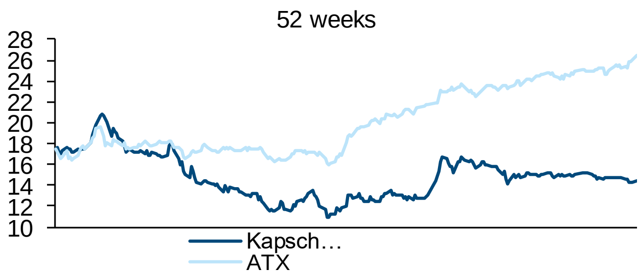
Kapsch TrafficCom

from Under review to Hold

EUR mn	2020	2021p	2022e	2023e
Net sales	731.2	501.0	550.9	626.0
EBITDA	13.6	-75.6	37.5	58.5
EBIT	-39.2	-124.0	15.0	35.1
Net result after min.	-48.1	-102.8	7.1	22.6
EPS (EUR)	-3.70	-7.91	0.54	1.74
CEPS (EUR)	-0.39	-5.20	1.94	3.96
BVPS (EUR)	14.47	6.56	7.11	8.84
Div./share (EUR)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	30.8	-5.2	10.4	6.4
P/E (x)	nm	nm	26.6	8.3
P/CE (x)	-43.8	-2.9	7.5	3.7
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in EUR	-19.4%	11.2%	-8.5%	-5.1%

Share price (EUR) close as of 10/05/2021	14.5
Number of shares (mn)	13.0
Market capitalization (EUR mn)	188.0
Enterprise value (EUR mn)	388.9

Reuters	KTCG.VI	Free float	29.6%
Bloomberg	KTCG AV	Shareholders	Kapsch-Group (63.3%)
Div. Ex-date			Shareholder Value Mgmt AG (7.1%)
Target price	**15.0**	Homepage:	www.kapsch.net

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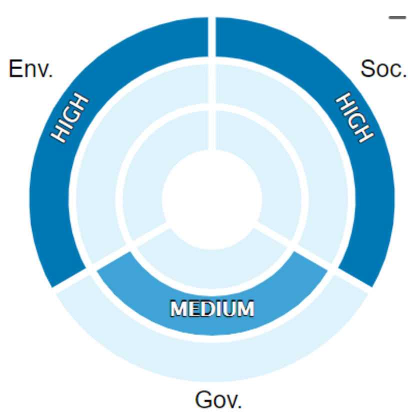
KTC ESG score



Source: Erste Group Research

Worst is over, but best still far away

With a concluded restructuring process, we see KTC entering a phase of stabilization that is expected to take a few quarters. Hence, we issue a **Hold recommendation** at a **target price of EUR 15.0**.

KTC has already published prelim figures for FY20/21, showing a huge loss due to restructuring measures, but at least a positive adj. EBIT margin.

In FY21/22e, KTC's business is expected to stabilize, management should regain control over the US business and the positive environment, backed by a global push towards decarbonization, should start filling the order book, enabling growth and rising profitability from FY22/23ff.

KTC's balance sheet is stretched, the **equity ratio at a mere 14%** as of YE20/21e. The dividend policy is not likely to be resumed ahead of FY23/24, unless a favorable compensation payment from the cancelled German ETC system helps bolster KTC's balance sheets earlier on.

KTC introduced a new strategy that aims to transform the company from a hardware to a software/services business. The new mid-term target is set **above EUR 1bn in revenue at a double-digit EBIT margin by FY26/27**. So far, we have remained well below this target in our model, as we would like to see the first positive signs that this strategy is being executed well.

We have incorporated our ESG assessment and find KTC scoring well in Environmental and Social topics and above average in Governance.

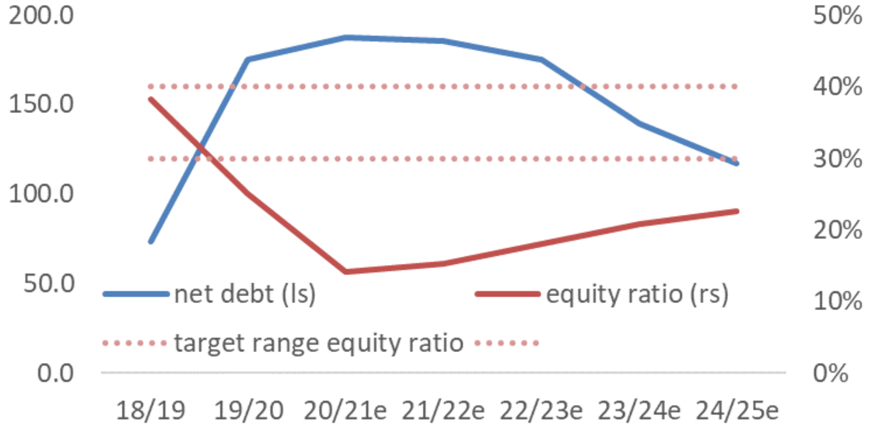
Waiting for successful turnaround

Preliminary FY20/21 figures hint at revenue of about EUR 500mn and EBIT of minus EUR 124mn. Both figures are in line with the company's guidance published with the 3Q20/21 figures. FY negative adjustments amount to EUR 139mn, which implies adjustments for 4Q20/21 of EUR 54mn - both leading to a positive adjusted EBIT, which is positive. Given the restructuring volume, we think that there cannot be too much left to be cleaned going forward. Consequently, we believe that the communicated equity ratio of 14% as of YE20/21 should mark a bottom. While KTC has not yet disclosed the net debt for YE20/21, it states a cash level of EUR 100mn. Now that restructuring efforts are more or less concluded, KTC needs to prove it can return to a sustainable, profitable growth path.

The balance sheet is stretched and it might take a few years for KTC to return to its historical strength. While net debt should have continued to improve at FY-end at least q/q (if not also y/y), driven by a reduction in working capital, the equity ratio at 14% (3Q20/21: 19%) is at its lowest level ever. Gearing is set to double y/y to more than 200%, based on our calculations. It might take a few years to prop up balance sheet ratios unless either
1) business expansion happens faster than we anticipate or
2) a sound reimbursement from the cancelled German ETC tender fills KTC's pockets. A net cash inflow triple-digit EURmn (current MCAP EUR ~190mn) amount could be in the cards in case the cancellation of the German ETC tender is found to have been unjustified.
Alternatively, a capital measure to bolster equity (SPO, hybrid) would not really come as a surprise, in our view.

As a consequence of the shaky balance sheet, KTC might not be in a good position to resume dividend payments anytime soon, especially as long as the dividend policy of paying out the higher of EUR 1 or 33% of EPS remains in place. A dividend has already been waived for the current year; even for FY21/22e, a dividend payment should be ruled out, due to a likely negative FCF and a rather unchanged financial position. In FY22/23e, it will depend on the magnitude of the business expansion and its impact on FCF (negative WC development on growing business) whether a dividend payout based on the current policy can be anticipated. Again, a reimbursement from Germany would help stabilize the financial position and enable an earlier dividend (special) payout.

