

7 March 2019

Personalized for Francotyp-Postalia Holding AG, Maik Laske

## Francotyp-Postalia Holding

Germany

### Machinery

Reuters: FPHG.DE Bloomberg: FPH GY

### Buy

Closing price as of 06-Mar-19 EUR 3.78

Target price EUR 6.30

High/Low (12M) EUR 4.08/2.97

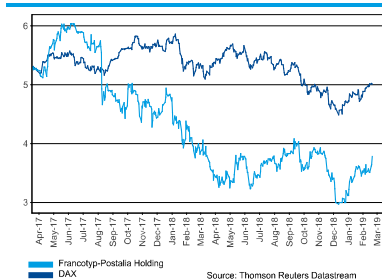
Market cap. EUR mn 62

Enterprise value EUR mn 105

Free float 80.0%

Avg. daily turnover EUR mn 0.10

### Price relative to Index



Performance (%)	1M	3M	6M
Absolute	4.4	8.9	-3.1
rel. DAX	2.1	1.7	0.0
rel. STOXX Europe 600	1.7	-0.4	-3.6
rel. SXXP Industrials	1.5	-2.7	1.7

### Analyst:

Peter Rothenaicher

+49 89 5150 1817

peter.rothenaicher@baaderbank.de

## FY18 targets achieved despite weaker than expected franking machine business in 4Q18 – Strong growth expected for FY19 sales and EBITDA

### Our conclusion

- **FP's FY18 figures are characterized by marginal FX-adjusted improvement in sales and operating EBITDA – in-line with the company guidance – and strong free cash flow performance** (benefiting from EUR 4.4mn US tax refund). Nevertheless, 4Q18 revenues came in lower than expected, resulting in 1% decline in (reported) FY18 sales.
- **Francotyp-Postalia (FP) is projecting for FY19 considerable (high single-digit) sales growth and improved operating results.** 2019 will still be a transition year in view of the ongoing implementation of the JUMP measures and the gradual ramp-up of the new activities. In contrast to 2018, FP does not expect major net charges from JUMP any more. FP is projecting a considerably lower adjusted free cash flow than in 2018. We currently see no reason for adjustments to our FY19 projections. The company expressed confidence regarding the ramp-up of its new digital business models and reiterated its ambitious FY20 targets of EUR 250mn sales and 17% EBITDA margin.
- **We consider FP with a P/E 20E of 5.3x and an EV/EBIT 20E multiple of 5.7x as massively undervalued and confirm our Buy rating.**

### Facts & Analysis

EUR mn	9M17	4Q17	FY17	9M18	4Q18E Baader	4Q18 Rep.	FY18E	FY18 Rep.	FY19E Baader
<b>Sales</b>	<b>153.9</b>	<b>52.5</b>	<b>206.3</b>	<b>154.3</b>	<b>53.7</b>	<b>49.9</b>	<b>208.0</b>	<b>204.2</b>	<b>223.1</b>
Change yoy (%)	3.0	-2.1	1.7	0.3	2.4	-4.9	0.8	-1.0	9.3
<b>EBITDA</b>	<b>19.6</b>	<b>6.7</b>	<b>26.3</b>	<b>17.0</b>	<b>1.6</b>	<b>0.1</b>	<b>18.6</b>	<b>17.1</b>	<b>28.8</b>
Margin (%)	12.8	12.7	12.8	11.0	2.9	0.2	8.9	8.4	12.9
Change yoy (%)	-4.7	1.0	-3.3	-13.3	-76.4	-98.3	-29.4	-34.9	67.8
<b>EBIT</b>	<b>5.0</b>	<b>2.2</b>	<b>7.3</b>	<b>4.2</b>	<b>-3.1</b>	<b>-4.4</b>	<b>1.1</b>	<b>-0.1</b>	<b>10.8</b>
Margin (%)	3.3	4.2	3.5	2.7	-5.8	-8.7	0.5	-0.1	4.8
Change yoy (%)	-37.9	35.8	-25.5	-15.9	n.a.	n.a.	-85.0	n.a.	n.a.
<b>EBIT adj.</b>	<b>5.0</b>	<b>2.2</b>	<b>7.3</b>	<b>5.6</b>	<b>2.8</b>	<b>2.2</b>	<b>8.4</b>	<b>7.9</b>	<b>10.8</b>
Margin (%)	3.3	4.2	3.5	3.7	5.1	4.5	4.0	3.9	4.8
Change yoy (%)	-37.9	35.8	-25.5	12.0	24.0	1.0	15.7	8.6	36.4
<b>EBT</b>	<b>5.4</b>	<b>1.7</b>	<b>7.1</b>	<b>4.9</b>	<b>-3.7</b>	<b>-3.6</b>	<b>1.2</b>	<b>1.4</b>	<b>10.5</b>
Change yoy (%)	-33.7	12.7	-26.5	-8.3	n.a.	n.a.	-83.1	-80.5	657.2
<b>Net inc. after min.</b>	<b>3.4</b>	<b>1.3</b>	<b>4.6</b>	<b>3.2</b>	<b>-2.9</b>	<b>-2.3</b>	<b>0.4</b>	<b>0.9</b>	<b>6.9</b>
Change yoy (%)	-31.3	35.8	-20.6	-4.4	n.a.	n.a.	-91.8	-80.2	655.4

