

# S&T

Germany | IT software & services | Mcap EUR 153.6m

19 March 2015

# Buy (Buy)

**Target Price** EUR 5.60  
**Current Price** EUR 3.55  
**Up/downside** 57.7%  
**Change in TP** 47.37%  
**Change in EPS** 4.5% 2014E

## Quality growth ahead

Based on our updated valuation, S&T still offers plenty of catch-up potential, even after the recent share price rally (+40% since October 2014). At 10x 2015E earnings and a 50% average discount to peers, the stock remains attractive. Given the all-time high backlog and potential for further strong value creation, we reiterate our Buy rating and lift our TP from EUR3.8 to EUR5.6 based on a less conservative scenario.

### Getting more ambitious

We have significantly raised our sales growth forecasts for the smart grid division to better reflect the huge potential ahead (+16% sales over CAGR 2014-20E vs. 9% previously). The deployment of smart grids – driven by EU regulation requiring 80% of EU 27 utility customers to have a smart meter by 2020 – should begin to gain traction as of next year with the bulk of installations taking place in 2017-19. With S&T already contending for large project RFPs, the product mix is likely to improve faster than initially expected, translating into higher EBIT margins (+200bps by 2020E) and sound EPS growth (+22% and +27% in 2015E and 2016E, respectively).

### Credible player in smart grid

Thanks to the integration of NES (and the recent increase in stake to 65%), S&T is seen as a prominent player in smart grid. The group has strong assets including: 1) proven technological know-how; 2) an “end-to-end” positioning allowing it to participate in large projects; 3) the development of valuable industrial partnerships with large utility contractors (Schneider, LG, Mitsubishi); and 4) geographical exposure to eastern Europe, where incentives for grid modernisation are strong. In addition, the licensing of its proprietary OSGP technology - one of the two most widely used networking standards in smart grid infrastructure - should ensure recurring and ultra-high margin revenues in the form of annual royalties (minimum of USD2.0 per meter installed).

### Equity story remains intact

The investment case has lost none of its appeal, in our view: S&T continues to climb the value chain, thanks to smart investments in fast-growing segments of IT security and smart energy. The company is about to leverage its strong existing customer relations in Central and especially eastern Europe to sell higher-margin IT solutions, thereby boosting its returns.

### Baptiste de Leuville

bdeleuville@keplercheuvreux.com  
 +41 22 994 1573

### Bernd Laux

blaux@keplercheuvreux.com  
 +49 69 756 96 141

#### Market data

Market cap (EURm)	154
Free float	66%
No. of shares outstanding (m)	43
Avg. daily trading volume('000)	31
YTD abs performance	10.2%
52-week high (EUR)	3.75
52-week low (EUR)	2.54

FY to 31/12 (EUR)	2014E	2015E	2016E
Sales (m)	380.0	467.7	503.3
EBITDA adj (m)	19.5	26.4	32.8
EBIT adj (m)	14.2	18.9	23.7
Net profit adj (m)	12.3	15.0	19.1
Net fin. debt (m)	11.3	5.5	-9.2
FCF (m)	-2.7	6.1	15.0
EPS adj. and fully dil.	0.30	0.35	0.44
Consensus EPS	0.28	0.33	0.40
Net dividend	0.06	0.06	0.08

FY to 31/12 (EUR)	2014E	2015E	2016E
P/E (x) adj and ful. dil.	11.9	10.2	8.1
EV/EBITDA (x)	8.6	6.1	4.5
EV/EBIT (x)	11.8	8.6	6.2
FCF yield	-1.7%	4.0%	9.7%
Dividend yield	1.7%	1.7%	2.3%
Net fin.debt/EBITDA	0.6	0.2	-0.3
Gearing	11.9%	4.9%	-6.8%
ROIC	11.7%	13.0%	15.0%
EV/IC (x)	1.6	1.4	1.2

KEPLER CHEUVREUX and the issuer have agreed that KEPLER CHEUVREUX will produce and disseminate investment research on the said issuer as a service to the issuer.

**Company summary**

Founded in 1990, the S&T group is one of the leading suppliers of IT solutions in Central and Eastern Europe. The company has a comprehensive portfolio of products and services. These includes the development, implementation, operation and maintenance of client of customer-specific solutions in the hardware and software areas as well as the handling of IT outsourcing, integration and consulting commissions. The Appliances segment shapes hardware, software and knowhow into customized solutions. In 2014, S&T penetrated the industry of Smart Energy through external acquisitions.

**Management**

Hannes Niederhauser, CEO  
Michael Jeske / Dr. Peter Sturz, COO  
Richard Neuwirth, CFO

**Key shareholders**

Managers and supervisory board 34.0%  
Free Float 66.0%

**Market data**

Market cap (EUR)	153.6m
Free float market cap (EUR)	101.4m
No. of shares outstanding (m)	43
3m avg. daily vol ('000)	30
YTD abs. performance	10.2%
52-week high (EUR)	3.75
52-week low (EUR)	2.54

**Strengths**

- Strong expertise in IT security
- Unique geographical exposure in Central & Eastern Europe
- "end-to-end" positioning in Smart Energy

**Opportunities**

- Growth in smart energy
- Growth in cloud & security
- capitalize on extracting full value from leading smart meter software
- Product-mix improvement

**Weaknesses**

- Limited size versus major competitors in Smart Grid
- Uncertainty remains about rollout of smart grids in a few EE countries

**Threats**

- Wrong technology investments
- Russian economy slowdown
- EU smart grid regulation delayed

**Key financials** (please see the end of this report for full financials)

Per share data	2011	2012	2013	2014E	2015E	2016E
EPS adj and fully diluted	0.30	0.23	0.30	0.30	0.35	0.44
Cash flow per share	0.06	0.39	0.28	0.17	0.41	0.64
Book value per share	2.12	1.92	1.76	2.24	2.53	3.03
DPS	0.00	0.00	0.06	0.06	0.06	0.08

**Valuation**

P/E adjusted and fully diluted	8.0	10.0	8.0	11.9	10.2	8.1
P/CF	38.9	6.0	8.5	21.5	8.6	5.6
P/BV	1.1	1.2	1.4	1.6	1.4	1.2
Dividend yield (%)	0.0%	0.0%	2.5%	1.7%	1.7%	2.3%
FCF yield (%)	-2.4%	10.1%	5.6%	-1.7%	4.0%	9.7%
EV/Sales	0.6	0.3	0.3	0.4	0.3	0.3
EV/EBITDA	7.1	6.5	5.3	8.6	6.1	4.5

**Income statement (EURm)**

Sales	153.2	339.5	337.9	380.0	467.7	503.3
% Change	89.8%	121.6%	-0.5%	12.4%	23.1%	7.6%
EBITDA adjusted	12.2	16.6	20.1	19.5	26.4	32.8
EBIT adjusted	9.5	11.1	14.3	14.2	18.9	23.7
Adjusted EBIT margin (%)	6.2%	3.3%	4.2%	3.7%	4.0%	4.7%
Net profit reported	6.9	7.3	11.7	12.3	15.0	19.1
Net profit adjusted	6.9	7.3	11.7	12.3	15.0	19.1

**Cash flow statement (EURm)**

CF from operating activities	1.4	12.3	11.1	6.8	17.8	27.6
Capex	-2.8	-3.2	-5.8	-9.5	-11.7	-12.6
Free cash flow	-1.4	9.1	5.3	-2.7	6.1	15.0

**Balance sheet (EURm)**

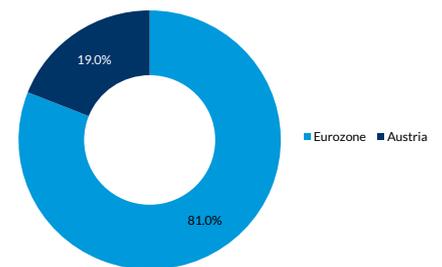
Intangible assets	40.9	38.8	44.8	56.2	58.7	60.8
Tangible assets	11.1	9.9	9.0	11.8	13.4	14.8
Fin. & other non-current assets	13.6	13.7	13.9	13.9	13.9	13.9
Total shareholders' equity	54.6	63.1	71.2	95.5	112.4	134.1
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	172.5	150.0	148.9	171.8	191.9	202.4
Net financial debt	23.6	14.9	9.3	11.3	5.5	-9.2
Working capital requirement	23.2	24.3	23.9	36.0	42.8	46.4
Invested capital	75.2	73.1	77.6	103.9	115.0	122.0

**Ratios**

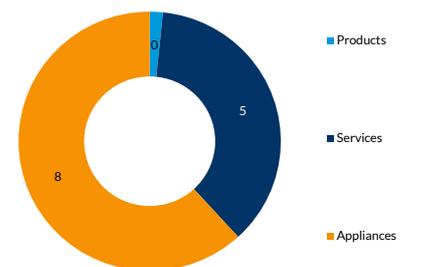
ROE	15.6%	12.4%	17.5%	14.8%	14.4%	15.5%
ROIC	13.6%	11.3%	14.2%	11.7%	13.0%	15.0%
EV/IC	1.1	1.5	1.4	1.6	1.4	1.2
Gearing	43.2%	23.6%	13.1%	11.9%	4.9%	-6.8%
Net fin. debt / EBITDA	1.9	0.9	0.5	0.6	0.2	-0.3



