

September 13th, 2018  
Research update

**SMC** Research  
Small and Mid Cap Research



# Sandpiper Digital Payments AG

## Optimistic view forward

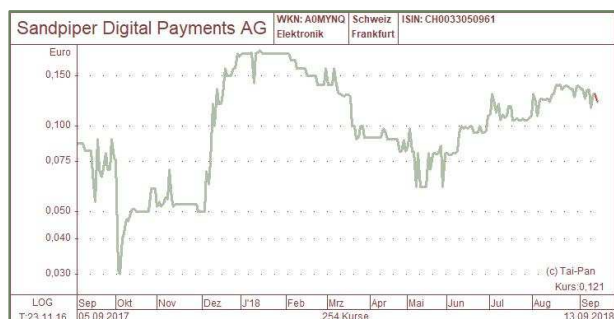
Rating: Speculative Buy (unchanged) | Price: 0.13 Euro | Price target: 0.23 Euro

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## Recent business development



Last year, the company restructured its activities and, as a result, sold its majority stake in Sandpiper Asia and, for the time being, Polyright as well. The associated consolidation effects were largely responsible for the 20.8 percent decline in sales to EUR 12.7 million in the first six months of 2018. Despite significant progress in optimizing the cost structure, the Group was still running a deficit with an EBIT of EUR -1.0 m.

### Basic data

<b>Based in:</b>	St. Gallen
<b>Sector:</b>	Payment, IT-Security
<b>Headcount:</b>	approx. 200 (Group)
<b>Accounting:</b>	Swiss GAAP FER
<b>ISIN:</b>	CH0033050961
<b>Price:</b>	0.13 Euro
<b>Market segment:</b>	Regulated Market Berne Open Market Frankfurt
<b>Number of shares:</b>	211.7 m
<b>Market Cap:</b>	27.5 m Euro
<b>Enterprise Value:</b>	38.9 m Euro
<b>Free float:</b>	46 %
<b>Price high/low (12 M):</b>	0.19 / 0.03 Euro
<b>Ø turnover (12 M Bern):</b>	11,500 Euro

However, the fundamentally positive development of the Group should become more visible in the figures as early as the second half of the year. The subsidiaries are working to exploit synergies, for instance in purchasing or IT, and are intensifying sales in close cooperation. Since similar markets are often served, products and services can be bundled into larger system solutions. Sandpiper is especially well positioned with regard to the dynamic "Smart City" trend, which stands for the increasing digitalization of municipalities in areas such as mobility, access control or payment processing with comprehensive systems. The companies of the group are currently already participating in several tenders, and an increase in incoming orders from this area is expected.

FY ends: 31.12.	2015	2016	2017	2018e	2019e	2020e
Sales (m Euro)	18.3	28.9	30.5	28.5	34.1	37.9
EBIT (m Euro)	-3.4	-5.9	-1.2	-1.1	0.0	0.4
Net profit	-4.0	-8.3	6.3	-1.5	-0.7	-0.2
EpS (Eurocent)	-2.00	-4.00	3.00	-0.57	-0.27	-0.09
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth		58.0%	5.4%	-6.7%	19.7%	11.4%
Profit growth		-	-	-	-	-
PSR	1.50	0.95	0.90	0.97	0.81	0.73
PER	-	-	4.4	-	-	-
PCR	-	-	-	-	765.3	37.7
EV / EBIT	-	-	-	-	1.033.3	104.3
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## Group sales down

Sales of the Sandpiper Group fell by 20.8 percent to EUR 12.7 m in the first half of 2018. The decline is largely due to changes in the scope of consolidation. Polyright, of which the holding company had previously held all shares, was sold in July 2017 as part of an MBO, with Intercard (another Sandpiper holding) subsequently securing a 29.4 percent stake and subscribing for a convertible bond which would allow an increase to 52 percent in the period up to 2021. Polyright was deconsolidated due to its current minority interest, as was Sandpiper Digital Payments Asia after the stake was reduced from 100 to 15 percent in July last year. In the first half of 2017, these companies accounted for approximately EUR 2.5 m of sales. Adjusted for this effect, Sandpiper's sales fell by only EUR 0.8 m in the first half of the year.

