

28 May 2020

Personalized for Francotyp-Postalia Holding AG, Maik Laske

## Francotyp-Postalia Holding

Germany

### Support Services

**Strong leasing business will cushion COVID-19 headwinds – Buy rating confirmed with a new target price of EUR 4.00**

- **FP is suffering in 2020 from COVID-19 headwinds but the sales and earnings slump will be cushioned by the company's high share of recurring business.** The strongly declining mail volume related to the global recession and home office activities will weigh in 2020 on FP's product sales of franking and inserting machines and its Mail Services business. Sales and earnings from leasing contracts and hybrid mail solutions, however, will be much more stable. FP's business model is in our view intact and FP can rely on a solid balance sheet with only moderate net debt and sufficient financial scope (more than EUR 150mn unutilized syndicated loan facility).
- **Following very solid figures for 2019 (sales +2.4% to EUR 209.1mn, reported EBITDA +92.6% to EUR 33.3mn; 15.9% margin), we are now projecting 6.5% sales decline to EUR 195.4mn and 29.1% decline in EBITDA to EUR 23.6mn for 2020.** We are confident that FP will be able to generate positive EBT and net result despite the dramatic crisis. **The start to the year was still strong with 9.4% sales growth in 1Q20 to EUR 57.0mn and 15.1% EBITDA increase to EUR 8.0mn but COVID-19 headwinds will affect FP considerably in 2Q and 3Q20.**
- The expected improvement in FY21 and FY22 sales and earnings will be triggered by recovery of franking machine sales, the gradual ramp-up of the new digital activities (FP Sign and the IoT business) and additional cost savings from JUMP. **We are forecasting for 2022 the return to 14.6% EBITDA margin.** EBT and net profit will improve disproportionately.
- **We are confirming our Buy rating for FP but are reducing our target price from EUR 5.00 to EUR 4.00.** We still consider FP shares as undervalued. **Based on our reduced earnings projections, FP is valued at a P/E 21E of 8.6x and a P/E 22E of 6.3x as well at EV/EBIT multiples of 11.4x (FY21E) and 8.3x (FY22E).** This is still far below the average valuation of German industrials companies. We are aware that the market is applying a discount for the shrinking franking business. It has to be kept in mind, however, that FP is constantly gaining market share and is the most innovative player in the market.

	2018	2019	2020E	2021E	2022E
Sales (EUR mn)	204.2	209.1	195.4	209.5	219.5
EBITDA (EUR mn)	17.3	33.3	23.6	28.8	32.0
EBIT reported (EUR mn)	0.0	5.9	4.3	8.8	11.4
Net income (EUR mn)	0.9	1.7	2.6	5.7	7.7
EPS reported (EUR)	0.06	0.11	0.16	0.36	0.49
EPS adjusted (EUR)	0.39	0.16	0.16	0.36	0.49
DPS (EUR)	0.03	0.00	0.00	0.12	0.20
Dividend yield (%)	0.8	0.0	0.0	3.9	6.5
P/E adjusted (x)	9.6	21.6	19.4	8.6	6.3
P/BV (x)	1.9	1.7	1.4	1.2	1.1
EV/Sales (x)	0.5	0.5	0.5	0.5	0.4
EV/EBITDA (x)	5.6	3.2	4.3	3.5	3.0
EV/EBIT (x)	-2430.2	18.2	23.7	11.4	8.3
Net debt/EBITDA (x)	1.1	1.0	1.5	1.1	0.8

Source: Company data, Baader Helvea Equity Research

### Buy (prev. Buy)

Closing price as of 27-May-20	EUR 3.10
High/Low (12M)	4.19/2.68
<b>Target price (prev. EUR 5.00)</b>	<b>EUR 4.00</b>
Upside to target price (%)	29.0
Expected dividend yield (%)	0.0
Total return potential (%)	29.0

Reuters/Bloomberg	FPHG.DE/FPH GY
Avg. daily turnover (EUR mn)	0.08
Free float (%)	44.7
Market cap. (EUR mn)	49
No. of shares issued (mn)	15.9

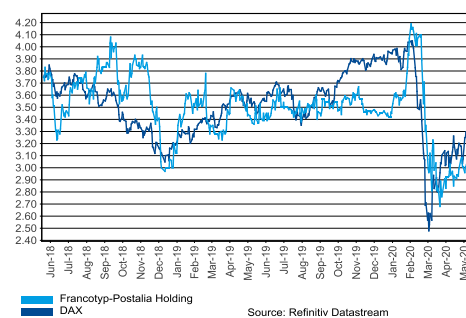
#### Events

Annual general meeting Postponed until further notice

1H/2Q 27-Aug-2020

Shareholders	Obotritia Capital KGaA 28.01%, Active Ownership Fund 9.51%, SALTARAX GmbH 5.00%, Ludic GmbH 3.51%, Magallanes Value Investors 3.30%, own shares 2.4%
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### Price relative to Index



Performance (%)	1M	3M	6M
Absolute	4.4	-22.7	-12.2
rel. DAX	-5.0	-17.0	0.1
rel. STOXX Europe 600	0.1	-12.5	2.5
rel. SXXP Industrials	-5.7	-10.8	5.1

### Changes in estimates

EUR mn	2020E	Delta (%)	2021E	Delta (%)
Sales	221.6	-11.8	234.2	-10.5
EBIT adj.	11.0	-60.6	14.0	-37.3
EPS adj. (EUR)	0.49	-67.3	0.63	-42.9
DPS (EUR)	0.18	-100.0	0.22	-45.5

**Analyst: Peter Rothenaicher**  
+49 89 5150 1817  
peter.rothenaicher@baaderbank.de

## Francotyp-Postalia Holding

# FAVORABLE 2019 RESULTS – COVID-19 WILL WEIGH ON 2020 SALES AND EARNINGS – SUPPORT FROM STRONG RECURRING BUSINESS

FY19 EBITDA surpassed expectations following strong year-end business – Only quite low net result due to massive value adjustments for freesort and FP Sign

Following a disappointing 1H19, FP's business picked up considerably in the second half of 2019. Triggers for the sales recovery (FY19 revenues +2.4% to EUR 209.1mn vs. 5.5% sales decline in 1H19) were the launch of the new franking machine generation PostBase Vision and the increase in postage prices of Deutsche Post AG in 1 July 2019 (with positive effects on FP's service and Mail Services business). FP's reported EBITDA (+92.6% to EUR 33.3mn) benefited from initial savings related to the JUMP project (in 2018 high net expenses), the first-time application of IFRS 16 as well the re-estimating of the useful life of leased products. .

