H1 18 postview: normalizing growth as expected, 2018 guidance reiterated

H1 2018: sales +6.1% yoy, EBT +6.7% yoy

Basler AG (BSL) reported H1 18 figures yesterday (13 August) which came in slightly above its exceptionally strong H1 2017 level. H1 2018 revenues stood at € 83m (up 6% yoy), slightly below our estimate (€ 86m). Q2 18 revenues were down -9% yoy to € 38.4m, below our estimate of € 41m. As expected, last year’s strong demand for capital goods from the electronics industry, driven by an extraordinary investment cycle of manufacturers of mobile devices (e.g. smart phones and tablets), did not repeat itself in H1 2018. Nevertheless, the company was able to stabilize its business on a high level.

The gross margin improved to 50.8% in H1 18 (H1 17: 50.4%) due to a favourable shift in the product mix, and a lower share of price-sensitive project business.

H1 18 EBT rose +6.7% yoy to € 9.2m, while Q2 18 EBT decreased 17.7% yoy to € 8.5m, but beat our estimate (€ 6.4m). H1 18 order intake fell -21% yoy to € 79.8m, indicating a softer H2 2018.

Basler expects slightly weaker demand in Q3 2018 due to lower demand from the electronics industry (mobile device manufacturers). We believe the company postponed its planned staff expansion to H2 2018 due to low availability of appropriate candidates in the market. As a result, the EBT margin remained clearly above our expected level of 15%.

Impact of acquisitions, guidance reiterated

Management expects Silicon Software GmbH (acquired on 19 July 18) to contribute revenue of € 5m in 2018 and achieve an EBT margin of 14%. Silicon Software will be consolidated starting in Q3 18. Silicon Software generates most of its current revenues with frame grabber cards which are used for the acquisition of high-resolution/high speed images. Basler intends to bundle these products with their new line of performance cameras (to be launched in 2019) to provide higher ease of integration and a better price/performance ratio to their customers. Besides frame grabbers Silicon Software offers a software development toolkit called Visual Applets that allows software developers to run algorithms coded in high-level languages on high-speed vision processors. This unique toolkit significantly reduces the need for difficult-to-find firmware programmers, shortening the time-to-market and cutting development costs for clients working with the cameras.

The MVLZ transfer (Chinese distributor) into a JV with Basler will be finalized by YE 2018. As a result, Basler will be represented much better in the Chinese market and will have direct access to this market, which should have a positive impact on margins and improve its strategic prospects for increased greater business volume in China.

Since the acquisition will not have a major impact this year, management reiterated its 2018 guidance: sales of € 145-160m (Oddo € 158m) and an EBT margin of 13-15% (Oddo 14.4%).

Strategy outlook

Management stressed that the company’s aim is to offer OEM customers comprehensive and easy (hardware) solutions for acquiring images, which requires a broader product portfolio than “just” cameras and cables. The company’s recent acquisitions (MyCable, Silicon Software, JV with MVLZ) put it on track for further growth as it can now offer several complementary solutions under one roof without having to outsource additional elements.

Neutral, TP € 181

BSL is well positioned to generate high sales growth in the years to come due to its market-leading position, which is largely reflected in the current share price. Medium-term, the EBT margin could come slightly under pressure due to personnel investments.

The current share price implies a P/E of 32.2x and EV/Sales of 3.8x in line with Basler’s peers. We have a Neutral rating on the shares, our TP remains unchanged at € 181.

Felix Lutz (Analyst)
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<table>
<thead>
<tr>
<th>PER SHARE DATA (EUR)</th>
<th>12/13</th>
<th>12/14</th>
<th>12/15</th>
<th>12/16</th>
<th>12/17</th>
<th>12/18e</th>
<th>12/19e</th>
<th>12/20e</th>
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<tr>
<td>Adjusted EPS</td>
<td>3.50</td>
<td>3.21</td>
<td>1.83</td>
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<td>6.69</td>
<td>5.07</td>
<td>5.54</td>
<td>6.18</td>
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<td>Reported EPS</td>
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<td>2.52</td>
<td>1.95</td>
<td>2.45</td>
<td>6.73</td>
<td>5.08</td>
<td>5.54</td>
<td>6.18</td>
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<tr>
<td>Growth in EPS(%)</td>
<td>-34.0%</td>
<td>-21.9%</td>
<td>-70.3%</td>
<td>-24.2%</td>
<td>9.2%</td>
<td>11.5%</td>
<td>9.2%</td>
<td>11.5%</td>
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<tr>
<td>Net dividend per share</td>
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<td>0.70</td>
<td>0.58</td>
<td>0.74</td>
<td>2.02</td>
<td>1.42</td>
<td>1.55</td>
<td>1.73</td>
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<td>FCQ to equity per share</td>
<td>2.74</td>
<td>1.61</td>
<td>3.06</td>
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<td>4.99</td>
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<td>Book value per share</td>
<td>10.02</td>
<td>11.52</td>
<td>14.07</td>
<td>15.43</td>
<td>20.41</td>
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<td>3.21</td>
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<td>Number of diluted shares</td>
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<td>3.22</td>
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**Integration and Other Data**

