

Buy (old: Buy)

22.11.2024

EUR 11.70 (old: EUR 11.70)

Strongly improved Q3 beats profitability estimates; chg.

Q3 sales came in at € 21.7m (eNuW: € 21.6m), implying a 5.9% yoy increase. This was mainly based on an improved seat base of 666k (+3.1% yoy) as well as up-selling effects leading to an improved blended ARPU (ex SIP trunk) of € 9.88 (vs € 9.73 in 9M '23). Further, we saw a first improvement of non-recurring hardware sales, which increased 6.1% yoy to € 1.2m (vs -12.1% in H1 '24). Recurring sales increased by 5.9% yoy to € 20.5m, implying a **recurring revenue ratio of 94.9%**.

Q3 adj. EBITDA improved disproportionately to € 3.5m (+35% yoy; eNuW: € 2.9m), implying a margin of 16.3% (+3.6pp yoy). This should have been partly driven by the improved gross margin (+1.1pp yoy to 85.6%) as well as the imposed efficiency measures in personnel (cost ratio -1.4pp yoy) and other OpEx (-0.6pp yoy). Unadjusted EBITDA came in at € 3.1m, up from € 2.3m in the same period last year. Despite this, FCF came in weaker than expected at € 0.7m, which was mainly caused by an unfavorable WC swing in Q3. Yet **FCF at 9M significantly improved yoy to € 2.7m** (vs € 0.8m at 9M '23).

Against this backdrop **management confirmed the FY guidance** of mid-to-upper SD-% recurring revenue growth, although specifying it to the lower end (eNuW: +5.2% yoy), adjusted EBITDA of € 10-12m (eNuW: € 12.0m) as well as a recurring revenue ratio of 90+%, which should be easily achieved given the 9M ratio of 94.3%. Our recurring revenue estimate hereby implies 6.1% growth in Q4 as well as an adjusted EBITDA of € 2.9m, which should be in the cards given the strong Q3 figure. Mind you, the guidance does not include the acquisition of botario, which was closed at the end of Q3.

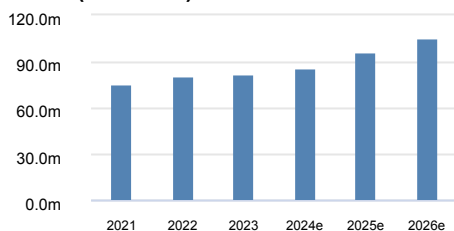
Speaking of which, management provided more detail on the deal, disclosing a **purchase price of € 18.1m** implying a 34x EV/EBITDA, whereby € 10.9m were paid at closing with the remainder being subject to earn-outs. While this does not look cheap at first glance, mind you that **botario is projected to achieve 40+% top-line growth with EBITDA margins north of 30%** going forward. Moreover, it **significantly enhances NFON's AI capabilities and creates valuable cross-selling opportunities**. We therefore regard the deal as strategically highly reasonable.

Valuation continues to be attractive given that shares are trading at 7.1x EV/adj. EBITDA '24e (5.1x '25e) and an adj. FCFY25e of 13.7%. We hence reiterate **BUY with an unchanged € 11.70 PT** based on DCF and confirm the stock as one of our top-picks in our NuWays Alpha List.

Y/E 31.12 (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	75.9	80.8	82.3	86.1	97.1	106.2
Sales growth	12.3%	6.5%	1.9%	4.6%	12.7%	9.4%
Adj. EBITDA	-1.3	-1.0	8.4	12.0	15.7	19.0
Net debt (if net cash=0)	-22.6	-7.4	-2.4	3.8	-1.8	-8.9
FCF	-9.7	-12.4	1.0	3.8	5.5	7.1
Net Debt/EBITDA	0.0	0.0	0.0	0.4	0.0	0.0
EPS pro forma	-0.54	-0.94	-0.05	0.12	0.34	0.48
Adj. EBITDA margin	-1.7%	-1.2%	10.2%	13.9%	16.2%	17.9%
ROCE	-12.5%	-19.8%	-0.8%	4.5%	11.0%	15.5%
EV/sales	3.5	0.9	1.0	1.0	0.8	0.7
EV/adj. EBITDA	-204.6	-74.5	9.5	7.1	5.1	3.8
PER	-9.2	-5.2	-103.8	40.9	14.4	10.3
Adjusted FCF yield	-1.6%	-9.9%	5.7%	9.2%	13.7%	11.5%

