



Swisslog	Hold
Switzerland	
Electronics/Software	26-03-08

Bloomberg: SLOG SW Reuters: SLOG.S SEDOL no: 7121670 CHF 1.10 on 25-03-08

Equity Research Switzerland

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Risk/reward profile has improved – margin expansion remains a challenge – new PT CHF 1.30 (old: 1.70)

Swisslog's FY07 results came in below consensus and our above-consensus expectations. Swisslog provided an outlook for FY08, which targets sales of CHF 778-814 mn (E: CHF 808 mn) and a stable EBIT margin around 4.9% (E: 5.1%). In the beginning of January, Swisslog had indicated that 2008 was unlikely to see a margin increase as the backlog contains a large chunk of lower-margin new business, which at that time resulted in a material stock price weakness. Management has done an excellent job in preparing the company for future growth. The high USA exposure (33% of sales) is an issue, which is already well reflected in the stock price. We consider current levels and the risk/reward profile attractive for long-term investors, as Swisslog is highly cash generative. We reduce our PT to CHF 1.30 from CHF 1.70 and maintain our Hold rating.

FY08 outlook: As a result of its strong backlog, Swisslog anticipates sales growth of 10-15% (sales of CHF 778-814 mn), a further improvement in EBIT(A) and a stable EBIT(A) margin. The company also confirmed its mid-term targets of 5% sales growth p.a. and of an EBIT(A) margin between 6-7%.

Estimate revision for FY08: We have revised our estimates down to reflect the higher revenue base, slower margin expansion, a lower financial result and slightly higher tax rate. EPS 08E is down 9% to CHF 0.10; EPS 09E remains unchanged at CHF 0.12.

Moderate valuation: We have chosen to value Swisslog relative to the other two Swiss small-cap logistics companies in our universe. We therefore believe a target EV/EBITDA multiple of 6x for Swisslog is justified. Thus, we arrive at a new PT of CHF 1.30, down from CHF 1.70, which was derived from our DCF model. Due to the sustainable strong FCF generation, our DCF model would still yield a fair value of CHF 1.62.



PER SHARE DATA

Price SLOG.S on 25-03-08 CHF	1.10
No. of shares SLOG.S in '000	251,277
Market cap. SLOG.S (CHF mns)	276
Other Market cap. (CHF mns)	0
Total market capitalization (CHF mns)	276
Free float %	100
Average daily trading volume (12 months)	1,143,732

SHARE VALUATION

CHF	2006	2007	2008E	2009E
EPS	-0.02	0.07	0.10	0.12
EPS growth %	-247	595	33	18
P/E	NM	14.7	11.0	9.4
CEPS	0.03	0.07	0.10	0.12
P/CE	38.0	14.7	11.0	9.4
Dividend	0.00	0.00	0.00	0.00
Dividend yield %	0.0	0.0	0.0	0.0
Book value	0.63	0.64	0.74	0.86
Price/Book	1.8	1.7	1.5	1.3
EV/EBITDA	6.7	6.0	4.7	3.8

HIGH 12-month LOW

2.11	1.01
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BREAKDOWN BY Sales 2007

by division	CHF mns	Change	Share
Warehouse & Distribution	453	8.9%	64.0%
Healthcare Solutions	242	10.2%	34.3%
Consulting Services	13	12.4%	1.8%
Eliminations	0	NA	0.0%
Total	708	9.4%	100.0%

KEY DATA

CHF mns	2007	2008E	2009E
Sales	708	808	837
EBIT	34.5	41.5	46.5
EBIT margin %	4.9	5.1	5.6
Shareholders' net profit	18.8	25.1	29.5
Return on equity %	11.6	13.4	13.6
Total assets	444	479	508
Equity	156	187	216
Equity ratio %	35.2	39.1	42.6
Interest-bearing debt	54.0	50.0	45.0
Cash	80.3	96.2	116
Operating Cash Flow	24.2	27.2	32.0
Capex	-10.5	-8.00	-8.50

EXCESS PERFORMANCE

	SPIX ¹	DJSTECH ²
3M	-14.6%	-5.7%
6M	-18.8%	-5.4%
12M	-10.9%	-8.4%

¹ SPI ex Div.
² DJ STOXX Technology

Can Swisslog improve WDS' margins?