**Sales breakdown 2013**

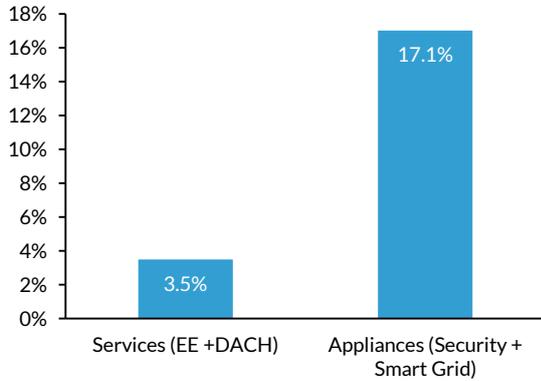


**Profit breakdown 2013**



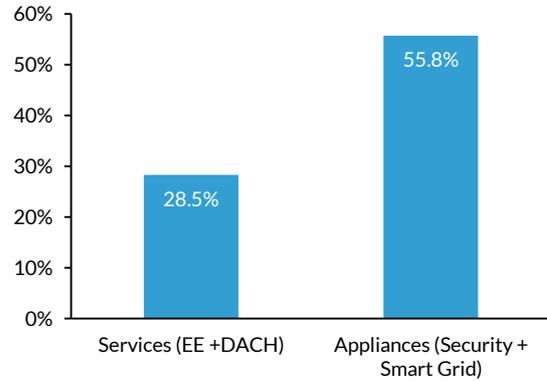
# Investment case in six charts

**Chart 1: Gross margin by division (after 9M 2014)**



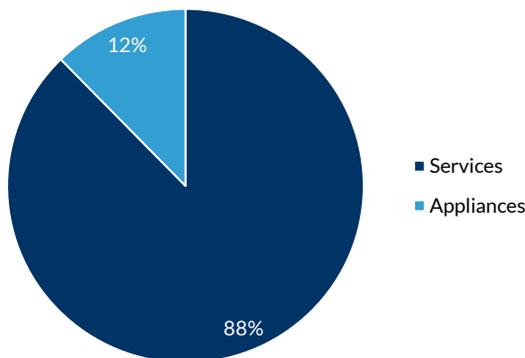
Source: Kepler Cheuvreux

**Chart 2: Gross margin by division (after 9M 2014)**



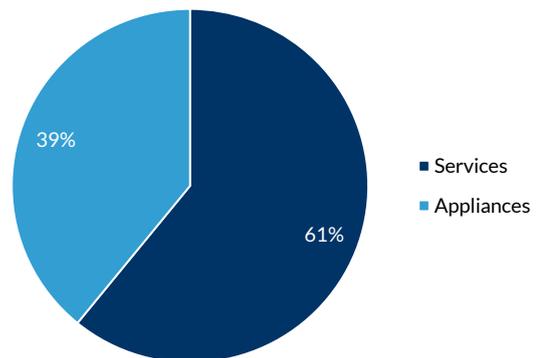
Source: Kepler Cheuvreux

**Chart 3: Product mix - 2013A**



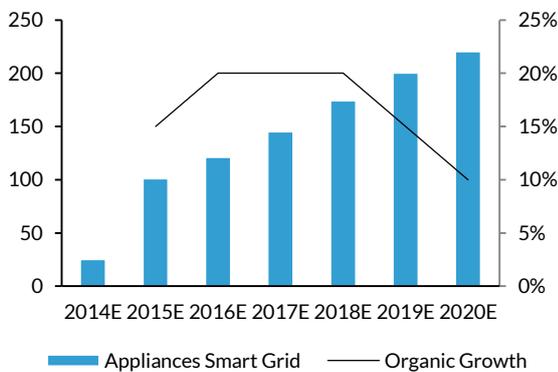
Source: Kepler Cheuvreux

**Chart 4: Product mix - 2016E**



Source: Kepler Cheuvreux

**Chart 5: Smart Grid division - sales growth forecasts**



Source: Kepler Cheuvreux

**Chart 6: Return on invested capital (ROIC) - forecasts**



Source: Kepler Cheuvreux

## Contents

<b>Investment case in six charts</b>	<b>3</b>
<b>Investment case summary</b>	<b>5</b>
<b>Set to create more value</b>	<b>7</b>
Continuing to climb the value chain	7
Mechanical increase of returns	7
<b>Assessing risk/reward in smart grid</b>	<b>10</b>
Binding EU regulation to drive growth through 2020	10
S&T to take its share of the pie	11
Execution risks contained	11
Top-line growth	15
Gross profit	16
<b>Valuation, target price and risks</b>	<b>17</b>
Peers: valuation still undemanding	17
DCF indicates fair value of EUR5.2	19
Best-case scenario, stock could reach double digits	20
Valuation summary: EUR5.6 TP	20
<b>Research ratings and important disclosures</b>	<b>25</b>
<b>Legal and disclosure information</b>	<b>27</b>

## Investment case summary

Based on an updated valuation, S&T still offers plenty of catch-up potential, even after the recent share price rally (+40% since October 2014). In our view, the average 50% discount applied to S&T versus its peers is unjustified in the light of: 1) real growth opportunities in the fields of smart energy and IT security (double-digit organic growth expected in the next three years); and 2) the relevance of the company's value-driven strategy. A weighted mix of both methods derives an equity fair value of EUR5.6, which is confirmed by the EV/IC=ROIC/WACC approach on our 2019 estimates.

The attractiveness of the equity story remains intact. S&T continues to climb the value chain thanks to its smart investments (including several value-accretive acquisitions) in IT security and more recently smart grid. The company is about to leverage its strong existing customer relations in Central and especially Eastern Europe to sell higher-margin IT solutions to those customers (small and medium-sized companies in IT security, governments and municipalities in smart grid), thereby further increasing its returns.

The future deployment of advanced metering infrastructure (AMI) will be driven by the European Union regulation requiring 80% of EUR 27 utility customers to have a smart meter by 2020 wherever it is cost-effective to do so (the 80% target is described as binding for politicians and regulators). The consequent instalment of at least 200 million smart meters represents an accumulated investment of EUR35bn in the addressable market, in which S&T, together with other companies using OSGP technology, is targeting a substantial share in excess of one-third. Only 23% of the installations required by 2020 have so far been implemented. We have significantly raised our sales growth forecasts for the smart grid division to better reflect the huge potential ahead (+15% sales CAGR 2014-20E vs. 9% previously). The deployment of smart grids should begin to gain faster traction from next year with the bulk of installations taking place in 2017-19. With S&T already contending for large project RFPs, the product mix is likely to improve faster than initially expected, translating into higher EBIT margins (+220bps by 2020E) and sound EPS growth (+22% and +27% in 2015E and 2016E respectively).

We believe S&T is in a position to maintain itself among the top players thanks to: 1) its proven technological know-how inherited from Echelon, which it will develop through a base of qualified engineers and its existing expertise in security solutions; 2) an "end-to-end" offering, positioning it as a one-stop shop for large advanced metering infrastructure projects; 3) the development of valuable industrial partnerships with large utility contractors such as Schneider, Mitsubishi and LG to strengthen its hand in tendering procedures; and 4) its geographical exposure to Eastern European countries, where we believe incentives for the deployment of smart metering facilities are even greater than anywhere else in Europe. In addition, the licensing of its proprietary OSGP technology - one of the two most widely used networking standards in smart grid infrastructure - should ensure recurring revenues in the form of annual royalties (minimum of USD2.0 per meter).

**Very undemanding valuation, S&T deserves an upgrade**

**Value-driven strategy comes with greater returns**

**Incentive EU regulation as a key driver for growth**

**S&T a credible player in smart grid**

Potential execution risks relate to: 1) possible delays in smart metering rollout and regulation within the EUR 27, especially in Eastern Europe where S&T intends to play a key role; and 2) intensifying competition. Overall, we believe the risk of S&T not delivering as expected in smart grid (KECH: +16% CAGR during 2014-20E) is moderate. In addition, it should be noted that acquisitions have been made at minimal cost (c. EUR9.5m) when considering new subsidiaries are expected to contribute positively to FY 2015 earnings (EUR1m expected in net profit), thus making the risk/reward profile even more attractive. On project financing, we would not be surprised if S&T concluded further partnerships with large contractors where it supplies high-margin software, with all turnkey project risk borne by its partners.

**Execution risks  
contained**

## Set to create more value

S&T continues to climb the value chain, thanks to its smart investments (including several value-accretive acquisitions) in IT security and more recently smart grid. The company is about to leverage its strong existing customer relations in Central and especially Eastern Europe, to sell higher-margin IT solutions to those customers (small and medium-sized companies in IT security, governments and municipalities in smart grid), thereby further increasing its returns.

### Continuing to climb the value chain

Initially centred on the distribution of hardware/software produced by third parties and proprietary brands, S&T was able to scale up its business model over the years thanks to smart investments and value-driven strategic decisions. The company's gradual shift into more technology, with a focus on proprietary-developed appliances, enabled it to mitigate deflation in traditional IT products and services while positioning itself in higher value-added and fast growing businesses (IT security, cloud computing, smart grid).

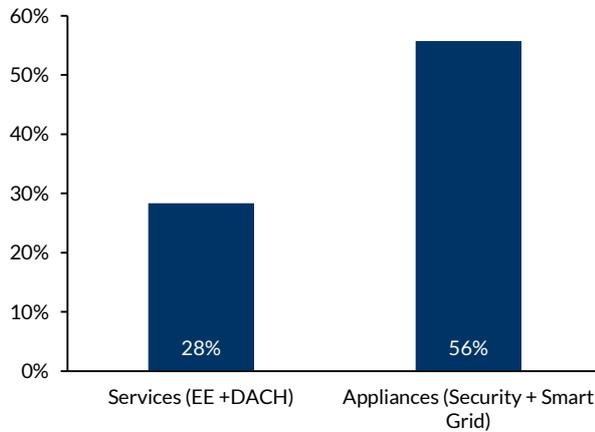
The transformation of S&T's business model since 2009 can be summarised as follows:

- **Portfolio shift towards more technology (from 2009):** from early 2009, S&T's investments (either directly through staff training or in the form of corporate takeovers) have gone towards the appliances segment, featuring proprietary-developed software and hardware in security and cloud computing for selected vertical markets (automation, infotainment, etc.).
- **S&T takeover (2012):** the takeover of former S&T in the field of IT services (integration, outsourcing, consulting) enabled the company to position itself as a one-stop-shop for large IT projects in Eastern Europe. The deal was a milestone, catapulting S&T into a new dimension: revenues almost tripled between 2011 and 2012 to reach EUR340m.
- **External growth in smart energy (2014):** 2014 marked a new acceleration in S&T's transformation, supported by investments in smart energy. The group made three acquisitions (Ubitronix, RT Soft and NES) that are likely to drive revenues from 2015 and beyond. The smart grid division, supported by strong underlying growth, should account for a growing share of the product mix.

### Mechanical increase of returns

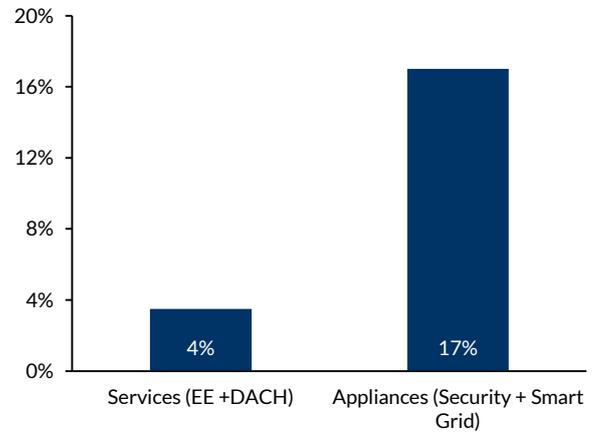
In order to assess the impact that S&T's strategy may have on future returns, we looked at gross and EBITDA margins, since these indicators are well suited to reflect the share of added value featured in a company's activity. In S&T's case, the figures are straightforward: appliances in the fields of security and smart grid generate 56% gross margin compared with "only" 28% for services. Similarly, EBITDA margin is much higher in appliances (17% vs. 4% in services).

Chart 7: EBITDA margin by division



Source: Kepler Cheuvreux

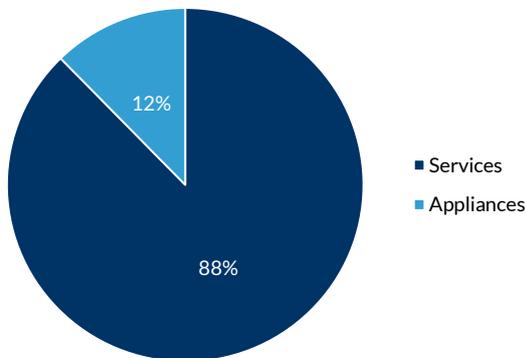
Chart 8: Gross margin by division



Source: Kepler Cheuvreux

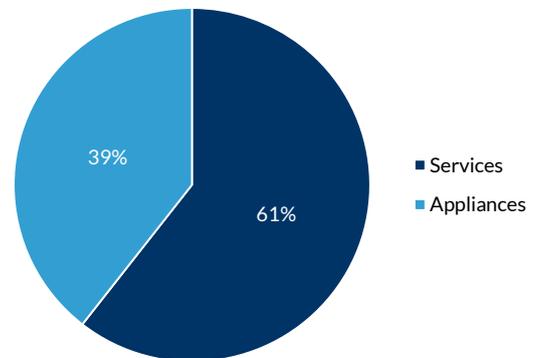
Thanks to revenues from newly-acquired subsidiaries and superior growth prospects in IT security and smart grid, we expect the product mix to improve dramatically. The share of high-margin appliances in total sales was 12% in 2013, and should be about 39% in 2015E, on our estimates.

