RS2 Software plc

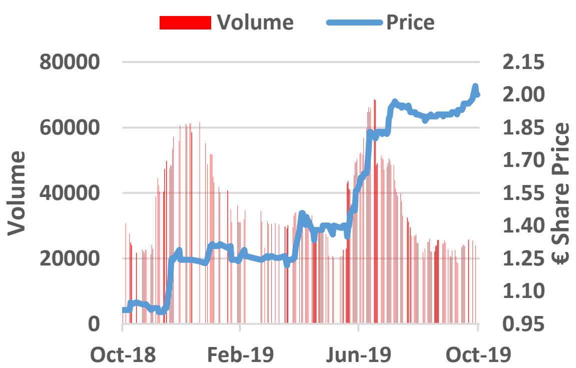
Stock Rating Buy
Price target (1Yr) €2.22

Country	Malta
Industry	Software and IT Services
Ticker Symbol	RS2
Price (as at 04/11/2019)	€2.00
Price Target (1 Year)	€2.22
Upside / downside to PT	+11.0%
Market Cap	€385.9 million
Shares Outstanding	192.6 million
Free Float	31.7%
Net Dividend Yield	Nil
Current P/E*	90.9x
Forward P/E on FY 2020	48.2x

* Based on the results for FY 2018

Exchange**	Malta Stock Exchange (MSE)
52-week range	€1.00 - €2.04

Price and Volume Movement (20 day moving average)



** Prices are adjusted in terms of the bonus issue

Executive Summary:

"We are initiating our coverage on RS2 Software plc ("RS2" or the "Group") with a Buy recommendation and 12-month price target of €2.22.

RS2 is currently in a pivotal transition stage, in the process of on-boarding large clients within the managed services business and adding new markets to its existing customer portfolio, with a special focus on the US operation.

As at H1 2019, the Group has successfully secured new contracts and opened up new verticals and regions within EMEA, LATAM and APAC concerning managed services and also generated revenue for the first time from the US operation.

RS2 is currently trading at 90.9x earnings (FY 2018). Based on our 2020 projected earnings and current price, the forward P/E ratio stands at 48.2x. International peers are currently trading at the following P/E levels: Adyen: 92.6x and Wirecard: 33.1x. We are of the view that the Group's share price of €2.00 has the potential to trade at higher levels, once the Group's projects materialise further.

We implemented an exit multiple of 22.5x on FY 2022 forecast FCFF within our valuation. Apart from the US managed services business, the exit multiple partially accounts for future profitability derived from contracts with prospective clients with whom RS2 is currently in promising discussions with, all of which were excluded from our valuation due to a lack of concreteness at present.

Upon taking the above factors into consideration we anticipate that the Group can continue building on its growth trajectory, leveraging further its unique business model. Based on this, combined with the continued development of RS2's products offering we believe RS2 is well positioned to achieve super normal growth by attracting leading financial organizations, processors and merchants, and as such we rate these shares a Buy."

Company Overview:

RS2 is principally engaged in the development, installation, implementation and marketing of computer software for financial institutions under the trade mark of BankWORKS®. Through one of its subsidiaries, the Group is also engaged in the processing of payment transactions with the use of BankWORKS®.

Benefiting from continuous upgrades of the BANKWORKS® product portfolio in line with market changes and opportunities, mandates from card organizations, as well as using new technology, RS2 clients are well positioned to increase their market share and meet their business objectives.

An established policy of continuous systems upgrades conforming to market changes, international card organization mandates, or

Market Research

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regulatory authorities, as well as by incorporating technological advances in BankWORKS® ensures that RS2's clients are well positioned to take full advantage of market opportunities.

Company Update:

- *Bonus Issue and Dividends*

As per FY 2018 final results, the Board declared a bonus issue of one ordinary share for every eight ordinary shares held by shareholders, thus increasing the Group's issued share capital to 192,968,569 ordinary shares. As at 30th June 2019, the Board did not declare the payment of an interim net dividend (2018: Nil).

- *Managed Services Business: US Operation*

In terms of the US Operation, RS2 continued to invest heavily in building up the team and infrastructure and delivering full product capabilities to the market. It is key to highlight that such operation has now come to fruition, whereby during H1 19 the Group managed to generate revenue for the first time from the US managed services business.

The Group is also in the process of securing a couple of significant deals in the US, which are planned to be concluded before the end of FY 2019.