Equity ratio vs. net debt (excl. soc. cap) development

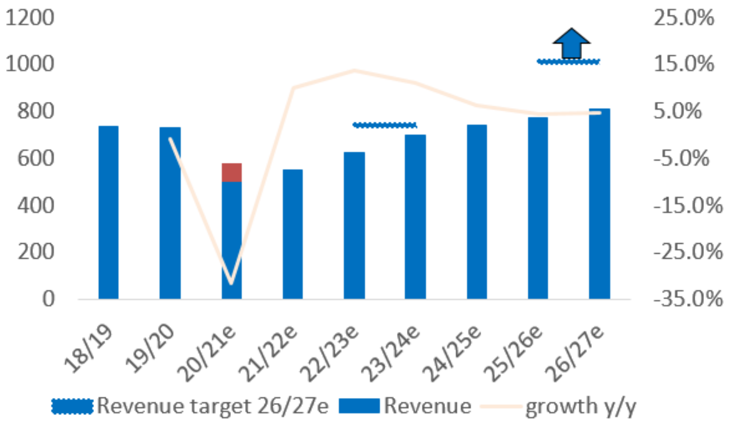


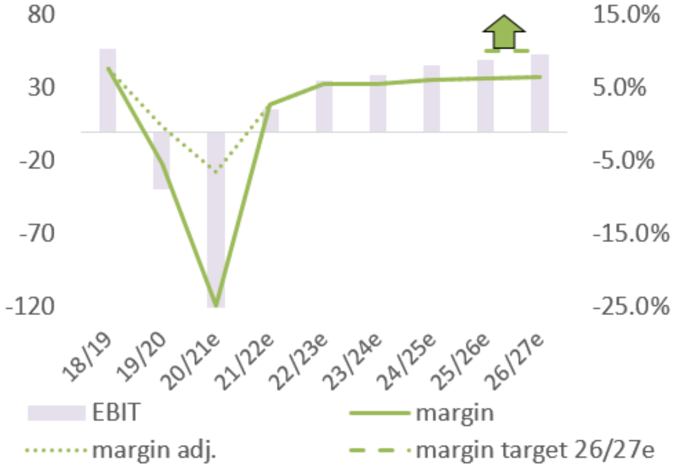
Source: Company data; Erste Group Research

New 2027 Strategy

In our new estimates, we have refrained from penciling in KTC's new mid-term target of revenues reaching at least EUR 1bn and an EBIT margin in the double-digit range by FY26/27, given the lack of visibility. This does not mean that the new strategy and total addressable market would not allow for the firm to even beat the communicated targets (at least on the revenue level).

18/19-26/27e: revenue, EBIT margin estimates vs. mid-term guidance

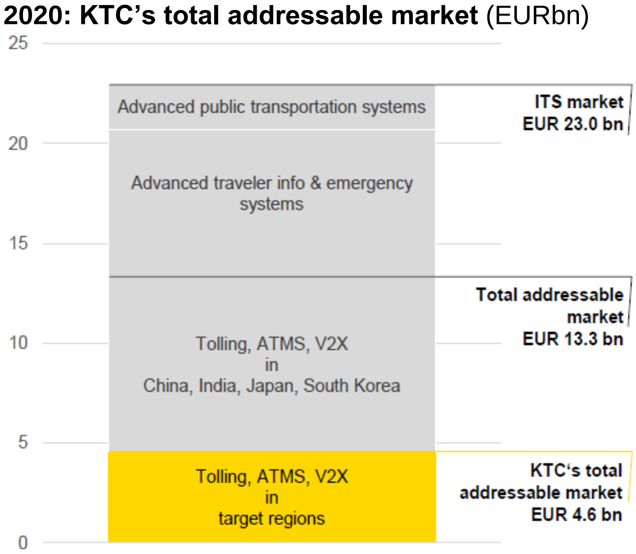




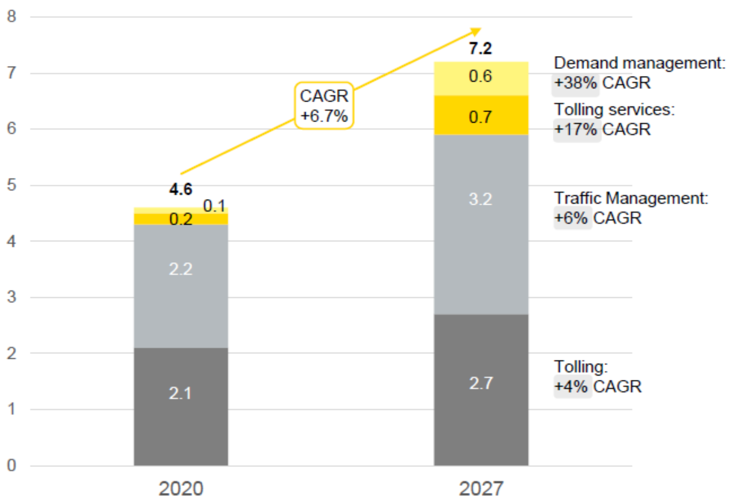
Source: Company; Erste Group Research

Based on KTC'S current total addressable market (TAM) of EUR 4.6bn in 2020, KTC holds a market share of about 12%. Based on our estimates, the market share in FY27/28 (i.e. March 2028) would remain stable at around 12%. This compares to some 20% market share that is targeted by the company. In case this is reached, KTC would generate revenues of around EUR 1.4bn by FY27/28, about 70% more than we have projected.

2020: KTC's total addressable market (EURbn)



2020 vs. 2027: KTC's TAM growth (EURbn; %)



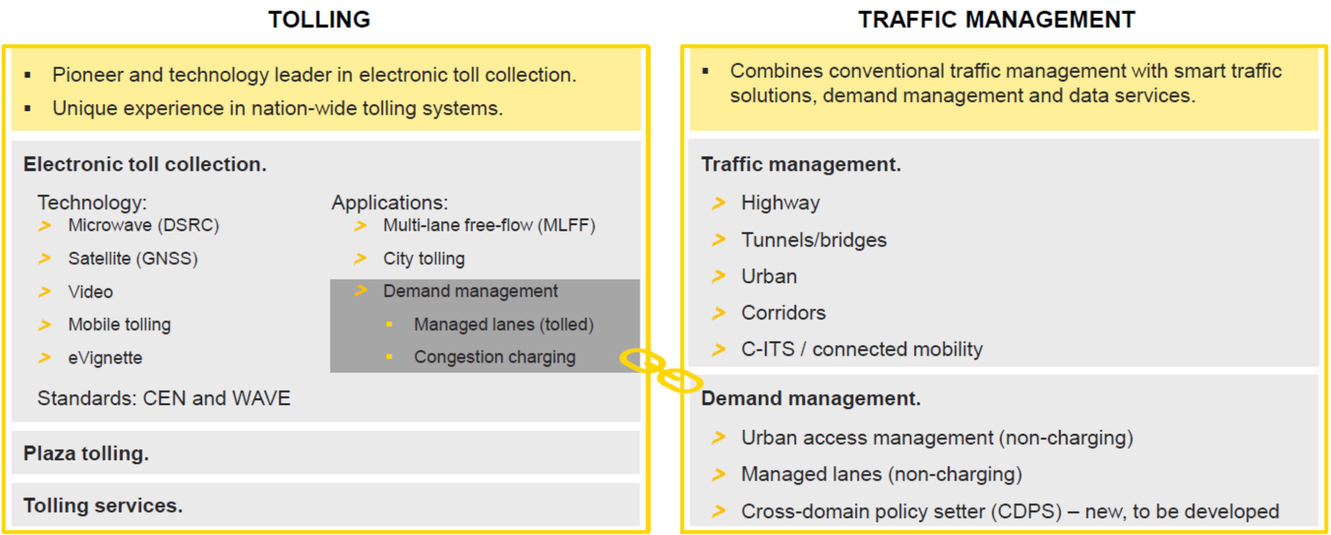
Source: Company

Major changes introduced with new strategy 2027

- **Regional focus**: NA, EMEA, LatAm, Oceania to remain core regions. No more Africa adventures once the South African ETC system

contract expires (Dec 2021e). North Africa remains to a major extent a component business (e.g. OBU sales), size-wise rather irrelevant.
    - Opportunistically, other regions might be addressed in case risk/reward is favorable and projects are profitable
- **Business areas**:
    - **Tolling** remains the dominant business area going forward
    - **Tolling services** with a main focus on B2B (white label solutions), potentially also B2C, especially in North America – but no full B2C roll-out, due to high acquisition costs (USD 12-60) per user. Tolling services revenue of EUR 100mn is targeted by 2027 (target market share of 15%)
    - **Traffic management** with no major changes
    - **Demand management** as a market is just about to evolve. In order to manage traffic and congestion, it should become a viable way to incentivize drivers to use off-peak times for commuting
- **Rebranding of divisional reporting.** The former ETC (Electronic Toll Collection) and IMS (Intelligent Mobility Solutions) segment will now be rebranded as the **Tolling** segment and **Traffic Management**.

