28 January 2019

Francotyp-Postalia Holding

Germany

Machinery

ACT to win: Growth initiatives in place, earnings jump ahead

- **We are initiating coverage of Francotyp-Postalia (FP) with a Buy rating and a target price of EUR 6.30.** FP has demonstrated being able to generate ongoing growth in the very profitable but steadily shrinking franking machinery market. As part of its ACT strategy, the company has initiated comprehensive measures to gain additional market shares and to improve profitability. To this end, FP is streamlining its group structure, reducing complexity and increasing efficiency and agility. We expect these measures to be fully effective from 2020 on, resulting in up to 300bps margin improvement.

- **FP's ACT strategy (launched in 2016) might become the driving force for accelerated revenue growth in the years to come.** Apart from the already mentioned attack in the core business, FP is supporting its customers on their journey from the analog to the digital world by offering a portal solution (discoverFP), and with FP Sign a secure e-signature process for efficient workflows. In addition, FP has entered the market of Internet of Things by leveraging its expertise in key technologies for franking machines like sensors, actuators, secure data transfer, etc. and developing secure IoT gateways. In cooperation with partners (Tixi.com, Juconn), FP will be able to offer end-to-end solutions. We consider these new activities as very promising but given the early stage and the so far negligible sales contributions, the success is still unclear. Nevertheless, as our sales and earnings projections for FP are derived for the most part from the quite safe core business, **the FP shareholder gets an option for strong growth in promising high-tech segments more or less for free.**

- In the recent two years, the FP share price could not decouple from the poor performance of its competitors Pitney Bowes and Neopost. **FP offers in our view a much more attractive story and we expect a major jump in earnings from 2020 on. We consider the stock with a P/E 20E of 4.7x and an EV/EBIT 20E multiple of 5.3x as massively undervalued.** Our target price for a 9-12 month horizon amounts to EUR 6.30, offering 86% upside potential.

	2017	2018E	2019E	2020E	2021E
Sales (EUR mn)	206.3	208.0	223.1	238.1	250.4
EBITDA (EUR mn)	26.3	18.6	28.8	37.8	40.9
EBIT reported (EUR mn)	7.3	1.1	10.8	18.1	20.3
EBIT adjusted (EUR mn)	7.3	8.4	10.8	18.1	20.3
Net income (EUR mn)	4.6	0.4	6.9	11.8	13.5
EPS reported (EUR)	0.29	0.02	0.43	0.72	0.83
EPS adjusted (EUR)	0.29	0.32	0.43	0.72	0.83
DPS (EUR)	0.12	0.00	0.15	0.25	0.30
Dividend yield (%)	2.3	0.0	4.4	7.4	8.9
P/E adjusted (x)	17.9	11.8	7.9	4.7	4.1
P/BV (x)	2.6	1.9	1.4	1.1	1.0
EV/Sales (x)	0.2	0.5	0.5	0.4	0.4
EV/EBITDA (x)	1.4	5.7	3.6	2.6	2.2
EV/EBIT (x)	5.0	97.6	9.5	5.3	4.5
Net debt/EBITDA (x)	0.7	1.6	1.1	0.7	0.5

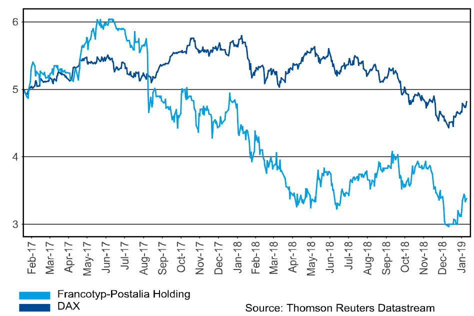
Source: Company data, Baader Helvea Equity Research

Buy (Initiation of coverage)

Closing price as of 25-Jan-19	EUR 3.38
High/Low (12M)	4.45/2.97
Target price (prev. EUR -)	**EUR 6.30**
Upside to target price (%)	86.4
Expected dividend yield (%)	0.0
Total return potential (%)	86.4
Risk category	2

Reuters/Bloomberg	FPHG.DE/FPH GY
Avg. daily turnover (EUR mn)	0.08
Free float (%)	80.2
Market cap. (EUR mn)	55
No. of shares issued (mn)	16.3
Events	
Annual general meeting	28-May-2019
Interim report	07-Mar-2019
Shareholders	Obotritia Capital KGaA 10.3%, Active Ownership Fund 9.5%, Quaero Capital 4.9%, SALTARAX GmbH 3.6%, Ludic GmbH 3.5%, Magallanes Value Investors 3.3%, Universal Investment GmbH 3.2%, Baring Fund Managers Ltd. 3.1%

Price relative to Index



Source: Thomson Reuters Datastream

Performance (%)	1M	3M	6M
Absolute	12.7	-5.8	-8.6
rel. DAX	6.6	-5.6	1.7
rel. STOXX Europe 600	5.9	-6.6	-1.1
rel. SXXP Industrials	2.7	-6.5	1.4

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BAADER

Francotyp-Postalia Holding

CONTENTS

Francotyp-Postalia Holding

EXECUTIVE SUMMARY

Investment case

We are initiating coverage of Francotyp-Postalia Holding AG (FP) with a Buy rating and a target price of EUR 6.30 (9-12 month horizon).

- Despite the continued decline in the global volume of postal consignments and consequently in the market volume for franking machines, FP has been able in previous years to steadily expand its market share and to even generate absolute growth in its core business. The company has initiated additional measures for ongoing profitable growth in the franking machinery business (i.e. the launch of a new product generation of franking machines, offering customers additional functionalities and further improved operating comfort, discoveryFP portal). At the same time, FP is focusing on digital technologies in order to benefit from the trend towards increasing digital transformation. Based on expertise available within the FP Group, the company has developed innovative products like a digital signing solution as well as products around the Internet of Things (IoT gateways). As these initiatives are still at a very early stage and no major sales have been generated so far, it is still an open question how successful the new business activities will be. Anyhow, **FP can rely on a successful, moderately growing core business, and there exists the attractive option for considerable business expansion with new business models.**

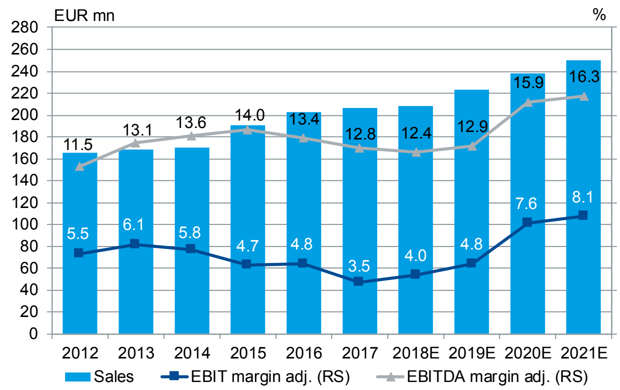
- FP generated between 2012 and 2017 clearly positive pretax results in the range of EUR 6.1mn and EUR 9.6mn. This demonstrates that FP's business is not cyclical. FP is currently establishing a new process-oriented and streamlined company structure that will improve efficiency and reduce costs considerably. While results have been negatively been impacted by implementation costs in 2018, we expect these measures to be fully effective from 2020 on, resulting in up to 300bps margin improvement. **We are forecasting a 7.6% adjusted EBIT margin for FY20 and further improvement to 8.1% in FY21.**

- **With its ACT strategy, FP's management team (which seems to fit well together)** is pursuing a promising, coherent strategy, opening up additional long-term growth potentials.

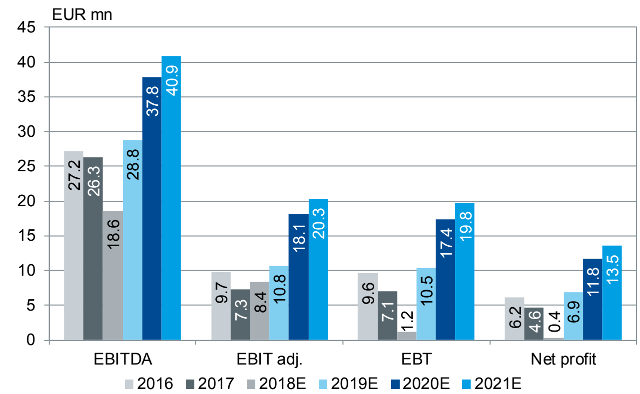
- **We consider the company's valuation as very attractive, even without including major sales and earnings contributions from the new digital activities. FP is valued at a considerable discount vs. the peer group of direct competitors as well as vs. our universe of medium-sized German/Austrian engineering/industrial companies. Our DCF model derives a "fair value" of EUR 7.00 per FP share. By applying a 10% discount to reflect uncertainties regarding the success of the new business activities, the fact that 2019 will still be a kind of transition year due to the implementation of the JUMP measures, the limited long-term growth opportunities in the shrinking franking machinery market and the micro-cap character of FP, we derive a target price of around EUR 6.30.**

DYNAMIC EARNINGS GROWTH AHEAD

Sales and EBITDA margin as well as adj. EBIT margin trend



Trend in EBITDA, adj. EBIT, EBT and net profit



Source: Company data, Baader Helvea Equity Research

Francotyp-Postalia Holding

SWOT ANALYSIS

Strengths

- Strong market position as supplier of franking machines with approx. 200,000 customers, around 230,000 installed systems and >11% global market share.
- Market leadership in Germany with more than 42% market share.
- FP offers technologically sophisticated, reliable products and is the most innovative player in the industry.
- Limited cyclicality of FP's franking machine business with high entry barriers and high share of recurring revenues.
- Promising company strategy (ACT), offering growth opportunities in the core business and strong expansion potential in new, promising business fields.
- Sufficient financial headroom for business expansion and potential acquisitions.
- Business model allows for strong cash flow generation following the transition phase.
- Convincing, competent management team with coherent strategy.

Opportunities

- Ongoing market share gains in the franking machinery business due to the focus on the stable A segment (smaller machines), product innovations (new franking machine generation) and additional marketing initiatives.
- The switch towards new printing heads and newly designed ink cartridges (coming from a new supplier) offers better protection against product piracy, resulting in higher and more profitable ink cartridge sales.
- Strong margin improvement likely from 2020 on following the full implementation of the JUMP measures, resulting in more efficient, much leaner company structures.
- Important milestones achieved in developing and ramping up new business fields (FP Sign, IoT gateways). These new growth segments offer potential for high revenues and strong margins.
- Positive news flow regarding the market acceptance of FP Sign and the IoT gateways, respectively a favorable ramp-up of sales would likely result in a revaluation of FP.

Weaknesses

- The global market for franking machines is steadily shrinking due to declining mail volumes.
- Implementation of the JUMP program results in low (reported) results for 2018 as well as poor cash flows in 2018E and 2019E.
- FP's Mail Service business generates poor margins (around 1% EBIT margin), diluting the Group margin massively.
- Newcomer in new business fields without any experience, competing with big, established players.

Threats

- The mail volume and the franking machinery market might decline faster than expected, resulting in a sales decline for FM.
- We have doubts regarding the future of FP's Mail Service business with its poor profitability. The closure or sale of that business (no indication from the company) would result in a massive reduction in Group sales and one-off charges/impairment charges.
- Sales generated with FP Sign are so far negligible. The acceptance of FP Sign by customers is therefore still uncertain as FP competes with established players. If FP Sign would fail, impairments for capitalized development costs would become necessary.
- The company's sales with IoT gateways (i.e. at Tixi) are still very low and the likely success is difficult to predict. A failure in FP's new business activities would be a major disappointment and would have a negative impact on the share price performance.

Source: Baader Helvea Equity Research

VALUATION

Buy; Target price EUR 6.30

We are initiating coverage of Francotyp-Postalia Holding with a Buy rating and a target price of EUR 6.30, derived from a mixture of valuation approaches:

- Our valuation for FP is firstly based on a **peer group comparison** with direct competitors for franking machines on the one hand, and a comparison with medium-sized German/Austrian engineering/industrials companies on the other. **Based on this peer group comparison, we believe FP is undervalued with around 60-90% share price upside potential.**

- **Our DCF model derives a "fair value" for FP shares of around EUR 7.00.** We are applying a 10% discount to reflect uncertainties regarding the success of the new business activities and the fact that 2019 will still be a kind of transition year due to the implementation of the JUMP measures. Considering as well the limited growth opportunities in the shrinking franking machinery market and the micro-cap character of FP, **we derive a target price of EUR 6.30 (on a 9-12 month horizon).**

We use a peer group comparison with the two biggest suppliers of franking machines as a yardstick for the company's valuation:

- **Pitney Bowes** is the globally dominating player in the franking machinery market with around 60% global market share and around 85% market share in the U.S. Apart from the franking machinery business, Pitney Bowes has expanded its activities in recent years beyond franking machines, other mailing equipment and services towards global e-commerce, software solutions and other technologies. Since 2008, Pitney Bowes' sales declined by around 45% (from USD 6.2bn to USD 3.5bn) and EBIT was even down more than 60%. In recent years, sales stabilized, while profitability further deteriorated (2018E 12% EBIT margin). For FY19 and FY20, a slight sales and earnings improvement is being projected. Net debt (approx. USD 2.3bn compared to USD 1.3bn market cap) is still high, but could be constantly reduced in recent years due to constantly positive free cash flows.

- **Neopost,** a listed French company, is the global No. 2 in the franking machinery market with around 25% market share. To compensate for the sales decline in its mail solutions business, Neopost expanded its activities dedicated to shipping (activities and software around parcel services). In addition, Neopost broadened its product portfolio towards solutions for digital communication management via various acquisitions. In recent years, Neopost's sales were slightly down. Operating earnings steadily declined since 2011. The EBIT margin of around 16% in 2018E is still comfortable but prior to 2012, even peak margins of more than 25% could be generated. At its investors' day on 23 January, Neopost unveiled a new "back to growth" strategy, which offers some parallels to FP's strategy presented in 2016. Neopost intends to focus on four major solutions, including Mail Related Solutions, where the company has lost market shares in recent years. Now Neopost intends to reinvest in its product offering with the aim to gain market shares. In addition, a streamlining of the organization is planned. The share price reaction was quite negative: Neopost also lowered its annual payout ratio to 20%. For FY19 and FY20, consensus is projecting slightly improved sales and earnings for Neopost – mainly due to acquisitions. Net debt amounts to approx. EUR 780mn (vs. a market cap of around EUR 770mn) and will be gradually reduced due to favorable free cash flows.