Business figures	HY 17	HY 18	Change
Sales	16.04	12.70	-20,8%
EBITDA	-0.06	-0.36	-
EBIT	-0.68	-0.99	-
Net profit	5.49	-1.10	-

*In m Euro and percent; source: company*

## Intercard increases sales

This decrease was mainly due to a delay in a major Ergonomics project, the completion of which has been postponed, so capacity was not available for other activities. The regional sales development also shows that revenues in the Netherlands fell from EUR 0.96 m to EUR 0.8 m. This is the responsibility of the subsidiary Multicard Nederland, which has focused on its core business and discontinued non-core activities, causing the decline in sales. The largest Sandpiper subsidiary Intercard, on the other hand, was able to increase its revenues by 11.1 percent to EUR 6.9 m. After a weak previous year, the company has thus returned to the path of expansion.

## Progress in cost structure

Intercard was also able to translate the considerable sales growth into a significant improvement in earnings: EBITDA and EBIT turned positive in the first six months from EUR -35 thousand to EUR 344 thousand and from EUR -322 thousand to EUR 52 thousand respectively. On Group level as well, Sandpiper was able to achieve progress in cost structure, which is, however, still obscured by other effects. According to the company, the savings attained in the holding company alone amount to around EUR 1 m; further adjustments were also made in the subsidiaries. Together with the optimization of the portfolio, this led to a decrease in personnel expenses (-26.4 percent to EUR 6.0 m) and other operating expenses (-22.1 percent to EUR 2.0 m) that was sharper than that of sales (-20.8 percent). Of the most important cost items, only the contraction in the cost of materials (-3.3 percent to EUR 5.5 m) remained below average. This is primarily due to the fact that Polyright, a company with a high gross margin, was deconsolidated and that the company, whose capacities were tied up in the major project, was unable to realize project revenues with relatively low material costs. Overall, Sandpiper had to report a negative EBIT of EUR -0.99 m for the first half of the year, compared to EUR -0.68 m in the first half of 2017.

## Exploitation of synergies

The exploitation of synergies within the Group should further reinforce the fundamentally positive trend, which was, until now, still overshadowed by special effects. There are numerous opportunities for more intensive cooperation between the subsidiaries, which are now being gradually implemented. Projects include, for example, joint use of IT and technology as well as greater bundling and coordination of purchasing activities. While in the past the companies usually planned independently of each other, the system now checks which products and services can be procured from the group itself. In addition to this internal optimization, the joint view is also directed outwards. In many cases, the subsidiaries operate in similar markets, for instance with regard to their customer

base or the technology used. For this reason, marketing and sales are will be now more closely coordinated and, if necessary, joint offers will be prepared as well.

### Focus: Smart City Projects

This approach is particularly important with regard to the Group's central strategic focus on Smart City projects. This refers to the introduction of new digital systems in municipalities that entail significant efficiency improvements and replace existing stand-alone solutions. There are many starting points for this, for example in the areas of passenger transport, traffic control, access control or payment processing. Since several companies in the Group are addressing this market with innovative solutions that are actually already in use, Sandpiper sees itself as a pioneer and is now expanding joint sales. For municipal tenders, various packages can be put together based on the products and services of the individual subsidiaries, with a core team consisting of employees from several companies that is always involved and controls the process. Currently, several tenders are already underway for which Sandpiper believes itself to be well positioned.

### Board strengthened

Sandpiper's Managing Director, Frank Steigberger, plays a key role in operational coordination. The Board of Directors, however, also fulfils an important function in the strategic development of the Group. It was strengthened at this year's Annual General Meeting with several experienced personages who will support the Group's expansion in the future. In addition to the successful entrepreneur Dr. Cornelius Boersch, who continues to serve as President of the Board, Franz Herrlein is now the new Vice President. Mr. Herrlein has extensive expertise in the consulting and financial industry from his time in top positions at – among others – Boston Consulting, Bain & Company, Unicredit and Deutsche Bank. Steffen Seeger, a further new member of the Board of Directors who founded FIDOR Bank and served as CFO until its sale to the French banking group BPCE, is also rooted in these industries. The third new member of the Board of Directors is Dieter Fröhlich, whose vita includes the building-up of MultiVision and VisionOne, two large SAP consulting companies.