- *Other segments to the Managed Services Business*

The Group was also able to open up new verticals and regions concerning the managed services business. In Europe Middle East Africa (EMEA) the Group won new mandates in the Nordics and continued to deliver on strategic projects with new non-bank financial services businesses in the travel and pharmacy industry. In Latin America (LATAM), the Group rolled out its services in Brazil and Columbia and has contracted to expand its services to Argentina in the second half of the year. Moreover, in Asia Pacific (APAC), the Group entered into a letter of intent for a joint venture with a money transfer business.

- *Licencing Business*

In line with the RS2's business model to focus on managed services, management confirmed that the Group will not be expanding the licencing division moving forward, and will retain its main clients in terms of the licencing business.

Upcoming projects:

- Management Services Business: New regions and countries

As part of RS2's focus to expand its management services business, the Group is in promising discussions with several clients to expand its services to Mexico, Chile and Peru. The Group also is planning to roll out its services in New Zealand and Malaysia before the end of 2019 adding new markets to its existing customer portfolio.

- *Acquiring Business and financial institution licence*

RS2 is also working on submitting the application for its financial institution licence to be regulated under the German financial regulatory body (BaFin), targeting to obtain the licence by Q1 2020. This step will bring the Group to the next level of its expansion, whereby RS2 will be in a position to acquire the business of merchants, manage their settlement and funding and charge a percentage of the monetary value of the transaction in comparison to the current business model of managed services where the Group is charging a fixed amount per transaction.

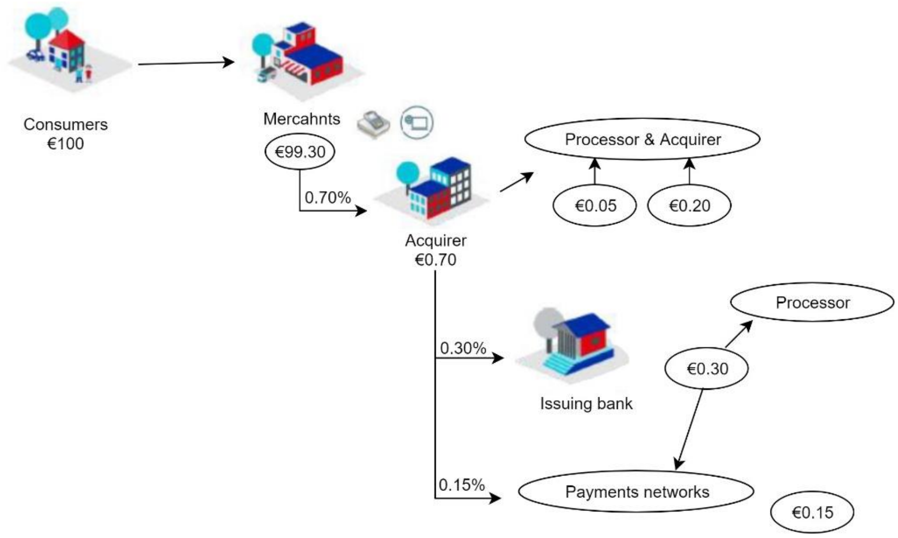
RS2 is already well positioned for such acquiring service offering with its single platform covering both issuing and acquiring, while simultaneously allowing multinational retailers to consolidate their business globally and providing them with the ability to access their information in real time online for cross-omnichannel payments.

Market Overview

The payment services market can be distinguished between online payments typically done via websites or apps, and payments done via point of sale equipment in-store, known as the Electronic Payment Terminal (EPT). Online payments are dominated by a small number of global payment companies and niche specialists, but is very fragmented outside the top four global players (Worldpay, Wirecard, Adyen and Ingenico collectively account for 19% of the global market and 64% of the European market).

RS2 is consistently working to expand its network of partners to deliver its global acquiring solution across the whole spectrum of the payment services market which includes partnerships with banks, Independent Sales Organisations (ISOs), Independent Software Vendors (ISVs), Payment Facilitators (PayFacs), terminal providers and payment gateways across the globe, with an initial focus on Europe and the US.