FP peer group comparison

Peer group	Curr.	Price*	Mcap. (mn)	EV 2019E (mn)	EV/Sales 2019E	EV/Sales 2020E	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/adj. EBIT 2019E	EV/adj. EBIT 2020E	P/E 2019E	P/E 2020E
Pitney Bowes	USD	7.13	1,338	3,788	1.04	0.97	5.9	5.5	8.5	7.9	5.8	5.5
Neopost	EUR	22.46	773	1,480	1.31	1.21	5.4	5.0	8.4	7.6	6.3	6.1
Average					**1.18**	**1.09**	**5.7**	**5.2**	**8.5**	**7.8**	**6.0**	**5.8**
Francotyp-Postalia	**EUR**	**3.38**	**55**	**102**	**0.46**	**0.41**	**3.6**	**2.6**	**9.5**	**5.3**	**7.9**	**4.7**
Premium/discount vs. peer group	%				-61.0	-62.7	-37.2	-51.0	12.6	-31.0	31.1	-18.9

* Closing price as of 25-Jan-2019
Source: Company data, Thomson Reuters Datastream consensus data, Baader Helvea Equity Research

Pitney Bowes and Neopost are valued with a massive discount vs. the usual valuation multiples of capital goods/ industrials companies in Europe and North America, particularly in terms of the P/E. Key reasons are the constant sales and earnings decline and in particular the steadily declining sales volume in the profitable franking machine business as well as relatively high indebtedness. In contrast to its competitors, FP is ramping up its new business activities without expensive acquisitions.

Based on our projections for FY20, FP's valuation is even 19% (P/E), 31% (EV/EBIT), 51% (EV/EBITDA) respectively 63% (EV/Sales) lower than the peer group average. In view of the much more favorable business trend (growth in the very profitable franking machine business, ongoing margin improvement following the full effectiveness of the JUMP program and other ACT measures) and additional attractive opportunities related to the new digital activities, a valuation premium for FP would be justified.

FP's valuation is even 39-61% below that of our coverage portfolio of medium-sized engineering/ industrials companies, in terms of P/E, EV/EBITDA and EV/EBIT multiples. The peer group currently trades at an average EV/adj. EBIT multiple of 8.7x for FY20E, compared to 5.3x for FP. The average EV/EBITDA multiple FY20E for the German/Austrian industrials amounts to 6.7x vs. 2.6x for FP. In terms of P/E, the peer group average is 11.3x (FY20E), while FP's P/E (based on our estimates) stands at 4.7x. We are aware that a discount is justified (i.e. in view of the declining overall franking machine market as well as the microcap-character of FP with low market capitalization and limited liquidity of the stock). The current extent of the discount, however, is far too high, in particular given the promising medium-term growth opportunities for FP.

Our target price of EUR 6.30 (on a 9-12 month horizon) would value FP with a P/E 20E of 8.7x, EV/adj. EBITDA 20E of 3.8x and EV/EBIT 20E of 8.0x. As soon as FP demonstrates that the ramp-up of the new business activities progresses and the JUMP measures are unfolding the expected effects, there is potential for even considerably higher multiples/share prices.

DCF model

Our DCF model for FP shares shows a fair value of approx. EUR 7.00. We have applied a 10% discount reflecting the hesitancy of investors regarding valuations based on very long-term projections and the aforementioned uncertainties/reservations to derive a target price of EUR 6.30. On the other hand, we have not considered any premium on the "fair value" related to the considerable sales and earnings growth potential from the new business activities as long as there is no evidence for the market acceptance and a strong ramp-up in sales. Our key assumptions are:

- As explained in detail, we are forecasting approx. 4% sales growth from the traditional business for 2019 and approx. 3% growth for 2020. In addition, we have included first sales contributions from FP Sign and IoT gateways. For the years thereafter, we have factored in only a moderate ramp-up of the new activities. We are aware that these new activities might either fail or become a great success story.
- Adjusted EBIT margins should continue to improve until 2022/2023. In the event that the new business activities proof to be successful, there would be potential for much higher margins. Please keep in mind that FP is targeting by 2023 even EUR 400mn sales (including further acquisitions) and around 20% EBITDA margin. We have included in our projections 16.1% EBITDA margin for 2023.
- Following high capex for FY18 and FY19, we are forecasting moderately increasing capital expenditure, slightly surpassing the level of depreciations.
- FP should be able to generate solid free cash flows again following the finalization of the JUMP measures. We are projecting EUR 8.7mn free cash flow for FY20 and ongoing improvement in the years thereafter. We have not included any acquisitions in our estimates.
- We are applying 1.0% FCF growth rate for the period 2029-2043, thereafter steady state.
- 8.00% WACC (2.0% risk free rate, 5% market risk premium, beta: 1.8).
- We are deducting EUR 28.9mn net debt and EUR 16.4mn pension provisions from the resulting enterprise value to derive our equity value.

Francotyp-Postalia Holding

DCF model valuation

EUR mn	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Sales	**223.1**	**238.1**	**250.4**	**260.4**	**268.2**	**276.3**	**283.2**	**290.3**	**297.5**	**305.0**
Change yoy (%)	*7.3*	*6.7*	*5.2*	*4.0*	*3.0*	*3.0*	*2.5*	*2.5*	*2.5*	*2.5*
Adjusted EBIT	**10.8**	**18.1**	**20.3**	**21.3**	**21.9**	**22.5**	**22.5**	**22.7**	**22.8**	**23.1**
as a percentage of sales (%)	4.8	7.6	8.1	8.2	8.2	8.2	8.0	7.8	7.7	7.6
Income taxes	-3.6	-5.9	-6.4	-6.6	-6.7	-6.8	-6.8	-6.8	-6.8	-6.9
Tax ratio (%)	-33.5	-32.5	-31.5	-31.0	-30.5	-30.0	-30.0	-30.0	-30.0	-30.0
NOPAT	**7.1**	**12.2**	**13.9**	**14.7**	**15.2**	**15.8**	**15.8**	**15.9**	**16.0**	**16.2**
+ Depreciation/amortization	18.0	19.7	20.6	21.0	21.3	21.6	21.8	22.0	22.2	22.4
- Capital expenditure	21.5	21.3	22.0	21.7	22.0	22.3	22.5	22.7	22.9	23.1
= Depreciation - cap. ex.	-3.5	-1.6	-1.4	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
- Change in NWC and adjustments	4.5	1.9	2.4	3.6	1.5	1.5	1.1	1.2	1.2	1.2
- Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	**-0.9**	**8.7**	**10.1**	**10.4**	**13.1**	**13.5**	**13.9**	**14.0**	**14.1**	**14.2**
Annual present value of FCF	**-0.8**	**7.5**	**8.0**	**7.6**	**8.9**	**8.5**	**8.1**	**7.6**	**7.0**	**6.6**
Sum of present FCF values until 2028E	**69.0**									
Sum of present FCF values 2029E-2043E	**60.2**									
Present value of terminal value	**30.1**									
Proportion of terminal value (%)	18.9									
Growth rate FCF 2029E-2043E (%)	**1.0**									
Resulting enterprise value	**159.3**									
Net debt	45.3									
Total equity (fair value)	**114.1**									
“Fair value” per share (EUR)	**7.00**									
DCF discount applied (%)	**10.0**									
“Fair value” per share after discount (EUR)	**6.30**									
WACC (%)	**8.00**									

Source: Company data, Baader Helvea Equity Research

Our projections for free cash flow do not consider the impacts related to the application of IFRS 16 regarding leases (effective for reporting in 2019). In tendency, IFRS 16 will result in a balance sheet extension and consequently in a reduction of the equity ratio. Net debt will likely increase by a lower two-digit EUR mn amount. On the other hand, due to higher depreciations, EBITDA will be impacted positively. We also expect a positive impact on the company’s free cash flow. Overall, the “fair value” resulting from the DCF model will likely not change dramatically following the application of IFRS 16.

BUSINESS PROFILE

FP Group – Attacking in the core business and leveraging the customer base for expansion into new growth areas

Francotyp-Postalia Holding AG (FP), headquartered in Berlin, is an expert in secure mail business and digital communication processes. The company went public in 2006 and looks back on a 95-year history as a producer of franking machines. From 2002, it expanded its product offering into mail services (e.g. pre-sorting mail). FP is currently in a transformation process by implementing its ACT strategy, which was launched by the management in late 2016. Apart from expanding the customer base and increasing the market share in its core business, the company is developing digital and IoT solutions. The focus is on assisting current customers in their digitalization process and finding new applications for the IoT know-how already present in FP's secure high-tech franking machines. Another element of ACT is the transformation of the Group structure with the target to reduce complexity, increasing agility and particularly improve the cost structure and profitability.

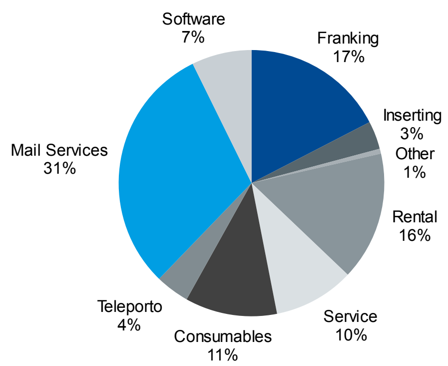
FP's core activity is still the franking and inserting business. The FP Group develops and manufactures franking systems. In this business field, the company ranks No. 3 globally with around 11.5% market share (referring to the installed base). Moreover, it sells and rents out franking and inserting systems and offers extensive related services. While pure product sales contribute approx. 34% to the overall franking and inserting business, the company has strong recurring business in its core segment, consisting of leasing of franking machines, after-sales services, software solutions for cost center management, the sale of consumables such as tape or ink cartridges and the Teleporto service.

FP's Mail Services segment contributes 31-32% to Group sales. This business consists of the franking service (collecting unfranked outbound post and providing the franking) and the consolidation of business mail (collecting letters from companies, sorting them by postcode and delivering them in batches to a sorting office of Deutsche Post AG or an alternative postal distributor).

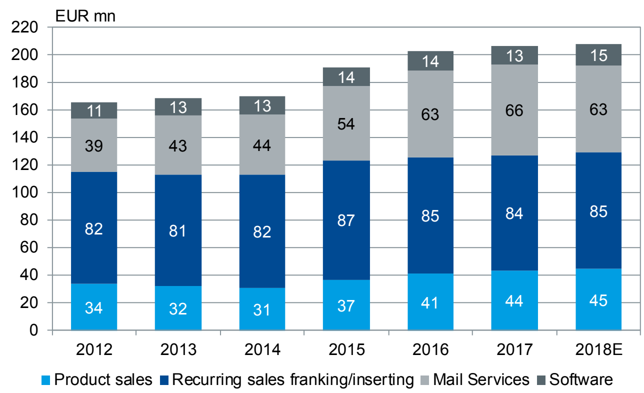
The third and by far smallest product segment with around 7% of Group sales is Software Solutions. In the Software Solutions segment, the FP Group consolidates its business with hybrid mail services and solutions for fully digital communication.

FP – MODERATE SALES GROWTH IN RECENT YEARS – ONGOING IMPROVEMENT IN PRODUCT SALES

Sales split 2018E by products



FP sales trend by product categories



Source: Company data, Baader Helvea Equity Research

Francotyp-Postalia Holding

The Franking & Inserting segment, which accounts for approx. EUR 130mn sales (2018E) or approx. 62% of Group sales, continues to grow moderately and remains FP's cash cow

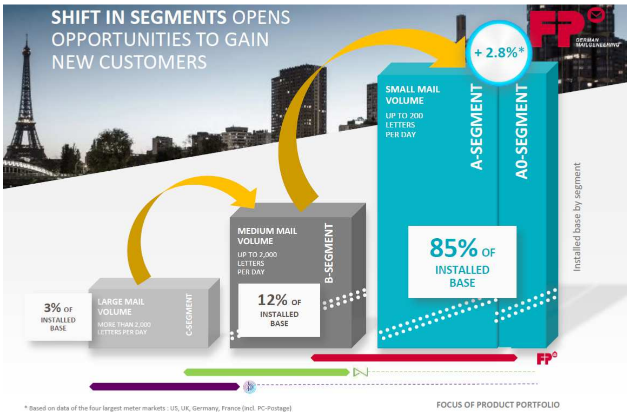
FP develops and manufactures franking systems, which help companies and authorities to efficiently frank their mail and to reduce postage costs. Franking machines (or postage meters) are high-tech devices, combining various technologies such as cryptography, sensor technology, actuator technology and connectivity.

- With its franking systems, the FP Group is represented on the most relevant important markets in the world, which include Germany, the U.S., the UK and France. With a total of approximately 230,000 installed franking systems, the company's global market share improved to approximately 11.5%. As a result, Francotyp-Postalia Group is the third-largest provider worldwide. In Germany and Austria, FP is the market leader, with a market share of approximately 42% and 47% respectively. FP's sales organization consists of own subsidiaries in Germany, the U.S., Canada, the UK, the Netherlands, Belgium, France, Austria, Italy and Sweden. In addition, the company operates via a dense network of dealers in around 40 countries.

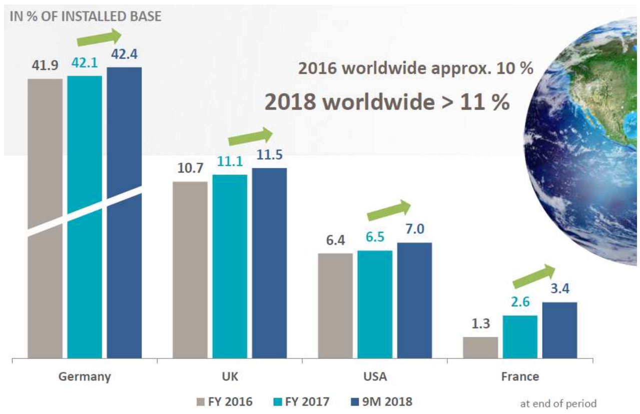
- Since 2012, FP is producing its franking machines exclusively in its plant in Wittenberge (Brandenburg), approx. 160km away from FP's headquarters in Berlin.