Rebranding of divisions



Source: Company

Strategic & financial goals at a glance

- Revenue to exceed EUR 1bn by FY26/27 at the latest, based on organic growth and technological bolt-on acquisitions that allow KTC to grow above-market.
- Revenue in EMENA to return to FY18/19 levels in FY23/24 → *this indicates total KTC revenue returning to around EUR 730mn, if not higher. Our revenue estimate for FY23/24 is now at EUR 696mn.*
- Americas & Oceania to double until 2027.
- Sub-Saharan Africa without relevant contribution in medium term. *Actually, we do not expect any meaningful contribution already from beyond FY21/22, provided that the South African ETC contract in Gauteng expires by 3Q21/22 as currently scheduled (EUR ~45mn revenue p.a.).*
- KTC's business has already and will further move to an increasing revenue share of software (platforms) and services (80%) at the expense of hardware (20%), justifying increasing profitability going forward. Tolling to remain the dominant contributor.
- **Mid-term EBIT margin**: well above 10% EBIT margin.
- **Equity ratio** of above 30%.
- **ESG**: CO_2 neutrality as a company. There are positive effects on top from Tolling & Traffic Management for reducing congestion and, hence, emissions. Difficulty: getting hold of emissions in the supply chain.

Market drivers

Infrastructure demand and alternative funding mechanism

Electrification is having an impact on tax income in countries along with penetration rates of EVs and threatens fiscal budgets in all countries going forward. In the UK, a fiscal black hole from the transition to EVs of GBP 40bn p.a. from fuel duty and vehicle excise duty is suspected. This translates into about 70% of tax income from motor vehicles. The impact on various countries varies. Some countries, like Norway, Sweden and Singapore, have already introduced duties on a pay-per-use basis for EVs in order to mitigate the impact of the growing EV penetration on national budgets. Going forward, it is widely expected that road user charging (i.e. tolling) will increase in dynamics, a trend that KTC has reflected in the TAM development depicted above.

Electrification: Fiscal income from motor vehicles in major European markets

	AT	BE	DE	DK	ES	FI	FR	GR	IE	IT	NL	PT	SE	UK
Purchase or transfer (€ billion)	2017	2018	2018	2018	2018	2018	2018	2019	2019	2018	2019	2019	2019	2018/19
1. VAT on vehicle sales, servicing, repair & parts	3.1	7.4	31.3	–	5.0	1.7	18.5	0.3	0.7	18.6	1.2	4.5	2.3	14.1
2. Sales & registration taxes	0.5	0.5	–	2.8	0.5	1.0	2.3	0.3	1.0	1.8	2.2	0.7	–	–
3. Annual ownership taxes	2.4	1.7	9.0	1.3	2.9	1.2	0.9	1.2	0.9	6.8	4.3	0.7	1.3	7.3
4. Fuels & lubricants	5.4	8.8	41.7	2.3	20.8	3.9	42.8	5.6	3.5	37.8	10.4	3.5	4.1	31.5
5. Others	2.8	2.4	11.3	0.3	0.7	0.4	19.4	0.1	0.1	11.4	3.4	0.2	0.5	1.7
TOTAL (€ billion)	14.3	20.7	93.4	6.7	30.0	8.1	83.9	7.4	6.2	76.3	21.5	9.6	8.1	54.1

GRAND TOTAL = €440.4 BILLION PER YEAR

Source: Fleeteurope, ACEA

Connected mobility (V2X)
Connected mobility is the IoT related development in the transportation vertical. Vehicle to X (V2X = Vehicle to everything) combines use cases that improve safety, efficiency and pollution levels by connecting vehicles to infrastructure and other road users (not only cars). KTC has already implemented several reference projects, e.g. several cooperative intelligent transportation solution (C-ITS, e.g. C-Roads) projects in the EU, V2X trials in the US and Australia. On one hand, V2X allows for the collection of a wide range of anonymous data as a basis for further data analysis to further optimize traffic flows; on the other hand, it provides traffic-relevant information to road users.

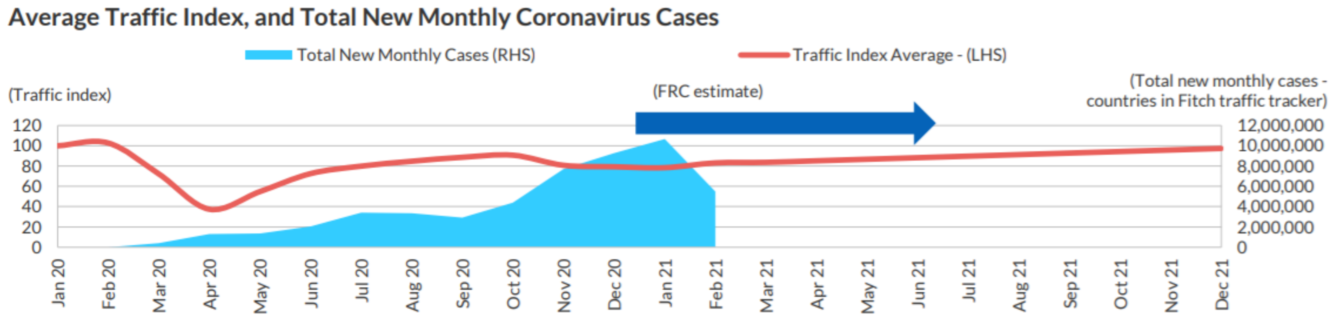
Data & AI
Data collected from various sources (e.g. vehicle, smart phone, navigation data) serves as a basis for data analysis for optimizing traffic management. KTC offers real time traffic management solutions that allow it to monitor traffic flows, direct traffic flows with the help of flexible rates when using preferred lanes (i.e. demand management), traffic signal monitoring, vehicle speed monitoring, and automated bus lane monitoring.

Urbanization
The increasing homeworking trend has prompted many people to move to the outskirts or even fully away from large cities where they work. However, the urbanization trend is still expected to increase the urban population further in the years to come. This development will pose a challenge to urban traffic systems, calling for urban traffic management solutions helping to get hold of otherwise strongly increasing traffic volumes. KTC is currently implementing the first real time urban traffic management solution in Malaga, Spain, enabling dynamic signaling. Drivers are updated in real time for the fastest route by incorporating the timing of traffic signals.

Ecological footprint
All of the above-mentioned traffic trends are supportive of global environmental targets, such as the Green deals in the EU and US and the fight against global warming under the Paris agreement. KTC is subscribing to sustainable mobility, as all of its products and solutions will help reduce more emissions than they produce over their PLC (positive ecological balance). Further environmental topics can be found in the ESG section further below.

KTC targets increasing share of software and services
The technology shift from hardware to software platforms is strongly related to the use of smart devices (e.g. smartphones). This trend has started already and is expected to increase in dynamics in the coming years (3-4Y). Data gathered from transport is getting increasingly important and KTC will work on setting up new data platforms.

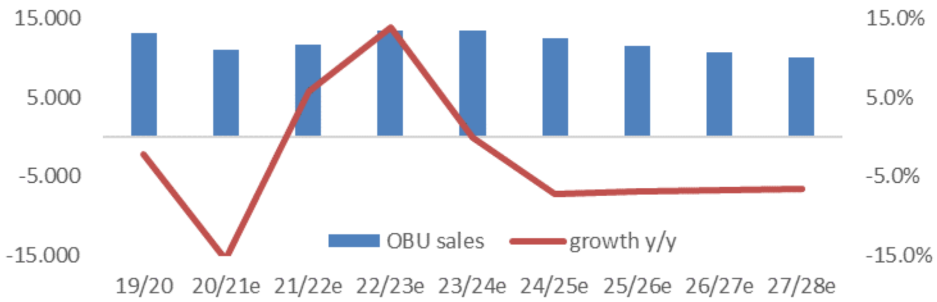
Global Traffic Index to recover to pre-COVID levels by Dec 2021



Source: Fitch Global Toll Road Traffic Tracker 1Q21

This also means that the profitable OBU (On-Board-Unit) business is gradually being replaced by smart tolling solutions. In our model, we have reflected this trend with declining OBU demand from FY23/24e, after traffic volumes (see above) and thus OBU demand (see below) have recovered post COVID-19.

