

04 September 2017

Closing price as of 01/08/17: €142.80

Company / Sector

**ISRA VISION**

Technology: Machine Vision

Fair Value

**€128.0**

(€128.0)

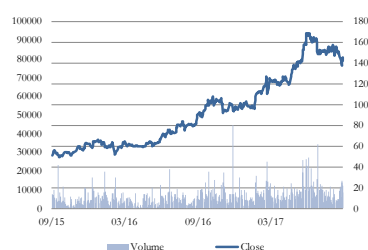
Recommendation

**Neutral**

(unchanged)

## Solid Q3 leaves company on track

### Share price performance



### Share data

Reuters	ISRG.DE
Bloomberg	ISRGY
No. of shares (m)	4.38
Daily turnover (3m)	7,310
Free float	70%
Market cap. (m)	635.7
EV (m)	643.8

Valuation	2017e	2018e
EV/Sales	4.5	4.1
EV/ EBITDA	15.4	13.5
EV/EBIT	23.9	20.6
PER	34.5	30.2
Div. yield	0.3%	0.3%
RoCE	11.7%	12.9%
RoE	10.6%	10.9%

### Analyst

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### Investment case

The swing in Q3 earnings was a bit less pronounced than we had forecasted but figures nonetheless were sound, particularly free cash generation. The only fly in the ointment was a marginal y-o-y decline in order backlog which mgmt explained with the expansion of the productive capacity. We therefore adjust our model only marginally and our fair value remains at EUR128. This is still below the current share price but as news flow on acquisitions should support the share price our rating remains Neutral.

#### ➤ Q3 RESULTS ROUGHLY IN LINE

Q3 sales (EUR34.4m/+11%) were slightly higher than expected (e: EUR34m), which compensated for slightly higher operating costs so that EBITDA (EUR10m) came in bang in line. Mainly due to higher depreciation net earnings remained slightly below our forecast. Order backlog was lower than anticipated (EUR83m /-2% vs. e: EUR91m).

#### ➤ STRONG FREE CASH GENERATION

9M OCF also came in solid (EUR23.3m/ +10%) of which EUR13.8m/+12% remained as free cash.

#### ➤ MGMT REITERATES FY16/17 TARGETS

Mgmt reiterated its FY16/17 targets of sales growth of approx. 10% and at least stable margins. In addition, mgmt stated that the decrease in order backlog is a result of the expansion of the productive capacity and that order intake is currently high. No acquisition project has yet been finalized but mgmt is still working on this side.

#### ➤ OUR FAIR VALUE REMAINS EUR128

We stick to our top line forecast but slightly lower our bottom line expectation, mainly as a result of the higher depreciation. As this has no impact on our DCF model our fair value remains at EUR128.

For additional disclosures please refer to the appendix

Forecasts	2015	2016	2017e	2018e	2019e	2020e
Sales	112.24	128.82	142.98	154.42	166.78	180.12
EBITDA	32.41	37.68	41.71	46.70	51.27	56.25
EBIT	22.56	25.59	26.88	30.63	33.87	37.44
Adj. EPS	3.39	4.01	4.21	4.80	5.32	5.88
Dividend	0.41	0.48	0.48	0.48	0.48	0.48
Oper. CF	12.19	34.30	34.38	31.47	34.58	37.98
Free CF	-4.45	18.66	20.27	15.66	17.18	18.86