FOCUS ON GROWING A AND LOWER B SEGMENTS ALLOWS FP TO INCREASE ITS MARKET SHARE

Shift towards smaller franking machines is advantageous for FP



FP is gaining market share in almost all countries



Source: Company data (2018)

FP Group is able to decouple from the overall shrinking market volume for franking systems.

- Due to the ongoing decrease in the mail volume in most countries in a magnitude of 3-6% p.a., companies and authorities are increasingly replacing large franking systems for high volumes of correspondence with smaller systems. The shift from the C segment for franking systems with more than 2,000 letters a day to the A segment with fewer than 200 letters a day is visible in the world's largest markets for franking systems, the U.S., the UK, Germany and France. While the C and B segments (200-2,000 letters a day) are noticeably declining, **the A segment has been relatively stable in recent years.** Businesses that previously processed large to very large volumes of correspondence themselves are now outsourcing this processing to third-party service providers. Small volumes of traditional correspondence remain within the companies, for which small, easy-to-use franking systems can now be utilized instead of large franking machines.

- **The FP Group is outperforming the overall market trend and even generating slight growth in its core business.** In contrast to its competition (Pitney Bowes with around 60% global market share and Neopost with around 25% market share), FP traditionally focuses on the A segment and the B segment for franking systems. In addition, FP is steadily investing in R&D, an aspect being rewarded by dealers and end customers.

Francotyp-Postalia Holding

With its PostBase family, the company offers innovative franking systems for smaller and medium volumes of correspondence in the range of below 20 to 150 letters per minute. The segment shift towards smaller machines is offering Francotyp-Postalia opportunities to gain new customers: The FP Group has state-of-the-art technological systems that have won multiple awards for their design and functionality, including in particular the PostBase franking systems in the A segment. In addition, FP is in our view the most innovative player in the market, **introducing in 1Q19 a new generation of the PostBase machines (PostBase Vision).** List prices for FP's franking machines range from EUR 900-1,000 for the PostBase Mini, approx. EUR 1,300-5,500 for the different PostBase versions and EUR 3,500-6,000 for the PostBase 100 (depending on the configuration and related accessories). Prices for FP's premium machine PostBase One can even exceed EUR 10,000.

FP'S FRANKING MACHINES – ATTRACTIVE PRODUCT RANGE FOR THE A AND B SEGMENTS

PostBase Mini	PostBase	PostBase 100	PostBase One
			
Built-in postage scale – machine calculating the correct postage administration of up to 5 cost centers	Newest franking technology, connection to the FP portal administer. of up to 50 cost centers more than 100,000 machines sold	Modular expansion possible up to 30 savable advertising themes, variable text messages, administer. Of up to 250 cost centers, attractive particularly for shared offices	Automatic feed, dynamic weighing, closing and franking in one work step, vertical mail transportation, no-contact ink technology, administer. of up to 500 cost centers
Up to 20 letters/minute 6mm thickness	Up to 65 letters/minute 10mm thickness	Up to 100 letters/minute 20mm thickness	Up to 150 letters/minute 20mm thickness

Source: Company data, Baader Helvea Equity Research

FP is in a particularly good position to benefit from the changing market for franking systems, which has been demonstrated by increasing FP revenues with franking machines in recent years and the gradual increase in FP's market share to approx. 11.5% (only 9.1% in 2005).

- With a targeted market development strategy, especially in the U.S. and France (still the most attractive markets), the FP Group now wants to successively acquire additional market share in the core business and expand its customer base. The FP Group also plans to enhance its range with further innovative products and services (i.e. relating to packets and parcel shipment).

- Furthermore, the company is expanding the leasing business in various countries and is making more use of telesales to boost sales and retain customers. Finally, **the discoverFP customer portal has been developed as an additional distribution channel since 2017 (worldwide rollout by the end of 2018).**

As a supplement to the core franking machines business, FP is also selling inserting machines. These machines are being sourced from third-party suppliers (no own production). Since 2011, this pure trading business with inserting machines has been very stable with around EUR 7mn sales per annum (3-4% of Group sales).

Two thirds of the FP's franking systems sales refer to recurring business.

- FP generates around EUR 33mn sales from **leasing** of franking machines. While in Germany, UK and the Netherlands customers typically purchase franking machines, the U.S. is a pure leasing market. In France, franking machines are typically sold via leasing arrangements as well. Leasing contracts typically have a duration of 3-5 years. The balance sheet (net) value of leased products in FP's balance sheet amounts to approx. EUR 18mn, with underlying historical costs of EUR 63mn. FP is thinking about a cooperation with external leasing partners in Europe and in the U.S. According to such a finance lease model, FP would sell its discounted receivables immediately to the leasing partner. This would allow to book leased machines immediately as revenues and to shorten the balance sheet.

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- FP's **after-sales business** is based on the installed base of around 230,000 franking machines. The company offers its customers services such as maintenance and repair as well as customized advertising banners. **Service** sales are accounting for approx. EUR 20mn revenues. The presumably most attractive and profitable business is the sale of **Consumables** such as ink cartridges or self-adhesive franking strips as well as accessories like cleaning kits. Consumables account for approx. EUR 23mn of FP's sales. Finally, the **Teleporto service** (downloading of the franking charge to the franking machine), is contributing EUR 8-9mn to sales. FP gets a service charge from its customers for offering the adequate infrastructure and the corresponding services.

Mail Services – A weak spot in terms of profitability

The Mail Services segment comprises the franking service – collecting unfranked outbound post and providing the franking – and the consolidation of business mail. This includes collecting letters from companies, sorting them by postcode and delivering them in batches to a sorting office of Deutsche Post AG or an alternative postal distributor.

- This business is operated by FP's 100% subsidiary freesort, which is the leading independent consolidator of business mail on the German market with eight sorting centers throughout Germany.
- Profitability of the Mail Services business (which is part of the reporting segment Sales Germany) is weak (not more than 1-1.5% EBITDA margin, according to our estimates).

Software Solutions – So far relatively small but growth initiatives have been initiated

In the Software Solutions segment, the FP Group consolidates its business with hybrid mail services and solutions for fully digital communications.

- Using the FP subsidiary IAB's hybrid mail services, the sender dispatches a document over the internet with the highest security standards guaranteed, and the recipient normally receives a physical letter. The FP Group handles the entire production process until letters are handed over to mail delivery companies (FP Output).
- In addition, the FP Group offers its customers universal complete solutions for incoming mail processing (FP Input), whereby inbound post is digitized, analyzed according to the customer's specific criteria, evaluated and then fed into the customer's data or document system in electronic form.
- The subsidiary Mentana-Claimsoft's digital communication services primarily comprise products for long-term storage and protection of electronic documents using encryption and signature software. A pioneering product in this field is FP Sign, a cloud-based solution for the legally binding digital signing and exchange of contracts and documents.

ACT STRATEGY – TRANSFORMING FP INTO A LEANER, MORE DYNAMICALLY GROWING AND MORE PROFITABLE COMPANY

The ACT strategy has been developed by Rüdiger Andreas Günther, who joined FP in 2016, and his team and was approved by the Management Board and the Supervisory Board at the end of 2016. The vision behind the ACT strategy is:

“By 2023, FP will be the first brand worldwide that customers think of and trust when it comes to secure mail business and digital communication processes”.

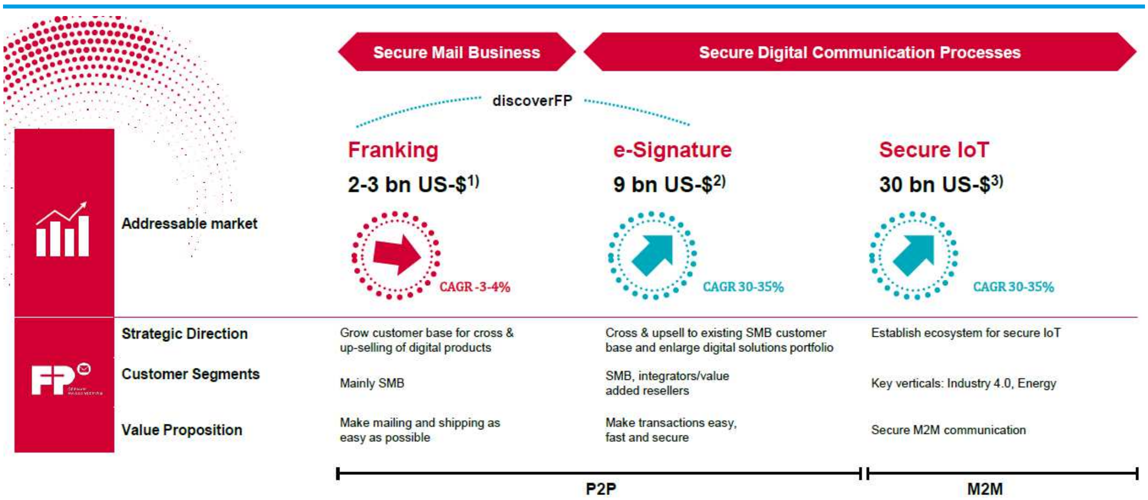
Key elements of the ACT strategy are:

1. **Attack in the core business** by addressing new and existing markets, achieving greater market penetration and increasing global market share from currently 11.5% towards 15%.

2. **The Customer is in the core focus.** The key intention is to make office life of customers easier. FP is developing new solutions and services for existing and new customers towards becoming a partner for digitalizing processes relating to in- and outbound business communication in companies and authorities. Services are including the handling of letters and packages within the mailroom, the optimization of document-based processes, digitalization and handling of incoming mail to the production and processing of the outgoing mail to digital documents as well as transaction management. FP is currently rolling out FP Sign, a digital signature respectively digital transaction management solution, suited in particular for small and medium-sized companies. Furthermore, FP is currently in a test phase for a webshop, offering in cooperation with a large retailer stationery and other office equipment via its portal discoveryFP.

3. **Transforming FP into an enlarged business:** Transformation has an internal and external dimension for FP: **Intern** means applying agile innovation methods for strategic positioning and adaptation of the core business along the changing customer needs. FP is therefore establishing a new process-oriented and streamlined company structure. **Extern** means the exploration and testing of future markets, products and business models based on FP’s DNA (cryptography, sensorics, actorics, connectivity). The key focus is on offering secure gateways to the Internet of Things.

FP’s expansion into growth markets (market volumes 2023E)



1) FP estimate based on industry revenues; 2) Target market size 2023, PS Market Research 6/2017; 3) Markets & Research 6/2017
Source: Company data

An important component of FP's strategy to accompany its approx. 200,000 customers for franking machines on their way towards digitalization and in the rollout process of these new services and products is a **portal solution** (digital marketplace) called **"discoverFP",** which has meanwhile been launched in all major FP markets. It furthermore simplifies services and automates the handling of orders for consumables materials.

FP's customer and product-oriented measures of the ACT strategy are accompanied by **comprehensive internal measures, focusing on the adjustment of FP's structure and organization.** With its re-engineering project called **JUMP,** FP is currently establishing a leaner company structure, aiming to reduce complexity within the Group and providing support for implementing the growth strategy in a cost-efficient manner. Elements of JUMP include the creation of regional Shared Services Centers, the implementation of uniform ERP and CRM systems as well as regional consolidation, implementation of central functions and Centers of Excellence.

FP is convinced that the ACT strategy (including the JUMP project) will result in strong sales and earnings growth by 2020. FP is projecting around EUR 250mn sales by 2020 (up from EUR 206mn in 2017 and presumably around EUR 208mn in 2018) and a significant improvement in the adjusted EBITDA margin from around 13% in 2018 to approx. 17%.

Attack: Achieve growth in the franking machinery business, outperforming the shrinking market

In recent years, FP has already demonstrated, that the company is the only industry player that is able to grow in franking machinery (in particular in the strategic markets USA and France). Consequently, the global market share has grown from 9.1% in 2005 to around 11.5% in 2018. In the upcoming years, FP intends to further expand its customer base and to increase its market share until 2023 towards 15%.

- As already described, FP will continue to benefit from its strategy to focus on the growing A and the lower B product segment, the enhancement of its range of further innovative products and services and the introduction of the new PostBase generation in 1Q19. This PostBase Vision is the first product launch since 2012 and offers customers outstanding print quality, additional features (in particular in combination with the discover FP portal) as well as further improved operating comfort. Marketing initiatives in important markets such as France and USA to gain new customers are being continued.

- Another important step to increase the customer base is the **acquisition of an online trader for franking machine accessories in the U.S.** The acquired company generated in 2017 sales of USD 1.5mn. This acquisition also helps to reduce costs of winning new customers.

- Last but not least, the **discoverFP customer portal, which has been rolled out globally by the end of 2018,** will increase the attractiveness of FP for existing and potential new customers. It gives them access to new functions and services (FP Sign, cost efficient parcel services) and facilitates the operation of the franking machine as well as the order of consumables and services.

discoverFP – Opening up the digital world for FP's customers

Apart from its task to strengthen the attractiveness of FP's core business, **discoverFP is also FP's new key sales tool for cross- and upselling of high-margin services and products.** The solutions and services to be sold via discoverFP will be constantly expanded.

- Examples for services that can already be used via discoverFP include the **ordering of consumables or new franking machines and hybrid mail services** (upload of documents via discoverFP).

- A new service, offering attractive earnings opportunities for FP, is a **parcel shipping software.** This software is choosing the most attractive parcel service provider for the customer and the package fee can be paid via the franking machine. This service is particularly attractive for US customers. FP is receiving a monthly fee from the customer using this service.