FY19/20 – FY27/28e: On-Board-Unit unit sales (rs; mn) **and growth** (ls; %)

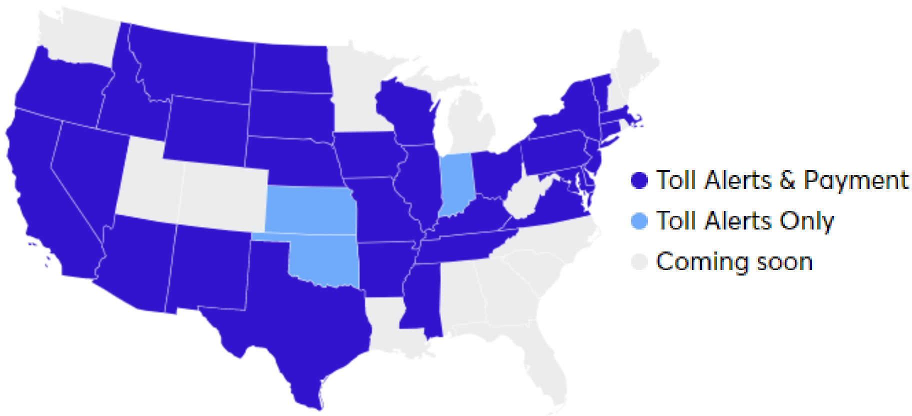


Source: Company; Erste Group Research

In early 2020, Kapsch introduced its mobile tolling app, Uproad!, to the California market. The tolling service is mainly for retail customers for the time being and handles toll payments automatically as you drive. In the Premium version, users are charged either USD 1.99 per month or USD 19.99 per year plus a transaction fee of 4% per toll charged. There is also a Basic version for infrequent users charging a transaction fee of 15% per toll charged. Since it has been introduced, Uproad! has gone live across the US and just recently added 10 more states. Uproad! now services thousands of users in those states.

Obviously, coverage has already improved a lot, although the important Southeast (Florida, etc.) still needs to be added. So far, we have neglected Uproad! in our financial model, as the generated business volume still seems rather small and there is no information as to what extent KTC has already gained other operators or automotive OEMs to whom they sell Uproad! as a white label solution.

Uproad! tolling services in US



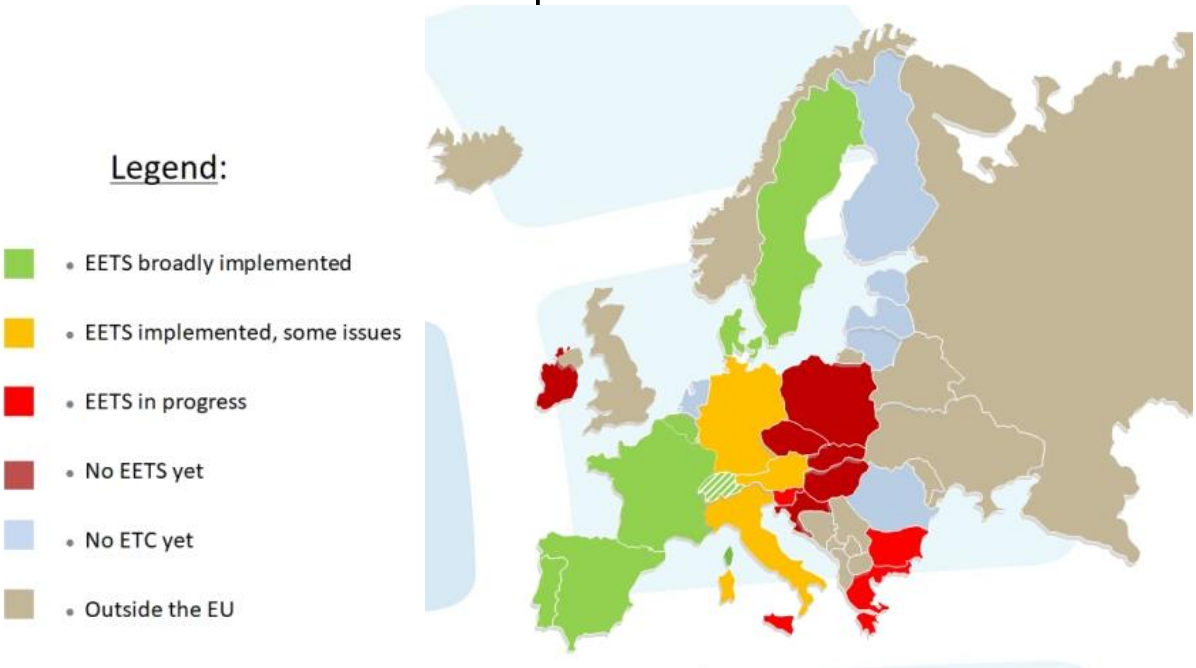
Source: Uproad.com

Based on our findings, there are more than 50mn (IBTTA 2016) transponders in the US and more than 16bn toll transactions (IBTTA 2014), and as the toll road network is constantly increasing, the respective numbers will as well. Taking the number of transponders as the market potential for mobile tolling and reflecting on the 16bn transactions and total toll revenues of USD 13bn (IBTTA 2013), a 10% direct market share with mobile tolling applications could translate into revenue of some USD 150mn at a sound double-digit EBIT margin. We are aware these figures are just rough estimations.

In Europe, in contrast to the US, KTCs ETC tolling solutions are mainly used for trucks, while intelligent traffic management solutions are used for all vehicles. So far, KTC does not (yet?) offer a mobile tolling app for personal cars. Under the European interoperability trend, KTC acts as a tolling operator under the EETS regime (European Electronic Tolling Service) for trucks. As an EETS operator, KTC offers truck fleet operators / logistic companies billing of toll transactions all over the EU from various toll operators from a single source. Similarly to Uproad! in the US, KTC offers its services to EETS customers directly and as a white label solution. So far, OMV and Ford are known to be using KTC's EETS solution in combination with its fuel card/Ford app. Going forward, we would expect further EETS clients to be announced, especially once KTC is finally approved as an EETS provider in Germany. Germany is one of the most important EETS countries and being EETS certified massively increases the negotiating position for signing new white label clients.

Overall, we have read about 16 EETS-registered providers in the EU so far. The implementation of EETS is still in progress in many countries in the EU. EETS-registered operators have already started to provide tolling services in countries in which EETS is already implemented, as does KTC. For now, we expect EETS operations to slowly grow their revenue and EBIT contributions, reaching a positive (low single-digit EURmn) EBIT for the first time in FY23/24e at revenue of about EUR 17mn.

EETS implementation status in EU member states



Source: AETIS (Association of Electronic Toll and Interoperable Service)

Project pipeline – what is known
Usually, there is not too much information on tolling and traffic management tenders. Still, there are some major projects that are expected to be tendered / awarded in the coming quarters:

- Polish GNSS (satellite) -based ETC system. KTC has been awarded the direct distribution service for the satellite-based (GNSS) ETC system (EUR 30mn), once implemented. We believe KTC is in a good position to be awarded further contracts (e.g. technical operations, enforcement) related to the ETC system. Expected system start: 2022.

- Greece ETC system. Greece has started transforming its section-based tolling system for all cars to distance-based ETC systems. KTC has implemented the first section Athens-Patras on the A8 in December 2020. Further toll systems in Greece, but also in countries like Italy and Spain, are likely to follow this example.

- KTC signed a framework agreement as the tolling technology supplier with APRR. KTC is to supply the first multi-lane free-flow (MLFF) toll collection system in France for highway concessionaire APRR. APRR, highway concessionaire of the Eiffage Group, is the second largest French concessionaire, operating around 2,300 kilometers of highway.