Considerable sales and earnings recovery in 2H19 – Strong 1Q20, which was not impacted noteworthy from COVID-19

EUR mn	FY18	1Q19	2Q19	3Q19	4Q19	FY19	1Q20E Baader	1Q20 Reported
<b>Sales</b>	<b>204.2</b>	<b>52.1</b>	<b>46.9</b>	<b>53.4</b>	<b>56.7</b>	<b>209.1</b>	<b>52.5</b>	<b>57.0</b>
Change yoy (%)	-1.0	-1.7	-9.4	7.8	13.5	2.4	0.8	9.4
<b>EBITDA</b>	<b>17.3</b>	<b>6.9</b>	<b>4.6</b>	<b>9.1</b>	<b>12.6</b>	<b>33.3</b>	<b>7.1</b>	<b>8.0</b>
Margin (%)	8.5	13.3	9.9	17.1	22.3	15.9	13.5	14.0
Change yoy (%)	-34.3	-6.7	-12.9	115.2	n.a.	92.6	2.2	15.1
<b>EBIT</b>	<b>0.0</b>	<b>1.3</b>	<b>-0.6</b>	<b>3.8</b>	<b>1.5</b>	<b>5.9</b>	<b>2.0</b>	<b>2.6</b>
Margin (%)	0.0	2.6	-1.3	7.0	2.6	2.8	3.8	4.6
Change yoy (%)	-100.6	-57.5	-157.8	n.a.	-134.0	n.a.	48.7	94.0
<b>EBT</b>	<b>1.4</b>	<b>1.8</b>	<b>-0.9</b>	<b>3.0</b>	<b>2.1</b>	<b>5.9</b>	<b>1.9</b>	<b>2.8</b>
Change yoy (%)	-79.7	-45.7	-160.8	n.a.	-158.8	314.9	4.5	51.7
<b>Net income after min.</b>	<b>0.9</b>	<b>1.2</b>	<b>-0.6</b>	<b>2.0</b>	<b>-0.9</b>	<b>1.7</b>	<b>1.3</b>	<b>1.9</b>
Change yoy (%)	-80.2	-44.9	-159.1	n.a.	-61.7	85.4	5.9	52.9

Source: Company data, Baader Helvea Equity Research

**FP increased Group sales in 2019 by 2.4 % to EUR 209.1mn, slightly surpassing our previous expectations** that had been reduced following the disappointing 1H19 figures. Adjusted for currency effects FY19 sales were up 1.1% yoy.

- Particularly positive was FP's growth in its **core business Franking & Inserting**. Sales were up 5.6% to EUR 134.6 mn (+3.6% FX adjusted growth). FP therefore once again clearly outperformed its competitors (Quadient 2.8% organic sales decline in its Mail Solutions business, Pitney Bowes even 9% sales decline in its mail-related business). FP increased its global market share in franking considerably from 11.5% in 2018 to 12.1% in 2019.
  - **FP gained market share particularly in the strategically important markets of the U.S. and France**, supported by the market launch of the new franking machine generation PostBase Vision. Despite slight market share gains, franking machine sales declined in Germany (strong previous year's level) and the UK (Brexit uncertainties).
  - While **product sales** declined by 9.7% to EUR 32.2mn mainly due to lower volume in Germany, the **leasing business** (revenue within the scope of IFRS 16 +20.3% to EUR 43.7mn) benefited from various factors in FY19: **1)** The launch of the PostBase Vision in North America, where leasing business is dominating, as well as positive FX effects boosted revenue. **2)** A new distribution model for sales financing enjoyed its first major successes in the Central Region and Middle Europe. **3)** Re-estimating the useful life of leased products for reporting lessors in the statement of financial position contributed EUR 3.1mn to the increase in revenue.
  - In the **service business** (+13.9% to EUR 26.4mn), FP generated significantly higher sales from fee-based software updates in connection with postage changes, particularly in Germany. The business with **consumables** (+4.9% to EUR 24.3mn) also developed positively in the reporting period.

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- Sales in FP's **Mail Services** segment fell by 7.0% yoy to EUR 57.4mn, mainly due to a further sharp fall in mail volumes (-12 %), driven by FP's decision to terminate unprofitable contracts. Following 18.3% slump in sales in the first half of the year, the increase in postage prices of Deutsche Post AG on 1 July 2019 and strategic changes enabled FP partially reversing the negative revenue and earnings trend. Freesort's superior IT platform allowed for successful customer acquisition from competitors in 2H19 and the increase in relevant discounts from Deutsche Post AG ("Teilleistungsrabatt"/"Infrastrukturabatt") resulted in improved margins.
- In its **Software/Digital segment**, FP generated 13.8% sales growth to EUR 17.1mn. Growth has been driven, among others, by hybrid mail services. Nevertheless, demand for the FP Sign signature solution fell short of expectations (strong delay in product development in 2019, leading to the miss of product features). Solutions relating to the Internet of Things (IoT) contributed to the sales growth but the volume was still much lower than expected despite the successful integration of TIXI.

### FY19 Group revenues benefiting from higher service, mail services and finance lease sales in 2H19

	1H18	1H19	Chg. (%)	2H18	2H19	Chg. (%)	2018	2019	Chg. (%)
Product sales (Franking and Inserting)	19.0	17.2	-9.6	16.6	15.0	-9.7	35.6	32.2	-9.7
Service	11.2	10.1	-9.6	12.0	16.3	35.8	23.2	26.4	13.9
Consumables	11.6	12.1	4.3	11.5	12.2	5.5	23.1	24.3	4.9
Teleporto	4.7	4.4	-6.9	4.4	4.0	-10.0	9.1	8.4	-8.4
Mail Services	32.0	26.2	-18.3	29.8	31.3	5.0	61.8	57.4	-7.0
Software/Digital	7.4	8.9	20.6	7.6	8.2	7.4	15.0	17.1	13.8
<b>Revenues acc. to IFRS 15</b>	<b>85.9</b>	<b>78.8</b>	<b>-8.2</b>	<b>82.0</b>	<b>86.9</b>	<b>6.0</b>	<b>167.9</b>	<b>165.7</b>	<b>-1.3</b>
Finance leases	3.4	3.5	1.5	4.6	11.2	143.0	8.0	14.7	82.6
Operating leases	15.5	16.8	8.1	12.8	12.3	-4.1	28.3	29.1	2.6
<b>Revenues acc. to IFRS 16</b>	<b>18.9</b>	<b>20.2</b>	<b>6.9</b>	<b>17.4</b>	<b>23.5</b>	<b>34.8</b>	<b>36.3</b>	<b>43.7</b>	<b>20.3</b>
FX effects from hedge accounting	0	0	n.a.	0.0	-0.3	n.a.	0	-0.3	n.a.
<b>Total Group revenues</b>	<b>104.8</b>	<b>99.0</b>	<b>-5.5</b>	<b>99.4</b>	<b>110.1</b>	<b>10.7</b>	<b>204.2</b>	<b>209.1</b>	<b>2.4</b>
t/o Recurring revenue (%)	78.5	78.6		78.7	75.6		78.6	77.0	
t/o Non-recurring revenue (%)	21.5	21.4		21.3	24.4		21.4	23.0	