- Furthermore, discoverFP is the **portal for** FP's customers to make use of the electronic signature solution **FP Sign.**

FP-Sign – The reliable electronic signature solution made in Germany, tailored to the demands of medium-sized companies

FP Sign was developed in Germany by FP Mentana-Claimsoft GmbH and uses computer centers in Germany, certified by the Federal Office for Information Security (BSI). The FP Sign software is eIDAS (electronic identification, authentication and trust services) compliant (based on EU regulations) and provides for the statutorily prescribed long-term archiving. Due to the innovative character, security features and its high scalability, FP Sign is particularly suited for medium-sized companies. FP Sign was awarded the "Innovationspreis-IT" (IT Innovation Award) in the category Cloud Computing.

Companies can use FP Sign to digitally sign contracts, offers, forms, certificates et cetera quickly and securely and have documents countersigned by their customers, suppliers and employees. Whether contracts, approvals, resolutions, offer acceptances or confidentiality agreements – FP Sign allows companies to transact their business transparently and within seconds. Different signature levels ensure the legal security of documents. The cloud-based software solution is hosted in computer centers that are BSI-certified, which means that it meets the very highest security standards in Germany. Further core features of FP Sign include:

- End-to-end monitoring and transparency of digital business processes
- Seamless integration in business applications due to state-of-the-art APIs and
- Mobile app for working on the move.

Despite the long-established existence of e-signature solutions from big US players like DocuSign, we think there are good market opportunities for FP Sign. Reasons are that these standard solutions like from DocuSign are in many cases too complex and too expensive for small and medium-sized companies, which also prefer German/European solutions. In addition, the exclusive cooperation between FP Sign and sign-me from the German Bundesdruckerei enables FP Sign users to use the qualified electronic signature with a personal certificate.

FP uses a differentiated sales approach for FP Sign:

- FP Sign is being offered to the existing customer base **via the discoverFP portal.** The company is offering a free trial for single users over a period of 3 months. Thereafter, the fee is EUR 20 per month for up to 100 documents. In addition, the company offers higher-priced premium solutions.
- There is a **direct sales approach for larger businesses** that handle comprehensive paperwork. Charging for the use of FP Sign is either via a monthly fee or a click charge (i.e. EUR 0.50-EUR 1.00) per transaction.
- **FP has already agreed to sales partnerships, focusing on the integration of FP Sign into enterprise software solutions.** This model has already been realized in partnerships with smaller software providers like Simpressive (sourcing strategies) or Landwehr (focusing on recruitment and temporary employment agencies). This kind of sales partnership offers for FP in our view the most attractive approach to ramp up the FP Sign business as every new partner allows for access to a relatively high number of end users. Charging for the use of FP Sign is transaction-based (i.e. EUR 0.50-EUR 1.00) per transaction. This model is attractive for FP as no additional sales and marketing costs for FP will occur following the installation of the software.

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FP Secure Gateway to the Internet of Things

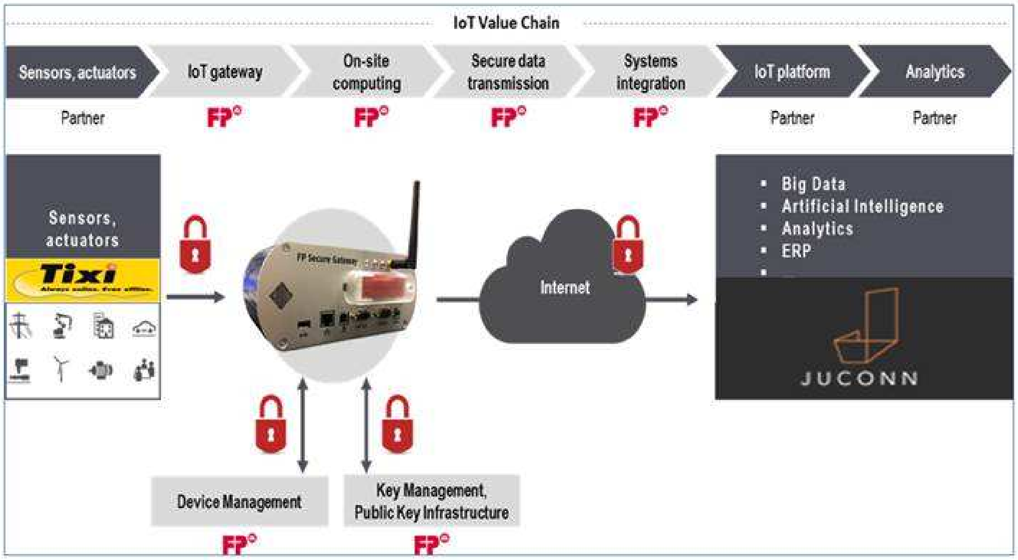
Franking machines are high-tech devices combining various technologies like cryptography, sensor and actuator technology, software, connectivity, data transfer, etc. Therefore, FP's expansion into the area of secure gateways looks only surprising at a first glance. **FP has the necessary technological expertise (including extremely high security standards for data transfer) already in-house.**

The Internet of Things (IoT) will fundamentally change the habit of all people. Various things (in a broad range from the toaster, a pump, a car or a power plant) will be connected via the internet, opening up a huge scope of applications. The possibilities for communication range from the transfer of simple status updates, e.g. the current temperature, to complex management of industrial facilities. Depending on the application, a certain security level is required. **The integrity of the data transmitted must be ensured, i.e. it must be unchanged, complete and authorized by the expected communication participant.** In some sensitive areas, confidentiality must also be ensured – unauthorized persons must not be able to read the content. This requires the use of secure gateways.

Consequently, FP has developed in recent years own secure gateways. "FP Secure Gateway has a scalable number of input sensors. The information recorded by sensors is transmitted to a data center and protected in accordance with the required level of security. The communication channels are set up in-line with the area of application. The volume of data and the available network connection are the main influencing factors. Although this is still a new market segment for FP, this new product has been well received by potential customers. Its flexible and robust design allows its use in industrial environments. This is generating interest among solution providers in the field of Industry 4.0. This product's security features make it stand out in relation to other products" *(Source: FP annual report 2017).*

Following extensive tests, Amazon Web Services (AWS), a subsidiary of Amazon, has chosen FP as a technology partner for its secure gateway. This is in our view proof of FP's technical competence in this area. In August, the company has won its first major customer for the FP IoT technology. Karberg & Hennemann GmbH & Co KG, a leading supplier of oil purification systems in industrial plants, will use the FP secure gateway all around the world for remote monitoring of its systems. Recently, FP announced a partnership with Heinz Lackmann GmbH & Co. KG regarding the use of customized FP (respectively Tixi) gateways in energy management. Nevertheless, it has to be considered that FP is still at the very beginning of the market introduction of this product.

FP's IoT value chain



Source: Company data (2019)

In June, FP has strengthened its position in this business field with the acquisition of Tixi.com GmbH & Co. KG.

- Tixi holds a strong market position in the area of IoT gateways focusing on smart metering/energy management. Tixi's gateways offer a somewhat lower security level and according to our estimates, the price for a Tixi gateway is with around EUR 500 considerably lower than for FP's secure gateway (Baader Helvea (E) approx. EUR 1,000 per unit).

- Tixi has so far already sold more than 30,000 IoT gateways and is therefore relatively well established. Customers include renowned companies such as Metro, e-on, MVV Energiedienstleistungen, Linde, Mainova or Vattenfall. In 1H18, Tixi generated sales of EUR 0.74mn and a net loss of EUR 0.229mn. The purchase price for Tixi amounted to approx. EUR 1.4mn. We have the impression that Tixi is a very good fit for FP's IoT ambitions. Tixi's market position offers FP a good basis for the penetration of new verticals such as the energy sector or Industrie 4.0. Furthermore, the integration allows for considerable cost savings resulting from economies of scale and synergies.

On 22 January, FP announced the acquisition of a 15% stake in Juconn GmbH. Both companies already cooperated on individual projects during the last year. **This intensified cooperation will help FP to offer comprehensive end-to-end solutions and to accelerate growth in its IoT gateway business.**

- Juconn develops individual IoT solutions for its business customers and, by providing smart data, helps them to enter the Industry 4.0 era. In addition, the Munich-based start-up gives innovative business founders access to its flexible cloud platform. In return, Juconn obtains shares in the young companies, thus continuously building up its network and acquiring extensive know-how from a diverse range of industries.

- Juconn platforms offer an open structure (processing of data from various sources, adaptability to individual customer needs). Therefore, the company already has such a broad range of customers in industries such as energy, logistics and agriculture. Juconn solutions are also in use in facility management, where they monitor and manage property portfolios and security-related building components such as elevators and heating systems. The company is already aiming for market leadership in specific segments like Kitchen 4.0, where Juconn systems control the various data flows centrally in one application.

- The investment in Juconn will allow FP to offer comprehensive end-to-end solutions – from machines to the evaluation and use of smart data by the customer – from a single source in the future and to accelerate its growth in the emerging Internet of Things (IoT) market. For its part, Juconn is securing permanent access to the FP team's technical solutions expertise and to the flexible collection and ultra-secure transmission of data via FP Gateways. Both partners are concentrating in particular on SMEs in Germany, but also operate internationally. The cooperation is expected to further promote growth at Juconn and in the IoT business at FP.

- The purchase price for the 15% stake in Juconn amounts to a very low single-digit million Euro amount. FP has the option to increase its participation to 25.01% in the longer term. Juconns sales in 2018 amounted to only EUR 0.3mn, but the company is growing rapidly.

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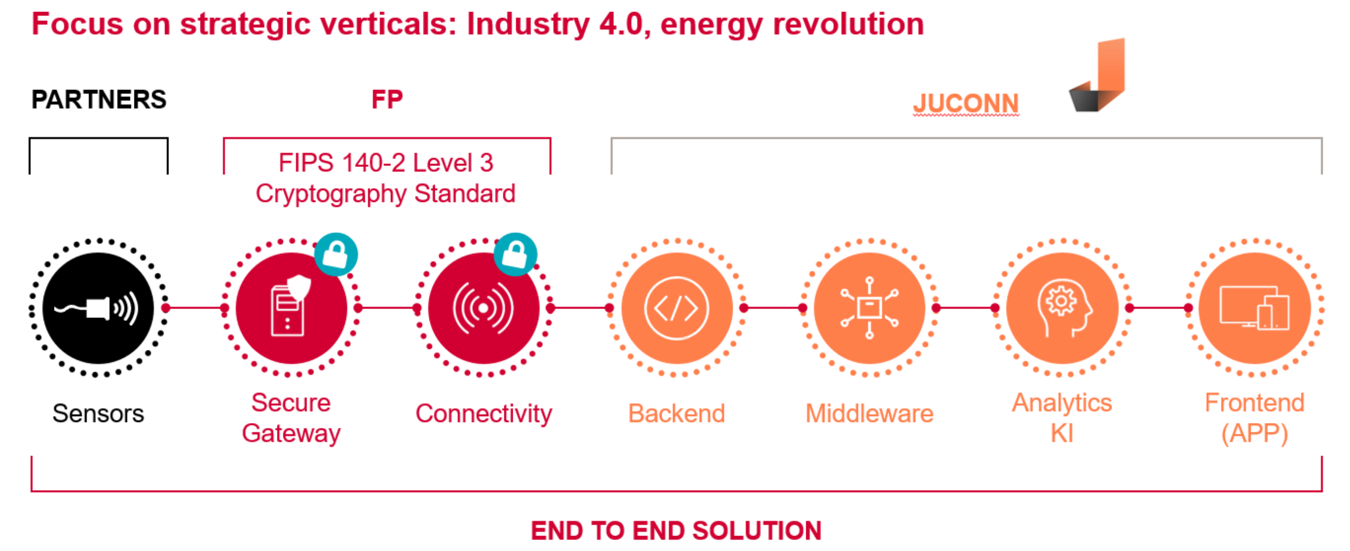
Partnership of FP and JUCONN: Ability to offer end-to-end solutions



Source: Company data (2019)

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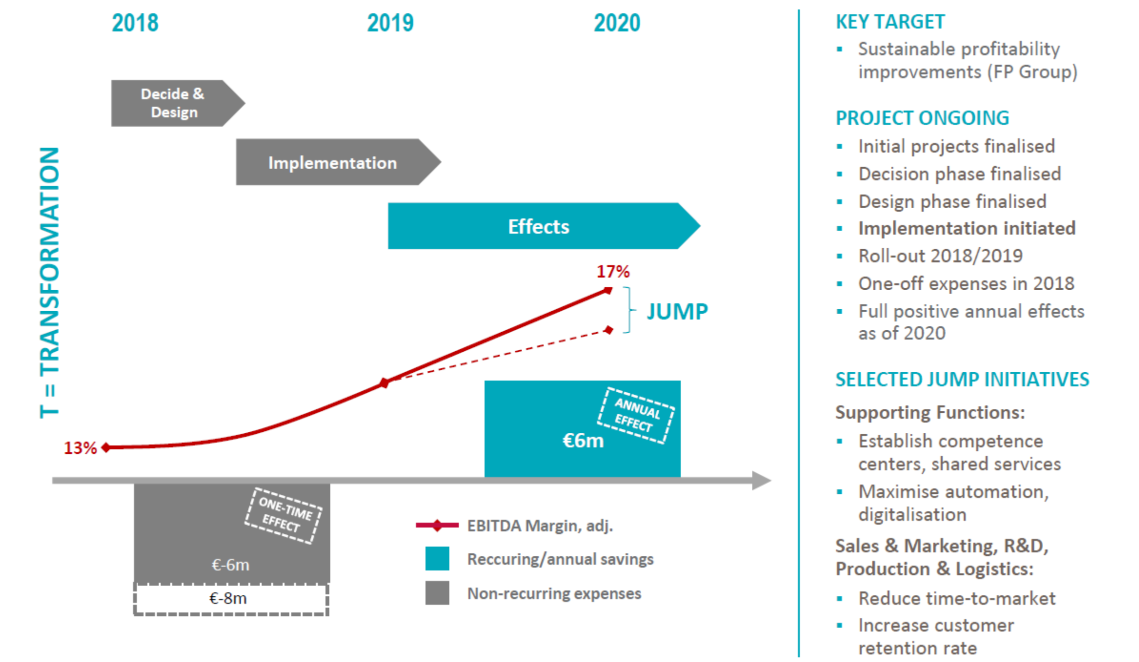
ACT project JUMP: Making FP fit for profitable growth

In 3Q18, FP completed – as planned – the "decide and design phase" of the JUMP project, a central subproject of the ACT strategy. Execution and implementation of the respective measures started in 4Q18 and will be continued in 2019. With these measures, FP is being realigned across the Group in order to increase profitability to the communicated target of 17% EBITDA margin by 2020 and to accelerate revenue growth.

