EDISON

Pointer Telocation

Q316 earnings release

Improving top-line trend affected by one-offs

Tech hardware & equipment

Pointer Telocation (PNTR) is a telematics company with a focus on Israel and Latin America. In addition to sales of its own telematics devices, the group generates high recurring revenues from mobile resource management services. The results for the first nine months support our top-line and normalised full year profit expectations, representing 74-76% of our forecast FY revenue and EBIT. We have nevertheless cut our current year PBT forecast by 6% to account for higher finance and one-off costs. PNTR's forward P/E discount to the sector has widened from 34% to 37% in recent weeks and we see potential for a re-rating on stronger earnings growth, which should be driven by the recent acquisition of Cielo Telecom in Brazil, a strong pipeline of new products and rising service margins.

Year end	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (c)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/15	60.6	6.3	62.3	0.0	8.2	12.4	N/A
12/16e	63.7	6.4	61.9	0.0	7.2	12.4	N/A
12/17e	70.8	7.9	73.9	0.0	6.2	10.4	N/A
12/18e	75.7	9.4	87.3	0.0	5.3	8.8	N/A

Note: *PBT and EPS (diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Strong top line but sales and marketing costs higher

Pointer Telocation reported a pick-up in third-quarter US dollar revenue growth from the 3% y-o-y in H116 to 9%, reflecting a continuation of mid-teens local currency revenue growth and a stronger trend in Latin American currencies. Good market conditions in Israel, Brazil, Argentina and Mexico helped generate a 14% y-o-y increase in MRM subscribers to 198k while PNTR's high operating leverage helped drive a 10% higher gross profit. Higher sales and marketing outlays and finance costs resulted in normalised operating profit of $1.8m, up 1% y-o-y, versus the 3% decline in H1. One-off costs of $0.2m related to the CT acquisition and higher financial costs, boosted by forex translation losses, resulted in a 34% y-o-y reduction in US GAAP net profits to $0.7m (H1: $2.3m). Although we have increased our revenue and EBITDA forecasts over 2016-18, adding in the above-mentioned items has reduced our reported PBT forecasts by 7% in 2016 and 2-3% in 2017 and 2018

Net debt reduction ahead of Cielo acquisition

PNTR generated $1.4m in operating cash flow in Q3, representing a cash conversion rate of 1.0x vs 1.5x in Q315. The group used the cash flow to cut net debt $1.0m to $2.2m ahead of the $6.5m Cielo Telecom acquisition on 7 October. The company increased borrowing by $5.4m during the quarter in order to increase its cash balance to $14.1m in preparation for this and other acquisitions.

Valuation: High 37% discount to forward sector P/E

PNTR currently trades on a high and, in our view, unjustified 37% discount to the forward sector P/E. We continue to value the shares on a peer-based multiple valuation at $8.85 (NIS33.9) per share. Our DCF share value has increased from $11.1 (NIS42.6) to $11.3 (NIS43.7), reflecting increases in our operating profit expectations.

30 November 2016

Price*	**$7.70/ NIS29.25**
Market cap	**$61m/ NIS230m**

*Priced at 29 November 2016

US$/NIS3.8726

Net debt ($m) at 30 September 2016	2.2
Shares in issue	7.87m
Warrants in issue	0.6m
Free float	59.3%
Code	PNTR
Primary exchange	NASDAQ
Secondary exchange	TASE

Share price performance

%	1m	3m	12m
Abs	0.9	8.3	29.0
Rel (local)	(2.5)	6.7	22.5
52-week high/low		US$7.8	US$4.8

Business description

Pointer Telocation (PNTR) is a leading provider of MRM services and products to the automotive and insurance industries. Key services are asset tracking, fleet management and monitoring goods in transit/IoT. Its main markets are Israel, Brazil, Argentina, Mexico and Europe.

