



Gaining momentum

Following the publication of SZY preliminary figures for FY 2018e, we updated our DCF model and maintain the Buy recommendation with the new TP of EUR 10.5. We note that the company's progress in restructuring the UK business and the increasing integration of the two acquisitions from 2017 is starting to bear fruits and expect it to take full effect during the current and the following years. Overall, we see our investment case confirmed by SZY's attractive dividend yield, a limited downside due to potential takeover by its parent company (WPP), and a growing digital advertising market.

An accelerating earnings momentum...

On 14th of January SYZGY has reported its preliminary figures for FY 2018. As highlighted in our previous [note](#), the company delivered a set of strong results, which has accelerated towards the FY-end. Over the year SZY has grown by 7.6% in sales and by 18.1% in net income (before minorities). In Q4 the company has grown by a robust 12.7% yoy on the top line and by more than 50% on the bottom line yoy.

EUR m	2018p	2017	% yoy	Q4 2018p	Q4 2017	% yoy
Revenues	65.3	60.7	7.6%	17.2	15.3	12.7%
EBIT	6.1	4.1	48.4%	1.5	0.7	117.0%
EBIT Margin	9.3%	6.8%	215 BP	8.9%	4.6%	428 BP
Net income*	5.0	4.2	18.1%	1.3	0.9	51.3%
EPS	0.36	0.39	-7.4%	0.09	0.07	21.6%

Source: SYZGY AG, Pareto

*before minorities

... to continue in 2019 and thereafter

In our view the growing momentum is a sign of increasing benefits from integration of the two acquisitions in 2018: *different* and *Catbird Seat*. In particular *different*, a strategy consulting specialist, has the potential to accelerate the group's revenue growth through cross-selling marketing and raise the overall profitability. We further expect the UK business to improve on profitability in due course.

Headwind due to limited human resource capacity

The unemployment rate in Germany has reached about 5.3% in January 2019, which constitutes one of the lowest (seasonally adjusted) recorded levels. The implied labour shortage has a twofold negative impact especially relevant for digital businesses. On the one hand the growth is hindered by the absence of qualified professionals and on the other hand personnel costs are increasing significantly. Although the company has improved on its growth rate over the last years, we adjust our expectations on its future growth slightly downwards, since most of its personnel are situated in Germany. We accordingly amend our DCF model and reiterate our Buy recommendation with a new target price of EUR 10.5.

Target price (EUR)	10.5
Share price (EUR)	9.0

Forecast changes

%	2019e	2020e	2021e
Revenues	(5)	(7)	NM
EBITDA	(2)	(12)	NM
EBIT adj	NM	NM	NM
EPS reported	1	(10)	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	SYZG.DE, SYZGY
Sector	Media
Shares fully diluted (m)	13.5
Market cap (EURm)	122
Net debt (EURm)	-12
Minority interests (EURm)	0
Enterprise value 19e (EURm)	110
Free float (%)	49

Performance



Source: Factset

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Valuation

Overall we see SYZYG to be on the right way to cope with the past (loss of a major customer in 2016) and the ongoing (restructuring in the UK) challenges. The revenues have improved in the course of 2018, showing a strong full year growth of 7.6% according to preliminary figures. For the years to come we expect a strong organic growth, exceeding 8% p.a. Similarly, following the appointment of Ita Murphy as CEO of UK Business in October last year, we expect the segment to improve on its performance and contribute positively to the group's margin in the future.

DCF

- **Sales development:** For FY 2019e-22e we expect an *organic* growth rate above 8%, supported by recovery in the UK business, deeper integration of the acquired companies, and realisation of the resulting cross-selling potential.
- **Profitability:** The strong scale effects, embedded in the business model, as well as the aforementioned restructuring of the UK business, should have a positive effect on SZY's profitability. We assume a 10% long-term margin.
- **WACC:** Taking into account the solid financial position of SYZYG as well as of its parent company (WPP), we calculate WACC of 7.6%.
- **Fair value:** With an assumed perpetual growth rate of 3%, we arrive at a target price of EUR 10.5, which corresponds to an upside potential of c. 15%.
- What our model does not reflect is the company's strong track record in consistently achieving a positive financial result (EUR 1.3m-2.2m over the last five years).

