	1.0	2.1	4.9	4.9	4.9	4.9
<b>Net debt</b>	<b>9.7</b>	<b>5.9</b>	<b>3.9</b>	<b>-13.5</b>	<b>-11.7</b>	<b>-22.1</b>	<b>-40.6</b>	<b>-61.7</b>
CASH FLOW STATEMENT (EURm)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
<b>EBITDA</b>	<b>8.1</b>	<b>8.1</b>	<b>12.7</b>	<b>25.1</b>	<b>28.3</b>	<b>34.4</b>	<b>38.9</b>	<b>43.6</b>
Change in WCR	1.2	3.7	-3.0	2.9	-7.5	-14.3	-8.7	-9.6
Interests & taxes	-1.5	-1.5	-1.3	-2.9	-3.4	-4.9	-5.4	-6.1
Others	-0.1	-0.5	0.0	1.6	-0.7	-0.8	-1.4	-1.4
Operating Cash flow	7.8	9.9	8.4	26.7	16.7	14.5	23.3	26.6
CAPEX	-6.5	-5.7	-6.2	-7.1	-7.7	-4.1	-4.9	-5.4
<b>Free cash-flow</b>	<b>1.2</b>	<b>4.1</b>	<b>2.2</b>	<b>19.6</b>	<b>9.0</b>	<b>10.4</b>	<b>18.4</b>	<b>21.2</b>
Acquisitions / disposals	0.1	0.0	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	-0.6	0.0	0.0	-2.3	-6.9	0.0	0.0	0.0
Others	0.4	-1.4	-1.2	-4.6	3.5	-1.1	-1.1	-1.1
Change in net debt	0.7	4.2	1.9	17.3	-3.4	10.4	18.4	21.2
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Sales growth	4.0%	11.8%	14.5%	23.7%	12.7%	24.0%	12.2%	10.8%
<b>Lfi sales growth</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Current EBIT growth	-52.7%	23.5%	ns	ns	20.6%	14.2%	13.6%	13.0%
Growth in EPS(%)	ns	ns	88.0%	ns	14.2%	17.6%	14.2%	13.2%
Net margin	-0.9%	3.2%	5.3%	11.4%	11.5%	11.2%	11.4%	11.6%
<b>EBITDA margin</b>	<b>9.3%</b>	<b>8.3%</b>	<b>11.3%</b>	<b>18.0%</b>	<b>18.1%</b>	<b>17.7%</b>	<b>17.8%</b>	<b>18.1%</b>
<b>Current EBIT margin</b>	<b>3.6%</b>	<b>4.0%</b>	<b>7.1%</b>	<b>13.9%</b>	<b>14.8%</b>	<b>13.7%</b>	<b>13.8%</b>	<b>14.1%</b>
CAPEX / Sales	-7.4%	-5.8%	-5.5%	-5.1%	-4.9%	-2.1%	-2.2%	-2.2%
WCR / Sales	12.2%	7.0%	8.0%	3.5%	6.9%	12.9%	15.5%	17.9%
Tax Rate	16.9%	-3.3%	18.2%	16.9%	20.8%	17.0%	17.0%	17.0%
Normative tax rate	-53.2%	-31.1%	-20.1%	-28.3%	-30.3%	-25.8%	22.2%	ns
Asset Turnover	2.1	2.5	2.8	3.4	3.3	3.5	3.8	3.7
<b>ROCE post-tax (normative tax rate)</b>	<b>11.7%</b>	<b>13.0%</b>	<b>23.6%</b>	<b>60.6%</b>	<b>64.1%</b>	<b>60.8%</b>	<b>40.5%</b>	<b>ns</b>
ROCE post-tax hors GW (normative tax rate)	11.7%	13.0%	23.6%	60.6%	64.1%	60.8%	40.5%	ns
ROE	-2.7%	10.1%	16.6%	34.9%	31.0%	29.0%	25.3%	22.5%
DEBT RATIOS	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Gearing	33%	18%	10%	-26%	-18%	-26%	-37%	-45%
Net Debt / Market Cap	0.18	0.12	0.06	-0.07	-0.03	-0.03	-0.05	-0.08
<b>Net debt / EBITDA</b>	<b>1.20</b>	<b>0.72</b>	<b>0.31</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>
EBITDA / net financial charges	ns	ns	ns	ns	ns	ns	ns	ns

Source: Oddo, Fininfo