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AUSTRIACARD HOLDINGS

Playing its cards right

Leading and diversified provider of smart card payment and digital solutions – Austriacard (ACAG) is a leading provider of smart cards, personalization and payment solutions, as well as secure data management and digitalization services. The group is the result of the cross-border merger of two entities, namely the previously non-listed parent holding company Austriacard (owned until 2007 by the Central Bank of Austria) and its c71% Greek-listed subsidiary Inform Lykos S.A. (with 125-year track record in printing services). The enlarged new entity is a market leader in Europe, with a diversified geographic footprint (75% of sales from Europe, 8% from Americas, 17% from Turkey/MEA) and multi-sector exposure (financial institutions, telcos, industrials), with 7 production facilities and 8 personalization centers in several countries.

Card volume growth + improving mix + digitization = secular growth – The global cards industry is set to grow at c4% annually in the mid-term, as there is scope for card penetration to increase further (still at c46% of payments) thanks to rising bankarization in emerging markets, accelerating sophistication (e.g. dual-interface chip, contactless, biometric) and rising disposable income boosting niche segments (e.g. metals). In developed markets, there is still runway left for migration of cards to contactless and dual interface. As far as digitization is concerned, there are several avenues of growth thanks to the general digitization push and the EU funds available to bolster it.

9% revenue and c11% EBITDA CAGR over 2023e-27e – Given the industry volume growth, ACAG's geographic expansion in US/UK/Turkey/MEA, its increasing penetration in Challenger/Neo banks and mix improvements (e.g. contactless, metals), we expect rising price/mix to bolster volume growth thus driving c10% CAGR in Card Solutions (64% of group sales). In the non-card business, we expect growth to be driven by the digital push and RRF projects. Across geographies (new breakdown under recently revamped corporate structure), we expect W. Europe, Nordics & Americas to drive growth (given the product mix), with Turkey and MEA also growing strongly. All these coalesce into c9% sales CAGR over 2023-27e, with revenue growth further enhanced by improving mix (contactless, biometric, metals, digitization revenues) and cost control, thus leading to 11% EBITDA CAGR in the same period, quite a strong growth profile.

Capital allocation flexibility – ACAG enjoys a healthy financial position, with net debt/EBITDA <2x in 2022. As EBITDA gets rebased to >€50m after 2024e we forecast net debt/EBITDA to trend down to c1x thanks to an uptick in FCF generation post 2024e and our assumption of no additional M&A coupled with a balanced shareholder return policy (20% payout). Given the low gearing, there is much headroom for ACAG to either accelerate growth (organically/through M&A) or to pursue a more generous divi policy.

Valuation – With the shares retreating since August 2023, the valuation is subdued at <6x 2024e EV/EBITDA, notable discount vs the broad peer group and a valuation close to pure play card peers with inferior growth profile. Our DCF-based valuation (WACC 9.5%) yields a baseline value of €8.0, placing ACAG at 7.1x 2024e EV/EBITDA, still at >15% discount vs the median valuation of the broad peer group. Flexing our WACC and perpetuity growth inputs by 0.5% yields a fair value range between c€7.0-€9.3/share.

Estimates					
€m unless otherwise stated	2021	2022	2023e	2024e	2025e
Sales	178.0	314.7	346.5	384.6	419.0
EBITDA - adj.	21.8	39.4	46.4	52.9	58.5
Net profit - reported	9.2	4.7	17.2	21.8	25.8
EPS - adj.	€0.32	€0.14	€0.47	€0.60	€0.71
DPS	€0.00	€0.05	€0.09	€0.12	€0.15

Valuation					
Year to end December	2021	2022	2023e	2024e	2025e
P/E	21.3x	48.3x	12.8x	10.1x	8.5x
EV/EBITDA	13.5x	8.0x	6.7x	5.8x	5.1x
EBIT/Interest expense	5.2x	2.1x	4.8x	6.2x	7.1x
Dividend Yield	0.0%	0.4%	1.5%	2.0%	2.4%
ROE	28.9%	27.6%	38.2%	37.5%	35.8%

Source: Eurobank Equities Research.

Market Cap (€ mn) **€219.9**
Closing Price (20/11) **€6.05**

Stock Data

Reuters RIC	ACAGr.AT
Bloomberg Code	ACAG GA
52 Week High (adj.)	€7.70
52 Week Low (adj.)	€5.20
Abs. performance (1m)	1.7%
Abs. performance (YTD)	-9.8%
Number of shares	36.4mn
Avg Daily Trading Volume (qrt)	€73k
Est. 3yr EPS CAGR	21.0%
Free Float	23%

ACAG Holdings Share Price

Analysts

Stamatis Draziotis, CFA
Equity Analyst, Head of Research
☏: +30 210 37 20 259
✉: sdraziotis@eurobankequities.gr

Marios Bourazanis
Junior Equity Analyst
☏: +30 210 37 20 253
✉: mbourazanis@eurobankequities.gr

Head of Research
☏: +30 210 37 20 259

Sales/Trading
☏: +30 210 37 20 117 / 168 / 110

This report was prepared and published in consideration of a fee payable by Austriacard.

See Appendix for Analyst Certification and important disclosures.

We caution that any forecasts included in this report should not be considered a reliable indicator of future performance.

Contents

Investment Summary

Leading provider of smart card payment and digital transformation solutions, with a broad geographic footprint

Austriacard is one of the leading providers of Secure Digital Technology Solutions in Europe, engaged in the production of smart cards and the provision of card personalization solutions (e.g. designing, engraving, encrypting), printing services (e.g. statements printing/delivery) and digital transformation solutions as well as secure data management. The group is the result of the cross-border merger of two entities, namely the previously non-listed parent holding company ACAG and its c71% previous Greek-listed subsidiary Inform Lykos S.A., with the latter having a long track record spanning 125 years. It is a market leader in Central/Eastern Europe thanks to its Card Solutions business but has a well-diversified geographic footprint, deriving c46% of its revenues from Central/Eastern Europe (incl. DACH, namely Germany, Austria, Switzerland), c37% from Western Europe/Nordics and Americas (with the latter at c8%) and c17% from Turkey/MEA. The group is also diversified across verticals, offering its services to financial institutions, telecom companies, industrial corporations and other sectors. Its core clientele consists of challenger banks, with Revolut being the largest, accounting for c7% of FY'22 revenues. Of note is that ACAG has its own proprietary payment operating system ("ACOS") and strong R&D which enables it to customize solutions for its clients.

Core cards market still growing in terms of volumes; mix is key avenue of growth, with several secular drivers still at play

The market for smart payment cards is quite competitive with significant barriers to entry for new players, mainly in relation to the breadth of the services offered and the distribution capability, especially as scale is the result of long-standing relationships with issuers and partnerships with card processors. Security standards are probably the most significant barrier for new players, especially taking into account the R&D required and the time needed to secure the relevant approvals/licenses for EMV certification standards. ACAG thus looks well-placed to capitalize on the longevity of its business and its high customer rates, further enhanced by its end-to-end solutions and the offering of its own-developed chip software and platforms. From a growth perspective, the global cards industry is still set to grow at c4% per annum in the medium term, as there is further scope for card penetration to increase (globally cards account for c46% of payments) thanks to rising bankarization in emerging markets, accelerating sophistication (e.g. EMV chip technology, dual-interface EMV, contactless, biometric) and rising disposable income in several countries driving upward class mobility, and, along with it, boosting niche card segments (e.g. metals). In the key US market in particular (c8% of group revenue in 2022), there is significant runway left for the migration of cards to contactless and dual interface (as EMV adoption is nearing completion). As far as digitization is concerned, there are several avenues of growth thanks to the general digitization push and EU funds available to bolster it.

ACAG primed for c9% revenue CAGR over 2023-27e

Following M&A in the last 5 years, ACAG's revenues have expanded to >€300m. Looking ahead, the group aims to strategically grow organically and through further M&A, effectively adding either new markets for existing products or new products for existing markets. Given the combination of low to mid-single-digit card industry volume growth, the group's geographic expansion in US/UK/Turkey/MEA, its increasing penetration in Challenger/Neo banks and mix improvements (e.g. contactless, metals), we expect a combination of rising price/mix (effectively unit selling price) to bolster volume growth, thus driving a c10% CAGR in Card Solutions (c64% of the revenue mix, mainly related to production of smart cards and personalization services). In non-card solutions (namely IT services, document management, digitization and secure printing) we envisage growth mostly for IT Services thanks to increasing spending in digital transformation and the significant number of projects to be financed by the RRF (with the addressable related budget amounting to c€1bn). Across geographies (new breakdown under recently revamped corporate structure), we expect W. Europe, Nordics & Americas to drive growth (given the product mix), with Turkey and MEA also growing strongly. All these coalesce into c9% group revenue CAGR over 2023-27e, quite a strong growth profile.

… and scope for margin expansion poised to lead to 11% EBITDA CAGR

ACAG had an adj. EBITDA margin of 12.5% in 2022. This compares with a cross-cycle multiple of c16-17% for its global peers (e.g. CPI, Valid, Gemalto, with the latter having been acquired by Thales in 2019), thus indicating there is scope for margin expansion as the business gains scale. Our numbers pencil in a total 2.0% EBITDA margin uplift through to 2027, predicated on an improving mix (contactless, biometric, metals, digitization revenues) and cost control. This will filter through to c11% EBITDA CAGR over 2023-27e on our estimates, quite a robust proposition. Given the aforementioned market revenue opportunity related to the Recovery Fund, our forecasts look more than feasible, we reckon.

Significant capital allocation flexibility

ACAG enjoys a healthy financial position, with a net debt/EBITDA ratio <2x in 2022. Looking ahead, we expect leverage to remain on a downtrend trajectory as EBITDA gets rebased >€50m after 2024e and forecast net debt/EBITDA to trend down to <1x post-2026 as a result of healthy FCF generation and our assumption of no additional M&A coupled with a balanced shareholder return policy. The low gearing means there is plenty of balance sheet headroom for ACAG to either accelerate growth organically or through M&A or to pursue a more generous dividend policy. Looking ahead we have assumed a c20% dividend payout (as % of net profits) in the medium term (corresponding to c40% of FCF), which we believe reflects a well-balanced approach between investing for growth and rewarding shareholders.

Compelling valuation given growth profile and improving mix

Since the enlarged entity started trading in March 2023, ACAG shares have been moving rangebound and have posted a modestly negative return (-10%), underperforming the 10-20% gain delivered by Greek non-financials and foreign peers. The shares lost momentum particularly during summer 2023, as concerns about a "higher-for-longer" rates environment weighed on longer duration or tech-exposed stocks. As a result, the valuation is subdued at <6x 2024e EV/EBITDA, namely notable discount vs the broad peer group and a valuation close to lower-growth pure play card peers. We find these levels quite compelling for long-term investors, especially considering the combination of strong growth profile given secular drivers, improving mix (likely to be margin-accretive) and the healthy FCF generation coupled with M&A optionality. We value ACAG using a DCF-based valuation (WACC at 9.5%) coming up with a baseline value of €8.0/share, effectively valuing the group at 7.1x 2024e EV/EBITDA, still >15% discount vs the peer group average. Flexing our WACC and perpetuity growth inputs by 0.5% each yields a fair value range between c€7.0 and c€9.3/share.

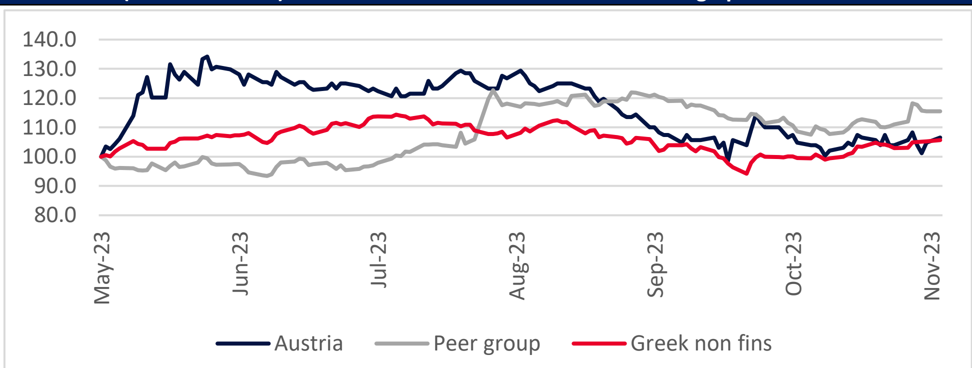
Share price performance and valuation

Stock has had a muted performance since the cross-border merger which resulted in its current dual listing status

Austriacard is the result of the cross-border merger of two entities, namely the previously non-listed parent holding company Austriacard Holdings (owning 100% of Austriacard, which was founded in 1981 as a personalization center for eurocheques and eurocheque cards) and its c71% previous subsidiary Inform Lykos. As a result of the merger, the shareholders of the absorbed entity Lykos exchanged their shares for stock in the surviving entity ACAG, which is cross-listed on the ATHEX and the Vienna stock exchange. Effectively, this constituted a "technical" listing, with no IPO taking place, and, on that basis, there were no new institutional investors entering the share capital.

Since the enlarged entity started trading in March 2023, the shares have been moving rangebound and have posted a -10% negative return, underperforming the c10-20% gain delivered by Greek non-financials and its foreign peers. The shares have lost momentum particularly during the summer, as concerns about a "higher-for-longer" rates environment have weighed on longer duration or tech-exposed stocks.

Total return (rebased to 100) – ACAG vs Greek non financials and foreign peers



Source: Eurobank Equities Research, Bloomberg.

From a valuation perspective, making any reference to the group's own historical valuation is rather pointless given the limited history of estimates, and, by implication, the lack of a forward-looking track record.

With this in mind, we have looked at the historical valuation of a broad group of companies operating not only in the cards issuance space but also in the financial services technology segment, since Austria's offering includes an own-developed operating system and the provision of several value-added services, with the group also increasingly focusing on higher-value segments (e.g. contactless, eco-friendly, card-as-a-service).

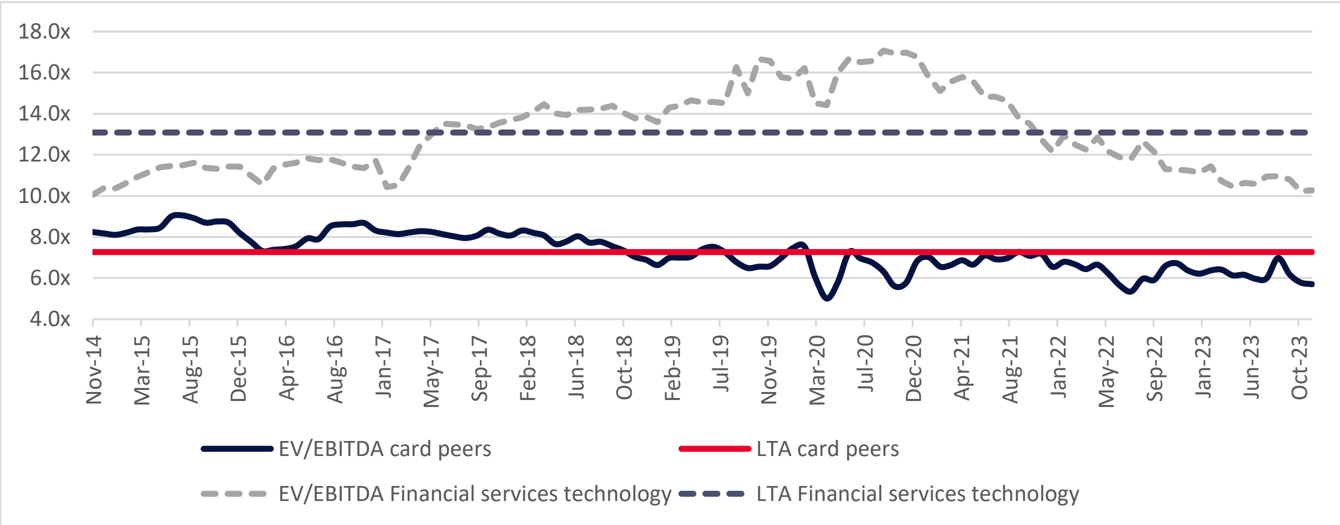
Indicatively our select group of peers includes, among others:

1) **Card payment solution providers:** companies engaged in the production and design of payment cards, personalization solutions etc. These constitute the most comparable cohort of peers and include names such as CPI, Valid and Composecure (pure play but focused on premium metal cards). The caveat here is that these companies have inferior growth profiles relative to ACAG.
2) **Financial services technology firms:** Within this group are:
    a. companies offering payment processing solutions, also having a payment card production business (e.g. FIS and Fiserv), and
    b. merchant acquirers and payment companies including GPN, Paysign etc.
3) **Payment tech hardware providers:** NCR and Crane, which naturally have lower growth rates (low to mid-single digit revenue growth) and thus have historically traded at lower multiples than the aforementioned subgroups. It is obvious that this subgroup is not directly related to ACAG and constitutes a remote group of peers.

Pure card peers have traded near 7-7.5x in the long-run (EV/EBITDA); payment companies have traded in the low to mid-teens

As we display below, pure play card peers have traded near 7-7.5x on average in the last 10 years, retreating from high single-digits at the start of the previous decade as the boost from several structural changes, particularly in the US market (e.g. migration to chip-based cards, namely EMVs), started to wane. On their part, the more diversified payment companies have traded at higher multiples averaging a low teens valuation in the last 10 years. Since 2021 though, they have suffered a de-rating in the face of the surge in yields, but they still trade at double-digit multiples on average.

1yr fwd EV/EBITDA, card peers and financial services technology peers



Source: Eurobank Equities Research, Bloomberg.

Scope for the stock to move higher in the valuation spectrum as its offering tilts towards services

In the table below, we contrast ACAG's current valuation against the aforementioned select group of peers. We view EV/EBITDA as the most relevant valuation metric given significant differences in the capital structure and tax regime within the peer group. As can be seen the stock is trading at notable discount vs the enlarged peer group while enjoying a healthy balance sheet and offering a superior growth profile. Overall, we find that ACAG's muted valuation, at

<6x 2024e EV/EBITDA, is palatable, and expect the stock to move higher in the valuation spectrum as its offering tilts more towards services.