With the strong growth of online retail and mobile payments, a large number of companies have positioned themselves right along the transaction value chain. We estimate the number of payment services companies at around 50 (including a number of banks, Wirecard, Adyen, Worldline, Ingenico, First Data, Nexi, etc.). As with the EPT market, retailers tend to opt for a dual-sourcing strategy to avoid becoming overly captive and subject to service supply risks. The following is an illustration of how fees are shared among the different intermediaries in the case of a €100 credit card payment:



- Out of the €100, the merchant will retain €99.30.
- The merchant pays a fee of €0.70 to the acquirer. The merchant service fee is subsequently divided as follows:
  1. The PSP, which in this case acts as the acquirer and the processor, therefore receives two fees of €0.20 and €0.05 for a total of €0.25. This fee is fully retained by the PSP.
- The remaining €0.45 is split as follows:
  1. €0.30 for the card issuing bank (the acquirer pays the card issuer an interchange fee which is capped at 0.3% on credit cards). The bank could pay part of this to a processor if it decided to outsource the processing.
  2. €0.15 for the payment network

It is key to note that upon obtaining the financial institution licence and start offering the acquiring service, RS2 will be in a position to retain a large portion of the initial fee paid by the merchant per transaction, which in this example is the €0.70.

SWOT Analysis

Strengths

- ✓ Flexible and modular BankWORKS® platform enabling Omni-channel, multi-currency, multi-language and multi-institutional payments
- ✓ Unique managed services offering, allowing clients to consolidate their worldwide business through one platform
- ✓ The continuous improvement and development implemented on RS2's products, has allowed the Group to attract leading financial organizations, processors and merchants
- ✓ The migration of RS2's managed services from physical datacentres to cloud has removed the geographical barrier from RS2's offerings and enables them to scale the business effectively
- ✓ The appointment of an internationally renowned Board of Directors in the US has allowed the Group to strengthen RS2's presence in the US, attracting top banks, PSPs, ISOs and ISVs
- ✓ The US operation has now come to fruition, whereby for the first time, the Group managed to earn €1.9 million from the US managed services
- ✓ In the Managed Services business, the Group was also able to open up new verticals and regions, thus enhancing RS2's revenue and profitability potential moving forward
- ✓ In terms of both current and prospective clients, RS2 benefits from the strong acceleration in global e-commerce transaction volumes.

Weaknesses

- × Dependent on high quality and specialised staff, typically in the higher salary brackets
- × High degree of execution risk
- × No dividend distribution over the past two financial years due to substantial investment in infrastructure and business development
- × Small client base in comparison to international peers
- × A mixed track record in terms of achieved revenue and earnings growth
- × The Group's strategic decision to focus on managed services has resulted in a prolonged negative short term impact on profitability

Opportunities

- o The successful attainment of the financial licence will be a significant steppingstone in terms of RS2's view to build on its own direct acquiring business and as a result, this may substantially boost the Group's positioning within the payments software industry worldwide
- o Strong pipeline of promising discussions with a number of clients within several verticals and regions
- o The Group is also in the process of securing additional deals in the US in terms of the managed services business. Successful completion of such deals will translate to significant revenues over the coming years
- o Management anticipate that new clients will contribute to substantial volumes of transactions, and expected to exceed the 1 billion mark by 2021
- o Attractive take-over target

Threats

- ! Dynamic, technology oriented industry
- ! New entrants or consolidation between several large players
- ! Rival breakthrough technologies may negatively impact RS2's business model
- ! Economic recession in key geographies may hit consumer consumption
- ! Loss of a major prospective contract
- ! Regulatory changes or delays might have an impact on the payment process and affect the way in which payment services are currently offered to clients
- ! Additional shareholders' capital might be required to finance RS2's future expansion projects
- ! Possible dilution from a potential rights issue

Investment Stance

We are initiating our coverage on RS2 Software plc with a Buy recommendation and 12-month price target of €2.22.

Over recent years, RS2 has been in a pivotal transition stage, in the process of on-boarding large clients in terms of the managed services business and adding new markets to its existing customer portfolio, with a special focus on the US operation. As per discussions with management, during H1 2019 the Group has successfully managed to secure new contracts and opened up new verticals and regions within EMEA, LATAM and APAC concerning managed services, in combination with a strong pipeline of new potential large clients, within several new international territories.

In terms of the US operation, RS2 continued to invest heavily in building up the team and infrastructure capable of establishing and delivering full product capabilities to the market. The Group has started to gradually reap the benefits of this long-term strategy, whereby RS2's latest financial results demonstrate €1.9 million in revenue generated from the US managed services business for the first time. Management confirmed that the latter represents income generated from the implementation phase in terms of this specific client, thus highlighting the lucrative future revenue and profitability potential, once the issuance of transactions comes into play. The Group is also in the process of securing a couple of significant deals in the US, which are planned to be concluded before the end of FY 2019. Management suggested that the successful completion of such deals may translate into significant revenues over the coming years.

