

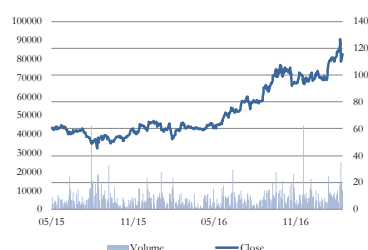
28 February 2017

Closing price as of 27/02/17: €115.90

Company / Sector	Fair Value	Recommendation
ISRA VISION	€109.5	Neutral
Technology: Machine Vision	(unchanged)	(unchanged)

Q1 confirms our FY 16/17 scenario

Share price performance



Share data

Reuters	ISRG.DE
Bloomberg	ISR.GY
No. of shares (m)	4.38
Daily turnover (3m)	7,310
Free float	70%
Market cap. (m)	507.6
EV (m)	520.8

Valuation	2017e	2018e
EV/Sales	3.7	3.3
EV/ EBITDA	12.7	11.3
EV/EBIT	18.7	16.5
PER	26.4	24.0
Div. yield	0.4%	0.4%
RoCE	11.8%	12.5%
RoE	11.0%	10.9%

Analyst

Dr. Anne Gronski
 Tel.: +49 228 227 99 238
 anne.gronski@matelan.de

Adrian Hopkinson CFA
 Tel.: +44 790 993 4353
 adrian.hopkinson@matelan.de

Investment case

Q1 figures were well in line with our forecasts and show that ISRA is well on track to achieve our FY16/17 estimates. We therefore keep our model and fair value unchanged. As the share trades around our fair value and we presently see no trigger, we keep our NEUTRAL rating unchanged. News on acquisitions may lead us to rethink our scenario.

➤ Q1 - IN LINE WITH OUR FORECASTS

Q1 sales (EUR28.5m/+10%) and net income (EUR3.8m/+11%) were well in line with our forecasts. Growth was driven by Industrial Automation (sales EUR7.1m/+41%, EBIT EUR1.5m/+35%). Surface Vision (EUR21.3m/+2%, EUR4.2m/+2%) had to cope with less demand from solar companies as a result of overcapacities in Asia. Order backlog (EUR90m/+6%) was marginally higher than expected. Operating cash flow decreased to EUR1.9m (from EUR4.9m) which mgmt described as a temporary effect on working capital caused by process changes.

➤ MGMT CONFIRMS FY16/17 TARGETS

For FY16/17, mgmt expect sales growth of approx. 10% and at least stable margins. Order intake should regain momentum in the coming months. OCF is expected to come in at the high level of last year. In addition, mgmt stated that it is planning to close one small and one larger acquisition until year end.

➤ WE KEEP OUR MODEL UNCHANGED

Having achieved 20% of our top and bottom line forecasts in Q1, ISRA is well on track to meet our FY 16/17 forecast.

For additional disclosures please refer to the appendix

Forecasts	2015	2016	2017e	2018e	2019e	2020e
Sales	112.24	128.82	141.70	153.03	165.27	178.50
EBITDA	32.41	37.68	41.03	44.93	49.34	54.17
EBIT	22.56	25.59	27.89	30.69	33.93	37.50
Adj. EPS	3.39	4.01	4.39	4.84	5.35	5.92
Dividend	0.41	0.41	0.41	0.41	0.41	0.41
Oper. CF	12.19	34.30	29.12	30.08	32.66	36.41
Free CF	-4.45	18.66	15.16	14.44	15.45	17.49