Peer group valuation

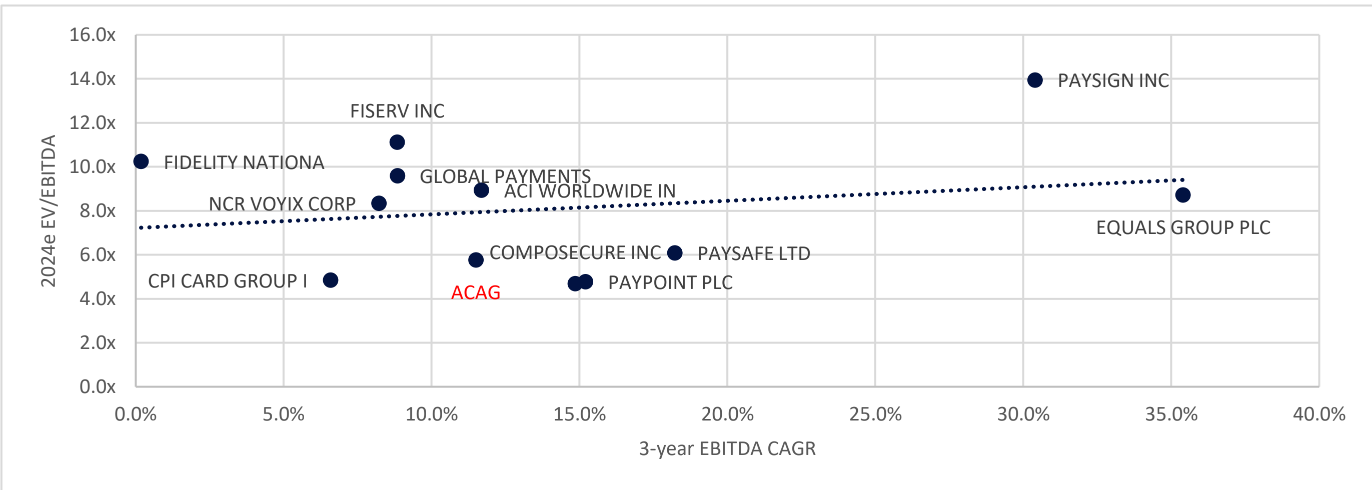
Stock	Mkt Cap	PE 23cy	PE 24cy	EV/EBITDA 23cy	EV/EBITDA 24cy	Dividend yield 23cy	Dividend yield 24cy	Net debt/EBITDA 23cy
Peer median		**7.7x**	**6.7x**	**5.3x**	**4.9x**			
CPI CARD GROUP I	166	7.7x	6.7x	4.9x	4.9x	0%	0%	0.0x
COMPOSECURE INC	383	5.4x	4.8x	5.1x	4.7x	0%	0%	2.0x
PAYPOINT PLC	442	8.4x	7.7x	5.3x	4.8x	8%	8%	-0.5x
PAYSAFE LTD	718	5.0x	4.3x	6.7x	6.1x	0%	0%	5.4x
EQUALS GROUP PLC	248	21.7x	18.6x	10.1x	8.7x	1%	2%	-1.3x
Payment tech hardware		**8.8x**	**8.2x**	**8.1x**	**8.6x**			
NCR CORP	2,037	4.6x	4.2x	7.1x	8.3x	0%	0%	0.0x
CRANE NXT CO	2,765	13.0x	12.2x	9.1x	8.9x	1%	1%	1.0x
Financial Services Tech		**16.7x**	**14.6x**	**12.0x**	**10.7x**			**2.8x**
FISERV INC	68,661	16.7x	14.6x	12.0x	11.1x	0%	0%	2.6x
FIDELITY NATIONA	29,640	9.2x	10.5x	8.5x	10.2x	4%	4%	3.0x
JACK HENRY	10,150	30.2x	27.1x	16.3x	15.0x	1%	1%	0.4x
ACI WORLDWIDE IN	2,560	14.8x	12.9x	9.7x	8.9x			
CANTALOUPE INC	446	46.2x	22.3x	15.8x	10.7x			
GLOBAL PAYMENTS	26,699	10.7x	9.5x	10.5x	9.6x	1%	1%	3.3x
PAYSIGN INC	118	46.0x	27.4x	18.8x	14.0x			
Other		**83.9x**	**9.9x**	**5.2x**	**4.3x**			
DE LA RUE PLC	131	83.9x	9.9x	5.2x	4.3x	0%	0%	2.4x
Peer group average		**21.6x**	**12.8x**	**9.7x**	**8.7x**	**1%**	**1%**	**1.5x**
ACAG	**220**	**12.8x**	**10.1x**	**6.7x**	**5.8x**	**2%**	**2%**	**1.7x**

Source: Eurobank Equities Research, Bloomberg.

Compelling relative valuation on earnings growth-adjusted metrics, with double digit 3-year EBITDA CAGR

Given that the range of valuation multiples may also reflect differences in companies' growth profile, we have also examined the current valuation of the broad peer group in conjunction with the 3-year profit outlook (2022-25e). As can be seen, ACAG's valuation looks quite compelling considering it also enjoys among the strongest growth profiles among its international peer group (low-teens EBITDA CAGR).

ACAG and broad peer group – 2024e valuation vs 3-year expected growth



Source: Eurobank Equities Research, Bloomberg.

A. Valuation: DCF-based-valuation yields c€7.0-9.3 intrinsic value range per share

DCF-based valuation base-case yields baseline €8.0/share

We value Austriacard using a DCF-based valuation in order to capture the expected high earnings growth in the coming years, given the secular tailwinds for the industry, and the long-term earnings potential of the business.

Our base case DCF yields a c€8.0 12-month baseline price per share. This is predicated on the following assumptions:

- Sales CAGR of c9% over 2023-2027e, purely organic, driven by: 1) volume growth, given the expanding cards market and further underpinned by Austria's diversified geographical footprint and underpenetrated markets; 2) price/mix growth supported by adjacency opportunities including contactless, premium (e.g. metal) and biometric cards; 3) the digitization push underpinning Austria's digital transformation technologies business. We assume growth fades to c3% by 2033e, translating to an CAGR of c6.5% over the entire 10-year period.
- EBITDA CAGR of c11% over 2023-27e driven by the robust top line growth, implying c2.0pps margin expansion vs 2022 levels on positive operating leverage and improving price/mix. We assume that medium-term EBITDA margins settle in the 14.5-15% area, from 12% over 2020-22. This would still be below the respective margins of bigger peers, due to the group's smaller scale.
- We use a long-term growth rate of 1% based on a reinvestment rate >30% and low-single digit incremental ROIC in perpetuity, conservatively assuming that the group's competitive advantage will fade.
- The implied FCF conversion (FCF/EBITDA) in the medium term stands at c35%, a level we consider feasible given the headroom vs current capacity in terms of utilization and the existence of a proprietary operating system which the group developed years ago.
- 9.5% WACC, which we believe captures the relative risk profile of the business vis-à-vis the rest of our coverage universe (including the aspect of low stock liquidity).

DCF

EURmn unless otherwise stated	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	TV
NOPAT	23.0	27.5	31.7	36.4	40.8	44.8	48.4	51.4	53.8	55.4	56.2	56.8
Reinvestment	(22.2)	(8.9)	(10.4)	(12.5)	(6.5)	(15.7)	(17.1)	(18.3)	(19.3)	(20.0)	(20.4)	(19.3)
Unlevered Free Cash Flow	**0.8**	**18.6**	**21.3**	**23.9**	**34.3**	**29.1**	**31.3**	**33.1**	**34.5**	**35.4**	**35.8**	**37.5**
Sum of PV of FCF	179.0											
PV of terminal value	179.5											
Enterprise Value	**358.5**											
Net debt	(65.7)											
Other claims (net)	(22.3)											
Equity value ex-div	**270.5**											
no. of shares	36.4											
Per share (year end)	7.4 €											
12-month fair value per share ex div	**8.0 €**											

Source: Eurobank Equities Research

A basic sensitivity on a combination of WACC and terminal growth rates is presented in the table below. As can be seen, flexing our WACC and perpetuity growth inputs by 0.5% each yields a fair value range between c€7.0 and c€9.3 per share, thus indicating plenty of upside to be crystallised if our future estimates materialize.

DCF Sensitivity of our calculated group fair value per share to the WACC and LT growth assumptions

		WACC				
		10.5%	**10.0%**	**9.5%**	**9.0%**	**8.5%**
Terminal growth	**2.0%**	7.7	8.3	9.1	10.0	11.0
	1.5%	7.2	7.8	8.5	**9.3**	10.2
	1.0%	6.8	7.4	**8.0**	8.7	9.5
	0.5%	6.5	**7.0**	7.6	8.2	8.9
	0.0%	6.2	6.7	7.2	7.8	8.4

Source: Eurobank Equities Research.

Strategy & Business Model

A. Product and geographic overview

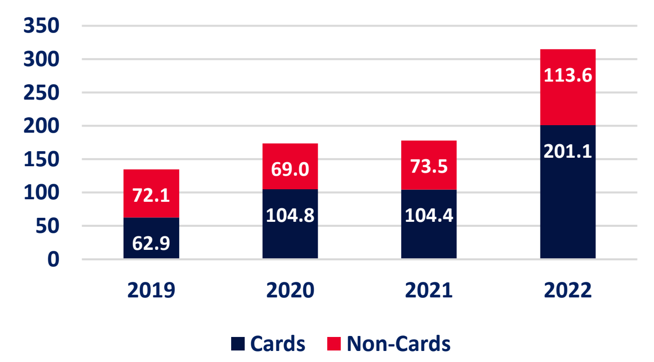
Group diversified across segments, clients and geographies

Austriacard is a diversified holding company with activities in smart cards, printing, IT and postal services. The group is effectively comprised of three core entities, namely Austriacard, Inform Lykos and Pink Post, the first being a dedicated smart card manufacturer, the second specializing in printing services and digital transformation solutions and the third being a postal services company. Looking into the group's core activities in more detail:

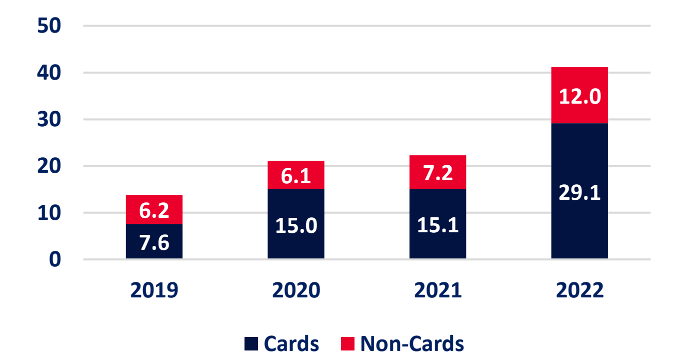
- **Card Solutions,** the core business of Austriacard, referring to the production and distribution of smart cards and the procurement of personalization services. The group has an extensive global footprint in cards (international accounts for the bulk of card revenues) and is among the leaders in the EU smart card market, offering a quite competitive suite of products catered to medium-sized banks and niche financial institutions. Austriacard is particularly well-placed among challenger/neo banks, being the supplier of choice for the likes of Revolut and Monzo. Card solutions revenues have delivered a quite impressive CAGR of c47% over 2019-22, being skewed upwards in 2022 due to the first-time consolidation of TAG Systems UK (the group's UK-based subsidiary).

- **Non-Card business,** relating to the group's activities in secure printing and digitization. Revenue in this segment is primarily derived from secure printing, where Austriacard is a certified provider for a host of documents, ranging from bank statements and utility bills to business forms, thermal reels and election ballots. Activities in this division also include document digitization (e-archiving and process automation software) and digital transformation [digital onboarding (DoB), know-your-customer (KYC) applications]. Non-card revenue grew at a CAGR of c16% over 2019-22.

Revenue breakdown per product



Adj. EBITDA breakdown per product



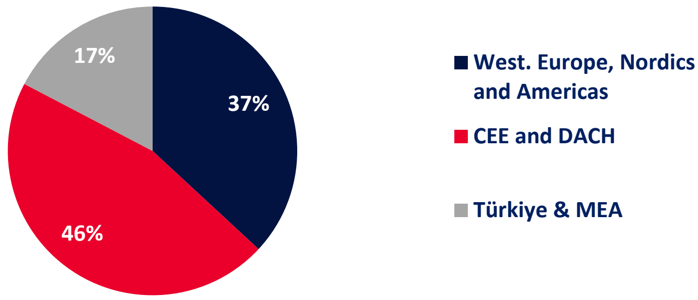
Source: Eurobank Equities Research, Company data.

Austriacard has an expansive geographic footprint in smart cards and is the market leader for regional EU banks (primarily in SEE, CEE, Nordics and Austria). Additionally, the group is making efforts to enter markets where regional banks are underserved (e.g. US) while also looking to penetrate existing markets further (e.g. UK and Turkey). In non-cards business, the group is well-established in Greece (in printing & IT services) and Romania (in printing).

Reshuffling of corporate structure aimed at facilitating cross-selling

We stress that since H1'23 the group has implemented a new corporate structure predicated on the main geographic segments, namely: 1) Western Europe, Nordics and Americas; 2) Central (incl. Germany and Austria) and Eastern Europe; 3) Turkey, Middle East and Africa. The aim is to facilitate cross selling through geographic (rather than product) focus and to improve customer service through the broadening of the product scope of sales teams.

Geographic revenue breakdown (H1'23)



Source: Eurobank Equities Research, Company data.

Austriacard has undertaken a major repositioning in recent years. In Card Solutions, the group has completed acquisitions in Andorra, managing to tap Nordics, Western Europe and Challenger Banks. It has also penetrated the US market through a personalization center. In the non-card segment, ACAG bought out two digital document providers (Next Docs, Cloudfin) in hopes of facilitating the transition of its offerings into the digital age. With the recent addition of Pink Post (completed in 2023), ACAG will also be adding verticality to its existing printing business in Romania, allowing for significant cost efficiencies in mailing. The group's decisions seem well timed considering the surge in card payments post-pandemic, the c€300mn addressable smart card market in US medium-sized banks and the demand for digital transformation in its core printing/IT markets (Greece & Romania).

In the section that follows, we look further into the group's product types, caveating that such a reporting is only available until 2022, as ACAG has moved to a geographic breakdown reflecting its focus on cross-selling opportunities.

Card Solutions: Encompassing the production, personalization and procurement of cards primarily for financial institutions, this division accounted for c64% of total revenue and c70% of EBITDA in 2022. The production process for cards is highly standardized and requires licensing from card payment processors such as Visa, Mastercard etc. Austriacard manages the entire production process which includes sourcing chips and other relevant raw materials, putting in place its proprietary operating system, laminating the cards and personalizing the card to create the final product.

Good recurring revenue characteristics

The company offers a wide range of customization options, allowing clients to choose from various base materials (PVC or metal), external designs, and payment authorization methods (currently dual-interface and magnetic stripes, with plans to supply biometric cards in the near future). Cards are commonly procured via supply contracts with clients, which typically last 3-4 years. Given the company's long-term relationships with a significant portion of its client base and the fact that most cards being issued in general tend to be replacement cards (with 4-year cycle), ACAG's card business exhibits good recurring revenue characteristics.

Non-card business (previously known as Information Management): Referring to Austriacard's activities in secure printing and IT services, this division represented c36% of total revenue and c30% of EBITDA in 2022. It can be further analyzed into the following subsegments:

1) **Secure Printing:** This subdivision refers to advanced printing services for companies and public entities, both for commercial and security reasons. The printing subdivision is responsible for c75-80% of information management revenue and is split into two categories:

    a. **Digital Printing:** Comprising the printing of bank statements, utility bills, commercial advertisement materials (i.e. brochures) and documents for e-commerce purposes (i.e. billing papers, address labels), these products represent c70% of printing revenue.

    b. **Secure Documents:** Pertaining to the procurement of printed documents through highly secured channels. Applications include election ballots and classified business documents, among other legal documents. Secure documents typically account for c30% of divisional revenue and tend to oscillate between certain years due to ad-hoc election projects which are by nature one-off (i.e. Nigerian elections in 2019, Kenyan elections in 2022).

2) **IT Services:** Including own-developed applications for document digitization (e-archiving, process automation software) and digital transformation (digital onboarding (DoB), know your customer (KYC) software), this division has accounted for c20-25% of information management revenue. Document digitization is mainly targeted towards the public sector while digital transformation is focused on financial institutions and utilities.

Postal Services: Austriacard recently entered the postal services market in Q1’23 through the acquisition of a 50% stake in Pink Post, a private postal service company in Romania. The acquisition serves as an attempt to vertically integrate Austriacard’s printing business in Romania (its largest market in printing) as it will decrease mailing costs for bank statements and utility bills in the country.

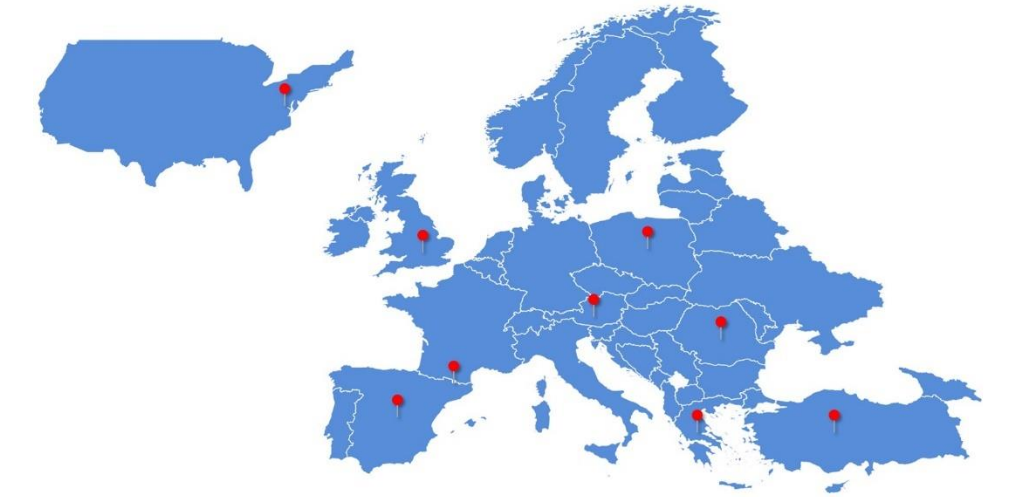
Production facilities & distribution capabilities

Austriacard has created a solid industrial base, forming a network of facilities spanning 9 countries. Naturally, in card solutions there is clear focus on the EU, given the group’s presence in the region, though the recent acquisitions in the US and UK have created additional windows of opportunity. Non-card solutions, on the other hand, are primarily procured domestically in Romania and Greece, with some demand also supplemented by ad-hoc projects in other regions (e.g. elections in Africa). In more detail, the group’s operational footprint consists of:

- **7 production facilities,** based in the UK, Andorra, Austria, Greece and 3 facilities in Romania. The production phase includes the printing on plastic foils and the lamination into cards, while special techniques or security features can be added, based on the individuals’ needs. These units are used to support the group’s secure printing operations, namely advanced digital printing and secure documents.
- **8 personalization centers,** based in the US, UK, Spain, Austria, Poland, Romania, Greece and Turkey. The personalization phase refers to adding the owner’s information on the card.

