

4 February 2022

123fahrschule SE

Rating Buy (Buy)
Share price (EUR) 13.30
Target price (EUR) 26.50 (24.80)
 Bloomberg LTQ GR
 Sector Technology

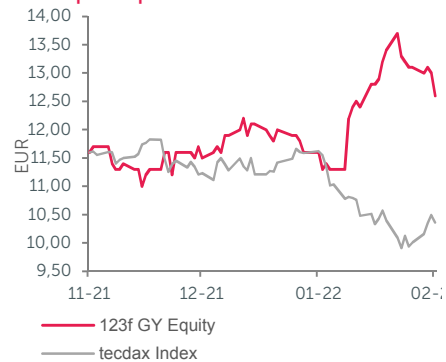
Share data

Shares out (m) 1.3
 Market cap (EUR m) 32
 EV (EUR m) 15
 DPS (EUR) 0.00
 Dividend yield (%) 0.0
 Payout ratio (%) 0.0

Performance

12 months (%) 160.8
 12 months rel. (%) 162.9
 Index SDAX

Share price performance



Source: Bloomberg

Next triggers

2021 report: 28.02.2022

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Economies of scale outweigh up-front costs

This week, on February 1, 123fahrschule published mixed preliminary figures for 2021. On the bright side, revenues were significantly up 81.4% yoy and exceeding our estimate by 39.3%. Net profit, on the other hand, came in at EUR -4.3m and substantially missing our estimate of EUR -2m and the company's guidance ("significant growth in sales and EBIT"). However, the higher than expected up-front costs strongly contributed to the favorable top line development. Those costs were necessary to accelerate growth (marketing) and to cope with it (administrative). The company just started an extensive growth path and therefore we favor top line growth over cost savings. It is crucial to our investment case that the company develops to a certain size very quick. 123fahrschule is just at the beginning of upscaling their business, therefore we do not weight the higher costs too much. In the long-term, economies of scale should outweigh those up-front costs. We stick to our Buy rating and increase our DCF-based target price from EUR 24.80 to EUR 26.50.

Cost structure

The higher costs are mainly comprised of an already communicated goodwill amortization, higher administrative costs to cope with the high growth rate, higher marketing costs to accelerate growth and achieve higher than average prices and high capital market and consulting costs due to the implemented capital increases.

Successfully continued growth path in 2021

123fahrschule acquired a total of 25 new driving school locations in 2021. In the second half of the year, the company recorded a significant increase in registrations to almost 800 per month, a 55% increase yoy. Q4 was particularly successful with an 85% increase in registrations. The focus for 2022 is on the ongoing optimization and digitalization of the training process as well as further promising acquisitions.

123fahrschule SE - FY 2021

EUR m	2021	2020	yoy	Quirin est.	delta
Revenues	7.8	4.3	81.4%	5.6	39.3%
Net profit	-4.3	-2.0	n.m.	-2.5	n.m.
Net profit margin	n.m.	n.m.	n.m.	n.m.	n.m.

Source: 123fahrschule SE, Quirin Privatbank AG

Key figures		2019	2020	2021e	2022e	2023e
Sales	EUR m	3	4	7	14	19
EBITDA	EUR m	-3	-2	-3	-2	2
EBIT	EUR m	-3	-3	-4	-4	0
Sales growth	%	108.0	47.3	72.1	93.7	36.3
EBIT margin	%	-114.7	-66.8	-57.8	-26.5	1.0
Net margin	%	-124.2	-46.5	-58.1	-26.6	0.6
EV/Sales	ratio	1.57	1.37	3.94	2.16	1.50
EV/EBITDA	ratio	-1.5	-2.7	-10.1	-15.9	15.1
EV/EBIT	ratio	-1.4	-2.0	-6.8	-8.2	145.3
P/E	ratio	-4.7	-8.5	-7.5	-8.5	262.3

Source: Bloomberg, Company data, Quirin Privatbank estimates

Investment case summary

Our investment case is based on the unique characteristic features of the driving school market. Driving school owners have a big problem in finding a successor / buyer for their business as the average driving instructor is 54 years old. Furthermore, most driving schools exhibit only a minimum level of digitalization. This is beneficial for 123fahrschule, which grows by acquiring driving schools from retiring owners for extremely low prices and significantly increases the margins through digitalization. Hence, the company can grow very cost-effective, fast and profitable since even without digitalization the average driving school already has a surprisingly high margin. Therefore, the investment is quickly amortized and 123fahrschule should be able to finance its growth thereafter through its operating cash flow. On top of that, those acquisitions are mostly real asset deals that do not inflate goodwill. Some larger strategic takeovers are possible.

Scalability potential

123fahrschule is not yet profitable as they are just at the beginning of upscaling their business. Right now, the fixed costs are relatively high compared to the current total revenues, which is mainly due to the costs associated with the holding company. However, those are expected to remain relatively stable, which leads to a high scalability and strong growing margins once those costs are fully covered. We expect the business to grow by a CAGR 2021e-2024e of 48.6% and a positive net income as per 2023. Also operating cash flow should be sufficient to cover the acquisition related capital expenditures. Keep in mind, our growth rates look high, but we are coming from a very low absolute revenue level from which the company can upscale pretty fast.