Q1 16/17 in line - no changes of our FY 16/17 forecast

€ m	Q1 16/17		Q1 15/16	%	FY 2016/17e		%	Mgmt outlook for FY 16/17
	estimated	reported	reported		new	old		
Net sales	28.3	28.5	26.0	9.6%	141.7	141.7	0.0%	approx. 10%
Capitalized items	2.6	3.0	2.4		13.0	13.0	0.0%	
Total Output	30.9	31.5	28.4	11.0%	154.7	154.7	0.0%	
Gross profit	18.8	19.4	17.4	11.5%	94.3	94.3	0.0%	
<i>Gross margin</i>	<i>60.9%</i>	<i>61.5%</i>	<i>61.2%</i>		<i>61.0%</i>	<i>61.0%</i>		
EBITDA	8.5	9.1	7.8	16.2%	41.0	41.0	0.0%	
<i>EBITDA margin</i>	<i>27.6%</i>	<i>28.8%</i>	<i>27.5%</i>		<i>26.5%</i>	<i>27.6%</i>		
EBIT	5.7	5.7	5.2	9.0%	27.9	27.9	0.0%	
<i>EBIT margin</i>	<i>18.3%</i>	<i>18.0%</i>	<i>18.3%</i>		<i>18.0%</i>	<i>18.3%</i>		
EBT	5.6	5.6	5.0	10.7%	27.5	27.5	0.0%	
<i>EBT margin</i>	<i>18.0%</i>	<i>17.7%</i>	<i>17.8%</i>		<i>17.8%</i>	<i>17.8%</i>		at least stable margin
Net income	3.9	3.8	3.5	10.6%	19.2	19.2	0.0%	
<i>Net margin</i>	<i>12.5%</i>	<i>12.2%</i>	<i>12.3%</i>		<i>12.4%</i>	<i>12.5%</i>		
EPS	0.88	0.88	0.79	10.6%	4.39	4.39	0.0%	
Order backlog	85	90	85	5.9%				

Source: ISRA Vision, Matelan Research

Segments - growth driven by Industrial Automation

EURm	Q1 16/17	Q1 15/16	%
Sales			
Industrial Automation	7.1	5.0	41%
Surface Vision	21.3	20.9	2%
Total	28.5	26.0	10%
EBIT			
Industrial Automation	1.5	1.1	35%
<i>EBIT-Margin</i>	<i>20.4%</i>	<i>21.3%</i>	
Surface Vision	4.2	4.1	2%
<i>EBIT-Margin</i>	<i>19.7%</i>	<i>19.7%</i>	
Total	5.7	5.2	9%

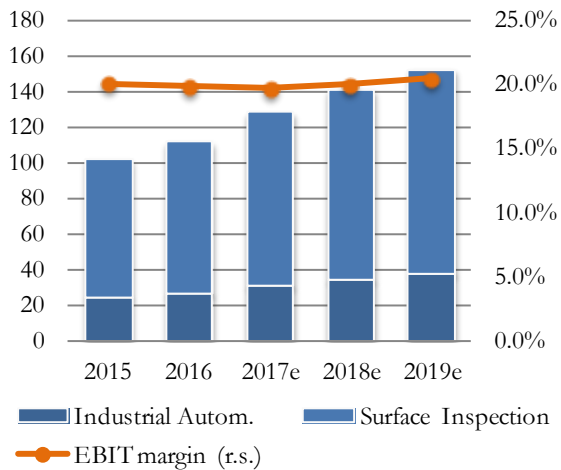
Source: ISRA Vision, Matelan Research

Q1 as %age of FY - well on track

	Q1 as % of FY					
	2016/17e	2015/16	2014/15	2013/14	2012/13	2011/12
Net sales	20%	20%	21%	22%	23%	22%
EBIT	22%	20%	21%	21%	22%	22%
EBT	20%	20%	20%	21%	21%	21%
EPS	20%	20%	20%	21%	21%	20%

