

## Datron

Engineering

6 March 2018

### FY17 results: Growth continues

2017 was another year of healthy growth extending Datron's powerful recovery following the years of economic crisis. On the basis of management guidance for the current year, the shares trade at 15.0x earnings. Further growth is expected in 2019 which could drive margins to the previous level of 10% and beyond.

### 2017 broadly in line with expectations

Turnover in 2017 rose by 8% to €49.3m and operating EBIT was up an impressive 33% to €3.9m. These compare with guidance at the H1 results of turnover of at least €50m and EBIT of approximately €4m. Both sales and operating EBIT softened in H217 after healthy increases in the first half. Adjusted EPS for the year was €0.69. This underpinned a 33% increase in the dividend to €0.20. By contrast to the lower turnover, order inflow growth accelerated to 22% in H2 making for a 13% increase for the full year. This boosted the book/bill ratio excluding purely technical turnover items to 1.05x up from 1.01x in 2016.

### Core CNC HSM milling machines drive business

The main driver was the core computer numerically controlled high-speed milling (CNC HSM) machines segment where performance broadly mirrored results for the group as a whole with turnover growth of 12% and order inflow growth of 16%. The replacement tools segment was another noteworthy performer with a 14% rise in turnover to €10.4m, in this case spread evenly across the two halves. Here, sales of tools for third-party manufacturers' machines continue to grow in importance. The expanding installed base of machines (principally CNC HSM) helped drive a 14% increase in after sales and other revenue. There were no new product launches in either of the smaller machine segments, dental and dispense systems although the biennial trade fair effect helped drive a recovery in dental sales.

### Strong outlook for 2018

The most important feature of 2018 at a product level will be the full-scale roll-out of the 'next' tablet-based control system, which appears in the CNC HSM machine segment. Management expects another year of growth and guides to turnover of €55m (up 12%), EBIT of €5.0m (up 37%) and EPS of €0.87 (up 26%). Management expects little expansion of the cost base so there should be a straightforward overhead recovery effect on operating margin which is guided at 9.1% up from 7.9%. Growth in 2018 will be bunched in the second half.

#### Historical financials and management guidance

Year end	Revenue (€000s)	EBIT (€000s)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	43,220	3,262	0.56	0.10	23.9	0.7
12/16	45,683	2,925	0.52	0.15	25.8	1.1
12/17	49,325	3,901*	0.69*	0.20	19.4	1.5
12/18e	55,000	5,000	0.87	N/A	15.4	N/A

Source: Datron data and management guidance for 2018. Note: \*Excludes capital gain.

Price €13.40

Market cap €54m

#### Share price graph



#### Share details

Code	DAR
Listing	Deutsche Börse Scale
Shares in issue	4m
Last reported cash as at 30 June 2017	€5.6m

#### Business description

Datron makes CNC high-speed milling (HSM) machines and associated tools. 56% of revenue comes from generalist machines used by widely diversified clients. Less volatile revenue sources – "after sales" (16%) and replacement tools (21%) – are growing in importance.

#### Bull

- Growing sales from repeat business: after sales and tools.
- HSM demand still growing.
- Technologically advanced and innovative.

#### Bear

- Small size relative to global market.
- Sales of dental HSM machines far below peak.
- Lack of market data creates risk of surprises.

#### Analyst

Adrian Phillips +44 (0)20 3077 5700  
[industrials@edisongroup.com](mailto:industrials@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## FY17 broadly in line with expectations

Turnover in 2017 rose by 8% to €49.3m and reported EBIT was up 63% to €4.8m including a €870,000 capital gain on the sale of the UK affiliate. Excluding the capital gain, operating EBIT was still up an impressive 33% to €3.9m. These compare with guidance at the time of the half year results of turnover of at least €50m and EBIT of approximately €4m. Both sales and operating EBIT softened in H217 after healthy increases in the first half. FY17 EPS came out at €0.90 including the capital gain compared to guidance of €0.91 at the half year stage, or €0.69 excluding the capital gain. This underpinned a 33% increase in the dividend to €0.20.

Much of the company's commercial success can be attributed to a high level of R&D spend which has sustained product renewal. R&D spend in 2017 was maintained at the high level of €4m, charged fully to revenue.

The company also gave a consolidated profit figure (including the newly established subsidiaries in France and Austria) of €4.08m excluding the capital gain. Together, the subsidiaries contributed €179,000 with Datron France (founded in 2016) contributing €160,000 suggesting that Austria (founded in 2017) is profitable. It is impressive that these businesses have emerged so rapidly from the start-up phase.