### Positive outlook

On this basis, Sandpiper is currently optimistic about the future. The numerous initiatives, both to exploit synergies and to improve sales, should gradually unfold their positive impact. The cost situation is expected to improve further already in the second half of the year. In addition, the subsidiary Intercard, which is of major importance for the Group, confirmed its positive outlook. Thanks to a traditionally seasonally stronger second half of the year, the target sales of EUR 15 m for the current year are expected to be achieved, which would be accompanied by revenues of around EUR 8.1 m in the period from July to December. In our estimation, the result of the first six months should thus also be exceeded in this period. In order to support the growth process, the company carried out a capital increase in July with a volume of EUR 378 thousand in which Sandpiper participated according to its share. Intercard could also generate further external growth by acquiring a majority stake in Polyright.

### Ergonomics with a new product

The Group's second largest company, Ergonomics, is also expected to grow again after a dip in sales in the first half of 2018. From a completed project, the company is now generating recurring high-margin revenues over several years. In addition, the project has resulted in a new software that can now be marketed further. Moreover, the Ergonomics subsidiary e24 was also strengthened: it has won an investor in OPS360 GmbH that has taken over 20 percent of the shares. OPS360 is a specialist for car park monitoring systems and will also use the e24 solution in the future. A new investor was also won for the Sandpiper holding Playpass, which provided the capital for the continuation of the rapid growth course. As a result, the holding company's share was diluted from 34.6 to approximately 28 percent, which we have taken into account in our model.

### 2018 below expectations

Overall, Sandpiper is making great progress in our view. Even if it cannot yet be seen from the figures for the first half of the year, it is likely to be reflected more

and more in the results for the coming periods. After revenues fell slightly short of our expectations in the first six months, we reduced our revenue estimate for the full year from EUR 31.1 m to EUR 28.5 m. In particular, the estimate for the 2018 sales of Multicard Nederland and Ergonomics is more cautious after the decline in sales in the first six months. For Intercard, we have postponed the consolidation of Polyright until the beginning of next year. The shortened revenue estimate for the Group is accompanied by a higher EBIT loss of EUR -1.1 m (previously EUR -0.5 m). We have also postponed the assumed major capital increase for the acceleration of growth until next year

### Significant improvement from 2019 on

There should then be a significant improvement in the figures thanks to the described initiatives to leverage synergies and to stimulate growth. We see especially the Smart City trend as a decisive driver from

which the Sandpiper subsidiaries should benefit greatly. The acquisition of Polyright also ensures external growth with an additional revenue volume of EUR 3 million. Therefore, we think that Intercard will achieve the already assumed turnover (EUR 18.4 m) in 2019. Thanks to the recurring proceeds from the completed project and the marketing of the new software, Ergonomics should be able to increase its margin for at least the next four years on the basis of an order backlog secured in this way. This provides a good basis for further sales growth beyond 2019. However, the estimate for Multicard Nederland for 2019 and beyond remains more cautious. We are still adhering to our scenario of a continuous increase in the Group's margin. After the update, the target EBIT margin in 2025 is now 9.2 percent (previously: 10.3 percent). An overview of the key cash flow figures resulting from these assumptions in the detailed forecast period can be found in the table on this page; further

million Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
Intercard	15.0	18.4	20.3	22.3	24.5	27.0	29.7	32.6
Ergonomics	6.9	8.0	8.6	9.4	10.4	11.5	12.6	13.9
IDpendant	4.5	4.8	5.2	5.5	5.9	6.3	6.8	7.2
Multicard	1.5	2.1	2.9	4.1	5.8	7.5	9.0	10.3
PAIR Solutions	0.55	0.72	0.93	1.21	1.57	1.96	2.36	2.83
Sales	28.5	34.1	37.9	42.5	48.1	54.2	60.4	66.9
Sales growth	-6.7%	19.7%	11.4%	12.2%	13.1%	12.7%	11.4%	10.8%
EBIT margin	-4.0%	0.1%	1.0%	2.6%	4.4%	6.0%	7.6%	9.2%
<b>EBIT</b>	<b>-1.1</b>	<b>0.0</b>	<b>0.4</b>	<b>1.1</b>	<b>2.1</b>	<b>3.3</b>	<b>4.6</b>	<b>6.2</b>
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.0%	33.0%
Adjusted tax payments	0.0	0.0	0.0	0.0	0.0	0.0	1.5	2.0
<b>NOPAT</b>	<b>-1.1</b>	<b>0.0</b>	<b>0.4</b>	<b>1.1</b>	<b>2.1</b>	<b>3.3</b>	<b>3.1</b>	<b>4.1</b>
+ Depreciation & Amortisation	1.2	1.0	1.1	1.1	1.2	1.3	1.4	1.5
+ Increase long-term accruals	-0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross operating cash flows</b>	<b>-0.3</b>	<b>1.3</b>	<b>1.7</b>	<b>2.6</b>	<b>3.7</b>	<b>5.0</b>	<b>5.0</b>	<b>6.2</b>
- Increase Net Working Capital	-0.1	-0.6	-0.5	-0.4	-0.3	-0.2	-0.1	0.0
- Investments in fixed assets	0.6	-1.7	-1.7	-1.8	-1.9	-1.9	-1.9	-1.9
<b>Free cash flows</b>	<b>0.2</b>	<b>-0.9</b>	<b>-0.5</b>	<b>0.3</b>	<b>1.4</b>	<b>2.9</b>	<b>3.0</b>	<b>4.3</b>