Technological edge increases efficiencies

The company has digitized and automated many processes that previously involved service staff to cut down on administrative personnel. The company thereby reaches a much higher operational efficiency than most driving schools. In addition to the administrative advantages, theory sessions and driving lessons can be scheduled with 123fahrschule's online system. Even registration with the driving school is done online. Additionally, due to the company's far superior online marketing strategy, new customers can be acquired very cost effective. This greatly reduces the back-office workload and increases the company's scalability and margin.

DCF Valuation

We have derived our target price for 123fahrschule from our DCF model. With a WACC of 12.45% (resulting from a risk-free rate of 2%, market premium of 5% and a beta of 2.1), a mid-term revenue CAGR 2021-2024 of 48.6% fading to a perpetual growth rate of 0% and a sustainable long-term EBIT margin of 30% our DCF model derives a fair value of EUR 26.50 per share. Hence, we confirm our Buy recommendation.

DCF Model for 123fahrschule SE

(EUR m)	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TV
Sales	7.4	14.2	19.4	24.1	28.9	33.7	38.2	42.0	44.8	46.3	
growth yoy	72.1%	93.7%	36.3%	24.3%	19.9%	16.6%	13.3%	10.0%	6.6%	3.3%	
EBIT	-4.2	-3.8	0.2	2.3	4.9	6.6	8.4	10.4	12.3	13.9	
EBIT margin	-57.8%	-26.5%	10%	9.4%	16.9%	19.5%	22.1%	24.7%	27.4%	30.0%	
Taxes	0.0	0.0	-0.1	-0.7	-1.5	-2.0	-2.5	-3.1	-3.7	-4.2	
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
Depreciation	1.4	1.8	1.7	1.7	1.4	1.3	1.3	1.4	1.4	1.4	
% of sales	18.9%	12.9%	8.9%	6.9%	4.9%	4.0%	3.5%	3.2%	3.1%	3.0%	
Capex	-0.9	-2.2	-2.1	-2.3	-2.5	-2.0	-1.7	-1.6	-1.5	-1.4	
% of sales	12.3%	15.6%	10.7%	9.3%	8.7%	5.9%	4.4%	3.7%	3.4%	3.0%	
Δ NWC	1.3	2.9	2.2	2.0	2.0	2.4	2.7	3.0	3.2	3.3	
% of sales	-17.8%	-20.5%	-113%	-8.3%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	
FCF	-2.5	-1.2	2.0	3.0	4.3	6.3	8.2	10.0	11.6	13.0	104.2
growth yoy	nm	-49.8%	nm	52.1%	44.5%	45.7%	30.1%	21.8%	15.9%	11.6%	0.0%
PV FCF	-2.5	-1.1	1.6	2.1	2.7	3.6	4.1	4.5	4.6	4.6	36.6

PV Forecast Period	24
PV Terminal Value	37

Enterprise value	61
- Net Debt / Net Cash	-3.2
- Pension Provisions	0
Equity value	64
Number of shares	2.4
Value per share (€)	26.5

Sensitivity Analysis	Terminal growth rate				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
11.21%	29.0	29.8	30.7	31.7	32.7
11.83%	27.0	27.7	28.5	29.3	30.2
WACC 12.45%	25.2	25.8	26.5	27.2	28.0
13.07%	23.6	24.1	24.7	25.3	26.0
13.70%	22.1	22.6	23.1	23.6	24.2

Risk free rate	2.00%	Equity ratio	100%
Cost of debt	3.00%	Company beta	2.1
Market Premium	5.00%	WACC	12.45%

