

AUSTRIACARD

Initiation of coverage

Holding a strong hand

Software and comp services

5 April 2024

Price €6.36

Market cap €231m

Net debt (€m) at end FY23 95.0

Shares in issue 36.4m

Free float 21%

Code ACAG

Primary exchange Vienna Stock Exchange

Secondary exchange Athens

Share price performance



% 1m 3m 12m

Abs 6.0 1.0 6.0

Rel (local) 1.3 (1.4) (3.7)

52-week high/low €7.35 €5.45

Business description

AUSTRIACARD is a Vienna-headquartered group of companies with a portfolio of services in secure chip and payment solutions, document lifecycle management, and digital transformation technologies for the financial, government and wider private sectors.

Next events

Q124 results 31 May 2024

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AUSTRIACARD is a research client of Edison Investment Research Limited

AUSTRIACARD has a long heritage of providing secure services for smart card provision and document management in Europe. It has expanded its portfolio organically and through acquisition to encompass digital transformation technology and a strong franchise with challenger banks and is building on this with the development of its own digital solutions to support customers on their digital transformation journeys. We expect strong growth in the challenger bank market, adoption of digital solutions and value-added services in the smart card market to drive revenue growth and margin expansion over the forecast period.

Year end	Revenue* (€m)	PBT** (€m)	EPS** (€)	DPS (€)	P/E (x)	Yield (%)
12/22	314.7	23.0	0.42	0.03	15.1	0.4
12/23	364.6	29.8	0.62	0.10	10.2	1.6
12/24e	395.2	35.7	0.66	0.11	9.6	1.7
12/25e	424.7	43.4	0.83	0.14	7.7	2.2

Note: *Reported, after hyperinflation adjustment. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Leveraging strong customer relationships

More than half of revenue is generated from the production and personalisation of payment smart cards through which AUSTRIACARD has longstanding relationships with banks and fintechs across Europe. For secure printing, from its bases in Greece and Romania, the company has a long history of providing services internationally and is looking to support these and new customers as they transition from physical to digital processes.

Digitalisation is the key growth driver

AUSTRIACARD reported FY23 revenue of €364.6m (+15.8% y-o-y), an adjusted EBITDA margin of 13.8% (+1.4pp y-o-y) and adjusted operating margin of 9.4% (+1.5pp y-o-y). We forecast a revenue CAGR of 7.7% in FY23–26e and adjusted EBITDA and operating margin expansion to 15.9% and 12.0% respectively by FY26. While the smart card market is forecast to grow volumes in the mid-single digits, we expect faster growth for the company from the sale of value-added services (eg biometric or metal cards, card-as-a-service) and due to its higher exposure to faster growing fintechs. We expect the adoption of digitalisation technology across the existing document lifecycle management customer base and by new public sector customers to also contribute to growth and margin expansion.

Valuation: Not reflecting earnings potential

With a limited number of listed peers in the smart card business, our peer analysis is more focused on companies providing digital transformation software and services. This highlights the upside potential in both financial and valuation terms if the company successfully commercialises its in-house developed technology. On a discounted cash flow basis, using our pro forma forecasts to FY26, conservative revenue growth of 3% to FY33 and flat EBITDA margins from FY27, we arrive at a per share value of €10.0, 57% above the current share price.

Investment summary

Well-established data security specialist

AUSTRIACARD has a long history in the provision of smart cards and secure printing. As the market evolves from physical to digital documents and processes, the company has developed services to help customers with their digital transformation projects. It has leveraged its strong positions in Greece, Romania and Austria to expand into countries in Central Eastern (CEE) and Southeastern Europe (SEE) as well as the Middle East and Africa (MEA), and through acquisition accessed the western European and US traditional and challenger bank markets. Key investment considerations include:

- AUSTRIACARD has longstanding, trusted customer relationships in the financial services, utility, public sector and wider private sector, based on its expertise in data security.
- The company's leading share of the European challenger bank smart card market positions it to benefit from faster growth than the wider payment card market.
- With a smaller smart card market position in the US, there is the opportunity to grow market share with both challenger and traditional banks through its high-service and flexible offering.
- The company has developed digital transformation software and services to help customers move from paper-based processes and digitise their businesses and is currently benefiting from customers accessing EU funding for this purpose.
- The company is developing digital services for the payment card market, including card-as-a-service to help fintechs through the entire card issuance and management process, providing upsell opportunities within its fintech customer base.
- With net debt/EBITDA of 1.9x at end FY23 and forecast to reduce to well below 1x over our forecast period, the company has sufficient balance sheet capacity to fund internal and external investment.

Financials: Forecasting EPS CAGR of 16.7% in FY23–26e

The company has grown in recent years through a combination of acquisitions, growth in the adoption of digital services and strong card volumes. We expect it to focus on organic growth in the medium term, with scope for bolt-on acquisitions. EBITDA and operating margins expanded in FY23 and we expect this to continue as the group sells an increasing proportion of higher-margin digital solutions and services. Based on our diluted normalised EPS estimates, we forecast a CAGR of 16.7% in FY23–26e. Gearing was 1.9x at the end of FY23 and we expect this to reduce every year, providing headroom for potential M&A. The FY23 dividend was increased substantially compared to FY22 and the company expects to pay out c 20–25% of net income each year.

Valuation: Not reflecting earnings potential

AUSTRIACARD is currently trading on an EV/adjusted EBITDA of 5.5x in FY24e and 4.8x in FY25e and a P/E of 9.6x in FY24e and 7.7x in FY25e. With a limited number of listed peers for the smart card business, our peer analysis is more focused on companies providing digital transformation software and services. This peer group averages revenue growth of 18% this year with average operating margins of 17% and is trading on an EV/EBITDA of 21.2x, highlighting the upside potential in both financial and valuation terms if the company successfully commercialises its in-house developed technology. On a discounted cash flow basis, using a WACC of 10% and a terminal growth rate of 2%, our pro forma forecasts to FY26, conservative revenue growth of 3% for FY27–33 and flat EBITDA margins from FY27, we arrive at a per share value of €10.0, 57% above the current share price. In our view, factors that could reduce this gap include further adoption of

digital services outside of the Greek public sector, market share gains in the US and other focus payment card markets, customer wins for card-as-a-service and an increase in free float.

Sensitivities: Adoption of digital services, free float, regulation

Factors that could influence our forecasts and/or the share price include competition, currency exposure, hyperinflation in Turkey, the pace of adoption of digital services, limited free float (21%), regulation and M&A.

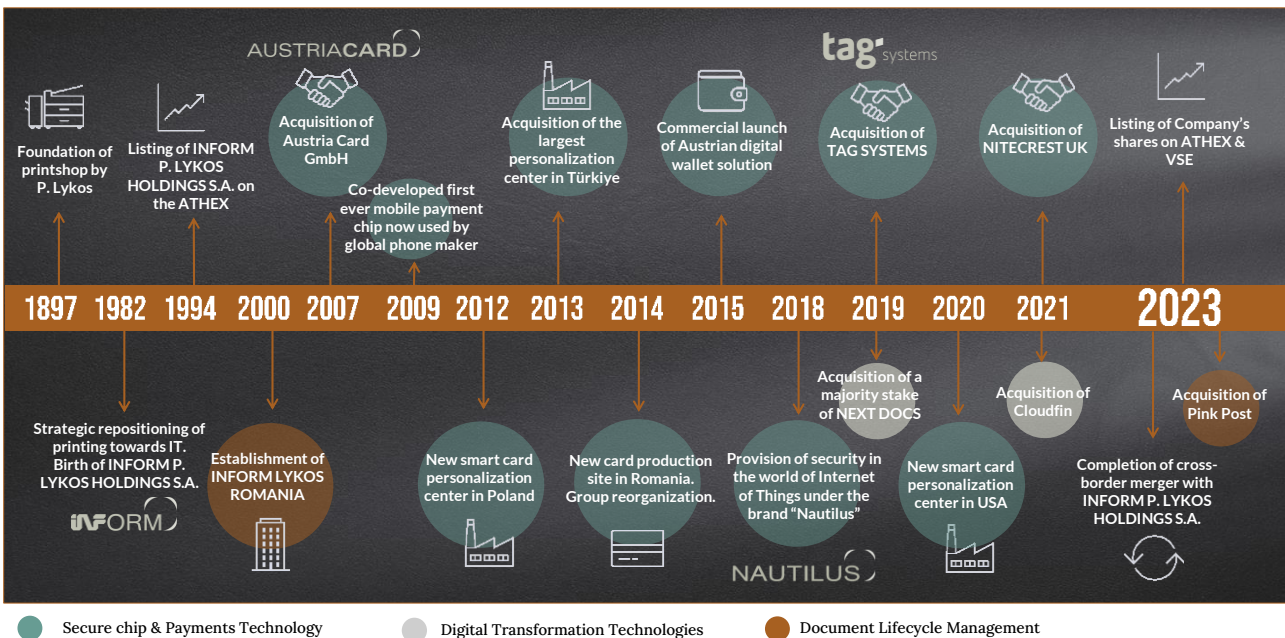
Company description: Security specialist

AUSTRIACARD is a group of companies specialising in the authentication of people, the authentication of objects and information management. Its portfolio includes products and services in secure chip solutions (payments, identification and personalisation using its proprietary ACOS operating system), digital transformation, advanced secure printing and fulfilment services for customers in the financial, government and wider private sector. It has c 2,700 employees and is headquartered in Vienna, Austria.