Source: Company data, Baader Helvea Equity Research

**FP's FY19 EBITDA came in higher than expected.** The company reported EBITDA of EUR 33.3mn, up 92.6% vs. the previous year's level. The EBITDA margin therefore climbed from 8.5% to 15.9%. **Adjusted for positive FX effects (EUR 1.0mn) and the expenses for the ACT project JUMP (EUR 2.3mn vs. EUR 8.0mn in 2018), EBITDA increased by 26.5% yoy to EUR 34.6mn** (corresponding to 16.8% EBITDA margin vs. 12.4% in 2018).

**It has to be considered that even adjusted EBITDA (based on FP's definition) is not fully comparable with results for 2018:**

- While implementation charges of EUR 2.3mn in 2019 have been adjusted, initial recurring savings in the same amount in conjunction with the project's continued implementation are part of the adjusted EBITDA.
- EBITDA was also boosted by re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position as at 31 December 2019 (contribution of EUR 2.5mn).
- Furthermore, the first-time application of IFRS 16 to the FP Group as lessee contributed EUR 3.7mn to EBITDA.
- Even excluding these accounting-related effects, however, FP's operating profitability improved vs. 2018.

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**Due to the elimination of risks in FP's balance sheet by considering significant impairments, FP reported for FY19 only relatively low net profit despite the strong improvement in EBITDA.**

- FP's amortization, depreciation and write-downs climbed by 58.2% yoy to EUR 27.4mn in FY19, due to depreciation of EUR 3.7mn resulting from the first-time application of IFRS 16, an increase in the amortization of internally generated intangible assets (EUR +1.1mn yoy) as well as comprehensive impairment charges.
- FP Group has impaired EUR 5.9mn goodwill of freesort GmbH as the company again failed to meet its operational targets despite the reorganization measures introduced in 2019.
- Furthermore, FP impaired EUR 2.7mn capitalized development costs for the FP Sign signature solution, as the first version, unveiled at CeBIT 2017, has not yet generated the expected revenue volume.
- As the business development of Juconn (FP holds a 15% stake; at equity consolidation) missed the original expectations, FP recognized EUR 0.9mn impairment loss in the course of an impairment test of the implied goodwill.

**FP therefore reported for FY19 EBT of only EUR 5.9mn (2018: EUR 1.4mn) and net profit of EUR 1.7mn (2018: EUR 0.9mn). FP's FY19 tax rate was unusually high (71.4%) as the considered impairment charges were not tax deductible.**

**FP achieved positive free cash flow despite JUMP payments and high investments.** Free cash flow amounted to EUR 1.7mn. The company's core business generated continuous strong cash flows related to the improved profitability and strict cost management. Cash out from JUMP payments amounted to EUR 3.8mn. Cash flow from investing activities (EUR -21.4mn vs. EUR -21.2mn in 2018) included high investments into internally generated intangible assets (EUR -8.0mn for new products, EUR -5.5mn for ERP/CRM systems).

**FP's financial situation is still solid** (in particular in comparison with its key competitors Pitney Bowes and Quadiant).

- **Net debt as of 31/12/2019 amounted to EUR 31.7mn.** The increase vs. 2018 (EUR 18.1mn net debt) was mainly due to EUR 10.5mn increase in lease liabilities due to the first-time adoption of IFRS 16 (accounting of right-of-use assets). FP has drawn EUR 40.5mn of its bank credit facilities (including guarantee loans) of its total syndicated loan facility of EUR 150mn until 28 September 2023 (including EUR 30mn acquisition/capex facility and EUR 30mn revolving acquisition facility). In addition, the financing documents based on the British Loan Market Association (LMA) include an option to increase the loan by EUR 50mn. Unrestricted cash on hand amounted to EUR 18.5mn.
- Financial covenants (leverage net debt/adj. EBITDA  $\leq$  3.0x, interest cover adjusted EBITDA/net interest income of at least 5.0x) are not at risk for the time being.

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Despite a strong 1Q20, FY20 sales and earnings will decline significantly due to COVID-19 headwinds but the high share of recurring business and cost reduction measures will cushion negative effects

**In view of the global spread of the coronavirus, FP had to suspend its initial guidance for 2020 of 5-8% revenue growth and EUR 30-34mn EBITDA. While the company still had a very favorable start to the year (9.4% sales growth in 1Q20 and even 15.1% improvement in EBITDA), business has been hurt considerably since April. For FY20, FP is expecting “significant decline” in sales, EBITDA and adjusted free cash flow, without being able to provide a reliable specified guidance.**

- “In the short term, FP believes it is highly likely that all the company’s vertical markets will see a marked fall in demand and a reluctance to invest at least until midway through fiscal year 2020 due to increased sickness levels and disrupted distribution channels and production capacities. The core franking and inserting business and the Mail Services segment are heavily influenced by the trend in mail volumes. The severity of the overall fall in mail volumes triggered by the SARS-CoV-2 pandemic cannot be quantified at present. A significant delay to customer projects is likely in the new digital business areas. The economic effects will have an adverse impact on mail volumes and the FP Group’s business activities, at least temporarily, and the modest fall that has been observed in recent times is likely to accelerate.”
- “Faced with the current pandemic situation, the FP Group has moved immediately to instigate comprehensive measures to ready the company for the upcoming challenges and the post-crisis period. FP will focus particularly on preserving and increasing available Group liquidity so as not to jeopardize the company’s strategic and operational objectives in the long term”.