Austriacard has invested c€38m in the last 4 years, part of which relates to new production centers. Given the spare capacity headroom, utilization is set to increase in the coming years as selling volumes accelerate and is likely to drive significant economies of scale given the optionality offered by a well-planned and geographically diversified network. We note that the group’s growth strategy in cards (i.e. the acquisition of competitors with well-established own-operated personalization centers) has been instrumental in allowing Austriacard to penetrate new markets quickly. The impact of this strategy is especially evident through the TAG Systems acquisition in 2019, which enhanced Austriacard’s industrial operation with 3 new personalization centers and produced >€180m in new revenues in the Nordics, W. Europe and Challenger Banks over the next 2 years – all regions/segments where the group previously had no presence.

Network of production and personalization facilities

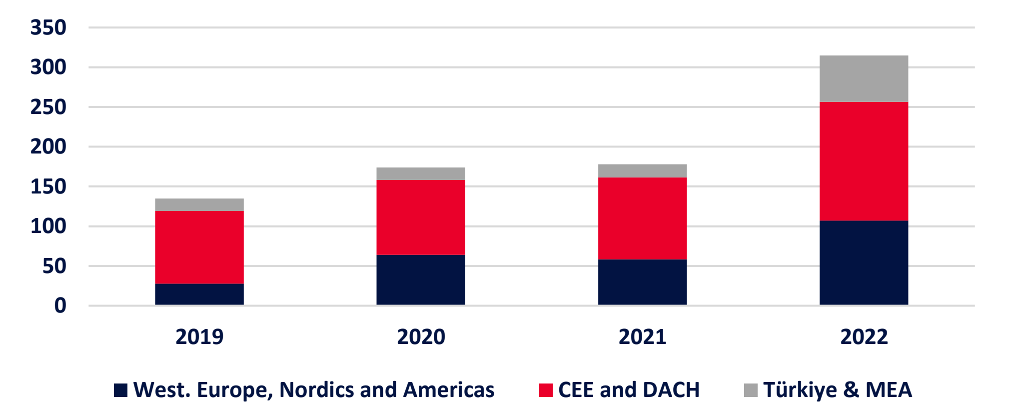


Source: Eurobank Equities Research, Company data.

Geographically diverse revenue from cards solutions

In terms of geographic mix, we have utilized the group's new corporate structure, as presented recently. This effectively divides group operations in 3 broad geographic areas, namely: 1) Western Europe, Nordics and Americas; 2) Central Eastern Europe (CEE) and DACH (Germany, Austria, Switzerland) and 3) Turkey and MEA. CEE & DACH was the largest revenue contributor in 2022, on our estimates, accounting for c48% of the mix, while Western Europe, Nordics and Americas followed with c34% on our calculation. Of note is that the Americas contributed c8% of the total mix in 2022 (notably 2x vs. 2021), generating c€24m after just 3 years of activity in the region. The remaining c19-20% of revenues in 2022 were derived from Turkey, MEA and other regions. **We note that revenue from cards solutions is geographically diverse, whereas revenue from the non-card business is concentrated primarily in Greece and Romania.** We note that the purpose of the aforementioned new structure based on geographical segmentation has been implemented so that ACAG can better cross-sell all products across all markets.

Revenue breakdown per geography, as per the new divisional breakdown (€m)



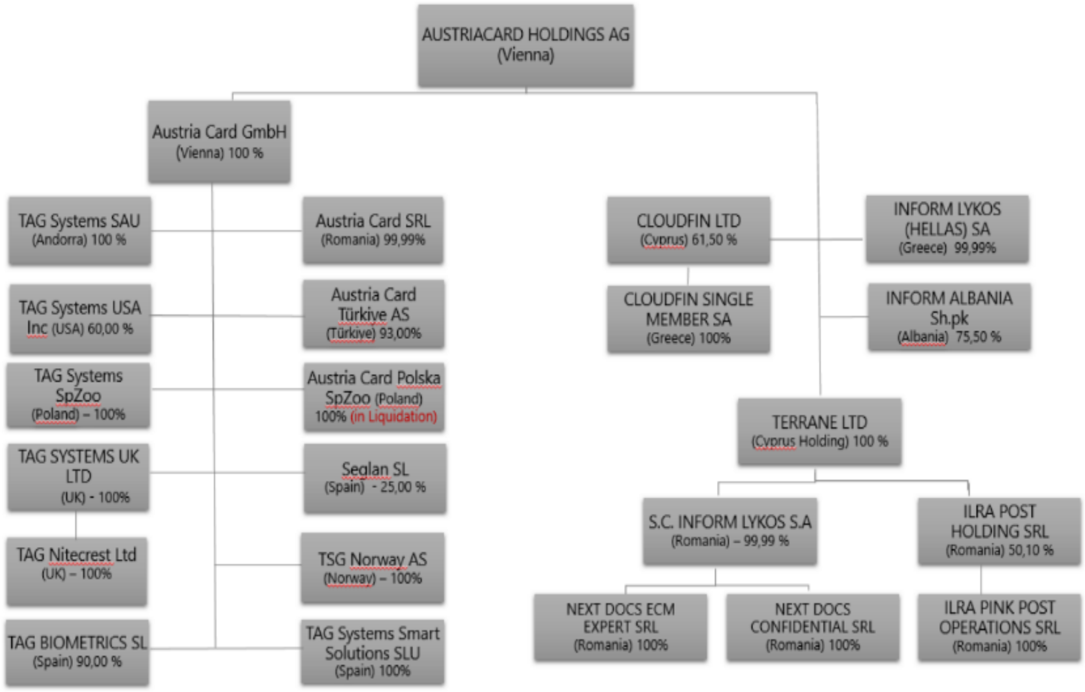
Source: Eurobank Equities Research, Company data.

Corporate structure

Austriacard Holdings was established following a cross-border merger between Austriacard and Inform Lykos in 2023. The former is the previously non-listed parent holding company owned until 2007 by the Central Bank of Austria and constitutes a key player in smart cards in Central and Eastern Europe. The latter is the previously Greek-listed printing services business, with 125-year track record in the field. The group is listed on both the Vienna Stock Exchange (VSE) and the Athens Stock Exchange (ASE).

An overview of the corporate structure is provided below:

Corporate structure



Source: Eurobank Equities Research, Company data.

B. Strategy

Two areas of expertise; well-established products

Austriacard's operating model is founded on its dual purpose as a manufacturer and distributor of smartcards and a provider of solutions in data management, digitization, payment and personalization. The group offers a diverse suite of products, covering structural components of both the payments and the printing value chains, including dual-interface cards, biometric cards, election ballots and e-commerce documents. It has recently expanded its activities in IT, investing in digital solutions focused on payment processing (using own-developed software) and digital transformation (primarily document digitization).

In regard to the group's strategic plan for each main product division, we highlight the following:

- In **Card Solutions**, following years of investment on production/personalization facilities on a global scale, management is looking to take advantage of the group's enhanced capabilities and fast delivery times to penetrate emerging card markets (e.g. the US, Turkey) further. We see the group's investments as rather well-timed given the increased prominence of challenger/neo banks and considering that global deployment and fast delivery are key for card manufacturers to win contracts with these particular clients. Another key area of focus is R&D, as newer card solutions (i.e. biometric cards, metal cards) have garnered the attention of consumers. In terms of R&D investments, the group has primarily targeted the development of its card chips software as well as that of biometric cards and their relevant services.
- In **Non-cards** (previously known as **Information Management)**, Austriacard's strategy is centered around retaining its prominence in printing in Greece and Romania and leveraging its expertise in document digitization to execute on its c€80m accumulated backlog of RRF-backed digital transformation projects (stretching out to 2026-27e). We remind that RRF is an EU initiative aimed at pressing ahead with the block's green and digital agenda. Effectively, companies in each country are presented with a significant opportunity of participating in tenders foreseeing the digitization of state archives, processes etc. using RRF facilities for the funding of such projects. Besides the above, ACAG is also actively looking to bolster its revenues through election projects, making bids primarily in Africa. In terms of R&D expenditure, Austriacard's focus is undoubtedly on the development of its higher value-added activities, namely document management and secure documents, as well as its digitization services.

Nimble card supplier focusing on mid-sized banks, challenger banks

The group operates a broad network of production/personalization centers and maintains top-of-the-line delivery capabilities, sitting firmly among the fastest card manufacturers globally. Austriacard's main advantage lies in the scale of its projects, where its targeting of small/mid-sized banks and challenger banks means volumes are generally smaller, switching costs are lower and delivery times are shorter compared to those of larger competitors (e.g. Gemalto, G+D). This has allowed the group to gain a significant share of the EU market and tap 2nd and 3rd tier banks in the US and niche financial institutions over the years. The group is especially well-positioned within fintech companies and challenger banks, which represent the fastest growing revenue source among Austriacard's clients (contributing c€66m in 2022, +c128% vs 2021).

Geographically diverse addressable card market; expanding to underserved markets

The group's addressable market in cards is geographically diverse. Through its global deployment capabilities and fast procurement, Austriacard has managed to both significantly consolidate its position in the EU market – especially in the SEE and CEE clusters – and seek out new opportunities in underserved and emerging markets (e.g. the US, Turkey) in recent years. Of note is that the US card market is estimated at c$1bn, c$300m of which is represented by mid-sized banks, which are ACAG's core client base, and that the group has managed significant growth in the country since entering in 2021 (US Revenue c€22m in 2022). The Turkish market also represents a quite compelling case, being home to well-established mid-sized banks (e.g. Ziraat, Garanti) and rising neobanks (e.g. Papara) alike.

Card solutions – Set up for economies of scale

ACAG has carried through an extensive c€38m capex program over the past 5 years (further topped up by (c€39m inorganic investments) to upgrade its production facilities and personalization centers. These investments have been made as part of the group's efforts to expand its cards footprint to new regions and are indicative of its commitment to growth. Currently, there is plenty of headroom regarding capacity utilization, which is set to increase in the coming years as activity in new regions picks up. By planning ahead and making timely investments, ACAG is able to capitalize on optimal resource allocation and cost-effectiveness – thus achieving economies of scale.

Boasting top-class card certifications

Austriacard's production centers are complicit with the standards of leading payment processing companies, while its card products are certified by the likes of Visa, MasterCard etc. The group has delved further into card chip operating system development in recent years, owning, and spending on R&D to further enhance, two operating systems branded "ACOS" and "ACOS ID".

Leading secure printing company in SEE; expanding to digital solutions

Boasting large-scale print operations and an expansive printing capacity, Austriacard is the leading secure printing company in Greece and Romania with over 50% of the output management market in both countries. The group is also relatively well-placed in secure printing, where it makes use of its scale and advanced security protocols to bid for election projects. We note that such bids have been won primarily in Africa (Nigeria, Kenya) in recent years. ACAG is continuously expanding its presence in digital solutions (e.g. document scanning, document digitization, digital transformation) in hopes of capitalizing on the c€1bn in relevant RRF-funded projects to be commissioned in Greece until 2026. We note that Austria's current backlog for such projects stands at c€80m and runs through to 2027e.

Targeting M&A-driven expansion; solid track record of acquisitions

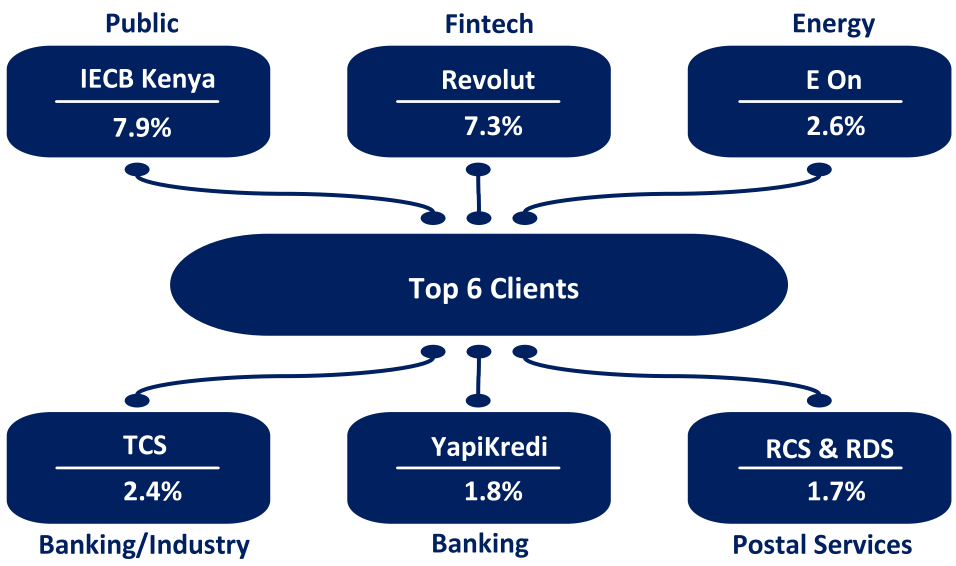
Austriacard also targets M&A-driven expansion, focusing on acquiring companies in complementary markets with products at early stages of development with the intention of making further improvements. Austriacard has a solid track record of acquisitions/JVs over the past 5 years, presented in more detail below:

1) **Next Docs (2019):** Romania-based provider of document management and scanning/electronic archiving services. Upon merging with Inform it added significant value to the group's digital services and solutions portfolio.
2) **Tag Systems (2019):** Andorra-based card manufacturer with a significant presence in neo/challenger banks and niche financial institutions. Its acquisition added 3 new personalization centers to Austria's operations, helping it expand its presence in the UK, Poland and Spain.
3) **Tag Systems US (2019):** JV between Austriacard and a US-based partner (Protec Secure Card) for the construction of a card personalization center in the US (with the intention of being operated by Austriacard). The center began operation in 2020 and has helped generate c€5m and c€22m in US card revenue in 2021 and 2022, respectively.
4) **Cloudfin (2021):** Cyprus-based company specializing in document management, particularly electronic archiving and document recognition products, assisting KYC-KYB processes. Its acquisition enhanced the software development capabilities of the group.
5) **Nitecrest Limited (2021):** UK-based card manufacturer and personalization center operator. Its acquisition helped expand Austria's presence in the UK, while also bolstering its industrial portfolio with a new personalization center in the region. Nitecrest was recently rebranded to Tag Systems UK.
6) **Pink Post Romania (2023):** Austriacard recently entered the postal services market in Q1'23 through the acquisition of a 50% stake in Pink Post, a private postal service company in Romania. The acquisition serves as an attempt to vertically integrate Austriacard's printing business in Romania (its largest market in printing) as it will significantly decrease mailing costs for bank statements and utility bills in the country.

Diverse client base; ensuring revenue stream stability

The group benefits from a diverse client base, both in terms of industries and geographies, established through long-term relationships. This allows it to effectively safeguard revenue stream stability by preventing overreliance on any particular client. Notably, this was also the case in 2022, where no single account contributed more than c8% of group revenue. A key contributing factor to Austria's revenue stability is the signing of multi-year supply contracts in card solutions, which usually span over several years. We stress that even though such contracts do not exist for printing, we see the latter as a relatively stable revenue stream given Austria's prominent position in its main markets. In regard to client industries, the primary focus in card solutions is naturally on financial institutions, whereas in non-cards the client base spans across a broader spectrum, encompassing telcos, utilities and retailers, industrials and public sector entities.

Top Clients (2022)



Source: Eurobank Equities Research, Company data.

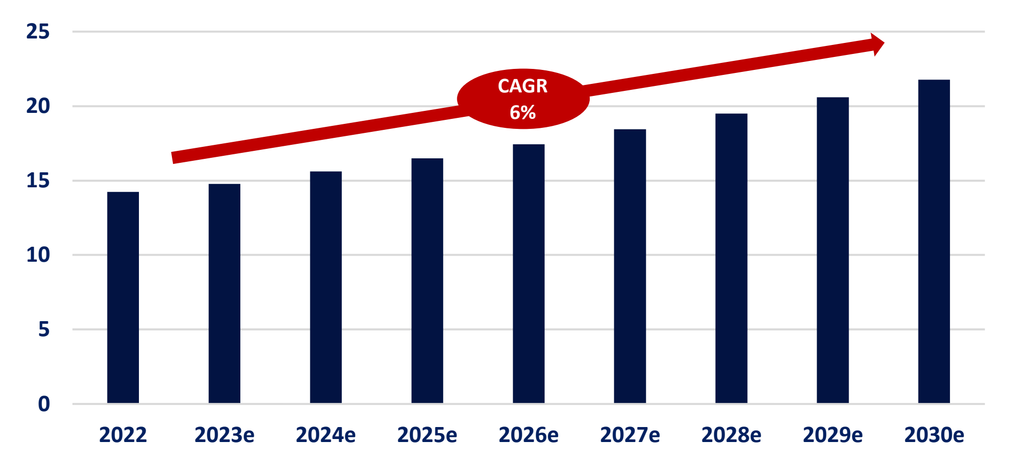
Market and Competitive Landscape

A. Card Solutions

Demand for contactless payments is set to drive the market growth

The global smart card market is estimated at c$14bn in 2022 per “Grand View Research” and is projected to reach c$22bn by 2030, growing at a CAGR of c6%. Dual-interface cards are the primary growth driver on a global scale, accounting for the majority of new cards issued, while cards using magnetic strips (especially prominent in the US) are the second largest driver. The cards market is seeing increased demand for more customization options (i.e. new materials, personalized designs) as well as for cards incorporating multiple authentication methods (i.e. biometric cards).

