

German Media: diversified group but generally a growing sector

With this note we initiate on six German-based groups operating in the broader Media sector: Axel Springer, CTS Eventim, RTL Group, Scout24, Syzygy and XING.

Recruitment and Online Classifieds

Not so long ago, job vacancies used to be advertised in newspapers and recruiting agencies sent around mailings to potential applicants attempting to match the two. In a very short period, sophisticated digital models are bringing prospective employees to companies (and vice-versa). The same is true for property rental and purchases, or for buying a new car or choosing a holiday location. Three of the groups that we initiate on today have taken this to quite advanced levels: Axel Springer, Scout24 and XING.

Broadcasting and advertising

Watching TV remains a favourite pastime, but the consumer today is not restricted to a small number of public broadcasters with some local ad-funded private channels. Streaming content of choice and at the time desired has become the preference for many viewers, reducing the time spent watching the traditional broadcasters. RTL Group is one of the traditional TV broadcasters (actually largest in Europe operating in eight countries) that is managing declining ad revenue from traditional TV (still by far the most important advertising tool) to monetarizing streaming (of which it is already one of Europe's largest). SYZGY is an international digital full service advertising agency with focus on strategy consulting, marketing and web product solutions.

Live entertainment

CTS Eventim is Europe's largest ticket and concert promoter and is also making good use of digital channels for selling these events to an ever growing customer base.

Preferred names

Of the Recruitment / Classified ads businesses, we have a preference for Axel Springer, both on valuation grounds, but we also see it as better diversified in terms of revenue streams, which we see as vital given the need for constant investment in new platforms, etc. Traditional TV operators are under pressure across Europe, but we view RTL Group as one of the better diversified in terms of geographic exposure and revenue generation.

Sector

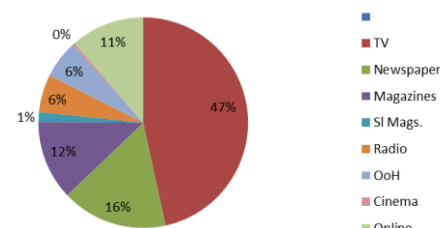
Germany Media

Top 10 advertising spending countries 2015 and 2018 (USD m)

USD m	2015	2018
USA	182,615	200,603
China	74,406	92,719
Japan	41,805	44,147
UK	26,020	31,049
Germany	25,791	27,802
Brazil	14,364	14,612
France	13,349	13,662
S Korea	12,208	13,038
Australia	11,855	12,816
Canada	10,172	10,955

Source: ZenithOptimedia

Media mix Germany, 2016



Advertising spending in Europe between 2013 and 2016 by medium (EUR bn)

	2013	2014	2015	2016
TV	32.3	33.5	33.3	34.0
Online	27.3	30.7	36.2	41.9
Print	29.1	26.8	25.5	23.3
Out-of-home	7.6	7.8	7.5	7.4
Radio	5.2	5.2	5.2	5.2
Cinema	0.7	0.7	0.7	0.7

Source: IAB Europe, IHS

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Exhibit: Overview Personal Goods coverage

Name	Recommendation	Target Price	Last Price	Up/Downside	Market Cap (EURm)	Analyst
Media						
Axel Springer	Buy	64.00	54.20	18%	5,848	Mark Josefson
CTS Eventim	Buy	40.00	32.70	22%	3,139	Christian Bruns, CFA
RTL Group	Buy	60.00	52.35	15%	8,038	Mark Josefson
Scout24	Hold	39.00	37.10	5%	3,992	Mark Josefson
Syzygy AG	Buy	10.70	8.90	20%	113	Christian Bruns, CFA
Xing SE	Hold	285.0	263.5	8%	1,481	Mark Josefson

Name	PE (adj) 2018e	PE (adj) 2019e	Div. Yield 2018e	Div. Yield 2019e	EV/EBIT 2018e	EV/EBIT 2019e
Media						
Axel Springer	18.9	17.20	0.04	4%	15.9	12.2
CTS Eventim	24.6	21.9	2.0%	2.2%	13.1	11.2
RTL Group	11.4	11.7	7.6%	7.6%	7.8	8.0
Scout24	23.3	20.4	1.2%	1.3%	21.7	17.9
Syzygy AG	25.4	22.7	3.8%	4.3%	21.7	19.4
Xing SE	44.4	34.8	0.7%	1.0%	27.7	22.1

Source: Pareto Securities, FactSet

Exhibit: Advertising mix in Germany

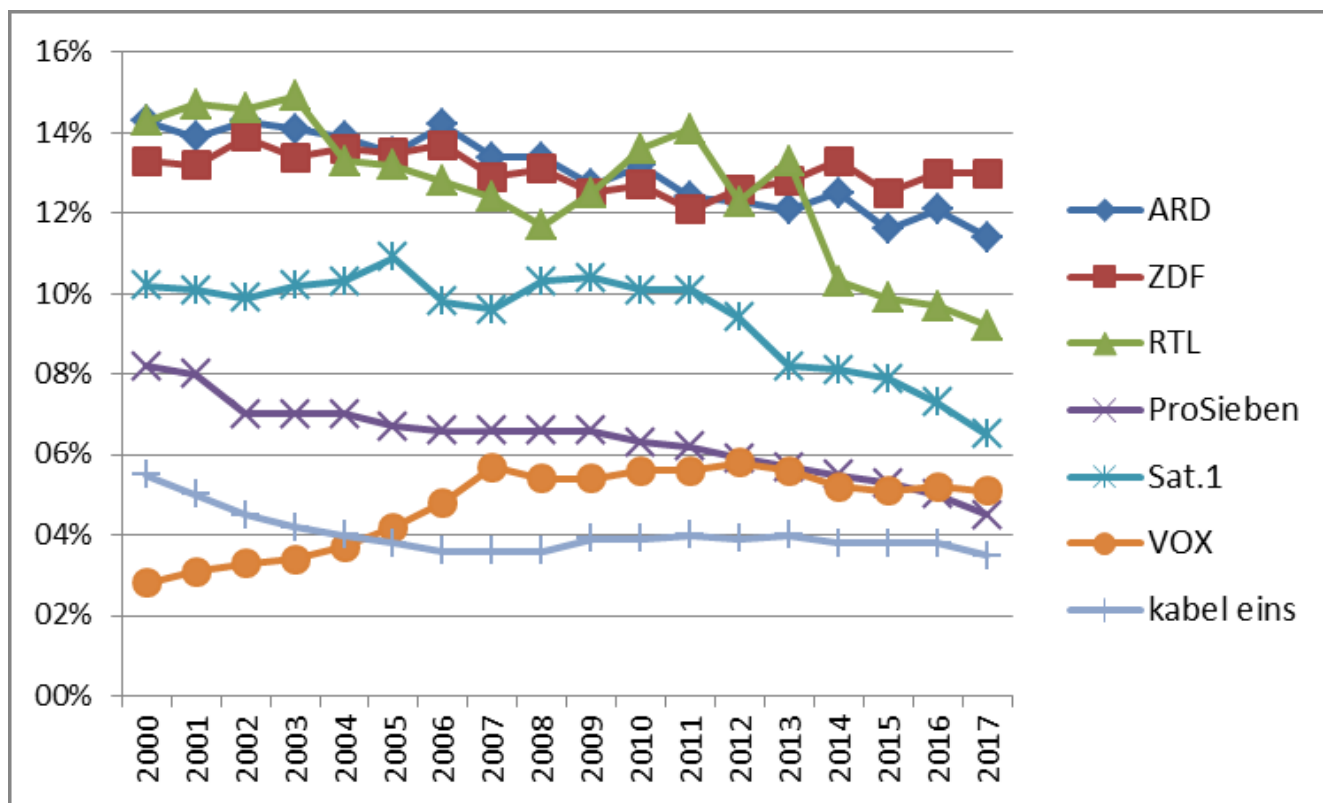
Advertising expenditure in European Union (EU 28) from 2009 to 2016 (EUR m)							
	2010	2011	2012	2013	2014	2015	2016
Television advertising	28,876	28,852	27,625	27,607	29,147	30,949	31,416
Newspaper advertising	21,362	20,617	18,824	17,210	16,234	15,642	14,535
Magazine advertising	10,010	9,428	8,487	7,743	7,421	7,139	6,682
Outdoor advertising	5,462	5,431	5,430	5,337	5,569	5,954	5,941
Radio advertising	4,813	4,767	4,727	4,639	4,807	5,047	5,148
Cinema advertising	626	616	678	599	642	751	738

Source: European Audiovisual Observatory; WARC; IP Network (EUR m)

Source: Pareto Securities

The two quoted German broadcasters RTL and ProSieben have lost share with their main channels, but both have increased audience share by way of introducing new channel. In terms of “all viewers” the RTL Group of channels held 23.2% share on German television in 2017, followed by the ProSiebenSat.1 Group with a combined share of 17.6%.

Exhibit: Audience market share in Germany per AGF



Source: Pareto Securities

Successfully transformed from print publishing to online classifieds

Axel Springer has been very successful with investing still strong cash flows from structurally declining print business into above average growth segment of online classifieds. This should allow SPR to generate c11% CAGR in EBITDA 201-20e which could help underpin a further re-rating: Buy, Target Price EUR 64.

Investment Case

In terms of future value drivers, the group continues to invest heavily into digital Classifieds (technology / marketing / bolt-on acquisitions), a segment in which we see strong revenue potential and in the case of SPR improving margins from next year. Focus of communication is to present the respective business units of ASDC in the context of the individual markets in which they operate, proving investors a useful insight to some of the key drivers.

Although the print segment within News Media continues to face structural issues, Business Insider and eMarketer are both recording strong double digit revenue growth and are no longer a drag on divisional profits (break-even for BI in H2-18 has been confirmed whilst eM is anyway profitable). Within Marketing Models, the IPO of Awin is another potential driver, albeit likely beyond next year.

Although we model only 4% pa CAGR in group revenue 2017-2020e, EBITDA is forecast at 10.8content %, driven by Classifieds (PAR +13%e), followed by the Marketing Media (+5%e), with News Media (+4%e).

EURm	2016	2017	2018e	2019e	2020e
Revenues	3.290	3.563	3.185	3.302	3.422
EBITDA	830	763	792	913	874
EBIT	598	527	478	592	550
EPS	3,96	3,19	2,60	3,16	2,95
EPS adj	2,41	2,60	2,87	3,15	3,65
DPS	1,90	2,00	2,10	2,40	2,60
EV/EBITDA	8,2	11,7	9,6	7,9	8,4
EV/EBIT	11,4	16,9	15,9	12,2	13,3
P/E adj	19,2	25,1	18,9	17,2	14,8
P/B	2,24	3,07	2,46	2,35	2,27
ROE (%)	20,0	15,3	12,0	14,0	12,6
Div yield (%)	4,1	3,1	3,9	4,4	4,8
Net debt	1.386	1.364	1.191	786	841

Source: Pareto



Target price (EUR)	64
Share price (EUR)	54

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	SPRGN.DE, SPR GR
Sector	Media
Shares fully diluted (m)	107,9
Market cap (EURm)	5.848
Net debt (EURm)	1.191
Minority interests (EURm)	561
Enterprise value 18e (EURm)	7.601
Free float (%)	48

Performance



Source: Factset

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Successfully transformed from print publishing to classifieds

12/12/18 CMD may provide mid-term goals; otherwise 2019 guidance in March

New competition could undermine mid-term goals

Target price of EUR 64.5 derived from equal blend of DCF and EV/EBIT multiple

Company profile

Axel Springer SE is one of the largest media publishers in Europe. Like most global media companies Springer is in the transformation process from print media to online media. Today, the company already generates over 80% of group EBITDA from digital activities, whilst even within the traditional Paid Models segment, online activities account for close to 25%.