Source: Company data, Baader Helvea Equity Research

- **With EUR 49.9mn (-4.9% yoy) FP's 4Q18 sales were lower than expected, resulting in 1.0% decline in FY18 sales (FX-adjusted 0.3% increase to EUR 206.9mn).** The key reason for the lower sales was the decline in the low-margin Mail Services business (-6% to EUR 61.8mn) related to the reduced letter volume and the avoidance of unprofitable orders. Nevertheless, in 4Q18 sales in the core business with franking machines and services were down as well (-2.8%, among others due to customer restraint in the U.S. ahead of the launch of the PostBase Vision; FY18 stable sales of EUR 127.3mn). In FX-adjusted terms, FP's franking machine business increased by 2%, allowing the company to further increase its global market share to 11.5%.
- Considering charges for the JUMP transformation project of EUR 8mn (at the upper end of the guided range of EUR 6-8mn), FP reported EBITDA of EUR 17.1mn and EBIT of EUR -0.1mn. **The adjusted EBITDA figure (according to FP's methodology adjusted for the JUMP charges and EUR 1.5mn negative FX impact) amounted to EUR 26.7mn vs. the FY17 level of EUR 26.3mn.** Supported by a favorable financial result (including effects from US tax refunds) and a lower tax rate, FP's net result (EUR 0.9mn) surpassed our expectations and the company surprisingly proposes a tax-free dividend of EUR 0.03.

## Francotyp-Postalia Holding

### Key data

FY 31 Dec.	2015	2016	2017	2018E	2019E	2020E
<b>Share data</b>						
EPS reported (EUR)	0.22	0.36	0.29	0.06	0.43	0.72
<b>EPS adjusted (EUR)</b>	<b>0.22</b>	<b>0.36</b>	<b>0.29</b>	<b>0.38</b>	<b>0.43</b>	<b>0.72</b>
Dividend (EUR)	0.12	0.16	0.12	0.03	0.15	0.25
Book value (EUR)	2.18	2.24	2.03	2.00	2.39	2.96
Free cash flow (EUR)	-0.09	0.28	0.36	0.18	-0.06	0.53
Avg. no. of shares (mn)	16.2	16.1	16.2	16.3	16.3	16.3
Market cap. (avg./current; EUR mn)	70.5	67.8	84.6	61.3	61.6	61.6
Enterprise value (EUR mn)	107.9	104.7	36.0	103.0	104.9	98.4
<b>Valuation</b>						
<b>P/E adj. (x)</b>	<b>19.8</b>	<b>11.7</b>	<b>17.9</b>	<b>9.9</b>	<b>8.8</b>	<b>5.3</b>
P/BV (x)	2.0	1.9	2.6	1.9	1.6	1.3
FCF/EV (%)	-1.5	4.7	45.0	2.9	-0.9	8.8
FCF yield (%) (FCF/Mcap.)	-2.0	6.7	6.8	4.9	-1.5	14.1
Dividend yield (%)	2.7	3.8	2.3	0.8	4.0	6.6
EV/Sales (x)	0.6	0.5	0.2	0.5	0.5	0.4
EV/EBITDA adj. (x)	4.0	3.8	1.4	4.1	3.6	2.6
EV/EBIT adj. (x)	12.0	10.7	5.0	13.1	9.8	5.4
EV/CE (x)	1.1	1.1	0.4	1.1	1.1	1.0
ROCE/WACC adj. (x)	1.2	1.3	1.0	1.1	1.5	2.3
<b>Key company data</b>						
Sales growth (%)	12.2	6.2	1.7	-1.0	9.3	6.7
EBITDA adj. growth (%)	16.1	1.6	-3.3	-4.5	14.4	31.6
EBITDA adj. margin (%)	14.0	13.4	12.8	12.3	12.9	15.9
<b>EBIT adj. margin (%)</b>	<b>4.7</b>	<b>4.8</b>	<b>3.5</b>	<b>3.9</b>	<b>4.8</b>	<b>7.6</b>
Net adj. margin (%)	1.9	2.9	2.3	3.0	3.1	4.9
Free cash flow margin (%)	-0.8	2.2	2.8	1.5	-0.4	3.6
Payout ratio (%)	54.7	43.9	42.0	53.2	35.2	34.6
Gearing (%) (net debt/equity)	57.9	55.0	59.0	77.7	68.6	42.1
Net debt/EBITDA (x)	0.8	0.7	0.7	1.5	0.9	0.5
Equity ratio (x) (equity/total assets)	22.6	21.5	19.4	18.9	21.8	25.7
Capital employed (EUR mn)	94.0	94.0	85.2	90.1	95.9	99.7
ROCE adj. (%)	9.6	10.4	8.5	8.7	11.2	18.2
<b>Income statement (EUR mn)</b>						
Turnover	191.1	203.0	206.3	204.2	223.1	238.1
EBITDA	26.8	27.2	26.3	17.1	28.8	37.8
EBITDA adj.	26.8	27.2	26.3	25.1	28.8	37.8
EBIT	9.0	9.7	7.3	-0.1	10.8	18.1
EBIT adj.	9.0	9.7	7.3	7.9	10.8	18.1
EBT	7.7	9.6	7.1	1.4	10.5	17.4
Net profit after minorities	3.5	5.9	4.6	0.9	6.9	11.8
Net profit adj.	3.5	5.9	4.6	6.2	6.9	11.8
<b>Balance sheet (EUR mn)</b>						
Non-current assets	14	10	15	18	19	19
thereof goodwill	8	8	8	10	10	10
Current assets	67	83	87	84	86	94
<b>Total assets</b>	<b>156</b>	<b>167</b>	<b>170</b>	<b>172</b>	<b>179</b>	<b>188</b>
Shareholders' equity	35	36	33	33	39	48
<b>Total equity and liabilities</b>	<b>156</b>	<b>167</b>	<b>170</b>	<b>172</b>	<b>179</b>	<b>188</b>
Net debt	20	20	19	25	27	20
<b>Cash flow (EUR mn)</b>						
Cash flow from operations	18.6	22.1	21.3	24.6	21.5	30.0
of which change in working capital	1.6	5.9	-2.7	3.1	0.8	1.7
Cash flow from investments	-20.1	-17.6	-15.5	-21.7	-22.5	-21.3
of which investment in fixed assets	20.2	16.9	15.5	18.2	21.5	21.3
<b>Free cash flow</b>	<b>-1.4</b>	<b>4.6</b>	<b>5.8</b>	<b>3.0</b>	<b>-1.0</b>	<b>8.7</b>
Dividends paid	-2.6	-1.9	-2.6	-1.9	-0.5	-2.4
Cash flow from financing activities	2.4	-0.7	1.1	-6.3	-1.0	-5.9
<b>Change in cash position</b>	<b>1.0</b>	<b>3.8</b>	<b>6.9</b>	<b>-3.3</b>	<b>-1.9</b>	<b>2.7</b>