### **FP’s sales and earnings reported for 1Q20, surpassed expectations.**

- Francotyp-Postalia reported for 1Q20 **9.4% sales increase to EUR 57.0mn.**
  - Sales were up 7.1% to EUR 35.3mn in the core business with **franking machines** and related services, supported by EUR 0.7mn sales contribution from the acquired activities of HEFTER (consolidation since mid of February), EUR 0.9mn positive sales effect from the reassessment of useful life of leased products and EUR 0.3mn FX effects. FP once again massively outperformed its key competitors in the franking machine business.
  - A positive surprise was the strong performance of the **Mail Services** business with 19.3% sales growth to EUR 17.2mn, benefiting from the postage tariff increase by Deutsche Post AG is of July 2019 but also from a slight increase in the letter volume. Profitability of Mail Services improved noteworthy in view of positive results from the realignment.
  - The 1Q20 performance of the **Software/Digital** segment was unsatisfactory with a sales decline of 4.8% to EUR 4.5mn. The hybrid mail services business declined slightly vs. the good 1Q19 level and IoT projects were postponed due to the corona crisis. The sales contribution of FP Sign was still negligible.
- **EBITDA** in 1Q20 increased by 15.1% to EUR 8.0mn (14.0% margin vs. 13.3% in 1Q19), benefiting from the improvement at Mail Services and increasing cost savings related to JUMP. In view of slightly lower depreciation, **EBIT** jumped by 94% to EUR 2.6mn and FP reported **net profit** of EUR 1.9mn (+53% yoy).
- Due to a temporary increase in net working capital (higher trade receivables and inventories) and the acquisition of HEFTER (EUR 1.2mn purchase price), the **free cash flow** in 1Q20 was balanced. **Net debt** increased slightly vs. 31/12/19 from EUR 31.7mn to EUR 32.2mn and the liquidity situation is still very comfortable (EUR 22.3mn unrestricted cash on hand).

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**FP's business will be hurt considerably from COVID-19 headwinds in 2Q and 3Q20. We are therefore forecasting for 2020 6.5% sales decline to EUR 195.4mn**, considering the still very solid 1Q20 business performance and the consolidation of the acquired activities of HEFTER Systemform GmbH (more than EUR 5mn sales in 2019).

- While franking and inserting product sales will be down considerably in view of the temporary shutdown of customer offices or extended home office activities (weighing on the physical mail volume) as well as the increased reluctance of customers to invest, leasing revenues are much more stable due to multi-annual contracts. We are confident, however, that FP will be able to increase its market share in the franking machinery business also in upcoming years, supported by its PostBase Vision, which is now available in the company's key markets.
- Service sales, which benefited in 2019 from fee-based software updates in connection with postage changes in particular in Germany, will decline considerably, while consumables and teleporto sales will likely be down at a smaller extent.
- Due to the expected strong decline in the German mail volume, we are forecasting approx. 4% lower sales for FP's Mail Services business despite the strong revenue increase in 1Q20. We do not exclude a better performance, however, as freesort might be able to gain market shares in view of software problems of the competitor Postcon.
- We are expecting at least stable sales for FP's Software/Digital business. Hybrid mail is benefiting from the home office boom and FP Sign might therefore see additional registrations as well (however, still from a very low basis). The IoT business might temporarily suffer from the missing end customer access due to COVID-19.

**Operating profit will suffer considerably from missing sales in very profitable business fields (franking machine product sales, services), but initiated cost reduction measures (like extensive short time work) and increased JUMP savings (projection of EUR 4mn vs. EUR 2.3mn in 2019) will dampen the extent of the earnings decline.**

- We are projecting for 2020 EUR 23.6mn EBITDA (-29.1% yoy), corresponding to 12.1% margin.
- Due to considerably lower depreciation and amortization, we are expecting clearly positive FY20 EBT (Baader Helvea (E) EUR 3.8mn) and net profit (Baader Helvea (E) EUR 2.6mn).
- Corresponding (reported) EPS would increase from EUR 0.11 for FY19 to EUR 0.16 for FY20E.

We are projecting the return to 14.5-15% EBITDA margin by 2022

New Baader Helvea projections for Francotyp-Postalia – FY20 sales and earnings will decline considerably despite strong 1Q20 figures

EUR mn	1Q19	1Q20	FY19 Reported	FY20E Baader		FY20E Cons.	FY21E Baader		FY21E Cons.	FY22E Baader
		Reported		Prev.	New		Prev.	New		
<b>Sales</b>	52.1	57.0	209.1	221.6	195.4	190.7	234.2	209.5	199.8	219.5
Change yoy (%)	-1.7	9.4	2.4		-6.5			7.2		4.8
<b>EBITDA</b>	6.9	8.0	33.3	33.7	23.6	23.9	37.6	28.8	28.7	32.0
Margin (%)	13.3	14.0	15.9	15.2	12.1	12.5	16.1	13.7	14.4	14.6
Change yoy (%)	-6.7	15.1	92.6		-29.1			21.9		11.1
<b>EBIT</b>	1.3	2.6	5.9	11.0	4.3	3.8	14.0	8.8	7.6	11.4
Margin (%)	2.6	4.6	2.8	5.0	2.2	2.0	6.0	4.2	3.8	5.2
Change yoy (%)	-57.5	94.0	n.a.		-26.7			103.5		29.4
<b>EBT</b>	1.8	2.8	5.9	11.5	3.8		14.5	8.3		11.3
Change yoy (%)	-45.7	51.7	314.9		-35.7			117.0		36.0
<b>Net income after min.</b>	1.2	1.9	1.7	7.7	2.6		10.0	5.7		7.7
Change yoy (%)	-44.9	52.9	85.4		51.5			120.3		36.0

Source: Company data, Refinitiv consensus estimates, Baader Helvea Equity Research

**We are forecasting for FY21 7.2% recovery in sales to EUR 209.5mn and for FY22 4.8% revenue increase to EUR 219.5mn.**

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- Following the COVID-19 related considerable decline in demand, we are expecting for FY21 and FY22 a recovery in the franking and inserting product business, higher service and consumables sales as well as gradually increasing sales contribution from the new parcel service offer (mainly in North America).
- Due to the lower level of new leasing contracts in 2020, lease revenues will presumably grow at a lower extent.
- The biggest forecast uncertainty refers to the Mail Services business. We are assuming growth compared to 2020 (due to the likely normalization in the mail volume). We have not included in our estimates potential considerable market share gains.
- The highest growth rates will be generated in the Software/Digital business, triggered by increasing hybrid mail business as well as gradually increasing sales volume for FP Sign and the IoT business. Nevertheless, our projections for sales generated in the two new business fields FP Sign and IoT (Baader Helvea (E) in total high single-digit million Euro amount for 2022) are far below previous expectations.