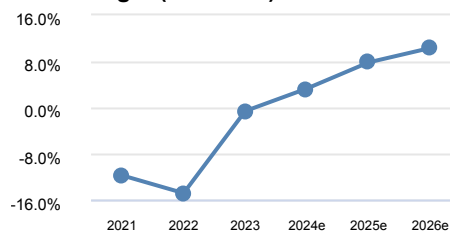
Source: Company data, NuWays, Close price as of 20.11.2024

Sales (2021-26e)



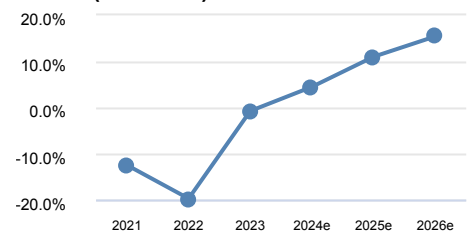
Source: NuWays Research

EBIT margin (2021-26e)



Source: NuWays Research

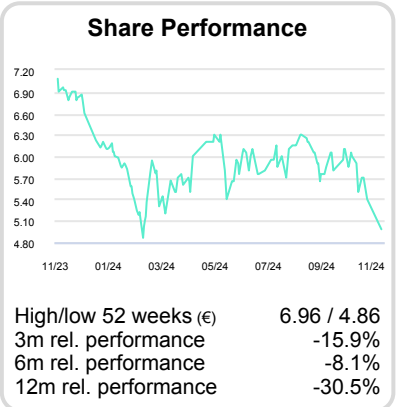
ROCE (2021-26e)



Source: NuWays Research

Company description

NFON is the German market leader for integrated business communication. NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications.



Market data

Share price (in €)	4.98
Market cap (in € m)	81.8
Number of shares (in m pcs)	16.6
Enterprise value (in € m)	85.6
Ø trading volume (6 months)	3,049

Identifier

Bloomberg	NFN GR
Reuters	NFN
WKN	A0N4N5
ISIN	DE000A0N4N52

Key shareholders

Milestone Venture Capital	31.9%
AOC	27.6%
Universal	8.3%
Teslin	7.0%
Morgan Stanley	6.0%
Free Float	19.2%

Estimates changes

	2024e	2025e	2026e
Sales	0%	3%	4%
EBIT	29%	7%	7%
EPS	17%	2%	3%

Comment on changes

- Changes reflect the Q3 results as well as the acquisition of botario following the closing of the deal.

Guidance

- ARR: mid- to upper-single-digit-% growth & >90% ratio
- Adj. EBITDA: € 10-12m

Financials

Profit and loss (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net sales	75.9	80.8	82.3	86.1	97.1	106.2
<i>Sales growth</i>	12.3%	6.5%	1.9%	4.6%	12.7%	9.4%
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0
Total sales	75.9	80.8	82.3	86.1	97.1	106.2
Other operating income	0.6	1.1	0.9	0.6	1.0	1.1
Material expenses	14.5	14.4	13.0	13.2	14.6	15.4
Personnel expenses	31.7	37.4	34.9	34.5	37.1	39.8
Other operating expenses	32.3	35.3	28.6	28.4	31.1	33.5
EBITDA	-2.0	-5.3	6.8	10.7	15.3	18.6
Adjustments	0.7	4.3	1.6	1.3	0.4	0.4
Adj. EBITDA	-1.3	-1.0	8.4	12.0	15.7	19.0
Depreciation	3.2	3.3	3.5	3.5	3.7	3.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	3.7	3.4	3.9	4.4	4.0	4.3
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	-9.0	-12.0	-0.5	2.8	7.6	11.0
Interest income	0.0	0.0	0.2	0.3	0.3	0.4
Interest expenses	0.3	0.2	0.4	0.8	0.8	0.8
Investment income	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	-0.3	-0.2	-0.2	-0.5	-0.5	-0.4
Recurring pretax income from continuing operations	-9.2	-12.2	-0.7	2.4	7.1	10.6
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	-9.2	-12.2	-0.7	2.4	7.1	10.6
Income tax expense	0.4	0.1	0.1	0.4	1.4	2.7
Net income from continuing operations	-8.9	-15.6	-0.8	2.0	5.7	8.0
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	-8.9	-15.6	-0.8	2.0	5.7	8.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (reported)	-8.9	-15.6	-0.8	2.0	5.7	8.0
Average number of shares	16.6	16.6	16.6	16.6	16.6	16.6
EPS reported	-0.54	-0.94	-0.05	0.12	0.34	0.48