Global smart cards market, in USDbn



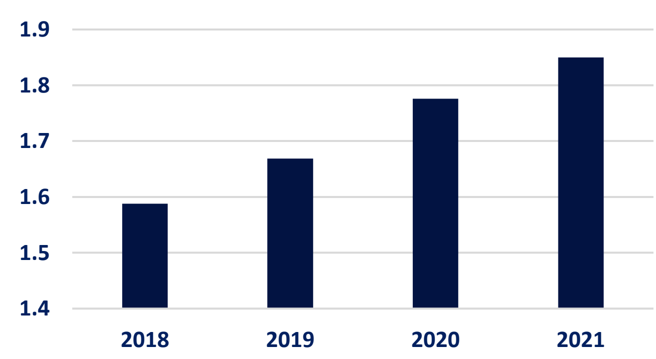
Source: Eurobank Equities Research, Company Data.

In regard to card use in the group’s core regions, namely the EU and the US, we observe the following:

- In the EU, the total number of non-cash payments amounted to c114bn in 2021, with total value reaching c€197 trillion. The total number of cards in circulation rose to c638m, equivalent to c1.85 cards per capita.
- In the US, the majority of the adult population holds at least one payment card (either debit or credit) while Nilson estimates that in 2020 a total of c7.4bn payment cards were in circulation in the US, corresponding to c22 cards per capita (this figure may be inflated as it also includes prepaid cards).

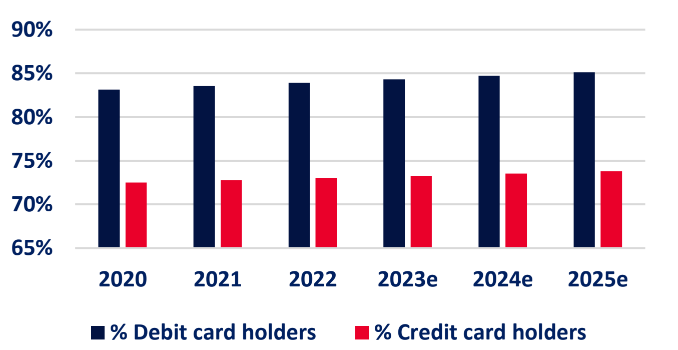
We note that card use was significantly accelerated by the pandemic, initially as a means to minimize physical contact and later as a way to facilitate payments in physical and especially in e-commerce transactions.

Number of cards per capita in the EU



Source: Eurobank Equities Research, ECB.

Payment card holders as a % of US adult population

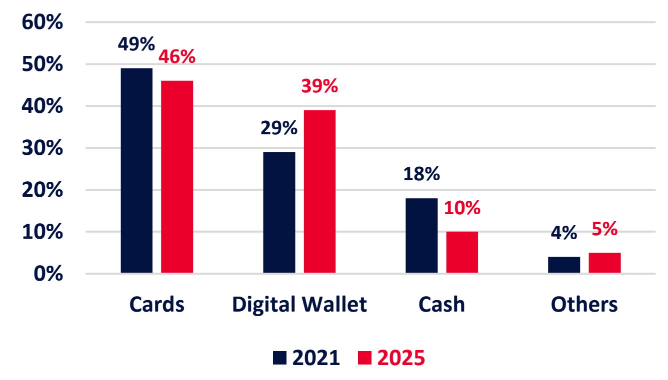


Source: Eurobank Equities Research, Nilson, CBO.

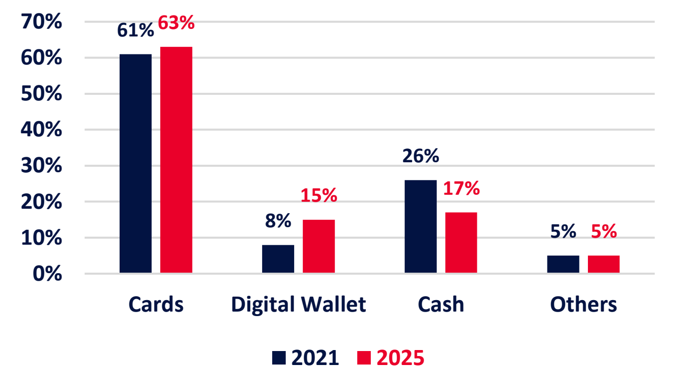
Cards set to stay the dominant payment method

Payment cards served as the primary method for POS transactions in 2021, accounting for c49% of global traffic. They are expected to maintain their prominence until 2025, though their share of global POS payments is projected to decrease slightly to c46%. Payment card use is notably prevalent in the EU, representing c61% of EU POS transactions in 2021, and is forecasted to rise to c63% by 2025e. Of note is that while digital/mobile wallets are set to see substantial growth in the coming years, they are not projected to surpass cards as the dominant payment method. This is especially the case in the EU where the gap between cards and digital/mobile wallets is wider. We presume that a substantial portion of global digital wallet payments is related to Asian markets, where ACAG is not currently present.

Global POS payment methods breakdown



EU POS payment methods breakdown



Source: Eurobank Equities Research, The Global Payments Report 2022.

Traditional dual-interface cards lead among payment cards and are primed for strong growth

Dual-interface cards are the dominant payment card type globally, representing the majority of payment cards in circulation. The global market for these cards was valued at c$6.9bn in 2022 and is expected to grow at a CAGR of c14% through to 2030, per "Verified Market Research". Dual-interface cards are equipped with an embedded chip which allows them to be used in both contact and contactless payments. Contact payments are completed through traditional physical readers, whereas contactless payments make use of NFC or RFID technology. Dual-interface cards have gained widespread adoption (especially in the EU and Asia) as a means to facilitate secure, fast and efficient transactions. They have traditionally been manufactured using a plastic base. Although already hailed as one of the primary card types globally, dual-interface cards gained significant traction in the pandemic era as consumers looked to limit physical contact.

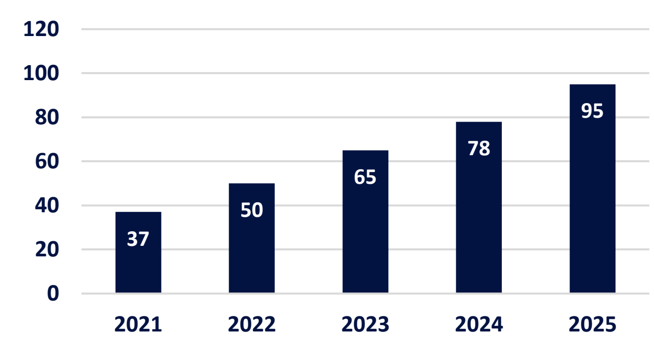
Demand is supplemented by metal dual-interface cards, biometric cards and other niche/premium segments

Metal dual-interface cards and biometric cards represent a small percentage of all payment cards in circulation but have been surging in importance in recent years – especially among customers of challenger/neo banks and fintech companies.

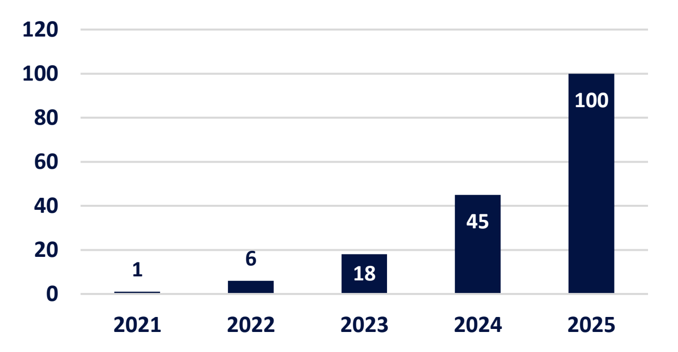
- Metal cards stand out as a sought-after premium category due to their intricate and visually appealing external designs. They are typically offered to customers with higher net worth or better credit ratings and are associated with exclusive benefits/rewards programs.
- Biometric cards have emerged as a more secure means for completing transactions, offering additional authentication layers (they are usually equipped with fingerprint readers).

We expect demand for these niche subcategories to pick up as challenger banks/fintechs expand their client pools in the coming years. In terms of global cards in circulation, we anticipate a substantial increase in volumes for both subsets, with metal cards poised to reach 95m units and biometric cards set to approach 100m units by 2025.

Number of metal dual-interface cards in circulation, mn units



Number of biometric cards in circulation, mn units



Source: Eurobank Equities Research, ABI Research.

It is important to emphasize that metal and biometric cards typically command higher profit margins compared to traditional dual-interface cards. There are several reasons for this:

- **Manufacturing costs:** Metal dual-interface cards, with their intricate designs and premium materials, are more expensive to produce than standard plastic dual-interface cards. Similarly, biometric cards require additional technology for fingerprint recognition, which increases their manufacturing costs. However, the higher cost is more than offset by the price premium, as indicated by the higher margins of Composecure, the dominant player for metal cards (EBITDA margins >30%).
- **Customization:** Metal and biometric cards offer greater customization options, allowing customers to personalize the card's design and functionality. This customization naturally comes at a premium, contributing to higher margins.
- **Target market:** Niche card categories are particularly popular among customers of challenger banks and fintech companies. These customers are often willing to pay a premium for unique and advanced card features. As a result, activities involving these customer segments tend to yield superior margins for both institutions and card makers.

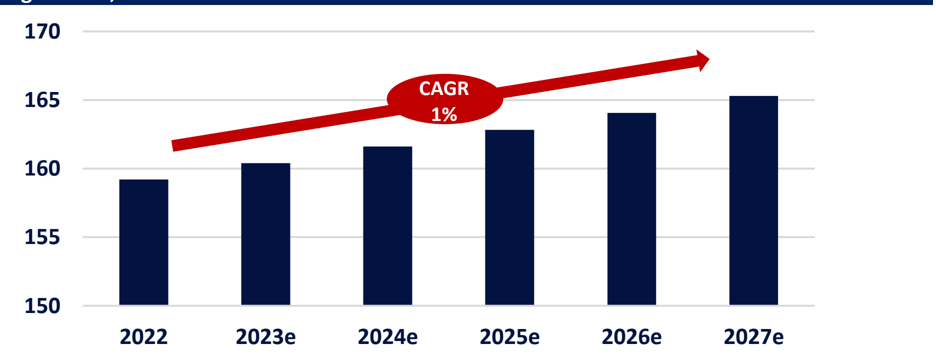
It is worth noting that the popularity of these card categories among challenger banks and fintechs has largely surpassed their adoption by traditional financial institutions thus far. Traditional banks may need to adapt their card offerings to align with the prevalent industry trends in order to capture the higher margin segments of the retail banking market.

B. Non-Cards Business

1. Printing

The aggregate size of the EU printing market (not relevant for ACAG in its entirety obviously, as ACAG is involved solely in secure printing) was valued at c€159bn in 2022 according to Smithers, c8% down from c€173bn in 2017. The market has seen a decline in recent years as demand for key printing product categories has been largely subverted by the growing trends of document digitization and digital transformation and increasing environmental concerns about printing methods. The market is poised for just mild growth until 2027e (c1% CAGR), driven by demand for e-commerce documents and product labels.

EU printing market, in EURm



Source: Eurobank Equities Research, Smithers.

Despite it being a largely declining market in the recent past, and in any case with tepid growth prospects, we see printing maintaining some resilience in applications where the transition to digital is either unfeasible or in nascent stages (e.g. bulk printing for physical advertising and events, election ballots, e-commerce labeling). Within the EU, this resilience will be particularly evident in regions where digital substitutes to printing such as digital documents have not yet been fully established (e.g. in the CEE and SEE regions).

In our view, the printing market relevant to Austriacard's activities comprises the following core segments:

Commercial Printing
This segment refers to print products for consumer-facing companies (e.g. bank statements, utility bills, advertising, and e-commerce invoices and labels). These products are typically produced in mass and have strict formatting requirements. Despite the overall printing market experiencing limited growth in recent years, this specific segment has proven to be a stable source of revenue for print companies, as it includes products essential to the operations of financial institutions and utility companies. Additionally, the segment directly benefits from the growth of e-commerce, as printed materials remain vital components of online retail transactions.

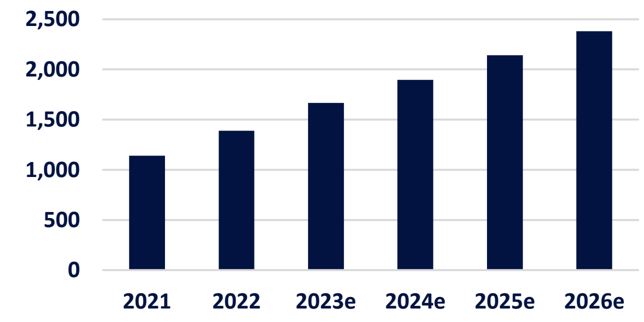
Secure Printing
Secure printing plays a pivotal role in maintaining the authenticity of documents and upholding security protocols. It is particularly vital in the production of high-security forms like election ballots, classified business documents, and other legal materials. Companies implement various security measures to ensure the protection and integrity of sensitive documents, with physical paper copies being one of the critical elements of document security. In the case of election ballots, the stringent security standards and the scale at which they are produced are currently irreplaceable by digital alternatives, rendering the demand for such products relatively inelastic.

2. IT Services

The Greek IT services market was estimated at €1.4bn in 2022 and is set to grow at a CAGR of c14% over 2023-26e. The domestic market has experienced significant growth in recent years, spurred on by secular trends such as the push for digital transformation, the demand for IT infrastructure improvements to accommodate increased digital workloads, and the plethora of funding opportunities for IT projects. We estimate that the aggregate value of the country's RRF-funded IT projects that could be associated with the activities of Austriacard (document digitization mainly) could exceed €100m.

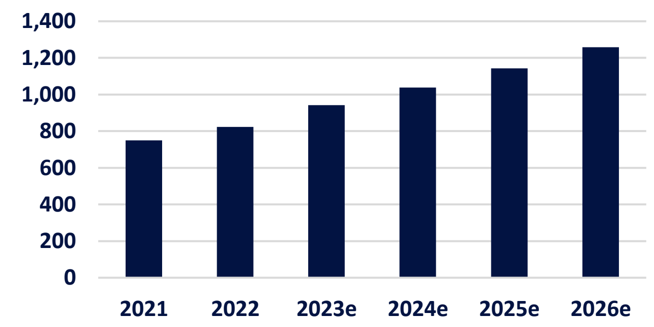
As far as Romania is concerned, the country's IT services market was valued at c€823m in 2022 according to Statista, and looks set to deliver a CAGR of c10% over 2023-26e. We note that, similar to the Greek IT market, Romanian IT benefits from RRF funding (c€29.2bn overall RRF plan for Romania, of which c21% will be allocated for digital transition until 2026).

Greek IT services market, in EURm



Source: Eurobank Equities Research, SEPE, Deloitte.

Romanian IT services market, in EURm



Source: Eurobank Equities Research, Statista.

Looking further into the IT services market subsegments where Austriacard is active:

Document Digitization

This subsegment refers to the digital scanning and electronic archiving of physical documents to facilitate their conversion into a digital format. IT companies operating in this subsegment employ a combination of technology (i.e. scanners) and manual labor to carry out these projects. The primary market for document digitization is comprised of large corporations and public institutions. Speed is a critical factor for winning such contracts due to the significant scale of scanning jobs and the limited timeframes for most relevant projects in Greece, given they typically involve RRF-backed funding which will not be available after 2026. Consequently, most document digitization providers have developed proprietary software to automate various aspects of the scanning process.

Digital Transformation

In the context of Austriacard's activities, digital transformation pertains to the automation and optimization of processes related to client onboarding (KYC/KYB) in financial institutions, as well as the development and provision of accounting and enterprise process automation software. Looking further into the former, KYC (Know Your Customer) is a process that assists in verifying customers and takes place before establishing a business relationship or when conducting transactions with a financial institution. It follows AML (Anti-Money Laundering) regulations and aims to prevent fraudulent or illegal activities related to retail banking. The process typically involves collecting and verifying various legal documents through secure online channels, including personal and financial information. Regulations vary regionally and across financial institution categories (i.e. traditional banks, challenger banks, fintechs). KYB applications offer a similar vetting process to KYC, with the difference being that they focus on the verification of businesses rather than consumers. Naturally, the regulations pertaining to KYB are different to those for KYC.

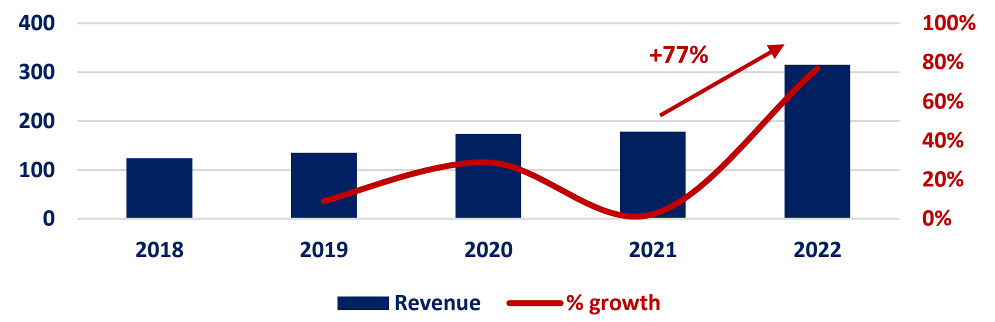
Top line overview

A. Historical performance: Organic growth coupled with acquisitions

Expanding revenue base

Austriacard has more than doubled its top line over the past 4 years through both organic growth and acquisitions. Revenues grew by c9% in 2019, on the back of increased inflows from contract renewals in cards and a large-scale election project in Nigeria. Reported revenue was also strong in 2020 as the c-4% like-for-like decline (due to the effect of COVID and the tough comp related to the paper ballot project in Nigeria) was more than offset by the positive effect from the consolidation of TAG Systems (UK, Spain, Poland) and TAG US. In 2021, revenues stabilized (+2.4%), as turnover from cards remained stable in the core markets and the non-cards business recovered after the pandemic woes of 2020. 2022 was by far the most impressive year for the group, as a combination of organic growth in cards from new markets, a new election project in Kenya and the first-time consolidation of its UK subsidiary expanded the top line by a whopping +77%.