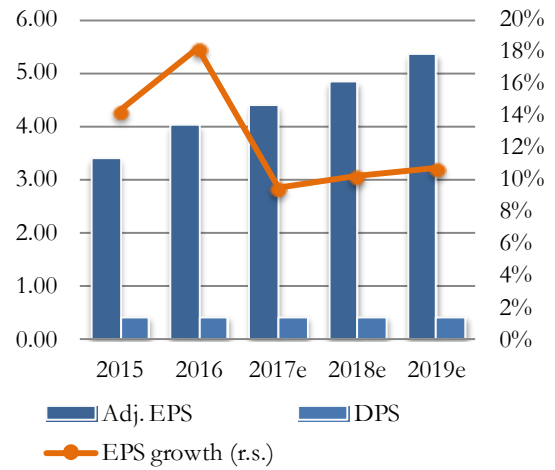
Source: ISRA Vision, Matelan Research

Sales and EBIT margin



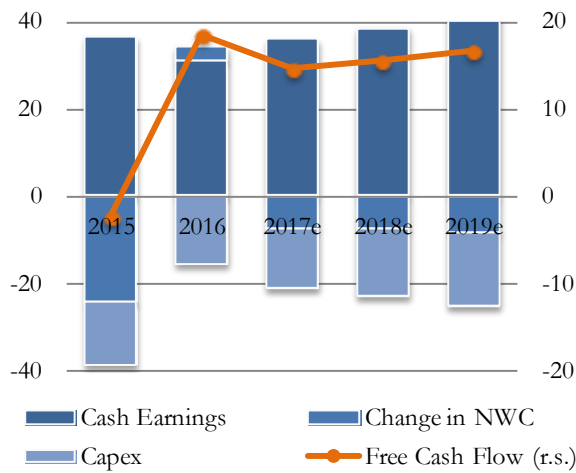
In EURm

Adj. EPS and DPS



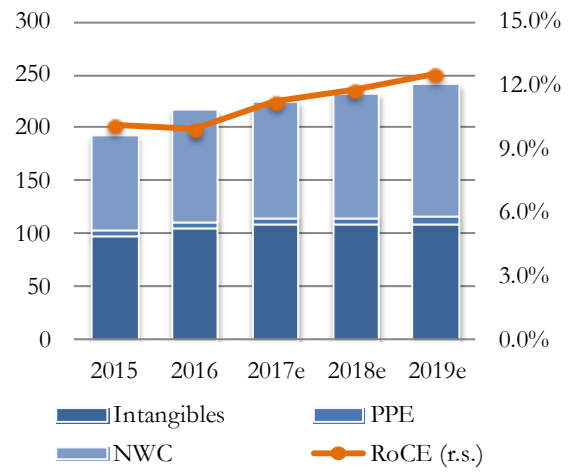
In EURm

Cash Flow



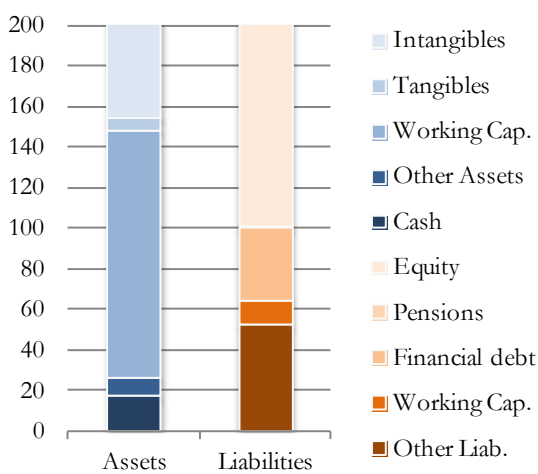
In EURm

RoCE



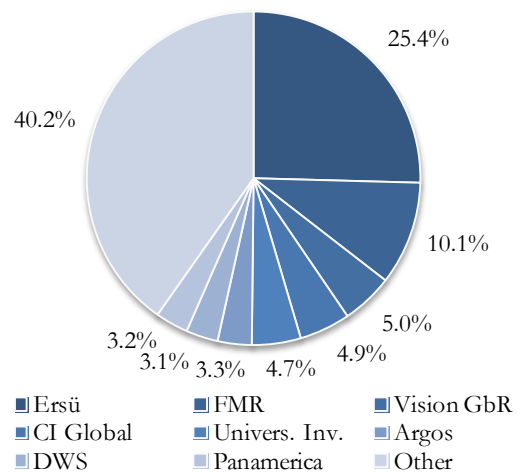
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L					
EURm	2015	2016	2017e	2018e	2019e
Sales	112.2	128.8	141.7	153.0	165.3
<i>Growth</i>	<i>9.5%</i>	<i>14.8%</i>	<i>10.0%</i>	<i>8.0%</i>	<i>8.0%</i>
Material costs	-37.0	-42.0	-47.4	-51.8	-55.7
Gross profit	75.3	86.8	94.3	101.3	109.6
<i>Gross margin</i>	<i>67.1%</i>	<i>67.4%</i>	<i>66.6%</i>	<i>66.2%</i>	<i>66.3%</i>
Other operating costs	-42.9	-49.2	-53.3	-56.3	-60.2
EBITDA	32.4	37.7	41.0	44.9	49.3
<i>Margin</i>	<i>28.9%</i>	<i>29.2%</i>	<i>29.0%</i>	<i>29.4%</i>	<i>29.9%</i>
Depreciation	-9.8	-12.1	-13.1	-14.2	-15.4
EBIT	22.6	25.6	27.9	30.7	33.9
<i>Margin</i>	<i>20.1%</i>	<i>19.9%</i>	<i>19.7%</i>	<i>20.1%</i>	<i>20.5%</i>
Financial result	-0.7	-0.4	-0.3	-0.3	-0.3
EBT	21.8	25.2	27.5	30.4	33.6
Taxes	-7.1	-7.4	-8.1	-8.9	-9.9
Net profit	14.8	17.8	19.4	21.4	23.7
Minorities	0.0	-0.2	-0.2	-0.2	-0.3
Net profit a.m.	14.8	17.6	19.2	21.2	23.4
<i>Growth</i>	<i>14.0%</i>	<i>18.5%</i>	<i>9.5%</i>	<i>10.2%</i>	<i>10.7%</i>
No of shares	4.4	4.4	4.4	4.4	4.4
EPS	3.39	4.01	4.39	4.84	5.35
Adj. EPS	3.39	4.01	4.39	4.84	5.35
<i>Growth</i>	<i>14.2%</i>	<i>18.3%</i>	<i>9.5%</i>	<i>10.2%</i>	<i>10.7%</i>
Dividend	0.41	0.41	0.41	0.41	0.41

