

23-May-19

Take-over of Kapsch KCC and KPTC

- **What does the target do:** Kapsch KCC and KPTC provides software and services to operate mission-critical control networks for trains (e.g. to start, stop, accelerate / 90% of sales). Annual revenues amount to some € 120m with 40-45% gross margins and € 15m EBIT loss currently, pre synergies (see below). 85% of sales are in Europe, 15% in the rest of the world. Clients include e.g. Dt. Bahn.
- **Competitive quality.** Networks must be always-available and extremely secure, requiring in-depth technology expertise. Indeed, Kapsch KCC and KPTC has invested a total of some € 100m into its latest generation of control software. It commands 40% market share in Europe in what is basically an oligopolistic niche market shared with rival Nokia. Long-term client relationships (10+ years) provide strong lock-in as well as high visibility underpinned by 65% recurring revenues.
- **Transaction metrics:** S&T is seen to pay a symbolic price of a few Euros and acquire some € 10m in net debt as Kapsch is looking to re-focus its company on its remaining businesses. No earn out.
- **Synergies:** The deal is a turnaround play, with the target offering a strong technology base at a too-high fixed cost base and inefficient set-up. Management expects to **achieve break-even in FY'20 and sustainable profitability of up to 10% EBIT thereafter** thanks to cost and growth synergies. These can be found above all in R&D (€ 5m savings), hardware procurement / assembly (€ 3m), sales & marketing (€ 3m) and the sales mix (€ 5m / discontinuing loss-making business). Importantly, S&T plans to use the **acquired technology in new applications (e.g. avionics) as well as in its real-time industrial IoT systems**, which should kick-start growth at higher margins.
- **Consolidation impact & FY guidance:** The target should contribute € 45m sales / € 5m EBIT loss this year (partial contribution) and € 100m sales at break-even EBIT in 2020E (as unattractive projects will be discontinued), moving up to 10% EBIT thereafter. **Management reiterates its FY'19E EBITDA guidance** of „>€ 100m“ as business is running above expectations and as it now includes the €7-8m positive impact from IFRS 16. FY sales should come in at € 1.15bn (prior: € 1.1bn).

In sum, a daring deal with very strong potential just made for S&T's CEO/CFO which are savvy and experienced turnaround managers as previously shown with the „old“ S&T and Kontron. **Management will go on extensive roadshows soon** to provide more detail on the transaction and its potential

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Buy

Price target: EUR 28.50

Price: EUR 19.91

Close price as of: 22.05.2019

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Company	Disclosure
S&T AG	3

Historical target price and rating changes for S&T AG in the last 12 months

**Price and Rating History
S&T AG as of 23/05/19**

Initiation coverage
30-May-12



Company	Date	Analyst	Rating	Target price	Close
S&T AG	01.04.2019	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 22,60
	10.01.2019	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 17,85
	17.09.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 26,92
	03.09.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 25,16
	28.08.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 25,16
	07.08.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 25,84

31.07.2018	Wunderlich, CFA, Tim	Buy	EUR 28,50	EUR 24,30
10.07.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 23,28
03.07.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 21,62
07.06.2018	Wunderlich, CFA, Tim	Buy	EUR 24,00	EUR 20,10

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Sell	12.42 %	0.00 %
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