



# ISRA VISION AG

Neutral → | Target price : 150.00 EUR vs 105.00 EUR ↗

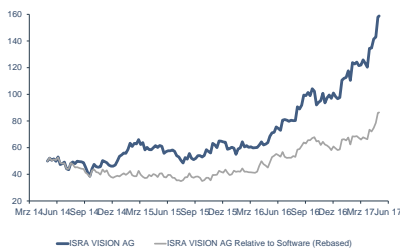
Price (30/05/2017) : 158.80 EUR | Upside : -6 %

	Est.chg	2017e	2018e
EPS		0.0%	0.0%

**Solid Q2 results confirm full-year guidance; good growth momentum intact; improvement in FCF; TP up to € 150.00**

Publication date 31.05.2017 17:31

Writing date 31.05.2017 14:07



Source : Oddo, Fininfo

Capital			
<b>ISRG Y   ISRG.DE</b>			
Market Cap (EURm)			696
Enterprise value (EURm)			767
Extrema 12 months	66.00	-	158.9
Free Float (%)			70.0
Performance (%)			
	1m	3m	12m
Absolute	18.1	33.7	149.3
Perf. rel. Country Index	17.0	26.8	123.5
Perf. rel. Software	15.0	22.4	92.4
P&L			
	09/17e	09/18e	09/19e
Sales (EURm)	143	158	174
EBITDA (EURm)	41.5	46.5	51.3
Current EBIT (EURm)	28.6	32.2	35.6
Attr. net profit (EURm)	19.6	22.1	24.5
Adjusted EPS (EUR)	4.48	5.05	5.58
Dividend (EUR)	0.52	0.54	0.54
P/E (x)	35.5	31.5	28.5
P/B (x)	4.0	3.6	3.2
Dividend Yield (%)	0.3	0.3	0.3
FCF yield (%)	0.9	1.0	1.5
EV/Sales (x)	5.38	4.85	4.38
EV/EBITDA (x)	18.5	16.5	14.8
EV/Current EBIT (x)	26.9	23.8	21.4
Gearing (%)	20	17	13
Net Debt/EBITDA(x)	0.9	0.7	0.5

Next Events	
31.05.2017	Earnings Release
31.08.2017	Earnings Release

## A very solid Q2: sales +11.7% yoy; EBIT +11.1% yoy

ISRA VISION (ISR) reported figures today (31 May) for the quarter ending 31 March (Q2 2016-17). Overall, Q2 showed that the company's good momentum of the previous quarters, i.e. top-line and EBIT growing more than 10% yoy, remains intact.

**Guidance:** The company reiterated its full-year guidance for 2016-17. As in previous years, ISRA guides top-line growth of about 10% with margins "at least in the level of the previous year."

### ISRA VISION: Q2 2016-17

	Q2 2016-17	Q2 2015-16	Δ (%)	2016-17e Oddo
Sales	30.5	27.3	+11.7%	143.0
EBIT	6.0	5.4	+11.1%	28.6
EPS	0.91	0.86	+5.8%	4.48
Order backlog	90.0	85.0	+5.9%	n/a

Source : Company data; Oddo Seydler Bank AG

## Key takeaways from the conference call

The company also held a conference call today at 10:30 CET. Our key takeaways:

**Well on track to achieve full-year guidance:** ISRA is well on track to meet its full-year 2016-17 guidance (i.e. sales growth of ~10%, profit margins at least stable). We forecast yoy sales growth of +11.0% to € 143.0m and yoy EBIT growth of +11.7% to € 28.6m, implying a slight EBIT margin improvement of 10bp to 20.0%.

**FCF performance:** H1 2016-17 free cash flow improved significantly yoy to € 8.8m after € -1.3m in Q1. This improvement was driven by a significant reduction in working capital, in particular trade receivables. For the full year 2016-17, however, the company expects FCF at least flat vs 2015-16, which was at € 18.7m. Management also pointed out that the improvement in working capital in H1 was not due to factoring. ISRA does not use factoring.

**M&A:** Management stated that it is now looking at 8 to 9 potential acquisitions, of which the smaller ones would be technology add-ons and the bigger ones an extension into new market verticals such as pharmaceuticals.