Cash Flow					
EURm	2015	2016	2017e	2018e	2019e
EBIT	22.6	25.6	27.9	30.7	33.9
Depreciation	9.8	12.1	13.1	14.2	15.4
Other non-cash items	7.0	3.4	3.0	2.6	2.8
Cash taxes	-2.9	-9.9	-8.1	-8.9	-9.9
Cash earnings	36.5	31.2	35.9	38.6	42.2
Change in NWC	-24.3	3.1	-7.3	-7.4	-8.2
CF from operations	12.2	34.3	28.6	31.1	34.1
Capex	-14.4	-15.6	-14.0	-15.6	-17.2
Other investm./divestm.	-2.2	0.0	0.0	0.0	0.0
CF from investing	-16.6	-15.6	-14.0	-15.6	-17.2
CF from fin. and other	8.4	-16.9	-3.6	-1.8	-1.8
Change in cash	3.9	1.8	11.1	13.7	15.1

Valuation multiples					
	2015	2016	2017e	2018e	2019e
Share price	50.0	97.2	115.9	115.9	115.9
x No of shares	4.4	4.4	4.4	4.4	4.4
Market Capitalisation	218.8	425.5	507.6	507.6	507.6
+ Net financial debt	34.9	19.0	7.8	-4.6	-17.9
+ Pension provision	3.1	4.1	4.0	4.3	4.7
+ Minorities	1.3	1.5	1.5	1.5	1.5
- Participations	0.0	0.0	0.0	-1.0	-2.0
Enterprise Value	258.1	450.2	520.8	507.8	493.8
Sales	112.2	128.8	141.7	153.0	165.3
Adj. EBITDA	32.4	37.7	41.0	44.9	49.3
Adj. EBIT	22.6	25.6	27.9	30.7	33.9
Adj. Net profit a.m.	14.8	17.6	19.2	21.2	23.4
EV / Sales	2.3	3.5	3.7	3.3	3.0
EV / EBITDA	8.0	11.9	12.7	11.3	10.0
EV / EBIT	11.4	17.6	18.7	16.5	14.6
PE	14.8	24.2	26.4	24.0	21.6