Source: Quirin Privatbank AG

Profit & loss statement

Profit & loss statement (EUR m)	2019	YOY	2020	YOY	2021e	YOY	2022e	YOY	2023e	YOY
Sales	2.9	108.0 %	4.3	47.3 %	7.4	72.1 %	14.2	93.7 %	19.4	36.3 %
Other own work capitalized	0.2		0.2		0.4		0.8		1.1	
Gross profit	3.1		4.5		7.8		15.1		20.5	
Personnel expenses	-3.0		-3.6		-4.6		-8.7		-11.3	
Depreciation	-0.2		-0.7		-1.4		-1.8		-1.7	
Other operating expenses	-3.2		-3.1		-6.0		-8.2		-7.3	
EBITDA	-3.1	27.0 %	-2.2	-29.9 %	-2.9	31.6 %	-1.9	-32.5 %	1.9	-199.9 %
EBITDA margin (%)	-106.85		-50.82		-38.86		-13.55		9.93	
EBIT	-3.3	27.9 %	-2.9	-14.1 %	-4.2	48.8 %	-3.8	-11.3 %	0.2	-105.3 %
EBIT margin (%)	-114.65		-66.84		-57.76		-26.45		1.03	
Pretax profit	-3.6	34.2 %	-2.9	-19.4 %	-4.3	47.6 %	-3.8	-11.2 %	0.2	-104.6 %
Pretax margin (%)	-123.87		-67.78		-58.11		-26.63		0.90	
Taxes	0.0		0.9		0.0		0.0		-0.1	
Tax rate (%)	-0.27		31.38		30.00		30.00		30.00	
Earnings after taxes	-3.6		-2.0		-4.3		-3.8		0.1	
Minorities	0.0		0.0		0.0		0.0		0.0	
Group attributable income	-3.6	34.6 %	-2.0	-44.8 %	-4.3	115.0 %	-3.8	-11.2 %	0.1	-103.2 %
No. of shares (m)	2.4		2.4		2.4		2.4		2.4	
Earnings per share (EUR)	-2.85	34.6 %	-1.57	-44.8 %	-1.77	12.4 %	-1.57	-11.2 %	0.05	-103.2 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2019	YOY	2020	YOY	2021e	YOY	2022e	YOY	2023e	YOY
Assets										
Cash and cash equivalents	0.1		0.0		4.5		2.7		4.4	
Accounts receivables	0.1		0.4		0.7		1.4		1.9	
Other current assets	1.1		1.0		1.3		2.5		3.3	
Total current assets	1.3	54.0 %	1.4	6.1 %	6.5	355.3 %	6.5	0.8 %	9.5	45.7 %
Fixed assets	0.7		0.9		0.6		0.8		1.0	
Goodwill	0.3		8.7		8.7		8.7		8.7	
Other intangible assets	0.3		0.8		0.6		0.7		0.8	
Total fixed assets	1.3	-30.6 %	10.3	665.6 %	9.8	-4.7 %	10.2	3.9 %	10.6	3.5 %
Total assets	2.7	-4.4 %	11.8	336.6 %	16.3	38.9 %	16.8	2.7 %	20.1	20.0 %
Equity & Liabilities										
Subscribed capital	0.2		1.3		1.3		1.3		1.3	
Reserves & other	7.5		7.8		7.8		7.8		7.8	
Revenue reserves	-7.1		0.0		2.7		-1.1		-0.9	
Accumulated other comprehensive	0.0		-1.2		-1.2		-1.2		-1.2	
Shareholder's equity	0.6	-165.8 %	7.9	1242.2 %	10.5	34.2 %	6.8	-36.0 %	6.9	2.6 %
Minorities	0.0		0.0		0.0		0.0		0.0	
Shareholder's equity incl. minorities	0.6	-165.8 %	7.9	1242.2 %	10.5	34.2 %	6.8	-36.0 %	6.9	2.6 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	0.0		0.8		0.8		0.8		0.8	
Other liabilities	0.9		0.4		0.7		1.3		1.8	
Total long-term debt	0.9	-61.9 %	1.2	31.8 %	1.5	23.0 %	2.2	41.8 %	2.6	22.1 %
Short-term debt										
Other provisions	0.0		0.4		0.7		1.3		1.8	
Trade payables	0.1		1.0		1.7		3.3		4.5	
Financial debt	0.0		0.4		0.4		0.4		0.4	
Other liabilities	0.0		-0.4		-0.7		-1.3		-1.7	
Total short-term debt	0.1	-83.5 %	1.4	1551.6 %	2.1	50.4 %	3.8	74.9 %	5.0	32.1 %
Total equity & liabilities	2.7	-4.4 %	11.8	336.6 %	16.3	38.9 %	16.8	2.7 %	20.1	20.0 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2019	2020	2021e	2022e	2023e
Per share data (EUR)					
EPS	-2.85	-1.57	-1.77	-1.57	0.05
Book value per share	0.5	6.2	4.4	2.8	2.8
Free cash flow per share	-1.4	0.5	-1.0	-0.7	0.7
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	1.57	1.37	3.94	2.16	1.50
EV/EBITDA	-1.5	-2.7	-10.1	-15.9	15.1
EV/EBIT	-1.4	-2.0	-6.8	-8.2	145.3
P/E	-4.7	-8.5	-7.5	-8.5	262.3
P/B	28.7	2.1	3.1	4.8	4.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth					
Sales growth (%)	108.0	47.3	72.1	93.7	36.3
Profitability ratios					
EBITDA margin (%)	-106.9	-50.8	-38.9	-13.6	9.9
EBIT margin (%)	-114.7	-66.8	-57.8	-26.5	1.0
Net margin (%)	-124.2	-46.5	-58.1	-26.6	0.6
ROCE (%)	-127.5	-27.6	-29.9	-28.9	1.3
Financial ratios					
Total equity (EUR m)	0.6	7.9	10.5	6.8	6.9
Equity ratio (%)	21.8	66.9	64.6	40.3	34.3
Net financial debt (EUR m)	-0.1	1.2	-3.2	-1.4	-3.0
Net debt/Equity	0.2	0.7	0.6	0.4	0.3
Interest cover	-12.4	-71.4	-167.1	-148.2	-70.8
Net debt/EBITDA	0.0	-0.6	1.1	0.7	-1.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	-1.0	-1.8	-3.1	-6.0	-8.2
Working capital/Sales	-0.35	-0.42	-0.42	-0.42	-0.42

Source: Company data, Quirin Privatbank estimates

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Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
04.02.2022	26.50	Buy	
08.02.2021	24.80	Buy	08.02.2021

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