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Third quarter results: Strong top-line trends

Pointer reported strong revenue growth in Q316, up 9% y-o-y in US dollar terms (and 14% in local currencies) to $15.9m, after 0.4% y-o-y growth in H116 to $31.0m (see Exhibit 2). The main growth driver was an 18% y-o-y increase in service revenues in local currency terms, after 13% growth in H1. According to management, this reflected good market conditions in Israel, Brazil, Argentina and Mexico. When combined with better forex trends in key markets (particularly Latin America) – with implied average year-on-year currency deterioration versus the dollar of 6% in Q3 vs 13% in H116 – this resulted in an 11% y-o-y increase in dollar based service revenues.

Underpinning service revenue growth was a 13.8% y-o-y increase in mobile resource management (MRM) subscriber numbers, growing 6,000 in the quarter to 198,000. This represented a pick up in growth from the 12.9% y-o-y reported in H1. With the help of stronger currency trends, the Q3 ARPU gained $0.50 from the H116 level to reach $18.0.

The trend in product sales also improved in Q3, with revenues rising 6% y-o-y to $5.4m in Q3 after 0.2% y-o-y growth to $11.6m in H116. Gross margins in the third quarter widened 1.5% points to 49.2%, reflecting better performance in both the service and product segments and the impact of operating leverage. Higher sales and marketing outlays (up 29% y-o-y to $3.1m) resulted in normalised operating profit of $1.8m, up 1% y-o-y, versus the 3% decline in H1.

One-off costs of $0.2m related to the acquisition of Cielo Telecom on 7 October led to a 3.5% y-o-y decline in reported operating profit to $1.4m. Financial costs also rose sharply to $0.38m (H1: $0.24m) boosted by forex translation losses and increased borrowing at the end of the quarter to finance the acquisition of Cielo Telecom. This resulted in 34% y-o-y reduction in US GAAP net profits to $0.7m (H1: $2.3m).

It is worth pointing out that the mainstay of Pointer's third quarter results was standard MRM services and product sales. Revenues were not significantly affected by the group's newest internet of things (IoT) sensor-based product CelloTrack Nano. Management expects the first major impact from growth in these sales in 2017 after the launch of Pointer's own platform for the product (please see our initiation note of 8 November 2016 for further information). Synergies from the acquisition of Cielo Telecom should also prove another growth driver in 2017, although in the shorter term the acquisition does bring about some uncertainty regarding group margins as management has not provided information on CT's level of profitability except to state that the company is EBITDA positive.

Exhibit 1: Quarter-by-quarter results summary

$m	Q115	Q215	Q315	Q415	Q116	Q216	Q316	Q416e
Revenue	**15.41**	**15.49**	**14.56**	**15.10**	**14.83**	**16.21**	**15.92**	**16.78**
Gross profit	**7.39**	**7.24**	**7.14**	**7.49**	**7.36**	**7.73**	**7.83**	**8.18**
Gross margin (%)	48.0	46.7	49.0	49.6	49.6	47.7	49.2	48.8
Research and development	(0.9)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Selling and marketing	(2.4)	(2.6)	(2.4)	(3.0)	(2.6)	(3.0)	(3.1)	(3.1)
General and administrative	(2.2)	(2.2)	(2.2)	(2.7)	(2.1)	(2.1)	(2.2)	(2.2)
Non-cash adjustments/other	0.6	0.5	0.8	1.1	0.5	0.5	0.5	0.6
EBITDA	**2.47**	**2.08**	**2.49**	**2.04**	**2.16**	**2.27**	**2.23**	**2.59**
EBITDA margin (%)	16.0	13.4	17.1	13.5	14.6	14.0	14.0	15.4
Operating profit normalised*	**1.98**	**1.63**	**1.80**	**1.00**	**1.73**	**1.79**	**1.82**	**2.10**
Operating profit reported	**1.73**	**1.41**	**1.45**	**0.05**	**1.58**	**1.65**	**1.40**	**1.70**
Operating margin normalised (%)	12.8	10.5	12.3	6.6	11.7	11.0	11.4	12.5
Profit before tax normalised	**2.35**	**1.47**	**1.64**	**0.87**	**1.82**	**1.46**	**1.43**	**1.70**
Profit before tax reported	2.10	1.25	1.30	(0.08)	1.67	1.32	1.01	1.30

Source: Pointer Telocation, Edison Investment Research estimates. Note: *Operating profit before D&A, share-based payments and one-off expenses. Historic data adjusted to eliminate discontinued operation.