Chart 9: Product mix 2013A



Source: Kepler Cheuvreux

Chart 10: Product mix 2015E



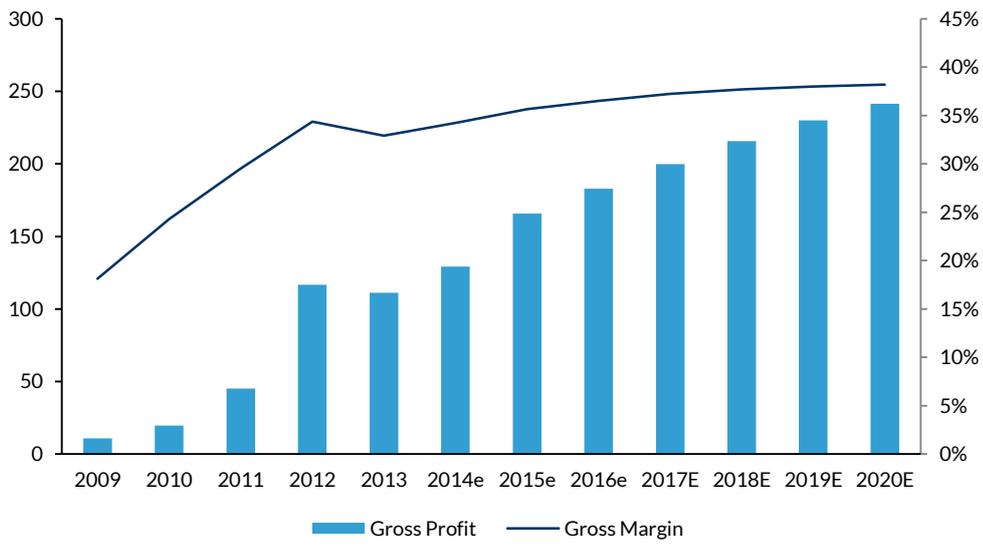
Source: Kepler Cheuvreux

S&T has so far managed to lift its gross margin from 18% in 2009 to 33% in 2013 while gross profit has increased from EUR11m to EUR111m. This trend looks set to continue, in the light of:

- 1) the growing share of appliances in the product mix; and
- 2) the strong emphasis on restoring and even improving profitability in services.

S&T's management has said that it intends to reach a 40% gross margin at cruising speed, without giving a specific timeframe. We have adopted a more conservative approach (38.4% long-term gross margin factored in).

Chart 11: Gross profit and gross margin forecasts



Source: Kepler Cheuvreux

## Assessing risk/reward in smart grid

By increasing its equity stake from 40% to 65% in February 2015, S&T has prepared the way to fully consolidate its US acquisition NES (carve-out of Echelon's smart grid division), a market leader in smart meters in Europe (4m smart meters installed). While all competitors stand to benefit from the favourable regulatory framework implemented by the EU Commission, S&T is well placed to remain among the top players, thanks to: 1) its proven technological know-how inherited from Echelon, which it will develop through a base of qualified engineers and its existing expertise in security solutions; 2) an "end-to-end" offering, positioning it as a one-stop shop for large advanced metering infrastructure projects; 3) the development of valuable industrial partnerships with large utility contractors, such as Schneider and LG, to strengthen its hand in tendering procedures; and 4) its geographical exposure to eastern Europe, where we believe incentives for the deployment of smart metering facilities are even greater than anywhere else in Europe.

### Binding EU regulation to drive growth through 2020

The future deployment of advanced metering infrastructure (AMI) will be driven by the European Union regulation that requires 80% of EUR 27 utility customers to have a smart meter by 2020 wherever it is cost-effective to do so (the 80% target is described as binding for politicians and regulators). The consequent instalment of at least 200 million smart meters represents an accumulated investment of EUR35bn in the addressable market, in which S&T, together with other companies using OSGP technology, is targeting a substantial share in excess of one-third. Only 23% of the installations required by 2020 have so far been implemented.

Smart metering is being rolled out at differing speeds by European countries. Most of the projects being implemented are located in western and southern Europe, with half of the allocated budget going to three countries: France, the UK and Spain. The situation is much more contrasted in Eastern Europe, where smart grid projects account for barely 1% of total investments.

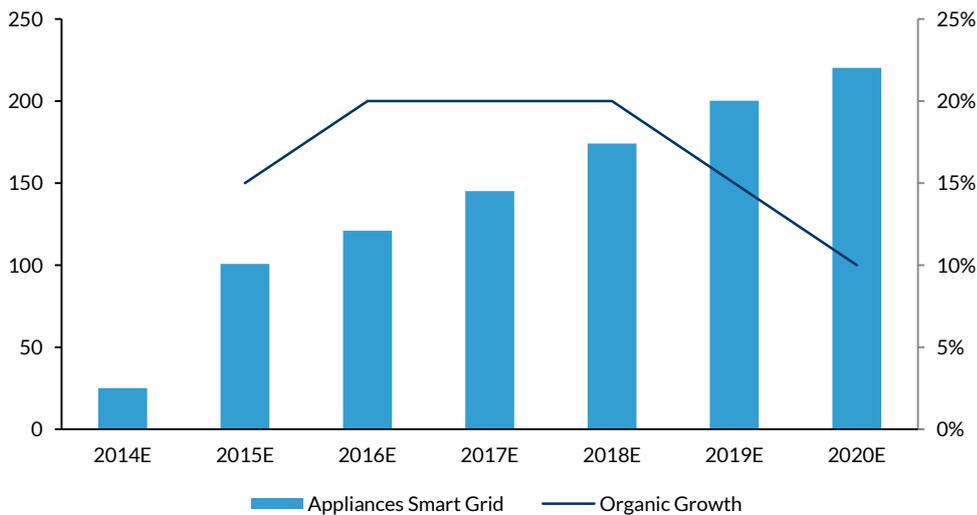
- Sixteen EU member states (**Austria, Denmark, Estonia, Finland, France, Greece, Ireland, Italy, Luxemburg, Malta, Netherlands, Poland, Romania, Spain, Sweden** and the **UK**) have decided on a national rollout of smart metering by 2020 or have already completed it (e.g. Finland, Italy and Sweden).
- **Germany, Latvia** and **Slovakia** are opting for a selective smart metering rollout, economically justified for a specific group of customers.
- **Belgium, the Czech Republic, Portugal** and **Lithuania** have decided not to proceed, at least for the time being and under current conditions, with a large-scale rollout of smart metering due to a negative cost-benefit analysis outcome.
- Finally, no cost benefit analysis or concrete national rollout plan has been available for **Bulgaria, Cyprus, Hungary** and **Slovenia**.

## S&T to take its share of the pie

As one of the most ambitious and prominent players in the European smart grid business, we expect S&T to play an active role in the development of the market across the continent. At group level, smart energy is set to be S&T's main growth driver. Over the 2014-20 period, we expect S&T to generate 16% of annual sales growth in smart grid. We expect the deployment of smart grids to gain faster traction from next year, with the bulk of installations taking place in 2017-19.

Until now, the most significant order was secured in the city of Wroclaw (Poland) with LG for the supply of 330,000 smart meters and the management software required to operate them. The order is worth some USD20m to S&T with delivery of the items starting in Q1 2005. The contract may have far-reaching benefits since it gives S&T a foothold in Poland's USD1bn AMI market. There could be good news in the near future, as S&T is participating in the final stages of various tendering processes, notably in Eastern Europe and Scandinavia.

Chart 12: Growth forecasts for S&T's smart grid business (2014-20E)



Source: Kepler Cheuvreux

## Execution risks contained

Execution risks comprise: 1) potential delays to smart metering rollout and regulation within the EUR 27, especially in Eastern Europe where S&T intends to play a key role; and 2) intensifying competition. Overall, we believe the risk of S&T not delivering as expected in smart grid (KECH: +12% CAGR for 2014-20E) is relatively low, for several reasons: first, acquisitions have been made at minimal cost (c. EUR9.5m) when considering new subsidiaries are expected to contribute positively to FY 2015 earnings (EUR1m expected in net profit); second, S&T is likely to conclude further partnerships with large contractors under which it will supply high-margin software while all turnkey project risks are borne by its partners.

### **Delays to EU regulations: what if?**

S&T, like its competitors, is exposed to potential delays in the deployment of smart grids. As far as smart grid deployment is concerned, key obstacles and challenges still appear to be social and regulatory rather than technical in nature. Indeed, uncertainty persists in several countries over roles and responsibilities in new smart grid applications, sharing of costs and benefits and new business models.

Among Central and Eastern European countries (where S&T intends to focus), only Austria, Poland and Romania have so far fully committed to meeting EU targets, while other countries have either opted for a selective smart metering rollout (Germany, Latvia and Slovakia) or decided not to proceed for the time being (Czech Republic and Lithuania). For some countries such as Bulgaria, Hungary and Slovenia, no concrete national rollout plan is available.

On this point, we could argue that:

- **S&T has enough on its plate already.** In a short-term prospective, S&T will have no issue finding smart grid projects to run as a candidate. The company claims to have EUR800m projects in the pipeline for the coming three years. Of this amount, S&T could in any case handle only a small portion, given its current human and financial resources.
- **There are further incentives to deploy smart grid capabilities in Eastern Europe.** Eastern European countries are considered to offer the best potential for smart grid and smart metering development since, in many cases, power infrastructure is outdated and not compatible with a fully integrated European power market. Distribution losses and power outages are a real concern in the region, creating further incentives for utilities to deploy smart meters and smart grid capabilities. Furthermore, CEE countries are set to benefit from knowledge spillover from Western Europe: many utilities in CEE are owned by French, German and Italian utilities, which already have extensive experience in deploying smart grid infrastructure. These companies have had a presence in CEE countries for many years, making them familiar with local practices.
- Our view is that **smart grid technologies are disruptive** in many respects (energy savings and efficiency, distribution network efficiency). Therefore, the wide-scale implementation of such advanced metering infrastructure is to become the norm. We expect CEE countries to eventually adopt the EU regulations into their national framework, imposing a smart meter mandate.

### **Competitiveness: S&T a credible player in smart grid**

With turnover of about EUR100m expected for 2015, S&T is a relatively small player compared with the largest pure players in the field: Landis+Gyr (Switzerland), Elster (Germany) and Itron (US), which have reported sales of above USD1.5bn in 2013. Nevertheless, the acquisition of NES from Echelon gives S&T a prominent position in the European market, where Echelon has 4 million meters installed, not including the 27 million smart meters that Italian utility Enel now operates using Echelon-based technology.

From a technological point of view, S&T is able to compete on large orders and act as a one-stop shop for a single project even if, in most cases, it joins forces with large

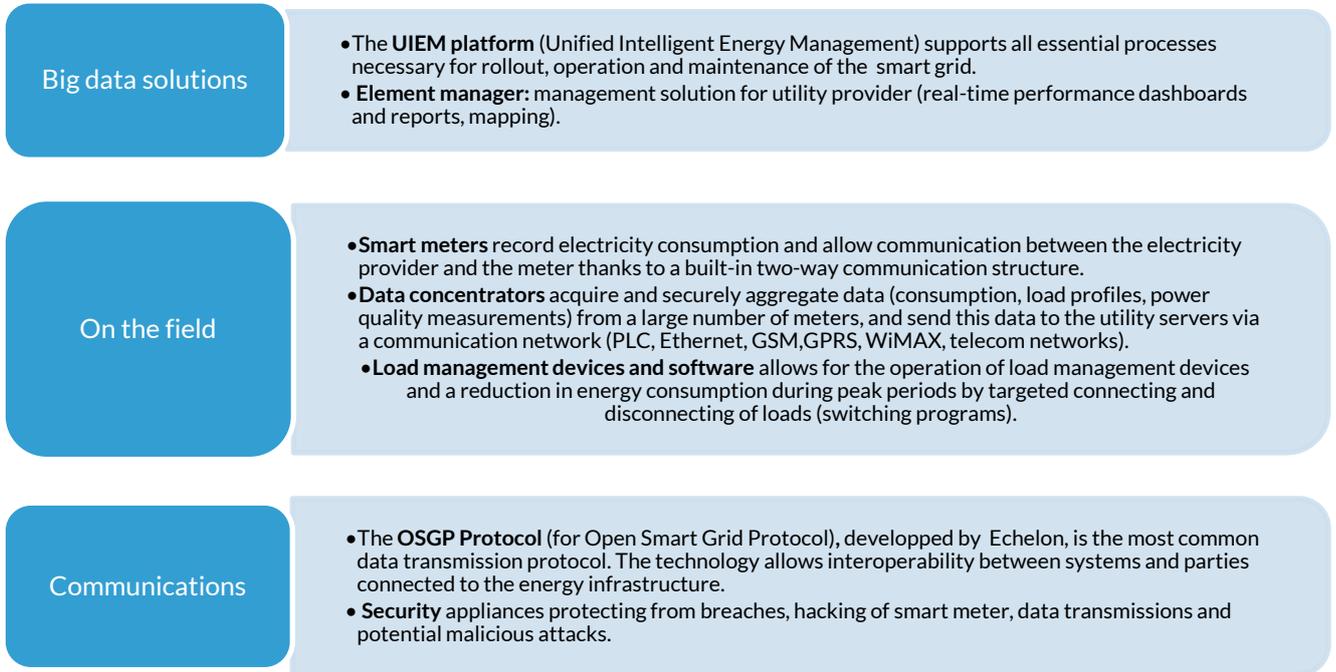
contractors such as LG, Mitsubishi and Schneider in order to have a better chance in the early stages of the tender and to secure financing for projects of great magnitude.