**EBITDA will be triggered by the recovery of franking machine sales and additional cost savings from JUMP. EBT and net profit will improve disproportionately.**

- **We are projecting for 2021 EBITDA of EUR 28.8mn (+22% yoy) and an improvement in the EBITDA margin to 13.7%.** For 2022, our EBITDA forecast amounts to EUR 32.0mn (14.6% margin). According to our estimates, the business volume in the (very profitable) franking machine business (product sales and leasing excluding the consolidation of HEFTER) will remain below the 2019 volume (even in 2022). Furthermore, it has to be considered that profitability in the service business was particularly strong in 2019 due to a high volume of fee-based software updates in connection with postage changes. On the other hand, we expect gradually improved profitability at FP Sign (breakeven likely for 2022) and the new IoT activities. Cost savings from FP's JUMP measures will gradually ramp up (full realization of the targeted EUR 6mn recurring savings as of 2022).
- **The earnings increase will be much more exposed regarding EBIT, EBT and net profit.** According to our new estimates, the EBIT margin will jump from 2.2% (FY20E) to 4.2% (FY21E) and further to 5.2% (FY22E). Corresponding (reported) EPS might increase from EUR 0.16 for FY20E to EUR 0.36 for FY21E and to EUR 0.49 for FY22E. FP's payout ratio typically amounts to 30-50% of net income under the precondition of a positive free cash flow. We are projecting dividend payments of EUR 0.12 for FY21E and EUR 0.20 for FY22E.

We are confirming our Buy rating but are lowering our target price from EUR 5.00 to EUR 4.00

**Even considering that demand for franking machines is suffering considerably from COVID-19 headwinds, FP should be able to get out of the crisis in good shape. We therefore consider FP shares as undervalued and confirm our Buy rating.**

- **Based on our reduced earnings projections, FP is valued at a P/E 21E of 8.6x and a P/E 22E of 6.3x as well as EV/EBIT multiples of 11.4x (FY21E) and 8.3x (FY22E).** This is still far below the average valuation of German industrials companies. We are aware that the market is applying a discount for the shrinking franking business. It has to be kept in mind, however, that FP is constantly gaining market share and is the most innovative player in the market. The new digital business activities, which are still in a very early stage and do not contribute to FP's profitability so far, are more or less as an add-on for free, while risks are limited (no major goodwill or capitalized development costs). Furthermore, FP's expected dividend yield (for 2021E and 2022E) looks very attractive.
- **We are lowering our target price from EUR 5.00 to EUR 4.00.** This target price would correspond to still attractive P/E's of 11.2x (FY21E) and 8.2x (FY22E) as well as EV/EBIT multiples of 13.0 for FY21E and 9.5x for FY22E. FP's shareholder structure (meanwhile 28% of the shares held by Obotritia Capital KGaA, 9.5% Active Ownership Fund) might support the stabilization of the share price.

Francotyp-Postalia Holding

CONSOLIDATED INCOME STATEMENT

		2015	2016	2017	2018	2019	2020E	2021E	2022E
<b>Sales</b>	<b>EUR mn</b>	<b>191.1</b>	<b>203.0</b>	<b>206.3</b>	<b>204.2</b>	<b>209.1</b>	<b>195.4</b>	<b>209.5</b>	<b>219.5</b>
Change yoy	%	12.2	6.2	1.7	-1.0	2.4	-6.5	7.2	4.8
Change in stock	EUR mn	-0.1	0.2	0.5	-0.3	0.0	0.5	0.5	0.5
Own work capitalized	EUR mn	15.8	11.4	10.8	14.1	18.6	14.0	13.0	13.0
<b>Total output</b>	<b>EUR mn</b>	<b>206.7</b>	<b>214.5</b>	<b>217.7</b>	<b>218.0</b>	<b>227.6</b>	<b>209.9</b>	<b>223.0</b>	<b>233.0</b>
Change yoy	%	10.9	3.8	1.5	0.1	4.4	-7.8	6.2	4.5
Material expenses	EUR mn	91.3	96.5	102.9	101.6	101.6	98.7	103.7	107.1
as a percentage of sales	%	47.8	47.6	49.9	49.8	48.6	50.5	49.5	48.8
Personal expenses	EUR mn	57.4	57.4	59.2	64.5	60.2	56.5	58.0	60.0
as a percentage of sales	%	30.0	28.3	28.7	31.6	28.8	28.9	27.7	27.3
Other operating income	EUR mn	4.3	3.8	4.8	1.9	2.9	2.3	2.4	2.5
as a percentage of sales	%	2.3	1.9	2.3	0.9	1.4	1.2	1.1	1.1
Other operating expenses	EUR mn	35.6	37.1	34.1	36.4	35.4	33.4	34.9	36.4
as a percentage of sales	%	18.6	18.3	16.5	17.8	16.9	17.1	16.7	16.6
<b>EBITDA</b>	<b>EUR mn</b>	<b>26.8</b>	<b>27.2</b>	<b>26.3</b>	<b>17.3</b>	<b>33.3</b>	<b>23.6</b>	<b>28.8</b>	<b>32.0</b>
as a percentage of sales	%	14.0	13.4	12.8	8.5	15.9	12.1	13.7	14.6
Change yoy	%	16.1	1.6	-3.3	-34.3	92.6	-29.1	21.9	11.1
One offs/FX effects	EUR mn	0.0	0.0	0.0	8.0	1.3	0.0	0.0	0.0
<b>EBITDA adj.</b>	<b>EUR mn</b>	<b>26.8</b>	<b>27.2</b>	<b>26.3</b>	<b>25.3</b>	<b>34.6</b>	<b>23.6</b>	<b>28.8</b>	<b>32.0</b>
as a percentage of sales	%	14.0	13.4	12.8	12.4	16.6	12.1	13.7	14.6
Change yoy	%	16.1	1.6	-3.3	-3.9	36.8	-31.7	21.9	11.1
Depreciation (normal)	EUR mn	17.8	17.5	19.1	17.3	27.4	19.3	20.0	20.6
<b>EBIT</b>	<b>EUR mn</b>	<b>9.0</b>	<b>9.7</b>	<b>7.3</b>	<b>0.0</b>	<b>5.9</b>	<b>4.3</b>	<b>8.8</b>	<b>11.4</b>
as a percentage of sales	%	4.7	4.8	3.5	0.0	2.8	2.2	4.2	5.2
Change yoy	%	-8.2	8.1	-25.5	-100.6	n.a.	-26.7	103.5	29.4
One offs/Special items	EUR mn	0.0	0.0	0.0	8.0	1.3	0.0	0.0	0.0
<b>EBIT adj.</b>	<b>EUR mn</b>	<b>9.0</b>	<b>9.7</b>	<b>7.3</b>	<b>8.0</b>	<b>7.2</b>	<b>4.3</b>	<b>8.8</b>	<b>11.4</b>
as a percentage of sales	%	4.7	4.8	3.5	3.9	3.4	2.2	4.2	5.2
Net financial result	EUR mn	-1.4	-0.1	-0.2	1.5	0.0	-0.5	-0.5	-0.1
as a percentage of sales	%	-0.7	-0.1	-0.1	0.7	0.0	-0.3	-0.2	0.0
Other financial income/exp.	EUR mn	0.2	0.1	-0.4	0.1	-0.3	-0.5	-0.3	0.0
as a percentage of sales	%	0.1	0.0	-0.2	0.0	-0.2	-0.3	-0.1	0.0
<b>EBT</b>	<b>EUR mn</b>	<b>7.7</b>	<b>9.6</b>	<b>7.1</b>	<b>1.4</b>	<b>5.9</b>	<b>3.8</b>	<b>8.3</b>	<b>11.3</b>
as a percentage of sales	%	4.0	4.7	3.4	0.7	2.8	2.0	4.0	5.1
Change yoy	%	-9.0	25.7	-26.5	-79.7	314.9	-35.7	117.0	36.0
Income tax expense	EUR mn	3.9	3.4	2.4	0.5	4.2	1.2	2.6	3.6
Tax rate	%	51.3	35.5	34.3	35.8	71.3	32.5	31.5	31.5
<b>Net income (before min.)</b>	<b>EUR mn</b>	<b>3.7</b>	<b>6.2</b>	<b>4.6</b>	<b>0.9</b>	<b>1.7</b>	<b>2.6</b>	<b>5.7</b>	<b>7.7</b>
Minorities	EUR mn	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income (rep. after min.)</b>	<b>EUR mn</b>	<b>3.5</b>	<b>5.9</b>	<b>4.6</b>	<b>0.9</b>	<b>1.7</b>	<b>2.6</b>	<b>5.7</b>	<b>7.7</b>
Adjustments (net)	EUR mn	0.0	0.0	0.0	5.3	0.9	0.0	0.0	0.0
<b>Net income (adjusted)</b>	<b>EUR mn</b>	<b>3.5</b>	<b>5.9</b>	<b>4.6</b>	<b>6.2</b>	<b>2.6</b>	<b>2.6</b>	<b>5.7</b>	<b>7.7</b>
as a percentage of sales	%	1.9	2.9	2.3	3.0	1.2	1.3	2.7	3.5
Change yoy	%	-30.4	65.3	-20.6	33.4	-58.6	0.5	120.3	36.0
Number of shares outstanding	mn	16.2	16.1	16.2	15.9	15.9	15.9	15.9	15.9
<b>EPS reported</b>	<b>EUR</b>	<b>0.22</b>	<b>0.36</b>	<b>0.29</b>	<b>0.06</b>	<b>0.11</b>	<b>0.16</b>	<b>0.36</b>	<b>0.49</b>
<b>EPS adjusted</b>	<b>EUR</b>	<b>0.22</b>	<b>0.36</b>	<b>0.29</b>	<b>0.39</b>	<b>0.16</b>	<b>0.16</b>	<b>0.36</b>	<b>0.49</b>