*SMC estimation model*

details on the balance sheet, P&L and cash flows can be found in the tables in the Annex.

### Framework data unchanged

We then continue to expect a discount on the target margin of 10 percent and a "perpetual" cash flows growth of 1 percent p.a. We have left the discount rate unchanged as well: Based on the assumption of a beta factor of 1.4, a risk-free interest rate of 2.5 percent, a risk premium of 5.4 percent, a target debt ratio of 70 percent and an interest rate on borrowed capital of 5.0 percent, the weighted average cost of capital (WACC) of our model is 5.4 percent.

### Target price: 0.23 Euro

These assumptions result in a fair value of equity of EUR 60 m. On a fully diluted basis, taking into account an assumed capital increase and thus 266.7 m shares, this corresponds to a fair value of EUR 0.227 per share, from which we derive the new price target of EUR 0.23. The decrease compared to our last update (EUR 0.27) is due to the reduction in the sales

path and the resulting lower margin improvement. We continue to see the forecast risk at five out of six possible points.

### Sensitivity analysis

When the input parameters are varied for our sensitivity analysis (WACC between 4.4 and 6.4 percent and perpetual cash flows growth between 0 and 2 percent), the fair value of the share lies between EUR 0.17 and EUR 0.42.

Sensitivity analysis WACC	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
4.4%	0.42	0.35	0.31	0.27	0.25
4.9%	0.34	0.30	0.27	0.24	0.22
5.4%	0.29	0.26	0.23	0.21	0.20
5.9%	0.25	0.23	0.21	0.19	0.18
6.4%	0.22	0.20	0.19	0.18	0.17

## Conclusion

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Sandpiper's half-year results still show the after-effects of the restructuring. While sales declined considerably, mainly due to consolidation effects, they were only slightly below the previous year's figure on a comparable basis. Cost structures were significantly improved, even though the operating result is still negative.

Restructuring and focusing created a good basis for steady growth and margin improvement in the future. The Group companies are now increasingly exploiting synergies and are jointly addressing the promising future market of Smart City. The increasing digitalization of municipalities in areas such as mobility, access control and payment processing is creating high demand, and Sandpiper is able to combine the products of its various subsidiaries to create innovative system

solutions. We expect the Group to report a growing order intake in this area.

We therefore expect significant organic growth for the Group as of next year, and it should also achieve break-even at EBIT level as early as 2019. The expansion of revenues with well-scalable platforms should lead to a significant increase in the margin towards 10 percent in the future. We have reflected this in our model and calculated a new price target of EUR 0.23 per share. Based on an unchanged high price potential, our "Speculative Buy" rating remains unchanged, with the speculative nature being due to the above-average forecast risk.

