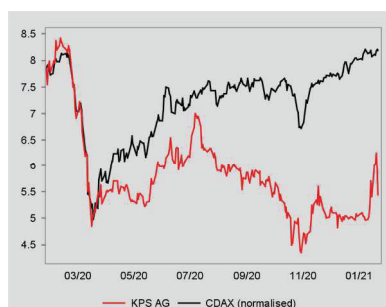


Buy EUR 8.00 (EUR 8.50) Price EUR 5.44 Upside 47.1 %	Value Indicators: EUR DCF: 8.20 FCF-Value Potential 22e: 7.00	Warburg ESG Risk Score: 2.3 ESG Score (MSCI based): 3.0 Balance Sheet Score: 4.0 Market Liquidity Score: 0.0	Description: Digital transformation and business optimisation consultancy for the retail industry
	Market Snapshot: EUR m Market cap: 203.5 No. of shares (m): 37.4 EV: 214.9 Freefloat MC: 88.5 Ø Trad. Vol. (30d): 274.15 th	Shareholders: Freefloat 43.5 % Supervisory Board (founders) 35.0 % CEO (founder) 11.0 % Müller (founder) 10.5 %	Key Figures (WRe): 2020/21e Beta: 1.2 Price / Book: 2.2 x Equity Ratio: 44 % Net Fin. Debt / EBITDA: 0.3 x Net Debt / EBITDA: 0.5 x

Q4 somewhat below expectations; Outlook relying more heavily on H2

- On Friday, KPS released its Q4 figures (see table next page). The revenue development reflects growth of approx. 8% in international revenues but a decline of EUR 20m (-19%) in domestic revenues, as revenues with the biggest client dropped by EUR 12.3m to EUR 16.6m. While less business with the biggest client is not a favourable development, it indicates greater revenue diversification in the future.
- The decline was partly cushioned by cost reductions especially with regard to third-party services (approx. EUR 7m) and lower travel expenses (EUR 4m), demonstrating a high level of flexible costs. Personnel expenses, like the number of the company's IT experts, remained approximately unchanged.
- In 2020/21, KPS was initially geared for growth. While bigger projects were won and had the potential to compensate for the revenue decline with the biggest client, the implementation of pandemic-related social-distancing measures also triggered the subsequent postponement of the project. Weaker demand for SAP ERP implementation and transformation projects was partially replaced by projects related to e-commerce. For many retailers, this channel has become the only reliable way to remain in business.
- While social distancing has had a negative impact on the business with some parts of the retail industry, it has also increased the acceptance of remote service-delivery. As reflected in the development of sales and employees in KPS's regions, more business is being conducted remotely. An increase in remote service-delivery looks set to support higher utilization of KPS's IT experts and should be supportive for future margins.
- The pandemic has not only impacted demand for ERP projects, average project sizes have also become smaller. While KPS has historically pitched for projects with volumes of EUR 10-20m, we believe that smaller projects harbour the potential to increase volumes with the client in subsequent years, which would reduce volatility in the development of the top and bottom lines.
- KPS introduced its Director of Finance, Henry Cohen, who formerly held positions in consulting, telecommunications, medical devices and in the retail industry. The contract of CEO Leonardo Muss was extended by five years.
- Estimates have been adjusted slightly and the model has been rolled forward. The PT is lowered to EUR 8. Given upside to the PT, the Buy rating is confirmed. While the stock is not expensive, it currently lacks a catalyst. This would probably require a reopening of the economy to support higher IT budgets in the retail industry. Furthermore, the anticipated operative development appears to be relying more heavily on H2, given the recent run-rate and management's 2021 targets.



Rel. Performance vs CDAX:	
1 month:	5.2 %
6 months:	-24.4 %
Year to date:	5.8 %
Trailing 12 months:	-33.1 %

Company events:	
12.02.21	Q1
21.05.21	AGM
28.05.21	Q2
23.07.21	Q3

FY End: 30.9. in EUR m	CAGR (19/20-22/23e)	2016/17	2017/18	2018/19	2019/20	2020/21e	2021/22e	2022/23e
Sales	3.8 %	160.3	172.2	180.7	166.4	168.0	178.9	186.1
Change Sales yoy		10.6 %	7.4 %	4.9 %	-7.9 %	0.9 %	6.5 %	4.0 %
Gross profit margin		61.1 %	61.9 %	66.7 %	65.8 %	65.7 %	67.4 %	65.6 %
EBITDA	4.2 %	26.4	20.0	22.6	22.7	24.0	25.1	25.7
Margin		16.5 %	11.6 %	12.5 %	13.6 %	14.3 %	14.0 %	13.8 %
EBIT adj.	5.8 %	25.6	19.2	21.1	15.4	16.6	17.7	18.3
Margin		16.0 %	11.1 %	11.7 %	9.3 %	9.9 %	9.9 %	9.8 %
EBIT	8.0 %	24.8	16.6	18.8	14.1	15.1	16.7	17.8
Net income	11.5 %	19.8	9.8	12.2	8.2	9.3	10.3	11.3
EPS	10.9 %	0.53	0.26	0.33	0.22	0.25	0.28	0.30
DPS	27.2 %	0.35	0.35	0.17	0.17	0.25	0.35	0.35
Dividend Yield		2.2 %	3.4 %	2.4 %	2.6 %	4.6 %	6.4 %	6.0 %
FCF / Market cap		1.8 %	3.7 %	7.8 %	5.5 %	7.8 %	4.5 %	4.5 %
EV / Sales		3.6 x	2.4 x	1.6 x	1.6 x	1.3 x	1.2 x	1.1 x
EV / EBITDA		22.1 x	21.0 x	13.1 x	11.8 x	8.9 x	8.2 x	8.2 x
EV / EBIT adj.		22.9 x	21.9 x	14.0 x	17.4 x	12.9 x	11.6 x	11.6 x
EV / EBIT		23.6 x	25.3 x	15.7 x	19.0 x	14.2 x	12.3 x	11.9 x
P / E		29.8 x	39.9 x	21.4 x	29.3 x	21.8 x	19.4 x	19.5 x
FCF Potential Yield		3.5 %	3.5 %	5.5 %	6.2 %	8.3 %	9.0 %	8.8 %
Net Debt		-4.2	31.9	30.7	27.3	11.4	2.3	-7.6
ROCE (NOPAT)		34.7 %	13.4 %	13.3 %	9.9 %	10.7 %	10.2 %	9.0 %
Guidance:		2021: sales at 2020 level, moderate EBITDA increase						

KPS - Q4 2020

in EUR m	Q4/20	Q4/20e	Q4/19	yoy	2020	2019	yoy
Sales	36.5	38.1	44.5	-17.9%	166.4	180.7	-7.9%
EBITDA	5.0	4.3	3.9	28.7%	22.7	22.6	0.6%
<i>margin</i>	<i>13.6%</i>	<i>11.3%</i>	<i>8.7%</i>		<i>13.6%</i>	<i>12.5%</i>	
EBIT	2.4	3.8	2.8	-13.9%	14.1	18.8	-24.9%
<i>margin</i>	<i>6.7%</i>	<i>10.0%</i>	<i>6.3%</i>		<i>8.5%</i>	<i>10.4%</i>	
EPS in EUR	0.01	0.06	0.05	-80.0%	0.22	0.33	-33.3%