### Q3 16/17 review and changes in our FY16/17 forecast

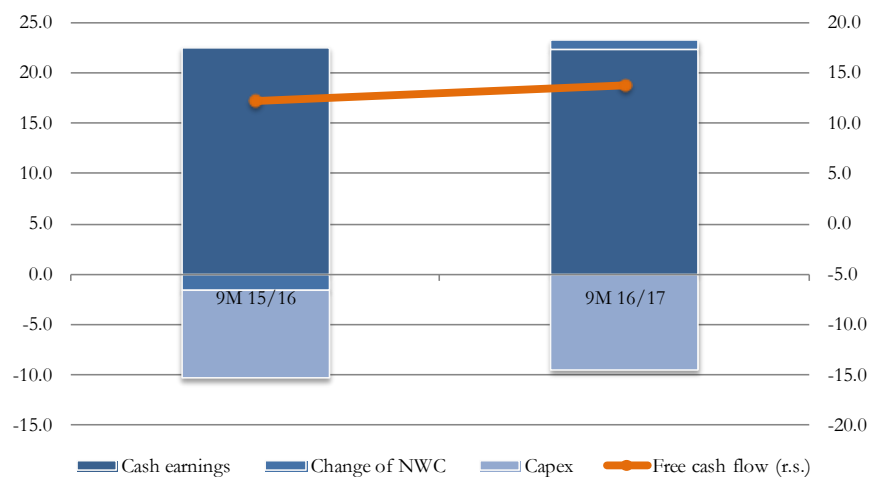
€ m	Q3 16/17		Q3 15/16 reported	%	9M 16/17 reported	9M 15/16 reported	%	FY 2016/17e		
	estimated	reported						new	old	%
<b>Net sales</b>	<b>34.0</b>	<b>34.4</b>	<b>31.0</b>	11.0%	<b>93.3</b>	<b>84.3</b>	10.7%	<b>143.0</b>	<b>143.0</b>	0.0%
Capitalized items	2.7	3.0	2.7		8.8	7.8		13.2	13.2	0.0%
<b>Total Output</b>	<b>36.8</b>	<b>37.3</b>	<b>33.6</b>	11.0%	<b>102.0</b>	<b>92.1</b>	10.8%	<b>156.1</b>	<b>156.1</b>	0.0%
<b>Gross profit</b>	<b>22.6</b>	<b>22.8</b>	<b>20.6</b>	10.8%	<b>62.5</b>	<b>56.4</b>	10.8%	<b>95.5</b>	<b>95.5</b>	0.0%
<i>Gross margin</i>	<i>61.3%</i>	<i>61.0%</i>	<i>61.2%</i>		<i>61.3%</i>	<i>61.3%</i>		<i>61.1%</i>	<i>61.1%</i>	
<b>EBITDA</b>	<b>10.0</b>	<b>10.1</b>	<b>8.9</b>	13.2%	<b>28.5</b>	<b>25.2</b>	12.9%	<b>41.7</b>	<b>41.9</b>	-0.4%
<i>EBITDA margin</i>	<i>27.2%</i>	<i>27.1%</i>	<i>26.6%</i>		<i>27.9%</i>	<i>27.4%</i>		<i>26.7%</i>	<i>26.8%</i>	
<b>EBIT</b>	<b>7.0</b>	<b>6.7</b>	<b>6.0</b>	11.0%	<b>18.4</b>	<b>16.6</b>	10.5%	<b>26.9</b>	<b>28.2</b>	-4.5%
<i>EBIT margin</i>	<i>19.1%</i>	<i>18.0%</i>	<i>18.0%</i>		<i>18.0%</i>	<i>18.1%</i>		<i>17.2%</i>	<i>18.0%</i>	
<b>EBT</b>	<b>6.9</b>	<b>6.6</b>	<b>5.9</b>	12.6%	<b>18.1</b>	<b>16.2</b>	11.7%	<b>26.5</b>	<b>27.8</b>	-4.6%
<i>EBT margin</i>	<i>18.8%</i>	<i>17.8%</i>	<i>17.5%</i>		<i>17.7%</i>	<i>17.6%</i>		<i>17.0%</i>	<i>17.8%</i>	
<b>Net income</b>	<b>5.0</b>	<b>4.6</b>	<b>4.1</b>	12.0%	<b>12.5</b>	<b>11.4</b>	9.4%	<b>18.4</b>	<b>19.3</b>	-4.6%
<i>Net margin</i>	<i>13.6%</i>	<i>12.4%</i>	<i>12.3%</i>		<i>12.2%</i>	<i>12.4%</i>		<i>11.8%</i>	<i>12.4%</i>	
<b>EPS</b>	<b>1.12</b>	<b>1.06</b>	<b>0.95</b>	11.9%	<b>2.85</b>	<b>2.61</b>	9.2%	<b>4.21</b>	<b>4.41</b>	-4.6%
<b>Order backlog</b>	<b>91</b>	<b>83</b>	<b>85</b>	-2.4%						

Source: ISRA Vision, Matelan Research

### Segment reporting

EURm	Q3 16/17	Q3 15/16	%
<b>Sales</b>			
Industrial Automation	9.0	7.4	21%
Surface Vision	25.4	23.5	8%
<b>Total</b>	<b>34.4</b>	<b>31.0</b>	<b>11%</b>
<b>EBIT</b>			
Industrial Automation	1.8	1.6	16%
<i>EBIT-Margin</i>	<i>20.4%</i>	<i>21.2%</i>	
Surface Vision	4.9	4.5	9%
<i>EBIT-Margin</i>	<i>19.2%</i>	<i>19.0%</i>	
<b>Total</b>	<b>6.7</b>	<b>6.0</b>	<b>11%</b>