Upcoming Triggers and Drivers

There will be a Capital Markets Day in London on 12 December, with a detailed update on important parts of the Axel Springer group and trends in the classifieds space as well as in the content business. There could be some mid-term goals outlined, but we do not anticipate detailed comments on 2019.

Next scheduled reporting: Reporting of Q4-18 results is expected to show a slowing revenue momentum, 9M level (PAR +3%e reported and organic) given the high Q4-17 base with the high advertising revenues at that time. However, organic EBITDA growth will be HSD (PAR +8.5%e) allowing the group to reach annual guidance calling for mid-HSD growth (PAR 7%e or EUR 740m). FY 2018 results will be published 7 March 2019, together with guidance for FY 2019e covering sales, costs & margins and EBIT development. First guidance for 2019 is likely to call for low-MSD revenue growth, with EBITDA rising HSD.

Risk to the investment case

In the short term, the main downside risk is in our view would be an escalation of the structural move away from traditional print media. Newspaper circulation rates had shown signs of stabilising, but have fallen away again recently.

In the longer term, a large part of the growth case is based on above average development with the digital classifieds business and maintaining or even strengthening the healthy margin structure thereof. New competition could undermine this scenario.

Valuation and recommendation

Given good visibility within the divisional analysis, particularly within Classifieds, but also in both the News Media and Marketing Models, we value Axel Springer on a sum of the parts valuation, based on comparable peer multiples. Although the group itself guides for adjusted EBITDA, we prefer to review EV/EBIT given the better comparability within our peer groups.

This yields a lower value (EUR 59.3) than simply relying on the DCF (EUR 68.7) for which we assume a sustainable EBIT margin of 18% and apply 6.7% WACC (with 0.8 beta and 1.5% perpetual revenue growth). We assume a capex-to-sales ratio peak in 2019 of 7.3%, inflated by the completion of the group headquarters (before S&L), but the ratio will likely stay high across the mid-term (6.9% modelled) with a steady flow of bolt-on acquisitions, plus constant renewal of the digital platforms.

Our target price of EUR 64 gives equal weighting the DCF and SOTP. Our target price implies a target adjusted PE of 20x for FY 2019e and EV/EBIT multiple of 13.5, respectively c10 10% premium and 5% discount to the conglomerate peer group median values. With an upside potential of 18% to our target price we rate Axel Springer with a Buy rating and consider it to be on a good way to establishing a leading position with digital content publishing.

Peer Group Valuation

COMPANY	P/E 2019	P/E 2020	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2019	EV/EBIT 2020	EV/Sales 2019	EV/Sales 2020
AUTO TRADER GROUP PLC	19.3	17.1	16.0	14.7	16.5	15.1	11.5	10.7
CARSACKS.COM LIMITED	20.5	18.5	14.1	12.8	15.4	13.9	6.5	5.9
EN-JAPAN	20.0	17.2	11.1	9.3	12.6	10.5	3.3	2.8
EXPEDIA INC.	18.1	15.2	8.1	6.8	18.3	13.9	1.4	1.2
RIGHTMOVE PLC	22.8	20.6	18.1	16.7	18.4	17.0	13.8	12.7
SCHIBTED ASA	35.8	27.1	18.0	14.6	21.6	16.8	3.7	3.4
SCOUT24 AG	20.2	17.8	14.1	12.2	17.0	14.3	7.4	6.5
SEEK LIMITED	31.2	27.0	16.2	14.1	20.5	17.8	4.9	4.2
TRIPADVISOR INC.	33.5	28.4	16.8	14.1	34.8	27.7	4.5	3.9
MEDIAN	20.5	18.5	16.0	14.1	18.3	15.1	4.9	4.2
AVERAGE	24.6	21.0	14.7	12.8	19.5	16.3	6.3	5.7
AD PEPPER MEDIA AG	24.6	16.1	9.3	6.0	10.4	6.5	0.8	0.7
JC DECAUX	22.8	20.5	10.2	9.3	17.9	15.8	1.8	1.7
FACEBOOK INC.	18.4	16.1	9.8	7.9	13.8	11.3	5.1	4.0
ALPHABET INC.	22.4	19.5	10.4	8.3	16.4	13.2	3.8	3.1
PEARSON	16.8	15.0	10.5	9.1	13.0	11.2	1.8	1.7
STROEER	11.5	10.9	6.6	5.9	14.6	12.3	2.0	1.8
WOLTERS KLUWER	20.4	18.8	13.5	12.5	18.0	16.6	3.7	3.5
XING	35.9	28.7	15.3	12.6	22.1	17.8	5.1	4.2
MEDIAN	21.4	17.5	10.3	8.7	15.5	12.8	2.9	2.4
AVERAGE	21.6	18.2	10.7	9.0	15.8	13.1	3.0	2.6
ARNOLDO MONDADORI	10.8	10.0	5.6	5.1	7.4	6.8	0.5	0.5
INFORMA	13.5	12.6	10.8	9.9	11.7	10.8	3.7	3.5
ITV PLC	9.5	8.7	7.9	7.2	8.3	7.8	1.9	1.8
JOHNSON PRESS	0.4	0.5	6.1	6.3	7.4	7.5	1.2	1.4
LAGARDERE	12.4	11.6	6.4	6.0	10.3	10.2	0.6	0.6
MEREDITH CORP	18.7	8.5	4.4	3.4	6.7	4.6	1.1	1.1
PROSIEBENSAT.1	8.4	7.8	6.1	5.7	7.9	7.3	1.4	1.3
RTL GROUP AG	11.0	10.8	6.1	5.9	7.2	7.0	1.3	1.2
TELEVISION FRANCAISE 1	9.5	8.7	3.8	3.4	6.3	5.5	0.7	0.6
MEDIAN	10.8	8.7	6.1	5.9	7.4	7.3	1.2	1.2
AVERAGE	10.5	8.8	6.4	5.9	8.1	7.5	1.4	1.3
AXEL SPRINGER (PAR)	17.2	14.8	8.1	7.5	10.9	10.0	2.0	1.9

Source: Factset, Pareto

SOTP Valuation

Segments	EBIT 2019	Fair Multiple	Group stake	calculated EV	% of EV
News Media	158	7.4	94%	1,106	16%
Marketing Media	39	15.5	81%	488	7%
Classified Media	411	18.3	90%	6,768	98%
Services/Holding	-105	13.7	100%	-1,439	-21%
Total Enterprise Value				6,923	
+ associates & other financial assets				669	
+ cash and liquid assets				217	
- interest bearing debt incl. pensions				-1,405	
Equity Value				6,403	
# shares				107.9	
Fair Value per share				59.3	

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	2.801	3.038	3.295	3.290	3.563	3.185	3.302	3.422
EBITDA	445	591	663	830	763	792	913	874
Depreciation & amortisation	(155)	(256)	(200)	(233)	(236)	(314)	(321)	(324)
EBIT	290	336	463	598	527	478	592	550
Net interest	(27)	(26)	(16)	(16)	(16)	(16)	(16)	(16)
Other financial items	4	5	(7)	(5)	(2)	(8)	(7)	(6)
Profit before taxes	267	315	441	576	508	454	569	527
Taxes	(88)	(79)	(136)	(126)	(130)	(136)	(188)	(166)
Minority interest	(47)	(104)	(55)	(25)	(34)	(37)	(40)	(43)
Net profit	197	800	252	427	344	281	341	318
EPS reported	1,99	8,08	2,53	3,96	3,19	2,60	3,16	2,95
EPS adjusted	1,81	2,01	2,22	2,41	2,60	2,87	3,15	3,65
DPS	1,80	1,80	1,80	1,90	2,00	2,10	2,40	2,60
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	640	524	508	519	452	452	452	452
Other non-current assets	3.191	3.943	4.680	4.874	4.543	4.474	4.188	4.294
Other current assets	845	859	1.064	839	1.225	1.282	1.332	1.387
Cash & equivalents	249	383	254	224	217	351	765	715
Total assets	4.925	5.709	6.505	6.456	6.436	6.558	6.736	6.847
Total equity	2.395	2.506	2.512	2.639	2.802	2.936	3.101	3.192
Interest-bearing non-current debt	719	1.047	1.195	1.258	1.062	1.012	1.012	1.012
Interest-bearing current debt	1	4	58	1	175	175	175	175
Other Debt	1.543	1.775	2.424	2.208	2.054	2.079	2.084	2.099
Total liabilities & equity	4.925	5.709	6.505	6.456	6.436	6.558	6.736	6.847
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	-	395	338	385	356	587	646	617
Change in working capital	-	(34)	32	(26)	134	(10)	(30)	(40)
Cash flow from investments	-	(4)	(546)	(94)	(195)	(160)	65	(325)
Cash flow from financing	-	(319)	48	(219)	(323)	(283)	(266)	(302)
Net cash flow	-	38	(129)	45	(26)	134	415	(50)
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	46,7	50,1	51,3	46,1	65,1	54,2	54,2	54,2
Number of shares end period	99	99	108	108	108	108	108	108
Net interest bearing debt	738	1.044	1.315	1.386	1.364	1.191	786	841
Enterprise value	5.881	6.481	7.299	6.784	8.902	7.601	7.245	7.308
EV/Sales	2,1	2,1	2,2	2,1	2,5	2,4	2,2	2,1
EV/EBITDA	13,2	11,0	11,0	8,2	11,7	9,6	7,9	8,4
EV/EBIT	20,3	19,3	15,8	11,4	16,9	15,9	12,2	13,3
P/E reported	23,4	6,2	20,3	11,6	20,4	20,8	17,1	18,4
P/E adjusted	25,8	24,9	23,2	19,2	25,1	18,9	17,2	14,8
P/B	2,5	2,4	2,7	2,2	3,1	2,5	2,3	2,3
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	14,9	8,1	8,8	10,1	10,3	10,8	11,3	12,5
Dividend yield (%)	3,9	3,6	3,5	4,1	3,1	3,9	4,4	4,8
EBITDA margin (%)	15,9	19,5	20,1	25,2	21,4	24,9	27,7	25,5
EBIT margin (%)	10,3	11,1	14,0	18,2	14,8	15,0	17,9	16,1
NIBD/EBITDA	1,66	1,77	1,98	1,67	1,79	1,50	0,86	0,96
EBITDA/Net interest	16,83	19,35	35,61	37,22	40,36	46,27	51,51	54,59

The must have stock for X-mas time

Following a rather mixed Ticketing business in the first half of the year, CTS was able to convince with its 9M figures based on high quality content. Live Entertainment (LE) was able to continue its positive momentum and reported repeatedly strong figures. After our downgrade to reduce (TP EUR 37.5) and a share price drop down to EUR 31 we now see the turning point as consumer climate is still on top level and we expect a good finish to the year (X-mas sales). Missing ramp up costs, new projects (e.g. toll collect system) and concrete content in Ticketing and LE argue from our point of view for further growth beyond 2018. Buy, Target Price EUR 40.