RS2 is also well positioned in the market to start a new business pillar namely through the acquiring of direct merchants. The financial institution licence, which the Group envisage to have in hand by Q1 2020, will enable the Group to tap into a larger portion of the revenues derived from the transaction processing cycle, charging a percentage of the monetary value of the transaction.

As per guidance provided by management, we expect this potential to be reflected in the Group's financial statements in the near future, starting namely from FY 2021. In line with the high level of execution risk circulating within such a dynamic and technology oriented industry, investors should adopt a long term investment horizon strategy of two to three years, until the Group's potential materialises and comes to fruition.

RS2 is currently trading at 90.9x earnings (FY 2018). Based on our 2020 projected earnings and current price, the forward P/E ratio stands at 48.2x. International peers are currently trading at the following P/E levels: Adyen: 92.6x and Wirecard: 33.1x. We are of the view that the Group's share price of €2.00 has the potential to trade at higher levels, once the Group's projects materialise further.

In line with our relatively conservative approach employed in terms of revenue generation from the US operation, we implemented an exit multiple of 22.5x on FY 2022 forecast FCFF within our valuation. Apart from the US managed services business, the exit multiple partially accounts for future profitability derived from contracts with prospective clients (Mexico, Chile, Peru, New Zealand and Malaysia) with whom RS2 is currently in promising discussions with, all of which were excluded from our valuation due to a lack of concreteness at present.

Upon taking the above factors into consideration we anticipate that the Group can continue building on its growth trajectory, leveraging further its unique business model. Based on this, combined with the continued development of RS2's products offering we believe RS2 is well positioned to achieve super normal growth by attracting leading financial organizations, processors and merchants, and as such we rate these shares a Buy.

The main downside risks are delays in implementation and over-ambitious guidance from management, which could significantly affect investor sentiment, should revenue growth not materialise in the forecasted periods.

Valuation

Our 1-year price target is €2.22. The price target is calculated using a Free Cash Flow to Firm Model ("FCFF") and a weighted average cost of capital (WACC) of 11%. In arriving at our terminal value, we applied an exit multiple of 22.5x on FY 2022 forecasted FCFF.

RS2 Financials - €'000s (unless otherwise stated)	FY 2017	FY 2018	LTM 2019[1]	FY 2019F[2]	FY 2020P	FY 2021P	FY 2022P
Revenue	17,380	25,008	20,635	27,217	41,700	57,049	69,638
Cost of sales (excl. amortisation)	(10,998)	(13,160)	(13,978)	(17,108)	(18,819)	(20,701)	(22,771)
Gross Profit	**6,382**	**11,848**	**6,656**	**10,109**	**22,881**	**36,348**	**46,868**
Other income	122	67	59	70	70	70	70
Marketing and promotional expenses	(695)	(1,013)	(1,479)	(1,925)	(2,503)	(2,878)	(3,310)
Administrative expenses (excl. depreciation)	(3,465)	(4,430)	(5,181)	(5,981)	(6,878)	(7,566)	(8,322)
Other expenses	(47)	(13)	(99)	(13)	(13)	(13)	(13)
Impairment on loss on trade receivables and contract assets	(305)	123	123	-	-	-	-
Capitalised development costs	910	1,268	1,018	900	600	300	-
EBITDA	**2,902**	**7,851**	**1,098**	**3,160**	**14,158**	**26,261**	**35,293**
Depreciation & Amortisation	(1,283)	(1,245)	(1,495)	(1,289)	(1,352)	(1,416)	(1,483)
EBIT	**1,620**	**6,606**	**(397)**	**1,870**	**12,806**	**24,845**	**33,810**
Finance Income	73	32	(3)	32	32	32	32
Finance Costs	(467)	(72)	(103)	-	-	-	-
Profit Before Tax	**1,226**	**6,565**	**(504)**	**1,902**	**12,838**	**24,877**	**33,841**
Income tax expense	(611)	(3,324)	(1,108)	(1,065)	(4,166)	(7,662)	(10,494)
Net Profit After Tax	**615**	**3,241**	**(1,612)**	**837**	**8,671**	**17,215**	**23,348**
Non-controlling interest	(178)	(1,006)	(1,067)	(806)	660	2,110	**2,728**
Net Profit available to Company Shareholders	793	4,247	(545)	1,644	8,011	15,104	**20,619**
Profit for the year	**615**	**3,241**	**(1,612)**	**837**	**8,671**	**17,215**	**23,348**
Earnings Per Share	*0.004*	*0.022*	*(0.003)*	*0.009*	*0.042*	*0.078*	*0.107*