Background

AUSTRIACARD started life in 1897 as a print shop founded by P. Lykos in Greece. In 1982, INFORM P. LYKOS HOLDINGS SA (INFORM) was created to focus on print-related IT. INFORM listed on the Athens Stock Exchange (Athex) in 1994. The chart below shows the timeline from foundation until the end of 2023.

Exhibit 1: AUSTRIACARD history



Source: AUSTRIACARD

In January 2023, AUSTRIACARD and INFORM completed a cross-border merger, which absorbed INFORM into its parent, the AUSTRIACARD group. At this date, AUSTRIACARD already owned 70.79% of INFORM shares. The remaining 29.21% of shares were converted to AUSTRIACARD shares in the ratio of 4.571 AUSTRIACARD shares per INFORM share, resulting in the issue of 1,314,867 new AUSTRIACARD shares, taking the total share count to 18,176,934. In January 2023, AUSTRIACARD shares were listed on Athex and the Vienna Stock Exchange, with an issue

price of €13.42 (equivalent to €6.71 post share split) and in March 2023 trading commenced. Other than to effect the cross-border merger, no shares were issued as part of the listing. In August 2023, the company undertook a share split, at a 1:1 ratio, doubling the share count to 36,353,868.

Group structure

In the table below, we summarise corporate transactions since Austria Card was acquired via the privatisation process run by the Central Bank of Austria in 2007.

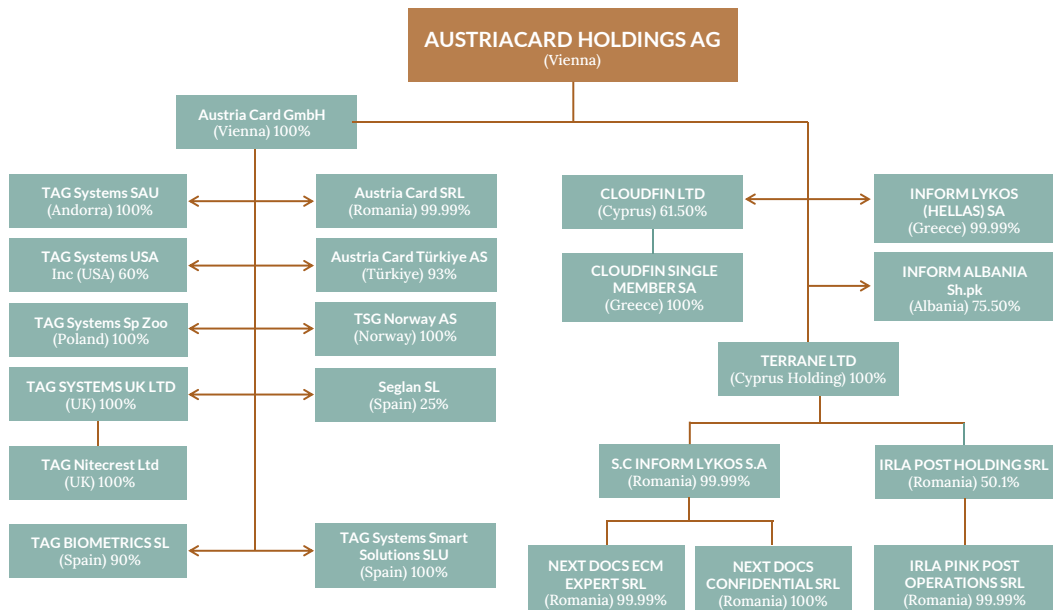
Exhibit 2: M&A activity

Year	Acquiror	Target	Area of business	Notes
FY08	INFORM	Austria Card	Card production and personalisation	Acquired 85% stake
FY11	INFORM	Austria Card	Card production and personalisation	Took stake from 85% to 100%
FY12	INFORM	INFORM ALBANIA	Digital printing solutions	Acquired 51% stake
FY13	LYKOS	INFORM		Tender offer; acquired 70.79%
FY14	LYKOS	Austria Card	Card production and personalisation	Acquired from INFORM
FY18	INFORM	INFORM ALBANIA	Digital printing solutions	Increased stake to 75.5%
FY19	INFORM LYKOS ROMANIA	STAR STORAGE	Document archiving	
FY19	INFORM LYKOS ROMANIA	NEXT DOCS, NEXT DOCS CONFIDENTIAL	Document management	Acquired 65.07% and 65.45% respectively
FY19	Austria Card	TAG Systems SAU	Card personalisation	
FY21	INFORM LYKOS ROMANIA	NEXT DOCS, NEXT DOCS CONFIDENTIAL	Document management	Took stakes to 80.59% and 80% respectively
FY21	INFORM	CLOUDFIN	Business process automation	Acquired 56.5%
FY21	INFORM	CLOUDFIN	Business process automation	Took stake to 61.5%
FY21	Austria Card	NITECREST	Card production and personalisation	Bought out remaining 50% of TAG Nitecrest JV
FY22	INFORM LYKOS ROMANIA	NEXT DOCS, NEXT DOCS CONFIDENTIAL	Document management	Took both stakes to 100%
FY23	INFORM LYKOS ROMANIA	ILRA POST HOLDING SRL (owns 100% of ILRA PINK POST OPERATIONS)	Postal services	Acquired 50.1%

Source: AUSTRIACARD. Note: LYKOS renamed AUSTRIACARD HOLDINGS AG in 2015.

The chart below shows the current structure of the group. The operations are grouped broadly into secure chip solutions underneath Austria Card GmbH and digital transformation technology and advanced printing services on the right-hand side.

Exhibit 3: AUSTRIACARD group structure



Source: AUSTRIACARD

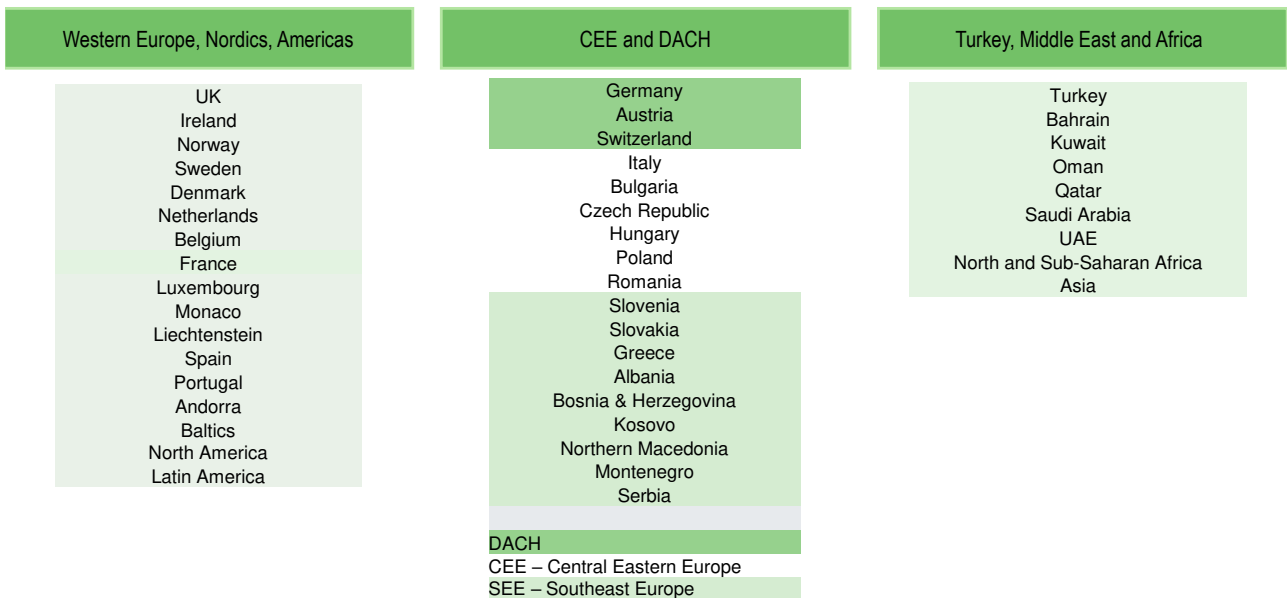
New divisional structure introduced in 2023

Until the end of FY22, the company reported revenue, gross profit and adjusted EBITDA across two divisions:

- Digital Security: 64% of FY22 revenue, 25.9% gross margin, 14.1% adjusted EBITDA margin. This division included all smart card-related business.
- Information Management: 36% of FY22 revenue, 17.8% gross margin, 10.3% adjusted EBITDA margin. This division included secure printing, document management and digital transformation technology.

In FY23, the company changed its reporting structure to reflect the efforts it is making to integrate the businesses. They are now managed across geographic lines, to encourage cross-selling and collaboration between business areas, to support faster expansion into new markets and to improve customer service. Exhibit 4 shows the three new reporting divisions and the countries included within each division and Exhibit 5 summarises the key areas in which AUSTRICARD operates.

Exhibit 4: New divisional structure



Source: AUSTRICARD

Exhibit 5: AUSTRICARD solutions portfolio



Source: AUSTRICARD

In Exhibit 6 we summarise the group's market position in each of the key technology areas. We discuss each in more detail below.