Balance Sheet					
EURm	2015	2016	2017e	2018e	2019e
Intangible assets	105.4	109.6	109.4	109.8	110.5
Tangible assets	5.9	6.2	5.7	6.7	7.7
Participations	0.0	0.0	0.0	1.0	2.0
Other non-current assets	9.7	2.7	4.3	3.6	2.8
Non-current assets	120.9	118.5	119.5	121.0	123.0
Inventories	30.7	33.7	38.8	41.1	43.5
Receivables	86.8	88.5	93.2	99.8	107.3
Cash	15.2	16.9	28.0	41.7	56.8
Other current assets	2.5	6.2	6.8	7.4	7.9
Current Assets	135.2	145.4	166.8	189.9	215.5
Total assets	256.1	263.8	286.3	311.0	338.5
Equity	143.0	157.8	174.0	193.4	215.0
Minorities	1.3	1.5	1.5	1.5	1.5
Total equity	144.3	159.3	175.5	194.9	216.5
LT financial liabilities	0.0	0.0	0.0	0.0	0.0
Pension provisions	3.1	4.1	4.0	4.3	4.7
Other LT liabilities	31.9	33.2	36.6	39.5	42.7
Non-current liabilities	35.0	37.4	40.6	43.8	47.3
ST financial liabilities	50.1	36.0	36.0	36.0	36.0
Payables	11.8	12.4	14.9	16.4	18.1
Other ST liabilities	14.9	18.7	19.4	20.0	20.6
Current liabilities	76.8	67.1	70.2	72.3	74.7
Total liabilities	256.1	263.8	286.3	311.0	338.5

Segments					
EURm	2015	2016	2017e	2018e	2019e
Industrial Automation	26.6	31.1	34.2	38.1	41.1
<i>Growth</i>	<i>6.2%</i>	<i>17.1%</i>	<i>10.0%</i>	<i>11.1%</i>	<i>8.0%</i>
Surface Inspection	85.6	97.7	107.5	115.0	124.2
<i>Growth</i>	<i>10.6%</i>	<i>14.1%</i>	<i>10.0%</i>	<i>7.0%</i>	<i>8.0%</i>
Sales	112.2	128.8	141.7	153.0	165.3
<i>Growth</i>	<i>9.5%</i>	<i>14.8%</i>	<i>10.0%</i>	<i>8.0%</i>	<i>8.0%</i>
Industrial Automation	5.3	6.2	6.8	7.7	8.4
<i>Margin</i>	<i>20.1%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.2%</i>	<i>20.3%</i>
Surface Inspection	17.2	19.4	21.1	23.0	25.6
<i>Margin</i>	<i>20.1%</i>	<i>19.8%</i>	<i>19.6%</i>	<i>20.0%</i>	<i>20.6%</i>
EBIT	22.6	25.6	27.9	30.7	33.9
<i>Margin</i>	<i>20.1%</i>	<i>19.9%</i>	<i>19.7%</i>	<i>20.1%</i>	<i>20.5%</i>

Key operational indicators					
	2015	2016	2017e	2018e	2019e
Equity ratio	55.8%	59.8%	60.8%	62.2%	63.5%
Gearing	0.3	0.2	0.2	0.2	0.2
Asset turnover	0.9	1.1	1.2	1.3	1.4
NWC / sales	94.2%	85.3%	82.6%	81.4%	80.3%
Payable days outstanding	38.4	35.2	38.4	39.0	40.0
Receivable days outstand	282.4	250.8	240.0	238.0	237.0
Fix operating assets	120.9	118.5	119.5	120.0	121.0
NWC	105.7	109.8	117.1	124.5	132.7
Capital employed	226.7	228.3	236.6	244.6	253.7
RoE	10.3%	11.0%	11.0%	10.9%	10.8%
RoA	8.8%	9.7%	9.7%	9.9%	10.0%
RoCE	10.0%	11.2%	11.8%	12.5%	13.4%
Gross margin	67.1%	67.4%	66.6%	66.2%	66.3%
EBITDA margin	28.9%	29.2%	29.0%	29.4%	29.9%
EBIT margin	20.1%	19.9%	19.7%	20.1%	20.5%
Net profit margin	13.2%	13.6%	13.6%	13.8%	14.2%

Source: MATELAN Research, margins are calculated as percentage of sales

ADDITIONAL DISCLOSURES

This report has been prepared by MATELAN Research GmbH, Koblenzer Str. 79, 53177 Bonn. All rights are reserved. Copyrights and database rights protection exists in this publication. It may not be reproduced or redistributed without prior express permission of Matelan.

(1) Analyst certification

The analysts responsible for the content of this research report hereby certify that (1) all views expressed in this report accurately reflect their views about any and all of the subject securities or issuers and (2) no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) of this report.

Matelan may have sent extracts of this research report to the subject company for the purpose of verifying factual accuracy. The information provided by the latter was taken into consideration in the report. However, this entailed no change of the assessment.