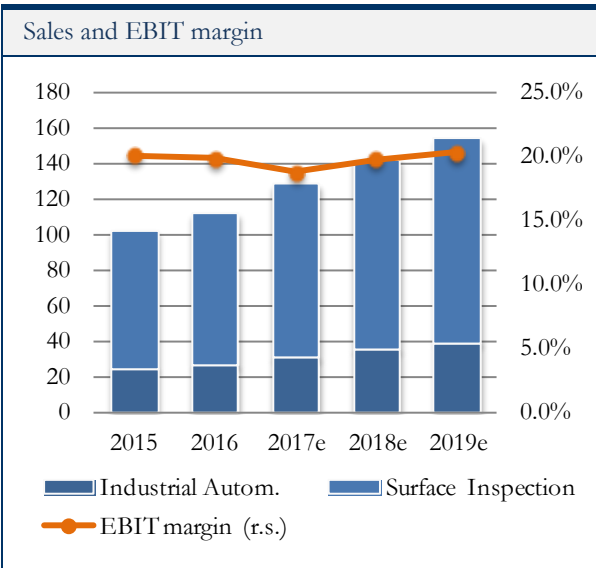
### Key cash flow figures



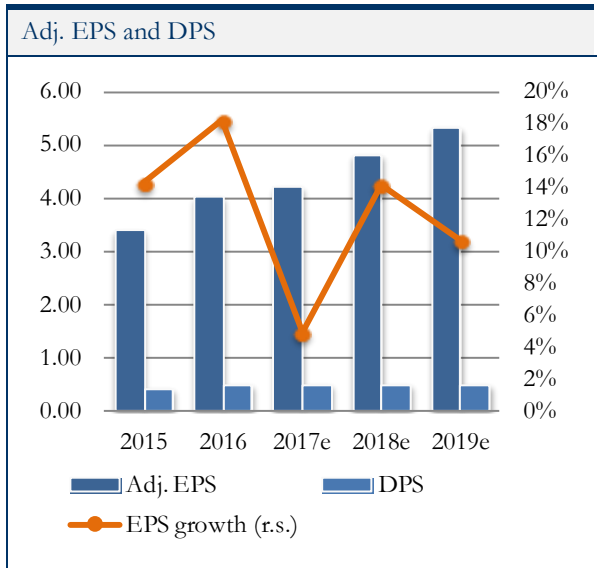
### 9M as %age of FY

	9M as % of FY					
	2016/17e	2015/16	2014/2015	2013/2014	2012/13	2011/12
Net sales	65%	65%	68%	68%	63%	69%
EBIT	66%	65%	64%	67%	69%	69%
EBT	66%	64%	65%	67%	68%	68%
EPS	65%	65%	65%	68%	65%	65%