In contrast to turnover, order inflow growth accelerated to 22% in H217 resulting in a 13% increase for the full year. This boosted the book/bill ratio excluding purely technical turnover items to 1.05x up from 1.01x in 2016.

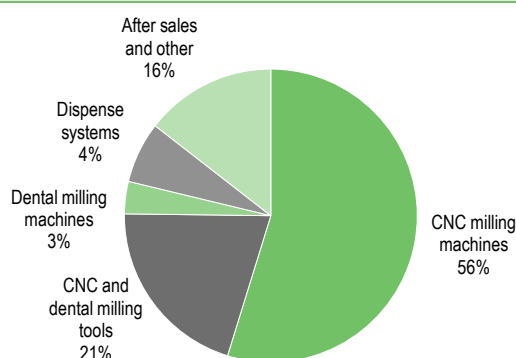
### Exhibit 1: Financial performance

	H116	H216	FY16	H117	H217	FY17
Turnover	19,767	25,916	45,683	23,552	25,773	49,325
Change				19%	-1%	8%
Order inflow	23,352	22,051	45,403	24,270	26,999	51,269
Change				4%	22%	13%
EBIT (ex capital gain)	20	2,905	2,925	1,306	2,595	3,901
Change				N/M	-11%	33%

Source: Datron

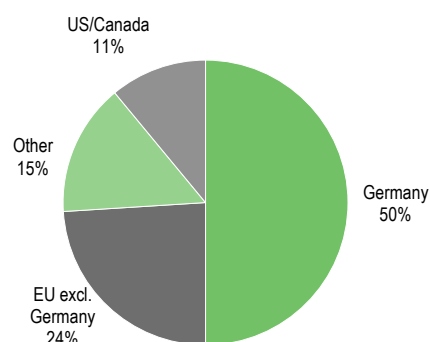
## Revenues by segment/division

### Exhibit 2: Revenues by segment, 2017



Source: Datron data

### Exhibit 3: Revenues (excluding 'miscellaneous') by geography, 2017



Source: Datron data

The continuing expansion of the international business diluted the contribution from Germany to 50% from 54% in 2016. This was largely driven by the strong growth in sales in North America which were up an estimated 55%; the US is now the largest single national market after Germany. The domestic share remains typically high for a machine tool maker. Other strong national markets include France (perhaps helped by the new regional presence) and Russia.

## Core CNC HSM machines drive business

---

There were distinct differences in the contributions from Datron's product areas to financial performance. The main driver was the core CNC HSM machines segment where the performance broadly mirrored the results for the group as a whole with turnover growth of 12% to €27.5m and order inflow growth of 16%. Again, the split across the two halves saw a decline in turnover in H217 (5%), but a powerful (25%) improvement in order inflow. CNC HSM machines accounted for 270 of the 370 machines of all types sold in the year – 150 of these were the higher-end MXCube and 120 the compact neo range.

The replacement tools segment was another noteworthy performer with a 14% rise in turnover to €10.4m, in this case spread evenly across the two halves. Here, sales of tools for third-party manufacturers' machines continue to grow in importance especially in sales of tools for dental applications where sales of tools for third-party machines now account for half of the total. This compares with only a tenth of CNC HSM tools sold for third-party machines. The expanding installed base of machines (principally CNC HSM) helped drive a 14% increase in after sales and other revenue.

There were no new product launches in either of the smaller machine segments, dental and dispense systems. Second half sales in dental machines showed a 77% rise in turnover and 115% in order inflow albeit from low bases. The biennial dental fair in the spring gave its accustomed fillip to business but it is possible that Datron is reaping the first fruits of its strategic decision to concentrate on high-end machines. Turnover in dispense systems fell 46% in 2017.

## Strong outlook for 2018

The most important feature of 2018 at a product level will be the full-scale roll-out of the 'next' tablet-based control system. It should drive growth in the CNC HSM machine segment. Initially, the 'next' system will be offered exclusively on Datron's own machines but may ultimately be made available for third-party machines.

Management expects 2018 to be another year of growth and guides to turnover of €55m (up 12%), EBIT of €5.0m (up 37%) and EPS of €0.87 (up 26%). According to management, there will be little expansion of the cost base so there will be a straightforward overhead recovery effect on operating margin which is guided to expand to 9.1% from 7.9% in 2017. Presumably, some increase is expected in the tax rate, explaining the slower growth at the net level. Growth in 2018 will be second half weighted as turnover of €25m (up 3% y-o-y) is expected in the first half.

Management sees potential for further growth in 2019 and holds out the prospect of returning to a pre-economic crisis 10% EBIT margin even if sales growth decelerates to €60m for the year.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.