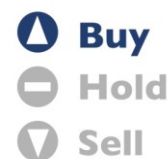
Investment Case

Based on its strategy the company has carried out several takeovers of leading European promoters, which puts the company in a unique position to conduct and market Europe-wide tours for top artists. These measures, a slacker Ticketing and additional ramp up costs for new formats, burdened the profitability in FY 17 and H1/18, with the peak of the ramp-up costs lying in FY 17. Nevertheless, the out of one hand idea seems to be paying off now and shows first successes (Ed Sheeran/Rammstein tours). Therefore we assume this strategy as a positive impact for both segments for the years to come, especially as the higher margin online ticket business (7x higher) should expand and we do not include any additional Ticketing takeovers. While we don't believe in a structural weakness of the Ticketing (growth of online has not changed its momentum) and expect growth to pick up again in 2019. Overall we thus expect profitability in FY 2018e to remain only flat vs. FY 2017 but with a positive trend going forward.

We are still convinced by CTS's business model and furthermore expect good market environments for Q4 and beyond FY18.

EURm	2016	2017	2018e	2019e	2020e
Revenues	830	1,034	1,233	1,297	1,353
EBITDA	194	202	237	265	293
EBIT	162	166	204	229	258
EPS	0.99	1.18	1.33	1.49	1.65
EPS adj	0.99	1.18	1.33	1.49	1.65
DPS	0.48	0.57	0.64	0.72	0.80
EV/EBITDA	13.0	16.9	11.3	9.7	8.4
EV/EBIT	15.6	20.6	13.1	11.2	9.5
P/E adj	30.4	33.0	24.6	21.9	19.8
P/B	8.09	9.39	6.68	5.69	4.90
ROE (%)	27.5	30.0	29.4	28.1	26.6
Div yield (%)	1.6	1.5	2.0	2.2	2.5
Net debt	(396)	(354)	(509)	(636)	(764)

Source: Pareto



Target price (EUR)	40
Share price (EUR)	33

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	EVDG.DE, EVD GY
Sector	Media
Shares fully diluted (m)	96.0
Market cap (EURm)	3,139
Net debt (EURm)	-499
Minority interests (EURm)	36
Enterprise value 18e (EURm)	2,676
Free float (%)	57

Performance



Source: Factset

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Europe's largest ticket and concert promoter

Company Profile

CTS Eventim AG & Co. KGaA is the largest concert promoter and ticketing company in Europe. It operates its business through the following segments: Ticketing and Live Entertainment (LE). Ticketing includes the production, sale, distribution, and marketing of tickets for concerts, theatre, sports, and other events. LE comprises the planning, organization and execution of concert events and tours, festivals and other live events. In its Live Entertainment (LE) Business the company is one of the largest tour and concert promoters in Europe. Its portfolio includes planning, organisation, promotion and ticketing of tours and concerts as well as the operation of own event sites like stadiums across a variety of countries. The LE business delivers attractive content for the online ticketing platform. In future, the CTS will strengthen the Ticketing segment by means of technological innovation and further strategic acquisitions worldwide.

The environment for M&A has improved

Upcoming Triggers and Drivers

The company confirmed its guidance of revenues and earnings to be higher than in 2017. This statement was as usual daring, mainly because of the volatile LE business, but should be achieved without problems and thus no trigger for the shares. The guidance for FY19 should not be surprising either, as the above mentioned reasons remain unchanged. The main triggers from our point of view are M&A in Ticketing and a new project to collect German highway toll. This could be a big deal for CTS with a billion Euro volume. CTS would be responsible for the accounting and the ticket allocation. From our point of view the different application possibilities of the CTS platform, as well as the economies of scale and scope associated with it, are clearly shown here. Besides the assumed organic improvements, we also see an increased likelihood of potential M&A activity in the Ticketing segment. In the past, CTS had refrained from Ticketing acquisitions as prices for takeover targets were too high. Now the environment for M&A has improved tangibly. We conclude that primarily highly indebted companies that are facing rising costs of debt (which leads to a lower value of their equity) now have to make adjustments in their takeover price expectations. This should lead to an increase of CTS's entry yield, despite corresponding costs of capital what the company had often referred to us as the limiting factor. Therefore we could imagine an international acquisition in Ticketing in 2019 (not included into our estimates).

A residual risk always remains

Risk to the investment case

Short term, another huge terrorist attack or strong weather influences in its Live Entertainment such as storm, thunderstorm or heavy rain. Additionally, ramp-up problems with new projects or disease-related cancellations by artists could also burden the results as well as confidence for the future.

Next scheduled reporting: Q4 2018 Earnings Release 21.03.2019 (Projected)

A residual risk always remains

Valuation and recommendation

We base our valuation on a DCF model applying a long-term growth rate of 2.5%, a calculated NPV with a WACC of 8.2% to derive a target price of EUR 40.00. Our WACC is a result of a 3.5% risk free rate assumption and a 5% equity risk premium. The Beta of 1.1 is derived using a fundamental approach (i.e. assessing competitive structure, management quality, company size and financial risk). With a PE of 23x for FY19e valuation looks much more attractive compared to the company's 5Y historical average of 31x. It's still not a free lunch but we rate it as justified against the background of CTS's leading technological platform and its multipurpose possibilities. With an upside potential of 20% to our target price we rate CTS with a Buy recommendation.

Exhibit 1: DCF valuation

	Phase I					Phase II					Phase III
EUR m	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	1,233	1,297	1,353	1,403	1,455	1,505	1,553	1,597	1,638	1,676	
growth rate	19.2%	5.2%	4.3%	3.7%	3.7%	3.4%	3.2%	2.9%	2.6%	2.3%	
EBIT	204	229	258	278	294	306	318	330	341	351	
EBIT margin	16.6%	17.7%	19.0%	19.8%	20.2%	20.3%	20.5%	20.6%	20.8%	21.0%	
Tax	-61.7	-68.7	-79.9	-86.2	-91.1	-94.9	-98.6	-102.2	-105.6	-108.8	
Tax rate	30.2%	30.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	
Depr. & Amort.	33.2	36.0	35.0	34.0	37.0	42.8	46.5	49.0	50.9	52.7	
% of sales	2.7%	2.8%	2.6%	2.4%	2.5%	2.8%	3.0%	3.1%	3.1%	3.1%	
Capex	-33.3	-37.6	-41.9	-44.9	-48.0	-49.7	-51.2	-52.7	-54.1	-55.3	
% of sales	2.7%	2.9%	3.1%	3.2%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	
Change in WC & P	53.8	17.4	15.0	13.5	14.1	14.6	15.1	15.5	15.9	16.3	
% of sales	-4.4%	-1.3%	-1.1%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	
Free Cash Flow	196.0	176.2	185.8	194.4	205.7	218.9	229.8	239.3	247.8	255.9	4,187.8
growth rate	nm	-10.1%	5.5%	4.6%	5.8%	6.4%	5.0%	4.1%	3.6%	3.3%	2.0%
Present Value FCF	194.9	161.8	157.7	152.4	149.1	146.6	142.2	136.8	130.8	124.8	2,043.1
PV Phase I	816					Risk free rate	3.50%	Targ. equity ratio			85%
PV Phase II	681					Premium Equity	5.00%	Beta			1.10
PV Phase III	2,043					Premium Debt	2.00%	WACC			8.2%
Enterprise value	3,540					Sensitivity	Growth in phase III				
- Net Debt	-354						1.0%	1.5%	2.0%	2.5%	3.0%
- Pension Provisions	10					7.41%	41.2	43.2	45.5	48.3	51.8
- Minorities & Peripherals	0					7.82%	38.9	40.6	42.6	44.9	47.7
- Paid-out dividends for last FY	-44					WACC	8.23%	36.9	38.3	40.0	42.0
						8.64%	35.1	36.3	37.8	39.4	41.4
						9.06%	33.5	34.5	35.8	37.2	38.9
Equity value	3,840										
Number of shares	96.0										
Value per share (€)	40.0										
Current Price (€)	34.1										
Upside	17%										

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	628	690	834	830	1,034	1,233	1,297	1,353
EBITDA	134	155	181	194	202	237	265	293
Depreciation & amortisation	(23)	(28)	(30)	(32)	(36)	(33)	(36)	(35)
EBIT	111	127	150	162	166	204	229	258
Net interest	(6)	(5)	(5)	(6)	2	(6)	(7)	(8)
Other financial items	-	-	(0)	(0)	3	2	2	2
Profit before taxes	105	122	145	155	171	200	224	252
Taxes	(48)	(49)	(56)	(50)	(52)	(61)	(67)	(78)
Minority interest	(8)	(8)	(12)	(11)	(6)	(12)	(14)	(15)
Net profit	61	77	89	95	113	128	143	159
EPS reported	0.64	0.80	0.93	0.99	1.18	1.33	1.49	1.65
EPS adjusted	0.50	0.68	0.81	0.99	1.18	1.33	1.49	1.65
DPS	0.32	0.40	0.46	0.48	0.57	0.64	0.72	0.80
BALANCE SHEET (EURm)								
Tangible non current assets	13	22	21	25	31	31	33	38
Other non-current assets	378	412	414	417	435	419	404	390
Other current assets	106	158	165	202	298	293	307	318
Cash & equivalents	380	510	501	554	641	810	951	1,095
Total assets	877	1,103	1,101	1,197	1,405	1,553	1,695	1,841
Total equity	253	300	354	385	421	506	601	705
Interest-bearing non-current debt	195	172	149	157	286	301	316	332
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	424	623	587	642	688	737	768	794
Total liabilities & equity	877	1,103	1,101	1,197	1,405	1,553	1,695	1,841
CASH FLOW (EURm)								
Cash earnings	143	179	123	166	199	173	193	209
Change in working capital	0	67	(31)	(12)	22	54	17	15
Cash flow from investments	(6)	(14)	(6)	(16)	(7)	(17)	(22)	(26)
Cash flow from financing	(39)	(54)	(61)	(36)	83	(40)	(47)	(54)
Net cash flow	50	130	(9)	53	297	169	142	144
CAPITALIZATION & VALUATION (EURm)								
Share price (EUR end)	18.4	24.5	36.7	30.0	38.8	32.7	32.7	32.7
Number of shares end period	96	96	96	96	96	96	96	96
Net interest bearing debt	(185)	(338)	(352)	(396)	(354)	(509)	(636)	(764)
Enterprise value	1,604	2,041	3,206	2,520	3,407	2,676	2,563	2,450
EV/Sales	2.6	3.0	3.8	3.0	3.3	2.2	2.0	1.8
EV/EBITDA	12.0	13.2	17.8	13.0	16.9	11.3	9.7	8.4
EV/EBIT	14.5	16.1	21.3	15.6	20.6	13.1	11.2	9.5
P/E reported	28.9	30.5	39.6	30.4	33.0	24.6	21.9	19.8
P/E adjusted	36.5	36.2	45.5	30.4	33.0	24.6	21.9	19.8
P/B	7.5	8.4	10.6	8.1	9.4	6.7	5.7	4.9
FINANCIAL ANALYSIS & CREDIT METRICS								
ROE adjusted (%)	20.6	23.5	23.7	25.6	28.0	27.5	25.9	24.3
Dividend yield (%)	1.7	1.6	1.3	1.6	1.5	2.0	2.2	2.5
EBITDA margin (%)	21.3	22.5	21.6	23.3	19.5	19.2	20.4	21.6
EBIT margin (%)	17.7	18.4	18.0	19.5	16.0	16.6	17.7	19.0
NIBD/EBITDA	(1.38)	(2.18)	(1.95)	(2.05)	(1.76)	(2.14)	(2.40)	(2.61)
EBITDA/Net interest	21.23	32.65	38.73	30.08	-	40.21	38.73	37.33

RTL Group: one of the more resilient in European TV broadcasting

Despite its number-one or number-two positions in eight European countries, RTL is less dependent on TV advertising revenue (48%) than most rivals. In the case of RTL, content with 20% (and growing share of group revenues) and especially the fast growing digital business streams (hitting the 15% share earlier than planned) have allowed the group to present a more stable revenue trend than several peers: Buy, Target Price EUR 60.