Employing 3,500 people, APRR manages a yearly turnover of around EUR 2.4bn. Recently, the ALIAE consortium (Eiffage's group concession) was awarded the A79 highway (formerly RCEA - Route Centre Europe Atlantique). In this context, APRR will deploy and operate a MLFF tolling system supplied by Kapsch TrafficCom. The new highway will open to traffic in 2022. Further projects are likely to follow.

- Slovenian ETC system. Skytoll has been selected best bidder for implementing an electronic vignette system for personal cars on Slovenian highways in late January. While its bid was said to be the only meeting the demanded criteria, the other bidders in the excluded consortia have filed complaints, as Skytoll is said to lack the required references demanded in the tender. Skytoll bid EUR 15.7mn, the other Slovenian-led consortia offered EUR 14mn and EUR 33mn. KTC is part of the latter.

- According to Ptolemus, ETC solutions (e-vignettes and/or truck tolling) are expected to be newly implemented in the following countries: Ukraine, Romania, the Netherlands (2024e), Germany, Greece, Georgia, Kazakhstan, Ethiopia (2022), Kenya (2022). This seems to refer to new ETC systems, not ETC systems replacing already implemented ones (e.g.: Poland’s replacement of DSRC=microwave tolling with GPS tolling system). As KTC aims to reduce business exposure to Africa, the potentials in Kenya and Ethiopia should have a rather informative character.

- Europe targets the introduction of an EU-wide ‘use pays’ principle for road use by 2025. As this target has so far been postponed several times, we are not too optimistic that all countries will have (electronic) road user charging systems implemented. On the other hand, the green deal could provide the necessary monetary incentive/support to accelerate respective demand.

- North America is expected to implement further RUC (Road User Charging) systems going forward. KTC is no.2 on the US market; we expect it to continue benefitting from the market dynamics once its organizational structure regains full control over its operations.

Change in estimates

Consolidated, IFRS	**2020/21p = FY21p**			**2021/22e = FY22e**			**2022/23e = FY23e**		
(EUR, mn)	**Now**	**Before**	*Change*	**Now**	**Before**	*Change*	**Now**	**Before**	*Change*
Revenues	501.0	775.7	*-35.4%*	550.9	687.7	*-19.9%*	626.0	697.4	*-10.2%*
EBITDA	-75.6	69.3	*-209.1%*	37.5	60.9	*-38.4%*	58.5	71.8	*-18.6%*
EBITDA margin	-15.1%	8.9%	*-268.9%*	6.8%	8.9%	*-23.1%*	9.3%	10.3%	*-9.3%*
EBIT	-124.0	35.1	*-453.4%*	15.0	32.5	*-53.9%*	35.1	44.9	*-21.8%*
EBIT margin	-24.8%	4.5%	*-647.1%*	2.7%	4.7%	*-42.5%*	5.6%	6.4%	*-12.9%*
Net profit	-102.8	20.4	*-605.0%*	7.1	16.3	*-56.8%*	22.6	26.8	*-15.7%*
Net margin	-20.5%	2.6%	*-881.9%*	1.3%	2.4%	*-46.1%*	3.6%	3.8%	*-6.1%*
EPS	-7.91	1.57	*-605.0%*	0.54	1.26	*-56.8%*	1.74	2.06	*-15.7%*
EPS adjusted	-2.66	1.57	*-269.9%*	0.54	1.26	*-56.8%*	1.74	2.06	*-15.7%*
DPS	0.00	1.00	*-100.0%*	0.00	1.00	*-100.0%*	0.00	1.50	*-100.0%*

Source: Company data, Erste Group Research

Source: Erste Group Estimates

Our main assumptions behind our new estimates:
4Q and FY20/21p: KTC has already published first preliminary key figures for 4Q/FY20/21. With revenue at EUR 500mn and EBIT at EUR -124mn, KTC obviously further cleaned its balance sheet in 4Q20/21 in order to start its FY21/22 (FY22e) from a clean base.

Adjustments 3Q, 4Qp and FY20/21p

Adjustments 3Q20/21 & FY20/21p

(EURmn)	3Q YTD	4Q20/21p	y/y	FY20/21p	y/y
Revenue reported	**384.5**	**115.5**		**500.0**	**261%**
Project impairments	50.0	29.0		79	
Revenue adjusted	**434.5**	**144.5**	**-22%**	**579.0**	**318%**
EBITDA reported	**-45.7**	**-29.9**	**54%**	**-75.6**	**nm**
Legal provision US court case	8	0		8	
Project impairments	50	29.0		79	
Release of provision	-3.7			-3.7	
Severance cost provision		14		14	
Inventory, receivables, FX	6	11		17	
Total adjustments EBITDA	*60.3*	*54*		*114.3*	
EBITDA adjusted	**14.6**	**24.1**	**-236%**	**38.7**	**154%**
ordinary depreciation	18.5	5.1		23.6	
GW impairment	24.8			24.8	
EBIT reported	**-89.0**	**-35.0**	**-25%**	**-124.0**	
Total adjustments EBIT	*85.1*	*54.0*		*139.1*	
EBIT adjusted	**-3.9**	**19.0**	**106%**	**15.1**	**-60%**
adj. EBITDA margin	3.4%	16.7%	-15.1%	6.7%	
adj. EBIT margin	-0.9%	13.1%	-24.8%	2.6%	

Source: Company; Erste Group Research

Negative adjustments in FY21p were said to be EUR 139mn (see table above), translating into positive adjusted EBIT and respective margin of 2.6%. It seems, though, that there were also some positive one-offs not yet mentioned by the company when reflecting on the 4Q20/21 adj. EBIT margin of 13%. Until 3Q21 YTD, the adj. EBIT margin was negative. It seems rather unrealistic to us to see such a material underlying profitability improvement in 4Q21p.

FY21/22e should mark the turnaround on the profitability level (EBIT) at a rather flat revenue development y/y and an EBIT margin in the low single-digit percentage range. After a year of restructuring, FY21/22e should be a year of stabilization and transformation implementing the new strategy. KTC has announced several new contracts and contract extensions. The ETC system in South Africa has been prolonged by one year (EUR 45mn p.a.), the contract to support the Polish nationwide ETC system has been extended by five months to July 2021 (EUR 2.4mn p.m.). KTC has also been awarded the technical operation of the Bulgarian ETC system with a total value of EUR 60mn (12mn p.a.). We regard a successful turnaround, to become visible with the 1Q21/22 figures (at the earliest), as the main share price trigger for the time being. We would also expect, as mentioned earlier, to see demand for OBUs to return with increasing post-COVID traffic volumes.

For **FY22/23e,** we assume KTC's business to increase in dynamics, as many tolling and transportation contracts might be awarded that were delayed / shifted due to COVID and/or are fueled with funds from the green deal / decarbonization on both sides of the Atlantic. With revenue above EUR 600mn and a mid-single-digit EBIT margin, we still do not expect KTC to resume dividend payments, unless there is a sizeable compensation for the cancelled German ETC contract.

German ETC contract cancellation
There are Bundestag elections in late September this year, which could speed up a settlement between the German state and the operators of the cancelled German personal car tolling system. If all goes well, we might even already see a settlement from the arbitration tribune dealing with the unlawful(?) cancellation of the German ETC tender ahead of the elections, albeit more likely after the elections in the case that Germany swears in a new minister of transport (current MoT: Andreas Scheuer) in order to get rid of the case and the negative publicity. In a worst-case scenario, the arbitration procedure could take years before it is solved and cost KTC a single-digit EURmn amount p.a. in legal costs.

As a reminder, autoTicket (JV of KTC and CTS Eventim) was awarded a EUR 2bn contract for the implementation of the German ETC system for personal cars and its operation for 12 years with an option for extension by 1x3 or 3x1 years. In addition, KTC alone was awarded an approx. EUR 100mn contract for the enforcement of the personal car tolling system. MoT Scheuer cancelled the contract a day after the EC ruling, preventing the planned implementation of the German ETC system for personal cars, due to a breach of EU law. The JV claims EUR 560mn as compensation. Compensation for the enforcement contract has not yet been claimed, to our knowledge.