Key measures under JUMP include:

- The implementation of a **uniform ERP and CRM system** (Microsoft Dynamics) throughout the entire Group.
- The establishment of **two shared services centers** in Europe and North America in order to handle administrative tasks efficiently.
- The JUMP measures also include the **streamlining of the management in international sales and the realignment of the currently decentralized organization.** The existing independent local sales companies will be merged into three main sales regions North America, the Central Region (Germany, Austria, Switzerland) and Middle Europe (rest of Europe and international dealers). This massively reduces administration costs.

JUMP – Transformation for sustainable profit improvement



Source: Company data

FP has communicated that P&L-relevant charges for JUMP would amount to EUR 6-8mn in 2018.

- In view of non-recurring expenses of "only" EUR 1.4mn in 9M18, the majority of these charges (presumably around EUR 6mn) will be booked in 4Q18. The projected JUMP charges in 2018 already include some provisioning for measures that will be executed in 2019. **In total (including around EUR 2-3mn charges in 2019, according to our expectations), JUMP will cost EUR 9-10mn.**
- The biggest part of the JUMP charges refers to redundancies (EUR 5-7mn). Related to the aforementioned measures, FP will lay off approx. 160 employees (FP Group 1,061 employees as of 30 June 2018). The remaining approx. EUR 3-4mn charges are related to consulting costs and one-off charges for the new IT structure.

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The implementation of the JUMP measures will still continue during the entire year 2019. The layoffs will likely be executed in 2Q and 3Q19 and the new ERP/CRM system will be implemented in 3Q19, while some fine-tuning is expected for 4Q19. Overall, FP does not expect any additional net charges from JUMP for 2019 as first savings will compensate the remaining restructuring costs.

From 2020 onwards, FP is expecting net savings of EUR 6mn from the JUMP measures. Gross savings are projected with EUR 9mn. On the other hand, based on its ambitions related to the ACT strategy, FP will have to strengthen its R&D department and build up structures for the expansion of the digital and IoT activities and for the Centers of Excellence. This will result in a headcount addition of around 50 people.

STEADY SALES GROWTH SINCE 2010 BUT IN RECENT YEARS DECLINING EBIT MARGIN – JUMP IN PROFITABILITY EXPECTED FOR 2020

FP is not a cyclical stock – Solid earnings level since 2012

In recent years, FP has demonstrated that the company is able to generate constant sales growth despite the overall shrinking market for its core product franking machines.

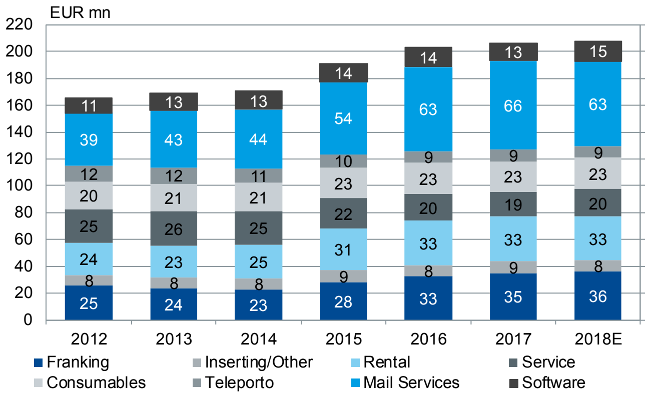
Between 2012 and 2017, FP's product sales for franking machines increased by 37% and for 2018, FP will likely report slight growth as well. Rental revenues were up as well by a similar amount. There was no big change over time for service and consumables sales. Group sales were driven considerably by the strong sales growth in the Mail Services business in 2015 and 2016.

While FP's EBITDA margin could be kept relatively stable over this period, the EBIT margin declined noteworthy. In our view, the strong expansion in the low-margin Mail Services business (sales boosted by included postage costs) had a clearly negative margin impact. The mismatch of the performance of EBITDA margin (even increase until 2015) and EBIT margin (steady decline between 2013 and 2017) can be explained by the strong increase in depreciations related to the decertification of older franking machines by the US Postal Services. FP had to invest heavily into new franking machines for the U.S. leasing business to replace the old ones. While the investment peak was in 2014, corresponding depreciations steadily increased until 2017 (almost EUR 5mn higher depreciations on leased assets than in 2013). Results in 2017 (EBITDA and EBIT) were already negatively impacted by costs for ACT projects (EUR 3.5mn according to FP).

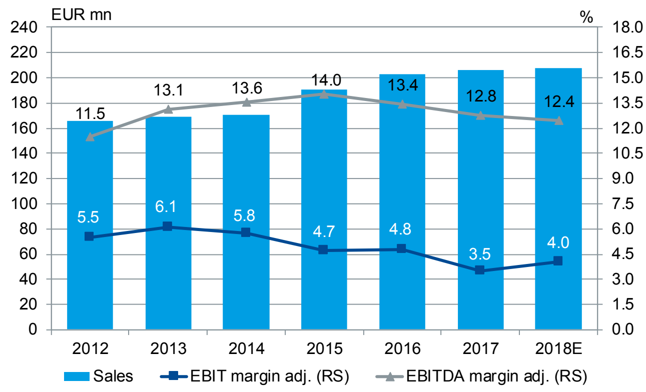
On the positive side, it has to be mentioned that **FP generated between 2012 and 2017 clearly positive pre-tax results in the range of EUR 6.1mn (2012) and EUR 9.6mn (2016).** Net profit reached between EUR 3.7mn (2015) and EUR 6.2mn (2016), corresponding to EPS of EUR 0.22-0.36. Since 2014, FP is paying dividends in the range of EUR 0.12-0.16. The dividend payment of EUR 0.12 for 2017 was tax-free for the shareholders (made from the tax deposit account) and for that reason the net dividend for shareholders was unchanged vs. 2016, when FP paid EUR 0.16 gross dividend.

FP SALES AND MARGIN PERFORMANCE 2012-2018E

Increasing product sales in franking machines



Growing sales but declining EBIT margin



Source: Company data, Baader Helvea Equity Research

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2018 has been a transition year: Slight increase in operating profitability likely, but high restructuring charges

FP reported in November solid 9M18 figures, underlining that the company will be able to report 2018 figures in-line with projections.

- In 9M18, FP once again outperformed its competitors. While franking machine sales of the two major competitors Pitney Bowes and Neopost declined by a mid-to-high single-digit percentage, FP achieved in its franking machine business 1% growth (and even 4% higher sales adjusted for FX effects).
- Total sales of FP in 9M18 were up 0.3% to EUR 154.3mn, benefiting from stronger product business with franking machines, higher service sales and increasing software business, while rental, mail services and Teleporto contributed lower revenues than in the previous year's period.
- As expected, reported EBITDA and EBIT declined in 9M18, due to one-off charges related to the JUMP project. FP reported EUR 17.0mn EBITDA (-13.3% yoy). In addition to EUR 1.4mn JUMP expenses, the company suffered from EUR 1.8mn negative FX effects, while on the other hand EUR 0.6mn non-recurring income from statue-barred liabilities could be generated.

9M18 figures: JUMP expenses and negative FX effects weighing on reported results

EUR mn	3Q17	9M17	4Q17	FY17	1Q18	2Q18	1H18	3Q18	9M18	4Q18E	FY18E
Sales	**49.4**	**153.9**	**52.5**	**206.3**	**53.0**	**51.8**	**104.8**	**49.5**	**154.3**	**53.7**	**208.0**
Change yoy (%)	*0.8*	*3.0*	*-2.1*	*1.7*	*-4.5*	*5.8*	*0.3*	*0.1*	*0.3*	*2.4*	*0.8*
EBITDA	**6.9**	**19.6**	**6.7**	**26.3**	**7.4**	**5.3**	**12.8**	**4.2**	**17.0**	**1.6**	**18.6**
Margin (%)	14.0	12.8	12.7	12.8	14.1	10.3	12.2	8.6	11.0	2.9	8.9
Change yoy (%)	*16.2*	*-4.7*	*1.0*	*-3.3*	*-10.3*	*20.9*	*0.5*	*-38.7*	*-13.3*	*-76.4*	*-29.4*
EBIT	**2.2**	**5.0**	**2.2**	**7.3**	**3.2**	**1.0**	**4.2**	**0.0**	**4.2**	**-3.1**	**1.1**
Margin (%)	4.4	3.3	4.2	3.5	6.0	2.0	4.0	0.1	2.7	-5.8	0.5
Change yoy (%)	*21.3*	*-37.9*	*35.8*	*-25.5*	*-8.1*	*-284.8*	*46.1*	*-98.7*	*-15.9*	*-241.2*	*-85.0*
EBIT adj.	**2.2**	**5.0**	**2.2**	**7.3**	**3.4**	**1.7**	**5.1**	**0.5**	**5.6**	**2.8**	**8.4**
Margin (%)	4.4	3.3	4.2	3.5	6.3	3.4	4.9	1.1	3.7	5.1	4.0
Change yoy (%)	*21.3*	*-37.9*	*35.8*	*-25.5*	*-2.3*	*n.a.*	*77.4*	*-75.5*	*12.0*	*24.0*	*15.7*
EBT	**2.1**	**5.4**	**1.7**	**7.1**	**3.4**	**1.5**	**4.8**	**0.1**	**4.9**	**-3.7**	**1.2**
Margin (%)	4.3	3.5	3.2	3.4	6.3	2.8	4.6	0.3	3.2	-7.0	0.6
Change yoy (%)	*9.9*	*-33.7*	*12.7*	*-26.5*	*-0.1*	*n.a.*	*48.0*	*-94.2*	*-8.3*	*n.a.*	*-83.1*
Net income after min.	**1.3**	**3.4**	**1.3**	**4.6**	**2.2**	**1.0**	**3.2**	**0.1**	**3.2**	**-2.9**	**0.4**
Margin (%)	2.5	2.2	2.4	2.3	4.1	1.8	3.0	0.2	2.1	-5.3	0.2
Change yoy (%)	*9.1*	*-31.3*	*35.8*	*-20.6*	*-0.1*	*n.a.*	*48.0*	*-93.5*	*-4.4*	*n.a.*	*-91.8*

Source: Company data, Baader Helvea Equity Research

FP has projected for 2018:

- A slight revenue increase based on constant currency levels.
- A slight increase in operating EBITDA, adjusted for currency impacts and one-off charges related to JUMP.
- A positive adjusted free cash flow, adjusted for FX changes, payments for JUMP, additions to finance, lease and M&A. According to FP, this free cash flow will be, however, considerably below the 2017 level of EUR 9.9mn.

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We are expecting solid figures for 4Q18, allowing FP to achieve these targets.

- As FX effects have been positive in 4Q18 and considering marginal consolidation effects from Tixi and the US dealer for franking machine accessories, **we are forecasting a (reported) sales increase of 2.4% for 4Q18 and FY18 sales growth of 0.8% to EUR 208mn.** FX adjusted sales growth for the full year might be marginally higher. Growth drivers in FY18E should have been Software and Service and, to a smaller extent, Franking Machines. On the other hand, Teleporto and Mail Services sales likely declined.

- Assuming around EUR 7.3mn charges for JUMP measures and considering that the negative FX effects of EUR -1.8mn after 9M18 could not be fully wiped out in 4Q18, we derive a FY18 EBITDA (reported) projection of EUR 18.6mn (-29.4% yoy). The adjusted EBITDA figure (according to FP's methodology) might be up marginally vs. the FY17 level of EUR 26.3mn.

- In view of lower depreciation for the rental/leasing machines, the EBIT performance might look better. Adjusted for the JUMP charges, we are forecasting EUR 8.4mn EBIT, compared to EUR 7.3mn in FY17. Reported EBIT, however, will only be slightly positive (Baader Helvea (E) EUR 1.1mn).

- Assuming a more or less balanced financial result and an unusually high tax rate (due to the low earnings amount and significant tax payments in various countries), we are projecting marginally positive net profit of EUR 0.4mn.

- The already negative (reported) free cash flow (EUR -2.7mn after nine months) likely further deteriorated in 4Q18 due to the JUMP charges. We are expecting around EUR 5.5mn negative free cash flow for 2018.

- In view of the only marginally positive net result in 2018 and the negative free cash flow, it is likely in our view that FP will not propose any dividend for FY18.

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EARNINGS IMPROVEMENT EXPECTED FOR FY19 – A MAJOR JUMP IN PROFITABILITY IS LIKELY IN 2020

While 2018 was massively impacted by the set-up of various measures around the ACT strategy (in particular decisions about the planned measures, design phase and implementation-start of the JUMP project), **2019 will be characterized by the final rollout and implementation of processes and structural measures.** ACT respectively JUMP will tie up management attention and resources during the entire year. Nevertheless, the FP management is expecting that the necessary additional costs for the complete JUMP implementation either are covered by provisions or are compensated by gradual cost savings from structural improvements.

Structural measures to improve efficiency and to reduce costs will unfold their full effect in 2020 and will result in a significant margin improvement. In 2020, FP will also experience considerably higher impact on sales and hopefully earnings from the new digital products (around discoverFP and FP Sign) as well as the IoT products (IoT gateways). Please keep in mind that even in 2020 sales contributions from these new activities will be on a relatively low level. Planning security regarding market potentials and timing is relatively low. We think there exist good growth opportunities for these new products, but there are also risks that demand for FP Sign and the IoT gateways will fall short of expectations.