Investment Case]

Investor attention is focussed on the structural decline of linear-TV audience share and the implications therefrom for advertising revenues. Indeed, 9M-18 recorded a decline in half of the European TV markets in which the group operates (the RTL channels in Germany, Belgium, Luxembourg and Spain), whilst half of its TV markets recorded advertising growth (M6 in France and RTL channels the Netherlands, Croatia and Hungary).

Although disappointing in the context of improving GDP figures (advertising normally has a positive correlation) we flag that 2018 has been adversely impacted by broadcasting of the major sporting events (winter Olympics and FIFA World Cup) typically on public channels (reducing the ad spend on commercial TV). Nonetheless in a year that has seen several warnings, the group will manage stable advertising revenues overall, with a decline from TV ads made good by radio ads and other/ad-tech advertising sources.

With its diversified portfolio, we view RTL as well positioned in the sector to monetarise new revenue sources as viewers (and thus ad-spenders) migrate to new media platforms, although both sales and profits will show only modest progress in the period through 2021.]

EURm	2016	2017	2018e	2019e	2020e
Revenues	6.237	6.373	6.511	6.634	6.821
EBITDA	1.411	1.465	1.356	1.340	1.383
EBIT	1.197	1.246	1.160	1.142	1.180
EPS	4,69	4,81	4,49	4,45	4,67
EPS adj	4,59	4,46	4,58	4,49	4,67
DPS	4,00	4,00	4,00	4,00	4,00
EV/EBITDA	8,5	7,9	6,7	6,8	6,6
EV/EBIT	10,0	9,2	7,8	8,0	7,7
P/E adj	15,2	15,0	11,4	11,7	11,2
P/B	3,48	3,48	2,65	2,55	2,41
ROE (%)	23,9	24,5	23,0	22,1	22,1
Div yield (%)	5,7	6,0	7,6	7,6	7,6
Net debt	757	745	598	649	634

Source: Pareto



Target price (EUR)	60
Share price (EUR)	52

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	RRTL.DE, RTL BB
Sector	Media
Shares fully diluted (m)	153,6
Market cap (EURm)	8.038
Net debt (EURm)	598
Minority interests (EURm)	467
Enterprise value 18e (EURm)	9.104
Free float (%)	24

Performance



Source: Factset

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Leading European TV broadcaster and moving picture production group

Confirmation that RTL has met 2018 guidance could support, but 2019 guidance is key triggers

Be wary of falling TV ad revenues which remain key contributor in the mid-term

Target price of EUR 60 derived from equal blend of DCF and EV/EBIT multiples

Company profile

Luxembourg-based RTL is a leader across broadcasting (with 60 television channels and 30 radio stations), content ownership (creation, production and distribution of multi-genre moving pictures) and digital video services. RTL claims to be the leading European media company in online video with catch-up TV (TV NOW) plus the multi-channel networks BroadbandTV, StyleHaul, Divimove and United Screens supplying hundreds of YouTube channels. It has also built a global adtech business, combining the video ad-serving platform SpotX with the European monetisation platform Smartclip in 2018.

Upcoming Triggers and Drivers

Reporting of Q4-18 results is expected to show a slowing sales momentum, (PAR +1%) given slack orders for TV ads at Mediengruppe RTL Deutschland but offset by growing revenues at FremantleMedia and from the "Other" segment (driven by the fast-growing digital businesses). FY-18 guidance calls for 2.5% to 5% revenue growth and broadly stable EBITDA of -1% to +1%.

Next scheduled reporting: FY 2018 results will be published 14 March 2019, together with guidance for FY 2019e covering development in revenues and profits (with the focus likely switching from EBITDA to EBITA, given IRFS16 accounting changes). First guidance for 2019 is likely to call for 0-3% sales growth, with stable EBITA meaning -2% / +2%.

Risk to the investment case

In the short term, the main downside risk is in our view would be a marked reduction in net TV advertising in Germany (we would normally anticipate a recovery from the period during which the sports events were shown on the public channels). That is not our base case scenario; we assume a 1% drop. In the longer term, significant investments need to be made in the still-evolving digital platforms and signs that this is failing to bring expected returns could undermine these longer-term growth targets.

Valuation and recommendation

Although 2018 guidance was reaffirmed with the recent 9M results, evidence of slowing TV ad spend in Germany (and a cautious stance by competitor PSM) gives cause to believe that profit could fall in 2019 and consensus EBIT estimate has fallen by 3.5% subsequently (PAR also -3.4%).

Reflecting these market concerns, our target price for RTL is based on an equal blend of the 2019 sector median EV/EBIT multiple (of 7.8 yielding EUR 55.6) and our DCF model EUR 64.4 (0.8 beta for 6.7% WACC, 15.5% sustainable margin). Our TP of EUR 60 offers 15% upside and we rate the shares Buy.

In terms of peer group multiples, RTL Group is currently trading at an 8% premium to sector mean 2019 PE; a 4% discount to 2019 mean EV/EBIT and is in line with 2019 EV/Sales multiple.

Our target price of EUR 60 implies a target PE of 13x for FY 2020e and EV/EBIT multiple of 9, respectively 15% and 20% premium to the peer group median values. It would also imply a dividend yield of 6.6% with a flat EUR 4 total dividend (EUR 1 interim plus EUR 3 final) assumed in each year 2018 to 2020.

A reasonably homogenous TV broadcasting peer group: given the dependence on TV advertising, the past year has been disruptive for those groups that did not carry broadcasting rights for the major sporting events.

Peer Group Valuation

COMPANY	P/E 2019	P/E 2020	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2019	EV/EBIT 2020	EV/Sales 2019	EV/Sales 2020
ITV PLC	9.5	8.7	7.9	7.2	8.3	7.8	1.9	1.8
MEDIASET S.P.A.	13.1	11.5	6.1	5.5	7.6	6.7	1.3	1.2
MEDIASET ESPANA COM.	10.2	10.3	7.3	7.4	7.7	7.9	1.9	1.8
METROPOLE TELEVISION SA	10.8	10.4	4.6	4.4	6.6	6.3	1.3	1.2
MODERN TIMES GROUP AB	17.7	15.5	9.7	8.5	12.2	10.4	1.0	1.0
NRJ GROUP SA	20.6	18.4	5.3	5.0	9.0	7.6	0.9	0.8
PROSIEBEN SAT1 SE	8.4	7.8	6.1	5.7	7.9	7.3	1.4	1.3
TELEVISION FRANCAISE 1 SA	9.5	8.7	3.8	3.4	6.3	5.5	0.7	0.6
MEDIAN	10.5	10.4	6.1	5.6	7.8	7.4	1.3	1.2
AVERAGE	12.5	11.4	6.4	5.9	8.2	7.4	1.3	1.2
RTL GROUP	11.7	11.2	6.3	6.0	7.4	7.0	1.3	1.2

Source: Factset, Pareto

For the DCF value of EUR 64.4, we assume a sustainable EBIT margin of 15.5% and apply 6.7% WACC (with 0.8 beta and 1% perpetual sales growth). We assume a capex-to-sales ratio peak in 2019 of 4.9% and 4.7% medium term.

DCF Valuation

EUR m	2018	2019	Phase I 2020	2021	2022	2023	2024	Phase II 2025	2026	2027	Phase III 2028
Sales	6,511	6,634	6,821	6,992	7,163	7,335	7,508	7,681	7,855	8,029	8,109
Sales growth		1.9%	2.8%	2.5%	2.5%	2.4%	2.4%	2.3%	2.2%	2.2%	1.0%
EBIT	1,155	1,142	1,180	1,206	1,234	1,261	1,288	1,315	1,342	1,369	1,257
EBIT margin	17.7%	17.2%	17.3%	17.2%	17.2%	17.2%	17.2%	17.1%	17.1%	17.0%	15.0%
Tax	(335)	(331)	(342)	(350)	(358)	(366)	(373)	(381)	(389)	(397)	(365)
Normative tax rate EBIT	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
NOPAT	820	811	838	856	876	895	914	933	953	972	892
Depreciation	201	198	203	206	211	216	221	226	231	237	239
In % of Sales	3.1%	3.0%	3.0%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
Capex	(272)	(325)	(328)	(331)	(339)	(347)	(355)	(364)	(372)	(380)	(238)
In % of Sales	4.2%	4.9%	4.8%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	2.9%
Change in working capital	(110)	(125)	(130)	(133)	(135)	(138)	(141)	(144)	(147)	(150)	(97)
In % of Sales	-1.7%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%
Free Cash Flow	639	559	583	599	613	626	639	652	666	679	795
FCF growth	nm	-12.5%	4.2%	2.7%	2.3%	2.2%	2.1%	2.1%	2.0%	2.0%	17.0%
Present Value FCF	636	521	509	490	470	450	430	411	393	376	7,684
PV Phase I		2,626	21%		MCap		8,264		Target equity ratio		80.0%
PV Phase II		2,060	17%		Risk premium		5.0%		Beta		0.79
PV Phase III		7,684	62%		Risk free rate		3.5%		WACC		6.7%
Total present value		12,371									
+ capital increase/share buy back		0									
+ associates		544									
- market value of minorities		1,470									
+ cash and liquid assets		-545									
- interest bearing debt*		1,005									
Implied Mcap		9,895									
Number of shares		154									
Implied value per share		64.4									

Sensitivity Analysis	0.0%	0.5%	1.0%	1.5%	2.0%
Growth rate Phase III					
6.4%	60.9	64.9	69.5	75.1	81.9
6.6%	58.9	62.6	66.9	72.0	78.3
6.7%	57.0	60.4	64.4	69.2	75.0
6.9%	55.2	58.4	62.1	66.5	71.9
7.1%	53.4	56.4	59.9	64.0	69.0