Exhibit 2: Pointer Q316 results summary table

$m, US GAAP	Q316	Q315*	% change	9M16	9M15*	% change	H116*	Q216
Revenues from:								
Products	5.39	5.09	6.0	16.95	16.63	1.9	11.56	6.05
Services	10.52	9.47	11.1	30.01	28.84	4.1	19.49	10.17
Change service revenues, local currency (%)	18.0	N/A		15.0	N/A		13.4	20.0
Revenue	**15.92**	**14.56**	**9.3**	**46.96**	**45.46**	**3.3**	**31.04**	**16.21**
Change, local currency (%)	14.0	N/A		14.3	N/A		14.7	15.0
Cost of Products	(3.30)	(3.18)	3.9	(10.48)	(10.08)	3.9	(7.18)	(3.78)
Gross profit Products	**2.1**	**1.9**		**6.5**	**6.5**		**4.4**	**2.3**
Gross margin products (%)	38.8	37.6		38.2	39.4		37.9	37.5
Cost of Services	(4.79)	(4.24)	12.9	(13.56)	(13.62)	(0.4)	(8.77)	(4.70)
Gross profit Services	5.7	5.2		16.4	15.2		10.7	5.5
Gross margin services (%)	54.5	55.2		54.8	52.8		55.0	53.7
Cost of Sales	**(8.09)**	**(7.42)**	**9.0**	**(24.04)**	**(23.70)**	**1.5**	**(15.95)**	**(8.48)**
Gross profit	7.83	7.14	9.6	22.91	21.77	5.3	15.09	7.73
Gross margin (%)	49.2	49.0		47.9	48.8		48.6	47.7
Research and development	**(0.87)**	**(0.82)**	**6.6**	**(2.69)**	**(2.53)**	**6.3**	**(1.82)**	**(0.92)**
% of sales	5.5	5.6		5.7	5.6		5.9	5.7
Selling and marketing	**(3.10)**	**(2.40)**	**29.1**	**(8.71)**	**(7.48)**	**16.5**	**(5.62)**	**(2.97)**
% of sales	19.5	16.5		18.6	16.5		18.1	18.3
General and administrative	**(2.15)**	**(2.20)**	**(2.1)**	**(6.38)**	**(6.59)**	**(3.2)**	**(4.23)**	**(2.09)**
% of sales	13.5	15.1		13.6	14.5		13.6	12.9
EBITDA (continuing operations)	**2.23**	**2.49**	**(10.2)**	**6.66**	**7.04**	**(5.3)**	**4.43**	**2.27**
EBITDA margin	14.0%	17.1%		14.2%	15.5%		14.3%	14.0%
Operating profit normalised	**1.82**	**1.80**	**1.1**	**5.33**	**5.41**	**(1.4)**	**3.52**	**1.79**
Normalised operating margin	11.4%	12.3%		11.4%	11.9%		11.3%	11.0%
One-off items (acquisition-related expenses)	(0.20)	0.00		(0.20)	0.00		0.00	0.00
Operating profit	**1.40**	**1.45**	**(3.5)**	**4.63**	**4.60**	**0.7**	**3.23**	**1.65**
Operating margin (%)	8.80	9.97		9.85	10.11		10.40	10.15
Net finance costs	(0.38)	(0.16)	141.4	(0.62)	0.06	(1,071.9)	(0.24)	(0.32)
Other expenses	(0.01)	0.00		(0.00)	(0.01)		0.00	(0.00)
PBT normalised	**1.43**	**1.64**	**(12.9)**	**4.71**	**5.46**	**(13.8)**	**3.28**	**1.46**
PBT	**1.01**	**1.30**	**(21.8)**	**4.00**	**4.65**	**(13.9)**	**2.99**	**1.32**
Reported tax	(0.30)	(0.31)	(4.5)	(1.15)	(0.96)	20.4	(0.85)	(0.28)
Profit after tax reported	**0.71**	**1.09**	**(34.5)**	**3.00**	**3.86**	**(22.1)**	**2.29**	**0.88**
Minority interests (continuing operations)	(0.00)	0.02	(113.0)	(0.01)	0.08	(117.5)	(0.01)	(0.01)
Profit after tax normalised	**1.13**	**1.35**	**(16.6)**	**3.54**	**4.58**	**(22.8)**	**2.41**	**1.18**
EPS - basic ($)	0.09	0.13	(30.2)	0.38	0.50	(24.7)	0.29	0.11
EPS - diluted ($)	0.09	0.13	(29.5)	0.37	0.49	(23.6)	0.28	0.11
EPS - basic normalised ($)	0.14	0.19	(23.7)	0.46	0.60	(24.0)	0.31	0.15
EPS - diluted normalised ($)	0.14	0.18	(22.9)	0.45	0.58	(22.9)	0.31	0.15
Ratios and balance sheet/cash flow data								
MRM subscribers	**198,000**	**174,000**	**13.8**	**198,000**	**174,000**	**13.8**	**192,000**	**192,000**
Avg. service rev. per MRM subscriber ($/month)	**18.0**	**18.4**	**(2.0)**	**17.7**	**19.0**	**(7.0)**	**17.5**	**18.0**
Operating cash flows	1.43	2.16	(33.8)	6.39	6.30	1.4	4.96	3.44
Cash conversion (Op. CF to operating profit, %)	**1.02**	**1.49**	**(31.3)**	**1.38**	**1.37**	**0.7**	**1.50**	**2.09**
Cash flows from investment	(0.69)	(0.98)	(29.7)	(3.07)	(1.68)	82.4	(2.38)	(1.28)
Purchases of property, plant and equipment	(0.72)	(1.16)	(38.1)	(3.58)	(2.51)	42.5	(2.86)	(1.28)
Cash & cash equivalents	**14.07**	**N/A**	**N/A**	**14.07**	**N/A**	**N/A**	**7.75**	**7.75**
Net debt ($m)	2.23	N/A	N/A	2.23	N/A	N/A	3.17	3.17
Net debt (cash)/Equity (%)	5.17	N/A	N/A	5.17	N/A	N/A	7.64	7.64
Current ratio	1.90	N/A	N/A	1.90	N/A	N/A	1.51	1.51
Quick ratio	1.62	N/A	N/A	1.62	N/A	N/A	1.25	1.25

