

18/08/2017 - GBC Research Comment – KPS AGCompany: KPS AG^{*5a,7,11}

ISIN: DE000A1A6V48

Analyst: Matthias Greiffenberger

Latest stock quote: €16.34 (XETRA 11/08/2017; 4:51 pm)

Target Price: €18.00 (previously: 18,00 €)

Rating: BUY

Date of completion / publication: 18/08/2017

* Potential conflicts of interest on page 3

Growth continues in Q3 2016/17 - acquisition of ICE Consultants Europe SL creates further potential - forecasts for FY 2017/18 confirmed - Target Price: €18.00 - Rating: BUY

On 11/08/2017, KPS AG released its figures for the 3rd quarter and confirmed the forecast for the financial year. In the 3rd quarter, revenue rose by 3.4% to €39.7 million (previous year: €38.4 million) and revenue of €122.53 million was thus achieved in the first 9 months. Given the company's own forecast of €160 million in revenues, this would mean further revenue of €37.47 million would be required in the 4th quarter (previous year: €37.72 million). This is an indication of an extremely conservative forecast as, with this forecast, an implicit slight decrease in revenue for the 4th quarter would be expected. In our view, revenue of €164.25 million should be reached in FY 16/17 and we consequently expect a revenue increase to €41.72 million in the 4th quarter. On the results side, EBIT remained at the previous year's level in the 3rd quarter at €5.9 million (previous year: €6.0 million). This is in particular due to higher investments in head count, which should form the basis for further growth.

Furthermore, the acquisition of ICE Consultants Europe SL, Barcelona, (ICE) was also announced in the past quarter (see corporate news dated 01/08/2017). The finalisation of the acquisition is planned for 02/10/2017. In addition to the approximately 100 consultants, ICE should also have an EBIT margin on a par with KPS's and have a similar growth dynamic. Besides the high profitability, the acquisition should, in particular, create access to new customers in new industries for KPS. Stronger local contact with customers through small, regional teams is planned. At the same time, the majority of the value creation will be realised in the SmartFactory in Dortmund. This will make higher margins possible in the long term, as this will allow an industrialisation of the consultancy approach. ICE effectively has a broader industry focus than KPS and assists companies in the sectors of retail and wholesale, consumer products, automotive and pharmaceuticals. This provides KPS with cross-industry expertise and new customer groups. Given ICE's excellent market position and the potential synergies, we regard the acquisition as highly valuable; however, the purchase price and financing must be analysed in further detail for a qualified evaluation. Further information in this regard is to be published later.

In our view, KPS AG is extremely well-positioned in the current market environment and should be able to achieve gradual margin improvements with dynamic revenue in the long term with the industrialisation of the consultancy approach. Besides providing further important access to customers, the recent acquisition of ICE will also be able to provide KPS AG with supplementary expertise. We therefore expect the long-term growth dynamic of KPS to be even further strengthened by the acquisition. Based on our DCF model, we have determined an unchanged fair value of €18.00 per share and assign a BUY rating.

ANNEX

Section 1 Disclaimer and exclusion of liability

This document is intended solely for information purposes. All data and information in this study come from sources that GBC regards as reliable. In addition, the authors have taken every care to ensure that the facts and opinions presented here are appropriate and accurate. Nevertheless, no guarantee or liability can be accepted for their correctness – whether explicitly or implicitly. In addition, all information may be incomplete or summarised. Neither GBC nor the individual authors accept liability for any damage which may arise as the result of using this document or its contents, or in any other way in this connection.

We would also point out that this document does not constitute an invitation to subscribe to nor to purchase any securities and must not be interpreted in this way. Nor may it nor any part of it be used as the basis for a binding contract of any kind whatsoever, or be cited as a reliable source in this context. Any decision relating to the probable offer for sale of securities for the company or companies discussed in this publication should be taken solely on the basis of information in the prospectuses or offer documents which are issued in relation to any such offer.

GBC does not provide any guarantee that the indicated returns or stated target prices will be achieved. Changes to the relevant assumptions on which this document is based can have a material impact on the targeted returns. Income from investments is subject to fluctuations. Investment decisions should always be made with the assistance of an investment advisor. This document cannot replace the role of an advisor.

Sale outside the Federal Republic of Germany:

This publication, if sold in the UK, may only be made available to those persons who, in the meaning of the Financial Services Act 1986 are authorised and exempt, or persons as defined in section 9 (3) of the Financial Services Act 1986 (Investment Advertisement) (Exemptions) Decree 1988 (amended version) and must not be transmitted directly or indirectly to other persons or groups of persons.