S&T can provide end-to-end solutions across the entire spectrum of the value chain (meter-to-cash): from supplying adequate hardware/software packages “on the field” (smart meters, data concentrators, load management devices and associated software) to the development and marketing of big data management solutions allowing utilities to monitor simultaneously around a million distinct meters from a single platform.

We believe S&T’s main sources of competitive advantage reside in the fields of: **1) security** where it will benefit from massive cross-selling opportunities as both of its technologies –smart grid software and security - come together; and **2) network communication:** the licensing of its proprietary OSGP technology - one of the two most widely used networking standards in smart grid infrastructure - should ensure recurring revenues in the form of annual royalties (min. USD2.0 per meter installed).

- **Security:** Security appliances, in which S&T has developed extensive expertise, are expected to play a key role in protecting smart grids. As utilities deploy AMI, there is a risk that consumer information can leak into the hands of unscrupulous parties, that hackers can use the smart metering system to destabilise the grid, or that consumers themselves can find a way to systematically cheat the utility company. To safeguard the system and ensure its security, the system needs to be designed with strong end-to-end security in mind. S&T has the knowledge to secure communications between utility meters and utility companies’ back-end meter data management infrastructure by providing data encryption and integrity validation of individual metering data as well as strong authentication of metering commands.
- **Communication standards (OSGP):** Through the NES transaction, S&T inherited the OSGP technology (Open Smart Grid Protocol), one of the two most widely used networking standards in smart grid infrastructure (estimated market share of one-third). OSGP is optimised to provide reliable and efficient delivery of command and control information for smart meters, load control modules and other smart grid devices. Related benefits for S&T are reflected in the collection of recurring revenues in the form of annual royalties from utilities and electricity distributors (USD2 to USD5 for every meter installed). In 2015, an estimated EUR6m is expected from this. For now, S&T’s policy is to keep OSGP fees low in order to and impose it as the main networking standard in Europe.

Chart 13: S&T's end-to-end solution after integration of NES



Source: Kepler Cheuvreux

## Top-line growth

### Excellent visibility on 2014-15 backlog

Our revenue forecasts of EUR380m for 2014E (+12%, 5% LFL) and EUR468m for 2015E (+23%, +4% LFL) remain in line with the group's guidance (at least EUR375m and EUR465m). The all-time-high backlog reported at the end of September 2014 (EUR157m from EUR97 a year earlier) gives us confidence in the group's ability to reach that target.

### Accounting for Russian exposure: cut in RT Soft estimates

A solid backlog should more than compensate for the negative impact from the Russian rouble at RT Soft. We cut our 2015 revenue forecasts for the Russian subsidiary by EUR5m, from EUR59m to EUR54m considering that 20% of revenues are at risk, especially the embedded computer business division. Excluding the rouble effect, sales at RT Soft in 2014 are still expected to slightly increase. On a long-term view, we believe S&T is fairly well hedged against Russian exposure since its main clients are well-established utilities (Federal Grid, Gazprom) with whom it holds long-term contractual agreements. In order to mitigate the effect, the group has started to allocate Russian engineers (paid in roubles) to assignments in Western Europe, especially Germany (revenues in euros).

**Table 1: sales estimates**

EURm	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CAGR 2014/20
<b>Revenues</b>	<b>380.0</b>	<b>467.7</b>	<b>503.3</b>	<b>539.8</b>	<b>577.7</b>	<b>613.0</b>	<b>642.5</b>	
Growth	12.4%	23.1%	7.6%	7.2%	7.0%	6.1%	4.8%	9.1%
Organic growth	5.0%	4.1%	7.6%	7.2%	7.0%	6.1%	4.8%	6.1%
<b>Services EE</b>	<b>210.7</b>	<b>217.0</b>	<b>223.5</b>	<b>228.0</b>	<b>232.6</b>	<b>237.2</b>	<b>242.0</b>	
% Sales	55.4%	46.4%	44.4%	42.2%	40.3%	38.7%	37.7%	
Growth	NA	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.3%
Organic growth	NA	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.3%
<b>Services DACH</b>	<b>84.5</b>	<b>81.1</b>	<b>81.1</b>	<b>81.1</b>	<b>81.1</b>	<b>81.1</b>	<b>81.1</b>	
% Sales	22.2%	17.3%	16.1%	15.0%	14.0%	13.2%	12.6%	
Growth	NA	-4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.7%
Organic growth	NA	-4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.7%
<b>Appliances Security</b>	<b>59.5</b>	<b>68.4</b>	<b>77.3</b>	<b>85.1</b>	<b>89.3</b>	<b>93.8</b>	<b>98.5</b>	
% Sales	15.7%	14.6%	15.4%	15.8%	15.5%	15.3%	15.3%	
Growth	NA	15.0%	13.0%	10.0%	5.0%	5.0%	5.0%	8.8%
Organic growth	NA	15.0%	13.0%	10.0%	5.0%	5.0%	5.0%	8.8%
<b>Appliances Smart Grid</b>	<b>25.3</b>	<b>101.1</b>	<b>121.3</b>	<b>145.6</b>	<b>174.7</b>	<b>200.9</b>	<b>221.0</b>	
% Sales	6.7%	21.6%	24.1%	27.0%	30.2%	32.8%	34.4%	
Growth	NA	299.6%	20.0%	20.0%	20.0%	15.0%	10.0%	43.5%
Organic growth	NA	15.0%	20.0%	20.0%	20.0%	15.0%	10.0%	16.6%

Source: Kepler Cheuvreux

### Organic sales growth of 6% in 2014-20

We raise our long-term revenue growth estimates for the smart grid business (KECH: 16% organic CAGR 2014-20E vs. 10% previously) as our initial expectations now look too conservative, given the huge pipeline S&T is contending for. At the same time, we lower our growth estimates for both services divisions, since we have had confirmation that emphasis will be on restoring operating efficiency. All in all, we expect revenues to grow organically by 6% during the 2014-20E period.

## Gross profit

### Getting more ambitious on product mix

A consequence of our revised top-line forecasts is a faster than previously expected improvement in product mix. We assume S&T will lift gross margin to 38% by 2020E (compared with 33% in 2013). Our expectations still remain short of management's long-term guidance (40% long-term gross margin) as we prefer to be cautious.

### Further room to improve efficiency in services

Beyond the expected shift in product mix, S&T has room to improve efficiency in the "Services DACH" division (Deutschland-Austria-Germany). At the moment, this business segment has the lowest profitability in the group (22.5% gross margin; 3% EBITDA). This can be explained by the fact that "Services DACH" has included the non-core hardware trading and manufacturing business (former "Products" division) since 2014, when S&T redefined its portfolio segmentation.

The challenge for S&T will be to achieve convergence with "Services EE" (Eastern Europe), which currently records higher profitability (32% gross margin and 7% EBITDA). From 23% gross margin in 2015E (=3% EBITDA), the group intends to lift "Services DACH" to 27% in the medium term, before reaching full convergence between both service divisions. We believe the objective is achievable, given:

- 1) S&T has a good record of implementing efficient restructuring measures. Between September 2014 and September 2015, gross margin in the "Services DACH" segment was successfully improved, rising from 19.6% to 22.1% (+250bps).
- 2) We see no obvious obstacles (macro or specific market trends) that could prevent "Services DACH" from converging with "Services EE", using cost-efficient resources.

**Table 2: Gross profit and gross margin estimates**

GP by division	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Gross profit</b>	<b>130.1</b>	<b>166.7</b>	<b>183.8</b>	<b>201.0</b>	<b>217.5</b>	<b>232.6</b>	<b>244.8</b>
Gross margin	34.2%	35.6%	36.5%	37.2%	37.7%	37.9%	38.1%
<b>Services EE</b>	<b>67.4</b>	<b>65.1</b>	<b>67.1</b>	<b>68.4</b>	<b>69.8</b>	<b>71.2</b>	<b>72.6</b>
Gross margin	32.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
% of total gross profit	51.8%	39.1%	36.5%	34.0%	32.1%	30.6%	29.7%
<b>Services DACH</b>	<b>19.0</b>	<b>18.7</b>	<b>20.3</b>	<b>21.5</b>	<b>22.3</b>	<b>23.1</b>	<b>23.5</b>
Gross margin	22.5%	23.0%	25.0%	26.5%	27.5%	28.5%	29.0%
% of total gross profit	14.6%	11.2%	11.0%	10.7%	10.3%	9.9%	9.6%
<b>Appliances Security</b>	<b>31.5</b>	<b>34.9</b>	<b>39.4</b>	<b>43.4</b>	<b>45.1</b>	<b>46.9</b>	<b>49.2</b>
Gross margin	53.0%	51.0%	51.0%	51.0%	50.5%	50.0%	50.0%
% of total gross profit	24.2%	20.9%	21.5%	21.6%	20.7%	20.2%	20.1%
<b>Appliances Smart Grid</b>	<b>12.1</b>	<b>48.0</b>	<b>57.0</b>	<b>67.7</b>	<b>80.4</b>	<b>91.4</b>	<b>99.4</b>
Gross margin	48.0%	47.5%	47.0%	46.5%	46.0%	45.5%	45.0%
% of total gross profit	9.3%	28.8%	31.0%	33.7%	36.9%	39.3%	40.6%

Source: Kepler Cheuvreux

## Valuation, target price and risks

We have updated our valuation based on a peer comparison and a standard DCF approach. Both methods lead to similar conclusions: S&T still offers plenty of catch-up potential, even after the recent share price rise. We see little justification for the severe discount currently applied to S&T. A weighted mix of both methods yields an equity fair value of EUR5.6, offering an attractive 50% upside from the current share price.

### Peers: valuation still undemanding

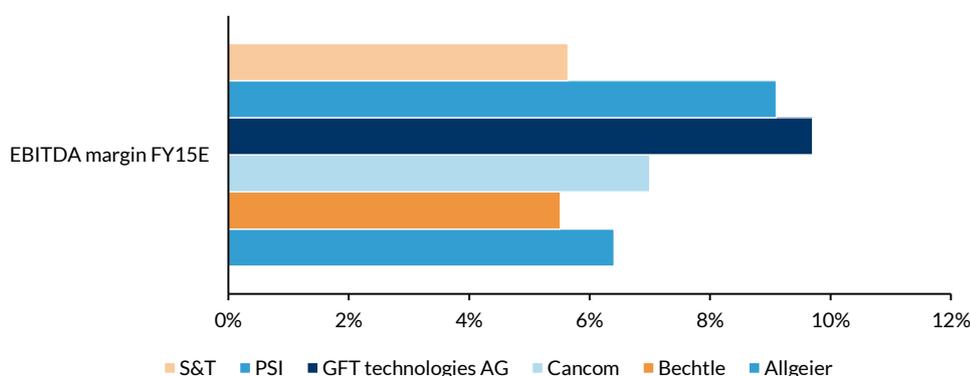
#### Peer sample selection

We have based our analysis on similarly sized IT companies active in Central and Eastern Europe. We deliberately narrowed our sample and excluded global players such as HP, IBM and Cisco against which S&T does not compete directly. We have enlarged our sample compared with our initiation report (+GFT and PSI).