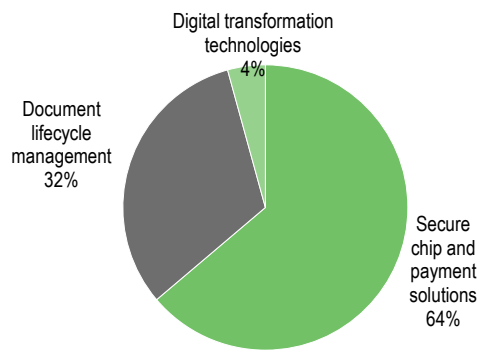
Exhibit 6: Geographic market position

Digital Transformation Technologies	Secure Chip & Payment Solutions	Document Lifecycle Management
<p>>50% share:</p> <ul style="list-style-type: none"> ▪ Greece ▪ Romania <p>Leading position with financial institutions, telcos and utilities in SE Europe.</p>	<p>Market leader:</p> <ul style="list-style-type: none"> • SE Europe • Nordics • CE Europe • Challenger banks <p>Significant market share:</p> <ul style="list-style-type: none"> • UK, Spain, Germany, Turkey 	<p>Strong presence:</p> <ul style="list-style-type: none"> • SE Europe • Middle East • Africa

Source: AUSTRIACARD

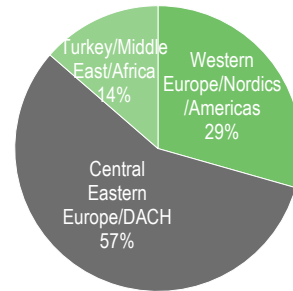
The charts below show the split of FY23 revenue by business area and by geographic division.

Exhibit 7: Revenue by business area, FY23



Source: AUSTRIACARD

Exhibit 8: Revenue by geography, FY23



Source: AUSTRIACARD

Strategy

The group is keen to leverage its expertise in data security and its growing in-house development of digital transformation technology across its diversified customer base of financial institutions, utilities, industrial companies and public institutions. It plans to do this through two key pillars: 1) geographic and market share expansion and 2) product and services portfolio enhancement.

Geographic and market share expansion

- Expand into markets where it is underrepresented or has not yet reach maturity level. This includes the US, the UK and MEA.
- In established markets, sell more digital services and solutions to existing customers.
- Grow the customer base, starting with supporting rapidly growing challenger banks in existing and new markets.

Portfolio enhancement

- Enhance the product portfolio for the banking sector with solutions such as payment cards-as-a-service and end-to-end solutions for digital and neo banks.
- Further grow additional payment card formats, for example biometric cards, metal cards, eco-friendly cards.

- Continue investing in the development of software for digitalisation solutions using machine learning and AI technologies and data analytics to help customers understand trends and make decisions.

Management

The company has a two-tier management structure. The supervisory board is made up of Chairman Petros Katsoulas and directors John Costopoulos, Martin Wagner, Michael Butz and Anastasios Gabrielides. The management board consists of Executive Chairman Nikolaos Lykos, Vice Chairman and Group CEO Emmanouil Kontos, Group CFO Markus Kirchmayr, EVP Turkey, Middle East and Africa Burak Bilge and EVP Western Europe, UK, Nordics and Americas Jon Neeraas. Nikolaos Lykos is a descendent of the original founder of INFORM and currently owns 77% of the company.

Secure chip and payment solutions

The largest part of the business has historically been the production and personalisation of smart cards. Through a series of acquisitions, the company has built up a network of production and personalisation sites across Europe and the US. In FY23, the business generated revenue of €224m, +17% y-o-y.

The company provides the following services:

- **Consulting and project management:** guides customers through the entire process of implementing card solutions, starting with analysing the customer's requirements through to launching new cards and ensuring an ample supply of cards for end customers.
- **Chip operating system:** AUSTRIACARD has developed its own operating system, ACOS, for use in contact-based, contactless and dual interface card products, whether for payment or identity cards.
- **Smart card production:** the process involves printing on plastic foils, which are then laminated onto cards. The process also includes the highly sensitive embedding of chips as well as antennas for near field communications (NFC).
- **Smart card personalisation:** adding end customer details to cards, both physically and on the chip.
- **Mobile payments and mobile wallet solutions:** offers over-the-air (OTA) payment services to banks and transport operators. The group is a trusted service manager (TSM), certified by Visa and Mastercard, acting as an intermediary between service providers and end users. It securely stores and manages sensitive information such as credentials, cryptographic keys and digital certificates.

Card production

AUSTRIACARD produces smart cards for the payment, government/ID, transport and retail sectors and has production sites in Andorra, Austria, Romania (the largest site) and the UK. Around 85% of card volumes are for the banking sector.

What is a smart card?

A smart card is a physical card that has a built-in chip module containing memory and a microprocessor that allows it to transfer data electronically. The data can be accessed by touching the chip to a card reader (contact-based) or using radio frequency (RF) technology (contactless), either via RFID or NFC. Smart cards are used to verify identity, authenticate access, store data and make payments. Dual interface cards offer both contact-based and contactless technology. Since

the introduction of contactless technology from around 2007, and helped by rapid adoption during COVID, contactless is now the fastest growing type of smart card.

How cards are made

The card design is printed onto plastic foils, which are then laminated into cards. For contactless cards, an antenna is sandwiched between the layers. AUSTRIACARD provides special printing techniques, lamination or structure plates, hotfoils (to apply metallic designs) and special security features (eg holograms, light sensitive images) so that customers can customise cards to their requirements. AUSTRIACARD can produce cards with coloured cores, decorated edges or that are translucent. The final stage of the production process is to attach the chip module. The company uses chip modules produced by Infineon, NXP, STMicroelectronics and Samsung.

Options for customers

Card materials and form factors: Durability, sustainability, branding

Customers have a choice of card materials. The most common material for payment cards is polyvinyl chloride (PVC) whereas for identity cards, polycarbonate is more popular as it is more durable. AUSTRIACARD also offers recycled or biodegradable PVC as well as metal cards. Metal cards have become a popular branding tool for traditional and challenger banks alike. In January 2024, Trade Republic launched an account with benefits that included a metal card ('mirror card'). Despite the card costing €50, more than one million consumers signed up to a waitlist for an account. The company also offers different form factors such as key fobs and wearables.

Strengthening security with biometric functionality

AUSTRIACARD has developed dual interface cards that incorporate an additional layer of security via a fingerprint sensor. The sensor is embedded in the card and replaces the use of a PIN number on a card reader (although PIN can be used as a back-up). To make a payment, the card is tapped or introduced to the POS terminal as for a regular card. To authenticate the payment, instead of typing in the PIN number, the cardholder places their finger on the sensor on the card. The chip on the card contains a digital representation of the cardholder's fingerprint and checks that it matches. This type of card is currently in the pilot stage with several customers.

Proprietary operating system: ACOS

While AUSTRIACARD can provide Java-based operating systems for chip modules, it has developed its own operating system, ACOS, and a variant for use in ID cards, ACOS ID. EMV products developed using ACOS are tailored to the payment application domain and are optimised in terms of performance and efficiency. ACOS uses less space and less power than Java-based equivalents, leaving more space for customer data and allowing antenna design to be optimised.

AUSTRIACARD has achieved CC EAL5 certification (common criteria evaluation assurance level) for all embedded software – both ACOS and Java-based. This is renewed every two years. In 2022, ACOS ID v2.1 was certified by the French national body (ANSSI) for passports, ID cards, driving licenses and eIDAS-compliant signature cards.

Card personalisation

AUSTRIACARD has personalisation facilities in Austria, Greece, Poland, Romania, Spain, Turkey, the UK and the US. Cards are not always personalised in the same location as they are produced.

How cards are personalised

The process takes blank cards and adds customer details to each card. For example, for a bank card, data about the customer is saved onto the chip. The customer's name and card number are embossed on the card and the CVV is printed on the card. For an ID card, the process adds the name, identification number, photo(s) and any other relevant details. The company offers a range of different technologies to add data to the surface of the card, including standard embossing/indent, high-end laser engraving, thermo transfer and non-standard edge-to-edge thermo-sublimation. For government ID documents, it offers changeable laser image (CLI) and multiple laser image (MLI) technology. The company handles cardholder data according to payment scheme requirements that cover the whole process from cardholder data delivery, data preparation, data storage, personalisation, data retention and deletion.

Fulfilment the final stage of the process

The company also prints the letters for the cards to be sent out on and PIN letters (which are sent separately). The card is then attached to the correctly addressed letter, put in an envelope and put in the post or prepared for collection by courier.

Developing a broader offering with digital solutions

The business is developing services to extend its product offering beyond physical cards. It has developed a card-as-a-service offering targeted at fintechs. This ultimately seeks to provide all the services required to issue and manage a card programme. Through AUSTRIACARD's proprietary middleware, a card issuing customer will be able to connect to third-party services such as KYC, onboarding, payment processing, fraud prevention, BIN (bank identification number) sponsor and tokenisation, taking advantage of the API connections built by AUSTRIACARD. The company is still in the early stages of rolling out this service but has signed up a UK fintech, which is initially using the payment processing aspect of the service.

In addition to the usual fee charged for the physical card, AUSTRIACARD will earn a monthly fee for each end customer live on its platform and a fixed fee per transaction, typically based on the cost to provide the service plus a margin, with volume breaks available.

With more than 170 customers in the UK and 350 globally, the business sees good potential to upsell this service to its existing customer base. It could also be an attractive service in the embedded finance space (ie non-financial companies that add financial services into their business processes, for example offering insurance, issuing cards or providing payments functionality).