FP's sales in the core business will be driven by further market share gains for franking machines, higher sales in software services and an expansion in mail services

Apart from the ongoing trend towards smaller franking systems, FP will benefit from the market introduction of the new PostBase generation and additional marketing initiatives in France and the U.S. **We are therefore expecting for the product areas Franking and Rental/Leasing around 4% growth in 2019 and still around 3% sales increase in 2020 and 2021.**

- We think the switch to the new product generation PostBase Vision offers potential for slightly higher margins due to new functionalities of the machine, making it more attractive for customers and potentially somewhat lower production costs.

- We have not included in our projections potential impacts from accounting changes (adoption of IFRS 16 regarding leasing) as well as the cooperation with leasing partners in Europe and the U.S. Such a finance lease model would allow FP to sell its discounted receivables immediately to the leasing partner. Leased machines could then be booked immediately as revenues and the balance sheet would be shortened. According to company information, these accounting changes will not have significant impact on sales, but FP is expecting a moderately positive impact on the financial result.

We are expecting slightly increasing consumables sales and increasing margins. Demand for consumables (mainly ink cartridges) is suffering from the declining mail volume per franking machine. FP, however, should be able to more than compensate for this market-related demand decline by internal measures. The company has developed new printing heads and the newly designed ink cartridges (coming from a new supplier) are better protected against product piracy. In addition, FP has launched an initiative to recycle empty ink cartridges in-house, offering particularly attractive margins for FP. We are forecasting for 2019 5% higher consumables sales of EUR 24.5mn due to the consolidation of the acquired US company for franking machine accessories. For the years thereafter, we have included in our projections slightly increasing sales.

The declining mail volume will also result in falling **Teleporto service** sales. There might be an opposing effect coming from postage increases. We are forecasting 2-3% revenue decline p.a. Margins of this business are very good as sales consist of service fees.

Service sales will in tendency decline in upcoming years. On the one hand, new franking machines are not very service-intensive. On the other hand, the service business is very personnel-intensive. Therefore, FP is slightly scaling back its service activities. We are projecting approx. 4% revenue decline p.a.

The biggest product segment of FP is Mail Services, consisting of the franking service (collecting unfranked outbound post and providing the franking) and the consolidation of business mail (collecting letters from companies, sorting them by postcode and delivering them in batches to a sorting office of Deutsche Post AG or an alternative postal distributor). **FP intends to grow this business in the upcoming years, following a decline in 2018E.** One aspect of the expected sales increase in 2019 and 2020 (Baader Helvea (E) 6% annual growth) is the likely postage increase in Germany and other markets. In addition, FP intends to increase the capacity utilization of its sorting centers. We are somewhat skeptical regarding the initiative to further grow this business. Margins are very poor (likely 1-1.5% EBITDA margin) and the JUMP initiative does not include major measures to improve the cost situation. Growth in Mail Services will therefore be margin-dilutive for FP.

Software Services (excluding FP Sign), consisting of hybrid mail services (FP Outbound) and incoming mail processing (FP Inbound) **will continue to grow noteworthy.** Our forecast of on average slightly more than 7% annual growth until 2021 might be on the conservative side.

Prospects for FP's traditional business (excluding Digital Products/FP Sign and IoT gateways): Moderate sales growth for the next three years, earnings jump in 2020:

- Altogether, we are projecting for FP's traditional business 3.8% **sales growth** to EUR 215.6mn for 2019, 3.2% growth to EUR 222.6mn for 2020 and 2.2% growth to EUR 227.6mn for 2021.

- In terms of **adjusted EBITDA,** we are expecting for **2019** a moderate margin improvement by around 40-50bps to approx. 12.9%. While the JUMP measures will have no major impact on earnings (additional implementation charges largely compensated by first savings), we expect positive margin trends at Franking Machines and Consumables overcompensating negative mix effects (strong growth at Mail Services). FP's adjusted EBIT margin will even improve stronger.

- In 2020, FP's traditional business will presumably experience a margin jump, supported by the projected EUR 6mn net cost savings related to the JUMP initiative. Our projection for **adjusted EBITDA of the traditional business in FY20** amounts to EUR 35.3mn vs. EUR 27.8mn for FY19E. This corresponds to 300bps margin improvement to around 15.9%.

- We are expecting a 10-20bps higher **adjusted EBITDA margin for 2021** and a slight absolute earnings increase towards EUR 36.4mn.

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FP sales split by products

EUR mn	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Product sales	**33.5**	**32.1**	**30.9**	**36.8**	**41.1**	**43.7**	**44.5**	**46.4**	**47.8**	**49.4**
Change yoy (%)	*-2.6*	*-4.3*	*-3.6*	*19.1*	*11.7*	*6.3*	*1.8*	*4.0*	*3.0*	*3.3*
Franking	25.4	23.6	22.9	28.2	32.7	35.0	35.8	37.9	39.3	40.8
Change yoy (%)	*-4.0*	*-7.2*	*-2.9*	*23.2*	*15.6*	*7.1*	*2.3*	*4.7*	*3.7*	*3.8*
Inserting	6.3	6.9	6.2	7.3	7.1	7.4	7.2	7.1	7.1	7.2
Change yoy (%)	*-10.2*	*9.5*	*-9.8*	*17.0*	*-2.7*	*5.3*	*-3.3*	*0.0*	*0.0*	*1.4*
Other	1.8	1.6	1.8	1.3	1.4	1.3	1.5	1.4	1.4	1.4
Change yoy (%)	*98.1*	*-12.3*	*14.0*	*-26.8*	*7.4*	*-9.1*	*17.8*	*7.7*	*0.0*	*0.0*
Recurring sales	**132.1**	**136.9**	**139.4**	**154.3**	**161.9**	**162.6**	**163.3**	**169.2**	**174.8**	**178.0**
Change yoy (%)	*5.7*	*3.6*	*1.9*	*10.7*	*4.9*	*0.5*	*0.4*	*3.6*	*3.3*	*1.8*
Rental/Leasing	24.4	22.9	25.3	31.4	32.7	33.2	32.5	33.5	34.4	35.2
Change yoy (%)	*13.3*	*-5.9*	*10.3*	*24.3*	*4.2*	*1.4*	*-2.2*	*3.1*	*2.7*	*2.3*
Service	24.9	25.7	24.8	22.3	19.7	18.6	20.4	19.5	18.7	18.0
Change yoy (%)	*-4.9*	*3.1*	*-3.5*	*-10.3*	*-11.5*	*-5.8*	*9.9*	*-4.4*	*-4.1*	*-3.7*
Consumables	20.1	21.1	21.1	23.1	23.4	22.8	23.3	24.5	25.0	25.0
Change yoy (%)	*-0.9*	*5.0*	*-0.3*	*9.7*	*1.3*	*-2.5*	*2.1*	*5.2*	*2.0*	*0.0*
Teleporto	12.2	11.6	10.7	10.0	9.0	9.0	8.6	8.4	8.2	8.0
Change yoy (%)	*0.2*	*-5.1*	*-7.5*	*-6.9*	*-10.2*	*0.8*	*-4.9*	*-2.3*	*-2.4*	*-2.4*
Mail Services	39.1	42.7	44.1	53.8	62.8	65.7	63.3	67.0	71.0	73.0
Change yoy (%)	*12.7*	*9.1*	*3.3*	*22.1*	*16.8*	*4.6*	*-3.7*	*5.8*	*6.0*	*2.8*
Software	11.4	12.9	13.4	13.7	14.2	13.3	15.2	16.3	17.5	18.8
Change yoy (%)	*13.0*	*12.6*	*4.6*	*1.5*	*4.0*	*-6.4*	*14.4*	*7.2*	*7.4*	*7.4*
Customers & Transformation							**0.6**	**7.5**	**15.5**	**23.0**
Change yoy (%)								*n.a.*	*106.7*	*48.4*
IoT							0.6	3.0	6.0	10.0
Change yoy (%)								*n.a.*	*100.0*	*66.7*
Digital Products/FP Sign							0	4.5	9.5	13.0
Change yoy (%)								*n.a.*	*111.1*	*36.8*
Group	**165.6**	**168.9**	**170.3**	**191.1**	**203.0**	**206.3**	**208.4**	**223.1**	**238.1**	**250.4**
Change yoy (%)	*3.9*	*2.0*	*0.8*	*12.2*	*6.2*	*1.7*	*1.0*	*7.0*	*6.7*	*5.2*

Source: Company data, Baader Helvea Equity Research

Projections for FP's new business activities FP Sign and IoT gateways are subjected to huge uncertainties.

FP's new product areas, FP Sign and the company's IoT gateway activities, are still in a very early stage and generated in 2018E only minor revenues (Tixi approx. EUR 1mn, negligible sales for FP Sign). Nevertheless, important milestones in the ramp-up of the business have been achieved and both activities can already rely on renowned partners.

FP Sign has generated first (negligible) revenues from sales partnerships with smaller enterprise software providers. In 2019, first revenues are expected from the franking machinery customer base that can use FP Sign via the discoverFP portal (free trial phase lasting until end of March). Based on the pricing scheme via discoverFP (EUR 20 monthly fee per license), it would require 10,000 customers to generate EUR 5mn annual sales under the assumption of on average 2.5 licenses per customer. As already described, FP has additional ways of distribution in place. **We have included in our projections annual sales for digital products of EUR 4.5mn for 2019E, EUR 9.5mn for 2020E and EUR 13mn for 2021E.** Apart from FP Sign, these sales figures also include license fees for the parcel shipping software offered via discoverFP. **While EBITDA from these digital products will still be slightly negative in 2019E, EBITDA of around EUR 1.5mn in 2020E (respectively approx. EUR 2.5mn in 2021E) seems to be realistic** under the assumption that the aforementioned sales projections will be achieved.

We have included in our projections for FP's IoT gateways mainly sales related to the acquired company: Tixi has so far already sold more than 30,000 IoT gateways. Nevertheless, Tixi's sales in 2018E amounted to only around EUR 1mn, negatively impacted by some project delays. We are confident that sales will pick up considerably in 2019, not least under the FP umbrella. **We are forecasting IoT gateway sales of EUR 3mn for 2019, EUR 6mn for 2020 and EUR 10mn for 2021**, supported as well by a new partnership of FP with the start-up Juconn GmbH. **Our EBITDA forecast amounts to EUR 1.3mn for FY19E (supported by the capitalization of development costs), EUR 1mn for 2020E (lower capitalization of development costs) and around EUR 2mn for FY21E.**

The new partnership with Juconn looks promising for FP as the company will be able to offer end-to-end solutions for IoT (starting with the sensor towards data processing and utilization at the customer site). Nevertheless, for the time being, it is impossible for us to judge sales and earnings potentials as well as the timing aspect. We are therefore applying only a conservative approach for our IoT gateway sales and earnings projections.

We are projecting for FP Group an EBITDA margin improvement towards 16% by 2020

Considering the still quite low business volume for FP's new activities FP Sign and IoT gateways, Group figures will be dominated by the traditional business areas. Nevertheless, growth will be increasingly supported by the ramp-up of the new business fields. Please keep in mind that we have chosen a cautious approach regarding the sales trend for FP Sign and the IoT gateways. While FP is still targeting around EUR 30mn revenues from the new digital business models by 2020, we have included in our projections EUR 15.5mn sales for FY20 and EUR 23mn for FY21.

- We are forecasting **Group sales** of EUR 223.1mn (+7.3% yoy) for 2019, EUR 238.1mn (+6.7%) for FY20 and EUR 250.4mn (+5.2% yoy) for FY21.

- While **2019 will still be a transition year in terms of profitability** due to the ongoing implementation of the JUMP measures, we are expecting a huge step forward in the (adjusted) EBITDA margin in 2020. In reported terms, however, 2019 will already see a strong earnings increase; in contrast to 2018 (Baader Helvea (E) EUR 7.3mn charges for Jump), no major additional net charges have to be expected. **In 2020, the full effect of targeted net savings (EUR 6mn according to FP) resulting from the reduced number of employees as well as more efficient company structures should come into effect.**

- We are forecasting EUR 28.8mn EBITDA for FY19 (+54.6% in reported and +11% in adjusted terms). The corresponding EBITDA margin would be 12.9%. For 2020, we are projecting a 31.6% earnings jump to EUR 37.8mn (15.9% margin) and for FY21 another 8% increase towards EUR 41mn (16.3% margin). FP is even targeting an EBITDA margin of approx. 17% for FY20.

- Assuming a moderate increase in depreciations, EBIT growth will even be much stronger. Our projections for the adjusted EBIT margin amount to 4.8% for 2019, 7.6% for FY20 and 8.1% for FY21.

- We still expect a largely balanced financial result and a gradually declining tax rate (Baader Helvea (E) 34% for FY19, 32.5% for FY20, 31.5% for FY21). We are projecting strongly increasing net profit of EUR 6.9mn (FY19E), EUR 11.8mn (FY20E) and EUR 13.5mn (FY21E).

- Correspondingly, we derive EPS projections of EUR 0.43 (FY19E), EUR 0.72 (FY20E) and EUR 0.83 (FY21E).

- FP's typical payout ratio amounts to 30-50% of net income, under the precondition of a positive free cash flow. We are forecasting dividends of EUR 0.15, EUR 0.25 and EUR 0.30 for the forecasted period, corresponding to payout ratios of 35-36%.