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	5.824	5.808	6.029	6.237	6.373	6.511	6.634	6.821
EBITDA	1.328	1.347	1.360	1.411	1.465	1.356	1.340	1.383
Depreciation & amortisation	(135)	(302)	(191)	(208)	(208)	(196)	(198)	(203)
EBIT	1.202	1.047	1.175	1.197	1.246	1.160	1.142	1.180
Net interest	(22)	(23)	(25)	(21)	(22)	(24)	(24)	(20)
Other financial items	-	-	-	-	(2)	4	-	-
Profit before taxes	1.250	1.020	1.163	1.179	1.222	1.140	1.118	1.160
Taxes	(302)	(287)	(300)	(363)	(385)	(348)	(330)	(337)
Minority interest	(78)	(81)	(74)	(96)	(98)	(103)	(105)	(107)
Net profit	870	652	789	720	739	689	683	717
EPS reported	5,67	4,25	5,14	4,69	4,81	4,49	4,45	4,67
EPS adjusted	5,09	4,65	4,98	4,59	4,46	4,58	4,49	4,67
DPS	7,00	5,50	4,00	4,00	4,00	4,00	4,00	4,00
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	331	337	352	290	352	352	352	352
Other non-current assets	3.429	3.732	4.236	4.275	4.213	4.003	4.051	4.078
Other current assets	3.235	3.195	3.160	3.302	3.064	3.193	3.299	3.429
Cash & equivalents	542	483	449	434	260	394	331	333
Total assets	7.537	7.747	8.197	8.301	7.889	7.942	8.033	8.192
Total equity	3.593	3.276	3.409	3.552	3.424	3.495	3.613	3.798
Interest-bearing non-current debt	565	1.104	524	517	568	568	568	568
Interest-bearing current debt	-	-	605	493	247	247	247	247
Other Debt	3.379	3.367	3.659	3.739	3.650	3.632	3.605	3.578
Total liabilities & equity	7.672	7.920	8.362	8.482	8.079	8.120	8.198	8.344
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	960	1.002	1.035	1.039	1.112	1.032	1.110	1.180
Change in working capital	65	(91)	(102)	(83)	(89)	(110)	(125)	(130)
Cash flow from investments	(239)	(430)	(341)	(353)	(124)	(375)	(365)	(370)
Cash flow from financing	2.497	2.624	696	2.134	1.301	782	580	582
Net cash flow	3.283	3.105	1.288	2.737	2.200	1.329	1.200	1.263
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	93,9	79,1	77,1	69,7	67,1	52,4	52,4	52,4
Number of shares end period	154	154	154	154	154	154	154	154
Net interest bearing debt	158	794	845	757	745	598	649	634
Enterprise value	15.020	13.394	13.135	11.943	11.511	9.104	9.154	9.139
EV/Sales	2,6	2,3	2,2	1,9	1,8	1,4	1,4	1,3
EV/EBITDA	11,3	9,9	9,7	8,5	7,9	6,7	6,8	6,6
EV/EBIT	12,5	12,8	11,2	10,0	9,2	7,8	8,0	7,7
P/E reported	16,6	18,6	15,0	14,9	13,9	11,7	11,8	11,2
P/E adjusted	18,4	17,0	15,5	15,2	15,0	11,4	11,7	11,2
P/B	4,6	4,3	4,0	3,5	3,5	2,7	2,6	2,4
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	18,5	20,8	22,9	20,2	19,6	20,3	19,4	19,3
Dividend yield (%)	7,5	7,0	5,2	5,7	6,0	7,6	7,6	7,6
EBITDA margin (%)	22,8	23,2	22,5	22,6	23,0	20,8	20,2	20,3
EBIT margin (%)	20,6	18,0	19,5	19,2	19,6	17,8	17,2	17,3
NIBD/EBITDA	0,12	0,59	0,62	0,54	0,51	0,44	0,48	0,46
EBITDA/Net interest	60,36	62,41	54,38	64,81	61,39	56,50	55,85	69,15

Scalable business with political question marks

For 2018, we expect that the company will reach its guidance of sales growth between 11.5% and 13.5% yoy (9-11% organic) and an ord. EBITDA margin between 54.5% and 56.0% (56.0%-57.5% organic). With only limited catalysts ahead and some political and internal questions marks we rate the stock with a Hold recommendation and a target price of EUR 39.

Investment Case

The share price increase earlier this year can be attributed to the recovery of former German agents, higher than expected ARPU growth as well as the complete exit of all PE investors (remove share overhang to ~100% free float) and thus its inclusion in the MDAX. IS24 in particular, developed better than expected, despite the cost-intensive recovery of former agents. Furthermore the new "Consumer Services" division is also seen in a positive light.

Nevertheless, the share has been under pressure since September, since several potential legal risks have arisen. Both, the incorrect revocation instruction for car dealers and the general diesel gate affair for AS24 are currently difficult to quantify, but are seen as slightly negative. However, a possible extension of the "Bestellerprinzip" to real estate sales for IS24 could have an even more negative impact on Scout but again is difficult to quantify.

In the short term, the bow out of CEO Greg Ellis, leaving Scout for family reasons and CFO Christian Gisy (will leave in 2019) could also have a disruptive impact. Against this background, the repayment of the increased indebtedness (net debt /ord. EBITDA ratio to 2.6x-2.7x) through the acquisition of Finanzcheck.de (EUR 285m) appears more ambitious. We rate the shares Hold.

EURm	2016	2017	2018e	2019e	2020e
Revenues	442	473	532	613	674
EBITDA	207	233	272	309	337
EBIT	141	176	214	252	279
EPS	0.62	1.03	1.26	1.51	1.69
EPS adj	1.04	1.40	1.59	1.82	2.06
DPS	0.30	0.40	0.45	0.48	0.50
EV/EBITDA	20.7	18.1	17.1	14.6	12.9
EV/EBIT	30.2	24.0	21.7	17.9	15.6
P/E adj	32.5	24.3	23.3	20.4	18.0
P/B	3.67	3.44	3.34	2.98	2.64
ROE (%)	7.0	10.8	12.0	12.8	12.7
Div yield (%)	0.9	1.2	1.2	1.3	1.3
Net debt	634	561	666	520	352

Source: Pareto



Target price (EUR)	39
Share price (EUR)	37

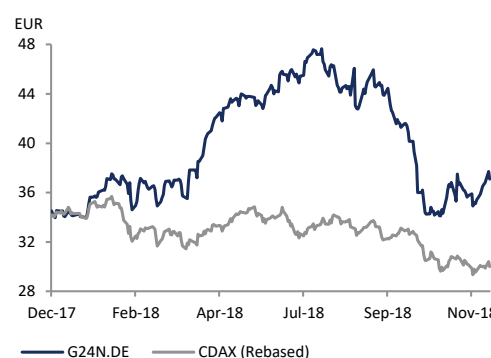
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	G24N.DE, G24 GR
Sector	Media
Shares fully diluted (m)	107.6
Market cap (EURm)	3,992
Net debt (EURm)	666
Minority interests (EURm)	0
Enterprise value 18e (EURm)	4,658
Free float (%)	98

Performance



Source: Factset

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#1 Real estate and #2 vehicle marketplace in Germany

Company profile

Scout24 AG is a leading provider of online marketplaces for real estate and automotive, represented by its brands ImmobilienScout24 ("IS24"), AutoScout24 ("AS24") and ConsumerServices ("CS24"). Scout's business is low capital intensive platform with more or less stable infrastructure costs and therefore high economies of scale/scope. Leveraging on the strong brand awareness, Scout24 dominates the housing market in Germany and has achieved a leading position in the European car selling sector. Founded in 1998, Scout24 belongs to the digital pioneers who has realised its first-mover advantage in Germany resulting in a loyal customer base of about 17m users with 3m active listings in Germany and other European markets. With around 1,400 employees Scout24 maintains digital marketplaces in a total of eight European countries. The company generates 83% of revenues in Germany. Revenue streams are a mix of pay-per-use (private customers), subscription (mainly core real estate professionals), freemium models (e.g. private vehicle owners), advertising (OEM's and property pro's), as well as lead generation.

Huge cross-selling-potential

Upcoming Triggers and Drivers

Due to the strong brand awareness among consumers and professionals we see huge further cross-selling potential along the value chain of private customers and corporate partners. We think Scout should also benefit from the general digitisation trend (shift from offline/print to online) with its new segment CS24 and here in particular ad spend by OEMs and also increased listings at AS24. Furthermore a new pricing model at IS24 should give the opportunity to achieve additional revenues via lead generation, and therefore drive higher ARPU's. Also a change in interest rates could push the demand for products to be financed like cars or houses and therefore more ad placements and consumer credits via Finanzcheck.de

Next scheduled reporting: Q4 2018 Earnings Release 12.02.2019 (Projected)

Political issues unsettle investors

Risk to the investment case

Key risks to our estimates are ongoing legislative regulations with the result of significantly lower ARPU's. Increased higher competition in the real estate sector (ebay/Immowelt) as well as in the used car space from car auctions and key competitors. Also the diesel gate affair could increasingly lead to a reduction in listings for AS24 and also for CS24 products. Furthermore we see a cluster risk with Scout focussing solely on two end-markets without international business. The current net debt is around EUR 835m reflecting a net debt/ord. EBITDA ratio of 2.6x-2.7x. The repayment schedule could be ambitious against the background of the above-mentioned challenges.

Target price of EUR 39.0 derived from DCF

Valuation and recommendation

We base our valuation on a DCF model applying a long-term growth rate of 2.5%, a calculated NPV with a WACC of 7.4% to derive a target price of EUR 39.00. Our WACC is a result of a 3.5% risk free rate assumption and a 5% equity risk premium. The Beta of 1.1 is derived using a fundamental approach (i.e. assessing competitive structure, management quality, company size and financial risk). With a PE adj. of 20x for FY19e valuation looks more attractive in light of the long term market potential for digital services especially in classifieds business and continued demand for real estate and cars as well as compared to the company's 3Y historical average of 32x. Nevertheless the With an upside potential of xX% to our target price we rate Scout24 with a Neutral recommendation.

A reasonably homogenous online classifieds peer group.

Peer Group Valuation

COMPANY	P/E 2019	P/E 2020	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBIT 2019	EV/EBIT 2020	EV/Sales 2019	EV/Sales 2020
AUTO TRADER GROUP PLC	19.3	17.1	16.0	14.7	16.5	15.1	11.5	10.7
CARSAKES.COM LIMITED	20.5	18.5	14.1	12.8	15.4	13.9	6.5	5.9
EN-JAPAN	20.0	17.2	11.1	9.3	12.6	10.5	3.3	2.8
EXPEDIA INC.	18.1	15.2	8.1	6.8	18.3	13.9	1.4	1.2
RIGHTMOVE PLC	22.8	20.6	18.1	16.7	18.4	17.0	13.8	12.7
SCHIBTED ASA	35.8	27.1	18.0	14.6	21.6	16.8	3.7	3.4
AXEL SPRINGER (PAR)	17.2	14.8	8.1	7.5	10.9	10.0	2.0	1.9
SEEK LIMITED	31.2	27.0	16.2	14.1	20.5	17.8	4.9	4.2
TRIPADVISOR INC.	33.5	28.4	16.8	14.1	34.8	27.7	4.5	3.9
MEDIAN	20.5	18.5	16.0	14.1	18.3	15.1	4.5	3.9
AVERAGE	24.3	20.7	14.0	12.3	18.8	15.8	5.7	5.2
SCOUT24 AG	20.2	17.8	14.1	12.2	17.0	14.3	7.4	6.5

Source: Factset, Pareto

For the DCF we assume a sustainable EBIT margin of 42%, apply 7.4% WACC (with 1.1 beta and 2.5% perpetual sales growth).