Austriacard's top line performance and growth (reported)



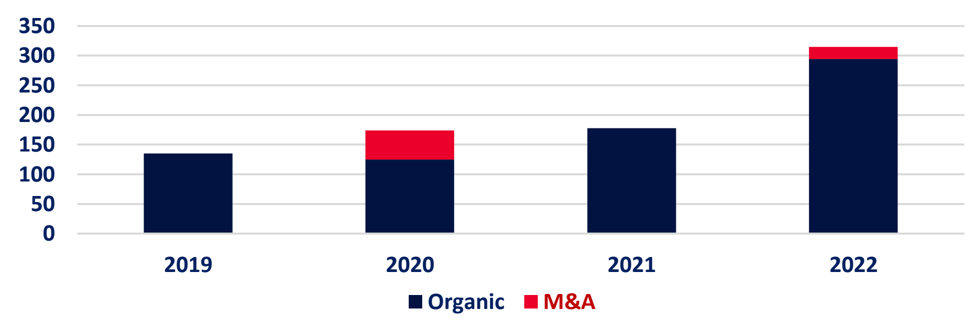
Source: Eurobank Equities Research, Company data.

With the exception of the pandemic-affected 2020, organic growth for the group has been quite solid over the past years, both in terms of volumes and pricing. This is especially the case in card solutions, where the group's geographic diversification strategy along with its expansive network of card production and personalization centers, has allowed it to procure products to new markets at a very fast pace. We also highlight the recurring nature of a large part of Austria's current revenue base as an instrumental part of its business.

...with M&A transactions further propelling group numbers and increasing its scale

Austriacard's top line has also benefitted from a number of acquisitions in recent years, through which the group has expanded its product offering and geographic outreach. M&A-driven expansion was most prevalent in 2019, with ACAG carrying through 3 separate transactions, namely the acquisitions of NextDocs and TAG Systems, and the creation of the TAG Systems US joint venture with US-based Protec, adding value to both its payment cards and document digitization operations. In 2021, the group delved further into document digitization through the acquisition of a majority stake in Cloudfin Ltd, while also enhancing its presence in the UK card market via the addition of UK-based card manufacturer Nitecrest. We note that Austria's M&A activity has continued into 2023, with the group's recent buyout of a 50% stake in Pink Post, a Romanian private postal service company.

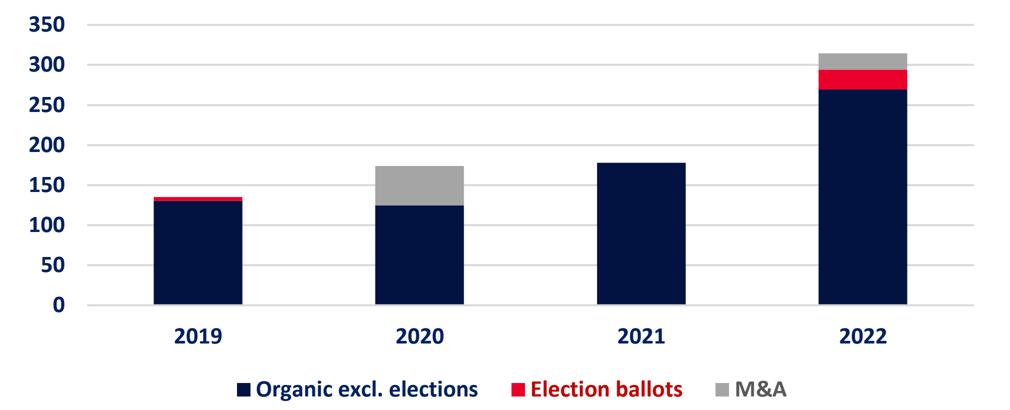
Revenue evolution: Organic vs M&A-driven



Source: Eurobank Equities Research, Company data.

We note that part of the organic growth of the group is non-recurring, namely the participation in election projects (principally in the MEA region), something which at times creates base effects. Indicatively since 2019, Austriacard has successfully provided its secure document services to both Nigeria (in 2019) and Kenya (in 2022), resulting in revenue realizations of c€4.5m and c€25m respectively. While acknowledging the impact of these ventures to the top line, Austriacard has managed to deliver healthy growth rates even on an underlying basis, testament to its ability to balance seizing profitable ventures such as election projects with cultivating stable, predictable revenue channels.

Revenue evolution in €m



Source: Eurobank Equities Research, Company data.

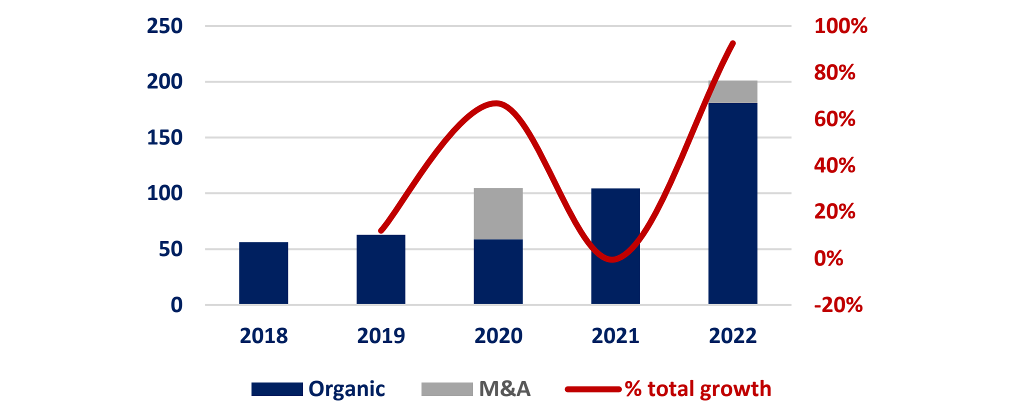
In what follows, we set out the dynamics and historical performance across the product segments, caveating again that going forward group segmentation will be presented by geographic area, as ACAG seeks to emphasize its focus on cross-selling.

Card Solutions: Card solutions represent the main source of income for the group, contributing c64% of group sales in 2022. Revenue from these solutions mainly comes in the form of contract renewals from existing clients as well as from new supply contracts. Of note is that the particular revenue stream is diversified both in terms of region and clients, with no individual country or client representing >10% of the total. Besides the sales derived from card procurement itself, cards also offer scope for additional value-added propositions such as customization options (i.e. base material, external design) and security features (i.e. additional authentication methods).

From a historical viewpoint, card solutions grew by a solid c12% in 2019, driven by a surge in contract renewals in Austria and the broader CEE. Though generally resilient due to their diversified nature, the pandemic era did create some challenges for card revenues in 2020. Indicatively, the division saw a c6% decline in organic revenue during that year, mainly as a result of supply chain disruptions which significantly impacted delivery times and order volumes in certain regions (UK, Spain) and for certain clients (challenger banks). The organic decrease in 2020 was countered by the consolidation of TAG Systems (with annual contribution exceeding c€40m), which ultimately led total revenue to grow by c67%.

Card revenues saw a slight decrease (-0.4%) in 2021 as contract renewals in Austria, Poland and Greece lagged compared to the previous year. We note that 2021 marked the group's first full year of presence in the US (2021 US Revenue: c€5m). Card solutions grew by a whopping >90% in 2022 reaching €201m, of which c€180m was organic, while the remaining c€20m came from the consolidation of TAG Systems UK.

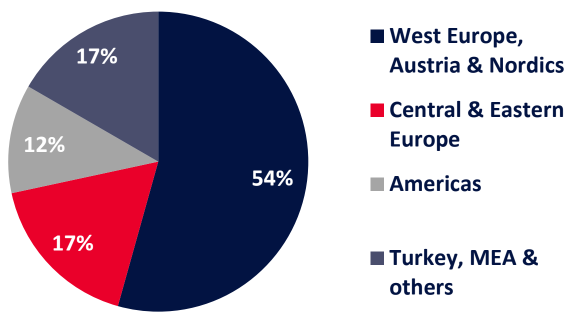
Card Solutions Revenue Breakdown



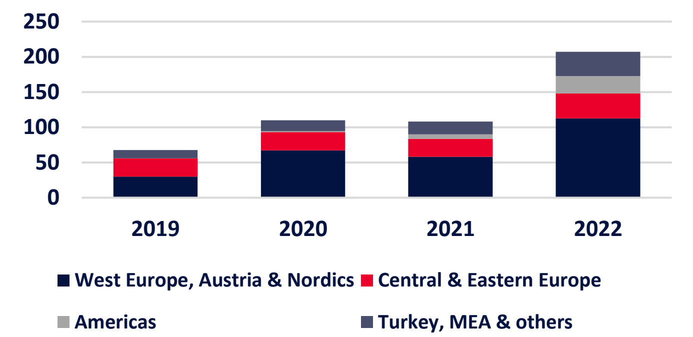
Source: Eurobank Equities Research, Company data.

In terms of geographic mix, Western Europe, Austria & Scandinavia is the most significant single region for the particular product line, accounting for more than c50% of card revenues in 2022. The regions of Central & Eastern Europe (CEE) and Turkey & MEA are next in line, each representing c17% of the total in 2022. Lastly, the remaining c12% is contributed by the Americas. In terms of historical growth per region, Western Europe and the Americas have experienced the most growth over the past 4 years (growing by c4x and c25x, respectively), while the Turkey & MEA region has also evolved significantly, with the country set to contribute >€35m of revenues this year on our estimate.

Card Solutions geographic mix (2022)



Card Solutions revenue evolution by region

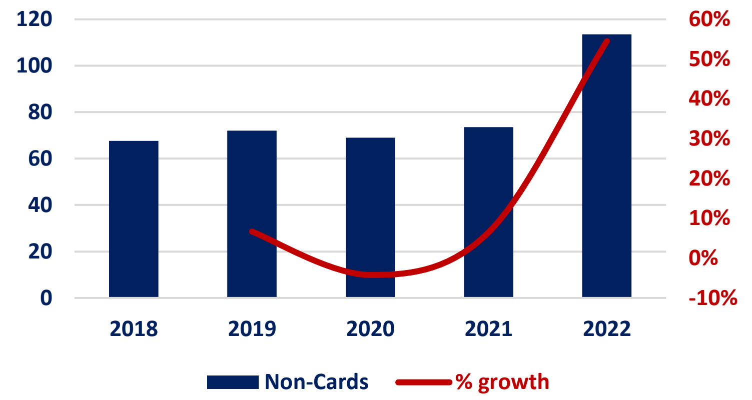


Source: Eurobank Equities Research, Company data.

Non-Cards (previously known as Information Management): Referring to the group's legacy division, information management has taken a secondary position in the mix in recent years due to the significant expansion of cards solutions. The division accounted for c36% of total revenues in 2022. Non-card revenue is derived from activities in printing and IT services, with the former representing c76% of divisional revenue and the latter contributing c24%. We note that despite stagnation of the printing market at large, the division is considered a rather stable revenue generator as a substantial portion of its client base is comprised of financial institutions and utility companies.

Looking at the division's historical performance, we note that 2019 was quite a solid year, with revenues increasing c7%, as organic growth in Austria's primary markets (Romania and Greece) was supplemented by a large election contract in Nigeria and the consolidation of Next Docs (a Romania-based document digitization company). Information management saw a decrease of c4% in 2020 as a result of pandemic related delays in core markets and the base effect from the previous year's Nigerian elections. Divisional revenue grew by c6% in 2021, on account of a strong recovery in printing in Romania and new inflows from document digitization projects in Greece. Growth was impressive in 2022 (55%), driven by improved volumes and pricing in commercial printing (approximately +€12m vs. 2021), a new election contract in Kenya (c€25m total contribution) and the first full year of operation for Cloudfin.

Non-Cards Segment Revenue evolution

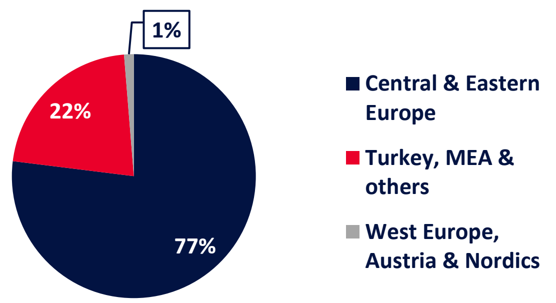


Source: Eurobank Equities Research, Company data.

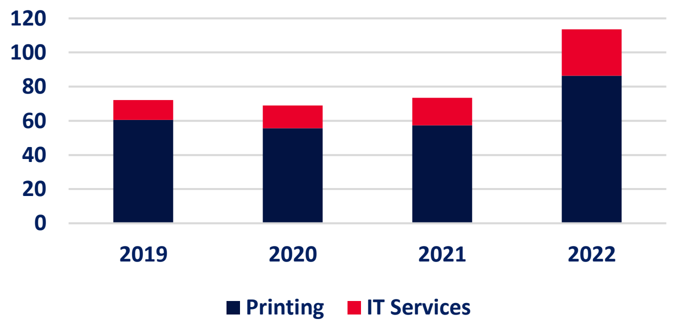
In terms of revenue per geography, the majority of information management revenues (c77%) are concentrated in the CEE region (mainly printing in Romania and Greece), while the Turkey & MEA region (primarily Africa in this case) makes up c22% of the mix (2022 data). Western Europe, Austria & Scandinavia account for the remaining c1%.

We provide a breakdown of information management revenue in geographic terms and per activity below:

Non-Cards geographic mix (2022)



Non-Cards revenue per activity

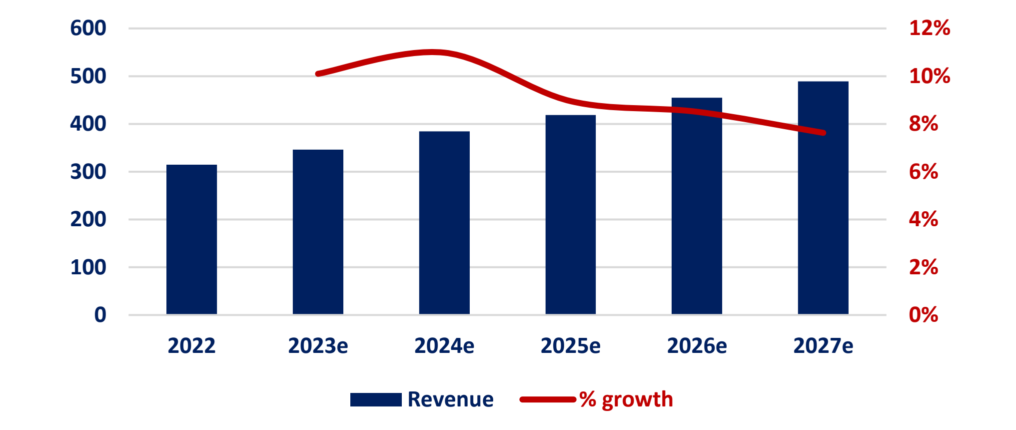


Source: Eurobank Equities Research, Company data.

B. Looking ahead: Envisaging a solid c9% sales CAGR over 2023-27e

We forecast a group sales CAGR of c9% over 2023e-27e, predicated on the solid prospects for card solutions (expansion in new high-growth markets, increased share in existing markets from product diversification), the stable revenues from printing services, and the flurry of opportunities in document digitization in Greece (>€100m in RRF-funded projects to be signed in the coming years). We expect postal services to contribute c€30m in revenue in 2023e, corresponding to c9% of the group total. We note these estimates exclude any further M&A activity.

Group top line evolution, in EURm



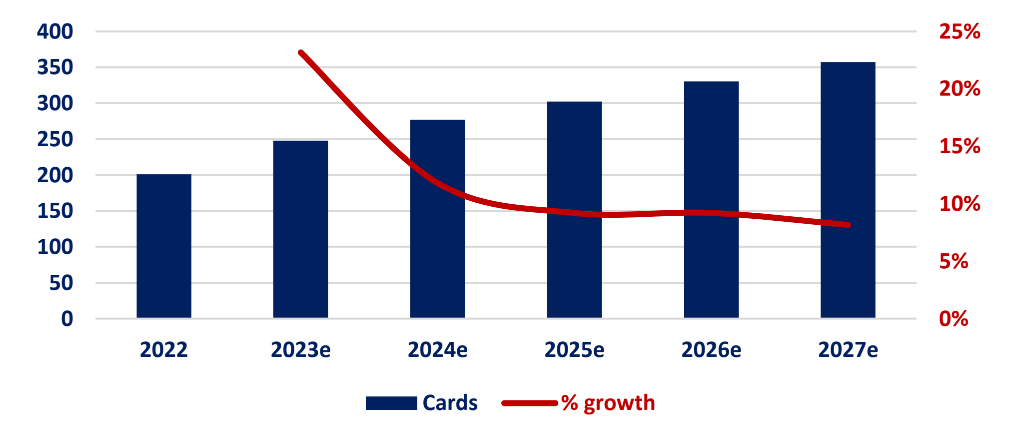
Source: Eurobank Equities Research, Company data.

In terms of divisional estimates across product segments:

Card Solutions: We forecast card solutions to grow at a CAGR of c10% through to 2027e, driven by expansion into high-growth regions (i.e. US, Turkey) and niche financial institutions (i.e. challenger banks), and further penetration of existing markets through product diversification (metal, biometric cards). We view our projections as hardly overambitious given the size of the new markets being tapped (US addressable market stands at c$300m), the group's multi-year presence in its existing markets and the expected uptrend in unit pricing as niche card categories pick up traction. We are confident that ACAG is well equipped to handle future demand given the substantial investments it has made in expanding its network of production and personalization centers.