**Danaher's takeover of AVT:** Management commented that it sees Danaher's takeover of AVT as a 'good move' for Danaher to round out its portfolio. One important question going forward will be whether Danaher will fully integrate AVT for a real concentrated push to improve its market position (which Danaher has not been done with previous acquisitions due to its holding structure). Management pointed out that ISRA always fully integrates its acquisitions.

**Automotive exposure:** Management pointed out that it currently is not involved in powertrain applications, meaning it will not be negatively impacted by a market shift towards e-mobility.

## Neutral reiterated; TP raised to € 150.00

We are confident that ISRA will stay on its growth track in 2016-17e. Having said that, we see the stock trading close to its fair value (2016-17e EV/Sales of 5.4x at a P/E of 35.5x) and thus reiterate our Neutral recommendation. After updating our DCF model we increase our TP to € 150.00.

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**ISRG.DE | ISR GY**  
**Electronics | Germany**

Neutral

Price 158.80EUR

Upside -5.54%

TP 150.00EUR

PER SHARE DATA (EUR)	09/12	09/13	09/14	09/15	09/16	09/17e	09/18e	09/19e
Adjusted EPS	2.45	2.59	3.03	3.38	4.11	4.48	5.05	5.58
<b>Reported EPS</b>	<b>2.45</b>	<b>2.59</b>	<b>3.03</b>	<b>3.38</b>	<b>4.11</b>	<b>4.48</b>	<b>5.05</b>	<b>5.58</b>
Growth in EPS(%)	-	5.8%	16.7%	11.7%	21.6%	8.9%	12.8%	10.6%
Net dividend per share	0.30	0.35	0.38	0.42	0.47	0.52	0.54	0.54
FCF to equity per share	-0.11	0.97	1.27	-0.52	7.63	1.40	1.58	2.39
Book value per share	24.43	26.57	29.26	32.76	36.04	39.99	44.50	49.54
Number of shares market cap	4.37	4.38	4.38	4.37	4.38	4.38	4.38	4.38
Number of diluted shares	4.37	4.38	4.38	4.37	4.38	4.38	4.38	4.38
<b>VALUATION</b>	<b>09/12</b>	<b>09/13</b>	<b>09/14</b>	<b>09/15</b>	<b>09/16</b>	<b>09/17e</b>	<b>09/18e</b>	<b>09/19e</b>
12m highest price	25.60	40.74	54.90	66.70	108	159		
12m lowest price	15.00	25.60	38.55	45.53	52.01	96.32		
(*) Reference price	17.66	29.81	45.23	54.02	67.08	159	159	159
Capitalization	77.2	131	198	236	294	696	696	696
Restated Net debt	46.3	47.1	45.3	49.9	37.8	36.0	33.5	27.7
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	23.7	26.4	28.1	35.0	37.4	37.4	37.5	37.6
<b>Enterprise Value</b>	<b>147</b>	<b>204</b>	<b>271</b>	<b>321</b>	<b>369</b>	<b>769</b>	<b>767</b>	<b>761</b>
P/E (x)	7.2	11.5	14.9	16.0	16.3	35.5	31.5	28.5
P/CF (x)	3.4	4.6	7.2	6.4	9.4	20.8	18.4	16.7
Net Yield (%)	1.7%	1.2%	0.8%	0.8%	0.7%	0.3%	0.3%	0.3%
FCF yield (%)	ns	3.3%	2.8%	ns	11.4%	0.9%	1.0%	1.5%
P/B incl. GW (x)	0.72	1.12	1.55	1.65	1.86	3.97	3.57	3.21
P/B excl. GW (x)	1.11	1.67	1.55	1.65	1.86	3.97	3.57	3.21
EV/Sales (x)	1.75	2.28	2.65	2.86	2.86	5.38	4.85	4.38
EV/EBITDA (x)	6.1	7.8	9.4	9.9	9.8	18.5	16.5	14.8