Sales process

The company has direct sales offices in Croatia, Czech Republic, Germany, Jordan, Norway, Serbia and the UAE. For the smaller challenger banks, it is also referred business by processors. It has a network of partners and selling agencies around the world.

Regulation a key barrier to entry

AUSTRIACARD is subject to regulation from government and industry bodies and certifies its products and services with card and payment associations and organisations. The key security standards it complies with include:

- **Payment Card Industry (PCI) security standards:** this includes the PCI Card Production Physical and Logical Security Requirements for Card Manufacturers and Personalisation Bureaus. For all card vendors, the requirements address the presence, movement and accountability of a card, including tangible features such as the security of the premises, personnel access to secure areas and CCTV surveillance. Logical security requirements

address threats to the confidentiality of personalisation data during data transfer, access, storage and destruction and all aspects of cryptographic key management, including the protection of issuer keys used in the personalisation process. Vendors are audited at least annually by Card Production Security Assessors (CPSA) qualified by the PCI Security Standard Council (PCI SSC) and accredited by the card brands.

- **EMV standards:** Europay, Mastercard and Visa (EMV) standards to address the need for transaction security and interoperability across all electronic payment systems and their application software. There are EMV specifications based on contact chip, contactless chip, common payment application (CPA), card personalisation and tokenisation. EMVCo is now a consortium comprising Mastercard, Visa, American Express, JCB, China UnionPay and Discover.
- **Contactless and NFC system standards:** the major card associations have each developed their own contactless payment brands – Mastercard’s PayPass, Visa’s payWave and America Express’s ExpressPay – which each have a complete set of specifications, certification requirements and a highly controlled testing and approval process.

As the company collects and processes personal data, it is subject to data protection laws and regulations in Europe (including GDPR) and in the other countries in which it operates.

Business model

Customers tend to sign multi-year contracts for card production and/or personalisation. 80–90% of contracts are for both production and personalisation. In a limited number of cases, a customer may dual source, using AUSTRIACARD for production and another company for personalisation, or vice versa. AUSTRIACARD recognises revenue as cards are delivered to customers (if production only) or end customers (if it also includes personalisation).

Key customers

Through its acquisition of TAG Systems in 2019, AUSTRIACARD has been particularly successful with challenger banks, numbering Monzo, N26, Revolut and Starling Bank among its customers. In the traditional banking market, AUSTRIACARD has strong positions with Greek, Romanian and Austrian banks and their operations across central Europe.

Smart card market

The table below shows digital security industry association Eurosmart’s estimates for the size of the smart card market. SIM cards for mobile phones make up the largest share of the smart card market, c 48% of estimated shipments in 2023. AUSTRIACARD does not operate in this market as it is commoditised. Financial services make up the next largest share of the market, c 3.4bn cards in 2023. We note that at the end of 2023, Visa had 4.3bn cards in circulation, Mastercard 3.3bn and UnionPay 9.4bn (mostly in China). In FY23, AUSTRIACARD produced and/or personalised 134.8m cards (+5.6% y-o-y).

Exhibit 9: Smart card volume shipments					
Millions	FY21	FY22	y-o-y	FY23e	y-o-y
Telecom SIM cards	4700	4515	-3.9%	4525	0.2%
Device manufacturers for mobile devices	490	520	6.1%	540	3.8%
Financial Services	3250	3230	-0.6%	3350	3.7%
Government and Healthcare (eID, ePassport)	510	550	7.8%	575	4.5%
Transport	220	225	2.3%	250	11.1%
Other	155	140	-9.7%	135	-3.6%
Total	9325	9180	-1.6%	9375	2.1%

Source: Eurosmart, February 2023

Contactless cards are becoming the norm in AUSTRIACARD's markets

The table below shows Eurosmart's estimates for contactless card volumes and the percentage of total card volumes in each end market. This market is clearly growing faster than the market as a whole and the data show that in financial services, the rate is heading towards 100%.

Exhibit 10: Contactless smart card shipments					
Millions	FY21	FY22	y-o-y	FY23	y-o-y
Financial Services	2450	2620	6.9%	2850	8.8%
Government and Healthcare	350	385	10.0%	410	6.5%
Transport	220	225	2.3%	250	11.1%
Total	3020	3230	7.0%	3510	8.7%
Contactless as % of total					
Financial Services	75%	81%		85%	
Government and Healthcare	69%	70%		71%	
Transport	100%	100%		100%	
Total	32%	35%		37%	

Source: Eurosmart

Fintechs, particularly challenger banks, driving demand

Challenger banks tend to provide an online-only service with no physical branch network, instead providing mobile apps for customers to undertake transactions. Although challenger banks specialise in online services, they issue physical cards to account holders, and for their premium services often provide options for card customisation or metal cards. Other fintechs often issue cards to customers, typically prepaid debit cards. For example, currency specialist Wise issues prepaid debit cards to its customers; the cards can be used in 160 countries to reduce the cost of foreign exchange transactions. The physical cards serve a dual purpose: a means for customers to transact as well as a marketing tool. For example, Revolut's highest tier banking services include a personalised metal card (Metal) or a platinum-plated card (Ultra). There are at least 200 challenger banks globally, although not all are strictly banks – some have e-money licences that allow them to manage customer money but provide less protection to the consumer in the event of business failure. Many of the challenger banks that do not yet have banking licences are in the process of applying for them. For example, Revolut is licensed as a bank in the EEA but continues to seek a licence from the Prudential Regulatory Authority in the UK. Exhibit 11 shows the largest fintechs by number of users/accounts. The companies in bold are AUSTRIACARD customers.

Exhibit 11: Fintechs by customer numbers and geography			
Fintech	Account/user numbers	Coverage	Banking licence
Nubank	94m of which 69m active accounts	Brazil, Mexico, Columbia	Brazil, seeking Mexico
Revolut	35m	38 countries (EEA, Australia, NZ, Singapore, Japan, Brazil, Switzerland, UK, US)	Lithuania (EEA coverage), seeking UK
Robinhood	23.4m funded a/cs, 10.9m MAUs	US, UK	
Chime	14.5m	US	
Monzo	>9m	UK, US	UK
N26	8m	Europe (24 countries)	Germany (EEA coverage)
SoFi	>7.5m	US	US
Wise	7.5m active customers	160 countries	
Starling	>4m	UK	UK

Source: Edison Investment Research

We understand that AUSTRIACARD's success in this market is down to several factors: proximity to customers (personalisation facilities in multiple countries, close to end customers), ability to provide smaller volume runs, more flexibility than the larger card suppliers, willingness to provide advisory services and relationships with fintechs from the early stages of their growth.

According to AUSTRIACARD, around 12.5% of Visa and Mastercard cards issued in Europe in 2023 were for challenger banks (ie 62.5m of 500m cards). With 32m cards delivered and/or personalised by AUSTRIACARD, this implies the company has a greater than 50% share of

European challenger banks. The share is lower in the US (fintech 6% of 750m cards issued in North America), at 10%.

We expect a number of factors to drive volume growth for payment cards including the ongoing shift from cash to card payments, the adoption of contactless technology, the growth of challenger banks and the rate of replacement of cards (cards are replaced every few years and when lost, damaged or stolen).

While many consumers have adopted digital wallets (card-linked and non-card-linked), physical cards are likely to continue to be issued by financial institutions as they do not depend on a working mobile phone, not all point of sales technology is NFC-enabled, and cards act as a touchpoint between the customer and the bank in a world where face-to-face contact is increasingly rare.

Government/ID: Strong relationships in certain countries

AUSTRIACARD supplies smart cards for the following areas:

- national security: national ID card, residence permit, immigration card;
- on the road security: driving licence, vehicle registration card, tachograph card;
- electronic identity: electronic citizen, e-signature/PKI; and
- education security: teacher and student ID.

While the company does not disclose which countries it supplies these cards to, we understand it has strong relationships with governments in several European countries.

We expect volume growth in this market to be driven by government requirements for identity documents, population growth and changing information or security requirements for documents.

Transport market uses four main solution types

Smart cards for transport are typically based on one of four solutions: 1) classic Mifare – developed by NXP, 2) Mifare DESFire – enhanced hardware and security features versus classic Mifare, 3) CIPURSE – developed by the OSPT alliance (open standard for public transport), and 4) Calypso – developed by a group of transport operators called the Calypso Network Alliance. This is a smaller part of AUSTRIACARD's business, but we note that it is one of several suppliers of Transport for London's Oyster card, a pioneer in the use of contactless cards for transport. We expect growth in transport cards will be driven by the shift from paper ticketing to card-based solutions, although we expect growth to be tempered by the adoption of contactless bank card technology that can be used in place of tickets or transit cards.

Competition

The largest producers of smart cards are IDEMIA, Thales and Giesecke & Devrient (G&D). IDEMIA was created in 2017 from the merger of Oberthur and Morpho and generated revenue of €2.6bn in 2022. Thales acquired Gemalto in 2019 and integrated it into its Digital Identity and Security business, which generated revenue of €3.3bn in 2023. G&D is privately owned and generated revenue of €2.5bn in 2022, of which €1.0bn was from its Mobile Security division, which includes smart cards. Smaller competitors include CompoSecure (Nasdaq-listed), which is the largest producer of metal cards and a supplier to AUSTRIACARD, CPI Card Group (Nasdaq-listed), Kona I (Kosdaq-listed), Toppan (Japanese printing and packaging company, Tokyo-listed) and Thames Technology (a subsidiary of Paragon Group, privately-owned). AUSTRIACARD also sees smaller local players in each market. We would characterise AUSTRIACARD as a niche player, with a focus on challenger banks, the CEE/DACH region and economies that have not yet reached maturity in the transition from cash to cards.