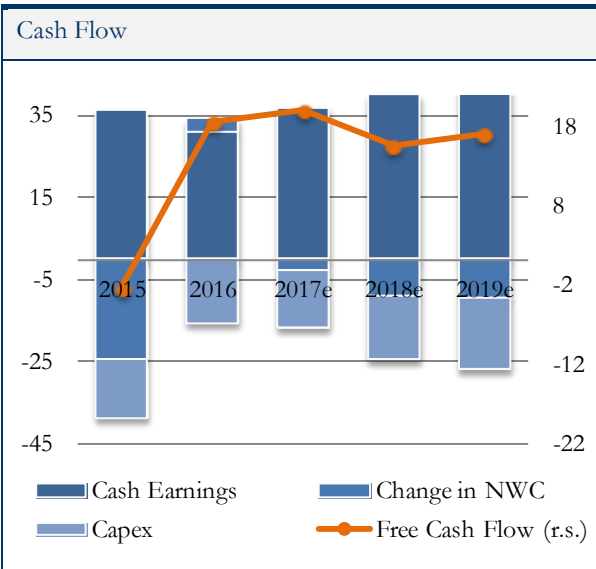
Source: ISRA Vision, Matelan Research



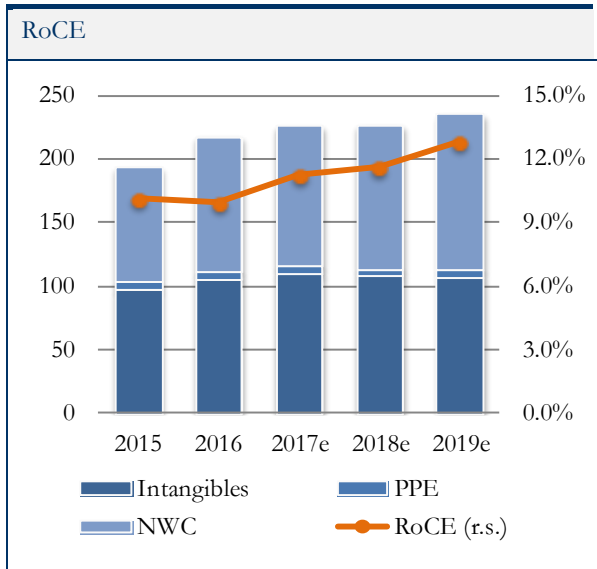
In EURm



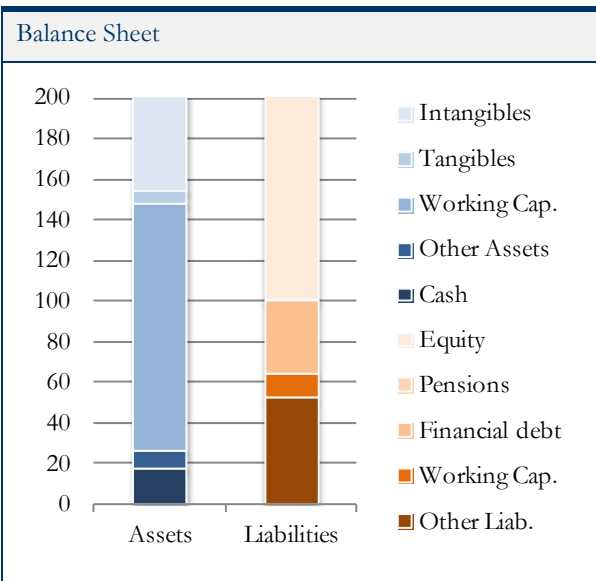
In EURm



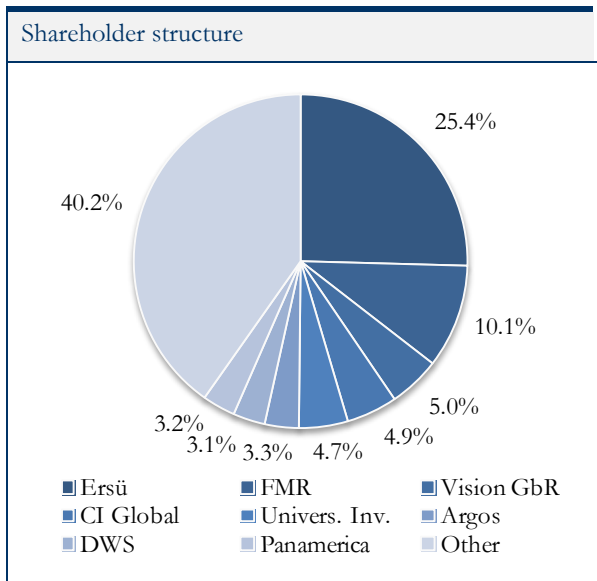
In EURm



In EURm



In EURm



P & L					
EURm	2015	2016	2017e	2018e	2019e
<b>Sales</b>	<b>112.2</b>	<b>128.8</b>	<b>143.0</b>	<b>154.4</b>	<b>166.8</b>
<i>Growth</i>	<i>9.5%</i>	<i>14.8%</i>	<i>11.0%</i>	<i>8.0%</i>	<i>8.0%</i>
Material costs	-37.0	-42.0	-47.5	-50.9	-54.7
<b>Gross profit</b>	<b>75.3</b>	<b>86.8</b>	<b>95.5</b>	<b>103.6</b>	<b>112.1</b>
<i>Gross margin</i>	<i>67.1%</i>	<i>67.4%</i>	<i>66.8%</i>	<i>67.1%</i>	<i>67.2%</i>
Other operating costs	-42.9	-49.2	-53.8	-56.9	-60.8
<b>EBITDA</b>	<b>32.4</b>	<b>37.7</b>	<b>41.7</b>	<b>46.7</b>	<b>51.3</b>
<i>Margin</i>	<i>28.9%</i>	<i>29.2%</i>	<i>29.2%</i>	<i>30.2%</i>	<i>30.7%</i>
Depreciation	-9.8	-12.1	-14.8	-16.1	-17.4
<b>EBIT</b>	<b>22.6</b>	<b>25.6</b>	<b>26.9</b>	<b>30.6</b>	<b>33.9</b>
<i>Margin</i>	<i>20.1%</i>	<i>19.9%</i>	<i>18.8%</i>	<i>19.8%</i>	<i>20.3%</i>
Financial result	-0.7	-0.4	-0.3	-0.3	-0.3
<b>EBT</b>	<b>21.8</b>	<b>25.2</b>	<b>26.5</b>	<b>30.3</b>	<b>33.5</b>
Taxes	-7.1	-7.4	-7.9	-9.0	-10.0
Net profit	<b>14.8</b>	<b>17.8</b>	<b>18.6</b>	<b>21.3</b>	<b>23.5</b>
Minorities	0.0	-0.2	-0.2	-0.2	-0.3
<b>Net profit a.m.</b>	<b>14.8</b>	<b>17.6</b>	<b>18.4</b>	<b>21.0</b>	<b>23.3</b>
<i>Growth</i>	<i>14.0%</i>	<i>18.5%</i>	<i>4.9%</i>	<i>14.1%</i>	<i>10.7%</i>
No of shares	4.4	4.4	4.4	4.4	4.4
EPS	3.39	4.01	4.21	4.80	5.32
<b>Adj. EPS</b>	<b>3.39</b>	<b>4.01</b>	<b>4.21</b>	<b>4.80</b>	<b>5.32</b>