- **PSI AG (market cap EUR196m)** is a Germany-based supplier of software solutions and complete systems for energy management (gas, oil, electricity, heat, energy trading), production management (raw materials extraction, metal production, automotive, mechanical engineering, logistics) and infrastructure management for transport and safety. PSI employs 1,700 people around the world. In 2013, the company made about half of its revenues in Germany (EUR83m out of EUR176m).
- **Allgeier (market cap EUR140m)** is a Germany-based holding company operating in the IT services sector. It is composed of three business segments: IT Solutions (sales and consultancy services connected around ECM, ERP and security), IT Services & Recruiting, and Project Solutions. Around 80% of its revenues are generated in Germany.
- **Bechtle (market cap EUR1,525m)** is a German IT company whose business model combines IT sales (e-commerce segment) and system house services. It is mostly active throughout the DACH region, where it supplies IT applications to small and medium-sized companies, large corporate groups, financial service providers and public institutions.
- **Cancom (market cap EUR539m)** is a large independent IT cloud business transformation partner in Europe. The group has a turnover of over EUR700m and has 30 locations in Germany and Austria. Formed in 1992, and now one of the leading suppliers of IT infrastructure and professional services, Cancom has transformed from a pure supplier of hardware and software products into an important integrated IT services provider and cloud business.
- **GFT Technologies (market cap EUR442m)** is a Germany-based company that specialises in designing and implementing IT solutions for the financial services industry. It is engaged in the design, delivery and maintenance of customised IT solutions. The company also designs business models to optimise and mobilise banking processes for the financial sector. In addition, it is engaged in sourcing IT specialists for companies in various sectors.

In our selection process for our sample constituents, we paid special attention to picking stocks with comparable levels of operating profitability.

Chart 14: EBITDA margin consensus forecasts 2015E



Source: Kepler Cheuvreux, Thomson Reuters

### Extremely cheap valuation

Multiples are based on the forecasts shown below.

Table 3: Estimates

EURm	Sales			EBITDA			EBIT			EPS		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Allgeier	432	462	493	25.2	29.6	33.5	12.7	19.0	24.1	0.7	1.0	1.4
Bechtle	2753	2920	3132	151.8	164.5	178.9	124.3	135.5	145.1	4.2	4.6	5.1
Cancom	808	897	917	51.7	62.5	71.4	27.4	38.7	53.0	1.1	1.9	2.4
GFT technologies AG	431	459	489	44.2	47.9	52.2	37.3	43.5	46.5	0.9	1.1	1.2
PSI	184	201	209	13.1	17.7	21.1	9.2	13.7	16.9	0.4	0.6	0.8
S&T	468	503	540	26.4	32.8	39.0	18.9	23.7	29.3	0.3	0.4	0.5

Source: Kepler Cheuvreux, Thomson Reuters

S&T is trading at undemanding levels (10.5x 2015E earnings and 6.6x 2015E EBITDA). The stock shows an average 50% discount to peers.

Table 4: multiples

EURm	EV/Sales			EV/EBITDA			EV/EBIT			P/E		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Allgeier	0.5	0.5	0.4	8.6	7.3	6.5	17.2	11.4	9.0	25.9	16.3	12.1
Bechtle	0.6	0.5	0.5	10.0	9.3	8.5	12.3	11.3	10.5	17.7	16.1	14.6
Cancom	0.7	0.6	0.6	10.2	8.4	7.4	19.2	13.6	9.9	33.5	19.9	15.6
GFT technologies AG	1.2	1.1	1.0	11.4	10.5	9.7	13.5	11.6	10.9	18.5	15.6	14.3
PSI	1.0	0.9	0.9	14.4	10.6	8.9	20.5	13.8	11.2	34.7	21.0	16.7
Mean	0.8	0.7	0.7	10.9	9.2	8.2	16.5	12.3	10.3	26.1	17.8	14.7
Median	0.7	0.6	0.6	10.2	9.3	8.5	17.2	11.6	10.5	25.9	16.3	14.6
S&T	0.4	0.3	0.3	6.6	5.3	4.5	9.2	7.4	6.0	10.5	8.3	6.7
Discount	-52%	-52%	-53%	-39%	-42%	-45%	-44%	-40%	-42%	-60%	-53%	-54%

Source: Kepler Cheuvreux, Thomson Reutersx

Based on FY 2015E multiples and adjusted for non-operating assets, non-equity claims and minority positions, we arrive at a peer-based fair value of EUR6.9 per share.

## DCF indicates fair value of EUR5.2

We derive an equity value of **EUR5.2** per share from our DCF valuation.

Beyond assumptions associated with top-line and product mix (see Deconstructing the forecasts), we make the assumption that personnel expenses will grow faster than revenues since the strategy of moving up the value chain will imply a better qualified labour force (engineers, R&D). We estimate S&T will be able to lift EBIT margin to 6.4% by 2020E (versus 4.2% in 2013).

**Table 5: WACC summary**

Pretax cost of debt	5.2%
Marginal tax rate	25.0%
<b>After tax cost of debt</b>	<b>3.9%</b>
Risk-free rate (Rf)	2.0%
Market return (Rm)	7.5%
Market premium (Rm-Rf)	5.5%
Beta	2.00
<b>Cost of Equity</b>	<b>13.0%</b>
Debt (% of EV)	34%
Equity (% of EV)	66%
<b>WACC</b>	<b>10.0%</b>
Terminal growth	1.0%

Source: Kepler Cheuvreux

**Table 6: DCF summary**

(EURm)	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Sales	467.7	503.3	539.8	577.7	613.0	642.5	654.7	667.2	680.0	693.0
growth	23.1%	7.6%	7.2%	7.0%	6.1%	4.8%	1.9%	1.9%	1.9%	1.9%
EBITDA	26.4	32.8	39.0	44.2	48.7	51.4	52.4	53.4	54.3	55.3
margin	5.6%	6.5%	7.2%	7.7%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%
EBIT	18.9	23.7	29.3	33.8	37.6	39.8	40.6	41.4	42.1	42.8
margin	4.0%	4.7%	5.4%	5.9%	6.1%	6.2%	6.2%	6.2%	6.2%	6.2%
EBIT after tax	17.2	21.5	26.6	30.6	34.0	36.0	36.7	37.4	38.0	38.7
add back D&A	7.5	9.1	9.7	10.4	11.0	11.6	11.8	12.0	12.2	12.5
% of sales	1.6%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
WCR	46.8	50.3	54.0	57.8	61.3	64.3	65.5	66.7	68.0	69.3
% of revenues	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Change in WC	-6.9	-3.6	-3.6	-3.8	-3.5	-3.0	-1.2	-1.2	-1.3	-1.3
Capex	-11.7	-12.6	-13.5	-14.4	-15.3	-16.1	-16.4	-16.7	-17.0	-17.3
% of sales	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Free cash-flow</b>	<b>6.1</b>	<b>14.5</b>	<b>19.1</b>	<b>22.8</b>	<b>26.2</b>	<b>28.6</b>	<b>30.9</b>	<b>31.5</b>	<b>32.0</b>	<b>32.5</b>
Acquisitions	-10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of sales	3.4%	2.9%	3.5%	3.9%	4.3%	4.4%	4.7%	4.7%	4.7%	4.7%
Discounted FCF	-3.5	11.9	14.4	15.6	16.3	16.1	15.9	14.7	13.6	12.5
Sum of discounted FCF	127.4									
PV Terminal Value	10.2									
Terminal Value	113.5									
Enterprise Value	240.9									
Cash and cash equivalents	33.4									
Other non operating assets	4.3									
Debt	44.0									
Other non equity claims	8.1									
Equity Value	226.6									
<b>Equity value per share (€)</b>	<b>5.2</b>									

Source: Kepler Cheuvreux

Table 7: Sensitivity table

		Perpetual growth			LT EBIT margin			
		0.0%	1.0%	2.0%	5.5%	6.3%	7.0%	
WACC	12.0%	4.0	4.1	4.3	12.0%	3.9	4.1	4.3
	11.0%	4.4	4.6	4.9	11.0%	4.3	4.6	4.9
	10.0%	5.0	5.2	5.6	10.0%	4.9	5.2	5.6
	9.0%	5.7	6.0	6.5	9.0%	5.6	6.0	6.4
	8.0%	6.5	7.0	7.7	8.0%	6.5	7.0	7.5

Source: Kepler Cheuvreux

### Best-case scenario, stock could reach double digits

Our most optimistic, but still realistic scenario - based on 10% annual growth until 2019 with the EBIT margin rising to 8% in the same time frame - indicates the stock could even reach double-digit levels by the end of the decade (TP EUR10). The EV/IC=ROIC/WACC approach for 2019Es yields a TP of EUR7.0, meaning the stock has the potential to double from its current price if the company successfully delivers on its strategy.

### Valuation summary: EUR5.6 TP

Our target price of EUR5.6 is a combination of the absolute DCF valuation approach (EUR5.2) and peer multiples (EUR7.2) with respective weightings of 75% and 25%. The EV/IC=ROIC/WACC approach for 2017E and 2018E derives fair values of EUR5.4 and EUR6.2, thus confirming strong upside if S&T delivers as planned.

# Valuation

FY to 31/12 (EUR)	2009	2010	2011	2012	2013	2014E	2015E	2016E
<b>Per share data</b>								
EPS adjusted	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% Change		high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS adjusted and fully diluted	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% Change		high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS reported	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% Change		high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS Consensus						0.28	0.33	0.40
Cash flow per share	high	-0.17	0.06	0.39	0.28	0.17	0.41	0.64
Book value per share	high	1.82	2.12	1.92	1.76	2.24	2.53	3.03
DPS	0.00	0.00	0.00	0.00	0.06	0.06	0.06	0.08
Number of shares, YE (m)	13.7	22.2	24.1	39.3	39.3	43.3	43.3	43.3
Number of shares, fully diluted, YE (m)	13.7	22.2	24.1	39.3	39.3	43.3	43.3	43.3
<b>Share price</b>								
Latest price / year end	1.5	2.6	1.8	2.3	2.7	3.2	3.6	3.6
52 week high (Year high)	1.7	3.2	3.1	2.7	3.1	3.5		
52 week low (Year low)	0.7	1.4	1.8	1.8	2.0	2.5		
Average price (Year)	1.1	2.1	2.4	2.3	2.4	2.9		
<b>Enterprise value (EURm)</b>								
Market capitalisation	15.3	47.7	57.5	90.4	94.1	123.5	153.6	153.6
Net financial debt	-9.3	-5.7	23.6	14.9	9.3	11.3	5.5	-9.2
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market value of minorities	0.0	0.6	5.4	2.2	2.1	3.1	3.1	3.1
Market value of equity affiliates (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise value	6.0	42.6	86.4	107.5	105.5	168.0	162.2	147.6
<b>Valuation</b>								
P/E adjusted	0.0	10.4	8.0	10.0	8.0	11.9	10.2	8.1
P/E adjusted and fully diluted	0.0	10.4	8.0	10.0	8.0	11.9	10.2	8.1
P/E consensus						12.9	10.9	8.9
P/BV	0.0	1.2	1.1	1.2	1.4	1.6	1.4	1.2
P/CF	0.0	na	38.9	6.0	8.5	21.5	8.6	5.6
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	2.5%	1.7%	1.7%	2.3%
FCF yield (%)	5.0%	-8.6%	-2.4%	10.1%	5.6%	-1.7%	4.0%	9.7%
ROE (%)		14.4%	15.6%	12.4%	17.5%	14.8%	14.4%	15.5%
ROIC (%)		12.8%	13.6%	11.3%	14.2%	11.7%	13.0%	15.0%
EV/Sales	0.10	0.53	0.56	0.32	0.31	0.44	0.35	0.29
EV/EBITDA	2.4	9.5	7.1	6.5	5.3	8.6	6.1	4.5
EV/EBIT	3.4	13.3	9.1	9.6	7.4	11.8	8.6	6.2