R&D focus

R&D teams are based in Andorra, UAE, Poland, Spain and Austria and are working in the following areas:

- Continuous development and improvement of ACOS and ACOS ID.
- Development of in-house personalisation software solutions, such as ATLAS, AUSTRIACARD's operating system for personalisation centres, which supports internal workflow management, customer interfaces, warehouse management and customer reporting.
- Biometric payment cards and associated services such as payment processes and end-to-end solutions.
- Improvement of manufacturing processes for special feature products and products based on recycled materials.

Growth outlook for secure chip and payment solutions

We expect revenue growth for this business will be driven from the following factors:

- Steady growth of the smart card market – industry forecasts are for mid-single-digit volume growth. With a focus on some of the less advanced geographies, AUSTRIACARD should still benefit from the transition from cash to card-based payment.
- Continued growth of challenger banks versus traditional banks, where AUSTRIACARD has developed a niche offering.
- Offering value-added options such as specialist design and materials.
- Expansion of the offering in the US, in particular targeting US fintechs but also to smaller banks that cannot get a personalised offering from the larger players.
- Adoption of digital solutions, for example, development of the card-as-a-service offering.

Document lifecycle management

This business has its roots as a secure printing business in Greece, which expanded geographically into CEE and MEA. AUSTRIACARD offers document lifecycle management and security printing. Revenue is broadly split across print management (includes fulfilment, c 70%), digital printing (20%) and security printing (10%).

Examples of products and services include:

- **Digital printing of bills and forms.** AUSTRIACARD designs, prints and packages business forms for every use and company activity as well as paper thermal reels for cashier machines and ATMs, in multiple sizes and in personalised branded format.
- **Management and printing of secure labels.** This includes tax labels for alcohol and tobacco, pharmacy labels, and track-and-trace labels for postal services.
- **Secure ticket printing:** for international sporting events, theatres, cinemas and transport.
- **Management and printing of voter cards and ballots.**
- **Printing of share certificates.**
- **Digital book printing.** Has the ability to do low volume runs (eg medical text books).

The business has two production facilities located in Greece and Romania serving local and export markets. It uses advanced electronic and digital printing equipment and complements its client offering with digital transformation technology. Its fulfilment services cover the last mile to end customers, either through its own postal operation in Romania (Pink Post) or via third-party postal

or courier services. Customers include banks, utilities and insurance companies in Greece and Romania.

Revenues are generated from a mixture of recurring revenue projects (eg tax labels, bill printing) and one-off projects (eg election projects). The business is seeking to increase the proportion of recurring revenue contracts.

The business contributed revenue of €112m in FY23, +2% y-o-y and one-third of group revenue. In FY22, the business undertook a project for the Kenyan government supporting the August 2022 elections. This project generated one-off revenue of c €25m in FY22. The acquisition of Pink Post in March 2023 nearly compensated for the lack of a similar project in FY23, adding revenue of c €20m.

The Kenyan election project involved more than just printing ballot papers and was complicated by the fact that voters were being asked to vote in six different elections on the same day. It included producing electoral catalogues, matching voter IDs to ballot papers and IoT monitoring of the entire process from printing to the final count. Work of this nature highlights the company's ability to support projects that require the highest security standards.

Competition

On very large contracts, AUSTRIACARD will compete with global and large security printing companies. For smaller contracts, it competes with smaller local players.

Growth outlook

While paper-based printing is declining in favour of digital documentation, there is still a need for paper-based products and a declining number of companies that can provide this service. At the same time, AUSTRIACARD is able to help its customers transition to a hybrid world, offering both physical and digital options for document production and management.

Digital transformation (DT) solutions

This is the smallest but fastest growing area of the group, launched in 2020 and generating revenue of €15m in FY23 (+50% y-o-y). The company has developed a suite of solutions to help customers with their digital transformation journeys. Solutions include:

- **Customer facing applications:** digital onboarding, attended or unattended KYC/KYB (know your customer/know your business) journeys using AI technology, ID document verification, fraud detection, biometric comparison and liveness checks. Conversational AI platforms (eg chatbots) using NLP/NLU (natural language processing/natural language understanding) engines to support customers with their end customer or internal organisational needs.
- **Enterprise process and accounting automation:** RPA (robotic process automation) to automate repetitive tasks, intelligent document processing and data capture, process workflow automation using OCR (optical character recognition)/metadata capture engines and integrations with customer ERP (enterprise resource planning) and CRM (customer relationship management) systems.
- **Scanning, e-archiving and document management systems:** an end-to-end solution that helps organisations move to a paperless working environment. Scans and captures data from all documents in print format, extracts metadata using AI, and creates document management workflows for internal circulation and approvals, e-archiving and qualified electronic stamp and signature of documents.

As a first step, AUSTRIACARD can help customers to digitise paper documents. It then helps customers to design processes so that they are digital-first, using RPA and other tools to automate as much of the process as possible.

The business is benefiting from the recovery and resilience facility (RRF) established by the EU in February 2021. This is an instrument that provides grants and loans to support reforms and investments in the EU member states. The RRF is designed to:

- mitigate the pandemic's economic and social impact;
- make sure member states are more resilient, more sustainable and better prepared for the challenges and opportunities in the green and digital transitions;
- achieve the EU target of climate neutrality by 2050;
- set Europe on a path of digital transition; and
- create jobs and spur growth.

In total, the RRF will provide funds for €385m in loans and €338m in grants across the EU. AUSTRIACARD is a beneficiary of some of these funds in Greece, where it has won multi-year contracts worth more than €80m to help government agencies transition to digital services. Contracts that have been announced include work with the health, education and justice ministries as well as the state pension fund (EFKA). AUSTRIACARD has signed a framework agreement for the digitisation of e-EFKA insurance history. This includes scanning more than 42m pages of paper files and processing the scanned documents to improve their quality and validation with metadata.

In the February 2024, the EU provided updates on progress by country, highlighting that in Greece, the RRF is providing support to 100,000 SMEs to adopt digital technologies and support the purchase of digital services as well as supporting the completion of the land registry. It is also supporting user-friendly digital services for conducting business to make public administration more efficient and accessible.

Outside of the RRF-funded projects, AUSTRIACARD works with many Romanian banks where it has digitised and archived paper records and on an ongoing basis, supports client enrolment, contracts, etc, digitalising all documentation and retaining paper archives where necessary.

Other examples of work undertaken include creation of digital contracts for a bank, automatic recognition of invoices (used by a large accounting firm in its outsourced accounting services business and by Greek supermarkets in their warehouses) and data analytics (analysing churn data to improve customer retention, analysing energy usage to encourage energy saving for utility companies).

The company believes that it wins this work as it has local operations and has developed a higher level of automation than competitors.

R&D focus

The business has development teams in Greece and Romania focused on developing value-added services such as enterprise document management and scanning and archiving as well as advanced digitalisation solutions such as digital onboarding, OCR/data capture, process automation using machine learning, RPA, NLU and cognitive analytics solutions.

Growth outlook

In the near term, the business will benefit from the RRF contracts it won in Greece. Over time, we see scope for AUSTRIACARD to sell DT solutions to its existing customer base, particularly those that already use AUSTRIACARD's document lifecycle management services. With a focus on geographies that are later to the digitalisation trend, AUSTRIACARD is well positioned to help companies through their digital transformation programmes.

Sensitivities

Our estimates and the share price will be sensitive to the following factors:

- **Adoption of digital services:** the pace at which existing and new customers adopt AUSTRIACARD's digital solutions and services will influence the company's growth rates and profitability.
- **Currency:** the company reports in euros, with the majority of revenue and costs in euros. The company also has revenue and costs in Romanian leu, sterling, US dollars, Turkish liras and Polish zloty. The company aims to match customer invoicing and supplier invoices in the functional currency of the respective group component. Where necessary, the company uses currency derivatives to hedge future transactions, trade receivables and liabilities.
- **Hyperinflation in Turkey.** Turkey has been suffering from hyperinflation for the last two years, affecting how the company accounts for revenue, costs, assets and liabilities in the country.
- **Competitive environment:** in the smart card market in particular, AUSTRIACARD competes with much larger peers.
- **Limited free float:** the founding family owns 77% of shares outstanding.
- **Regulation:** the company needs to keep pace with all relevant regulation and certifications, particularly in the payments market. Failure to do so could result in financial penalties and reputational damage.
- **M&A:** the company has grown through acquisition and may consider further acquisitions, adding integration risk.

Financials

FY23 results review

Since April 2022, Turkey has been considered a hyperinflationary economy and therefore AUSTRIACARD applies IAS 29 Accounting for Hyperinflation to its reported results. This applies a factor that is linked to the average rate of inflation in the year to transactions that occurred during the year. In the FY23 results, this had the effect of increasing revenue by €13.3m, gross profit by €1.5m adjusted EBITDA by €1.2m and adjusted EBIT by €1.2m. After IAS 29 adjustments made to finance costs, there was a negative €0.2m net effect at the PBT and PAT levels in FY23.

The company has provided pro forma results that strip out the IAS 29 adjustments to show the underlying performance of the business – see Exhibit 12. We forecast on a pro forma basis with a final adjustment made for hyperinflation to arrive at forecasts on a reported basis. The Turkish subsidiary contributed 14% of pro forma revenue in FY23.