DCF Valuation

EUR m	Phase I					Phase II					Phase III
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	532	613	674	737	802	864	922	974	1,018	1,055	
growth rate	12.6%	15.2%	10.0%	9.4%	8.8%	7.7%	6.7%	5.6%	4.6%	3.5%	
EBIT	214	252	279	306	336	362	387	409	428	468	
EBIT margin	40.3%	41.1%	41.4%	41.6%	41.9%	41.9%	42.0%	42.0%	42.0%	42.0%	
Tax	-67.6	-80.6	-89.2	-98.0	-107.6	-116.0	-123.8	-130.8	-136.8	-149.7	
Tax rate	31.5%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	
Depr. & Amort.	57.4	57.0	58.3	60.0	61.7	53.8	50.6	49.9	50.4	50.2	
% of sales	10.8%	9.3%	8.6%	8.1%	7.7%	6.2%	5.5%	5.1%	4.9%	4.8%	
Capex	-26.6	-31.9	-36.4	-41.3	-46.5	-51.8	-47.9	-49.7	-51.4	-52.7	
% of sales	5.0%	5.2%	5.4%	5.6%	5.8%	6.0%	5.2%	5.1%	5.1%	5.0%	
Change in WC & P	-3.8	-4.0	-3.0	-2.0	-1.0	-1.1	-1.1	-1.2	-1.3	-1.3	
% of sales	0.7%	0.7%	0.4%	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
Free Cash Flow	173.9	192.4	208.6	225.0	242.9	247.3	264.6	277.0	288.4	314.4	6,525.5
growth rate		10.6%	8.4%	7.9%	7.9%	18%	7.0%	4.7%	4.1%	9.0%	2.5%
Present Value FCF	173.0	178.2	179.7	180.5	181.3	171.9	171.1	166.8	161.6	164.0	3,403.7

PV Phase I	893	Risk free rate	3.50%	Targ. equity ratio	70%			
PV Phase II	835	Premium Equity	5.00%	Beta	1.10			
PV Phase III	3,404	Premium Debt	2.00%	WACC	7.4%			
Enterprise value	5,132	Sensitivity	Growth in phase III					
- Net Debt (Cash)	634		1.5%	2.0%	2.5%	3.0%	3.5%	
- Pension Provisions	0.4		6.69%	39.7	43.3	47.7	53.3	60.6
- Minorities & Peripherals	0.0		7.07%	36.4	39.4	43.1	47.6	53.4
+ MV of financial assets			WACC 7.44%	33.6	36.1	39.1	42.9	47.6
- Paid-out dividends for last FY	0		7.81%	31.0	33.2	35.8	38.9	42.7
+/- Other EV items	-285		8.18%	28.8	30.6	32.9	35.5	38.7
Equity value	4,212							
Number of shares	107.6							
Value per share (€)	39							
Current Price (€)	37.1							

Source: Factset, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2015	2016	2017	2018e	2019e	2020e
Revenues	394	442	473	532	613	674
EBITDA	167	207	233	272	309	337
Depreciation & amortisation	(66)	(65)	(57)	(57)	(57)	(58)
EBIT	101	141	176	214	252	279
Net interest	(22)	(43)	(10)	(17)	(13)	(12)
Other financial items	-	-	-	-	-	-
Profit before taxes	79	98	166	198	239	267
Taxes	(22)	(32)	(55)	(62)	(76)	(86)
Minority interest	-	0	-	-	-	-
Net profit	57	67	111	136	162	182
EPS reported	0.56	0.62	1.03	1.26	1.51	1.69
EPS adjusted	0.85	1.04	1.40	1.59	1.82	2.06
DPS	-	0.30	0.40	0.45	0.48	0.50
BALANCE SHEET (EURm)	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	13	10	8	8	8	8
Other non-current assets	2,033	2,020	2,012	2,267	2,242	2,220
Other current assets	57	58	63	72	81	89
Cash & equivalents	71	43	57	180	259	357
Total assets	2,173	2,131	2,140	2,527	2,589	2,674
Total equity	921	991	1,065	1,194	1,342	1,511
Interest-bearing non-current debt	-	-	-	47	47	47
Interest-bearing current debt	-	-	-	-	-	-
Other Debt	1,251	1,140	1,074	1,285	1,200	1,115
Total liabilities & equity	2,173	2,131	2,140	2,527	2,589	2,674
CASH FLOW (EURm)	2015	2016	2017	2018e	2019e	2020e
Cash earnings	137	152	147	245	223	253
Change in working capital	(12)	3	10	4	4	3
Cash flow from investments	(19)	(20)	(23)	(312)	(32)	(36)
Cash flow from financing	(112)	(133)	(92)	186	(117)	(121)
Net cash flow	71	2	42	123	79	99
CAPITALIZATION & VALUATION (EURm)	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	32.9	33.8	34.1	37.1	37.1	37.1
Number of shares end period	102	108	108	108	108	108
Net interest bearing debt	703	634	561	666	520	352
Enterprise value	4,061	4,274	4,225	4,658	4,511	4,344
EV/Sales	10.3	9.7	8.9	8.8	7.4	6.4
EV/EBITDA	24.3	20.7	18.1	17.1	14.6	12.9
EV/EBIT	40.1	30.2	24.0	21.7	17.9	15.6
P/E reported	58.5	54.4	33.0	29.4	24.6	22.0
P/E adjusted	38.8	32.5	24.3	23.3	20.4	18.0
P/B	3.6	3.7	3.4	3.3	3.0	2.6
FINANCIAL ANALYSIS & CREDIT METRICS	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)		11.7	14.7	15.2	15.5	15.5
Dividend yield (%)	-	0.9	1.2	1.2	1.3	1.3
EBITDA margin (%)	42.4	46.8	49.3	51.1	50.4	50.0
EBIT margin (%)	25.7	32.0	37.2	40.3	41.1	41.4
NIBD/EBITDA	4.21	3.07	2.41	2.45	1.68	1.04
EBITDA/Net interest	8.46	5.24	24.63	17.71	25.25	31.69

The digital media all-in-one agency

SYZYGY (SYZ) provides everything a modern digital agency needs. Traditional agency business models have become ineffective and customers are now working with only a limited number of agencies which offer the full range of services. We see this as a clear professionalization and concentration of the market and believe that SYZ is well positioned here. BUY TP EUR 10.70

Investment Case

A lot should be different at SYZYGY 2018. The company wants nothing less than to find back to its old strength after a very weak financial year 2017. A year which had been primarily characterized by the loss of a large BMW budget (EUR 6m) and as consequence the closure of the subsidiary "Hi-ReS!" Berlin. Nevertheless the company disappointed with its 9M figures and a sales growth of only 4.9% yoy, despite a low comp base. On the other hand, the development on earnings level appears pleasing. Here, the company was able to achieve a significantly better result with +36% yoy and a margin increase of 260bps. FY18 guidance was confirmed with a double-digit growth in sales and an EBIT margin in the upper single-digit range. Going forward we expect a powerful Q4 (historically the strongest and most important quarter) on both lines. In addition, the low comparison base in Q4 should support, as last year was mainly effected by BMW and its consequences mentioned above. We still consider SYZ as an attractive investment opportunity in a continuously growing industry although valuation is still not cheap with a PE 2019e of ~23 and higher potential uncertainties regarding the UK business (20%) and the high share of sales with automobile customers (30%). As SYZYGY has a holistic repertoire of digital go-to-market and business strategies combined with brand communications, creative services, design and experience offerings, we believe in its ability to participate from overall market growth. After the recent share price drop and the good margin improvement we rate the stock to Buy.

EURm	2016	2017	2018e	2019e	2020e
Revenues	64	61	67	74	82
EBITDA	7	6	8	9	11
EBIT	6	4	6	7	9
EPS	0.39	0.39	0.35	0.39	0.47
EPS adj	0.39	0.39	0.35	0.39	0.47
DPS	0.37	0.38	0.34	0.38	0.46
EV/EBITDA	20.1	27.0	16.3	14.9	12.7
EV/EBIT	26.4	40.7	21.7	19.4	16.1
P/E adj	29.6	29.2	25.4	22.7	18.9
P/B	2.98	2.70	2.15	2.13	2.09
ROE (%)	9.9	9.4	8.4	9.4	11.1
Div yield (%)	3.2	3.4	3.8	4.3	5.2
Net debt	0	15	18	20	21

Source: Pareto



Target price (EUR)	10.7
Share price (EUR)	8.9

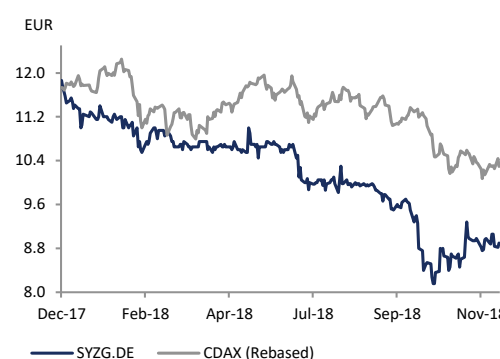
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	SYZG.DE, SYZ GY
Sector	Media
Shares fully diluted (m)	12.7
Market cap (EURm)	113
Net debt (EURm)	18
Minority interests (EURm)	0
Enterprise value 18e (EURm)	138
Free float (%)	49

Performance



Source: Factset

Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.

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Company profile

Digital at heart since 1995

SYZYGY (SYZ) is an international digital full service agency with focus on strategy consulting, marketing and web product solutions headquartered in Bad Homburg Germany. The company has also offices in Frankfurt, Berlin, Munich, New York and Warsaw. The company employs around 600 permanent employees. With its services SYZ helps its customers to set up appealing marketing presences in digital media. SYZYGY has a holistic repertoire of digital go-to-market and business strategies combined with brand communications, creative services, design and experience offerings. SYZ's services include strategic consulting and project planning, the conception and design as well as the technical realisation of websites, user experiences, online campaigns and mobile applications. With their state-of-the-art technologies, they operate in a highly specialized manner and take the customer on their own digital journey. Its customers include brands such as Deutsche Telekom BMW, Volkswagen, Lufthansa, AVIS AutoScout24, comdirect bank, Commerzbank, KfW, Mazda, o2, Samsung or the Techniker health insurance.

Upcoming Triggers and Drivers

Digital Consulting business as promising growth market

The main drivers should be a fast recovery of the UK business with a lot of newly acquired customers. The digital consulting business should thrive and, thanks to higher margins, make a significant and sustainable contribution to corporate earnings. Moreover the company continues to be a potential takeover target as well as a profit transfer and control agreement on the part of WPP cannot be excluded. We believe that SYZYGY's new package of consulting expertise in combination with implementation expertise is what customers are looking for and what we believe should lead to significant sales and earnings increase in future.

Next scheduled reporting: Q4 2018 Earnings Release March.19 (Projected)

Risk to the investment case

It's all about winning pitches

SYZ's business is a classical project business as the company depends on winning pitches to work for customers. This business initially ties up many resources, without an adequate security for later a success. Digital specialists are in great demand and rare, which goes hand in hand with rising personnel costs. Also the high share of group sales with automobile customers (~30%) behind the background of diesel gate should be viewed critically. Moreover, the agency industry is vulnerable in times of weakening economy.

Valuation and recommendation

It's all about winning pitches

We base our valuation on a DCF model applying a long-term growth rate of 2.5%, a calculated NPV with a WACC of 7.8% to derive a target price of EUR 10.80. We believe SYZ could deliver a sales CAGR 18-22e of 10%. With an expected FY18 EBIT margin base of 9.5%, we believe that the EBIT margin could increase up to ~11% by 2020e, largely due to better OPEX (missing restructuring expenses) but also with support from the higher margin consulting business. Additionally the company still has high liquidity reserves of approximately 18m, despite high dividend pay-outs and M&A leading to a cash conversion rate above 1.0. In the first 9M SYZ's operating cash flow amounted to 9.2m (vs. 2.9m in 17) driven by working capital (EUR 3m) and a change in purchase price liabilities (EUR 1m) but also by advanced payments by customers (EUR 2m). In our opinion, SYZ has a healthy liquidity basis that enables the company to make further acquisitions. On this basis the shares currently have an upside potential of ~20%.