Source: Company data, Baader Helvea Equity Research



Francotyp-Postalia Holding

CONSOLIDATED BALANCE SHEET

		2015	2016	2017	2018	2019	2020E	2021E	2022E
<b>ASSETS</b>									
Goodwill	EUR mn	8.5	8.5	8.5	10.4	4.6	4.6	4.6	4.6
Intangible assets	EUR mn	24.5	26.4	26.7	30.3	34.1	35.1	34.8	34.3
Fixed assets	EUR mn	42.0	39.3	31.8	29.9	40.4	39.2	40.1	40.7
Associated co./Financial investments	EUR mn	0.2	0.2	0.2	0.0	0.6	0.6	0.6	0.6
Receivables financial Services	EUR mn	5.6	9.4	11.2	13.1	17.3	16.0	16.3	16.6
Other financial assets	EUR mn	6.9	0.1	2.4	2.4	2.8	3.0	3.1	3.1
Deferred tax assets	EUR mn	1.9	0.9	1.4	1.9	1.5	1.7	1.7	1.6
Other long term financial assets	EUR mn	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
<b>Non-current assets</b>	<b>EUR mn</b>	<b>89.6</b>	<b>84.8</b>	<b>82.3</b>	<b>88.4</b>	<b>101.6</b>	<b>100.5</b>	<b>101.5</b>	<b>101.8</b>
Inventory	EUR mn	11.7	11.2	10.6	11.2	12.4	12.8	13.6	14.3
Trade receivables	EUR mn	16.9	19.0	18.6	19.0	18.1	18.0	19.0	19.0
Receivables financial services	EUR mn	2.8	3.2	4.0	5.1	6.9	6.4	6.6	6.8
Other short term assets	EUR mn	14.3	15.6	13.4	12.5	15.2	14.7	15.3	15.5
Tax receivables	EUR mn	1.9	6.5	5.8	0.2	1.6	1.2	1.3	1.3
Cash and equivalents	EUR mn	18.9	27.1	34.9	30.9	30.5	47.3	45.6	47.0
<b>Current assets</b>	<b>EUR mn</b>	<b>66.5</b>	<b>82.5</b>	<b>87.4</b>	<b>78.8</b>	<b>84.7</b>	<b>100.4</b>	<b>101.4</b>	<b>103.9</b>
<b>Total long and short term assets</b>	<b>EUR mn</b>	<b>156.2</b>	<b>167.3</b>	<b>169.7</b>	<b>167.2</b>	<b>186.3</b>	<b>200.8</b>	<b>202.8</b>	<b>205.7</b>
<b>EQUITY AND LIABILITIES</b>									
Subscribed capital	EUR mn	16.2	16.2	16.3	16.3	16.3	16.3	16.3	16.3
Capital reserve	EUR mn	34.9	34.6	34.7	34.7	34.7	34.7	34.7	34.7
Retained earnings	EUR mn	-17.8	-13.8	-11.6	-13.8	-12.4	-9.9	-4.2	2.0
Other comprehensive income	EUR mn	1.3	-1.1	-4.9	-4.1	-4.8	-5.0	-5.0	-5.0
Treasury shares	EUR mn	-0.8	0.0	-1.6	-1.9	-1.9	-1.9	-1.9	-1.9
Minorities	EUR mn	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Equity</b>	<b>EUR mn</b>	<b>35.2</b>	<b>35.9</b>	<b>33.0</b>	<b>31.3</b>	<b>32.0</b>	<b>34.3</b>	<b>40.0</b>	<b>46.2</b>
Pension provisions	EUR mn	15.5	17.1	16.5	18.8	20.6	18.0	18.2	18.4
Deferred tax liabilities	EUR mn	0.7	0.6	1.6	0.2	2.4	2.0	2.0	2.0
Long-term provisions for other risks	EUR mn	0.9	1.0	1.1	1.4	3.4	3.0	2.5	2.2
Long-term financial indebtedness	EUR mn	31.7	37.5	43.1	39.1	46.2	47.5	47.5	48.0
Other liabilities	EUR mn	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>EUR mn</b>	<b>48.8</b>	<b>56.3</b>	<b>62.5</b>	<b>59.5</b>	<b>72.5</b>	<b>70.5</b>	<b>70.2</b>	<b>70.6</b>
Trade accounts payable	EUR mn	9.9	10.6	11.2	14.0	14.6	13.0	13.6	14.5
Income tax payable	EUR mn	3.9	3.6	5.1	3.3	2.7	4.0	4.5	4.5
Short-term provisions for other risks	EUR mn	5.9	8.0	8.0	11.9	9.6	9.0	7.0	7.4
Short term financial indebtedness	EUR mn	4.6	0.9	0.4	0.2	4.1	24.0	20.0	14.5
Other liabilities	EUR mn	47.9	52.0	49.6	47.1	50.8	46.0	47.5	48.0
<b>Current liabilities</b>	<b>EUR mn</b>	<b>72.2</b>	<b>75.1</b>	<b>74.3</b>	<b>76.5</b>	<b>81.8</b>	<b>96.0</b>	<b>92.6</b>	<b>88.9</b>
<b>Total equity and liabilities</b>	<b>EUR mn</b>	<b>156.2</b>	<b>167.3</b>	<b>169.7</b>	<b>167.2</b>	<b>186.3</b>	<b>200.8</b>	<b>202.8</b>	<b>205.7</b>