Profit and loss (common size)	2021	2022	2023	2024e	2025e	2026e
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Sales growth</i>	12.3%	6.5%	1.9%	4.6%	12.7%	9.4%
Increase/decrease in finished goods and work-in-process	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other operating income	0.7%	1.3%	1.1%	0.7%	1.0%	1.0%
Material expenses	19.0%	17.8%	15.8%	15.3%	15.0%	14.5%
Personnel expenses	41.8%	46.3%	42.4%	40.0%	38.2%	37.5%
Other operating expenses	42.6%	43.7%	34.7%	32.9%	32.0%	31.5%
EBITDA	-2.6%	-6.5%	8.3%	12.4%	15.8%	17.5%
Adjustments	0.9%	5.3%	1.9%	1.5%	0.4%	0.4%
Adj. EBITDA	-1.7%	-1.2%	10.2%	13.9%	16.2%	17.9%
Depreciation	4.2%	4.1%	4.2%	4.1%	3.8%	3.1%
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	4.9%	4.3%	4.7%	5.1%	4.1%	4.0%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (inc revaluation net)	-11.8%	-14.9%	-0.6%	3.3%	7.8%	10.3%
Interest income	0.0%	0.0%	0.2%	0.4%	0.3%	0.4%
Interest expenses	0.4%	0.2%	0.4%	0.9%	0.8%	0.7%
Investment income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial result	neg.	neg.	neg.	neg.	neg.	neg.
Recurring pretax income from continuing operations	-12.1%	-15.1%	-0.8%	2.7%	7.3%	10.0%
Extraordinary income/loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings before taxes	-12.1%	-15.1%	-0.8%	2.7%	7.3%	10.0%
Tax rate	3.4%	-1.1%	-14.2%	15.0%	20.0%	25.0%
Net income from continuing operations	-11.7%	-19.3%	-1.0%	2.3%	5.9%	7.5%
Income from discontinued operations (net of tax)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	-11.7%	-19.3%	-1.0%	2.3%	5.9%	7.5%
Minority interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net profit (reported)	-11.7%	-19.3%	-1.0%	2.3%	5.9%	7.5%

Source: Company data, NuWays

Balance sheet (EUR m)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	30.0	34.0	35.4	53.7	55.5	57.6
Property, plant and equipment	8.2	8.7	11.6	13.1	11.9	11.2
Financial assets	0.6	0.7	0.7	0.7	0.7	0.7
FIXED ASSETS	38.8	43.5	47.7	67.5	68.1	69.4
Inventories	0.2	0.1	0.1	0.1	0.1	0.1
Accounts receivable	10.9	9.3	9.0	9.7	10.9	11.9
Other assets and short-term financial assets	3.6	3.1	4.0	4.0	4.0	4.0
Liquid assets	27.7	13.2	12.3	12.1	17.7	24.8
Deferred taxes	2.4	0.3	0.8	0.8	0.8	0.8
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT ASSETS	44.7	26.0	26.2	26.7	33.5	41.7
TOTAL ASSETS	83.5	69.4	73.9	94.2	101.6	111.1

SHAREHOLDERS EQUITY	63.2	47.8	47.2	50.2	56.9	65.8
MINORITY INTEREST	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities to banks	3.3	4.1	8.5	14.5	14.5	14.5
Bonds (long-term)	0.0	0.0	0.0	0.0	0.0	0.0
other interest-bearing liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	2.2	0.0	0.0	0.0	0.0	0.0
Other provisions and accrued liabilities	2.8	2.3	3.1	3.2	3.2	3.2
NON-CURRENT LIABILITIES	8.3	6.4	11.6	17.6	17.6	17.6
Short-term liabilities to banks	1.7	1.8	1.4	1.4	1.4	1.4
Accounts payable	6.1	4.2	5.0	5.2	5.9	6.4
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0
Accrued taxes	0.0	0.3	0.8	1.0	1.0	1.0
Other liabilities (incl. from lease and rental contracts)	2.8	6.5	5.8	14.9	14.9	14.9
Deferred taxes	1.3	2.5	2.2	3.4	3.4	3.4
Deferred income	0.0	0.0	0.0	0.4	0.4	0.4
CURRENT LIABILITIES	12.0	15.3	15.2	26.4	27.1	27.6
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	83.5	69.4	73.9	94.2	101.6	111.1