Exhibit 2: DCF Valuation Syzygy

EUR m	Phase I					Phase II					Phase III
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	67.0	74.3	82.2	90.5	99.2	107.9	116.2	124.0	131.3	137.4	
growth rate	10.4%	10.9%	10.5%	10.1%	9.7%	8.8%	7.7%	6.7%	5.9%	4.8%	
EBIT	6.4	7.3	8.9	9.6	10.2	11.2	12.1	12.9	13.7	14.4	
EBIT margin	9.5%	9.8%	10.8%	10.6%	10.3%	10.4%	10.4%	10.4%	10.5%	10.5%	
Tax	-1.8	-2.1	-2.5	-2.8	-2.9	-3.2	-3.4	-3.7	-3.9	-4.1	
Tax rate	28.0%	28.5%	28.5%	29.0%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	
Depr. & Amort.	2.1	2.2	2.4	2.6	2.8	3.1	3.3	3.6	3.9	4.1	
% of sales	3.1%	3.0%	2.9%	2.9%	2.8%	2.8%	2.9%	2.9%	2.9%	2.9%	
Capex	-4.5	-4.0	-3.8	-3.7	-3.5	-3.7	-3.9	-4.0	-4.1	-4.1	
% of sales	6.7%	5.4%	4.6%	4.1%	3.5%	3.4%	3.3%	3.2%	3.1%	3.0%	
Change in WC & P	-0.4	-0.5	-0.6	-0.6	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5	
% of sales	0.7%	0.6%	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	0.4%	0.3%	
Free Cash Flow	1.7	2.9	4.4	5.1	5.9	6.7	7.5	8.2	9.0	9.8	190
growth rate	nm	67.5%	49.8%	13.4%	17.2%	12.6%	11.7%	10.5%	9.5%	8.9%	2.5%
Present Value FCF	1.7	2.7	3.7	4.0	4.4	4.5	4.7	4.8	4.9	5.0	96
PV Phase I	16					Risk free rate	3.50%	Targ. equity ratio		80%	
PV Phase II	24					Premium Equity	5.00%	Beta		1.06	
PV Phase III	96					Premium Debt	2.00%	WACC		7.81%	
Enterprise value	136					Sensitivity	Growth in phase III				
- Net Debt (Cash)	-10						1.5%	2.0%	2.5%	3.0%	3.5%
- Pension Provisions	0					7.03%	11.0	11.8	12.7	13.8	15.3
- Minorities & Peripherals	0.4					7.42%	10.3	10.9	11.7	12.6	13.8
+ MV of financial assets						WACC 7.81%	9.6	10.1	10.8	11.6	12.5
- Paid-out dividends for last FY	0					8.20%	9.0	9.5	10.0	10.7	11.5
+/- Other EV items						8.59%	8.5	8.9	9.4	9.9	10.6
Equity value	145										
Number of shares	13.5										
Value per share (€)	10.8										
Current Price (€)	9.0										
Upside	19.4%										

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	35	47	57	64	61	67	74	82
EBITDA	3	5	6	7	6	8	9	11
Depreciation & amortisation	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)
EBIT	2	4	5	6	4	6	7	9
Net interest	1	1	1	1	1	1	1	1
Other financial items	1	1	1	1	1	0	0	0
Profit before taxes	4	6	7	7	6	7	8	10
Taxes	(1)	(1)	(2)	(2)	(1)	(2)	(2)	(3)
Minority interest	0	0	0	0	(1)	(1)	(1)	(1)
Net profit	3	4	5	5	5	5	5	6
EPS reported	0.26	0.35	0.37	0.39	0.39	0.35	0.39	0.47
EPS adjusted	0.26	0.35	0.37	0.39	0.39	0.35	0.39	0.47
DPS	0.25	0.28	0.35	0.37	0.38	0.34	0.38	0.46
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	2	3	3	2	6	9	11	12
Other non-current assets	20	26	26	35	60	60	60	60
Other current assets	37	42	45	37	31	33	34	37
Cash & equivalents	7	13	4	7	7	4	2	1
Total assets	66	83	78	81	105	106	107	109
Total equity	49	51	51	50	56	56	57	59
Interest-bearing non-current debt	3	7	5	5	6	7	7	8
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	14	26	21	26	42	43	42	42
Total liabilities & equity	66	83	78	81	105	106	107	109
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	4	10	5	7	4	7	7	8
Change in working capital	(2)	4	(8)	(1)	0	(0)	(0)	(1)
Cash flow from investments	3	(5)	(3)	2	(4)	(5)	(4)	(4)
Cash flow from financing	(4)	(4)	(4)	(5)	(0)	(5)	(5)	(5)
Net cash flow	1	6	(9)	3	1	(3)	(2)	(2)
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	5.1	6.4	8.8	11.6	11.3	8.9	8.9	8.9
Number of shares end period	13	13	13	13	14	14	14	14
Net interest bearing debt	(7)	(10)	(1)	0	15	18	20	21
Enterprise value	58	71	111	148	167	138	141	143
EV/Sales	1.7	1.5	1.9	2.3	2.7	2.1	1.9	1.7
EV/EBITDA	21.0	14.1	17.3	20.1	27.0	16.3	14.9	12.7
EV/EBIT	28.8	18.5	21.0	26.4	40.7	21.7	19.4	16.1
P/E reported	19.4	18.3	24.1	29.6	29.2	25.4	22.7	18.9
P/E adjusted	20.0	18.3	24.1	29.6	29.2	25.4	22.7	18.9
P/B	1.3	1.6	2.2	3.0	2.7	2.2	2.1	2.1
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)		8.8	9.1	9.9	9.4	8.4	9.3	10.9
Dividend yield (%)	4.9	4.4	4.0	3.2	3.4	3.8	4.3	5.2
EBITDA margin (%)	7.9	10.8	11.2	11.5	10.2	12.6	12.7	13.7
EBIT margin (%)	5.8	8.2	9.2	8.7	6.8	9.5	9.8	10.8
NIBD/EBITDA	(2.38)	(1.90)	(0.23)	0.04	2.40	2.09	2.10	1.89
EBITDA/Net interest	-	-	-	-	-	-	-	-

Efficient technological solutions for active and passive recruiting

As we currently do not see any comparable product to XING's 360° model incl. the "XING Talent Manager" (XTM) on the market and due to several growth factors, like demographic trends, rising HR budgets and an ongoing digital transformation, we envisage a prosperous business development for XING. Despite recent share price weakness there is only 7% upside to our TP and we initiate with a Hold rating.

Investment Case

XING runs a low capital intensive platform business with flat and stable infrastructure costs and high economies of scale/scope. The company's has a strong competitive positioning due to attractive member prepayments resulting in a negative working capital profile (subscription business). Combined with creative inventiveness, XING assures attractive capital returns which are likely to be extended.

With the XTM it has the most efficient technological solutions for active and passive recruiting in the DACH region. The company also owns an enormous intellectual property with smart international young professionals and a management with a strong track record. So far, 2018 has been a good year for XING: its 9M figures showed top-line growth of 26% which was ahead of market expectations. EBITDA was more in line with consensus given higher OPEX and smaller dilutive effects from last year's acquisition Internations (margin ~20%, resulting in a margin decrease of 250bps). It has confirmed 2020 guidance calling for sales of EUR 300m and EUR 106m in EBITDA, which we consider to be conservative. We believe with current market volatility, profit taking is the main reason for price declines, as fundamentals like recruiting needs remain intact.

EURm	2016	2017	2018e	2019e	2020e
Revenues	149	186	228	270	316
EBITDA	48	61	75	90	105
EBIT	37	41	52	65	77
EPS	4.19	4.55	5.94	7.56	9.13
EPS adj	4.16	4.55	5.94	7.56	9.13
DPS	2.97	1.66	1.81	2.57	3.01
EV/EBITDA	18.8	24.0	19.2	15.8	13.3
EV/EBIT	24.1	36.3	27.6	22.0	18.3
P/E adj	42.1	59.1	44.2	34.7	28.7
P/B	14.11	19.11	14.32	10.90	8.57
ROE (%)	36.2	34.3	36.7	35.7	33.4
Div yield (%)	1.7	0.6	0.7	1.0	1.1
Net debt	(87)	(37)	(41)	(55)	(72)

Source: Pareto



Target price (EUR)	285
Share price (EUR)	263

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	OBCGN.DE, O1BC GR
Sector	Media
Shares fully diluted (m)	5.6
Market cap (EURm)	1,475
Net debt (EURm)	-41
Minority interests (EURm)	0
Enterprise value 18e (EURm)	1,434
Free float (%)	50

Performance



Source: Factset

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Company profile

In Chinese, XING 行 means “it works” as well as “competent”. This is a suitable description of XING, the leading social business networking platform in the DACH region which offers its members numerous services covering various aspects of today’s work life. With its five offices across Europe and currently almost 1.500 employees from all over the world, the company supports more than 15m members overall and ~1000 paying members.

The four main segments are B2C, B2B E-Recruiting, B2B Advertising & Events and kununu international. By connecting these professionals, XING intends to enable its customers to benefit from the developments in the labour market triggered by digitalization, lack of qualified personnel and the changes of social values. Currently XING offers more than 800k open vacancies.

Upcoming Triggers and Drivers

The question is where to start?

- (I) Expansion of installed member base (white collar) and international
- (II) Further develop new innovative applications and new Premium features
- (III) XING aims to serve >10k corporates with XTM & EPB solutions by 2020
- (IV) Upsell from Premium into ProJobs/ProCoach memberships with further pricing upside (improvement of ARPU)
- (V) Extension of its market position as “THE” think tank of modern working life
- (VI) New targets like blue collar or Education are on hold but still promising
- (VII) Independent from macroeconomic trends as good staff is always needed

Next scheduled reporting: Q4 2018 Earnings Release 19.03.2019 (Projected)

Risk to the investment case

Under the spell of the big Tech’s

As highest risk factor we see a general slump (like in April or Nov 2018) in shares of technology companies with multiple compressions like Facebook, Amazon, Apple, Microsoft and Google. The second risk we could foresee is a fully integration of LinkedIn into Microsoft’s Office 365 or other standard application. If we assume that in every windows business package, integrated software for LinkedIn with its job ad applications for example and other additional features, are included. Another variant could also be the integration into something like an ERP system. This would substantially increase the dissemination of B2B applications and could generate additional growth. Google Jobs is not considered to be an immediate risk factor since it will operate as rather a pure job board whereas XING stands out due to its network component and membership structure.

Valuation and recommendation

Target price of EUR 285

From a valuation point of view the stock is still above the low point of EUR 231 after the significant setback in April this year. XING now trades at 16x EV/EBITDA 19e which is below its 3y historical average of 20x. Our EUR 285 TP implies an upside of 8% with a multiple 35x for P/E 19e, 16x EV/EBITDA and EV/Sales of 5.4x. Compared with platform peers XING has a 7% premium on EV/sales and 5% on EV/EBITDA which we both assume as justified based in the company’s cash generating model and the overall positive business environment. We base our valuation on a DCF model applying a long-term growth rate of 2.5%, a calculated NPV with a WACC of 8.5% to derive a target price of EUR 285.00. Our WACC is a result of a 3.5% risk free rate assumption and a 5% equity risk premium. The Beta of 1.1 is derived using a fundamental approach (i.e. competitive structure, management-quality, size and fin. risk).