Source: Company data, Baader Helvea Equity Research

## Key data

### Francotyp-Postalia Holding

Germany

#### Support Services

Reuters: FPHG.DE Bloomberg: FPH GY

#### Buy

Price on 27-May-20 EUR 3.10

**Target price EUR 4.00**

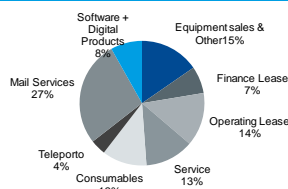
High/Low (12M) EUR 4.19/2.68

Market cap. EUR mn 49

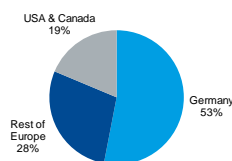
#### Company profile

FP is the global no. 3 in the market for franking machines. Further activities comprise consolidation/sorting of business mail and hybrid mail services. FP is currently ramping up new products (e-signature and IoT gateways).

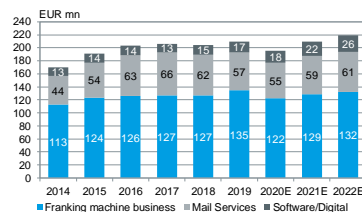
#### Sales by product (2019)



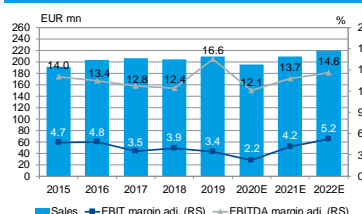
#### Sales by region (2019)