Balance sheet (common size)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	35.9%	49.0%	47.9%	57.0%	54.6%	51.8%
Property, plant and equipment	9.8%	12.6%	15.7%	13.9%	11.7%	10.1%
Financial assets	0.8%	1.0%	0.9%	0.7%	0.7%	0.6%
FIXED ASSETS	46.5%	62.6%	64.6%	71.6%	67.0%	62.5%
Inventories	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%
Accounts receivable	13.1%	13.4%	12.1%	10.3%	10.7%	10.7%
Other assets and short-term financial assets	4.3%	4.5%	5.4%	4.2%	3.9%	3.6%
Liquid assets	33.1%	19.0%	16.6%	12.9%	17.4%	22.3%
Deferred taxes	2.9%	0.4%	1.1%	0.9%	0.8%	0.7%
Deferred charges and prepaid expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CURRENT ASSETS	53.5%	37.4%	35.4%	28.4%	33.0%	37.5%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SHAREHOLDERS EQUITY	75.7%	68.9%	63.8%	53.3%	56.0%	59.3%
MINORITY INTEREST	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term liabilities to banks	4.0%	5.8%	11.5%	15.4%	14.3%	13.0%
Bonds (long-term)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
other interest-bearing liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions for pensions and similar obligations	2.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Other provisions and accrued liabilities	3.4%	3.3%	4.2%	3.3%	3.1%	2.8%
NON-CURRENT LIABILITIES	10.0%	9.2%	15.7%	18.7%	17.4%	15.9%
Short-term liabilities to banks	2.0%	2.6%	1.9%	1.5%	1.4%	1.3%
Accounts payable	7.3%	6.1%	6.7%	5.5%	5.8%	5.8%
Advance payments received on orders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accrued taxes	0.0%	0.4%	1.1%	1.1%	1.0%	0.9%
Other liabilities (incl. from lease and rental contracts)	3.4%	9.4%	7.8%	15.8%	14.7%	13.4%
Deferred taxes	1.6%	3.6%	2.9%	3.6%	3.4%	3.1%
Deferred income	0.0%	0.0%	0.0%	0.5%	0.4%	0.4%
CURRENT LIABILITIES	14.3%	22.0%	20.5%	28.0%	26.7%	24.9%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, NuWays

Cash flow statement (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net profit/loss	-8.9	-15.6	-0.8	2.0	5.7	8.0
Depreciation of fixed assets (incl. leases)	3.2	3.3	3.5	3.5	3.7	3.3
Amortisation of goodwill & intangible assets	3.7	3.4	3.9	4.4	4.0	4.3
Other costs affecting income / expenses	0.0	3.4	0.9	0.0	0.0	0.0
Cash flow from operating activities	-3.5	-5.8	4.6	6.9	9.8	7.5
Increase/decrease in inventory	-0.3	0.1	-0.0	-0.0	-0.0	-0.0
Increase/decrease in accounts receivable	-0.9	2.1	-0.6	-0.7	-1.2	-1.0
Increase/decrease in accounts payable	1.2	-0.8	0.0	0.2	0.7	0.6
Increase/decrease in other working capital positions	0.0	0.1	0.0	0.0	0.0	0.0
Increase/decrease in working capital	-0.1	1.5	-0.6	-0.5	-0.6	-0.5
Cash flow from operating activities	-1.8	-3.9	6.8	9.4	12.8	15.1
CAPEX	7.9	8.5	5.9	5.6	7.3	8.0
Payments for acquisitions	0.6	0.0	0.0	9.9	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.1	0.0	0.0	0.0	0.0
Cash flow from investing activities	-8.5	-8.4	-5.9	-15.5	-7.3	-8.0
Cash flow before financing	-10.2	-12.3	1.0	-6.1	5.5	n.a.
Increase/decrease in debt position	-11.0	-2.1	0.0	6.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	25.8	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	-1.9	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	-0.1	0.0	0.0	0.0	0.0
Cash flow from financing activities	14.8	-2.1	-1.9	6.0	0.0	0.0
Increase/decrease in liquid assets	4.6	-14.5	-0.9	-0.1	5.5	n.a.
Liquid assets at end of period	27.7	13.2	12.3	12.1	17.7	24.8