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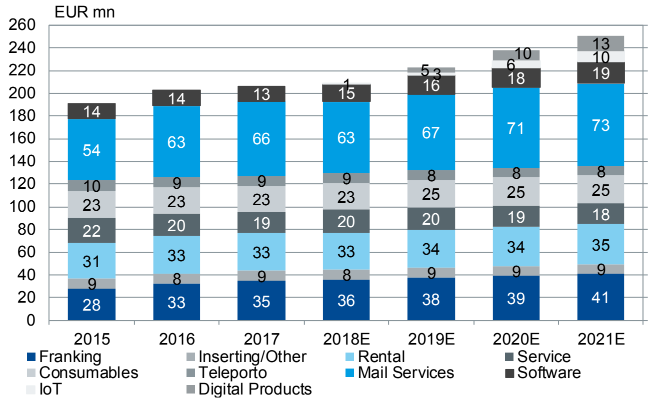
Francotyp-Postalia Holding – Baader Helvea sales and earnings projections

EUR mn	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Sales	**203.0**	**206.3**	**208.0**	**223.1**	**238.1**	**250.4**
Change yoy (%)	*6.2*	*1.7*	*0.8*	*7.3*	*6.7*	*5.2*
EBITDA	**27.2**	**26.3**	**18.6**	**28.8**	**37.8**	**40.9**
Margin (%)	13.4	12.8	8.9	12.9	15.9	16.3
Change yoy (%)	*1.6*	*-3.3*	*-29.4*	*54.6*	*31.6*	*8.0*
EBIT	**9.7**	**7.3**	**1.1**	**10.8**	**18.1**	**20.3**
Margin (%)	4.8	3.5	0.5	4.8	7.6	8.1
Change yoy (%)	*8.1*	*-25.5*	*-85.0*	*884.4*	*68.6*	*11.7*
EBIT adj.	**9.7**	**7.3**	**8.4**	**10.8**	**18.1**	**20.3**
Margin (%)	4.8	3.5	4.0	4.8	7.6	8.1
Change yoy (%)	*8.1*	*-25.5*	*15.7*	*28.1*	*68.6*	*11.7*
EBT	**9.6**	**7.1**	**1.2**	**10.5**	**17.4**	**19.8**
Margin (%)	4.7	3.4	0.6	4.7	7.3	7.9
Change yoy (%)	*25.7*	*-26.5*	*-83.1*	*776.7*	*66.8*	*13.3*
Net income after min.	**5.9**	**4.6**	**0.4**	**6.9**	**11.8**	**13.5**
Margin (%)	2.9	2.3	0.2	3.1	4.9	5.4
Change yoy (%)	*65.3*	*-20.6*	*-91.8*	*n.a.*	*69.3*	*15.0*

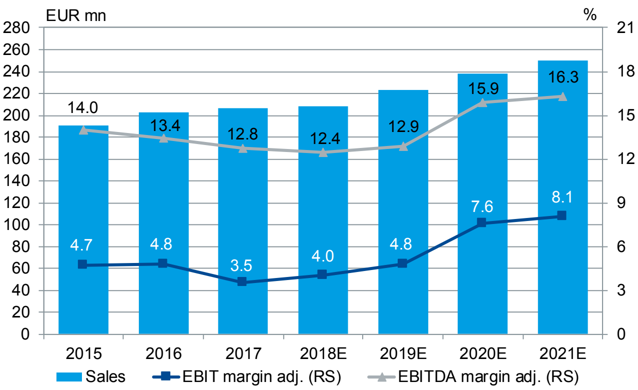
Source: Company data, Baader Helvea Equity Research

FP SALES AND MARGIN PERFORMANCE 2015-2021E

Growth in FM accompanied by ramp-up of new businesses



Margin jump expected for FY20



Source: Company data, Baader Helvea Equity Research

FP's sales and margin targets are considerably more ambitious and our projections might therefore be on the conservative side. FP is still projecting for FY20 approx. EUR 250mn sales and at least 17% EBITDA margin.

- This would require in particular a faster ramp-up of the IoT gateway sales and corresponding good earnings contributions.
- Particularly in terms of the material cost ratio there might be potential for a considerable improvement compared to our forecast.
- FP has still the vision of approx. EUR 400mn sales by 2023 and at least 20% EBITDA margin. According to FP, this figure includes sales contributions from an acquisition. The company is projecting annual growth rates of 4% for its traditional business and 9% annual growth for its new business activities (Secure digital communication processes). Our long-term projections, which are the basis for our DCF model, are only including a moderate ramp up of sales coming from the new activities. We are therefore considering our estimates as a well-supported basis case with significant upside potential in the event that FP's business with FP Sign and the IoT gateways develops dynamically.

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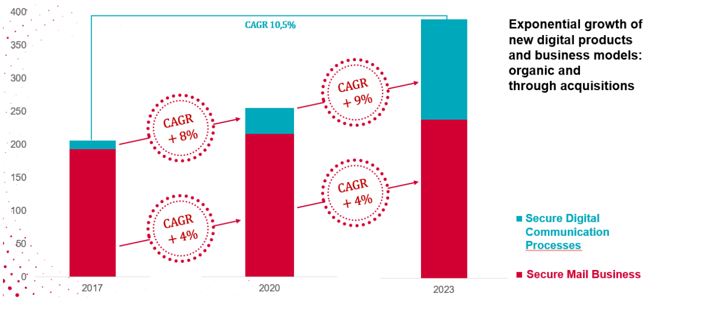
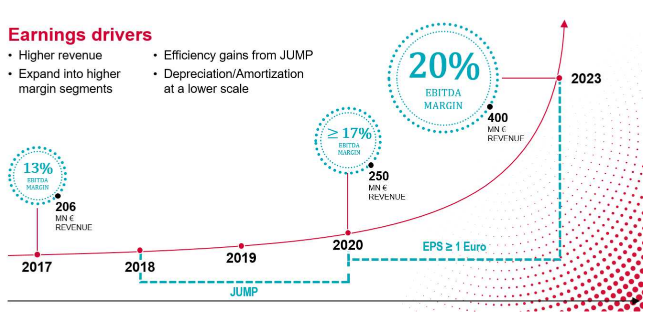
AMBITIOUS LONG-TERM GROWTH AND MARGIN TARGETS

Sales target of EUR 400mn by 2023



20% EBITDA margin target for 2023



Source: Company data

Acceptable balance sheet quality with comfortable financial headroom – Cash flows will massively improve from 2020 on

FP's balance sheet is characterized by very high intangible assets (around EUR 40mn or 23% of the balance sheet total including capitalized goodwill). Due to the business model that is requiring only quite limited production activities (in particular assembly of franking machines) and financing on the basis of finance leases, the book value of real estate, plant and equipment in FP's balance sheet is relatively low (approx. 7% of the balance sheet total). There is significant impact from the rental/leasing business (EUR 18-19mn leased products, EUR 13mn finance lease receivables).

FP's equity ratio as of end-2018 will likely be in the range of 18-19% (Baader Helvea (E) approx. EUR 32mn equity as of end-2018). We are convinced that the equity ratio will massively improve in the upcoming years (Baader Helvea (E) approx. 29% by 2021). FP's **net financial debt** (financial debt minus cash and securities, adjusted for the postage credit balance; Baader Helvea (E) approx. EUR 29mn) is on a very acceptable level. Following the extension and increase of its syndicated loan agreement in September 2018 (EUR 150mn with an increase option of EUR 50mn, duration until 2023 with two years extension option), **FP's financial headroom is very comfortable.**

We are expecting a free cash flow of around EUR 10mn by 2021. FCF has been strongly negative in 2018 (Baader Helvea (E) EUR -5.5mn), among others due to restructuring charges and acquisitions. We are projecting a balanced or slightly negative FCF for 2019 in view of the high cash outflow for redundancies. From 2020, however, FP should be able to generate highly positive free cash flows. We think our estimates of EUR 8.7mn for FY20 and EUR 10.1mn for FY21 are even on the conservative side.

Our projections for free cash flow do not consider the impacts related to the application of IFRS 16 regarding leases (effective for reporting in 2019). In tendency, IFRS 16 will result in a balance sheet extension and consequently in a reduction of the equity ratio. Net debt will likely increase by a lower two-digit EUR mn amount. On the other hand, due to higher depreciations, EBITDA will be impacted positively. We also expect a positive impact on the company's free cash flow.

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CONSOLIDATED INCOME STATEMENT

		2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sales	**EUR mn**	**170.3**	**191.1**	**203.0**	**206.3**	**208.0**	**223.1**	**238.1**	**250.4**
Change yoy	*%*	*0.8*	*12.2*	*6.2*	*1.7*	*0.8*	*7.3*	*6.7*	*5.2*
Change in stock	*EUR mn*	*0.6*	*-0.1*	*0.2*	*0.5*	*0.4*	*0.5*	*0.5*	*0.5*
Own work capitalized	EUR mn	15.5	15.8	11.4	10.8	13.5	13.0	12.0	11.5
Total output	**EUR mn**	**186.4**	**206.7**	**214.5**	**217.7**	**221.9**	**236.6**	**250.6**	**262.4**
Change yoy	*%*	*2.5*	*10.9*	*3.8*	*1.5*	*1.9*	*6.6*	*5.9*	*4.7*
Material expenses	EUR mn	82.0	91.3	96.5	102.9	104.2	111.6	118.6	123.9
as a percentage of sales	%	48.2	47.8	47.6	49.9	50.1	50.0	49.8	49.5
Personnel expenses	EUR mn	53.5	57.4	57.4	59.2	64.3	62.7	58.7	60.1
as a percentage of sales	%	31.4	30.0	28.3	28.7	30.9	28.1	24.7	24.0
Other operating income	EUR mn	2.4	4.3	3.8	4.8	3.5	3.6	3.8	3.9
as a percentage of sales	%	1.4	2.3	1.9	2.3	1.7	1.6	1.6	1.6
Other operating expenses	EUR mn	30.1	35.6	37.1	34.1	38.3	37.2	39.3	41.4
as a percentage of sales	%	17.7	18.6	18.3	16.5	18.4	16.7	16.5	16.5
EBITDA	**EUR mn**	**23.1**	**26.8**	**27.2**	**26.3**	**18.6**	**28.8**	**37.8**	**40.9**
as a percentage of sales	%	13.6	14.0	13.4	12.8	8.9	12.9	15.9	16.3
Change yoy	*%*	*4.1*	*16.1*	*1.6*	*-3.3*	*-29.4*	*54.6*	*31.6*	*8.0*
Depreciation (normal)	EUR mn	13.3	17.8	17.5	19.1	17.5	18.0	19.7	20.6
EBIT	**EUR mn**	**9.8**	**9.0**	**9.7**	**7.3**	**1.1**	**10.8**	**18.1**	**20.3**
as a percentage of sales	%	5.8	4.7	4.8	3.5	0.5	4.8	7.6	8.1
Change yoy	*%*	*-5.4*	*-8.2*	*8.1*	*-25.5*	*-85.0*	*884.4*	*68.6*	*11.7*
One-offs/Special items	EUR mn	0.0	0.0	0.0	0.0	7.3	0.0	0.0	0.0
EBIT adj.	**EUR mn**	**9.8**	**9.0**	**9.7**	**7.3**	**8.4**	**10.8**	**18.1**	**20.3**
as a percentage of sales	%	5.8	4.7	4.8	3.5	4.0	4.8	7.6	8.1
Net financial result	EUR mn	-1.4	-1.4	-0.1	-0.2	0.1	-0.3	-0.7	-0.5
as a percentage of sales	%	-0.8	-0.7	-0.1	-0.1	0.0	-0.1	-0.3	-0.2
Other financial income/expenses	EUR mn	*0.7*	*0.2*	*0.1*	*-0.4*	*0.0*	*0.0*	*0.0*	*0.0*
as a percentage of sales	%	0.4	0.1	0.0	-0.2	0.0	0.0	0.0	0.0
EBT	**EUR mn**	**8.4**	**7.7**	**9.6**	**7.1**	**1.2**	**10.5**	**17.4**	**19.8**
as a percentage of sales	%	4.9	4.0	4.7	3.4	0.6	4.7	7.3	7.9
Change yoy	*%*	*7.5*	*-9.0*	*25.7*	*-26.5*	*-83.1*	*776.7*	*66.8*	*13.3*
Income tax expense	EUR mn	3.2	3.9	3.4	2.4	0.8	3.5	5.7	6.2
Tax rate	%	38.0	51.3	35.5	34.3	68.1	33.5	32.5	31.5
Net income (before minorities)	**EUR mn**	**5.2**	**3.7**	**6.2**	**4.6**	**0.4**	**6.9**	**11.8**	**13.5**
Minorities	EUR mn	-0.1	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0
Net income (rep. after minorities)	**EUR mn**	**5.1**	**3.5**	**5.9**	**4.6**	**0.4**	**6.9**	**11.8**	**13.5**
Adjustments (net)	EUR mn	0.0	0.0	0.0	0.0	4.8	0.0	0.0	0.0
Net income (adjusted)	**EUR mn**	**5.1**	**3.5**	**5.9**	**4.6**	**5.2**	**6.9**	**11.8**	**13.5**
as a percentage of sales	%	3.0	1.9	2.9	2.3	2.5	3.1	4.9	5.4
Change yoy	*%*	*3.3*	*-30.4*	*65.3*	*-20.6*	*11.8*	*33.7*	*69.3*	*15.0*
Number of average shares outstanding	mn	16.2	16.2	16.1	16.2	16.3	16.3	16.3	16.3
EPS reported	**EUR**	**0.32**	**0.22**	**0.36**	**0.29**	**0.02**	**0.43**	**0.72**	**0.83**
EPS adjusted	**EUR**	**0.32**	**0.22**	**0.36**	**0.29**	**0.32**	**0.43**	**0.72**	**0.83**