Source: Company data, Baader Helvea Equity Research

## Francotyp-Postalia Holding

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

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

**Baader Helvea Limited, 5 Royal Exchange Buildings, London EC3V 3NL, United Kingdom**

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## Francotyp-Postalia Holding

### Contacts

#### Markus Mayer

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

#### EQUITY RESEARCH

##### Business Services & Logistics

Business Services	Christian Weiz	+49 89 5150 1808	christian.weiz@baaderbank.de
Logistics	Christian Obst, CEFA	+49 89 5150 1805	christian.obst@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

Retail & Consumer	Volker Bosse, CEFA	+49 89 5150 1815	volker.bosse@baaderbank.de
-------------------	--------------------	------------------	----------------------------

##### Luxury Goods

Food & Beverage, Home & Personal Care	Christian Weiz	+49 89 5150 1808	christian.weiz@baaderbank.de
	Andreas von Arx	+41 43 388 9257	avonarx@helvea.com
	Head of Swiss Equity Research		

##### Financials

Financial Services	Tim Dawson	+41 43 388 9232	tdawson@helvea.com
Banks	Tomasz Grzelak, CFA	+41 43 388 9265	tgrzelak@helvea.com

##### Health Care

Biotechnology, Pharmaceuticals	Bruno Bulic, Ph.D.	+41 43 388 9225	bbulic@helvea.com
--------------------------------	--------------------	-----------------	-------------------

##### Industrials

Industrials (Switzerland)	Reto Amstalden	+41 43 388 9261	ramstalden@helvea.com
Industrials (Switzerland)	Jorg Schirmacher, CFA	+41 43 388 9267	jschirmacher@helvea.com
Industrials	Christian Obst, CEFA	+49 89 5150 1805	christian.obst@baaderbank.de
Machinery (Germany)	Peter Rothenaicher	+49 89 5150 1817	peter.rothenaicher@baaderbank.de

##### Real Estate

Andre Remke, CFA	+49 89 5150 1816	andre.remke@baaderbank.de
Co-Head Equity Research		
Maximilian Gerber	+49 89 5150 1803	maximilian.gerber@baaderbank.de

##### Small & Mid Caps

Christian Weiz	+49 89 5150 1808	christian.weiz@baaderbank.de
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##### Steel & Metals

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

##### Technology

Software & IT Services	Knut Woller, CEFA	+49 89 5150 1807	knut.woller@baaderbank.de
Technology Hardware	Reto Amstalden	+41 43 388 9261	ramstalden@helvea.com

#### EQUITY STRATEGY

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

#### 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
Montreal	+1 514 288 3556

#### PUBLICATION ADDRESSES

**Baader Bank AG**  
**Equity Research**  
Weihenstephaner Strasse 4  
85716 Unterschleissheim, Germany

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

T +49 89 5150 1810

T +41 43 388 9250