FY07 results below our and consensus estimates

Swisslog's FY07 results came in below consensus and our above-consensus expectations. Order intake grew 27% to CHF 863 mn (E: 906 mn), sales were up 9% to CHF 708 mn (C: CHF 718 mn, E: CHF 723 mn), EBIT was up 11% to CHF 34.5 mn (C: CHF 34.1 mn, E: CHF 36.0 mn) and net profit came in at CHF 18.8 mn (C: CHF 21.1 mn, E: CHF 23.1 mn). For FY08, the company expects to achieve 10-15% sales growth to CHF 778-814 mn and a stable EBIT margin of 4.9%.

TAB. 1: SWISSLOG FY07 RESULTS VS CONSENSUS AND VONTOBEL ESTIMATES

(in USD mn)	Consensus	VontE	Actual	Comment
Orders		906.0	862.9	expectations were too high for both core divisions
- change y-o-y		33.8%	27.4%	
Sales	718.4	722.8	707.6	probably higher number of large projects, which take longer for implementation
- change y-o-y	11.1%	11.7%	9.4%	
EBITDA		42.5	41.5	good cost control
- margin		5.9%	5.9%	margin in line
D & A		-6.5	-7.0	
EBIT	34.1	36.0	34.5	due to lower EBITDA and slightly higher depreciation
- margin	4.7%	5.0%	4.9%	
Financial result		-2.0	-5.1	higher forex losses
Taxes		-10.9	-10.6	in line
- tax rate		32%	36%	
Net profit	21.1	23.1	18.8	cumulative effects
Operating cash flow		25.8	24.2	

Source: Vontobel Equity Research, Swisslog, AWP

Unfavourable business mix dampens margin expansion

On the order level, our estimates proved to be too optimistic despite the CHF 210 mn order from German repeat customer dm-drogerie markt. Sales came in below expectations, which is likely attributable to the high number of large deals in WDS (Warehouse & Distribution Solutions), which are only converted into sales over a longer period of time. Profitability at WDS (EBIT margin of 5.0%) was also burdened by the high number of new projects, which usually carry a lower margin than the more lucrative service/support business. The performance of HCS was very encouraging and in line with expectations. The net result was weighed down by a worse-than-expected financial result due to higher forex losses. EBIT was boosted by a CHF 2.4 mn book gain on the sale of real estate, which was partially compensated by CHF 2.0 mn in legal costs.

FY08 outlook: solid sales growth, but margins uninspiring

Swisslog provided an outlook for FY08, which targets sales of CHF 778-814 mn (E: 759 mn) and a stable EBIT margin around 4.9% (E: 5.6%). In the beginning of January, Swisslog had indicated that 2008 was unlikely to see a margin increase as the backlog contains a large chunk of lower-margin new business (i.e. CHF 210 mn contract from Germany's dm), which at that time resulted in a material stock price weakness.

WDS: Accalon acquisition leaves Swisslog better positioned for lower-end projects

WDS' services range from simple solutions for warehouse management to highly complex and fully automated logistics systems. Swisslog generally assumes the role of a general contractor and has managed to expand its global market position through the implementation of a broad spectrum of projects. In the market segment of less complex projects, certain hardware components such as conveyor systems and stacker cranes account for a proportion of value creation. With the number of large high-end ("A-Projects") projected to decline

over the next few of years, the competition in medium-range („B-Projects) and low-end (“C-Projects“) will likely increase. “A“ projects have usually the highest level of automation/complexity. As a general contractor, Swisslog has been at a disadvantage for “B“ and even more for “C“ projects against more traditional hardware oriented players such as Schäfer, TGW or Mecalux. Through the acquisition of Accalon, Swisslog has improved its competitiveness in the market segment of less complex projects.

WDS: margin pressure in lucrative service/support business?

Swisslog still sees good overall market conditions and no signs of a slowdown. However, we expect price pressure to continue as some competitors (i.e. Dematic) are still struggling. We also fear that competition in the higher margin service/support business will increase as competition has started to attack Swisslog's installed customer base.