Naturally, given Austria's expansion strategy, we assume growth will be volume-driven (new markets, new clients), though price/mix is also expected to have a positive effect from the increased adoption of niche card categories, as mentioned above.

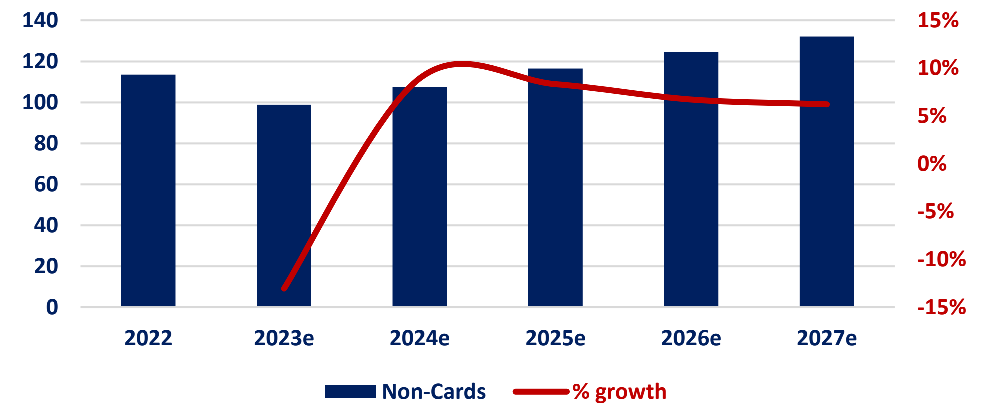
Card solutions top line evolution, in EURm



Source: Eurobank Equities Research, Company data.

Non-Cards: In regard to the non-cards business, we project a c13% decrease to revenue in 2023e as a result of the base effect from the one-off revenues related to the previous year's Kenyan elections. We pencil in a c8% CAGR in the ensuing years up to 2027e, on the back of: 1) stable revenues from printing services, 2) vertical synergies between printing and postal in Romania, 3) the c€80m backlog for document digitization projects extending to 2027, 4) Further one-off projects similar to the Kenyan elections (election ballots, secure labels related to beverages etc.).

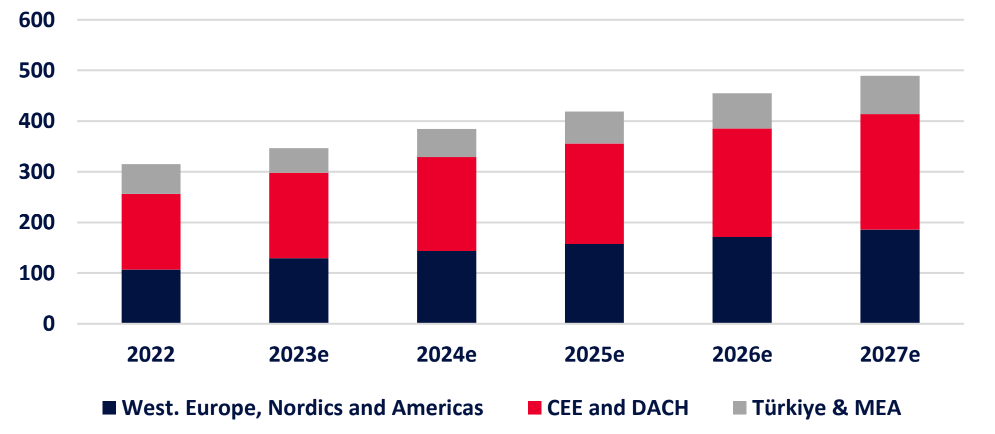
Non-cards top line evolution, in EURm



Source: Eurobank Equities Research, Company data.

Across the group's geographies, which is the way business performance is being presented since 2023, given our expectation for growth tilted towards higher-value services and smart cards, we expect W. Europe, Nordics, and the Americas to lead in terms of sales growth while increasing within the overall group mix to c38% by 2027e from 34% in 2022. We also expect rising contribution from Turkey & MEA, with the caveat that this division tends to be affected occasionally by one-off income associated with the printing business (e.g. election ballots). We expect CEE and DACH to grow on an absolute basis but fall slightly as % of the overall mix due to this region's exposure in lower-growth segments relating to printing (mainly Greece and Romania).

Sales evolution by geography (EURm)

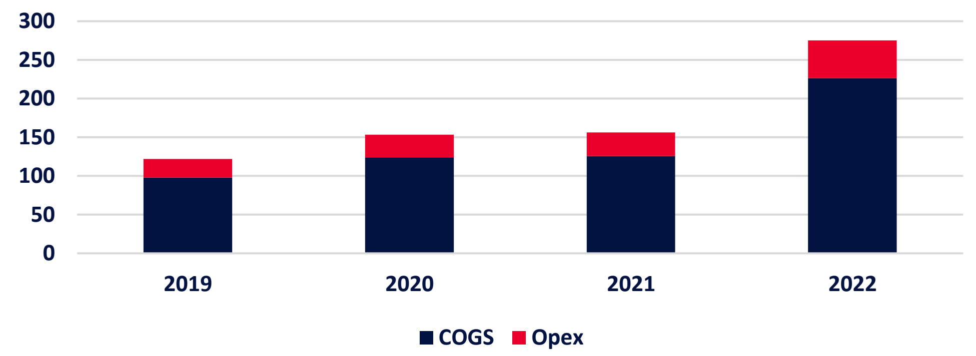


Source: Eurobank Equities Research, Company data.

Cost structure & margins

Austriacard's cost base is dominated by cost of goods sold (COGS), quite natural given the industry in which it operates. Indicatively, in 2022 total costs were >€270m (excl. D&A), equivalent to c87% of revenue, thus allowing for an adj. EBITDA margin near 12-13%. COGS made up c82% of the aforementioned amount, with the rest being accounted for by opex. The expenses mix has been quite consistent in recent years, with COGS accounting for c81-82% of the total cost base. The majority of costs can thus be correlated to commodity prices, which can impact the base either directly (input costs) or indirectly (freight rates). We believe ACAG is able to minimize exposure to input price variations (e.g. chips) by early stocking-up or by passing price increases through to clients (especially given cards' low cost from the perspective of financial institutions, which are the core clients of ACAG). We also point out that possible increases in freight rates are mitigated by Austria's geographically diversified production network.

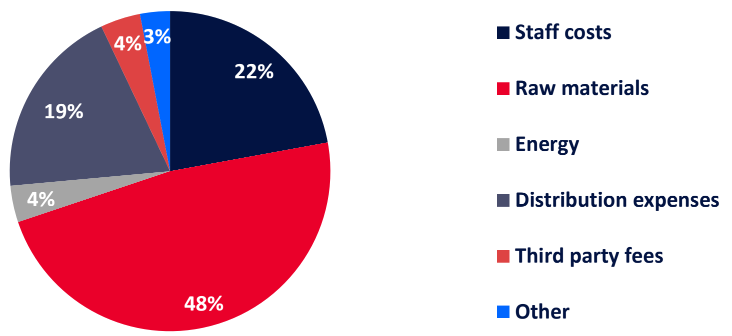
Cost base mix



Source: Eurobank Equities Research, Company data.

Looking at the cost base in a bit more detail, raw materials make up the majority of expenses accounting for c48% of total costs (excl. depreciation). The related cost components comprise mainly chips/wafers, other card materials (e.g. polyester films for lamination, smart card antennas), paper, ink etc. Staff costs are the second largest component at c22% of the cost base while distribution/mailing expenses are next in line at c19% of the mix. The remaining components are utilities, third party fees and other expenses, the former two accounting for c4% each and the latter for c3% of total expenses.

Austriacard cost base (2022)

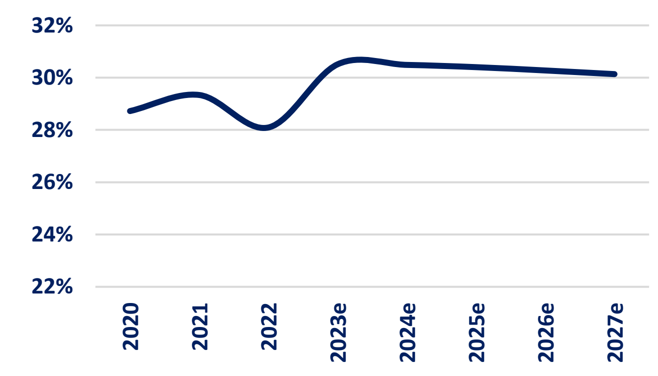


Source: Eurobank Equities Research, Company data.

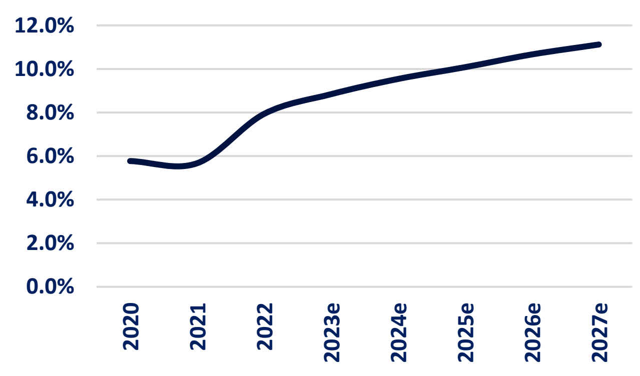
Taking a closer look at the margins, one can see that group gross margin hovered near c29% between 2020-21, as: 1) pricing in cards remained strong despite supply chain snarls, 2) the group expanded its operations to new high-growth markets, 3) printing revenues normalized after a challenging 2020 and 4) document digitization projects gained traction. Gross margins saw a slight decrease in 2022 due to higher input and transportation costs, and the first time consolidation of TAG Systems' UK-based subsidiary, though the total impact was limited to just c1.2pps. We envisage gross margins in the 30-31% range going forward as ACAG consolidates its position in new markets in payment cards, establishes synergies between printing and postal (in Romania) and expands its document digitization project backlog.

EBIT margins increased by c2pps between 2020-21, on the back of the aforementioned strong pricing and volumes in card solutions and the improved mix in information management (non-cards) from the expansion of ACAG's document digitization activity. Profitability saw a slight dip in 2022, impacted by the higher input and transportation costs mentioned above as well as increased personnel costs due to the first time consolidation of TAG Systems UK. Looking ahead, we anticipate EBIT margins to trend towards the 11% area through to 2027e (from c7.9% in 2022) fueled by positive operating leverage (+230bps margin expansion).

Gross margin evolution



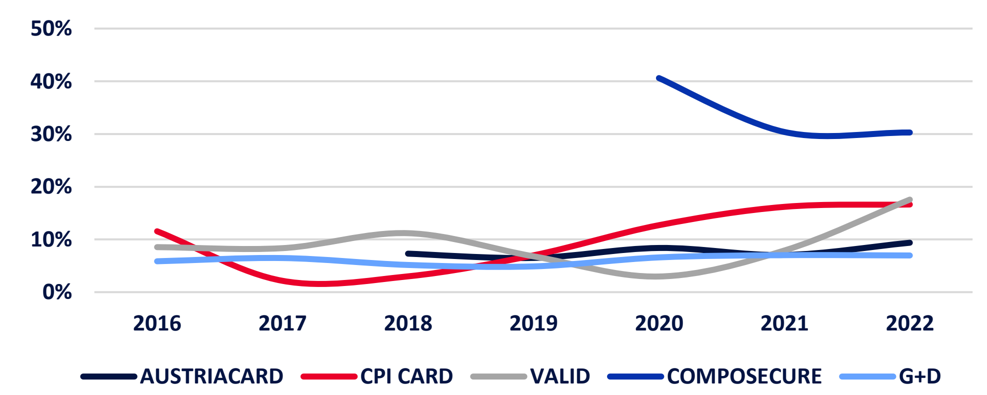
EBIT margin evolution



Source: Eurobank Equities Research, Company data.

Focusing on ACAG's card solutions division and contrasting its margin structure against that of payment card peers, one can notice that ACAG lags most of its competitors in terms of EBIT margins, indicating there is plenty of room for margin accretion as a result of either larger scale through geographic expansion or better product mix. Of these two drivers, we consider product mix enhancement through niche cards (i.e. metal, biometric) as the primary medium for margin accretion, having in mind the superior margins of Composecure (focused solely on premium metal cards) and CPI Card (combining metal and eco-friendly cards). Considering the above and the positive trends for the non-cards business (synergies in printing, improved mix) our forecasts for a c2.3pps adj. EBIT margin expansion at a group level over 2023e-27e seem hardly overambitious, we reckon.

Card solutions EBIT margin vs Payment card peers



Source: Eurobank Equities Research, Company data.

The table below presents an overview of our forecasts for the group. In short, we anticipate that positive operating leverage will lead to a c35bps reduction in opex/sales over 2023-27e, driving an expansion of the group adj. EBITDA margin to near 15% (from c13.4% in 2023e). This, in turn, translates into a 2-digit EBITDA CAGR through to 2027e, reflecting quite a compelling growth trajectory.

Profitability evolution

in EUR m	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	22-27e CAGR
Revenue	**173.9**	**178.0**	**314.7**	**346.5**	**384.6**	**419.0**	**454.7**	**489.4**	**9%**
Across geographies *									
- W. Europe, Nordics & Americas			107.0	129.1	143.6	157.3	171.5	185.9	12%
- CEE and DACH			149.5	169.4	185.8	198.2	214.0	228.1	9%
- Türkiye & MEA			58.3	48.0	55.2	63.5	69.2	75.4	5%
Across product segments **									
- Cards	104.8	104.4	201.1	247.7	277.0	302.5	330.3	357.2	12%
- Non-Cards & Other	69.0	73.5	113.6	98.8	107.6	116.6	124.4	132.1	3%
COGS	-134.2	-137.5	-240.7	-256.6	-283.5	-307.9	-333.5	-358.7	
Gross Profit rep.	**39.7**	**40.5**	**74.0**	**89.9**	**101.1**	**111.1**	**121.2**	**130.7**	**12%**
margin	22.8%	22.8%	23.5%	25.9%	26.3%	26.5%	26.6%	26.7%	
Opex	-19.4	-18.7	-34.6	-43.5	-48.2	-52.6	-56.2	-59.4	
Opex / sales	11.1%	10.5%	11.0%	12.5%	12.5%	12.6%	12.4%	12.1%	
Adj. EBITDA	**20.3**	**21.8**	**39.4**	**46.4**	**52.9**	**58.5**	**65.0**	**71.2**	**13%**
margin	11.7%	12.3%	12.5%	13.4%	13.7%	14.0%	14.3%	14.6%	
D&A	-10.3	-11.7	-14.4	-15.8	-16.2	-16.3	-16.5	-16.8	
EBIT	**9.8**	**15.0**	**17.6**	**30.6**	**36.7**	**42.2**	**48.5**	**54.4**	**25%**
margin	5.6%	8.5%	5.6%	8.8%	9.5%	10.1%	10.7%	11.1%	

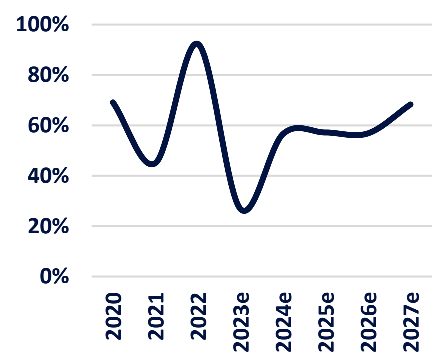
Source: Eurobank Equities Research, Company data. * New breakdown since 2023. ** Old breakdown until 2022.

Cash flow generation and returns

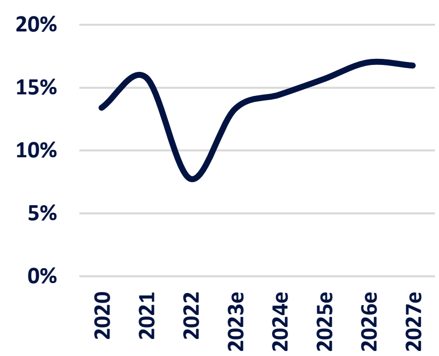
The business is not particularly cyclical nor capital intensive. In addition, given the long-term nature of several customer products related to card issuance and the 4-year replacement cycle, there is good revenue visibility, and, as such, cash generation. This is manifested in the quite healthy cash conversion (OCF/EBITDA) track record, which has consistently exceeded 45% in recent years. From a working capital perspective, ACAG normally operates with a WC/Sales ratio in the mid-teens (this was as low as 8% in 2022), a level which is in sync with the closest peers (e.g. Composecure) or better (e.g. CPI at c20% on average historically). This corresponds to a cash conversion cycle equal to c44 days in 2023e.

Looking ahead, we pencil in an increase in the WC/sales ratio in 2023, in sync with ytd trends due to inventory stocking-up, while assuming a further uptick in the cash conversion cycle as the business expands both geographically and in terms of product, but with overall cash conversion oscillating between 50-70% of EBITDA post 2024, indicating healthy execution.

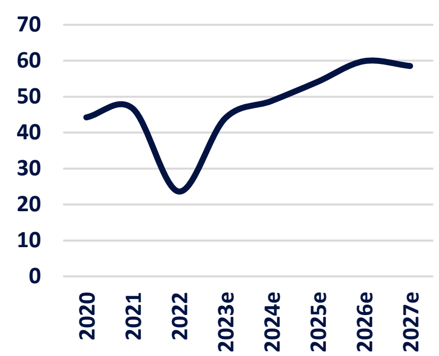
Operating cash conversion (OCF/EBITDA)



Working capital as % of sales



Cash conversion cycle (days)

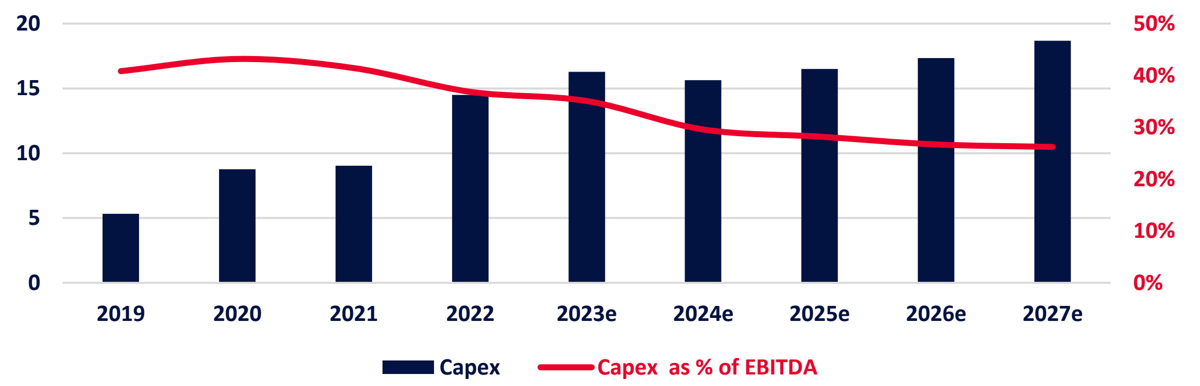


Source: Eurobank Equities Research, Company data.