Ratio Analysis:	FY 2017	FY 2018	LTM 2019	FY 2019F	FY 2020P	FY 2021P	FY 2022P
Revenue Growth (YoY)	1.2%	43.9%	-17.5%	8.8%	53.2%	36.8%	22.1%
EBITDA Margin	16.7%	31.4%	5.3%	11.6%	34.0%	46.0%	50.7%
Net Margin	3.5%	13.0%	-7.8%	3.1%	20.8%	30.2%	33.5%

Source: Audited Financial Statements and CC estimates

[1] LTM 2019 is calculated by adding the interim results (H1) of 2019 with the audited results of financial year 2018, less H1 2018.

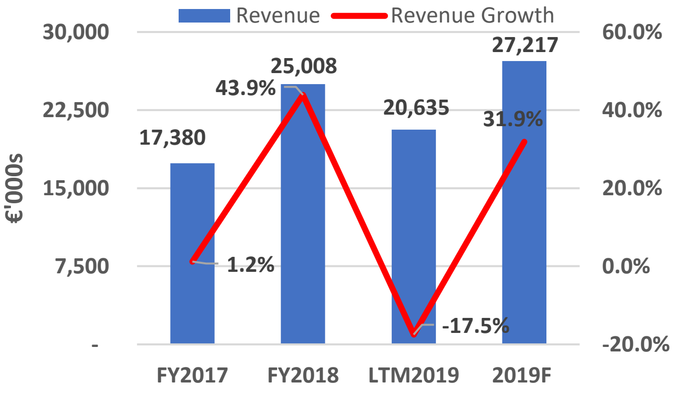
[2] Our forecasted figures do not take into account the implications brought about by IFRS 16, where most leases have been capitalised as from 1st January 2019.

Investment Thesis Variables

- **Revenue**

Licensing

The 'licensing' segment is currently the largest contributor towards the Group's revenue (H1 2019: 63.5%), consisting of licencing of the Group's BankWORKS® software to banks and service providers, including maintenance and enhanced services thereto.



Source: Audited Financial Statements and CC Estimates

As per 2019 LTM results, revenue derived under this segment decreased by 31.9% to €14.5 million, when compared to FY 2018. This decline has been initiated in line with the adoption of IFRS 15, requiring the Group to recognise €5.6 million in revenue which was already recognised in revenues prior to FY 2018 in terms of IAS 18, to be recognised in revenues again in FY 2018 as a result of the adoption of IFRS 15.

We anticipate revenue under this segment to amount to €15.7 million during FY 2019. Thereafter, we are not expecting any growth under this division, in line with management's view to focus on managed services and retain its two main clients in terms of the licencing business.

Managed Services: Processing

This line of revenue, which is RS2's principal focus moving forward, is associated with the processing of payment transactions utilising the BankWORKS® software. Overall, revenue derived under this segment as per 2019 LTM results, increased by 64.7% to €6.1 million. Such increase is attributable to an overall improvement generated from all geographical markets in which RS2 operates in, especially from the US operation, whereby for the first time, the Group managed to earn €1.9 million from the US managed services business.

Moreover, management confirmed that the Group was able to open up new verticals and regions in terms of the managed services business, mainly within EMEA, LATAM and APAC, as further discussed in the previous sections. RS2 is also in the process of securing a couple of significant deals in terms of the US operation which are planned to be concluded before the end of FY 2019.

As per guidance provided by management, we expect revenue under this division to amount to €11.5 million in FY 2019 and further improve to €49.8 million in FY 2022, in line with the deals which have been secured during H1 2019 and the further fruition in terms of the US operation.

Acquiring

Upon obtaining the financial institution licence, which management envisages to be in hand by Q1 2020, RS2 will be in a position to offer acquiring services to clients. Through acquiring, RS2 will be in a position to acquire the business of merchants, manage their settlement and funding and charge a percentage of the monetary value of the transaction instead of charging a fixed amount per transaction.