# Income statement

FY to 31/12 (EURm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
<b>Sales</b>	<b>59.9</b>	<b>80.7</b>	<b>153.2</b>	<b>339.5</b>	<b>337.9</b>	<b>380.0</b>	<b>467.7</b>	<b>503.3</b>
% Change	na	34.8%	89.8%	121.6%	-0.5%	12.4%	23.1%	7.6%
<b>EBITDA reported</b>	<b>2.6</b>	<b>4.5</b>	<b>12.2</b>	<b>16.6</b>	<b>20.1</b>	<b>19.5</b>	<b>26.4</b>	<b>32.8</b>
% Change	na	76.5%	171.4%	35.5%	21.3%	-2.7%	35.0%	24.3%
Depreciation and amortisation	-0.8	-1.3	-2.8	-5.4	-5.8	-5.3	-7.5	-9.1
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result and associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT reported</b>	<b>1.8</b>	<b>3.2</b>	<b>9.5</b>	<b>11.1</b>	<b>14.3</b>	<b>14.2</b>	<b>18.9</b>	<b>23.7</b>
% Change	na	79.9%	195.4%	17.9%	28.2%	-0.5%	33.0%	25.6%
Net financial items	-0.4	-0.4	-1.0	-1.4	-2.2	-1.7	-1.7	-1.7
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before tax</b>	<b>1.4</b>	<b>2.8</b>	<b>8.4</b>	<b>9.8</b>	<b>12.1</b>	<b>12.5</b>	<b>17.2</b>	<b>22.1</b>
% Change	na	105.4%	201.1%	15.8%	23.7%	3.8%	37.4%	28.1%
Tax	1.9	1.2	-0.3	-0.3	-0.1	0.0	-1.7	-2.2
<b>Net profit from continuing operations</b>	<b>3.3</b>	<b>4.0</b>	<b>8.1</b>	<b>9.4</b>	<b>11.9</b>	<b>12.5</b>	<b>15.5</b>	<b>19.9</b>
% Change	na	22.6%	103.5%	15.8%	26.8%	4.9%	23.6%	28.1%
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit before minorities</b>	<b>3.3</b>	<b>4.0</b>	<b>8.1</b>	<b>9.4</b>	<b>11.9</b>	<b>12.5</b>	<b>15.5</b>	<b>19.9</b>
Minorities	0.0	-0.3	-1.3	-2.2	-0.2	-0.2	-0.5	-0.8
<b>Net profit reported</b>	<b>3.3</b>	<b>3.7</b>	<b>6.9</b>	<b>7.3</b>	<b>11.7</b>	<b>12.3</b>	<b>15.0</b>	<b>19.1</b>
% Change	na	13.4%	85.4%	6.0%	61.3%	5.0%	21.7%	27.1%
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit adjusted</b>	<b>3.3</b>	<b>3.7</b>	<b>6.9</b>	<b>7.3</b>	<b>11.7</b>	<b>12.3</b>	<b>15.0</b>	<b>19.1</b>
% Change	na	13.4%	85.4%	6.0%	61.3%	5.0%	21.7%	27.1%
Gross profit	10.8	19.6	45.2	116.6	111.2	130.1	166.7	183.8
EBITDA adjusted	2.6	4.5	12.2	16.6	20.1	19.5	26.4	32.8
EBIT adjusted	1.8	3.2	9.5	11.1	14.3	14.2	18.9	23.7
Gross profit margin (%)	18.1%	24.3%	29.5%	34.4%	32.9%	34.2%	35.6%	36.5%
EBITDA margin (%)	4.3%	5.6%	8.0%	4.9%	5.9%	5.1%	5.6%	6.5%
EBIT margin (%)	3.0%	4.0%	6.2%	3.3%	4.2%	3.7%	4.0%	4.7%
Net profit margin (%)	5.5%	4.6%	4.5%	2.1%	3.5%	3.2%	3.2%	3.8%
Tax rate (%)	139.4%	42.9%	3.4%	3.4%	1.1%	0.0%	10.0%	10.0%
Payout ratio (%)	na	0.0%	1.7%	4.0%	4.3%	2.7%	2.6%	2.1%
EPS reported (EUR)	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% change	na	high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS adjusted (EUR)	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% change	na	high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
EPS adj and fully diluted(EUR)	high	0.21	0.30	0.23	0.30	0.30	0.35	0.44
% change	na	high	43.8%	-22.6%	30.1%	0.0%	16.2%	27.1%
DPS (EUR)	0.00	0.00	0.00	0.00	0.06	0.06	0.06	0.08
% change	na	na	na	na	na	0.0%	0.0%	33.3%
Consensus Sales (EURm)						373.0	458.2	489.4
Consensus EBITDA (EURm)						23.2	28.6	32.0
Consensus EBIT (EURm)						16.9	19.9	22.9
Consensus EPS (EUR)						0.28	0.33	0.40
Consensus DPS (EUR)						0.08	0.08	0.08

## Cash flow statement

FY to 31/12 (EURm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Net profit before minorities	3.3	4.0	8.1	9.4	11.9	12.5	15.5	19.9
Depreciation and amortisation	0.8	1.3	2.8	5.4	5.8	5.3	7.5	9.1
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	4.6	-9.2	-2.3	-2.1	-0.9	-12.1	-6.9	-3.6
Others	-7.0	0.8	-7.2	-0.5	-5.7	1.0	1.7	2.2
<b>Cash Flow from operating activities</b>	<b>1.6</b>	<b>-3.1</b>	<b>1.4</b>	<b>12.3</b>	<b>11.1</b>	<b>6.8</b>	<b>17.8</b>	<b>27.6</b>
% Change	na	na	na	763.8%	-9.5%	-38.5%	161.4%	54.5%
Capex	-0.8	-1.0	-2.8	-3.2	-5.8	-9.5	-11.7	-12.6
<b>Free cash flow</b>	<b>0.8</b>	<b>-4.1</b>	<b>-1.4</b>	<b>9.1</b>	<b>5.3</b>	<b>-2.7</b>	<b>6.1</b>	<b>15.0</b>
% Change	na	na	na	na	-41.6%	na	na	143.9%
Acquisitions	0.9	-1.2	-11.6	-0.2	4.6	-10.0	0.0	0.0
Divestments	0.1	0.0	0.0	0.6	0.9	0.0	0.0	0.0
Dividend paid	0.0	0.0	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3
Share buy back	0.0	0.0	0.0	0.0	-1.3	0.0	0.0	0.0
Capital increases	0.2	4.2	2.4	1.7	-0.1	11.0	0.0	0.0
Others	-0.5	-0.4	-1.0	-1.6	-3.1	0.0	0.0	0.0
<b>Change in net financial debt</b>	<b>1.5</b>	<b>-1.6</b>	<b>-11.6</b>	<b>9.3</b>	<b>6.0</b>	<b>-2.0</b>	<b>5.8</b>	<b>14.7</b>
Change in cash and cash equivalents	na	-0.6	14.7	0.0	13.0	-14.5	5.8	14.7
Attributable FCF	0.8	-4.1	-1.4	9.1	5.3	-2.7	6.1	15.0
Cash flow per share (EUR)	high	-0.17	0.06	0.39	0.28	0.17	0.41	0.64
% Change	na	na	na	530.5%	-27.0%	-41.4%	149.5%	54.5%
FCF per share (EUR)	high	-0.23	-0.06	0.29	0.14	-0.06	0.14	0.35
% Change	na	na	na	na	-52.9%	na	na	143.9%
Capex / Sales (%)	1.4%	1.2%	1.8%	0.9%	1.7%	2.5%	2.5%	2.5%
Capex / D&A (%)	109.9%	75.5%	102.2%	58.3%	100.0%	178.6%	156.3%	138.9%
Cash flow / Sales (%)	2.7%	-3.9%	0.9%	3.6%	3.3%	1.8%	3.8%	5.5%
FCF / Sales (%)	1.3%	-5.1%	-0.9%	2.7%	1.6%	-0.7%	1.3%	3.0%
FCF Yield (%)	5.0%	-8.6%	-2.4%	10.1%	5.6%	-1.7%	4.0%	9.7%
Unlevered FCF Yield (%)	9.4%	-9.1%	-0.2%	10.2%	7.6%	-0.6%	4.7%	11.2%

# Balance sheet

FY to 31/12 (EURm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash and cash equivalents	15.8	15.2	29.9	29.9	42.9	28.4	34.3	48.9
Inventories	5.4	13.2	20.6	23.4	22.7	32.5	38.1	41.0
Accounts receivable	3.1	8.9	85.0	81.9	71.6	102.7	120.4	129.6
Other current assets	0.8	1.2	25.9	15.4	15.2	21.8	25.5	27.5
<b>Current assets</b>	<b>25.1</b>	<b>38.5</b>	<b>161.4</b>	<b>150.7</b>	<b>152.4</b>	<b>185.4</b>	<b>218.3</b>	<b>246.9</b>
Tangible assets	2.2	2.7	11.1	9.9	9.0	11.8	13.4	14.8
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Intangible assets	10.1	20.6	40.9	38.8	44.8	56.2	58.7	60.8
Financial assets	0.0	0.1	4.4	3.8	2.8	2.8	2.8	2.8
Other non-current assets	1.7	2.9	9.2	9.9	11.1	11.1	11.1	11.1
<b>Non-current assets</b>	<b>14.0</b>	<b>26.3</b>	<b>65.6</b>	<b>62.5</b>	<b>67.6</b>	<b>81.8</b>	<b>86.0</b>	<b>89.5</b>
Short term debt	3.5	3.1	34.2	37.8	28.4	15.9	15.9	15.9
Accounts payable	12.3	14.6	90.0	92.2	81.7	117.1	137.2	147.7
Other short term liabilities	1.3	2.7	18.4	4.2	3.9	3.9	3.9	3.9
<b>Current liabilities</b>	<b>17.1</b>	<b>20.4</b>	<b>142.5</b>	<b>134.3</b>	<b>114.0</b>	<b>136.9</b>	<b>157.0</b>	<b>167.5</b>
Long term debt	3.0	6.4	19.3	7.0	23.9	23.9	23.9	23.9
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term provisions	0.0	0.0	0.0	3.0	2.9	2.9	2.9	2.9
Other long term liabilities	0.9	4.7	10.7	5.7	8.1	8.1	8.1	8.1
<b>Non-current liabilities</b>	<b>3.9</b>	<b>11.1</b>	<b>30.0</b>	<b>15.7</b>	<b>34.9</b>	<b>34.9</b>	<b>34.9</b>	<b>34.9</b>
Shareholders' equity	18.1	32.8	49.2	61.0	69.2	92.4	109.3	131.0
Minority interests	0.0	0.6	5.4	2.2	2.1	3.1	3.1	3.1
<b>Total equity</b>	<b>18.1</b>	<b>33.4</b>	<b>54.6</b>	<b>63.1</b>	<b>71.2</b>	<b>95.5</b>	<b>112.4</b>	<b>134.1</b>
<b>Balance sheet total</b>	<b>39.1</b>	<b>64.8</b>	<b>227.0</b>	<b>213.1</b>	<b>220.1</b>	<b>267.2</b>	<b>304.3</b>	<b>336.5</b>
% Change	na	65.6%	250.3%	-6.1%	3.3%	21.4%	13.9%	10.6%
Book value per share (EUR)	high	1.82	2.12	1.92	1.76	2.24	2.53	3.03
% Change	na	high	16.4%	-9.6%	-8.5%	27.2%	12.9%	19.9%
Net debt	-9.3	-5.7	23.6	14.9	9.3	11.3	5.5	-9.2
Net financial debt	-9.3	-5.7	23.6	14.9	9.3	11.3	5.5	-9.2
Trade working capital	-3.7	7.6	15.7	13.1	12.6	18.1	21.2	22.8
Working capital	-4.2	6.1	23.2	24.3	23.9	36.0	42.8	46.4
Inventories/sales	9.1%	16.4%	13.5%	6.9%	6.7%	8.5%	8.1%	8.1%
Invested capital	8.1	29.4	75.2	73.1	77.6	103.9	115.0	122.0
Net fin. debt / EBITDA (x)	-3.6	-1.3	1.9	0.9	0.5	0.6	0.2	-0.3
Net fin. debt / FCF (x)	na	1.4	na	1.6	1.8	-4.2	0.9	-0.6
Gearing (%)	-51.0%	-17.0%	43.2%	23.6%	13.1%	11.9%	4.9%	-6.8%
Goodwill / Equity (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## Research ratings and important disclosures

### Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Allgeier	DE0005086300	nothing to disclose	EUR	16.46
Bechtle	DE0005158703	nothing to disclose	EUR	75.59
CANCOM	DE0005419105	nothing to disclose	EUR	35.9
GFT Technologies	DE0005800601	nothing to disclose	EUR	17.28
Itron	US4657411066	nothing to disclose	USD	36.04
PSI	DE000A0Z1JH9	nothing to disclose	EUR	12.065
S&T	AT0000A0E9W5	8	EUR	3.55

Source: Factset closing prices of 17/03/2015

Stock prices: Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

#### Key:

**Kepler Capital Markets SA (KCM) holds or owns or controls 100% of the issued shares of Crédit Agricole Cheuvreux SA (CA Cheuvreux), collectively hereafter KEPLER CHEUVREUX.**

1. KEPLER CHEUVREUX holds or owns or controls 5% or more of the issued share capital of this company; 2. The company holds or owns or controls 5% or more of the issued share capital of Kepler Capital Markets SA; 3. KEPLER CHEUVREUX is or may be regularly carrying out proprietary trading in equity securities of this company; 4. KEPLER CHEUVREUX has been lead manager or co-lead manager in a public offering of the issuer's financial instruments during the last twelve months; 5. KEPLER CHEUVREUX is a market maker in the issuer's financial instruments; 6. KEPLER CHEUVREUX is a liquidity provider in relation to price stabilisation activities for the issuer to provide liquidity in such instruments; 7. KEPLER CHEUVREUX acts as a corporate broker or a sponsor or a sponsor specialist (in accordance with the local regulations) to this company; 8. KEPLER CHEUVREUX and the issuer have agreed that KEPLER CHEUVREUX will produce and disseminate investment research on the said issuer as a service to the issuer; 9. KEPLER CHEUVREUX has received compensation from this company for the provision of investment banking or financial advisory services within the previous twelve months; 10. KEPLER CHEUVREUX may expect to receive or intend to seek compensation for investment banking services from this company in the next three months; 11. The author of, or an individual who assisted in the preparation of, this report (or a member of his/her household), or a person who although not involved in the preparation of the report had or could reasonably be expected to have access to the substance of the report prior to its dissemination has a direct ownership position in securities issued by this company; 12. An employee of KEPLER CHEUVREUX serves on the board of directors of this company; 13. As at the end of the month immediately preceding the date of publication of the research report Kepler Capital Markets, Inc. beneficially owned 1% or more of a class of common equity securities of the subject company; 14. KEPLER CHEUVREUX and UniCredit Bank AG have entered into a Co-operation Agreement to form a strategic alliance in connection with certain services including services connected to investment banking transactions. UniCredit Bank AG provides investment banking services to this issuer in return for which UniCredit Bank AG received consideration or a promise of consideration. Separately, through the Co-operation Agreement with UniCredit Bank AG for services provided by KEPLER CHEUVREUX in connection with such activities, KEPLER CHEUVREUX also received consideration or a promise of a consideration in accordance with the general terms of the Co-operation Agreement; 15. KEPLER CHEUVREUX and Crédit Agricole Corporate & Investment Bank ("CACIB") have entered into a Co-operation Agreement to form a strategic alliance in connection with certain services including services connected to investment banking transactions. CACIB provides investment banking services to this issuer in return for which CACIB received consideration or a promise of consideration. Separately, through the Co-operation Agreement with CACIB for services provided by KEPLER CHEUVREUX in connection with such activities, KEPLER CHEUVREUX also received consideration or a promise of a consideration in accordance with the general terms of the Co-operation Agreement; 16. UniCredit Bank AG holds or owns or controls 5% or more of the issued share capital of KEPLER CAPITAL MARKETS SA. UniCredit Bank AG provides investment banking services to this issuer in return for which UniCredit Bank AG received consideration or a promise of consideration; 17. CACIB holds or owns or controls 15% of more of the issued share capital of KEPLER CAPITAL MARKETS SA. CACIB provides investment banking services to this issuer in return for which CACIB received consideration or a promise of consideration; 18. An employee of UniCredit Bank AG serves on the board of directors of KEPLER CAPITAL MARKETS SA; 19. Two employees of CACIB serve on the board of directors of KEPLER CAPITAL MARKETS SA. CACIB provides investment banking services to this issuer in return for which CACIB received consideration or a promise of consideration; 20. The services provided by KEPLER CHEUVREUX are provided by Kepler Equities S.A.S., a wholly-owned subsidiary of KEPLER CAPITAL MARKETS SA.

#### Rating history:

KEPLER CHEUVREUX current rating for S&T is Buy and was issued on 21/10/2014 (initiation of coverage).

**We did not disclose the rating to the issuer before publication and dissemination of this document.**

#### Rating ratio Kepler Cheuvreux Q4 2014

Rating breakdown	A	B
Buy	43.0%	0.0%
Hold	32.0%	0.0%
Reduce	21.0%	0.0%
Not Rated/Under Review/Accept Offer	4.0%	0.0%
Total	100.0%	0.0%

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

From 9 May 2006, KEPLER CHEUVREUX's rating system consists of three ratings: Buy, Hold and Reduce. For a Buy rating, the minimum expected upside is 10% in absolute terms over 12 months. For a Hold rating the expected upside is below 10% in absolute terms. A Reduce rating is applied when there is expected downside on the stock. Target prices are set on all stocks under coverage, based on a 12-month view. Equity ratings and valuations are issued in absolute terms, not relative to any given benchmark.

#### Analyst disclosures

The functional job title of the person(s) responsible for the recommendations contained in this report is **Equity Research Analyst** unless otherwise stated on the cover.

Name of the Equity Research Analyst(s): Baptiste de Leudeville

**Regulation AC - Analyst Certification:** Each Equity Research Analyst(s) listed on the front-page of this report, principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the equity research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each Equity Research Analyst(s) also certifies that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that equity research analyst in this research report.

Each Equity Research Analyst certifies that he is acting independently and impartially from KEPLER CHEUVREUX shareholders, directors and is not affected by any current or potential conflict of interest that may arise from any KEPLER CHEUVREUX activities.

**Analyst Compensation:** The research analyst(s) primarily responsible for the preparation of the content of the research report attest that no part of the analyst's(s') compensation was, is or will be, directly or indirectly, related to the specific recommendations expressed by the research analyst(s) in the research report. The research analyst's(s') compensation is, however, determined by the overall economic performance of KEPLER CHEUVREUX.

**Registration of non-US Analysts:** Unless otherwise noted, the non-US analysts listed on the front of this report are employees of KEPLER CHEUVREUX, which is a non-US affiliate and parent company of Kepler Capital Markets, Inc. a SEC registered and FINRA member broker-dealer. Equity Research Analysts employed by KEPLER CHEUVREUX, are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of Kepler Capital Markets, Inc. and may not be subject to NASD Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Please refer to [www.keplercheuvreux.com](http://www.keplercheuvreux.com) for further information relating to research and conflict of interest management.

## Regulators

Location	Regulator	Abbreviation
Kepler Capital Markets S.A - France	Autorité des Marchés Financiers	AMF
Kepler Capital Markets, Sucursal en España	Comisión Nacional del Mercado de Valores	CNMV
Kepler Capital Markets, Frankfurt branch	Bundesanstalt für Finanzdienstleistungsaufsicht	BaFin
Kepler Capital Markets, Milan branch	Commissione Nazionale per le Società e la Borsa	CONSOB
Kepler Capital Markets, Amsterdam branch	Autoriteit Financiële Markten	AFM
Kepler Capital Markets, Zurich branch	Swiss Financial Market Supervisory Authority	FINMA
Kepler Capital Markets, Inc.	Financial Industry Regulatory Authority	FINRA
Kepler Capital Markets, London branch	Financial Conduct Authority	FCA
Kepler Capital Markets, Vienna branch	Austrian Financial Services Authority	FMA
Crédit Agricole Cheuvreux, SA - France	Autorité des Marchés Financiers	AMF
Crédit Agricole Cheuvreux España S.V	Comisión Nacional del Mercado de Valores	CNMV
Crédit Agricole Cheuvreux Niederlassung Deutschland	Bundesanstalt für Finanzdienstleistungsaufsicht	BaFin
Crédit Agricole Cheuvreux S.A., branch di Milano	Commissione Nazionale per le Società e la Borsa	CONSOB
Crédit Agricole Cheuvreux Amsterdam	Autoriteit Financiële Markten	AFM
Crédit Agricole Cheuvreux Zurich Branch	Swiss Financial Market Supervisory Authority	FINMA
Crédit Agricole Cheuvreux North America, Inc.	Financial Industry Regulatory Authority	FINRA
Crédit Agricole Cheuvreux International Limited	Financial Conduct Authority	FCA
Crédit Agricole Cheuvreux Nordic AB	Finansinspektionen	FI

Kepler Capital Markets S.A and Crédit Agricole Cheuvreux SA, are authorised and regulated by both Autorité de Contrôle Prudentiel and Autorité des Marchés Financiers.

For further information relating to research recommendations and conflict of interest management please refer to [www.keplercheuvreux.com](http://www.keplercheuvreux.com).

## Legal and disclosure information

### Other disclosures

This product is not for retail clients or private individuals.

The information contained in this publication was obtained from various publicly available sources believed to be reliable, but has not been independently verified by KEPLER CHEUVREUX. KEPLER CHEUVREUX does not warrant the completeness or accuracy of such information and does not accept any liability with respect to the accuracy or completeness of such information, except to the extent required by applicable law.

**This publication is a brief summary and does not purport to contain all available information on the subjects covered. Further information may be available on request. This report may not be reproduced for further publication unless the source is quoted.**

**This publication is for information purposes only and shall not be construed as an offer or solicitation for the subscription or purchase or sale of any securities, or as an invitation, inducement or intermediation for the sale, subscription or purchase of any securities, or for engaging in any other transaction. This publication is not for private individuals.**

Any opinions, projections, forecasts or estimates in this report are those of the author only, who has acted with a high degree of expertise. They reflect only the current views of the author at the date of this report and are subject to change without notice. KEPLER CHEUVREUX has no obligation to update, modify or amend this publication or to otherwise notify a reader or recipient of this publication in the event that any matter, opinion, projection, forecast or estimate contained herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. The analysis, opinions, projections, forecasts and estimates expressed in this report were in no way affected or influenced by the issuer. The author of this publication benefits financially from the overall success of KEPLER CHEUVREUX.

The investments referred to in this publication may not be suitable for all recipients. Recipients are urged to base their investment decisions upon their own appropriate investigations that they deem necessary. Any loss or other consequence arising from the use of the material contained in this publication shall be the sole and exclusive responsibility of the investor and KEPLER CHEUVREUX accepts no liability for any such loss or consequence. In the event of any doubt about any investment, recipients should contact their own investment, legal and/or tax advisers to seek advice regarding the appropriateness of investing. Some of the investments mentioned in this publication may not be readily liquid investments. Consequently it may be difficult to sell or realise such investments. The past is not necessarily a guide to future performance of an investment. The value of investments and the income derived from them may fall as well as rise and investors may not get back the amount invested. Some investments discussed in this publication may have a high level of volatility. High volatility investments may experience sudden and large falls in their value which may cause losses. International investing includes risks related to political and economic uncertainties of foreign countries, as well as currency risk.