Neither this document nor any copy of it may be taken into, transferred to or distributed within the United States of America or its territories and possessions. The distribution of this document in Canada, Japan or other jurisdictions may be restricted by law, and persons who come into possession of this publication should find out about any such restrictions and respect them. Any failure to respect these restrictions may represent a breach of the US, Canadian or Japanese securities laws or laws governing another jurisdiction.

By accepting this document you accept all disclaimers of liability and the restrictions cited above.

You can find the details of this disclaimer/exclusion of liability at:

<http://www.gbc-ag.de/de/Disclaimer.htm>

Legal information and disclosures as required by section 34b para. 1 of Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)

This information can also be found on the internet at the following address:

<http://www.gbc-ag.de/de/Offenlegung.htm>

Section 2 (I) Updates

A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

Section 2 (II) Recommendation/ Classifications/ Rating

Since 1/7/2006 GBC AG has used a 3-level absolute share rating system. Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months. Previously the ratings related to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are defined based on the categories described below, including reference to the expected returns. Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification, but can result in a revision of the original recommendation.

The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10%.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the rel 10% and < + 10%.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the <= - 10%.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

Section 2 (III) Past recommendations

Past recommendations by GBC on the current analysis/analyses can be found on the internet at the following address:

<http://www.gbc-ag.de/de/Offenlegung.htm>

Section 2 (IV) Information basis

For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc.) which GBC believes to be reliable. In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends.

Section 2 (V) 1. Conflicts of interest as defined in section 34b para. 1 of the Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)

GBC AG and the analysts concerned hereby declare that the following potential conflicts of interest exist for the company/companies described. at the time of this publication, and in so doing meet the requirements of section 34b of the Securities Trading Act (WpHG). A detailed explanation of potential conflicts of interest is also listed in the catalogue of potential conflicts of interest under section 2 (V) 2.

In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (5a,7,11)
section 2 (V) 2. Catalogue of potential conflicts of interest

- (1) GBC AG or a legal person connected to them holds shares or other financial instruments of this company at the time of publication.
- (2) This company holds over 3% of the shares in GBC AG or a legal person connected to them.
- (3) GBC AG or a legal person connected to them is a market maker or designated sponsor for the financial instruments of this company.
- (4) GBC AG or a legal person connected to them has, over the previous 12 months, organised or played a leading role in the public issue of financial instruments for this company.
- (5) a) GBC AG or a legal person connected to them has over the last 12 months agreed to create research reports for this company in return for payment. As part of this agreement the issuer was shown the draft of this analysis (excluding the evaluation section) prior to publication.
- (5) b) After receiving valid amendments by the analysed company, the draft of this analysis was changed.
- (6) a) GBC AG or a legal person connected to them has over the last 12 months agreed with a third party to create research reports about this company in return for payment. As part of this agreement the issuer was shown the draft of this analysis (excluding the evaluation section) prior to publication.
- (6) b) After receiving valid amendments by the third party, the draft of this analysis was changed.
- (7) The analyst responsible for this report holds shares or other financial instruments of this company at the time of publication.
- (8) The analyst responsible for this company is a member of the company's Executive Board or Supervisory Board.
- (9) The analyst responsible for this report received or purchased shares in the company analysed by said analyst, prior to the time of publication.
- (10) GBC or a related legal party has closed an agreement with the underlying company regarding consulting services during the previous 12 months.
- (11) GBC or a related legal party has a significant financial interest in the analysed company, for example to get mandated by the analysed company or to provide any kind of services (such as the organization of fairs, roundtables, road shows, etc.).

Section 2 (V) 3. Compliance

GBC has defined internal regulatory measures in order to prevent potential conflicts of interest arising or, where they do exist, to declare them publicly. Responsibility for the enforcement of these regulations rests with the current Compliance Officer Kristina Bauer, Email: bauer@gbc-ag.de

Section 2 (VI) Responsibility for report

The company responsible for the creation of this/these analysis/analyses is GBC AG, with registered office in Augsburg, which is registered as a research institute with the responsible supervisory authority (Federal Financial Supervisory Authority or BaFin, Marie-Curie-Straße 24, 60439 Frankfurt, Germany).

GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:

Matthias Greiffenberger, M.Sc., M.A., Financial Analyst

Section 3 Copyright

This document is protected by copyright. It is made available to you solely for your information and may not be reproduced or distributed to any other person. Any use of this document outside the limits of copyright law shall, in principle, require the consent of GBC or of the relevant company, should the rights of usage and publication have been transferred.

GBC AG
Halderstraße 27
D 86150 Augsburg
Tel.: 0821/24 11 33-0
Fax.: 0821/24 11 33-30
Internet: <http://www.gbc-ag.de>

E-Mail: compliance@gbc-ag.de