Source: Company data, Baader Helvea Equity Research

Francotyp-Postalia Holding

CASH FLOW STATEMENT

		2014	2015	2016	2017	2018E	2019E	2020E	2021E
Net income before minorities	EUR mn	5.2	3.7	6.2	4.6	0.4	6.9	11.8	13.5
Depreciation & amortization	EUR mn	13.3	17.8	17.5	19.1	17.5	18.0	19.7	20.6
Change in provisions	EUR mn	2.8	-0.6	3.8	-0.4	3.4	-2.6	0.4	0.8
Change in NWC	EUR mn	27.6	1.6	5.9	-2.7	3.1	0.8	1.7	2.5
(-) change in inventories	EUR mn	10.0	1.7	0.5	-0.6	1.6	1.3	1.6	1.0
(-) change in trade accounts receivables	EUR mn	17.3	-0.4	-2.0	-0.3	0.9	1.5	2.2	1.3
(-) change in other assets and amounts receivable	EUR mn	2.7	2.1	4.9	0.2	0.4	0.5	0.4	0.2
(+) change in trade accounts payable	EUR mn	2.0	0.4	0.8	0.6	0.8	0.5	0.5	0.0
(+) change in other non-interest bearing liabilities	EUR mn	0.4	1.3	-0.3	1.5	-1.1	2.0	2.0	0.0
(-) change in deferred assets	EUR mn	11.5	2.7	1.4	-2.3	0.1	0.5	0.7	0.8
change in deferred liabilities	EUR mn	2.8	3.0	4.1	-2.4	0.4	0.0	0.5	0.5
(-) earnings from asset disposals	EUR mn	0.0	0.0	-0.1	-0.7	0.0	0.0	0.0	0.0
Operative adjustments	EUR mn	32.5	-0.9	-2.2	-5.4	1.0	0.5	0.0	0.0
Cash flow from operations	**EUR mn**	**17.5**	**18.6**	**22.1**	**21.3**	**19.4**	**21.5**	**30.0**	**32.1**
Proceeds from disposal of fixed assets	EUR mn	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
(-) investment in fixed assets	EUR mn	23.3	20.2	-16.9	15.5	21.5	21.5	21.3	22.0
(-) investment in financial assets	EUR mn	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0
Acquisitions/disposal of investments	EUR mn	-1.9	0.0	0.0	0.0	-3.5	0.0	0.0	0.0
Others	EUR mn	2.1	0.1	-0.8	0.0	0.0	0.0	0.0	0.0
Cash flow from investments	**EUR mn**	**-23.1**	**-20.1**	**-17.6**	**-15.5**	**-25.0**	**-22.5**	**-21.3**	**-22.0**
Free cash flow	**EUR mn**	**-5.6**	**-1.4**	**4.6**	**5.8**	**-5.6**	**-1.0**	**8.7**	**10.1**
Proceeds from issuance of shares/buyback of shares	EUR mn	-0.3	-0.1	-0.3	0.2	0.0	0.0	0.0	0.0
Dividends paid	EUR mn	0.0	-2.6	-1.9	-2.6	-1.9	0.0	-2.4	-4.1
Result from issuance and repayments of debt	EUR mn	-7.1	4.9	2.1	5.1	-0.3	0.0	-3.0	-7.0
Others	EUR mn	-0.4	0.2	-0.6	-1.7	-1.0	-0.5	-0.5	0.0
Cash flow from financing activities	**EUR mn**	**-7.8**	**2.4**	**-0.7**	**1.1**	**-3.2**	**-0.5**	**-5.9**	**-11.1**
Exchange rate-related and other changes in cash	EUR mn	0.6	0.6	-1.1	-1.4	-0.5	-0.5	-0.3	0.3
Change in cash position	**EUR mn**	**-13.4**	**1.0**	**3.8**	**6.9**	**-8.8**	**-1.5**	**2.7**	**-0.9**

Source: Company data, Baader Helvea Equity Research

Francotyp-Postalia Holding

CONSOLIDATED BALANCE SHEET

		2014	2015	2016	2017	2018E	2019E	2020E	2021E
ASSETS									
Goodwill	EUR mn	9.1	8.5	8.5	8.5	10.5	10.5	10.5	10.5
Intangible assets	EUR mn	23.8	24.5	26.4	26.7	30.2	31.2	30.7	30.0
Fixed assets	EUR mn	37.0	42.0	39.3	31.8	32.8	35.3	37.3	38.6
Associated co./financial investments	EUR mn	0.0	0.2	0.2	0.2	0.0	1.0	1.0	1.0
Receivables financial services	EUR mn	2.6	5.6	9.4	11.2	13.0	13.0	13.5	13.7
Other financial assets	EUR mn	6.9	6.9	0.1	2.4	2.5	2.8	3.0	3.1
Deferred tax assets	EUR mn	3.7	1.9	0.9	1.4	2.4	2.5	2.7	2.9
Other long-term financial assets	EUR mn	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Other assets	EUR mn	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	**EUR mn**	**13.4**	**14.4**	**10.4**	**15.2**	**18.0**	**18.5**	**19.4**	**19.9**
Inventory	EUR mn	10.0	11.7	11.2	10.6	12.2	13.5	15.1	16.1
Trade receivables	EUR mn	17.3	16.9	19.0	18.6	19.5	21.0	23.2	24.5
Receivables financial services	EUR mn	1.2	2.8	3.2	4.0	5.0	5.2	5.4	5.5
Other short-term assets	EUR mn	11.5	14.3	15.6	13.4	13.5	14.0	14.7	15.5
Tax receivables	EUR mn	1.4	1.9	6.5	5.8	5.2	5.5	5.7	5.8
Cash and equivalents	EUR mn	17.2	18.9	27.1	34.9	24.8	22.9	25.3	24.7
Assets held for sale	EUR mn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**EUR mn**	**58.7**	**66.5**	**82.5**	**87.4**	**80.2**	**82.1**	**89.4**	**92.1**
Total long and short-term assets	**EUR mn**	**142.1**	**156.2**	**167.3**	**169.7**	**171.7**	**178.5**	**188.3**	**192.0**
EQUITY AND LIABILITIES									
Subscribed capital	EUR mn	16.2	16.2	16.2	16.3	16.3	16.3	16.3	16.3
Capital reserve	EUR mn	35.0	34.9	34.6	34.7	34.7	34.7	34.7	34.7
Retained earnings	EUR mn	-18.9	-17.8	-13.8	-11.6	-13.0	-6.0	3.3	12.7
Other comprehensive income	EUR mn	-2.6	1.3	-1.1	-4.9	-4.1	-4.2	-4.2	-4.2
Treasury shares	EUR mn	-1.0	-0.8	0.0	-1.6	-1.9	-1.9	-1.9	-1.9
Minorities	EUR mn	1.4	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Equity	**EUR mn**	**30.1**	**35.2**	**35.9**	**33.0**	**32.1**	**38.9**	**48.3**	**57.7**
Pension provisions	EUR mn	17.4	15.5	17.1	16.5	16.4	16.5	16.5	16.7
Deferred tax liabilities	EUR mn	0.7	0.7	0.6	1.6	1.4	1.5	1.5	1.5
Long-term provisions for other risks	EUR mn	0.9	0.9	1.0	1.1	1.6	1.4	1.3	1.4
Long-term portion of financial indebtedness	EUR mn	25.9	31.7	37.5	43.1	43.0	43.0	40.0	33.0
Other liabilities	EUR mn	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Non-current liabilities	**EUR mn**	**45.0**	**48.8**	**56.3**	**62.5**	**62.4**	**62.4**	**59.3**	**52.6**
Trade accounts payable	EUR mn	9.5	9.9	10.6	11.2	12.0	12.5	13.0	13.0
Income tax payable	EUR mn	2.6	3.9	3.6	5.1	4.0	6.0	8.0	8.0
Short-term provisions for other risks	EUR mn	4.6	5.9	8.0	8.0	11.0	8.5	9.0	9.5
Short-term portion of financial indebtedness	EUR mn	5.5	4.6	0.9	0.4	0.2	0.2	0.2	0.2
Other liabilities	EUR mn	44.9	47.9	52.0	49.6	50.0	50.0	50.5	51.0
Liabilities related to assets held for sale	EUR mn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	**EUR mn**	**67.1**	**72.2**	**75.1**	**74.3**	**77.2**	**77.2**	**80.7**	**81.7**
Total equity and liabilities	**EUR mn**	**142.1**	**156.2**	**167.3**	**169.7**	**171.7**	**178.5**	**188.3**	**192.0**

Source: Company data, Baader Helvea Equity Research

Key data

Francotyp-Postalia Holding

Germany

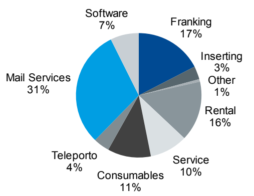
Machinery

Reuters: FPHG.DE	Bloomberg: FPH GY
Buy	
Price on 25-Jan-19	EUR 3.38
Target price	**EUR 6.30**
High/Low (12M)	EUR 4.45/2.97
Market cap.	EUR mn 55

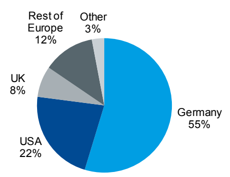
Company profile

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).

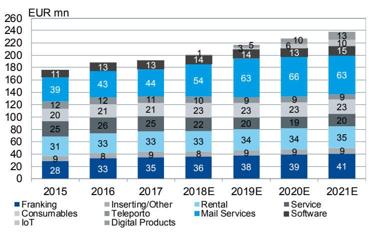
Sales by Product (2018E)



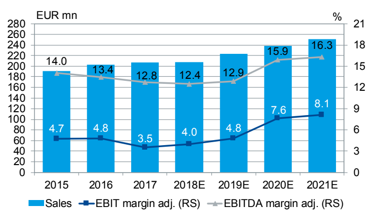
Sales by Region (2017)



Sales trend by product category (2017)



Sales, EBITDA and adj. EBIT margin trend



Source: Company data, Thomson Reuters Datastream, Baader Helvea Equity Research

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FY 31 Dec.	2016	2017	2018E	2019E	2020E	2021E
Share data						
EPS reported (EUR)	0.36	0.29	0.02	0.43	0.72	0.83
EPS adjusted (EUR)	**0.36**	**0.29**	**0.32**	**0.43**	**0.72**	**0.83**
Dividend (EUR)	0.16	0.12	0.00	0.15	0.25	0.30
Book value (EUR)	2.24	2.03	1.97	2.39	2.96	3.54
Free cash flow (EUR)	0.28	0.36	-0.34	-0.06	0.53	0.62
Avg. no. of shares (mn)	16.1	16.2	16.3	16.3	16.3	16.3
Market cap. (avg./current; EUR mn)	67.8	84.6	61.3	55.1	55.1	55.1
Enterprise value (EUR mn)	104.7	36.0	106.5	102.4	97.0	90.8
Valuation						
P/E adj. (x)	**11.7**	**17.9**	**11.8**	**7.9**	**4.7**	**4.1**
P/BV (x)	1.9	2.6	1.9	1.4	1.1	1.0
FCF/EV (%)	5.0	91.0	-5.5	-0.9	8.9	11.2
FCF yield (%) (FCF/Mcap.)	6.7	6.8	-9.1	-1.7	15.7	18.4
Dividend yield (%)	3.8	2.3	0.0	4.4	7.4	8.9
EV/Sales (x)	0.5	0.2	0.5	0.5	0.4	0.4
EV/EBITDA adj. (x)	3.8	1.4	4.1	3.6	2.6	2.2
EV/EBIT adj. (x)	10.7	5.0	12.7	9.5	5.3	4.5
EV/CE (x)	1.1	0.4	1.1	1.0	0.9	0.8
ROCE/WACC adj. (x)	1.3	1.0	1.2	1.5	2.3	2.4
Key company data						
Sales growth (%)	6.2	1.7	0.8	7.3	6.7	5.2
EBITDA adj. growth (%)	1.6	-3.3	-1.6	11.0	31.6	8.0
EBITDA adj. margin (%)	13.4	12.8	12.4	12.9	15.9	16.3
EBIT adj. margin (%)	**4.8**	**3.5**	**4.0**	**4.8**	**7.6**	**8.1**
Net adj. margin (%)	2.9	2.3	2.5	3.1	4.9	5.4
Free cash flow margin (%)	2.2	2.8	-2.7	-0.4	3.6	4.0
Payout ratio (%)	43.9	42.0	0.0	35.2	34.6	36.1
Gearing (%) (net debt/equity)	55.0	59.0	90.0	79.1	52.6	32.9
Net debt/EBITDA (x)	0.7	0.7	1.6	1.1	0.7	0.5
Equity ratio (x) (equity/total assets)	21.5	19.4	18.7	21.8	25.6	30.1
Capital employed (EUR mn)	94.0	85.2	93.1	99.9	104.7	107.6
ROCE adj. (%)	10.4	8.5	9.0	10.8	17.3	18.8
Income statement (EUR mn)						
Turnover	203.0	206.3	208.0	223.1	238.1	250.4
EBITDA	27.2	26.3	18.6	28.8	37.8	40.9
EBITDA adj.	27.2	26.3	25.9	28.8	37.8	40.9
EBIT	9.7	7.3	1.1	10.8	18.1	20.3
EBIT adj.	9.7	7.3	8.4	10.8	18.1	20.3
EBT	9.6	7.1	1.2	10.5	17.4	19.8
Net profit after minorities	5.9	4.6	0.4	6.9	11.8	13.5
Net profit adj.	5.9	4.6	5.2	6.9	11.8	13.5
Balance sheet (EUR mn)						
Non-current assets	10	15	18	19	19	20
thereof goodwill	8	8	10	10	10	10
Current assets	83	87	80	82	89	92
Total assets	**167**	**170**	**172**	**179**	**188**	**192**
Shareholders' equity	36	33	32	39	48	58
Total equity and liabilities	**167**	**170**	**172**	**179**	**188**	**192**
Net debt	20	19	29	31	25	19
Cash flow (EUR mn)						
Cash flow from operations	22.1	21.3	19.4	21.5	30.0	32.1
of which change in working capital	5.9	-2.7	3.1	0.8	1.7	2.5
Cash flow from investments	-17.6	-15.5	-25.0	-22.5	-21.3	-22.0
of which investment in fixed assets	16.9	15.5	21.5	21.5	21.3	22.0
Free cash flow	**4.6**	**5.8**	**-5.6**	**-1.0**	**8.7**	**10.1**
Dividends paid	-1.9	-2.6	-1.9	0.0	-2.4	-4.1
Cash flow from financing activities	-0.7	1.1	-3.2	-0.5	-5.9	-11.1
Change in cash position	**3.8**	**6.9**	**-8.8**	**-1.5**	**2.7**	**-0.9**

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

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Applicable Key Factors

Company	**Key**
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Expected total return based on forecast dividend and 12-month price targets.

	Risk category	
Rating	**1**	**2**
Buy	>10%	>15%
Hold	0% to 10%	0% to 15%
Sell	<0%	<0%

Research ratings key:
There are three possible ratings: Buy, Hold or Sell.

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