To the extent permitted by applicable law, no liability whatsoever is accepted for any direct or consequential loss, damages, costs or prejudices whatsoever arising from the use of this publication or its contents.

**KEPLER CHEUVREUX (and its affiliates) have implemented written procedures designed to identify and manage potential conflicts of interest that arise in connection with its research business, which are available upon request. The KEPLER CHEUVREUX research analysts and other staff involved in issuing and disseminating research reports operate independently of KEPLER CHEUVREUX Investment Banking business. Information barriers and procedures are in place between the research analysts and staff involved in securities trading for the account of KEPLER CHEUVREUX or clients to ensure that price sensitive information is handled according to applicable laws and regulations.**

### Country and region disclosures

**United Kingdom:** This document is for persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restriction in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Articles 19(5) (Investment professionals) and 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Any investment to which this document relates is available only to such persons, and other classes of person should not rely on this document.

**United States:** This communication is only intended for, and will only be distributed to, persons residing in any jurisdictions where such distribution or availability would not be contrary to local law or regulation. This communication must not be acted upon or relied on by persons in any jurisdiction other than in accordance with local law or regulation and where such person is an investment professional with the requisite sophistication to understand an investment in such securities of the type communicated and assume the risks associated therewith.

This communication is confidential and is intended solely for the addressee. It is not to be forwarded to any other person or copied without the permission of the sender. This communication is provided for information only. It is not a personal recommendation or an offer to sell or a solicitation to buy the securities mentioned. Investors should obtain independent professional advice before making an investment.

**Notice to U.S. Investors:** This material is not for distribution in the United States, except to "major US institutional investors" as defined in SEC Rule 15a-6 ("Rule 15a-6"). Kepler Cheuvreux refers to Kepler Capital Markets, Société anonyme (S.A.) ("Kepler Capital Markets SA") and its affiliates, including CA Cheuvreux, Société Anonyme (S.A.). Kepler Capital Markets SA has entered into a 15a-6 Agreement with Kepler Capital Markets, Inc. ("KCM, Inc.") which enables this report to be furnished to certain U.S. recipients in reliance on Rule 15a-6 through KCM, Inc.

Each U.S. recipient of this report represents and agrees, by virtue of its acceptance thereof, that it is a "major U.S. institutional investor" (as such term is defined in Rule 15a-6) and that it understands the risks involved in executing transactions in such securities. Any U.S. recipient of this report that wishes to discuss or receive additional information regarding any security or issuer mentioned herein, or engage in any transaction to purchase or sell or solicit or offer the purchase or sale of such securities, should contact a registered representative of KCM, Inc.

KCM, Inc. is a broker-dealer registered with the Securities and Exchange Commission ("SEC") under the U.S. Securities Exchange Act of 1934, as amended, Member of the Financial Industry Regulatory Authority ("FINRA") and Member of the Securities Investor Protection Corporation ("SIPC"). Pursuant to SEC Rule 15a-6, you must contact a Registered Representative of KCM, Inc. if you are seeking to execute a transaction in the securities discussed in this report. You can reach KCM, Inc. at 600 Lexington Avenue, New York, NY 10022, Compliance Department (212) 710-7625; Operations Department (212) 710-7606; Trading Desk (212) 710-7602. Further information is also available at [www.keplercapitalmarkets.com](http://www.keplercapitalmarkets.com). You may obtain information about SIPC, including the SIPC brochure, by contacting SIPC directly at 202-371-8300; website: <http://www.sipc.org/>

KCM, Inc. is a wholly owned subsidiary of Kepler Capital Markets SA. Kepler Capital Markets SA, registered on the Paris Register of Companies with the number 413 064 841 (1997 B 10253), whose registered office is located at 112 avenue Kléber, 75016 Paris, is authorised and regulated by both Autorité de Contrôle Prudentiel (ACP) and Autorité des Marchés Financiers (AMF).

Nothing herein excludes or restricts any duty or liability to a customer that KCM, Inc. may have under applicable law. Investment products provided by or through KCM, Inc. are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution, may lose value and are not guaranteed by the entity that published the research as disclosed on the front page and are not guaranteed by KCM, Inc.

Investing in non-U.S. Securities may entail certain risks. The securities referred to in this report and non-U.S. issuers may not be registered under the U.S. Securities Act of 1933, as amended, and the issuer of such securities may not be subject to U.S. reporting and/or other requirements. Rule 144A securities may be offered or sold only to persons in the U.S. who are Qualified Institutional Buyers within the meaning of Rule 144A under the Securities Act. The information available about non-U.S. companies may be limited, and non-U.S. companies are generally not subject to the same uniform auditing and reporting standards as U.S. companies. Securities of some non-U.S. companies may not be as liquid as securities of comparable U.S. companies. Securities discussed herein may be rated below investment grade and should therefore only be considered for inclusion in accounts qualified for speculative investment.

Analysts employed by Kepler Capital Markets SA, a non-U.S. broker-dealer, are not required to take the FINRA analyst exam. The information contained in this report is intended solely for certain "major U.S. institutional investors" and may not be used or relied upon by any other person for any purpose. Such information is provided for informational purposes only and does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other U.S. federal or state securities laws, rules or regulations. The investment opportunities discussed in this report may be unsuitable for certain investors depending on their specific investment objectives, risk tolerance and financial position.

In jurisdictions where KCM, Inc. is not registered or licensed to trade in securities, or other financial products, transactions may be executed only in accordance with applicable law and legislation, which may vary from jurisdiction to jurisdiction and which may require that a transaction be made in accordance with applicable exemptions from registration or licensing requirements.

The information in this publication is based on sources believed to be reliable, but KCM, Inc. does not make any representation with respect to its completeness or accuracy. All opinions expressed herein reflect the author's judgment at the original time of publication, without regard to the date on which you may receive such information, and are subject to change without notice.

KCM, Inc. and/or its affiliates may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. These publications reflect the different assumptions, views and analytical methods of the analysts who prepared them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is provided in relation to future performance.

KCM, Inc. and any company affiliated with it may, with respect to any securities discussed herein: (a) take a long or short position and buy or sell such securities; (b) act as investment and/or commercial bankers for issuers of such securities; (c) act as market makers for such securities; (d) serve on the board of any issuer of such securities; and (e) act as paid consultant or advisor to any issuer. The information contained herein may include forward-looking statements within the meaning of U.S. federal securities laws that are subject to risks and uncertainties. Factors that could cause a company's actual results and financial condition to differ from expectations include, without limitation: political uncertainty, changes in general economic conditions that adversely affect the level of demand for the company's products or services, changes in foreign exchange markets, changes in international and domestic financial markets and in the competitive environment, and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

**France:** This publication is issued and distributed in accordance with Articles L.544-1 and seq and R. 621-30-1 of the Code Monétaire et Financier and with Articles 313-25 to 313-27 and 315-1 and seq of the General Regulation of the Autorité des Marchés Financiers (AMF).

**Germany:** This report must not be distributed to persons who are retail clients in the meaning of Sec. 31a para.3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"). This report may be amended, supplemented or updated in such manner and as frequently as the author deems.

**Italy:** This document is issued by Kepler Capital Markets, Milan branch and Crédit Agricole Cheuvreux S.A., branch di Milano, authorised in France by the Autorité des Marchés Financiers (AMF) and the Autorité de Contrôle Prudentiel (ACP) and registered in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and is distributed by Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.), authorised in France by the AMF and the ACP and registered in Italy by CONSOB. This document is for Eligible Counterparties or Professional Clients only as defined by the CONSOB Regulation 16190/2007 (art. 26 and art. 58). Other classes of persons should not rely on this document. Reports on issuers of financial instruments listed by Article 180, paragraph 1, letter a) of the Italian Consolidated Act on Financial Services (Legislative Decree No. 58 of 24/2/1998, as amended from time to time) must comply with the requirements envisaged by articles 69 to 69-novies of CONSOB Regulation 11971/1999. According to these provisions Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.) warns on the significant interests of Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.) indicated in Annex 1 hereof, confirms that there are not significant financial interests of Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.) in relation to the securities object of this report as well as other circumstance or relationship with the issuer of the securities object of this report (including but not limited to conflict of interest, significant shareholdings held in or by the issuer and other significant interests held by Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.) or other entities controlling or subject to control by Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.) in relation to the issuer which may affect the impartiality of this document]. Equities discussed herein are covered on a continuous basis with regular reports at results release. Reports are released on the date shown on cover and distributed via print and email. Kepler Capital Markets, Milan branch and Crédit Agricole Cheuvreux S.A., branch di Milano analysts are not affiliated with any professional groups or organisations. All estimates are by Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.) unless otherwise stated.

**Spain:** This document is only intended for persons who are Eligible Counterparties or Professional Clients within the meaning of Article 78bis and Article 78ter of the Spanish Securities Market Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This report has been issued by Kepler Capital Markets, Sucursal en España and Crédit Agricole Cheuvreux España S.V, registered in Spain by the Comisión Nacional del Mercado de Valores (CNMV) in the foreign investments firms registry and it has been distributed in Spain by it or by Kepler Capital Markets S.A and Crédit Agricole Cheuvreux, Société Anonyme (S.A.) authorised and regulated by both Autorité de Contrôle Prudentiel and Autorité des Marchés Financiers. There is no obligation to either register or file any report or any supplemental documentation or information with the CNMV. In accordance with the Spanish Securities Market Law (Ley del Mercado de Valores), there is no need for the CNMV to verify, authorise or carry out a compliance review of this document or related documentation, and no information needs to be provided.

**Switzerland:** This publication is intended to be distributed to professional investors in circumstances such that there is no public offer. This publication does not constitute a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations.

**Canada:** The information provided in this publication is not intended to be distributed or circulated in any manner in Canada and therefore should not be construed as any kind of financial recommendation or advice provided within the meaning of Canadian securities laws.

**Other countries:** Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

**Europe**

**Amsterdam**  
 +31 20 573 06 66  
**Frankfurt**  
 +49 69 756 960  
**Geneva**  
 +41 22 361 5151  
**London**  
 +44 20 7621 5100  
**Madrid**  
 +34 914365100  
**Milan**  
 +39 02 85507 1  
**Paris**  
 +33 1 53 65 35 00  
**Stockholm**  
 +46 8 723 51 00  
**Vienna**  
 +43 1 537 124 147  
**Zurich**  
 +41 43 333 66 66


**America & Asia**

**Boston**  
 +1 617 295 0100  
**New York**  
 +1 212 710 7600  
**San Francisco**  
 +1 415 255 9802

**IT software & services research team**

**Baptiste de Leudeville**

**Main author**

bdeleudeville@keplercheuvreux.com  
 +41 22 994 1573

In 2014, Baptiste joined the Corporate Finance department at Kepler Cheuvreux as a member of the research team.

Baptiste started his career in 2006 at the Investment Bank Bryan, Garnier & Co as a sell-side equity research analyst in charge of renewable energy stocks before joining BBSP group as a trading and investment advisor on equity capital markets for five years.

Baptiste has a Master's degree in Finance from Rouen Business School and a Master's degree in Economics from Paris-Dauphine University.


**Natalia Bobo**

nbobo@keplercheuvreux.com  
 +34 91 436 5165


**Stefan Augustin**

saugustin@keplercheuvreux.com  
 +49 69 7569 6171


**Laurent Daure**

Head of IT Software & Services Research  
 ldaure@keplercheuvreux.com  
 +33 1 5365 3636


**Enrico Coco**

ecoco@keplercheuvreux.com  
 +39 02 8550 7227


**Sebastien Sztabowicz**

Head of IT Hardware Research  
 ssztabowicz@keplercheuvreux.com  
 +33 1 5365 3510


**Benjamin Terdjman**

bterdjman@keplercheuvreux.com  
 +41 22 994 1758