<b>EV/EBIT (x)</b>	<b>9.4</b>	<b>11.8</b>	<b>13.6</b>	<b>14.2</b>	<b>14.4</b>	<b>26.9</b>	<b>23.8</b>	<b>21.4</b>
(*) historical average price								
<b>PROFIT AND LOSS (EURm)</b>	<b>09/12</b>	<b>09/13</b>	<b>09/14</b>	<b>09/15</b>	<b>09/16</b>	<b>09/17e</b>	<b>09/18e</b>	<b>09/19e</b>
Sales	84	90	102	112	129	143	158	174
EBITDA	24.3	26.2	28.8	32.4	37.7	41.5	46.5	51
Depreciations	-8.7	-8.9	-8.8	-9.8	-12.1	-12.9	-14.2	-15.6
<b>Current EBIT</b>	<b>15.6</b>	<b>17.3</b>	<b>20.0</b>	<b>22.6</b>	<b>25.6</b>	<b>28.6</b>	<b>32.2</b>	<b>35.6</b>
Published EBIT	15.6	17.3	20.0	22.6	25.6	28.6	32.2	35.6
Net financial income	-0.7	-0.8	-0.9	-0.7	-0.4	-0.6	-0.6	-0.7
Corporate Tax	-4.2	-5.1	-6.0	-7.1	-7.4	-8.4	-9.5	-10.5
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	-0.1	0.1	0.0	0.2	0.0	0.0	0.0
Attributable net profit	10.7	11.4	13.3	14.8	18.0	19.6	22.1	24.5
<b>Adjusted attributable net profit</b>	<b>10.7</b>	<b>11.4</b>	<b>13.3</b>	<b>14.8</b>	<b>18.0</b>	<b>19.6</b>	<b>22.1</b>	<b>24.5</b>
<b>BALANCE SHEET (EURm)</b>	<b>09/12</b>	<b>09/13</b>	<b>09/14</b>	<b>09/15</b>	<b>09/16</b>	<b>09/17e</b>	<b>09/18e</b>	<b>09/19e</b>
Goodwill	37.4	38.3	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	48.6	54.5	98.0	106	110	111	112	113
Tangible fixed assets	4.5	5.5	5.9	6.2	5.7	6.3	7.0	7.8
WCR	80.5	87.3	94.6	113	116	130	146	160
Financial assets	6.6	5.8	4.3	4.3	3.2	3.1	3.1	3.1
Ordinary shareholders equity	107	116	128	143	158	175	195	217
Minority interests	0.9	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Shareholders equity	108	118	130	145	159	177	196	219
Non-current provisions	23.7	26.4	28.1	35.0	37.4	37.4	37.5	37.6
<b>Net debt</b>	<b>46.3</b>	<b>47.1</b>	<b>45.3</b>	<b>49.9</b>	<b>37.8</b>	<b>36.0</b>	<b>33.5</b>	<b>27.7</b>
<b>CASH FLOW STATEMENT (EURm)</b>	<b>09/12</b>	<b>09/13</b>	<b>09/14</b>	<b>09/15</b>	<b>09/16</b>	<b>09/17e</b>	<b>09/18e</b>	<b>09/19e</b>
<b>EBITDA</b>	<b>24.3</b>	<b>26.2</b>	<b>28.8</b>	<b>32.4</b>	<b>37.7</b>	<b>41.5</b>	<b>46.5</b>	<b>51.3</b>
Change in WCR	-11.6	-12.8	-7.8	-24.5	3.1	-12.7	-14.9	-13.7
Interests & taxes	4.0	7.5	5.5	11.4	0.3	1.9	0.6	0.7
Others	-5.3	-5.4	-6.7	-7.1	-6.8	-10.0	-9.2	-10.2
Operating Cash flow	11.4	15.5	19.8	12.2	34.3	20.7	22.9	28.0
CAPEX	-11.8	-11.3	-14.2	-14.4	-0.9	-14.6	-16.0	-17.5
<b>Free cash-flow</b>	<b>-0.5</b>	<b>4.3</b>	<b>5.6</b>	<b>-2.3</b>	<b>33.4</b>	<b>6.1</b>	<b>6.9</b>	<b>10.5</b>
Acquisitions / disposals	0.0	0.0	0.0	0.0	-14.8	0.0	0.0	0.0
Dividends	-1.1	-1.3	-1.5	-1.7	-1.8	-2.3	-2.4	-2.4
Net capital increase	0.1	0.0	-0.2	0.2	-0.1	0.0	0.0	0.0
Others	4.7	0.6	-1.5	9.8	-15.0	-0.4	-0.5	-0.6
Change in net debt	-3.6	0.8	2.1	-6.2	15.9	3.4	4.0	7.5
<b>GROWTH MARGINS PRODUCTIVITY</b>	<b>09/12</b>	<b>09/13</b>	<b>09/14</b>	<b>09/15</b>	<b>09/16</b>	<b>09/17e</b>	<b>09/18e</b>	<b>09/19e</b>
Sales growth	-	6.7%	14.4%	9.5%	14.8%	11.0%	10.5%	10.0%