On the investment front, the industry requires capex for product improvement and evolution (e.g. chip cards, contactless), with ACAG having recently proceeded with a significant investment for its US personalization center. Other organic capex relates to spending on production machinery and the development of proprietary software and chip operating systems. Besides organic capex, ACAG has also been active in M&A having been involved in 5 deals since 2019 (Next Docs, TAG Systems, CloudFin, Nitecrest). A key development was the group's expansion in the US market through TAG Systems US (end 2019), as a result of which it provides personalization and fulfillment services in a growing and underpenetrated market.

Overall, the group's investments totaled €38m over 2019-2022, excluding M&A, corresponding to c40% of EBITDA. Looking ahead, we anticipate capex to oscillate between c25% and c30% of EBITDA in the absence of M&A, a level we reckon is more than enough to support our estimated c9% group sales CAGR over 2023-27e.

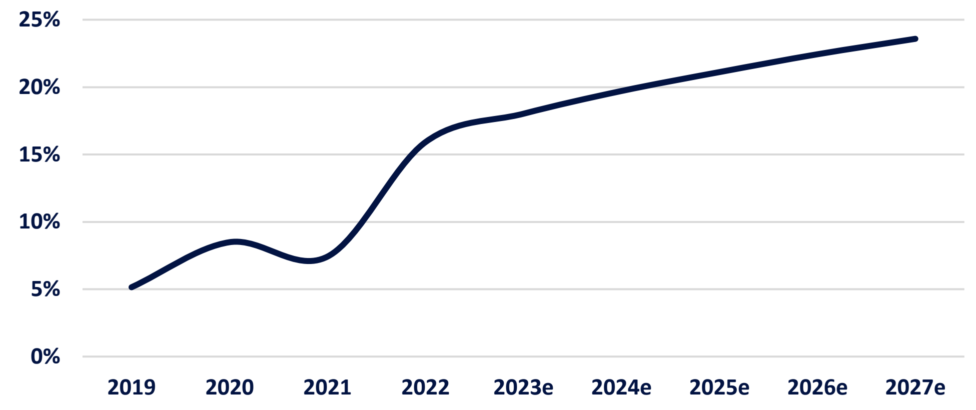
Capex (€m, left) and Capex as % of EBITDA (right)



Source: Eurobank Equities Research, Company data.

Looking at the returns brought about by these investments, it is quite interesting to note that these have indeed driven quite good incremental returns. To exemplify this, we flag that adj. EBIT between 2019 and 2022 increased by >€18m, translating into a whopping c50% return (pre-tax) on the investment over the 4-year period. As a result, ROIC has increased to c16% pre-tax (and c10% post-tax) and looks primed to reach 20% from 2024e onwards.

Increasing ROIC thanks to rising profitability and expanding margins



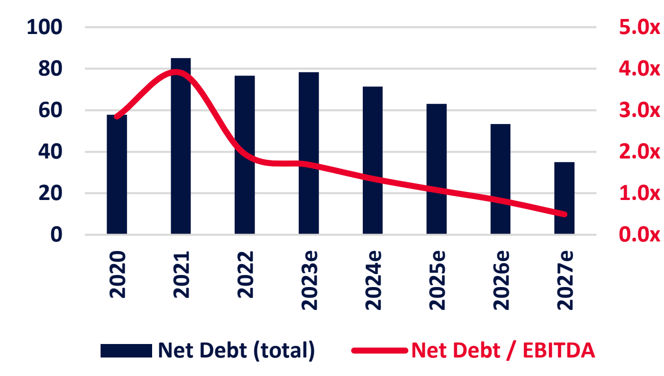
Source: Eurobank Equities Research, Company data.

Balance sheet and shareholder returns

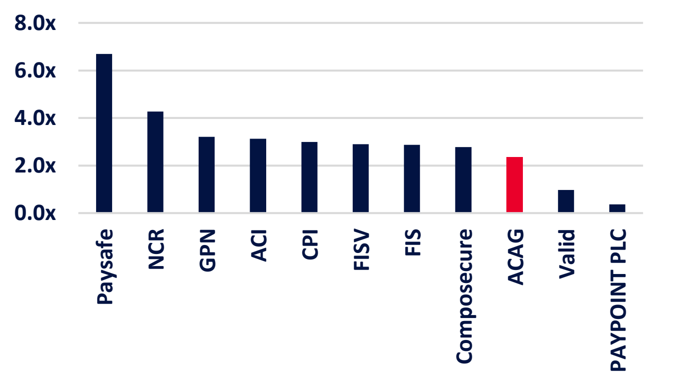
Austriacard enjoys quite a healthy financial position, with net financial debt at €66m as of end 2022 and at €77m including leases. This corresponded to a comfortable <2x net debt/EBITDA ratio, which, as we display below, is at the low end of the broad peer group. As far as the constituents are concerned, gross loans were c€87m backed by €22m cash and equivalents. Net debt increased to €87m in H1'23 and €97m in the 9M period, as a result of the build-up of inventory.

Looking ahead, we expect leverage to enter a downtrend trajectory as EBITDA gets rebased to >€50m after 2024e. Our model envisages net debt/EBITDA to trend down to <1x post 2026e as a result of healthy FCF generation and our assumption of no additional M&A coupled with a balanced shareholder return policy (c20% payout).

Net Debt (€m, left) and Net Debt/EBITDA (2020-2027e)



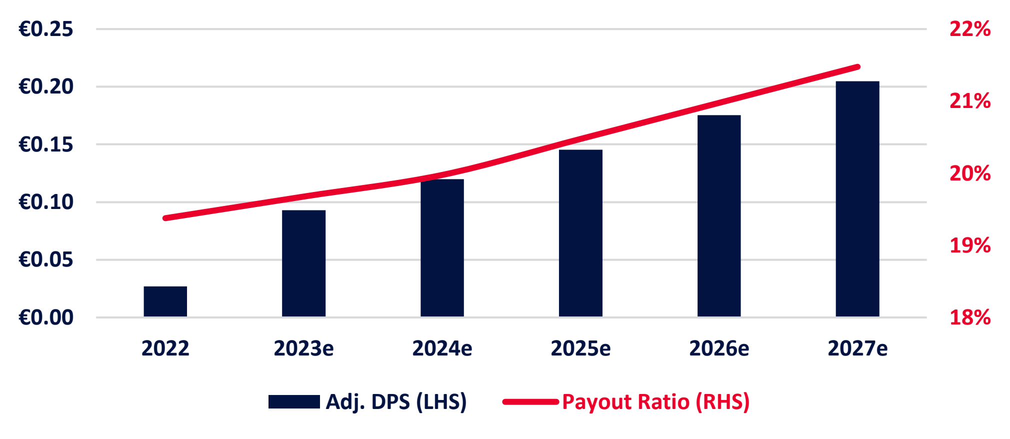
Net Debt/EBITDA vs Peers (2022)



Source: Eurobank Equities Research, Company data, Bloomberg.

On the latter point, 2022 marked the first year of dividend distribution following the reverse merger procedure which resulted in the creation of the enlarged Austriacard group. The dividend out of 2022 profits amounted to €0.9m, corresponding to a small payout as percentage of the FCF generated during the year. Looking ahead, we argue that ACAG's FCF profile supports quite a balanced capital allocation strategy, including both building war chest for M&A and rewarding shareholders. On the dividend front, we envisage a progressive policy assuming a payout ratio near 20% as percentage of net profits, corresponding to c40% of FCF.

DPS & Payout Ratio



Source: Eurobank Equities Research, Company data.

9M’23 overview

Austriacard has reported solid 9M'23 results, with revenues reaching c€262m (+13%) on the back of organic growth in cards (card solutions revenue up c€23m vs. Q3’22), secure printing and document digitization, and M&A-driven growth from the acquisition of a majority stake in Pink Post, which contributed a further c€12m to the top line.

9M’23 Adj. EBITDA grew to c€37m (+12% yoy), while the adj. EBITDA margin remained almost stable at c14%, as improvements in pricing/mix for both cards solutions (expansion to new markets, upselling in existing markets, better average prices) and the non-cards business (increased contribution of document digitization) were partially offset by increased opex from the addition of the postal business. As a result of the above, net profit reached c€14m in 9M’23, up >50% vs. 9M’22.

In terms of cash flow generation, Austriacard produced negative operating cash flow in 9M’23 (at €-4.9m, €6.6m lower vs. the previous year). This discrepancy came as a result of working capital outflows (c€33m vs c€17m in 9M’22) due to inventory build-up for safety buffer purposes. 9M’23 capex stood at €9.4m (vs. €13m 9M’22) as investments continued at a slower rate compared to the previous year. As a result of the above, the net debt position of ACAG rose to €97m as of end September 2023.

Austriacard 9M'23 results overview

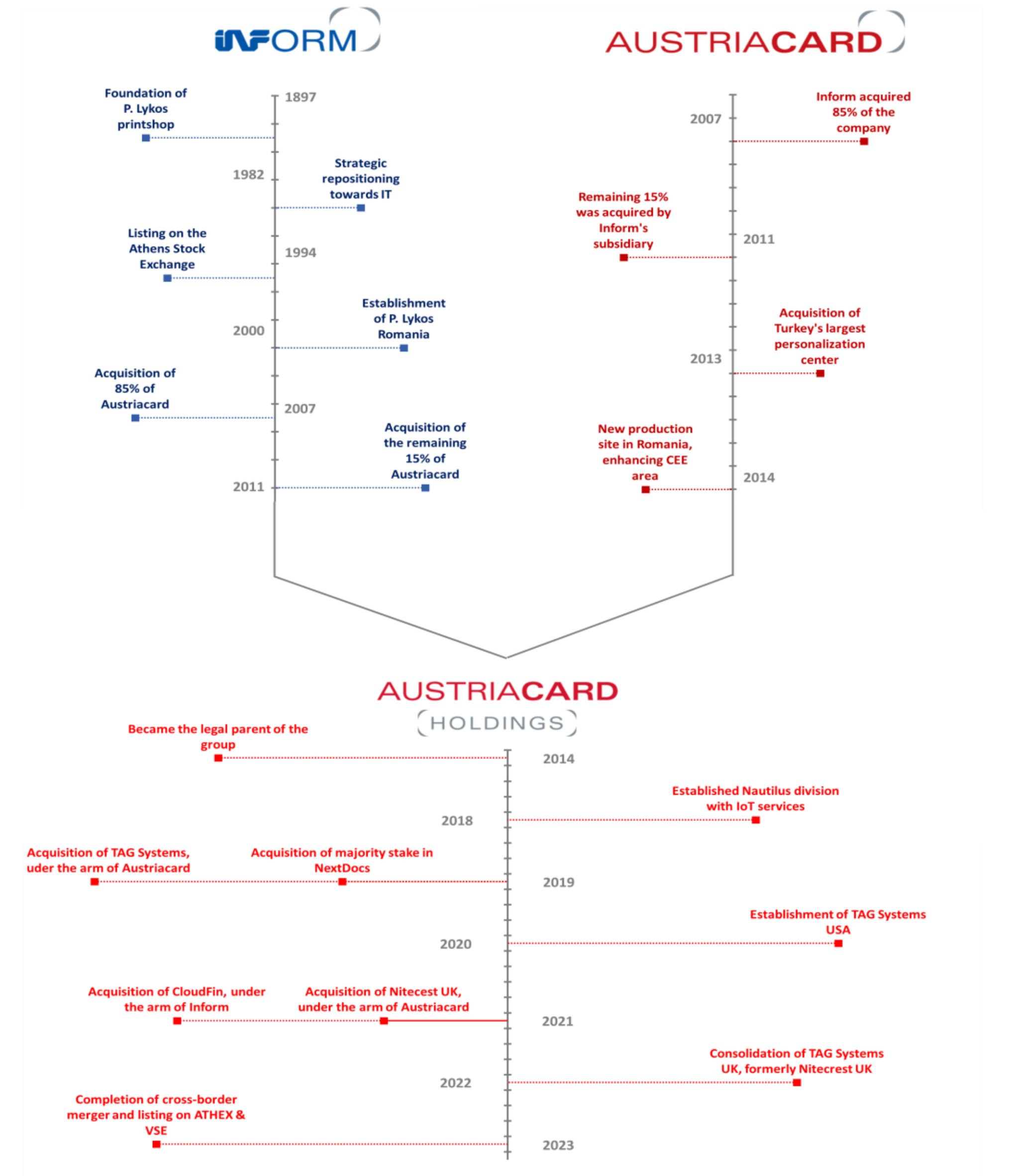
	9M'22	9M'23	yoy %
Revenue	**231.2**	**261.5**	**13.1%**
- COGS	-175.5	-198.3	
Gross Profit	**55.7**	**63.2**	**13.5%**
Gross margin	*24.1%*	*24.2%*	*0pps*
- Operating expenses	-23.0	-26.7	
Adj. EBITDA	**32.7**	**36.5**	**11.7%**
Adj. EBITDA margin	*14.1%*	*14.0%*	*0pps*
PBT	**14.3**	**18.1**	**26.6%**
- Taxes	-3.3	-3.5	
Net profit	11.0	14.6	33.2%
Net profit post non-controlling interests	**9.1**	**14.0**	**54.6%**
Adj. Operating cash flow	11.5	-4.9	
Investment	-13.1	-9.4	
Equity FCF	**-2.6**	**-16.9**	
Net Debt	**92.8**	**96.7**	

Source: Eurobank Equities Research, Company data.

History and Shareholder Structure

We provide a brief historical summary of Austriacard Holdings below, split between its two core divisions, namely Austriacard and Inform Lykos.

Group history overview



Source: Eurobank Equities Research, Company data.

Regarding the BoD and subjecting to Austrian Corporate Law, Austriacard has a two-tier board structure, namely the Management and the Supervisory boards. The former is responsible for managing the operations of the group, along with understanding and protecting the shareholders' and employees' interests. The latter is assigned with the overall supervision of the Management Board.

In regard to the former, the current structure involves the following members:

Mr. Nikolaos Lykos has been the Executive Chairman of the Management Board since 2011. Mr. Lykos has been involved in the development of Inform Lykos since 1980, representing the 4th generation of the Lykos family. He was appointed Chairman and CEO of Inform Lykos in 2000. He holds a degree in Business Development from Templeton College, Oxford.

Mr. Panagiotis Spyropoulos is the Vice Chairman of the Management Board and the Group CEO, having assumed his current role in 2013. He has been with the group for >17 years, having previously served as CFO and then CEO of Inform Lykos. Mr. Spyropoulos has more than 25 years of experience in listed companies, serving as either CEO or CFO, and has led three separate IPOs. Prior to joining the group, Mr. Spyropoulos served as Deputy CEO and CFO of Plaisio Computers and as CEO and Vice Chairman of Korres Natural Products. He holds a degree in Economics from the National and Kapodistrian University of Athens.

Mr. Emmanouil Kontos serves as the Deputy Group CEO and is the Executive Vice President of the CEE region, having joined the group in 2018. He previously held the positions of Group CFO of Korres Natural Products and Managing Director of General Mills for the Middle East and Africa. He is a graduate of Economics from the National and Kapodistrian University of Athens and holds a master’s in Business Administration.

Mr. Burak Bilge is the Executive Vice President of Turkey & MEA, a position he has held since 2013. Before joining Austriacard, Mr. Bilge was Vice President of International Business Development in Garanti Bank Payment System and held a global leadership role in Erste Banking Group. He holds a degree from Boğaziçi University Department of International Trade, and a master’s in Banking and Finance from Yeditepe University. He is also pursuing a PhD in Political Science and Foreign Relations.

Mr. Jon Neeraas is the Executive Vice President of Western Europe, UK, Nordics and Americas. Mr. Neeraas co-founded TAG Systems and has served as its CEO since 1999, helping establish and manage many greenfield operations in the payments space. He joined Austriacard in 2019 following the acquisition of TAG Systems by the group. He holds a degree in Finance from the Norwegian School of Economics (BI).

Mr. Marcus Kirchmayr has served as Group CFO since 2021. He has been with the group since 2015, having initially been appointed as Finance Director of the Card Solutions division. Prior to joining the group, Mr. Kirchmayr held various positions including Audit Manager at KPMG and Head of Group Consolidation at Conwert Immobilien Invest. He holds a master’s in Economics from Johannes Kepler University of Linz.

As for the Supervisory Board, the current structure consists of the following members:

Mr. Petros Katsoulas is Chairman of the Supervisory Board and a member of the Audit and Nomination & Remuneration Committee. He is currently the Chairman and CIO of Elikonos Capital. Mr. Katsoulas has held numerous executive positions in banking and stock broking including General Manager of Strategy at Eurobank, CEO and Head of Institutional Sales at NBG Securities and Director of Equity Research for European telecoms and Greece at Credit Suisse. He holds a degree in Computer Science and an MSc in Software Engineering from the University of Crete, and an MBA from Aston University.

Mr. John Costopoulos serves as Vice Chairman of the Supervisory Board and is Chairman of the Audit and Nomination & Remuneration Committee. Mr. Costopoulos is currently a board member of Frigoglass SAIC and DMEP Ltd, as well as founder and Managing Director of CCML Consulting Ltd. Throughout his career, he has served as CEO of Hellenic Petroleum, CEO of Petrola, Regional Director of Johnson & Johnson for CEE, Managing Director of Diageo and Principal at Booz, Allen & Hamilton. He holds a degree in Economics from the University of Southampton and an MBA from the University of Chicago.