(2) Disclosures about potential conflicts of interest

MATELAN Research GmbH has/will receive(d) compensation for research and advisory services provided in the current calendar year from the following companies: ISRA Vision AG.

(3) Rating definitions

Security firms use a variety of rating terms and systems. Investors should carefully read the definitions of the rating system used in each research report. In addition, since the research report contains more complete information concerning analyst's views, investors should carefully read the entire research report and not infer its contents from the ratings alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

MATELAN Research GmbH uses an absolute rating system, which varies considerably from relative rating systems (such as "Overweight", "Equal Weight" or "Underweight"). Stock ratings are defined as follows:

Strong Buy:	In the next 6 to 12 months, we expect a potential absolute change in value of over 20% with high forecast certainty.
Buy:	In the next 6 to 12 months, we expect a potential absolute change in value of more than 10%.
Neutral:	In the next 6 to 12 months, we expect a potential absolute change in value of over 0% up to a maximum of 10%.
Reduce:	In the next 6 to 12 months, we expect a potential absolute negative change in value of up to -10%.
Sell:	In the next 6 to 12 months, we expect a potential absolute negative change in value of over -10 % with high forecast certainty.

The change in stock price results from the difference between the current share price and the analyst's performance expectations, which are generally based on a fair value calculation performed on the basis of a discounted cash flow model and a key comparison analysis but can also consider other effects such as market sentiment.

(4) Rating distribution

Stock ratings within the coverage universe of MATELAN Research GmbH as of the publication date of this report are distributed as follows:

Strong Buy:	15.4%
Buy:	53.8%
Neutral:	30.8%
Reduce:	0.0%
Sell:	0.0%

(5) Additional information for clients in Germany and other countries

This research report has been produced in Germany. It was approved and distributed by MATELAN Research GmbH, which is authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Laws and regulations in 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. In particular, this document may not be distributed in the United States, Canada, Australia or Japan or to any U.S. person.

(6) Recommendation history

Stock ratings for the companies covered in this report have developed as follows:

ISRA	
Date	Rating
01/09/16	Neutral
07/08/15	Buy
02/03/15	Neutral
16/08/13	Buy
27/05/13	Neutral
18/03/08	Buy
29/08/07	Neutral
24/07/07	Str. Buy
14/05/07	Neutral
02/05/07	Buy

DISCLAIMER

This research publication has been prepared by MATELAN analysts based on publicly available data that is believed to be accurate and complete. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, MATELAN provides no representation or warranty in relation to its accuracy, completeness or reliability. Possible errors or incompleteness of the information do not constitute grounds for liability, either with regard to indirect or to direct or consequential damages. In particular, MATELAN is not liable for the statements, plans or other details contained in the information concerning the examined companies, strategies, economic situations, market and competitive situations, regulatory environment, etc.

Neither MATELAN nor its employees are liable for the accuracy and completeness of the statements, estimates and conclusions derived from the information contained in this report. To the extent this research report is being transmitted in connection with an existing contractual relationship, e.g. financial advisory or similar services, the liability of MATELAN shall be restricted to gross negligence and wilful misconduct. In any case, the liability of MATELAN is limited to typical, foreseeable damages and liability for any indirect damages is excluded.

This report does not constitute an offer to sell, or a solicitation of an offer to purchase, any security. MATELAN may perform services to other companies mentioned in this report. Directors or employees of MATELAN may serve on the board of directors of companies mentioned in this report. Any opinions contained herein are subject to change without notice.

The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. MATELAN does not accept any liability for any loss or damage out of the use of all or any part of this report. Additional information will be made available upon request.

Past performance is not necessarily indicative of future results. Investors should make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuers or market discussed herein and other persons should not take any action on the basis of this publication.

Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and not be suitable for all investors. The price of securities may decrease or increase and as a result investors may lose the amount originally invested. Changes in exchange rates may also cause the value of investments to decrease or increase. Any documents or information we provide is solely for informational purposes and directed only to persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be carried out with investment professionals. Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

CONTACT DATA

For further information please contact:

Matelan Research GmbH Koblenzer Straße 79 53177 Bonn www.matelan.de	Head Analyst: Dr. Anne Gronski Tel: +49 228 227 99 238 e-mail: anne.gronski@matelan.de
--	---