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<th>VALUE RATIO</th>
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<th>12/19e</th>
<th>12/20e</th>
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<tr>
<td>EV/EBITDA</td>
<td>6.1</td>
<td>10.8</td>
<td>16.7</td>
<td>14.7</td>
<td>14.2</td>
<td>24.8</td>
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<td>EV/EBIT (x)</td>
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<td>14.2</td>
<td>24.8</td>
<td>22.5</td>
<td>20.0</td>
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<tr>
<td>(*) Historical average price</td>
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**Debt Ration**

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<th>12/18e</th>
<th>12/19e</th>
<th>12/20e</th>
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<tr>
<td>LFL sales growth</td>
<td>16.6%</td>
<td>21.7%</td>
<td>7.8%</td>
<td>14.2%</td>
<td>54.0%</td>
<td>5.0%</td>
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<td>Total debt</td>
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<td>-0.0%</td>
<td>-20.5%</td>
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<td>ns</td>
<td>-20.7%</td>
<td>8.4%</td>
<td>10.4%</td>
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<tr>
<td>Growth in EPS(%)</td>
<td>ns</td>
<td>-34.0%</td>
<td>-21.0%</td>
<td>21.9%</td>
<td>ns</td>
<td>-34.0%</td>
<td>24.2%</td>
<td>9.2%</td>
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<tr>
<td>Net margin</td>
<td>17.5%</td>
<td>9.0%</td>
<td>6.9%</td>
<td>12.9%</td>
<td>14.4%</td>
<td>10.3%</td>
<td>9.8%</td>
<td>9.8%</td>
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<tr>
<td>EBITDA margin</td>
<td>20.5%</td>
<td>22.6%</td>
<td>18.2%</td>
<td>19.2%</td>
<td>26.4%</td>
<td>19.7%</td>
<td>19.5%</td>
<td>18.8%</td>
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<tr>
<td>Current EBIT margin</td>
<td>20.5%</td>
<td>15.8%</td>
<td>11.7%</td>
<td>12.5%</td>
<td>20.3%</td>
<td>15.3%</td>
<td>14.5%</td>
<td>13.9%</td>
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<tr>
<td>CAPEX / Sales</td>
<td>ns</td>
<td>-8.3%</td>
<td>-10.8%</td>
<td>-7.8%</td>
<td>-7.3%</td>
<td>-6.0%</td>
<td>-6.0%</td>
<td>4.0%</td>
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<td>WCR / Sales</td>
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<td>18.3%</td>
<td>17.8%</td>
<td>17.6%</td>
<td>16.3%</td>
<td>16.5%</td>
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<tr>
<td>Tax Rate</td>
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<td>26.4%</td>
<td>31.5%</td>
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<td>26.8%</td>
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<td>Asset Turnover</td>
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<td>2.6</td>
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<td>ROCE post-tax (normative tax rate)</td>
<td>25.0%</td>
<td>18.2%</td>
<td>13.0%</td>
<td>14.2%</td>
<td>35.9%</td>
<td>25.8%</td>
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<tr>
<td>ROCE post-tax hors GW (normative tax rate)</td>
<td>25.0%</td>
<td>18.2%</td>
<td>13.0%</td>
<td>14.2%</td>
<td>35.9%</td>
<td>25.8%</td>
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<tr>
<td>ROE</td>
<td>37.0%</td>
<td>21.8%</td>
<td>14.3%</td>
<td>26.6%</td>
<td>37.4%</td>
<td>23.1%</td>
<td>21.7%</td>
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**Source:** ODDO BHF Securities, 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 BHF® 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.

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Reco</th>
<th>Price Target (EUR)</th>
<th>Price (EUR)</th>
<th>Analyst</th>
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<td>15.05.18</td>
<td>Neutral</td>
<td>181.00</td>
<td>180.60</td>
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<td>10.08.17</td>
<td>Neutral</td>
<td>160.00</td>
<td>182.50</td>
<td>Dr. Oliver Pucker, CFA</td>
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