Source: Pointer Telocation. Note: *Adjusted balance sheet data to reflect the deconsolidation of Shagrir in H116 not available for this period.

Change in earnings forecast: PBT cut 7% in 2016

As shown in Exhibit 3 we have increased our forecasts of group revenues, EBITDA and operating profit in the 2016-18 period. We have nevertheless cut our reported PBT forecast by 7%, in 2016, 3% in 2017 and 2% in 2018 to reflect the following:

- **Increased revenue forecasts 2017-18**: We have increased 2016 year end subscriber numbers from 217.6k to 220.0k to reflect better than forecast 6k net additions in Q3, with a knock-on effect to 2017 and 2018 revenues. Net additions in Q4 will be boosted c 16k by the inclusion of Cielo Telecom customers.
- **We have cut 2016 G&A costs by $0.7m** on the basis that Q4 administrative expenses will remain at around the Q3 level of $2.2m. This represents a 20% reduction on the Q415 sum, which was boosted by costs related to the spin-off of Shagrir, which took place in June 2016.
- **Cielo Telecom one-off acquisition costs**: These amounted to $0.2m in Q316 and were not factored into our forecast. Management have advised of the likelihood of further costs related to this acquisition arising in Q4 leading us to incorporate a further $0.2m expense in the Q4 forecast. These costs are excluded from the normalised profit lines, so only affect the reported results.
- **Increased finance costs** by $0.5m to $1.0m reflect the impact of FX translation losses, which were a contributor to a higher than forecast $0.38m finance charge in Q316. We have increased our finance cost estimates for future years to include FX translation losses of $0.3m a year, which has increased our estimates of finance cost estimates. We continue to assume interest costs of Libor + 3.5% on new debt plus the inclusion of a $0.2m forex-related adjustment.
- **We have adjusted our forecast of 2016 tax expense** by $0.14m to reflect the relatively high effective tax rate of 29% in Q316. It is worth noting that the company is not incurring cash taxes, so this does not affect cash generation.