Exhibit 12: FY23 results highlights

€m	FY22	FY23	y-o-y
<u>Underlying (pre-hyperinflation accounting)</u>			
Revenue	310.3	351.3	13.2%
Gross profit	74.4	86.8	16.6%
Adjusted EBITDA	38.7	49.3	27.2%
Adjusted EBIT	24.3	33.2	36.3%
Gross margin	24.0%	24.7%	0.7pp
Adjusted EBITDA margin	12.5%	14.0%	1.5pp
Adjusted EBIT margin	7.8%	9.4%	1.6pp
<u>Reported</u>			
Revenue	314.7	364.6	15.8%
Gross profit	74.9	88.3	18.0%
EBITDA	39.1	50.4	28.9%
EBIT	16.8	31.4	87.0%
PBT	8.4	21.0	150.4%
PAT	4.8	16.8	246.3%
Minority interest	-0.7	-1.0	39.5%
Net income	4.2	15.8	281.0%
EPS – basic (€)	0.28	0.65	132.1%
EPS – diluted (€)	0.28	0.61	117.9%
EPS –basic– adjusted for share split (€)	0.14	0.45	226.4%

Source: AUSTRIACARD

In the table below, we show performance based on the new geographic split on both a pro forma and reported basis. Underlying revenue increased 13.2% y-o-y, with strong demand for cards in Turkey and CEE as well as the contribution from Pink Post from March 2023 driving growth. Western Europe/Nordics/Americas saw effectively flat revenue in FY23, as demand from challenger banks slowed in H223. Management noted that demand from both traditional and challenger banks has improved year-to-date.

Underlying gross profit increased 16.6% y-o-y to a gross margin of 24.7%, up 0.7pp from FY22. Adjusted underlying EBITDA increased 27.2% to €49.3m and a margin of 14.0%, up 2.5pp y-o-y. Adjusted EBITDA excludes a €2.9m charge for the management participation programme.

Exhibit 13: Divisional performance, FY22 and FY23

€m	FY22	FY23	FY22	FY23
<u>Revenue</u>		<u>Revenue growth</u>		
Western Europe/Nordics/Americas	116.6	116.0	N/A	-0.6%
Central Eastern Europe/DACH	166.1	224.6	N/A	35.2%
Turkey/Middle East/Africa	55.3	53.7	N/A	-3.0%
Corporate & eliminations	(27.8)	(43.0)		54.8%
Total pro forma revenue	310.3	351.3	N/A	13.2%
IAS 29 adjustment	4.4	13.3		203.4%
Reported revenue	314.7	364.6	76.9%	15.8%
<u>Gross profit I</u>		<u>Gross margin I</u>		
Western Europe/Nordics/Americas	50.2	52.3	43.0%	45.1%
Central Eastern Europe/DACH	66.7	97.1	40.1%	43.3%
Turkey/Middle East/Africa	22.7	11.7	41.1%	21.7%
Corporate & eliminations	(1.5)	(2.4)		
Total pro forma gross profit I	138.0	158.8	44.5%	45.2%
IAS 29 adjustment	0.8	2.5		
Reported gross profit I	138.8	161.3	44.1%	44.2%
<u>Gross profit II</u>		<u>Gross margin II</u>		
Western Europe/Nordics/Americas	32.1	30.8	27.6%	26.5%
Central Eastern Europe/DACH	32.6	51.2	19.6%	22.8%
Turkey/Middle East/Africa	11.2	7.1	20.2%	13.1%
Corporate & eliminations	(1.4)	(2.3)		
Total pro forma gross profit II	74.4	86.8	24.0%	24.7%
IAS29 adjustment	0.4	1.5		
Reported gross profit II	74.9	88.3	23.8%	24.2%
<u>Adjusted EBITDA</u>		<u>Adjusted EBITDA margin</u>		
Western Europe/Nordics/Americas	20.3	17.9	17.4%	15.4%
Central Eastern Europe/DACH	11.4	30.3	6.8%	13.5%
Turkey/Middle East/Africa	9.0	4.9	16.2%	9.2%
Corporate & eliminations	(1.8)	(3.9)		
Total pro forma adjusted EBITDA	38.7	49.3	12.5%	14.0%
IAS 29 adjustment	0.4	1.2		
Reported adjusted EBITDA	39.1	50.4	12.4%	13.8%
<u>Adjusted operating profit</u>		<u>Adjusted operating margin</u>		
Western Europe/Nordics/Americas	15.1	12.2	12.9%	10.5%
Central Eastern Europe/DACH	2.6	20.2	1.6%	9.0%
Turkey/Middle East/Africa	8.6	4.6	15.5%	8.6%
Corporate & eliminations	(2.0)	(3.9)		
Total pro forma adjusted op. profit	24.3	33.2	7.8%	9.4%
IAS 29 adjustment	0.4	1.2		
Reported adjusted profit	24.7	34.3	7.9%	9.4%

Source: AUSTRIACARD; Note: Gross profit I is after costs of material and mailing; gross profit II is gross profit I less production costs. Gross profit II is equivalent to reported gross profit.

The company expects further growth in 2024, with growth from digital transformation technologies supported by contract wins in Greece and demand resuming from challenger banks after a slowdown in H223.

The table below summarises performance since FY21 and our forecasts to FY26. The large increase in revenue in 2022 reflected a full year of contribution from Next Docs (acquired in February 2021) and Nitecrest (acquired December 2021) and the Kenyan election contract (c €25m). In FY24, we expect better growth in the Western Europe/Nordics/Americas division as growth resumes from challenger banking customers. The Greek RRF contracts along with solid performance in the card business should help drive growth in the CEE/DACH division and the Turkey/MEA division will no longer have such a tough prior year comparative. A combination of mid-single-digit volume growth in the card market (and potentially faster for challenger banks), value-added products and services in the card market, and the continued adoption of AUSTRIACARD's digital transformation technology across the CEE/DACH region should support growth in FY25 and FY26. One-off election projects similar to the Kenyan project in FY22 could also boost revenue, although these are not currently factored in.

We expect a gradual increase in gross, EBITDA and operating margins reflecting the growing contribution from higher-margin services (both in the cards and DTT businesses). In FY23, net finance costs increased to €7.1m (excluding one-offs), up from €4.3m in FY22, reflecting higher net debt and higher interest rates. The tax rate on reported PBT was 20%; excluding one-offs the effective rate was 16%, lower than the Austrian corporate tax rate of 24% in the year (23% from FY24) due to profits generated in lower-tax regions like Andorra and Romania (10% and 16% corporate tax rates respectively). Material contributors to the minority interest deduction include CLOUDFIN (38.5%), TAG Systems USA (40%) and Pink Post (49.9%). The company declared a dividend of €0.10 per share for FY23, up from the €0.05 for FY22 (which after accounting for the share split, was €0.025). The policy is to pay out 20–25% of net income.

Exhibit 14: Summary income statement, FY21–26e

€m	FY21	FY22	FY23	FY24e	FY25e	FY26e
Revenue	178.0	314.7	364.6	395.2	424.7	455.2
Adjusted EBITDA	21.8	39.1	50.4	57.1	64.6	72.4
Normalised operating profit	11.4	27.2	36.8	43.0	50.0	57.2
Exceptional costs/share-based payments	5.0	(7.9)	(2.9)	(5.5)	(5.5)	(5.5)
Amortisation of acquired intangibles	(1.4)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)
Company adjusted operating profit	9.8	24.7	34.3	40.5	47.5	54.7
Operating profit	15.0	16.8	31.4	35.0	42.0	49.2
Profit before tax	12.3	8.4	21.0	26.5	34.2	42.3
Profit after tax	10.0	4.8	16.8	20.4	26.7	33.2
Minority interest	(0.8)	(0.7)	(1.0)	(1.2)	(1.3)	(1.3)
Net income	9.2	4.2	15.8	19.2	25.4	31.9
Normalised net income	6.4	12.6	22.8	26.3	32.6	39.0
Reported basic EPS (€)	0.63*	0.28*	0.65*	0.53	0.70	0.88
Normalised diluted EPS (€)	0.22	0.42	0.62	0.66	0.83	0.99
Dividend per share (€)	0.00	0.03	0.10	0.11	0.14	0.18
Net debt	85.1	76.6	95.0	76.5	51.2	21.1
Net debt/EBITDA (x)	3.9	2.0	1.9	1.3	0.8	0.3
<i>Revenue growth</i>	<i>2.4%</i>	<i>76.9%</i>	<i>15.8%</i>	<i>8.4%</i>	<i>7.5%</i>	<i>7.2%</i>
<i>EBITDA margin</i>	<i>12.3%</i>	<i>12.4%</i>	<i>13.8%</i>	<i>14.4%</i>	<i>15.2%</i>	<i>15.9%</i>
<i>Normalised operating margin</i>	<i>6.4%</i>	<i>8.6%</i>	<i>10.1%</i>	<i>10.9%</i>	<i>11.8%</i>	<i>12.6%</i>
<i>Company adjusted operating margin</i>	<i>5.5%</i>	<i>7.9%</i>	<i>9.4%</i>	<i>10.3%</i>	<i>11.2%</i>	<i>12.0%</i>
<i>Reported operating margin</i>	<i>8.4%</i>	<i>5.3%</i>	<i>8.6%</i>	<i>8.9%</i>	<i>9.9%</i>	<i>10.8%</i>

Source: AUSTRIACARD, Edison Investment Research. Note: *Not adjusted for share split in August 2023.