WDS: various initiatives to protect and expand margins

How can Swisslog expand WDS' margins? While management intends to grow its software support & service business and plans to implement a profit optimization program, we believe Swisslog will have to solve a fundamental issue in the WDS business model. In our view, margins can only improve to a sustainable higher level if management achieves a higher level of standardization overall. This can be achieved through industry specific solutions, which contain a higher number of standard building blocks. Further benefits for Swisslog would arise from a higher number of repeat customers, i.e. more repeat business from existing customers. The target should be to reduce the % of customization in every project, which would help increase margins.

HCS: fundamental drivers well in place, solid margin level looks sustainable

HCS (Healthcare Solutions) is a leading supplier of automation solutions for hospital logistics designed to increase efficiency, reduce operating costs and improve quality of patient care. HCS offers solution for automating logistics in hospitals, mainly in the areas of material transport and medication management. Main revenue contributors are Pneumatic Tube Systems (55% of sales) and customer support (25% of sales). However, PillPick has also improved its performance, delivering sales CAGR 2003-2007 of 41%, reaching CHF 18.5 mn in sales last year. We envision further growth for PillPick if the company can increase penetration in the US and expand its footprint in Europe, where take up has been slow so far. HCS' EBITA margin stands at 9.5%, which we consider a good level. Adjusting EBITA for CHF 2 mn in legal costs related to the patent infringement case by McKesson, the adjusted EBITA margin would have reached a solid 10.4%. Further margin expansion would require some effort on the cost side (design-to-cost program), higher volumes for PillPick and a continued high innovation rate, coupled with a larger number of distribution partners.

Revision of estimates: EPS 08E down 9%, EPS 09E unchanged

As a result of its strong backlog, Swisslog anticipates sales growth of 10-15% (sales of CHF 778-814 mn), a further improvement in EBIT(A) and a stable EBIT(A) margin. The company also confirmed its mid-term targets of 5% sales growth p.a. and an EBIT(A) margin between 6-7%. We have revised our estimates down to reflect the higher revenue base, slower margin expansion, a lower financial result and slightly higher tax rate. EPS 08E is down 9% to CHF 0.10; EPS 09E remains unchanged at CHF 0.12.

TAB. 2: ESTIMATE REVISIONS FOR 2008E AND 2009E

(in USD mn)	2008E old	2008E new	Change	2009E old	2009E new	Change
Orders	711	687	-3.4%	711	722	1.5%
- change y-o-y	1.9%	-20.4%	NA	0.0%	5.1%	NA
Sales	759	807.5	6.4%	771	837	8.6%
- change y-o-y	5.0%	14.1%	NA	1.6%	3.7%	NA
- thereof WDS	485	530	9.3%	490	545	11.2%
- thereof HCS	263	265	0.8%	270	280	3.7%
- thereof CSW	11.0	12.5	13.6%	11.0	12.0	9.1%
EBITDA	48.9	48.8	-0.2%	51.6	54.0	4.7%
- margin	6.4%	6.0%	NA	6.7%	6.5%	NA
Depreciation & Amortization	-6.5	-7.2	-10.8%	-6.5	-7.5	15.4%
EBIT	42.4	41.5	-2.1%	45.1	46.5	3.1%
- change y-o-y	18%	20%	NA	6%	12%	NA
- margin	5.6%	5.1%	NA	5.9%	5.6%	NA
Financial result	-1.5	-3.5	NA	-1.5	-2.5	NA
Taxes	-12.3	-12.9	-4.9%	-13.1	-14.5	-10.7%
- tax rate	30%	34%	NA	30%	33%	NA
Net profit	28.7	25.1	-12.5%	30.5	29.5	-3.3%
EPS	0.11	0.10	-9.1%	0.12	0.12	0.0%

Source: Vontobel Equity Research

Uninspiring margins, but solid FCF generation – PT down to CHF 1.30 from CHF 1.70