Exhibit 3: Change in earnings forecast

$m	2015	2016	2016		2017	2017		2018	2018	
		Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
MRM subscribers ('000)	**180.0**	**217.6**	**220.0**	**1.1**	**242**	**244.2**	**1.1**	**268.1**	**271.1**	**1.1**
MRM service ARPU* ($/month)	18.6	17.4	17.4	0.3	16.8	16.8	0.3	16.5	16.6	0.3
Revenue	60.6	63.7	63.7	0.1	70.5	70.8	0.4	75.3	75.7	0.5
Gross profit	**29.3**	**31.1**	**31.1**	**(0.0)**	**34.6**	**34.7**	**0.4**	**37.3**	**37.5**	**0.4**
Gross margin (%)	48.3	48.8	48.8	N/A	49.1	49.0	N/A	49.5	49.5	N/A
Research and development	(3.4)	(3.7)	(3.6)	(1.6)	(3.8)	(3.8)	0.0	(3.8)	(3.8)	0.0
Selling and marketing	(10.5)	(11.6)	(11.8)	1.9	(12.8)	(12.9)	0.7	(13.6)	(13.7)	0.8
General and administrative	(9.3)	(9.2)	(8.5)	(7.0)	(9.7)	(9.7)	(0.1)	(10.2)	(10.2)	(0.1)
Non-cash adjustments/other	2.0	2.1	2.1	(0.6)	2.4	2.4	0.5	2.9	2.9	0.6
EBITDA	**8.1**	**8.8**	**9.3**	**5.2**	**10.7**	**10.7**	**0.5**	**12.5**	**12.6**	**0.7**
EBITDA margin (%)	13.4	13.8	14.5	N/A	15.2	15.2	N/A	16.6	16.7	N/A
Operating profit normalised	**6.4**	**7.0**	**7.4**	**6.6**	**8.6**	**8.7**	**0.5**	**9.9**	**10.0**	**0.8**
Operating profit reported	**4.6**	**6.3**	**6.3**	**1.1**	**8.0**	**8.0**	**0.6**	**9.3**	**9.4**	**0.8**
Operating margin normalised (%)	10.6	10.9	11.7	N/A	12.2	12.3	N/A	13.2	13.2	N/A
Finance costs	(0.1)	(0.6)	(1.0)	85.2	(0.6)	(0.8)	48.1	(0.3)	(0.6)	72.6
Profit before tax normalised	**6.3**	**6.4**	**6.4**	**(0.4)**	**8.1**	**7.9**	**(2.8)**	**9.6**	**9.4**	**(1.8)**
Profit before tax reported	**4.6**	**5.7**	**5.3**	**(7.2)**	**7.4**	**7.2**	**(3.0)**	**9.0**	**8.8**	**(1.9)**
EPS - diluted normalised ($)	0.62	0.60	0.62	2.3	0.73	0.74	0.6	0.86	0.87	1.6
EPS - basic reported ($)	0.49	0.55	0.51	(8.5)	0.70	0.68	(2.9)	0.84	0.82	(1.8)

Source: Pointer Telocation accounts, Edison Investment Research. Note: *Average revenue per month.