Balance sheet and cash flow

Working capital requirements increased significantly in FY23 versus FY22, from 11.4% of sales to 17.0%, causing a €35.3m cash outflow. However, in FY22 supply chain shortages made it difficult for the company to buy smart card chip modules and inventory declined. In FY23, the supply chain normalised and the company was able to build inventory levels back to previous levels. We expect working capital requirements to remain at a similar level to FY23 as a proportion of sales.

The company incurs maintenance capex for its printing, production and personalisation machines and capitalises development costs relating to cards and digital transformation technology. Capex in FY23 totalled €11.1m with a further €2.9m in lease payments for right of use assets. Management expects an ongoing capex/sales ratio of c 4%.

The company initiated a share buyback programme in December 2023, with a maximum volume of 727,077 shares and a maximum consideration of €5.8m. As at the date of this report, 33,238 shares had been bought back at a total cost of €199k.

The company had a net debt position of €95.0m at the end of FY23, or €80.3m excluding lease liabilities of €14.7m. In December 2023, the company refinanced the debt held by its subsidiaries consolidating it into debt at the holding company level. The €186.6m financing agreement with a consortium of 10 European banks led by UniCredit, comprises a revolving credit facility, term loan tranches and a guarantee facility maturing in three to five years. At the end of FY23, €101.1m of the

facility had been used. Net debt/EBITDA was 1.9x at year-end, well within the covenant limit of 3.5x. The company targets gearing of less than 3.0x, which provides headroom for internal or external investment. We forecast a reduction in gearing over the forecast period.

Valuation

In the tables below, we show the performance and valuation metrics for a variety of peers to AUSTRIACARD. The largest peers for AUSTRIACARD's smart card business are either privately held or divisions of a listed company with diverse operations. We have included smaller listed peers although these clearly have varied performance. CompoSecure's profitability is clearly well ahead of both AUSTRIACARD and its other smartcard peers.

For document lifecycle management, we have found very few peers but have included De La Rue, a banknote printer that also offers other secure printing and authentication services. There is a much wider peer group for digital transformation technology. We have included companies that provide software and/or services to automate the management of documents and have included some with a high level of public sector exposure (eg Idox, cBrain). Again, this group has a varied level of growth and profitability, but the strong revenue growth and margins for software companies in this space highlight the opportunity for AUSTRIACARD if it is successful in growing its DT solutions business. Currently AUSTRIACARD uses its DT solutions to provide services to its customers – key to driving up margins and valuation will be the commercialisation of these solutions and building a growing level of subscription or recurring revenues.

Exhibit 15: Peer financial metrics

Company	Market cap	EV	Quoted ccy	Revenue growth (%)		EBITDA margin (%)		EBIT margin (%)		Business description
				CY	NY	CY	NY	CY	NY	
AUSTRIACARD	231	311	EUR	8.4	7.5	14.4	15.2	10.9	11.8	
<u>Card-related business</u>										
CompoSecure	583	1475	USD	7.1	8.9	36.5	37.4	30.8	32.7	Metal card producer
CPI Card Group	208	475	USD	0.9	6.2	20.2	20.9	14.1	15.6	Smart card producer & issuer
<u>Digital transformation software and services</u>										
cBrain	7007	7091	DKK	27.1	27.0	46.1	47.4	37.8	39.9	Digital transformation software & services
Checkin.com Group	1086	1075	SEK	56.7	63.2	33.6	39.1	20.4	29.8	Customer onboarding & log-in software
Esker	1111	1083	EUR	10.6	14.9	19.6	21.5	12.5	14.5	Document process automation software
Fabasoft	214	205	EUR	18.1	13.5	26.2	25.8	16.7	15.6	Document management software
FormPipe Software	1581	1580	SEK	4.6	10.6	25.3	28.8	13.6	17.9	Document management software
IAR Systems Group	1910	1780	SEK	7.8	7.3	39.3	40.8	25.3	27.2	Embedded security software
Idox	283	301	GBp	21.1	5.4	29.4	29.4	20.3	20.4	Public sector software
Sidetrade	230	218	EUR	11.1	17.2	16.0	17.0	14.5	14.6	Order to cash software
Unifiedpost Group	136	237	EUR	7.6	10.8	0.7	4.1	-9.2	-4.9	Supply chain software
Average				18.3	18.9	26.2	28.2	16.9	19.4	
<u>Secure printing</u>										
De La Rue	165	248	GBp	-8.8	11.1	13.4	14.5	6.9	8.3	Secure printing & authentication services

Source: Edison Investment Research, LSEG (4 April)

Exhibit 16 shows the valuation metrics for the peers. The high multiples for the digital transformation software and services group reflects the superior revenue growth and profitability. AUSTRIACARD trades broadly in line with CPI Card Group and De La Rue on EV/EBITDA multiples, although this is a very limited group. It trades at a large discount to the digital transformation peer group, highlighting the upside potential for the share price as the company grows the proportion of business in this market. We note that AUSTRIACARD's dividend yield is forecast to be at the upper end of peers, many of whom do not pay a dividend at all.

Exhibit 16: Peer group valuation metrics

Company	EV/sales (x)		EV/EBITDA (x)		EV/EBIT (x)		P/E (x)		Div. yield (%)	
	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
AUSTRIACARD	0.8	0.7	5.5	4.8	7.2	6.2	9.6	7.7	1.7	2.2
<u>Card-related business</u>										
CompoSecure	3.5	3.2	9.7	8.7	11.5	9.9	6.7	5.7	0.0	0.0
CPI Card Group	1.1	1.0	5.2	4.8	7.5	6.4	7.8	5.9	0.0	0.0
<u>Digital transformation software and services</u>										
Cbrain	23.3	18.4	50.7	38.8	61.7	46.0	76.0	56.0	0.2	0.3
Checkin.com Group	7.1	4.3	21.1	11.1	34.7	14.5	48.6	19.3	0.0	0.0
Esker	5.5	4.8	28.0	22.2	43.7	32.9	55.7	42.0	0.5	0.6
Fabasoft	2.5	2.2	9.6	8.6	15.0	14.1	25.3	23.8	1.3	1.4
FormPipe Software	2.9	2.6	11.4	9.0	21.2	14.5	26.4	18.0	2.4	3.4
IAR Systems Group	3.6	3.4	9.2	8.2	14.2	12.4	19.7	17.7	1.8	2.0
Idox	3.4	3.2	11.5	10.9	16.7	15.8	24.1	22.8	1.1	1.3
Sidetrade	4.5	3.8	28.0	22.5	31.0	26.2	34.4	28.6	0.0	0.0
Unifiedpost Group	1.1	1.0	157.7	25.2	N/A	N/A	N/A	N/A	0.0	0.0
Average	6.0	4.9	21.2	17.4	29.8	22.1	38.8	28.5	0.8	1.0
<u>Secure printing</u>										
De La Rue	0.8	0.7	5.8	4.9	11.2	8.4	129.8	14.2	0.0	0.0

Source: Edison Investment Research, LSEG (4 April)

Due to the limited availability of relevant listed peers for the largest part of AUSTRIACARD's business, we have also performed a discounted cash flow analysis using several scenarios for growth and margins. We use a WACC of 10% and a long-term growth rate of 2%.

Based on our forecasts to FY26 and then revenue growth of 3% per annum to FY33, flat EBITDA margins from FY26, and capex/sales of 4% per annum, we arrive at a valuation of €10.0 per share, 57% above the current share price. Exhibit 17 shows the sensitivity to WACC and the long-term growth rate.

Exhibit 17: Valuation sensitivity to WACC and terminal growth rate

Per share value (€)	Terminal growth rate					
	1.0%	1.5%	2.0%	2.5%	3.0%	
WACC	12.0%	7.07	7.26	7.47	7.70	7.96
	11.5%	7.54	7.76	8.00	8.27	8.57
	11.0%	8.06	8.31	8.59	8.90	9.26
	10.5%	8.64	8.93	9.26	9.62	10.04
	10.0%	9.28	9.62	10.00	10.43	10.93
	9.5%	10.00	10.40	10.85	11.36	11.95
	9.0%	10.81	11.28	11.81	12.43	13.15
	8.5%	11.73	12.29	12.93	13.68	14.57
	8.0%	12.78	13.45	14.23	15.16	16.27
	7.5%	13.99	14.81	15.78	16.93	18.35


Source: Edison Investment Research

To arrive at the current share price would require revenue growth of 3.8% from FY24–33 and flat EBITDA margins of 14.0%. This appears conservative considering recent revenue and margin growth and the opportunities to expand into the wider digital transformation market.

