

## DATRON

**Engineering**
**22 May 2019**

### DATRON delivers

More good news from DATRON as confirmation of targeted growth in 2018 (revenue up 11% at enhanced like-for-like margin) has been accompanied by similarly positive guidance for the current year. Gains should continue to be investment-led, epitomised by the full-scale roll-out of the company's 'next' tablet-based control system, driving demand in its key CNC milling machine segment, and by initial benefits from its specialist tool technology operation. Strong finances (c €10m net cash at end 2018) support investment (R&D 7% of 2018 sales) and dividend growth.

### H2 consolidation

H118 saw initial half-year group figures, hence there are no available comparatives for the previous period. However, the dominance of parent company DATRON AG in the group allows its performance to be taken as a good proxy. Buoyed by a high order backlog and above-trend margin in Q2, H1 was a hard act to follow with a near-doubling of EBIT, adjusted for the comparative's €0.9m capital gain. Nonetheless, as detailed on page 2, H2 saw a creditable double-digit per cent rise in year-on-year revenue at superior margin to the first half. This was driven by CNC milling machines, DATRON's largest division, which was spurred by interest at Q3's landmark AMB exhibition. Strategic expansion of international business was checked by domestic buoyancy; while overseas sales were flat, Germany was up by a quarter.

### Strong prospects

Investment payoff and generally positive macro factors underpin 2019 guidance of revenue slightly in excess of €60m. This seems reasonable as targeted 8–10% organic growth is below that of 2018 (11%) and there will be an initial small contribution (c €1m) from the recent Slovakia/Czech acquisition. EBIT is expected to rise broadly in line with revenue and EPS somewhat faster (up 21% to €1.05). Management advice that profit should be H2-oriented may mitigate concern that sales and in particular EBIT were down in Q1 and Q2 guidance is for a likely shortfall on an admittedly bumper EBIT comparative.

### Valuation: Long-term appeal

Protracted share price consolidation was to be expected after the step-change in 2017 (up 35%). DATRON's valuation reflects a greatly improved outlook, the stability of its model and increasing evidence of sustained profit progression.

#### Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	50.2	3.9*	0.99	0.20	12.2	1.7
12/18	55.7	5.1	0.87	0.20	13.9	1.7
12/19e	60.0	6.1	1.07	0.30	11.3	2.5
12/20e	66.0	6.9	1.22	0.40	9.9	3.3

Source: DATRON accounts, Refinitiv estimates. Note: \*Excludes exceptional gains of €0.9m on sale of business and €0.4m on consolidation.

**Price** €12.10  
**Market cap** €48m

#### Share price graph



#### Share details

Code	DAR
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Net cash at December 2018	€9.9m

#### Business description

DATRON is a long-established provider of innovative CNC milling machines, dental milling machines, dosing machines and milling tools.

#### Bull

- Strong growth in recurrent income (after sales and tools) with medium-term target 45% of revenue. Enhances client retention.
- High-speed milling 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.

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## Review of 2018 results

H118 saw initial half-yearly group figures, so there are no available comparatives for the previous period. However, the dominance of parent company DATRON AG in the group allows its performance to be taken as a good proxy.

For the full year revenue rose by 11% to €55.7m but reported EBIT was marginally lower. This was due to inclusion in 2017 of a €870,000 capital gain on the sale of the UK affiliate and €0.4m on consolidation (initial presentation of group figures). Adjusting for these, EBIT was up impressively in 2018 by a third. These compare with guidance at the half-year results of revenue of c €55m and unadjusted EBIT of c €5m, hence expectations were fully met despite a slight moderation in EBIT gain in the second half.

Management justifiably attributes much of the company's commercial success to its continued high level of R&D spend, which has sustained product renewal. R&D spend in 2018 was maintained at the high level of €4m, charged fully to revenue.

Order inflow was less buoyant but should be viewed against a particularly strong close to 2017 (up 22% in H2). This reduced the book/bill ratio to 1.0x, marginally down year-on-year.

### Exhibit 1: Financial performance

Year end December (€m), HGB	H117	H217	FY17	H118	H218	FY18
	Parent	Parent	Group	Group	Group	Group
Revenue	23.6	25.8	50.2	26.9	28.8	55.7
Change (%)	+19%	-1%	+10%	N/A	N/A	+11%
Order intake	24.3	27.0	51.9	24.6	30.2	54.8
Change	+4%	+22%	N/A	N/A	N/A	+6%
EBIT	1.3	2.6	3.9*	2.4	2.7	5.1
Margin	5.5%	10.1%	7.8%	9.0%	9.4%	9.2%

Source: DATRON accounts. Note: \*Excludes exceptional gains of €0.9m on sale of business and €0.4m on consolidation.

Demand was stronger domestically than from abroad, thereby bucking the company's trend of internationalisation. A top-line rise of a quarter in Germany against a flat outturn elsewhere meant a domestic share of revenue of 55%, reversing the shift in 2017 (50%). This proportion is typically high for a machine tool maker and reflected the particular success of the new milling machines. International sales were inevitably patchy with buoyancy in the EU, resilience at a high level in the US (DATRON's largest market outside Germany) and sharp declines in previously strong Russia.

## Core CNC HSM machines continue to drive business

There were distinct differences in the contributions from DATRON's product areas to financial performance. An accelerating influence was the core CNC high-speed milling (HSM) machines segment with turnover growth of 14% to €32m (58% of group sales). CNC HSM machines accounted for 290 of the 370 machines of all types sold in the year (similar to 2017) – over 150 of these were the DATRON neo and c 140 the M8/MLCube.

The expanding installed base of machines (principally CNC HSM) helped drive a 15% increase in after sales and other revenue to €8.7m. The replacement tools segment also maintained strong momentum (up 14% in 2017). Here, sales of tools for third-party manufacturers' machines grow in importance, especially in sales of tools for dental applications where sales of tools for third-party machines now account for half the total.

From 2019 machine segments CNC milling, dosing and dental will be shown as a single division.

## **Set fair**

"Agenda 2025" remains the focus of DATRON's activities this year. This is exemplified by the continued roll-out of the 'next' tablet-based control system, which should drive growth in the CNC HSM machine segment. Also the new tool technology business (initial €2m investment) became productive at the start of the year and should boost an already successful tool business. Europe, the US and Asia are still key areas for expansion.

Management expects 2019 to be another year of growth and guides to turnover of €60m+, EBIT margin of 10% (9.2% in 2018 and adjusted 7.8% in 2017) and EPS of €1.05. Reassuringly, against 11% higher revenue last year, labour cost inflation was checked at under 8% and other operating costs at just +2%.

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