Valuation: Attractive 37% forward P/E sector discount

Exhibit 4: Peer valuation comparison

$m	Main focus	Share price* (lc)	Market cap ($m)	Current sales ($m)(e)	EBITDA margin this yr (e)	Current EV/S (e)	Next EV/S	Current EV/ EBITDA (e)	Next EV/ EBITDA (e)	Current P/E (e)	Next P/E (e)	Last div yield	Net debt (cash)/ equity
Pointer Telocation	**Isr, Latam, SA**	**$7.60**	**59**	**64**	**14.5%**	**1.0**	**0.9**	**7.1**	**6.1**	**12.3**	**10.3**	**0.0%**	**10.8%**
CalAmp Corp	NAM	15.6	568	352	14.1%	1.4	1.3	9.7	8.4	14.4	12.7	0.0%	-15.6%
Fleetmatics Group	NAM	60.0	2,355	344	33.4%	6.4	5.4	19.2	15.5	33.9	27.5	0.0%	-6.4%
ID Systems Inc	NAM	4.9	68	36	-10.7%	1.7	1.4	neg.	35.0	neg.	26.5	0.0%	-7.0%
Ituran	**Isr, Brzl, Arg**	**24.4**	**573**	**197**	**30.9%**	**2.8**	**2.6**	**8.9**	**8.0**	**17.3**	**14.1**	**0.0%**	**-5.0%**
MiX Telematics	SA	5.8	141	107	18.9%	0.7	0.7	3.9	3.4	20.0	16.2	1.2%	-46.5%
Numerex Corp	NAM	8.5	166	71	5.3%	2.4	2.2	44.8	16.5	neg.	77.0	0.0%	1.9%
ORBCOMM Inc	US/Europe	8.9	632	189	24.7%	4.0	3.6	16.1	13.4	neg.	neg.	0.0%	19.6%
Sierra Wireless Inc	NAM	15.7	502	615	6.0%	0.7	0.7	12.2	10.2	28.2	21.6	0.0%	-9.9%
Trakm8 Holdings	UK	122.5	50	42	21.2%	1.2	1.1	5.7	4.6	7.8	6.8	1.7%	2.7%
QUALCOMM Inc	NAM	68.3	100,857	24,060	39.3%	3.3	3.3	8.5	7.7	14.4	13.5	3.0%	-20.4%
Quartix Holdings	UK	332.5	196	28	30.1%	6.8	6.4	22.7	20.6	28.7	25.6	1.6%	-1.9%
Average/Median* (multiples)			**8,847**	**2,175**	**20.1%**	**2.1**	**1.8**	**9.7**	**9.3**	**17.3**	**16.2**	**0.0%**	**-5.7%**
Average/Median* - market cap <$300m			**113**	**86**	**16.7%**	**1.5**	**1.3**	**7.1**	**11.3**	**16.1**	**20.9**	**0.6%**	**0.0%**
Average/Median* Ituran/MiX Telematics			**357**	**357**	**24.9%**	**1.7**	**1.6**	**6.4**	**5.7**	**18.6**	**15.2**	**0.6%**	**-25.8%**
PTNR premium/(discount) to peers						**(49.9)**	**(49.0)**	**(26.5)**	**(34.2)**	**(29.0)**	**(36.7)**	**N/A**	**N/A**
PTNR premium/(discount) to peers MCAP<$300m						(29.6)	(26.2)	0.0	(45.8)	(23.9)	(50.8)	N/A	N/A
PTNR premium/(discount) to Ituran/MiX Telematics average						(40.5)	(42.9)	11.0	7.9	(34.1)	(32.2)	N/A	N/A
PTNR premium/(discount) to Ituran						**(62.6)**	**(64.0)**	**(20.6)**	**(23.1)**	**(29.0)**	**(27.1)**	**N/A**	**N/A**

Source: Edison Investment Research, Bloomberg. Note: *Median applied to multiples only to remove effect of outliers. NAM = North America. Priced as at 28 November 2016.

PNTR currently trades on a high 37% discount to the forward sector P/E. We continue to derive a valuation of $8.85 (NIS33.9) from our peer-based valuation.

We attain this by applying a discount of 10% to Ituran and 20% to the sector's prospective current year EV/EBITDA and P/E multiples. These discounts take into account Pointer's below average market capitalisation/trading volumes versus Ituran and the sector as a whole, but also its strengths in its strong new product pipeline, its recent acquisition of Cielo Telecom in Brazil, its well-funded balance sheet, non-cash tax position and its potential to participate in further sector consolidation.