We expect revenue under this new line of business to amount to €3.8 million during FY 2020 and increase by 5% per annum thereafter.

Revenue	FY 2017	FY 2018	FY 2019P	FY 2020P	FY 2021P	FY 2022P
Licensing	14,634,415	21,277,457	15,677,457	15,677,457	15,677,457	15,677,457
Processing	2,745,611	3,730,938	11,539,399	22,271,278	37,432,548	49,825,211
Acquiring	-	-	-	3,751,259	3,938,822	4,135,763
Total Revenue	**17,380,026**	**25,008,395**	**27,216,856**	**41,699,994**	**57,048,827**	**69,638,431**
% Growth: Licensing	-4.1%	45.4%	8.2%	-26.3%	0.0%	0.0%
% Growth: Processing	44.2%	35.9%	209.3%	93.0%	68.1%	33.1%
% Growth: Acquiring	0.0%	0.0%	0.0%	15.0%	5.0%	5.0%
% Total Growth	**1.2%**	**43.9%**	**8.8%**	**53.2%**	**36.8%**	**22.1%**

Source: Audited Financial Statements and CC Estimates

- **Operating Expenses** – These mainly consist of cost of sales, marketing and promotional expenses and administrative expenses. During H1 2019, RS2 continued to invest in human resources and infrastructure as part of the Group's growth expansion strategy within EMEA, APAC and the US. Consequently, cost of sales were 14% higher when compared to FY 2018. We expect cost of goods sold to increase from €13.1 million in FY 2018 to €17.1 million in FY 2019, primarily reflecting the additional investment implemented in terms of the managed services business.

  In line with the current and foreseeable growth of the Group's operations, marketing & promotional expenses and administrative expenses incurred during H1 2019, also spiked by 95% and 48% respectively when compared to the previous corresponding period. This surge in expenses is principally driven by the growth in the US region.

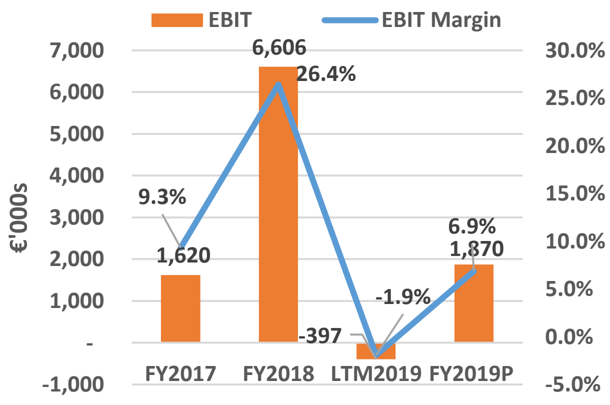
  Marketing expenses increases are reflective of the ongoing efforts in marketing activities where the Group is focusing particularly to widen the base of its US and European clients, whilst administrative expenses also increased in line with the Group's drive to bolster its support of the planned international growth.

  In view of the above, we expect marketing and promotional expenses together with administrative expenses to amount to €1.9 million and €6 million respectively during FY 2019. It is pertinent to note that we have excluded the implications of IFRS 16 given the limited information presented in the interim financial statements.

- **Depreciation and amortisation –** Annual depreciation charge is incurred on the Group's land and buildings, on leasehold improvements, on equipment furniture and fittings and on motor vehicles. Contrarily, annual amortisation charge is incurred on internally generated computer software. As per 2019 LTM results, depreciation and amortisation increased to €1.5 million from €1.2 million in FY 2018. This increase is mainly attributable to the capitalisation of leases (IFRS 16) as discussed in the operating expenses context. Given that our valuation excludes the implications of IFRS 16, we expect the depreciation and amortisation in FY 2019 to amount to €1.3 million.

- **EBIT** – EBIT as per 2019 LTM results tapered down to negative €0.4 million from €6.6 million in FY 2018 in line with the increase in operating expenses incurred by the Group to fund international growth together with the decline in revenue due to the adoption of IFRS15. This eventually led to a decline in EBIT margin from 26.4% in FY 2018 to negative 1.9% as per 2019 LTM results.