# Annex I: Balance sheet and P&L estimation

## Balance sheet estimation

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
<b>ASSETS</b>									
I. Total non-current assets	10.7	8.9	9.6	10.2	10.9	11.6	12.2	12.7	13.0
1. Intangible assets	3.5	3.8	4.1	4.4	4.8	5.3	5.7	6.1	6.5
2. Tangible assets	1.1	1.0	1.4	1.7	2.0	2.3	2.5	2.5	2.5
II. Total current assets	8.5	8.8	19.3	21.7	19.9	21.4	23.9	27.2	31.4
<b>LIABILITIES</b>									
I. Equity	1.5	-0.7	8.5	8.4	8.6	9.6	11.0	12.9	15.5
II. Accruals	1.3	0.9	1.2	1.5	1.9	2.2	2.6	3.1	3.6
III. Liabilities									
1. Long-term liabilities	7.8	8.0	8.8	10.5	9.1	9.4	9.8	10.4	10.9
2. Short-term liabilities	9.2	10.0	10.8	12.0	11.8	12.4	13.1	14.0	15.0
<b>TOTAL</b>	<b>19.7</b>	<b>18.2</b>	<b>29.4</b>	<b>32.5</b>	<b>31.4</b>	<b>33.6</b>	<b>36.6</b>	<b>40.4</b>	<b>44.9</b>

## P&L estimation

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
Sales	30.5	28.5	34.1	37.9	42.5	48.1	54.2	60.4	66.9
Total operating revenues	31.0	28.5	34.1	37.9	42.5	48.1	54.2	60.4	66.9
Gross profit	18.7	16.7	20.6	23.1	26.4	30.3	34.7	39.3	44.5
EBITDA	0.4	0.1	1.0	1.4	2.3	3.3	4.6	6.0	7.7
EBIT	-1.2	-1.1	0.0	0.4	1.1	2.1	3.3	4.6	6.2
EBT	6.9	-1.5	-0.6	-0.3	0.4	1.5	2.7	4.1	5.7
EAT (before minorities)	6.8	-1.6	-0.6	-0.2	0.2	1.0	1.8	2.7	3.8
EAT	6.3	-1.5	-0.7	-0.2	0.1	0.9	1.5	2.3	3.2
EPS (Euroent)	3.00	-0.57	-0.27	-0.09	0.05	0.32	0.58	0.87	1.21



## Annex II: Cash flows estimation and key figures

### Cash flows estimation

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
CF operating	-3.9	-0.8	0.0	0.7	1.3	2.3	3.4	4.6	5.8
CF from investments	-0.9	0.6	-1.7	-1.7	-1.8	-1.9	-1.9	-1.9	-1.9
CF financing	4.2	0.1	11.2	2.5	-2.1	0.3	0.2	0.0	-0.4
Liquidity beginning of year	2.0	1.3	1.2	10.8	12.3	9.7	10.4	12.1	14.7
Liquidity end of year	1.3	1.2	10.8	12.3	9.7	10.4	12.1	14.7	18.2

### Key figures

percent	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
Sales growth	5.4%	-6.7%	19.7%	11.4%	12.2%	13.1%	12.7%	11.4%	10.8%
Gross margin	61.5%	58.7%	60.5%	61.0%	62.0%	63.0%	64.0%	65.0%	66.5%
EBITDA margin	1.3%	0.2%	3.0%	3.8%	5.3%	6.9%	8.5%	10.0%	11.5%
EBIT margin	-4.0%	-4.0%	0.1%	1.0%	2.6%	4.4%	6.0%	7.6%	9.2%
EBT margin	22.6%	-5.3%	-1.7%	-0.7%	1.0%	3.1%	5.0%	6.8%	8.5%
Net margin (after minorities)	20.5%	-5.3%	-2.1%	-0.6%	0.3%	1.8%	2.9%	3.9%	4.8%

# Disclaimer

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## *Charts*

The charts were made with Tai-Pan ([www.lp-software.de](http://www.lp-software.de)).

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- 2) sc-consult GmbH has prepared this report against payment on behalf of a third party
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## *II) Preparation and updating*

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 13.09.2018 at 11:00 and published on 13.09.2018 at 11:10.

For the preparation of its financial analyses, the sc-consult GmbH uses a five-tier rating scheme with regard to price expectation in the next twelve months. Additionally, estimation risk is quantified on a scale from 1 (low) to 6 (high). The ratings are as follows:

Strong Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).
Hold	We expect that the price of the analyzed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating.
Sell	We expect that the price of the analyzed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

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In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Rating	Target price	Conflict of interests
11.06.2018	Speculative Buy	0.27 Euro	1), 3), 4)
14.03.2018	Speculative Buy	0.26 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one report, two comments

The publishing dates for the financial analyses are not yet fixed at the present moment.

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