We have chosen to value Swisslog relative to the other two Swiss small-cap logistics companies in our universe. While the business models differ quite substantially (much higher proportion of own hardware equipment sales at both Kardex and Interroll, Swisslog as general contractor in WDS), which mainly explains the EBIT margin difference, the FCF yield profiles are almost identical. We also note that Swisslog's hardware centric business in HCS has delivered an adj. EBIT margin of 10.4% in 2007, which compares well with Kardex, but still trails Interroll. We therefore believe a target EV/EBITDA multiple of 6x for Swisslog is justified. Thus, we arrive at a new PT of CHF 1.30, down from CHF 1.70, which was derived from our DCF model. Due to the sustainable strong FCF generation, our DCF model with conservative estimates and a WACC of 9.5% would still yield a fair value of CHF 1.62, offering an upside of 50%.

TAB. 3: VALUATION OF SWISS SMALLCAP LOGISTICS COMPANIES

(based on Vontobel 2008 estimates)	EBIT margin	P/E	EV/EBITDA	FCF yield
Kardex	9.1%	7.2	7.0	8.2%
Interroll	12.3%	11.3	6.3	7.9%
Swisslog	5.1%	11.0	4.7	8.0%

Source: Vontobel Equity Research; based on closing prices of 25 March 2008

Risk/reward more attractive at current levels – HOLD rating maintained

While Swisslog has strengthened its market position in 2007, the EBITA margin expansion was hampered by the unfavourable business mix, which will also prevent a margin expansion this year. However, management has done an excellent job in preparing the company for future growth. The high USA exposure (33% of sales) is an issue, which is already well reflected in the stock price. We consider current levels and the risk/reward profile attractive for long-term investors, as Swisslog is highly cash generative. We reduce our PT to CHF 1.30 from CHF 1.70 and maintain our Hold rating.