A compensation payment could be sizeable for KTC, well in the triple-digit EURmn area. It would not only help bolster KTC's balance sheet, it would also significantly increase its valuation. For the time being, we have not reflected any compensation for KTC in our model.

US court case
Amtech, a subsidiary of KTC peer TransCore (a division at listed Roper Industries), has filed a complaint for patent infringement against Kapsch TrafficCom and a number of Kapsch subsidiaries. Amtech claims that KTC is breaching some of their RFID patents with its products and services. KTC has provisioned EUR 8mn in FY20/21.

Only in late 2019, KTC concluded a multi-year court case against Neology, where the US peer claimed KTC had breached its ISO/IEC 18000-6C communication protocol used for sticker tags and roadside equipment. In the end, all patent claims against KTC were dismissed. Still, the court case definitely distracted management from operational activities and cost the company a nice double-digit EURmn amount spread over a few years.

Consequently, our first take is that now another competitor, in this case the leading toll technology supplier in North America, TransCore, aims to involve KTC in another patent case that could again last years. For us, it seems that the provisioned EUR 8mn is likely too low in case the court case goes the full distance.

ESG

As Erste Group Research, we have defined a score card and an algorithm to provide a transparent assessment of a company's ESG profile. Each input factor as well as the respective scores are benchmarked to the largest peers in the respective business segment. In case of Technology, we reflect on 125 peers. As not all peers have published data for each KPI yet, the rank of Kapsch TrafficCom and the number of provided inputs can be seen for every quantitative input (e.g. 6th/78 = ranked 6th from 78 inputs).

The basis for our calculations can be seen in the score card below. Our intention is not to provide another ESG score, but rather how a score is derived and how to put certain ESG related aspects into context. This means that, apart from providing the score card, we will highlight a few aspects that we believe are worth considering by looking behind the qualitative or quantitative factors.

KTC's ESG score card assessed by Erste Group

Total Score: 55 (+29%)

Environment: 51 (+53%) High

Total Energy Use per Sales	10	6th/78
Total Greenhouse Gases per Sales	3.5	6th/79
Total Water Use per Sales	-	(64)
Waste Generated per Sales	-	(62)

- ✗ Emissions Reduction Policy
- ✓ Policy Energy Efficiency
- ✗ Water Efficiency Target
- ✓ Waste Reduction Initiatives
- ✓ Environmental Management Team Policy
- ✓ Policy Environmental Supply Chain
- ✗ Green Buildings Policy
- ✓ Sustainable Packaging Policy
- ✓ Biodiversity Policy
- ✓ ESG Report Audit

Social: 59 (+31%) High

Accidents Rate per 1000 Employees	8.3	30th/30
Total Incident Rate Employees	0.9	38th/42
Women on Board	33%	20th/125
Female Executives	-	(125)
Employee Turnover	12%	20th/35

- ✓ Health and Safety Policy
- ✓ Equal Opportunity Policy
- ✓ Business Ethics Policy
- ✓ Anti-Bribery and Corruption Policy
- ✓ Employee Protection/ Whistle Blower Policy
- ✗ CSR/Sustainability Committee
- ✓ Employee CSR Training
- ✓ Training Policy

Governance: 55 (+11%) Medium

Board Meeting Attendance	100%	1st/110
Number of Board Meetings per Year	5	91st/119
Independent Directors	33%	114th/124
Non-Executive Directors on Board	100%	1st/125
Nomination Committee Independence	33%	113th/115
Executive Changes per Year	-	(114)
Audit Committee Meetings per Year	4	107th/118
Audit Committee Independence	33%	114th/116
Years Auditor Employed	-	(116)

- ✓ Executive Compensation Linked to ESG
- ✗ Independent Chairperson
- ✓ CEO-Chairman Separation
- ✓ Audit Commitee Management Independence

Source: Erste Group Research

We need to be aware that ESG assessments are a work in progress and standardization is still far away, as we have already described in one of our recent CEE Equity Strategies (p.19&20). The devil is in the detail when we want to compare apples with apples. This applies to both the qualitative and quantitative factors determining partial and total ESG scores.

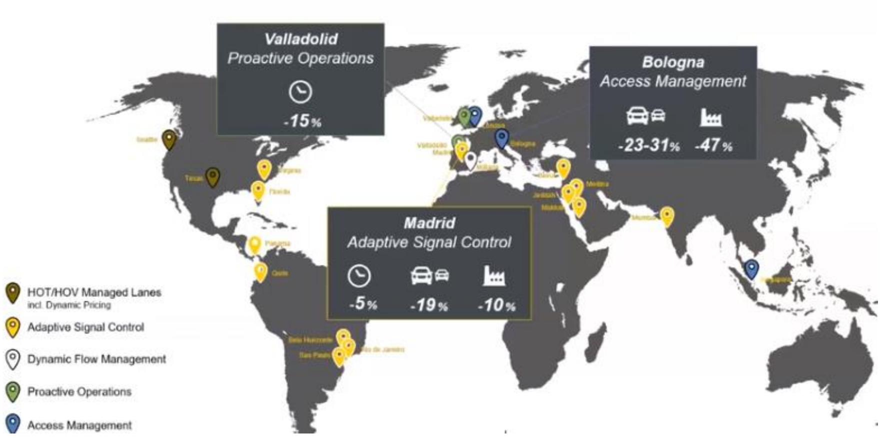
One aspect, which is also described in the CEE Equity Strategy, is the absence of a clear taxonomy. In general, the EU taxonomy is, not surprisingly, the most explicit, when compared to US or Asian taxonomies. Regardless of this issue, we see in the case of KTC that not all positive environmental impacts from KTC's products / activities seem to be reflected in the EU's taxonomy once it is introduced later this year. So far, tolling is reflected in the still draft taxonomy regulations, while traffic management is not. The Non-Financial Reporting Directive (NFRD), also expected to be published later this year, will disclose how and to what extent activities need to be aligned in order to be environmentally sustainable according to the EU taxonomy.

Traffic Management solutions already implemented by KTC have proven their impact on

- Reduced travel time
- Reduced congestion
- Reduced emissions

Case studies from implemented solution in Valladolid, Bologna and Madrid show the respective positive environmental impact in the picture below. Similar reductions were also reported for the city of Mumbai, where KTC has implemented an urban traffic management solution.

Implemented Traffic Management Solutions' environmental impact



Source: KTC

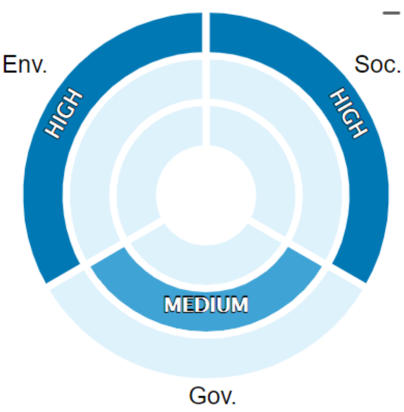
KTC, committed to the 10 universal principles of the UN Global Compact, is currently working on its distinct ESG strategy. KTC plans to introduce an ESG strategy and related KPIs that will help monitor KTC reaching its targets. So far, KTC's **ESG targets** are the following:

- 30% of leadership positions for women by 2023
- CO_2 neutrality as company by 2027
- Business travel significantly below COVID
- Calculate and reduce company's carbon footprint of headquarters and derive reduction measures

Green taxonomy targets:

- Green portfolio comprising products that help reduce more emissions than they produce over their product life cycle
- KTC is about to quantify product carbon footprint (PCF) for key products and share results with stakeholders

KTC ESG score



Source: Erste Group Research

Overall, and also in each of the three ESG aspects, KTC scores well compared to peers, based on our assessment. The overall score of 55 (+29%) indicates that KTC scores 29% better than the average overall score from its technology peers. Same applies for each of the three sub-sectors (E +53%, S +31%, G +11). We would expect KTC to improve its Environmental and Social score and ranking going forward, once the still missing KPIs are provided. The following are our remarks on the KPIs in the score board, for a better understanding.