<b>Lfl sales growth</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Current EBIT growth	-	11.1%	15.6%	12.7%	13.4%	11.7%	12.7%	10.5%
Growth in EPS(%)	-	5.8%	16.7%	11.7%	21.6%	8.9%	12.8%	10.6%
Net margin	12.8%	12.7%	12.9%	13.2%	14.0%	13.7%	14.0%	14.1%
<b>EBITDA margin</b>	<b>28.9%</b>	<b>29.2%</b>	<b>28.1%</b>	<b>28.9%</b>	<b>29.3%</b>	<b>29.0%</b>	<b>29.4%</b>	<b>29.5%</b>
<b>Current EBIT margin</b>	<b>18.6%</b>	<b>19.3%</b>	<b>19.5%</b>	<b>20.1%</b>	<b>19.9%</b>	<b>20.0%</b>	<b>20.4%</b>	<b>20.5%</b>
CAPEX / Sales	-14.1%	-12.6%	-13.9%	-12.9%	-0.7%	-10.2%	-10.1%	-10.1%
WCR / Sales	95.9%	97.5%	92.4%	ns	90.1%	90.9%	92.1%	92.1%
Tax Rate	28.2%	30.7%	31.4%	32.3%	29.4%	30.0%	30.0%	30.0%
Normative tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Asset Turnover	-	0.5	0.5	0.5	0.6	0.6	0.6	0.6
<b>ROCE post-tax (normative tax rate)</b>	<b>-</b>	<b>6.8%</b>	<b>7.3%</b>	<b>7.5%</b>	<b>7.8%</b>	<b>8.4%</b>	<b>8.8%</b>	<b>9.2%</b>
ROCE post-tax hors GW (normative tax rate)	-	8.6%	8.1%	7.5%	7.8%	8.4%	8.8%	9.2%
ROE	-	10.2%	10.8%	10.9%	12.0%	11.8%	12.0%	11.9%
<b>DEBT RATIOS</b>	<b>09/12</b>	<b>09/13</b>	<b>09/14</b>	<b>09/15</b>	<b>09/16</b>	<b>09/17e</b>	<b>09/18e</b>	<b>09/19e</b>
Gearing	43%	40%	35%	35%	24%	20%	17%	13%
Net Debt / Market Cap	0.60	0.36	0.23	0.21	0.13	0.05	0.05	0.04
<b>Net debt / EBITDA</b>	<b>1.91</b>	<b>1.80</b>	<b>1.57</b>	<b>1.54</b>	<b>1.00</b>	<b>0.87</b>	<b>0.72</b>	<b>0.54</b>
EBITDA / net financial charges	36.0	34.0	33.2	47.2	95.4	72.5	73.5	73.8

Source: Oddo, Fininfo

• **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• **Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

• **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

• **The prices of the financial instruments used and mentioned in this document are the closing prices.**

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**Recommendation and target price changes history over the last 12 months for the company analysed in this report**

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
31.05.17	Neutral	150.00	158.80	Dr. Oliver Pucker, CFA
02.02.17	Neutral	105.00	113.00	Dr. Oliver Pucker, CFA
01.09.16	Neutral	80.00	87.26	Dr. Oliver Pucker, CFA

**Recommendation split**

		Buy	Neutral	Reduce
Our whole coverage	(423)	47%	44%	9%
Liquidity providers coverage	(155)	48%	48%	5%
Research service coverage	(67)	51%	46%	3%
Investment banking services	(44)	64%	34%	2%

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**Disclosure to Company**

Has a copy of this report ; with the target price and/or rating removed, been presented to the subject company/ies prior to its distribution, for the sole purpose of verifying the accuracy of factual statements ? No

Have the conclusions of this report been amended following disclosure to the company/ies and prior its distribution? No

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