DCF Valuation

EUR m	Phase I					Phase II					Phase III
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	228	270	316	370	433	496	555	608	650	680	
growth rate	22.5%	18.3%	17.2%	17.0%	17.0%	14.5%	12.0%	9.5%	7.0%	4.5%	
EBIT	52	65	77	90	104	122	140	157	172	184	
EBIT margin	22.8%	24.0%	24.2%	24.2%	24.0%	24.6%	25.2%	25.8%	26.4%	27.0%	
Tax	-17.2	-21.3	-25.3	-29.6	-34.3	-40.2	-46.1	-51.7	-56.7	-60.6	
Tax rate	33.0%	33.0%	33.0%	33.0%	33.0%	33%	33%	33%	33%	33%	
Depr. & Amort.	22.8	25.4	28.7	33.0	37.9	52.4	63.7	72.5	79.1	84.2	
% of sales	10.0%	9.4%	9.1%	8.9%	8.8%	10.6%	11.5%	11.9%	12.2%	12.4%	
Capex	-36.5	-41.8	-47.4	-55.5	-64.9	-79.3	-86.0	-88.1	-91.1	-88.4	
% of sales	16.0%	15.5%	15.0%	15.0%	15.0%	16.0%	15.5%	14.5%	14.0%	13.0%	
Change in WC & P	10.9	10.9	12.1	14.0	16.4	18.7	21.0	23.0	24.6	25.7	
% of sales	-4.8%	-4.0%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	
Free Cash Flow	32.1	37.7	44.6	51.5	58.9	73.5	92.3	112.4	127.6	144.4	2,254.1
growth rate	nm	17.6%	18.3%	15.4%	14.3%	24.7%	25.7%	21.7%	13.5%	13.2%	2.0%
Present Value FCF	31.9	34.6	37.7	40.1	42.2	48.5	56.1	63.0	65.9	68.7	1,072.2

PV Phase I	186	Risk free rate	3.50%	Targ. equity ratio	90%
PV Phase II	302	Premium Equity	5.00%	Beta	1.1
PV Phase III	1,072	Premium Debt	2.00%	WACC	8.5%

Enterprise value	1,561	Sensitivity	Growth in phase III				
- Net Debt (Cash)	-87		1.0%	1.5%	2.0%	2.5%	3.0%
- Pension Provisions	1	7.68%	296.2	313.3	333.4	357.4	386.6
- Minorities & Peripherals	0	8.11%	275.8	290.3	307.3	327.3	351.2
+ MV of financial assets		WACC 8.54%	257.8	270.3	284.7	301.5	321.4
- Paid-out dividends for last FY	6	8.96%	241.8	252.6	265.0	279.2	295.9
+/- Other EV items	-41	9.39%	227.5	236.9	247.6	259.8	273.9
Equity value	1,600						
Number of shares	5.6						
Value per share (€)	285						

Source: Factset, Pareto

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PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	85	101	123	149	186	228	270	316
EBITDA	21	28	35	48	61	75	90	105
Depreciation & amortisation	(6)	(9)	(8)	(11)	(21)	(23)	(25)	(29)
EBIT	15	19	27	37	41	52	65	77
Net interest	(1)	(0)	(0)	(0)	2	1	1	2
Other financial items	-	-	-	(3)	(4)	(3)	(3)	(2)
Profit before taxes	14	19	26	34	39	50	63	77
Taxes	(5)	(13)	(9)	(11)	(13)	(16)	(21)	(25)
Minority interest	-	-	-	-	-	-	-	-
Net profit	9	6	18	24	26	33	43	51
EPS reported	1.65	1.11	3.15	4.19	4.55	5.94	7.56	9.13
EPS adjusted	1.55	1.11	3.15	4.16	4.55	5.94	7.56	9.13
DPS	0.62	0.92	1.03	2.97	1.66	1.81	2.57	3.01
BALANCE SHEET (EURm)								
Tangible non current assets	6	5	5	9	9	15	23	32
Other non-current assets	24	21	34	53	149	178	209	242
Other current assets	13	16	20	22	34	25	36	51
Cash & equivalents	69	67	81	87	37	41	55	72
Total assets	112	109	140	170	228	260	323	397
Total equity	61	43	61	70	79	103	135	172
Interest-bearing non-current debt	29	36	44	55	70	70	90	116
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	22	30	35	45	78	86	97	109
Total liabilities & equity	112	109	140	170	228	260	323	397
CASH FLOW (EURm)								
Cash earnings	28	38	29	43	49	62	77	90
Change in working capital	(4)	(3)	6	7	10	11	11	12
Cash flow from investments	(4)	(2)	(3)	(30)	(93)	(59)	(64)	(70)
Cash flow from financing	(3)	(3)	(5)	(14)	(17)	(9)	(10)	(14)
Net cash flow	10	(2)	14	6	(51)	5	13	17
CAPITALIZATION & VALUATION (EURm)								
Share price (EUR end)	74.4	92.8	170.7	175.5	268.6	262.5	262.5	262.5
Number of shares end period	6	6	6	6	6	6	6	6
Net interest bearing debt	(69)	(67)	(81)	(87)	(37)	(41)	(55)	(72)
Enterprise value	343	451	876	899	1,473	1,434	1,420	1,403
EV/Sales	4.0	4.4	7.1	6.1	7.9	6.3	5.3	4.4
EV/EBITDA	16.0	15.9	25.0	18.8	24.0	19.2	15.8	13.3
EV/EBIT	22.6	23.7	32.9	24.1	36.3	27.6	22.0	18.3
P/E reported	45.1	83.9	54.2	41.8	59.1	44.2	34.7	28.7
P/E adjusted	47.9	83.9	54.2	42.1	59.1	44.2	34.7	28.7
P/B	6.8	11.9	15.8	14.1	19.1	14.3	10.9	8.6
FINANCIAL ANALYSIS & CREDIT METRICS								
ROE adjusted (%)	15.3	11.9	33.9	35.9	34.3	36.7	35.7	33.4
Dividend yield (%)	0.8	1.0	0.6	1.7	0.6	0.7	1.0	1.1
EBITDA margin (%)	25.3	27.9	28.5	32.3	32.9	32.8	33.4	33.3
EBIT margin (%)	17.9	18.7	21.6	25.1	21.8	22.8	24.0	24.2
NIBD/EBITDA	(3.22)	(2.37)	(2.31)	(1.81)	(0.60)	(0.55)	(0.61)	(0.69)
EBITDA/Net interest	31.58	-	-	-	-	-	-	-

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6 Dec 2018

Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5 % of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Vest	4,506,060	7.63%

Pareto Securities AS or its affiliates own as determined in accordance with Section 13(d) of the US Exchange Act, 1 % or more of the equity securities of:

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1SMN	1,879,292	1.45%
NHST Media Group AS	21,475	1.85%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,179,147	2.32%	Sparebanken Sør	460,589	2.94%
SpareBank 1BV	1,549,440	2.46%	Sparebanken Vest	4,506,060	7.63%
SpareBank 1Nord-Norge	1,129,459	1.12%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Golden Ocean Group	0	1,824	Prosafe	0	5,984
Aker	0	514	Grieg Seafood	0	770	Protector Forsikring	0	14,285
Aker BP	0	860	Helgeland Sparebank	0	1,700	REC Silicon	0	159,908
Aker Solutions	0	2,085	Høegh LNG	0	8,703	SailMar	0	130
AKVA Group	0	1,500	Ice Group AS	0	55,500	Sandnes Sparebank	0	18,032
Archer	0	73,520	Jæren Sparebank	0	500	Scatec Solar	0	35,635
Atea	0	450	Komplett Bank	0	99,357	Seadrill	0	6,615
Austevoll Seafood	0	5,780	Kongsberg Gruppen	0	4,010	Selvaag Bolig	0	10,000
Avance Gas	0	34,201	Lerøy Seafood	0	33,795	SpareBank 1BV	0	10,000
Axactor	0	21,647	Marine Harvest	0	1,864	SpareBank 1Nord-Norge	0	30,000
Bonheur	0	44,509	Monobank	0	1,355,000	SpareBank 1SMN	0	16,590
Borr Drilling	0	4,415	NEXT Biometrics	0	1,730	SpareBank 1SR-Bank	0	39,187
BWLPG	0	5,569	Nordic Semiconductor	0	6,000	SpareBank 1Østlandet	0	2,891
DNB	0	35,822	Norsk Hydro	0	112,501	Sparebanken Møre	0	6,550
DNO	0	24,392	Northern Drilling	0	2,099	Sparebanken Sør	0	43,280
DOF	0	138,498	Norwegian Air Shuttle	0	3,172	Sparebanken Øst	0	3,000
Entra	0	14,362	Norwegian Property	0	150,000	Storebrand	0	5,005
Equinor	0	10,266	Ocean Yield	0	31,967	Subsea 7	0	7,351
Europris	0	14,510	Odffell Drilling	0	8,731	Telenor	0	2,272
Faroe Petroleum	9,600	9,600	Orkla	0	23,746	TGS-NOPEC	0	2,000
Flex LNG	0	13,352	Panoro Energy	0	5,670	XXL	0	7,270
Frontline	0	13,943	Pareto Bank	0	963,509	Yara International	0	19,079
Gjensidige Forsikring	0	8,547	Petroleum Geo-Services	0	57,884	Zenterio	0	78,865

This overview is updated monthly (last updated 21.11.2018).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

6 Dec 2018

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Africa Energy	Floatel	Okea AS
Akva Group	Fortum	Pandion Energy
Arnarlax	Genel Energy	Pareto Bank
Atlantic Sapphire AS	Gfinity Plc	Petro Matad Limited
Avida Holding AB	Gulf Keystone Petroleum	Petrolat LLC
Bank Norwegian	Hertha BSC GmbH	Pioneer Public Properties Finland Oy
Borealis Finance	Hunter Group	Point Resources AS
Borr Drilling Limited	Idavang A/S	Quant AB
Brado AB	Instabank	Sakthi Global Auto Holdings
Camanchaca	Komplett Bank	Sand Hill Petroleum
DNO ASA	McDermott International	SAS
DOF ASA	MMA Offshore	Scatec Solar
Echo Energy	Monobank ASA	Scorpio Tankers
Eco Atlantic Oil and Gas	Nemaska Lithium	Shamara
Eidesvik Offshore	Northern Drilling	Siccar Point Energy
Eland Oil & Gas	Northmill Group AB	SL Bidco
Embarcadero Maritime II LLC	Norwegian Air Shuttle	SpareBank 1 Buskerud-Vestfold
Faroe Petroleum	Ocean Yield	Sparebanken Vest
FFS Bidco	Odfjell	Union Maritime Limited
Filo Mining Corp	Odfjell Drilling	Zwipe AS
Flex LNG		

This overview is updated monthly (this overview is for the period 31.10.2017 – 31.10.2018).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	76%
Hold	20%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	100%
Hold	0%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 21.11.2018).

6 Dec 2018

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Aspire	Green Landscaping Holding	Powercell	Sedana Medical
Cibus Nordic Real Estate	Lehto Group	Magnolia Bostad	Shamara Petroleum
Climeon	Organoclick	Scibase	Vostok New Ventures

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Oil	Cavotec	Isofol Medical	Shamara Petroleum
BlackPearl Resources Inc	Cibus Nordic Real Estate	Saltängen Property Invest	Tethys Oil
Byggmästare Anders J Ahlström	Delarka Holding	SciBase Holding	Vostok Emerging Finance
Byggpartner i Dalarna	International Petroleum Corporation	Sedana Medical	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 14.09.2018).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

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Aixtron *	Gesco *	MOBOTIX AG	SMT Scharf AG *
Baywa	GFT Technologies *	MTU Aero Engines	Surteco Group *
Biotest *	Gigaset *	OVH Holding AG	Syzygy AG *
Brenntag	Heidelberg Pharma *	Procredit Holding *	TAKKT AG
CORESTATE Capital Holding S.A.	Hypoport AG	PSI SOFTWARE AG *	Vapiano
Daldrup & Soehne *	Intershop Communications AG	PWO *	va-Q-tec *
Demire	Logwin *	RIB Software *	Viscom *
Epigenomics AG *	Manz AG *	S&T AG *	windeln.de
Euromicron AG *	MAX Automation SE *	Schaltbau Holding AG	
Eyemaxx Real Estate	Merkur Bank	SCOUT24	

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	Hypoport AG	OHB SE	Vapiano
Baywa	Intershop Communications AG	OVH Holding AG	
BB Biotech	Merkur Bank	Schaltbau Holding AG	
Eyemaxx Real Estate	MOBOTIX AG	Siegfried Holding AG	

This overview is updated monthly (last updated 05.12.2018).