- **E** - Total greenhouse gases (per sales) do not include KTC's vehicle fleet, as this information is not yet available.
- **E** – Total water use per sales: water is not used in production process.
- **E** – Water efficiency target: no target, as water is not used in production process.
- **S** – Incident and Accident rates are only high compared to technology companies in our peer group, low compared to industrials. It might not be fair to compare this figure with semiconductor or software companies. However, KTC benefits from this comparison when

comparing water use (high water use of semiconductor companies) – at least once KTC provides respective data.

- **S** – Women on Board: 33% of women relate to SB, which consists of six members. BOD consists of three male members.
- **S** - Female executives: there is no data yet, but just promoted new CEO of Kapsch North America and new Senior VP Sales Kapsch North America, JB Kendrick and Darby Swank, are both women.
- **S** – CSR training: 35% of employees (FY19/20) have so far received GDPR (general data protection regulation) training, less than planned.
- **G** – Audit Committee Independence: Committee members are Dr. Franz Semmernegg (who is also CEO of Kapsch AG, CEO and CFO of Kapsch BusinessCom, and CEO of Kapsch-Beteiligungs AG), Dr. Harald Sommerer, and Christian Windisch (Delegate of work council).
- **G** – Executive Remuneration linked to ESG: Four non-financial variable remuneration targets, each entitled to EUR 10k if achieved, are linked to ESG. Two out of these four targets are multi-annual targets. This only applies for CEO Georg Kapsch, though.
- **G** – Independent Chairperson: SB Chair is Dr. Franz Semmernegg (his other functions are listed above).

Valuation

There is a lot of headroom for KTC's business model from the valuation perspective, once we start seeing the new strategy materialize. Still, similar to our detailed estimates (five years), we also remained below KTC's mid-term targets in terms of profitability (6% EBIT margin vs. >10% targeted). We expect that it might take some time to see growth dynamics and a higher profitability materialize, which would provide more confidence for KTC's strategy in the market. It would not be surprising to see competition heat up now that 'green deals' around the globe aim to reduce carbon emission and congestion. The just-received (but turned down) takeover offer for KTC's closest technological competitor Q-Free at about double the EBITDA valuation of KTC could already be a sign.

Our valuation assumptions for deriving our DCF target value, which equals our 12-month target price, are the following:

- WACC at 7.5% in detailed period and 11% in TV
- Risk-free rate of 0% and 1.5%, respectively
- TV EBIT margin of 6%
- TV growth rate at 2%

Target price composition

	DCF	Multiple	Weight	12-month target price	act. share price	upside to target price	Recommendation
Kapsch TrafficCom	15.0	24.6	100/0	15.0	14.5	3.7%	**Hold**

Source: Bloomberg, Erste Group Research

A peer group valuation still does not really make sense in our view, due to a lack of comparables. Going forward, this might change, with a growing tolling and traffic management market.

Peer group valuation

Peers	MarketC (EURmn)	P/E 2021p	P/E 2022e	P/E 2023e	EV/EBITDA 2021e	EV/EBITDA 2022e	EV/EBITDA 2023e	EV/EBIT 2021e	EV/EBIT 2022e	EV/EBIT 2023e
Q-FREE ASA	108	-	32.5x	22.2x	9.9x	11.8x	10.2x	-	29.5x	21.6x
SENSYS GATSO GROUP A	103	167.4x	15.2x	13.4x	26.1x	8.7x	7.9x	143.3x	12.8x	10.6x
TAGMASTER AB	45	-	-	-	42.2x	12.3x	7.8x	-	29.6x	11.4x
CUBIC CORP	1,955	53.8x	23.1x	21.3x	15.6x	18.1x	16.4x	40.9x	44.2x	38.1x
REDFLEX HOLDINGS LTD	93	-	-	-	-	-	-	-	-	-
ITERIS INC	214	39.1x	29.3x	14.9x	33.8x	20.4x	10.7x	-	-	-
NIPPON SIGNAL COMPANY	497	-	-	-	-	-	-	-	-	-
IVU TRAFFIC TECHNOLOG	305	33.5x	-	-	-	-	-	-	-	-
CONDUENT INC	1,335	-	12.8x	11.8x	6.6x	6.1x	5.9x	-	12.7x	12.4x
TRAFFIC SYSTEMS SE	401	22.2x	28.0x	22.3x	-	14.9x	12.2x	-	21.5x	16.8x
MEDIAN broader peers		39.1x	25.6x	18.1x	20.8x	12.3x	10.2x	92.1x	25.5x	14.6x
Kapsch TrafficCom	188.0	nm	26.6x	8.3x	-5.2x	10.4x	6.4x	-3.2x	26.0x	10.6x
prem. / disc median		nm	4.1%	-54.0%	-125.0%	-16.1%	-37.4%	-103.4%	1.9%	-27.5%

Peers	Share price	P/B 2021e	P/B 2022e	P/B 2023e	ROE 2021e	ROE 2022e	ROE 2023e	Dividend yield 2021e	Dividend yield 2022e	Dividend yield 2023e
Q-FREE ASA	1.0	1.6x	-	-	-12.2%	-	-	0.0%	-	-
SENSYS GATSO GROUP A	0.1	3.0x	-	-	1.0%	17.8%	12.0%	0.0%	-	-
TAGMASTER AB	3.1	2.0x	0.2x	0.2x	-10.8%	-	-	0.0%	-	-
CUBIC CORP	61.6	1.9x	2.3x	2.3x	-0.3%	11.3%	36.6%	0.5%	0.4%	0.4%
REDFLEX HOLDINGS LTD	0.6	-	-	-	-	-	-	-	-	-
ITERIS INC	5.1	3.3x	3.0x	2.6x	-	-	-	-	-	-
NIPPON SIGNAL COMPANY	7.3	-	-	-	-	-	-	-	-	-
IVU TRAFFIC TECHNOLOG	17.2	-	-	-	-	-	-	-	-	-
CONDUENT INC	6.3	0.8x	1.3x	1.2x	-9.3%	9.7%	9.9%	0.0%	0.0%	0.0%
TRAFFIC SYSTEMS SE	40.0	-	4.1x	3.6x	-	14.9%	18.8%	-	1.3%	1.5%
MEDIAN broader peers		2.0x	2.3x	2.3x	-9.3%	13.1%	15.4%	0.0%	0.4%	0.4%
Kapsch TrafficCom	14.5	2.3x	2.0x	1.6x	-75.2%	7.9%	21.8%	0.0%	0.0%	0.0%
prem. / disc median		15.3%	-13.2%	-28.6%	708%	-39.3%	41.3%	nm	nm	nm

	2021e	2022e	2023e
Per KTC share (EUR) 2021e	-331.7		
Per KTC share (EUR) 2022e		**16.2**	
Per KTC share (EUR) 2023e			**27.1**
Period weight	0%	50%	50%
NPV as of May 2021 EUR	**21.6**		
Cost of Equity	13.9%		
NPV as of May 2022 EUR	**24.6**		

Source: Bloomberg, Erste Group Research

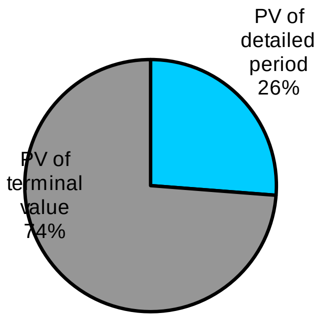
WACC calculation

	2022e	2023e	2024e	2025e	2026e	2027e (TV)
Risk free rate	0.5%	0.5%	0.5%	0.5%	0.5%	1.5%
Equity risk premium	9.5%	9.5%	9.5%	9.5%	9.5%	8.8%
Beta	1.4	1.4	1.4	1.4	1.4	1.3
Cost of equity	**13.9%**	**13.9%**	**13.9%**	**13.9%**	**13.9%**	**13.0%**
Cost of debt	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
After-tax cost of debt	**2.3%**	**2.3%**	**2.3%**	**2.3%**	**2.3%**	**3.0%**
Equity weight	45%	45%	45%	45%	45%	80%
WACC	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**11.0%**