<i>Growth</i>	<i>14.2%</i>	<i>18.3%</i>	<i>4.9%</i>	<i>14.1%</i>	<i>10.7%</i>
Dividend	0.41	0.48	0.48	0.48	0.48

Cash Flow					
EURm	2015	2016	2017e	2018e	2019e
<b>EBIT</b>	<b>22.6</b>	<b>25.6</b>	<b>26.9</b>	<b>30.6</b>	<b>33.9</b>
Depreciation	9.8	12.1	14.8	16.1	17.4
Other non-cash items	7.0	3.4	3.3	2.6	2.8
Cash taxes	-2.9	-9.9	-7.9	-9.0	-10.0
Cash earnings	36.5	31.2	37.1	40.3	44.1
Change in NWC	-24.3	3.1	-2.7	-8.8	-9.5
<b>CF from operations</b>	<b>12.2</b>	<b>34.3</b>	<b>34.4</b>	<b>31.5</b>	<b>34.6</b>
Capex	-14.4	-15.6	-14.1	-15.8	-17.4
Other investm./divestm.	-2.2	0.0	0.0	0.0	0.0
<b>CF from investing</b>	<b>-16.6</b>	<b>-15.6</b>	<b>-14.1</b>	<b>-15.8</b>	<b>-17.4</b>
<b>CF from fin. and other</b>	<b>8.4</b>	<b>-16.9</b>	<b>-3.8</b>	<b>-2.1</b>	<b>-2.1</b>
<b>Change in cash</b>	<b>3.9</b>	<b>1.8</b>	<b>16.4</b>	<b>13.5</b>	<b>15.1</b>

Valuation multiples					
	2015	2016	2017e	2018e	2019e
Share price	50.0	97.2	145.2	145.2	145.2
x No of shares	4.4	4.4	4.4	4.4	4.4
<b>Market Capitalisation</b>	<b>218.8</b>	<b>425.5</b>	<b>635.7</b>	<b>635.7</b>	<b>635.7</b>
+ Net financial debt	34.9	19.0	2.6	-10.9	-26.0
+ Pension provision	3.1	4.1	4.0	4.4	4.7
+ Minorities	1.3	1.5	1.5	1.5	1.5
- Participations	0.0	0.0	0.0	-1.0	-2.0
<b>Enterprise Value</b>	<b>258.1</b>	<b>450.2</b>	<b>643.8</b>	<b>629.6</b>	<b>613.8</b>
Sales	112.2	128.8	143.0	154.4	166.8
Adj. EBITDA	32.4	37.7	41.7	46.7	51.3
Adj. EBIT	22.6	25.6	26.9	30.6	33.9
Adj. Net profit a.m.	14.8	17.6	18.4	21.0	23.3
EV / Sales	2.3	3.5	4.5	4.1	3.7
EV / EBITDA	8.0	11.9	15.4	13.5	12.0
EV / EBIT	11.4	17.6	23.9	20.6	18.1
PE	14.8	24.2	34.5	30.2	27.3