Key ratios (EUR m)	2021	2022	2023	2024e	2025e	2026e
P&L growth analysis						
Sales growth	12.3%	6.5%	1.9%	4.6%	12.7%	9.4%
EBITDA growth	-186.0%	161.9%	-229.1%	57.1%	43.2%	21.6%
EBIT growth	394.5%	34.4%	-95.8%	-659.8%	167.7%	44.3%
EPS growth	261.6%	75.6%	-95.0%	-354.1%	184.5%	39.9%
Efficiency						
Sales per employee	238.7	226.4	215.1	440.8	473.3	543.7
EBITDA per employee	-6.3	-14.8	17.8	54.7	74.6	95.2
No. employees (average)	318	357	383	195	205	195
Balance sheet analysis						
Avg. working capital / sales	5.1%	-4.6%	2.3%	-8.3%	-6.4%	-6.2%
Inventory turnover (sales/inventory)	489.6	928.6	722.3	722.3	722.3	722.3
Accounts receivable turnover	52.4	41.9	39.7	41.0	41.0	41.0
Accounts payable turnover	29.3	19.0	22.0	22.0	22.0	22.0
Cash flow analysis						
Free cash flow	-9.7	-12.4	1.0	3.8	5.5	7.1
Free cash flow/sales	-12.7%	-15.4%	1.2%	4.4%	5.7%	6.7%
FCF / net profit	108.6%	79.5%	neg.	187.8%	96.8%	89.5%
Capex / sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Solvency						
Net debt	-22.6	-7.4	-2.4	3.8	-1.8	-8.9
Net Debt/EBITDA	0.0	0.0	0.0	0.4	0.0	0.0
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest paid / avg. debt	2.3%	1.8%	4.9%	7.3%	6.2%	7.3%
Returns						
ROCE	-12.5%	-19.8%	-0.8%	4.5%	11.0%	15.5%
ROE	-14.1%	-32.7%	-1.7%	4.0%	10.0%	12.1%
Adjusted FCF yield	-1.6%	-9.9%	5.7%	9.2%	13.7%	11.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
DPS	0.0	0.0	0.0	0.0	0.0	0.0
EPS reported	-0.54	-0.94	-0.05	0.12	0.34	0.48
Average number of shares	16.6	16.6	16.6	16.6	16.6	16.6
Valuation ratios						
P/BV	1.3	1.7	1.7	1.6	1.4	1.2
EV/sales	3.5	0.9	1.0	1.0	0.8	0.7
EV/EBITDA	-133.4	-14.1	11.7	8.0	5.2	3.9
EV/EBIT	-30.0	-6.2	-156.4	30.1	10.5	6.6

Source: Company data, NuWays

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Company	Disclosures
NFON AG	2

Historical target price and rating changes for NFON AG

Company	Date	Analyst	Rating	Target Price	Close
NFON AG	18.01.2024	Sennewald, Philipp	Buy	EUR 11.70	EUR 6.10
	23.11.2023	Sennewald, Philipp	Buy	EUR 11.30	EUR 7.08

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The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate of 7.5%. The operating cash flow is calculated as EBITDA less maintenance capex and taxes.

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According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under: www.nuways-ag.com

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Contacts

NuWays AG

Mittelweg 16-17
20148 Hamburg
Germany

+49 170 119 8648
info@nuways-ag.com
www.nuways-ag.com



Christian Sandherr

Co-CEO/Analyst

christian.sandherr@nuways-ag.com



Frederik Jarchow

Co-CEO/Analyst

frederik.jarchow@nuways-ag.com



Philipp Sennewald

Analyst

philipp.sennewald@nuways-ag.com



Henry Wendisch

Analyst

henry.wendisch@nuways-ag.com



Mark Schüssler

Analyst

mark-hendrik.schuessler@nuways-ag.com



Konstantin Völk

Analyst

konstantin.voelk@nuways-ag.com

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