Exhibit 5: Pointer Telocation DCF analysis

$m	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e norm.
Revenue	**63.7**	**70.8**	**75.7**	**79.7**	**82.5**	**85.1**	**87.9**	**90.6**	**93.3**	**96.1**	**98.5**
change yoy (%)	5.2	11.1	6.9	5.2	3.5	3.2	3.3	3.0	3.0	3.0	2.5
EBITDA	**9.3**	**10.7**	**12.6**	**14.1**	**15.1**	**16.1**	**17.0**	**17.6**	**18.2**	**18.7**	**19.2**
EBITDA margin (%)	14.5	15.2	16.7	17.7	18.3	18.9	19.3	19.5	19.5	19.5	19.5
change yoy (%)	14.3	16.0	17.6	12.0	6.6	6.6	5.8	3.6	3.3	2.9	2.5
Change in working capital	(0.7)	(0.5)	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Working capital/sales (%)	(1.2)	(0.8)	(0.5)	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Capex, net of PPE sales	(3.0)	(3.9)	(4.2)	(4.5)	(4.7)	(4.9)	(5.1)	(5.3)	(5.5)	(5.7)	(5.9)
Capex/sales (%)	(4.8)	(5.5)	(5.6)	(5.7)	(5.7)	(5.8)	(5.8)	(5.8)	(5.9)	(5.9)	(5.9)
Tax	0.0	(1.1)	(1.1)	(2.5)	(2.7)	(2.9)	(3.0)	(3.1)	(3.2)	(3.3)	(3.3)
Acquisitions	(8.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cashflow	**(3.4)**	**5.2**	**6.9**	**6.8**	**7.5**	**8.1**	**8.7**	**9.1**	**9.4**	**9.6**	**9.8**
Terminal value											133.5
Total cashflow	(3.4)	5.2	6.9	6.8	7.5	8.1	8.7	9.1	9.4	9.6	143.3
Discounted cashflows	**(3.4)**	**4.7**	**5.7**	**5.1**	**5.1**	**5.0**	**4.9**	**4.6**	**4.4**	**4.1**	**55.0**
Sum of discounted CFs	95.2	RFR				6.6%					
Net debt (cash)	6.0	WACC				10.0%					
Equity valuation	89.2	Terminal growth rate				2.5%					
Number of shares, diluted	7.9	Terminal value/EV				54%					
Value per share (NIS)	**43.7**	**Value per share ($)**				**11.3**					

Source: Edison Investment Research

Following our forecast revisions, which have boosted our operating cash flow expectations, our DCF valuation has increased from $11.1 (NIS42.6) to $11.3 (NIS43.7) per share.