Balance Sheet					
EURm	2015	2016	2017e	2018e	2019e
Intangible assets	105.4	109.6	107.9	106.6	105.5
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	4.4	3.6	2.9
<b>Non-current assets</b>	<b>120.9</b>	<b>118.5</b>	<b>118.0</b>	<b>117.9</b>	<b>118.1</b>
Inventories	30.7	33.7	35.3	38.1	41.1
Receivables	86.8	88.5	91.3	98.6	106.5
Cash	15.2	16.9	33.3	46.9	62.0
Other current assets	2.5	6.2	6.9	7.4	8.0
<b>Current Assets</b>	<b>135.2</b>	<b>145.4</b>	<b>166.8</b>	<b>191.0</b>	<b>217.6</b>
<b>Total assets</b>	<b>256.1</b>	<b>263.8</b>	<b>284.7</b>	<b>308.8</b>	<b>335.6</b>
Equity	143.0	157.8	172.9	191.8	213.0
Minorities	1.3	1.5	1.5	1.5	1.5
<b>Total equity</b>	<b>144.3</b>	<b>159.3</b>	<b>174.4</b>	<b>193.3</b>	<b>214.5</b>
LT financial liabilities	0.0	0.0	0.0	0.0	0.0
Pension provisions	3.1	4.1	4.0	4.4	4.7
Other LT liabilities	31.9	33.2	36.9	39.9	43.0
<b>Non-current liabilities</b>	<b>35.0</b>	<b>37.4</b>	<b>40.9</b>	<b>44.2</b>	<b>47.7</b>
ST financial liabilities	50.1	36.0	36.0	36.0	36.0
Payables	11.8	12.4	14.0	15.3	16.8
Other ST liabilities	14.9	18.7	19.5	20.1	20.7
<b>Current liabilities</b>	<b>76.8</b>	<b>67.1</b>	<b>69.4</b>	<b>71.3</b>	<b>73.4</b>
<b>Total liabilities</b>	<b>256.1</b>	<b>263.8</b>	<b>284.7</b>	<b>308.8</b>	<b>335.6</b>

Segments					
EURm	2015	2016	2017e	2018e	2019e
Industrial Automation	26.6	31.1	35.5	39.4	42.6
<i>Growth</i>	<i>6.2%</i>	<i>17.1%</i>	<i>14.1%</i>	<i>11.0%</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>
<b>Sales</b>	<b>112.2</b>	<b>128.8</b>	<b>143.0</b>	<b>154.4</b>	<b>166.8</b>
<i>Growth</i>	<i>9.5%</i>	<i>14.8%</i>	<i>11.0%</i>	<i>8.0%</i>	<i>8.0%</i>
Industrial Automation	5.3	6.2	5.8	7.6	8.3
<i>Margin</i>	<i>20.1%</i>	<i>20.0%</i>	<i>16.4%</i>	<i>19.4%</i>	<i>19.5%</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>
<b>EBIT</b>	<b>22.6</b>	<b>25.6</b>	<b>26.9</b>	<b>30.6</b>	<b>33.9</b>
<i>Margin</i>	<i>20.1%</i>	<i>19.9%</i>	<i>18.8%</i>	<i>19.8%</i>	<i>20.3%</i>

Key operational indicators					
	2015	2016	2017e	2018e	2019e
Equity ratio	55.8%	59.8%	60.7%	62.1%	63.4%
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%	78.7%	78.6%	78.4%
Payable days outstanding	38.4	35.2	35.7	36.2	36.7
Receivable days outstand.	282.4	250.8	233.0	233.0	233.0
Fix operating assets	120.9	118.5	118.0	116.9	116.1
NWC	105.7	109.8	112.5	121.3	130.8
Capital employed	226.7	228.3	230.5	238.2	246.9
RoE	10.3%	11.0%	10.6%	10.9%	10.9%
RoA	8.8%	9.7%	9.4%	9.9%	10.1%
RoCE	10.0%	11.2%	11.7%	12.9%	13.7%
Gross margin	67.1%	67.4%	66.8%	67.1%	67.2%
EBITDA margin	28.9%	29.2%	29.2%	30.2%	30.7%
EBIT margin	20.1%	19.9%	18.8%	19.8%	20.3%
Net profit margin	13.2%	13.6%	12.9%	13.6%	14.0%

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

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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

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## (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

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