  In line with higher levels of revenue expected to be generated by the Group, we expect EBIT margin to improve to 6.9% in FY 2019. In accordance with our view that



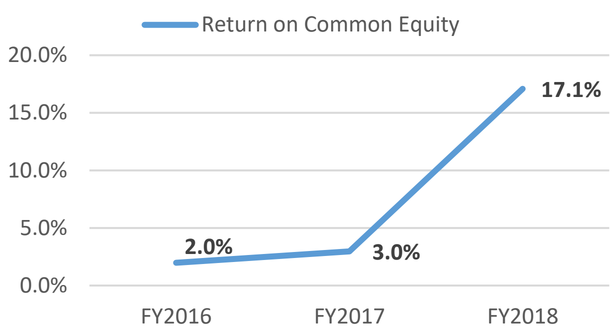
Source: Audited Financial Statements and CC Estimates the Group will successfully pursue international growth, we anticipate EBIT margin to increase to 48.6% in FY 2022.

- **Capitalised Development Costs** – The Group's capitalised development costs are associated with the development of computer software. We expect the latter to amount to €0.9 million during FY 2019 and decline on a yearly basis, in line with the anticipated completion of such computer software.

- **Finance costs –** The Group's finance costs are mainly composed of bank interest expense payable on outstanding debt. Given RS2's track record of repaying large portions of their debt on a yearly basis, we expect the Group to utilise its cash reserves to fully repay the remaining bank borrowings as at H1 2019 (€0.4 million). In this regard, we are not expecting the Group to incur finance costs moving forward, expect for finance costs that will be incurred on capitalised leases, in accordance with IFRS 16, which we have excluded from our valuation.

- **Taxation –** The Group is subject to multiple corporate tax rates on its profit before tax given that RS2 operates in multiple jurisdictions. Our corporate tax rate assumption was based on corporate tax rates incurred in Malta (35%) and the US (21%).

- **Net Profit and Earnings per Share –** Net profit decreased from €3.2 million in FY 2018 to negative €1.6 million as per 2019 LTM results. This translates to an EPS of €0.022 and negative €0.03 respectively. In line with the increase in revenue anticipated to be generated by the Group moving forward following the expected successful fruition of the managed services business, we expect net profit to improve from €0.8 million or €0.009 per share in FY 2019 to €23.3 million or €0.107 per share in FY 2022.