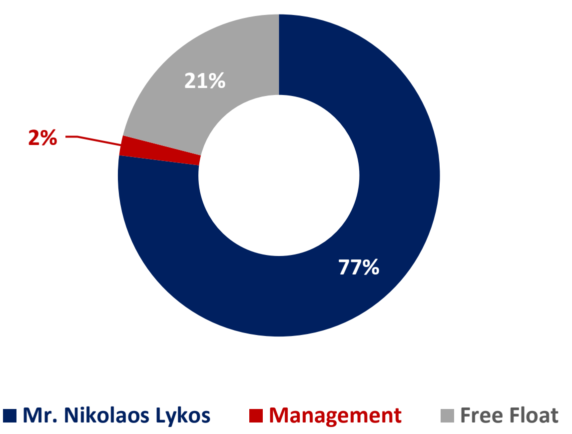
Mr. Martin Wagner serves as a member of the Supervisory Board and as Chairman & Expert of the Audit Committee. Mr. Wagner currently serves as a member of the supervisory board at Covid 19 Finanzierungsagentur des Bundes GmbH, BMW Bank Austria GmbH and Bausparkasse Wüstenrot. He previously served as audit partner at KPMG Austria, having advised the Austrian Central Bank and the BMW Group, among other parties. He holds a PhD from the University of Vienna in law studies and from the University of Economics in Vienna.

Mr. Michael Butz is a member of the Supervisory Board and the Nomination & Remuneration Committee. He is currently a consultant at eudicon-European Digitalization Consulting. Mr. Butz has held various executive positions including CEO of A-Trust, CEO of FLZ Liechtenstein, CIO of A.S.A. Austria and A.S.A. Group and CIO of Xerox Austria. He holds an MBA from Alaska Pacific University.

Mr. Anastasios Gabrielides is a member of the Supervisory Board and the Audit Committee. Mr. Gabrielides has been General Counsel and Secretary of Costamare Inc. since 2013. Through his career, he has served as Chairman and Vice Chairman of the HCMC and has also been a member of the Board of Supervisors of the European Securities and Markets Authorities and also of the Hellenic Financial Intelligence Unit. He holds a degree in Economics from the American College of Greece, a law degree from Athens University Law School, as well as LL.M. degrees from Harvard Law School and the London School of Economics.

In terms of the shareholder structure, Mr. Nikolaos Lykos is the main shareholder with c77% of the share capital, while Management holds c2% of the total. The current free float stands at c21%.

Shareholder Structure



Source: Eurobank Equities Research, Company data.

ESG Overview

Given the growing significance of ESG criteria for investors, we believe it is essential to conduct an analysis of the company's alignment with these standards. As mentioned above, given that Austriacard follows the Austrian Code of Governance, the group's board is split between a Management Board and a Supervisory Board. In the sections below, we examine Austriacard's commitment to environmental sustainability, ethical responsibilities towards employees and adherence to corporate governance best practices.

A. Environmental and Social overview

Austriacard has been compliant with regulations pertaining to good environmental practices through the years, with its code of ethics prioritizing environmental sustainability. The group has been consistent in updating its operating framework to moderate the release of pollutive substances from its production facilities and to mitigate the environmental footprint of its distribution network. All of Austriacard's production processes adhere to applicable statutory provisions and requirements. The facilities associated with Card Solutions follow the EMAS (Eco Management and Audit Scheme), while those associated with the Non-Cards Business comply with ISO 14001 (Environmental Management) and FSC (Forest Stewardship Council) standards.

From a social perspective, Austriacard has emphasized equal opportunity within its business ethics code of conduct and has prioritized occupational health and safety across all its operations. ACAG recently launched the "Austriacard Academy" initiative, which offers additional educational opportunities to employees, aiming to improve communication within the organization. Furthermore, the group is committed to fair dealings with both customers and suppliers, having established secure procedures for reporting any instances of non-compliance with the policies in place.

We flag that companies under the Austrian Corporate Governance Code are not obligated to report the percentage of female employees within their organizations. Despite this, Austriacard is committed to taking the necessary measures to promote equal opportunities for all employees within its organization. Additionally, the company is required to adhere to the regulations specified in Austria's amended Equal Treatment Act, which came into effect in 2018.

B. Corporate governance overview

As far as corporate governance is concerned, we have utilized our own framework for evaluating compliance with best practices, as laid out in the new Greek Code of Corporate Governance published in June 2021. We have focused our study on key metrics of governance which we believe are closely watched by investors, including board structure and independence, executive compensation, monitoring through independent committees etc. We note that we have proceeded to a similar analysis for all stocks in our universe, and are thus able to gauge Austriacard Holdings' relative positioning vis-à-vis the other companies under our coverage.

The KPIs we have used to measure performance in each broad category related to corporate governance are the following:

1. **BoD Structure**
   a. **BoD size:** Best practice suggests that the BoD should be made up of 7-15 members (3-15 stipulated under the Greek law). In the case of Austriacard Holdings, the BoD consists of 11 members.
   b. **Chairman/CEO separation:** We consider best practice the separation of the two roles, in line with the corporate governance framework in the vast majority of OECD jurisdictions.
   c. **Term of BoD members (period of election):** we consider best practice cases where BoD members are submitted for election every 4 years or less (in sync with the Code).
   d. **Average tenure of BoD members:** we score more highly companies where directors serve on the board for an average period of 3 years or less. Although shorter average tenure may not be directly linked to operational performance, it does reinforce

internal discipline and control while also minimizing the likelihood of director misconduct.

   e. **BoD diversity:** One of the main features of a diverse group of BoD members is gender representation, with the law suggesting that this should be 25% at minimum. In our analysis we give credit to companies that go a bit beyond this level (min 30%).

2. **Board Independence and System of Internal Controls**
   a. **% of independent directors in the BoD:** The most recent law for corporate governance suggests that independent directors should account for at least 1/3 of the members of the board. That said, the recommendation included in the Code calls for a minimum of 50% independent directors (e.g. Australia, UK, Sweden, Austria, France, Denmark, Netherlands, Portugal), something which would be in sync with the framework in other jurisdictions and which we also consider as best-practice.
   b. **% of non-executive members in the BoD:** A board of directors in which non-executive members constitute at least 60% is the best practice principle we assess.
   c. **Independent vice-chairman:** Credit is given to companies that have an independent Vice-Chairman who safeguards the independence of the board.
   d. **Independence of remuneration committee:** The Greek law was recently amended to not only make the existence of a remuneration committee mandatory but also to safeguard its independence (majority independent members), as a way of introducing a mechanism for normative controls on management's pay. We credit companies where all members of the remuneration committee are independent.
3. **Alignment of Incentives**
   a. **Granularity on executive remuneration:** alignment of the various stakeholders' incentives is facilitated through a good level of disclosure regarding executive pay, e.g. how remuneration of executive directors is determined, balance between fixed and variable components, KPIs for executive bonus, other contractual arrangements (pensions, stock options, long-term incentive schemes etc.).
4. **Audit Firm Quality**
   a. **Big-6:** Our exercise rewards listed entities audited by Big-6 accounting firms.

Deviations from best practices primarily related to differences in the requirements for female representation between Greek and Austrian Law

We provide an overview of our findings in the table below, highlighting areas where there are deviations from best practices. Overall, we observe compliance with several key standards, including the number of non-executive directors, the average tenure of the BoD and the independence of the compensation committee. Some noteworthy deviations we point out include the absence of female representation within the BoD (which is in accordance with the Austrian Code) and the relatively small number of independent directors, though the latter is quite typical for listed companies with relatively low free float and/or a dominant shareholder.

Corporate Governance Overview	
Board Structure	
Board Size	11
CEO/Chairman separation?	Yes
Board duration	5
Tenure of the CEO	9
Average Tenure of BoD	3
Female representation on the BoD	0%
Board Independence and system of internal controls	
% of Non-executive directors on the BoD	55%
% of Independent directors on the BoD	45%
Nomination committee Chair Independence	Yes
Independent directors on compensation committee	100%
Independent Deputy Chair?	No
Alignment with minority shareholders	
Granularity on CEO max compensation	Yes
Criteria for CEO bonus	NA
Quality of auditor	
Big 6	Yes

Source: Eurobank Equities Research, Company data.

Group Financial Statements

EUR mn					
Group P&L	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Sales	**178.0**	**314.7**	**346.5**	**384.6**	**419.0**
Gross Profit	40.5	74.0	89.9	101.1	111.1
EBITDA (reported)	**26.8**	**32.0**	**46.4**	**52.9**	**58.5**
% change		*19.6%*	*45.2%*	*13.8%*	*10.7%*
EBITDA margin	*15.0%*	*10.2%*	*13.4%*	*13.7%*	*14.0%*
EBIT - adjusted	**15.0**	**17.6**	**30.6**	**36.7**	**42.2**
Financial income (expense)	-2.8	-8.5	-6.2	-5.8	-5.8
Other income	0.0	0.0	0.0	0.0	0.0
PBT - reported	12.3	9.1	24.5	30.9	36.5
Income tax	-2.2	-3.6	-6.1	-7.7	-9.1
Non-controlling interest	-0.8	-0.8	-1.2	-1.3	-1.5
Net Profit - reported	**9.2**	**4.7**	**17.2**	**21.8**	**25.8**
EPS - adjusted (EUR)	**0.32**	**0.14**	**0.47**	**0.60**	**0.71**
DPS (EUR)	**0.00**	**0.05**	**0.09**	**0.12**	**0.15**
Group Cash Flow Statement	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Adj. EBITDA	21.8	39.4	46.4	52.9	58.5
Change in Working Capital	-4.0	2.6	-21.7	-9.4	-10.2
Net Interest	-1.6	-1.6	-6.1	-7.7	-9.1
Tax	-2.4	-4.1	-6.2	-5.8	-5.8
Other	-4.0	0.1	0.0	0.0	0.0
Operating Cash Flow	**9.8**	**36.3**	**12.5**	**29.9**	**33.5**
Capex	-9.0	-14.5	-16.3	-15.6	-16.5
Other investing	-23.9	-6.0	0.2	0.2	0.2
Net Investing Cash Flow	**-32.9**	**-20.5**	**-16.1**	**-15.4**	**-16.3**
Dividends	0.0	0.0	-0.9	-3.4	-4.4
Other (incl. capital repayment of leases)	-4.2	-7.3	2.8	-4.0	-4.4
Net Debt (cash)	**85.1**	**76.6**	**78.4**	**71.3**	**63.0**
Free Cash Flow (adj.)	**-25.8**	**12.0**	**-7.4**	**10.6**	**13.4**
Group Balance Sheet	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Tangible Assets	83.0	90.4	90.3	88.0	86.4
Intangible Assets	60.7	57.2	57.8	63.6	69.8
Other Long-term assets	1.7	6.1	3.4	3.4	3.4
Non-current Assets	**145.3**	**153.7**	**151.4**	**154.9**	**159.6**
Inventories	23.2	36.1	53.7	62.6	71.6
Trade Receivables	29.3	40.0	46.3	53.9	61.7
Other receivables	17.1	18.7	19.4	20.7	21.9
Cash & Equivalents	11.5	21.6	13.3	20.6	29.6
Current assets	**81.0**	**116.4**	**132.7**	**157.8**	**184.8**
Total Assets	**226.4**	**270.2**	**284.1**	**312.8**	**344.4**
Shareholder funds	55.4	72.0	88.4	107.1	128.7
Non-controlling interest	13.0	11.7	12.9	14.2	15.7
Total Equity	**68.4**	**83.7**	**101.3**	**121.3**	**144.5**
Long-term debt	72.3	62.0	64.5	67.1	69.1
Other long-term liabilities	23.5	26.4	26.4	26.4	26.4
Long Term Liabilities	**95.8**	**88.5**	**91.0**	**93.5**	**95.5**
Short-term debt	16.2	25.3	16.2	13.9	12.5
Trade Payables	35.4	56.3	62.4	69.9	76.9
Other current liabilities	10.5	16.4	13.3	14.2	14.9
Current liabilities	**62.2**	**98.0**	**91.9**	**98.0**	**104.4**
Equity & Liabilities	**226.4**	**270.2**	**284.1**	**312.8**	**344.4**
Key Financial Ratios	**2021**	**2022**	**2023e**	**2024e**	**2025e**
P/E	21.3x	48.3x	12.8x	10.1x	8.5x
P/BV	3.5x	3.1x	2.5x	2.1x	1.7x
EV/EBITDA	13.5x	8.0x	6.7x	5.8x	5.1x
EBIT/Interest expense	5.2x	2.1x	4.8x	6.2x	7.1x
Net Debt (cash)/EBITDA	3.9x	1.9x	1.7x	1.3x	1.1x
Dividend Yield	0.0%	0.4%	1.5%	2.0%	2.4%
ROE	28.9%	27.6%	38.2%	37.5%	35.8%
Free Cash Flow yield	-9.0%	5.3%	-3.4%	4.8%	6.1%
Payout Ratio	0.0%	19.4%	19.7%	20.0%	20.5%

Source: Eurobank Equities Research.

Company description

ACAG is a leading provider of smart cards, personalization and payment solutions, as well as secure data management and digitalization services. The group is the result of the cross-border merger of two entities, namely the previously non-listed parent holding company ACAG and its c71% previous Greek-listed subsidiary Inform Lykos S.A., with the latter having a long track record spanning 125 years.

Risks and sensitivities

•**Macro:** ACAG's card business is to an extent dependent on consumer credit trends and the macroeconomic environment. In that regard, there is a downside risk to our estimates under a weaker macro scenario, especially if tighter credit standards lead to slower card volume growth.

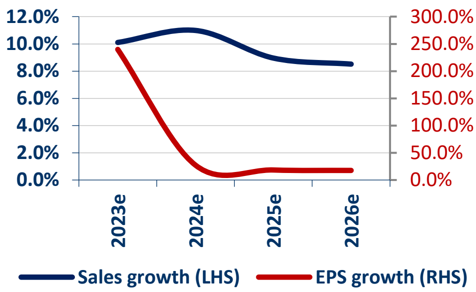
•**Industry competition:** The payment card market is quite competitive, with providers competing on the basis of quality, design, production capacity and price. That said, there are significant barriers to entry for new players, especially as far as the breadth of service offerings and the technical expertise are concerned.

•**Card replacement cycle:** A longer-than-usual replacement card cycle (normally 4 years) would result in lower demand for the issuance of cards, thus weighing on group numbers.

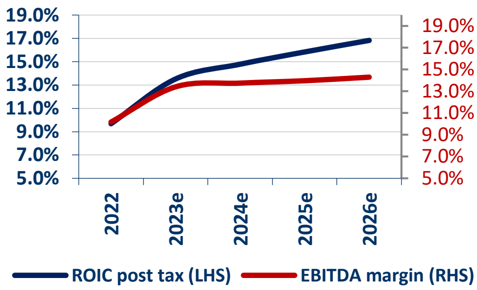
•**Tech advancements:** The fast pace and constant evolution of the industry gives rise to risks for the business model of card printing businesses, since enhanced card capabilities (e.g. near field communication for contactless payments, biometric cards, eco-friendly products etc.) are important in driving future revenue growth.

•**Sensitivity:** We estimate that a 1% change in revenues drives a 3% change in EBITDA.

Sales and EPS growth



Profitability and returns



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VAT No: 094543092, Reg. No. 003214701000

10 Filellinon Street
105 57 Athens, Greece

Telephone: +30 210-3720 000
Facsimile: +30 210-3720 001
Website: www.eurobankequities.gr
E-mail: research@eurobankequities.gr

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The information contained herein has been obtained from sources believed to be reliable, but it has not been verified by Eurobank Equities Investment Firm S.A.
This report has been submitted to Austriacard Holdings for review prior to its publication. Some changes have been made by Eurobank Equities S.A. to this report as a result of the review from Austriacard Holdings.
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Eurobank Equities Investment Firm S.A. occasionally trades for own account on investment instruments related to Austriacard Holdings.
This report was sent to the company for factual verification prior to publication. There have been no significant changes on the initially sent report.

Analyst Certification:
This report has been written by Stamatios Draziotis, CFA and Marios Bourazanis (Equity Analysts).

Analyst Compensation:
The remuneration of Stamatios Draziotis and Marios Bourazanis is not tied to the investment banking services performed by Eurobank Equities Investment Firm S.A. or any of its related legal persons.
Stamatios Draziotis and Marios Bourazanis did not receive or purchase the shares of Austriacard Holdings prior to a public offering of such shares.
Stamatios Draziotis and Marios Bourazanis do not have a significant financial interest in one or more of the financial instruments which are the subject of this report or a significant conflict of interest with respect to the subject companies mentioned in this report a) that are accessible or reasonably expected to be accessible to the persons involved in the preparation of this report or b) known to persons who, although not involved in the preparation of this report, had or could reasonably be expected to have access to this report prior to its dissemination to customers or the public.

Planned Frequency of Updates:

Eurobank Equities Investment Firm S.A. provides updates on Austriacard Holdings based on the terms of the agreement between the two parties and at least but not limited to bi-annually after the publication of financial statements of Austriacard Holdings.

12-month Rating History of Austriacard Holdings

Date	Rating	Stock price	Target price
21/11/2023	Not Rated	€ 6.05	-

Eurobank Equities Investment Firm S.A. Rating System:

Stock Ratings	Coverage Universe		Investment Banking Clients	
	Count	Total	Count	Total
Buy	17	61%	2	12%
Hold	3	11%	0	0%
Sell	0	0%	0	0%
Restricted	1	4%	0	0%
Under Review	2	7%	1	50%
Not Rated	5	18%	0	0%
Total	**28**	**100%**		

Analyst Stock Ratings:

Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
Hold:	We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell.
Sell:	Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
Restricted:	Under Eurobank Group policy and / or regulations which do not allow ratings
Under Review:	Our estimates, target price and recommendation are currently under review
Not Rated:	Refers to Sponsored Research reports