#### Sales trend by product category



#### Sales, EBITDA and adj. EBIT margin trend



Source: Company data, Refinitiv Datastream, Baader Helvea Equity Research

**Analyst: Peter Rothenaicher**

+49 89 5150 1817

peter.rothenaicher@baaderbank.de

FY 31 Dec.	2017	2018	2019	2020E	2021E	2022E
<b>Share data</b>						
EPS reported (EUR)	0.29	0.06	0.11	0.16	0.36	0.49
<b>EPS adjusted (EUR)</b>	<b>0.29</b>	<b>0.39</b>	<b>0.16</b>	<b>0.16</b>	<b>0.36</b>	<b>0.49</b>
Dividend (EUR)	0.12	0.03	0.00	0.00	0.12	0.20
Book value (EUR)	2.03	1.97	2.01	2.16	2.52	2.88
Free cash flow (EUR)	0.36	0.19	0.11	-0.26	0.14	0.57
Avg. no. of shares (mn)	16.2	15.9	15.9	15.9	15.9	15.9
Market cap. (avg./current; EUR mn)	84.6	59.8	55.1	49.3	49.3	49.3
Enterprise value (EUR mn)	36.0	97.4	107.4	102.5	100.5	94.5
<b>Valuation</b>						
<b>P/E adj. (x)</b>	<b>17.9</b>	<b>9.6</b>	<b>21.6</b>	<b>19.4</b>	<b>8.6</b>	<b>6.3</b>
P/BV (x)	2.6	1.9	1.7	1.4	1.2	1.1
FCF/EV (%)	321.0	3.5	1.6	-4.0	2.3	9.6
FCF yield (%) (FCF/Mcap.)	6.8	5.0	3.0	-8.3	4.6	18.3
Dividend yield (%)	2.3	0.8	0.0	0.0	3.9	6.5
EV/Sales (x)	0.2	0.5	0.5	0.5	0.5	0.4
EV/EBITDA adj. (x)	1.4	3.9	3.1	4.3	3.5	3.0
EV/EBIT adj. (x)	5.0	12.2	14.9	23.7	11.4	8.3
EV/CE (x)	0.4	1.1	1.1	1.1	1.0	1.0
ROCE/WACC adj. (x)	1.1	1.3	1.2	0.7	1.4	1.8
<b>Key company data</b>						
Sales growth (%)	1.7	-1.0	2.4	-6.5	7.2	4.8
EBITDA adj. growth (%)	-3.3	-3.9	36.8	-31.7	21.9	11.1
EBITDA adj. margin (%)	12.8	12.4	16.6	12.1	13.7	14.6
<b>EBIT adj. margin (%)</b>	<b>3.5</b>	<b>3.9</b>	<b>3.4</b>	<b>2.2</b>	<b>4.2</b>	<b>5.2</b>
Net adj. margin (%)	2.3	3.0	1.2	1.3	2.7	3.5
Free cash flow margin (%)	2.8	1.5	0.8	-2.1	1.1	4.1
Payout ratio (%)	42.0	51.9	0.0	0.0	33.6	41.2
Gearing (%) (net debt/equity)	59.0	60.4	99.2	102.6	82.3	58.5
Net debt/EBITDA (x)	0.7	1.1	1.0	1.5	1.1	0.8
Equity ratio (x) (equity/total assets)	19.4	18.7	17.2	17.1	19.7	22.3
Capital employed (EUR mn)	85.2	86.9	95.7	97.4	99.2	99.1
ROCE adj. (%)	8.5	9.2	7.5	4.4	8.9	11.5
<b>Income statement (EUR mn)</b>						
Turnover	206.3	204.2	209.1	195.4	209.5	219.5
EBITDA	26.3	17.3	33.3	23.6	28.8	32.0
EBITDA adj.	26.3	25.3	34.6	23.6	28.8	32.0
EBIT	7.3	0.0	5.9	4.3	8.8	11.4
EBIT adj.	7.3	8.0	7.2	4.3	8.8	11.4
EBT	7.1	1.4	5.9	3.8	8.3	11.3
Net profit after minorities	4.6	0.9	1.7	2.6	5.7	7.7
Net profit adj.	4.6	6.2	2.6	2.6	5.7	7.7
<b>Balance sheet (EUR mn)</b>						
Non-current assets	82	88	102	100	101	102
thereof goodwill	8	10	5	5	5	5
Current assets	87	79	85	100	101	104
<b>Total assets</b>	<b>170</b>	<b>167</b>	<b>186</b>	<b>201</b>	<b>203</b>	<b>205</b>
Shareholders' equity	33	31	32	34	40	46
<b>Total equity and liabilities</b>	<b>170</b>	<b>167</b>	<b>186</b>	<b>201</b>	<b>203</b>	<b>205</b>
Net debt	19	19	32	35	33	27
<b>Cash flow (EUR mn)</b>						
Cash flow from operations	21.3	24.2	23.0	10.1	14.3	22.0
of which change in working capital	-2.7	-4.6	3.5	-0.3	1.0	0.0
Cash flow from investments	-15.5	-21.2	-21.4	-14.2	-12.0	-13.0
of which investment in fixed assets	15.5	18.0	21.2	13.0	12.0	13.0
<b>Free cash flow</b>	<b>5.8</b>	<b>3.0</b>	<b>1.7</b>	<b>-4.1</b>	<b>2.3</b>	<b>9.0</b>
Dividends paid	-2.6	-1.9	-0.5	0.0	0.0	-1.9
Cash flow from financing activities	1.1	-6.4	-4.7	22.0	-4.0	-6.9
<b>Change in cash position</b>	<b>6.9</b>	<b>-3.4</b>	<b>-3.1</b>	<b>17.9</b>	<b>-1.7</b>	<b>2.1</b>

## Francotyp-Postalia Holding

### Disclaimer

#### Important Notice and Disclosures pursuant to Art. 20 of the Regulation (EU) No 596/2014 of 16 April 2014 and the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 and pursuant to Art. 34, 36 and 37 of the Commission Delegated Regulation (EU) No 2017/565 of 25 April 2016

##### A. GENERAL STATEMENTS

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Company	Key
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### Contacts

#### Markus Mayer

Head of Research  
+49 89 5150 1818  
markus.mayer@baaderbank.de

#### EQUITY RESEARCH

##### Capital Goods

Capital Goods (Switzerland)	Jorg Schirmacher, CFA	+41 43 388 9267	jschirmacher@helvea.com
Capital Goods (Switzerland)	Rolf Renders	+41 43 388 9213	rrenders@helvea.com
Capital Goods	Christian Obst, CEFA	+49 89 5150 1805	christian.obst@baaderbank.de
Capital Goods (Germany)	Peter Rothenaicher	+49 89 5150 1817	peter.rothenaicher@baaderbank.de

##### Chemicals

Markus Mayer	+49 89 5150 1818	markus.mayer@baaderbank.de
Laura López Pineda	+49 89 5150 1804	laura.lopez-pineda@baaderbank.de

##### Consumer

Consumer Durables / Food Retail / Non Food Retail Food & Beverages	Volker Bosse, CEFA Co-Head Equity Research Andreas von Arx Head of Swiss Equity Research	+49 89 5150 1815  +41 43 388 9257	volker.bosse@baaderbank.de  avonarx@helvea.com
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##### Financial Services

Tim Dawson	+41 43 388 9232	tdawson@helvea.com
Andreas von Arx	+41 43 388 9257	avonarx@helvea.com

##### Metals & Mining

Christian Obst, CEFA	+49 89 5150 1805	christian.obst@baaderbank.de
----------------------	------------------	------------------------------

##### Pharma

Bruno Bulic, Ph.D. Laura López Pineda	+41 43 388 9225 +49 89 5150 1804	bbulic@helvea.com laura.lopez-pineda@baaderbank.de
--	-------------------------------------	---

##### Real Estate

Andre Remke, CFA Co-Head Equity Research	+49 89 5150 1816	andre.remke@baaderbank.de
---	------------------	---------------------------

##### Technology

Software / IT Services / Support Services	Knut Woller, CEFA	+49 89 5150 1807	knut.woller@baaderbank.de
---	-------------------	------------------	---------------------------

##### Transport

Christian Obst, CEFA	+49 89 5150 1805	christian.obst@baaderbank.de
----------------------	------------------	------------------------------

#### EQUITY STRATEGY

Gerhard Schwarz, CEFA Head of Equity Strategy	+49 89 5150 1812	gerhard.schwarz@baaderbank.de
--	------------------	-------------------------------

#### EQUITY SALES

Frankfurt	+49 69 1388 1357
London	+44 20 7054 7100
Munich	+49 89 5150 1850
Zurich	+41 43 388 9200

#### DERIVATIVES SALES

Munich	+49 89 5150 1990
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#### EQUITY SALES TRADING

Frankfurt	+49 69 1388 1355
London	+44 20 7054 7100
Munich	+49 89 5150 1870
New York	+1 212 935 5150
Zurich	+41 43 388 9200

#### For North American clients:

New York	+1 212 935 5150
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#### PUBLICATION ADDRESSES

**Baader Bank AG**  
**Equity Research**  
Weißenstephaner Strasse 4  
85716 Unterschleißheim, Germany

T +49 89 5150 1810

**Baader Helvea AG**  
**Equity Research**  
Talstrasse 9  
8001 Zurich, Switzerland

T +41 43 388 9250