Source: Audited Financial Statements

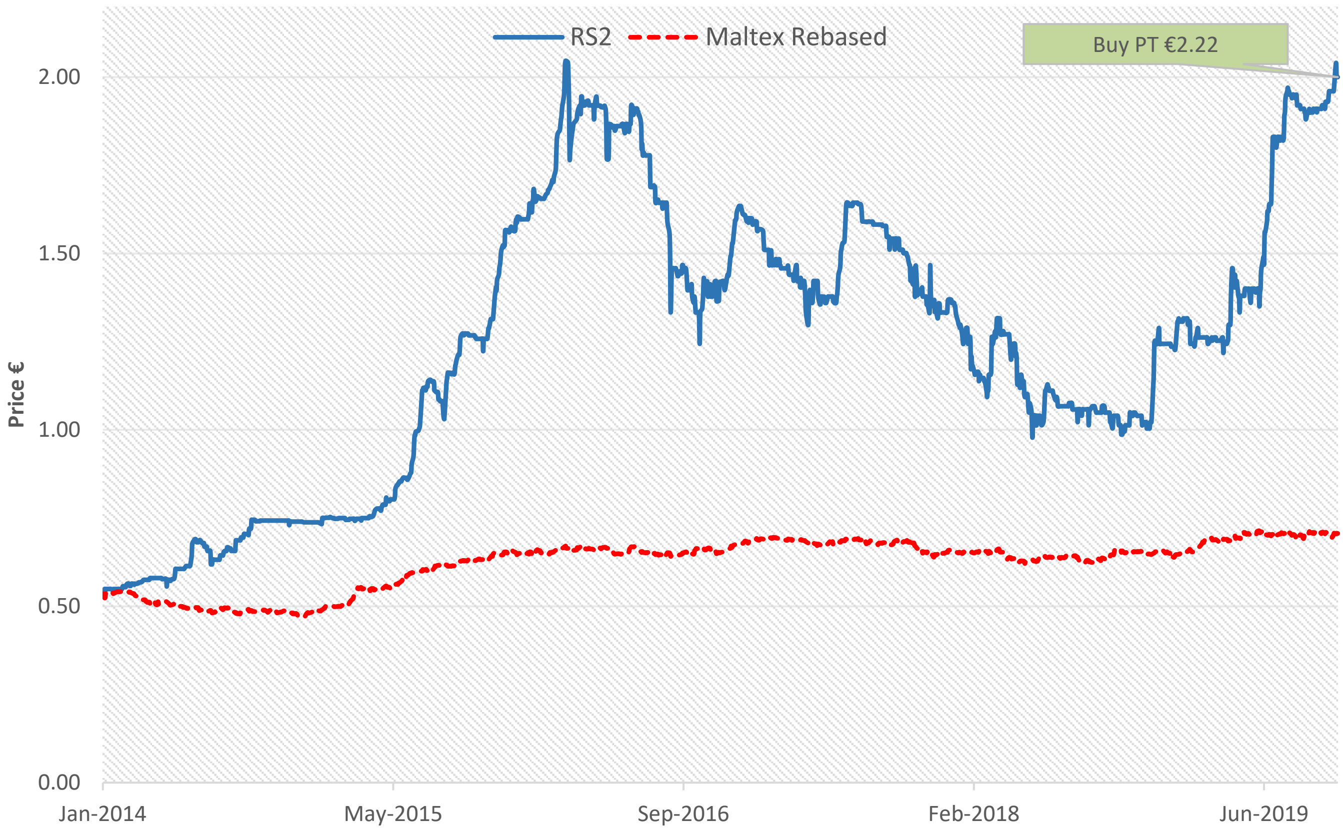
Key Financial Indicators

RS2 Software plc - € (unless otherwise stated)	Dec-17	Dec-18	LTM 2019
Income Statement			
Revenue	17,380,026	25,008,395	20,634,539
Growth in Revenue (YoY)	1.2%	43.9%	-17.5%
EBITDA	2,902,175	7,850,739	1,098,099
EBITDA Margin (EBITDA / Revenue)	16.7%	31.4%	5.3%
Operating Income (EBIT)	1,619,510	6,605,584	(397,046)
Operating (EBIT) Margin (EBIT / Revenue)	9.3%	26.4%	-1.9%
Net Income	614,796	3,241,300	(1,611,917)
Net Margin (Net Income / Revenue)	3.5%	13.0%	-7.8%
Earnings per Share (EPS)	0.005	0.025	n/a
Growth in EPS (YoY)	26.9%	435.6%	n/a
Balance Sheet			
Cash and Cash Equivalents	7,789,159	3,402,972	2,003,678
Current Assets	13,669,515	10,163,423	12,030,572
Non-Current Assets	15,968,350	17,853,796	21,393,673
Total Assets	29,637,865	28,017,219	33,424,245
Current Liabilities	5,137,771	7,134,106	9,392,677
Non-Current Liabilities	3,779,680	3,650,928	6,992,580
Total Liabilities	8,917,451	10,785,034	16,385,257
Total Financial Debt	1,857,385	834,017	411,528
Total Equity	20,720,414	17,232,185	17,038,988
Net Debt	-	-	-
Shares Outstanding	192,968,569	192,968,569	192,968,569
Cash flow			
Cash Flow from Operating Activities (CFO)	4,563,404	28,593	67,073
Capex	(437,084)	(877,204)	(998,104)
Free Cash Flow (FCF)	4,126,320	(848,611)	(931,031)
Cash Flow from Investing Activities	(430,184)	(877,204)	(998,104)
Cash Flow from Financing Activities	(2,575,647)	(3,524,574)	(1,083,673)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	3.0%	17.1%	-9.4%
Return on Assets (Net Income / Total Assets)	2.1%	11.6%	-4.8%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	-	-	-
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	30.1%	38.5%	49.0%
Net Debt / EBITDA	-	-	-
Current Ratio (Current Assets / Current Liabilities)	2.7x	1.4x	1.3x
Interest Coverage Ratio (EBITDA)	28.2x	118.6x	12.6x
Cash from Operations / EBIT	2.8x	0.0x	n/a

Source: Audited Financial Statements and CC Estimates

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
RS2	04.11.2019	€2.00	€2.22	Simon Psaila & Andrew Fenech	Buy



Source: Bloomberg

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at the statement of financial position date.
Dividends Ratios	
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at the statement of financial position date.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Shares Outstanding	Outstanding shares refer to the Group/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio Gearing Ratio Level 1 Gearing Ratio Level 2	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Total Equity. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to repay its debt through EBITDA generation.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

Disclaimer