Exhibit 6: Financial summary

$m	2015	2016e	2017e	2018e	2019e
Year end 31 December	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
INCOME STATEMENT					
Revenue	60.57	63.74	70.81	75.69	79.66
Cost of Sales	(31.31)	(32.64)	(36.09)	(38.20)	(39.77)
Gross Profit	29.25	31.10	34.71	37.49	39.89
Selling and marketing	(10.47)	(11.81)	(12.85)	(13.74)	(14.46)
General and administrative	(9.28)	(8.53)	(9.74)	(10.21)	(10.66)
Research and development	(3.41)	(3.63)	(3.77)	(3.84)	(4.05)
EBITDA	8.10	9.26	10.74	12.62	14.14
Normalised operating profit	6.40	7.43	8.68	10.02	11.06
Amortisation of acquired intangibles	(0.54)	(0.39)	(0.32)	(0.29)	(0.26)
Exceptionals	(0.91)	(0.40)	0.00	0.00	0.00
Share-based payments (inc. In COGS)	(0.31)	(0.32)	(0.32)	(0.33)	(0.33)
Reported operating profit	4.64	6.33	8.04	9.41	10.46
Net Interest	(0.06)	(1.03)	(0.83)	(0.58)	(0.40)
Profit before tax (norm)	6.32	6.40	7.85	9.44	10.66
Profit before tax (reported)	4.57	5.30	7.21	8.83	10.07
Reported tax	(1.31)	(1.48)	(1.80)	(2.21)	(2.52)
Profit after tax (norm)	5.02	4.92	6.05	7.23	8.14
Profit after tax (reported)	3.26	3.82	5.41	6.62	7.55
Minority interests	0.00	(0.02)	(0.02)	(0.03)	(0.03)
Discontinued operations	0.54	0.15	0.00	0.00	0.00
Net income (normalised)	4.95	4.94	6.02	7.20	8.11
Net income (reported)	3.80	3.96	5.38	6.59	7.52
Basic average number of shares outstanding (m)	7.73	7.82	7.92	8.02	8.12
EPS – basic normalised ($)	0.64	0.63	0.76	0.90	1.00
EPS – diluted normalised ($)	0.62	0.62	0.74	0.87	0.97
EPS – basic reported ($)	0.49	0.51	0.68	0.82	0.93
Dividend ($)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	N/A	5.2	11.1	6.9	5.2
Gross margin (%)	48.3	48.8	49.0	49.5	50.1
EBITDA margin (%)	13.4	14.5	15.2	16.7	17.7
Normalised operating margin (%)	10.6	11.7	12.3	13.2	13.9
BALANCE SHEET					
Fixed assets	68.78	51.66	53.17	54.52	55.70
Intangible assets	31.83	40.02	39.70	39.41	39.15
Tangible assets	3.28	4.16	5.99	7.62	9.06
Investments & other	33.67	7.49	7.49	7.49	7.49
Current assets	34.66	22.04	21.30	25.02	32.42
Stocks	4.70	4.56	5.04	5.34	5.56
Debtors	11.09	11.87	13.19	14.10	14.84
Cash & cash equivalents	7.25	3.80	1.21	3.67	10.06
Other	11.62	1.80	1.85	1.91	1.97
Current liabilities	(30.45)	(17.19)	(17.50)	(17.55)	(18.25)
Creditors	(9.82)	(11.49)	(12.71)	(13.51)	(14.16)
Short-term borrowings	(4.82)	(5.00)	(4.00)	(3.20)	(3.20)
Other	(15.81)	(0.71)	(0.78)	(0.84)	(0.88)
Long-term liabilities	(17.95)	(13.01)	(6.76)	(3.49)	(3.24)
Long-term borrowings	(8.39)	(9.74)	(3.79)	(0.79)	(0.79)
Other long-term liabilities	(9.57)	(3.27)	(2.97)	(2.70)	(2.45)
Net assets	55.04	43.49	50.21	58.50	66.63
Minority interests	(1.07)	0.14	0.11	0.07	0.07
Shareholders' equity	53.97	43.63	50.32	58.58	66.70
CASH FLOW					
Operating cash flow before WC and tax	8.10	9.26	10.74	12.62	14.14
Working capital	(0.31)	(0.74)	(0.55)	(0.41)	(0.32)
Exceptional & other	2.20	0.43	0.00	0.00	0.00
Tax	(0.23)	0.00	(1.08)	(1.10)	(2.52)
Net operating cash flow	9.76	8.94	9.11	11.11	11.30
Capex	(3.62)	(4.15)	(4.23)	(4.60)	(4.91)
Acquisitions/disposals	0.00	(8.90)	0.00	0.00	0.00
Net interest	(0.89)	(1.03)	(0.83)	(0.58)	(0.40)
Equity financing	0.02	0.00	0.00	0.00	0.00
Dividends	0.00	0.00	0.00	0.00	0.00
Other, incl.PPE sales	1.26	0.43	0.31	0.33	0.39
Net cash flow	6.53	(4.71)	4.36	6.26	6.39
Opening net debt/(cash)	9.22	5.95	10.94	6.58	0.32
FX	(0.19)	(0.28)	0.00	0.00	0.00
Other non-cash movements	(3.07)	0.00	0.00	0.00	0.00
Closing net debt/(cash)	5.95	10.94	6.58	0.32	(6.07)

Source: Pointer Telocation accounts, Edison Investment Research

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