Exhibit 18: Financial summary

	€m	2019	2020	2021	2022	2023	2024e	2025e	2026e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		135.0	173.9	178.0	314.7	364.6	395.2	424.7	455.2
Cost of sales		(105.2)	(134.2)	(137.1)	(239.9)	(276.3)	(297.3)	(318.1)	(339.4)
Gross profit		29.8	39.7	40.9	74.9	88.3	97.9	106.7	115.8
Operating costs		(16.8)	(18.5)	(19.1)	(35.7)	(37.9)	(40.8)	(42.1)	(43.4)
EBITDA		13.0	21.1	21.8	39.1	50.4	57.1	64.6	72.4
Normalised operating profit		6.2	12.3	11.4	27.2	36.8	43.0	50.0	57.2
Amortisation of acquired intangibles		(0.1)	(1.4)	(1.4)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)
Exceptionals & share-based payments		0.0	(1.1)	5.0	(7.9)	(2.9)	(5.5)	(5.5)	(5.5)
Reported operating profit		6.1	9.8	15.0	16.8	31.4	35.0	42.0	49.2
Net Interest		(2.7)	(3.3)	(2.7)	(4.3)	(7.1)	(7.4)	(6.6)	(5.8)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Exceptionals		0.0	0.0	(0.0)	(4.2)	(3.4)	(1.2)	(1.2)	(1.2)
Profit Before Tax (norm)		3.4	8.9	8.7	23.0	29.8	35.7	43.4	51.4
Profit Before Tax (reported)		3.3	6.5	12.3	8.4	21.0	26.5	34.2	42.3
Reported tax		(1.8)	(1.0)	(2.2)	(3.5)	(4.2)	(6.1)	(7.5)	(9.1)
Profit After Tax (norm)		1.5	7.5	7.2	13.3	23.8	27.5	33.9	40.4
Profit After Tax (reported)		1.5	5.4	10.0	4.8	16.8	20.4	26.7	33.2
Minority interests		(0.1)	(0.3)	(0.8)	(0.7)	(1.0)	(1.2)	(1.3)	(1.3)
Net income (normalised)		1.5	7.2	6.4	12.6	22.8	26.3	32.6	39.0
Net income (reported)		1.4	5.1	9.2	4.2	15.8	19.2	25.4	31.9
Basic ave. number of shares outstanding (m)		29.3	29.3	29.3	30.0	35.0	36.3	36.3	36.3
EPS - diluted normalised (€)		0.05	0.25	0.22	0.42	0.62	0.66	0.83	0.99
EPS - basic reported (€)		0.10*	0.35*	0.63*	0.28*	0.65*	0.53	0.70	0.88
Normalised EPS diluted (€)		0.05	0.25	0.21	0.42	0.62	0.66	0.83	0.99
Dividend (€)		0.00	0.00	0.00	0.03	0.10	0.11	0.14	0.18
Revenue growth (%)			28.8%	2.4%	76.9%	15.8%	8.4%	7.5%	7.2%
EBITDA Margin (%)		9.7%	12.1%	12.3%	12.4%	13.8%	14.4%	15.2%	15.9%
Normalised Operating Margin		4.6%	7.1%	6.4%	8.6%	10.1%	10.9%	11.8%	12.6%
BALANCE SHEET									
Fixed Assets		114.2	115.2	145.4	153.8	156.8	155.0	153.6	152.6
Intangible Assets		29.3	31.4	60.7	57.2	55.5	53.0	50.6	48.6
Tangible Assets		80.3	79.6	83.0	90.4	96.3	97.1	98.0	99.1
Investments & other		4.6	4.2	1.8	6.2	5.0	5.0	5.0	5.0
Current Assets		77.3	66.2	81.0	116.4	164.9	183.4	207.6	236.6
Stocks		19.2	19.8	23.2	36.1	58.2	62.7	66.2	69.7
Debtors		21.3	19.3	29.3	40.0	44.7	48.4	52.0	55.8
Cash & cash equivalents		22.3	11.0	11.5	21.6	23.8	32.3	47.7	67.8
Other		14.5	16.1	17.1	18.7	38.3	40.0	41.6	43.3
Current Liabilities		(90.3)	(49.3)	(62.9)	(99.4)	(99.3)	(104.0)	(108.4)	(112.9)
Creditors		(32.1)	(29.8)	(40.3)	(64.8)	(79.4)	(84.1)	(88.5)	(93.0)
Tax and social security		(0.4)	(0.3)	(1.6)	(3.5)	(3.0)	(3.0)	(3.0)	(3.0)
Short term borrowings		(54.6)	(14.9)	(16.2)	(25.3)	(12.7)	(12.7)	(12.7)	(12.7)
Lease liabilities		(2.7)	(2.5)	(4.5)	(2.3)	(3.8)	(3.8)	(3.8)	(3.8)
Other		(0.5)	(1.8)	(0.2)	(3.5)	(0.5)	(0.5)	(0.5)	(0.5)
Long Term Liabilities		(44.6)	(71.4)	(97.3)	(90.0)	(115.2)	(105.2)	(95.2)	(85.2)
Long term borrowings		(19.6)	(46.4)	(72.3)	(62.0)	(91.5)	(81.5)	(71.5)	(61.5)
Lease liabilities		(6.8)	(5.1)	(3.5)	(8.6)	(10.9)	(10.9)	(10.9)	(10.9)
Other long term liabilities		(18.2)	(20.0)	(21.4)	(19.3)	(12.8)	(12.8)	(12.8)	(12.8)
Net Assets		56.5	60.7	66.2	80.8	107.2	129.2	157.5	191.1
Minority interests		(12.5)	(12.0)	(13.0)	(11.6)	(0.8)	(2.0)	(3.2)	(4.5)
Shareholders' equity		44.0	48.7	53.3	69.2	106.4	127.3	154.3	186.5
CASH FLOW									
Op Cash Flow before WC and tax		3.3	6.5	12.3	8.4	21.0	26.5	34.2	42.3
Working capital		2.0	(2.0)	(4.0)	2.7	(35.3)	(5.3)	(4.4)	(4.4)
Exceptional & other		9.9	13.8	6.5	31.4	29.8	29.4	29.2	29.0
Tax		(0.2)	(1.4)	(1.6)	(1.6)	(6.4)	(6.1)	(7.5)	(9.1)
Net operating cash flow		15.0	16.9	13.2	40.9	9.1	44.5	51.5	57.7
Capex		(5.3)	(8.8)	(9.0)	(14.5)	(11.1)	(11.7)	(12.5)	(13.4)
Acquisitions/disposals		(18.7)	0.2	(16.5)	(2.9)	(1.1)	0.0	0.0	0.0
Net interest		(2.2)	(2.3)	(2.4)	(4.1)	(7.4)	(7.4)	(6.6)	(5.8)
Equity financing		0.0	0.0	0.0	0.0	0.0	(0.2)	0.0	0.0
Dividends		(0.8)	(0.7)	0.0	0.0	(0.9)	(3.6)	(3.9)	(5.2)
Other		(2.1)	(3.2)	(11.0)	(7.4)	(2.9)	(3.1)	(3.2)	(3.3)
Net Cash Flow		(14.2)	2.2	(25.8)	12.0	(14.2)	18.5	25.4	30.1
Opening net debt/(cash) – excludes leases		35.9	51.9	50.2	77.1	65.7	80.3	61.8	36.5
FX		(0.1)	(0.5)	(0.3)	(0.6)	(0.7)	0.0	0.0	0.0
Other non-cash movements		(1.7)	0.0	(0.7)	(0.1)	0.3	(0.0)	0.0	0.0
Closing net debt/(cash) – excludes leases		51.9	50.2	77.1	65.7	80.3	61.8	36.5	6.4

Source: AUSTRIACARD, Edison Investment Research. Note: *Not adjusted for share split in August 2023.

<p>Contact details</p> <p>Lamezanstrasse 4-8 1230 Vienna Austria +43 (0)1 61065-0 www.austriacard.com</p>	<p>Revenue by geography</p>  <table border="1"> <thead> <tr> <th>Geography</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>CE Europe/DACH</td> <td>57%</td> </tr> <tr> <td>W Europe/Nord/Am</td> <td>29%</td> </tr> <tr> <td>Turkey/ME/Africa</td> <td>14%</td> </tr> </tbody> </table>	Geography	Percentage	CE Europe/DACH	57%	W Europe/Nord/Am	29%	Turkey/ME/Africa	14%
Geography	Percentage								
CE Europe/DACH	57%								
W Europe/Nord/Am	29%								
Turkey/ME/Africa	14%								
<p>Management team</p>									
<p>Executive chairman: Nikolaos Lykos</p> <p>Mr Lykos, representing the fourth generation of the Lykos family, has been active in the development of the family-held Lykos company since 1980. He became chairman and CEO of INFORM LYKOS in 2000. Since 2011, he has steered the consolidation of all group operations in Vienna from his position as chairman of the management board.</p>	<p>CEO: Manolis Kontos</p> <p>Mr Kontos joined INFORM in 2018 as managing director of that division and was then promoted to group deputy CEO of AUSTRIACARD. In March 2024, he was appointed group CEO. Prior to joining AUSTRIACARD, he held leadership roles at General Mills, Coca Cola Hellenic and Korres Natural Products.</p>								
<p>CFO: Markus Kirchmayr</p> <p>Mr Kirchmayr joined AUSTRIACARD in 2015 as finance director of the Digital Security division and the Vienna-based entities. He was promoted to group CFO in 2021. Prior to joining AUSTRIACARD, he was head of group consolidation at Conwert Immobilien Invest SE, Austria, and before that he qualified as an accountant and worked in various roles at KPMG.</p>	<p>Executive director capital markets, M&A and IR: Dimitris Tzelepis</p> <p>Mr Tzelepis joined AUSTRIACARD in March 2023. He previously held a variety of roles (including CFO, COO or CEO) with companies such as NOVA Group, OTE Group, Alpha Bank, NBG, Merrill Lynch and P&G.</p>								
<p>Principal shareholders</p>									
<p>Nikolaos Lykos Management</p>	<p>(%) 77 2</p>								

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