DCF valuation

(EUR mn)	2022e	2023e	2024e	2025e	2026e	2027e (TV)
Sales growth	*10.0%*	*13.6%*	*11.2%*	*6.3%*	*4.4%*	*2.0%*
EBIT	15.0	35.1	38.7	45.5	49.5	47.3
EBIT margin	*2.7%*	*5.6%*	*5.6%*	*6.2%*	*6.4%*	*6.0%*
Tax rate	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Taxes on EBIT	-3.7	-8.8	-9.7	-11.4	-12.4	-11.8
NOPLAT	**11.2**	**26.3**	**29.0**	**34.2**	**37.1**	**35.5**
+ Depreciation	22.6	23.3	24.0	24.5	25.0	25.0
Capital expenditures / Depreciation	*99.8%*	*113.9%*	*110.8%*	*108.5%*	*106.7%*	*100.0%*
+/- Change in working capital	-7.8	-5.1	-0.1	5.1	7.2	-0.8
Chg. working capital / chg. Sales	*-15.7%*	*-6.8%*	*-0.2%*	*11.6%*	*22.2%*	*-5.0%*
- Capital expenditures	-22.5	-26.6	-26.6	-26.6	-26.7	-25.0
Free cash flow to the firm	**3.4**	**18.0**	**26.3**	**37.2**	**42.7**	**34.7**
Terminal value growth						*2.0%*
Terminal value						393.6
Discount factor	*0.93*	*0.87*	*0.81*	*0.75*	*0.70*	*0.70*
Discounted free cash flow - Mar 31 2021	3.2	15.6	21.2	27.9	29.8	274.5
Enterprise value - Mar 31 2021	**372.0**					
Minorities	-6.3					
Non-operating assets	0.0					
Net debt	206.3					
Equity value - Mar 31 2021	**171.9**					
Number of shares outstanding (mn)	13.0					
Cost of equity	13.9%					
12M target price per share (EUR)	**15.0**					
Current share price (EUR)	14.5					
Up/Downside	*3.7%*					

Enterprise value breakdown



Source: Factset, Erste Group research

Sensitivity (per share)

Terminal value EBIT margin

WACC	5.0%	5.5%	6.0%	6.5%	7.0%
10.0%	13.0	16.0	18.0	20.0	23.0
10.5%	12.0	14.0	16.0	19.0	21.0
11.0%	11.0	13.0	**15.0**	17.0	19.0
11.5%	10.0	12.0	14.0	16.0	18.0
12.0%	9.0	11.0	13.0	14.0	16.0

Terminal value growth

WACC	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	15.0	16.0	18.0	20.0	22.0
10.5%	14.0	15.0	16.0	18.0	20.0
11.0%	12.0	14.0	**15.0**	17.0	18.0
11.5%	11.0	13.0	14.0	15.0	17.0
12.0%	10.0	12.0	13.0	14.0	15.0

Income Statement	**2018**	**2019**	**2020**	**2021p**	**2022e**	**2023e**
(IAS, EUR mn, 31/03)	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023
Net sales	**693.26**	**737.79**	**731.18**	**501.00**	**550.88**	**626.00**
Invent. changes + capitalized costs	3.19	20.87	-6.12	0.00	0.00	0.00
Total revenues	**696.44**	**758.66**	**725.07**	**501.00**	**550.88**	**626.00**
Other operating revenues	21.03	15.31	11.35	12.52	13.77	15.65
Material costs	-279.81	-323.47	-334.94	-210.42	-220.35	-250.40
Personnel costs	-237.88	-252.71	-269.17	-234.18	-227.15	-229.42
Other operating expenses	-134.91	-126.25	-118.67	-144.54	-79.62	-103.37
EBITDA	**64.87**	**71.54**	**13.63**	**-75.61**	**37.53**	**58.46**
Depreciation/amortization	-14.81	-14.51	-52.80	-48.39	-22.57	-23.33
EBIT	**50.06**	**57.03**	**-39.17**	**-124.00**	**14.97**	**35.13**
Financial result	-5.86	-1.97	-24.28	-13.04	-8.78	-8.65
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**44.20**	**55.06**	**-63.45**	**-137.04**	**6.19**	**26.48**
Income taxes	-16.16	-8.49	7.73	33.61	0.38	-3.92
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.65	1.25	7.58	0.59	0.49	0.00
Net result after minorities	**28.68**	**47.82**	**-48.14**	**-102.84**	**7.06**	**22.56**

Balance Sheet	**2018**	**2019**	**2020**	**2021p**	**2022e**	**2023e**
(IAS, EUR mn, 31/03)						
Intangible assets	70.80	82.87	59.92	33.50	33.03	32.66
Tangible assets	21.79	46.14	97.62	86.85	87.29	90.89
Financial assets	33.48	36.97	45.25	40.25	40.25	40.25
Total fixed assets	**126.07**	**165.98**	**202.79**	**160.60**	**160.57**	**163.80**
Inventories	38.89	64.05	55.66	40.08	44.07	50.08
Receivables and other current assets	261.96	334.55	319.82	203.73	199.65	221.80
Other assets	12.40	18.46	26.29	41.29	46.29	41.29
Cash and cash equivalents	181.83	94.65	122.63	100.08	109.34	124.52
Total current assets	**495.08**	**511.72**	**524.40**	**385.17**	**399.35**	**437.69**
TOTAL ASSETS	**621.15**	**677.70**	**727.18**	**545.78**	**559.92**	**601.48**
Shareholders'equity	**230.97**	**257.16**	**188.16**	**85.32**	**92.38**	**114.94**
Minorities	**-1.05**	**1.51**	**-5.68**	**-6.27**	**-6.76**	**-6.76**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**23.71**	**26.13**	**27.61**	**28.16**	**28.73**	**29.30**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	141.76	139.33	235.29	180.00	180.00	180.00
Other LT liabilities	15.11	18.34	10.34	6.15	6.09	6.51
Total long-term liabilities	**156.87**	**157.67**	**245.62**	**186.15**	**186.09**	**186.51**
Interest-bearing ST debts	26.67	29.93	64.29	100.00	110.00	110.00
Other ST liabilities	183.97	205.29	207.17	152.41	149.48	167.49
Total short-term liabilities	**97.88**	**163.43**	**210.91**	**210.91**	**213.86**	**225.65**
TOTAL LIAB. , EQUITY	**621.15**	**677.70**	**727.18**	**545.77**	**559.92**	**601.48**

Cash Flow Statement	**2018**	**2019**	**2020**	**2021p**	**2022e**	**2023e**
(IAS,EUR mn, 31/03)						
Cash flow from operating activities	41.82	-39.54	33.38	12.52	21.79	41.74
Cash flow from investing activities	-23.03	-24.22	-33.00	-15.50	-22.53	-26.56
Cash flow from financing activities	-43.89	-20.82	33.44	-19.58	10.00	0.00
CHANGE IN CASH , CASH EQU.	**-29.46**	**-87.18**	**27.98**	**-22.56**	**9.26**	**15.18**

Margins & Ratios	**2018**	**2019**	**2020**	**2021p**	**2022e**	**2023e**
Sales growth	6.9%	6.4%	-0.9%	-31.5%	10.0%	13.6%
EBITDA margin	9.3%	9.4%	1.9%	-15.1%	6.8%	9.3%
EBIT margin	7.2%	7.5%	-5.4%	-24.8%	2.7%	5.6%
Net profit margin	4.0%	6.1%	-7.7%	-20.6%	1.2%	3.6%
ROE	12.5%	19.6%	-21.6%	-75.2%	7.9%	21.8%
ROCE	12.4%	15.3%	-9.2%	-28.3%	5.4%	9.9%
Equity ratio	37.0%	38.2%	25.1%	14.5%	15.3%	18.0%
Net debt	7.5	99.6	202.8	206.3	207.6	193.0
Working capital	384.8	329.8	287.2	133.0	139.2	170.8
Capital employed	252.5	376.6	395.6	291.6	299.4	307.7
Inventory turnover	7.2	6.3	5.6	4.4	5.2	5.3

Source: Company data, Erste Group estimates

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