CONSOLIDATED FINANCIAL DATA (IAS, CHF MNS)										SPS/718
	2000	2001	13) 2002	14) 2003	2004	2005	2006	2007	2008E	2009E
ORDER INTAKE	1004	1011	955	776	579	629	677	863	687	722
- change (%)	37.9	0.7	-5.5	-18.7	-25.3	8.5	7.7	27.4	-20.4	5.1
SALES	925.0	938.9	875.3	682.4	564.9	556.4	646.9	707.6	807.5	837.0
- change (%)	28.0	1.5	-6.8	-22.0	-17.2	-1.5	16.3	9.4	14.1	3.7
EBITDA	88.4	63.4	31.8	23.3	27.0	28.8	37.8	41.5	48.8	54.0
- as % of sales	9.6	6.8	3.6	3.4	4.8	5.2	5.8	5.9	6.0	6.5
DEPRECIATION	-16.5	-18.8	-11.8	-31.9	-7.5	-7.0	-6.7	-7.0	-7.2	-7.5
- as % of sales	1.8	2.0	1.3	4.7	1.3	1.3	1.0	1.0	0.9	0.9
- as % of cap. exp.	74	73	45	123	84	125	127	67	91	88
EBITA	71.9	44.6	20.0	-8.6	19.5	21.8	31.1	34.5	41.5	46.5
- as % of sales	7.8	4.8	2.3	-1.3	3.4	3.9	4.8	4.9	5.1	5.6
AMORTISATION	-57.9	-34.6	-30.9	-101.1	-10.0	0.0	-10.0	0.0	0.0	0.0
- as % of sales	6.3	3.7	3.5	14.8	1.8	0.0	1.6	0.0	0.0	0.0
- as % of total Goodwill	19.9	12.8	17.4	92.9	10.6	0.0	11.4	0.0	0.0	0.0
OPERATING PROFIT (EBIT)	14.0	10.0	-10.9	-109.7	2.1	21.8	21.0	34.5	41.5	46.5
- change (%)	-68	-29	nm	906	-102	964	-4	64	20	12
- as % of sales	1.5	1.1	-1.2	-16.1	0.4	3.9	3.3	4.9	5.1	5.6
FINANCIAL RESULT	-14.4	-22.4	-23.8	-77.7	12.1	-8.8	-14.9	-5.1	-3.5	-2.5
NON-OPERATING RESULT	-6.9	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NON-RECURRING ITEMS	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRETAX PROFIT	-7.9	-16.3	-34.7	-187.4	14.2	13.0	6.1	29.4	38.0	44.0
- change (%)	-119	106	113	440	-108	-8	-53	378	29	16
- as % of sales	-0.9	-1.7	-4.0	-27.5	2.5	2.3	1.0	4.2	4.7	5.3
TAXES	-11.8	-9.4	-4.7	-20.4	-8.1	-11.2	-9.6	-10.6	-12.9	-14.5
- tax rate (%)	-149	-58	-14	-11	57	86	156	36	34	33
MINORITY INTERESTS	-2.4	-1.3	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
SHAREHOLDERS' NET PROFIT	-22.1	-27.0	-47.8	-245.0	1.9	1.8	-3.5	18.8	25.1	29.5
- change (%)	-171	22	77	413	-101	0	-287	-645	33	17
- as % of equity shareholder	-12.7	-15.9	-49.9	200.2	2.7	2.3	-2.4	11.6	13.4	13.6
SHAREHOLD. NET CASH PROF.	35.8	7.6	-16.9	-143.9	11.9	1.8	6.6	18.8	25.1	29.5
- change (%)	-5	-79	-322	751	-108	-84	257	185	33	17
Operating cash flow	19.4	34.7	12.7	-46.3	39.8	-3.3	32.7	24.2	27.2	32.0
- change (%)	-237	79	-63	-465	-186	-108	-1106	-26	12	17
- as % of sales	-15.4	-25.0	-9.1	43.6	-47.2	3.7	-35.9	-25.0	-24.6	-27.9
CAPITAL EXPENDITURE	-22.4	-25.8	-26.3	-25.9	-8.9	-5.6	-5.3	-10.5	-8.0	-8.5
- 5-year average	-13.7	-16.8	-18.7	-19.3	-16.0	-12.1	-9.1	-7.5	-5.1	-5.1
DATA PER REGISTERED (CHF, ADJ)										
EARNINGS	-1.61	-1.95	-3.17	-16.14	0.02	0.01	-0.02	0.07	0.10	0.12
- change (%)	-171	-21	-63	-410	100	-34	-247	595	33	17
Cash Earnings	2.60	0.55	-1.12	-9.48	0.10	0.01	0.03	0.07	0.10	0.12
% change	-5	-79	-304	747	-101	-90	181	159	33	17
DIVIDEND	0.60	0.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
- payout ratio (%)	-37	-31	0	0	0	0	0	0	0	0
CASH FLOW	3.8	2.2	-0.1	-7.1	0.2	0.0	0.1	0.1	0.1	0.1
BOOK VALUE	12.7	11.2	6.3	-8.1	0.6	0.4	0.6	0.6	0.7	0.9
TOTAL ASSETS	850.8	864.3	678.1	440.0	415.3	432.0	435.7	443.8	478.6	508.1
CASH	25.1	71.5	36.0	48.4	85.4	87.4	88.3	80.3	96.2	115.7
INTEREST-BEARING DEBT	368.0	374.3	325.2	328.8	120.9	127.0	63.8	54.0	50.0	45.0
NET DEBT	342.9	302.8	289.2	280.4	35.5	39.6	-24.5	-26.3	-46.2	-70.7
- as % of group equity	195	175	295	-230	52	49	-17	-17	-25	-33
EQUITY SHAREHOLDER	174.2	169.8	95.8	-122.4	68.2	80.1	142.9	161.8	186.9	216.4
- as % of total assets	21	20	14	-28	16	19	33	35	39	43
NO. OF EQUIV. REGISTERED (MN)	13.760	13.875	15.098	15.178	118.852	179.484	227.893	251.277	251.277	251.277

13) Divestment of Corob at year end 2002 (sales 2002E CHF 85 mn)

14) Schierholz and Translift deconsolidated as of August 2003 (2002 sales CHF 120 mn)

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Vontobel Research

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	No.	As %	As %
Buy	84	45%	31%
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Hold	Price target (when set) implies 0-15% upside on a 12-month horizon
Reduce	Price target (when set) implies downside on a 12-month horizon

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