EUR m	Phase I					Phase II					Phase III
	2018p	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	65.3	70.7	76.5	83.0	90.0	97.1	104.1	111.0	117.9	124.8	
<i>growth rate</i>	7.6%	8.2%	8.3%	8.5%	8.5%	7.8%	7.2%	6.7%	6.2%	5.8%	
EBIT	6.1	6.8	7.4	8.4	9.3	9.9	10.6	11.2	11.9	12.5	
<i>EBIT margin</i>	9.3%	9.6%	9.7%	10.1%	10.3%	10.2%	10.2%	10.1%	10.1%	10.0%	
Tax	-1.6	-1.8	-2.1	-2.4	-2.6	-2.7	-2.8	-3.0	-3.2	-3.3	
<i>Tax rate</i>	24.0%	25.0%	26.0%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%	
Depr. & Amort.	2.2	2.5	2.5	2.5	2.5	2.8	3.0	3.3	3.5	3.7	
<i>% of sales</i>	3.4%	3.5%	3.2%	3.0%	2.8%	2.8%	2.9%	2.9%	3.0%	2.9%	
Capex	-2.3	-2.5	-2.5	-2.6	-2.6	-2.8	-3.0	-3.3	-3.5	-3.7	
<i>% of sales</i>	3.5%	3.6%	3.3%	3.1%	2.9%	2.9%	2.9%	3.0%	3.0%	3.0%	
Change in WC & P	0.2	-0.2	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	
<i>% of sales</i>	-0.3%	0.3%	0.5%	0.6%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	
Free Cash Flow	4.6	4.7	4.9	5.5	6.1	6.7	7.2	7.7	8.2	8.6	194
<i>growth rate</i>	nm	1.3%	5.7%	10.8%	11.1%	10.0%	7.5%	7.0%	6.5%	5.3%	3.0%
Present Value FCF	4.6	4.4	4.3	4.4	4.6	4.7	4.7	4.6	4.6	4.5	101

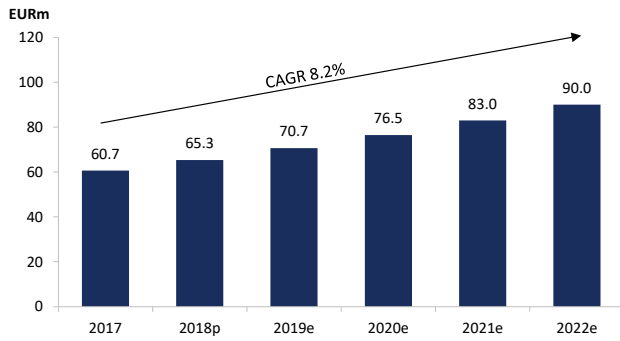
PV Phase I	22	Risk free rate	3.50%	Targ. equity ratio	75%
PV Phase II	23	Premium Equity	5.00%	Beta	1.1
PV Phase III	101	Premium Debt	2.00%	WACC	7.6%
Enterprise value	147				
- Net Debt (Cash)	-10.6				
- Pension Provisions	0				
- Minorities & Peripherals	16.0				
+ MV of financial assets	0				
- Paid-out dividends for last FY	0				
+/- Other EV items	0				
Equity value	141				
Number of shares	13.5				
Value per share (€)	10.5				
Current Price (€)	9.1				
Upside	15.0%				

Sensitivity	Growth in phase III				
	2.0%	2.5%	3.0%	3.5%	4.0%
6.81%	10.6	11.5	12.7	14.2	16.2
7.19%	9.8	10.5	11.5	12.7	14.2
WACC 7.57%	9.1	9.7	10.5	11.4	12.7
7.95%	8.4	9.0	9.6	10.4	11.4
8.33%	7.9	8.4	8.9	9.6	10.4

Source: Pareto Securities

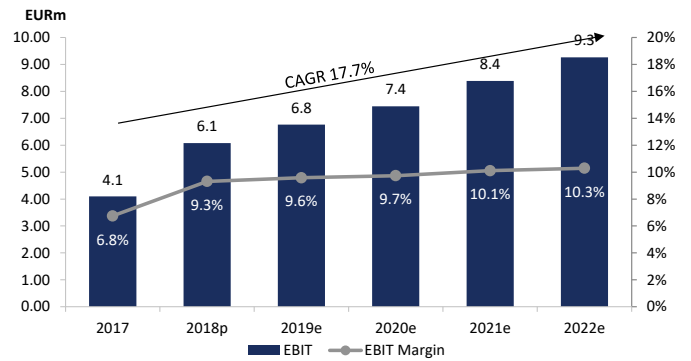
Investment case in charts

Exhibit 1: We expect a steady sales growth...



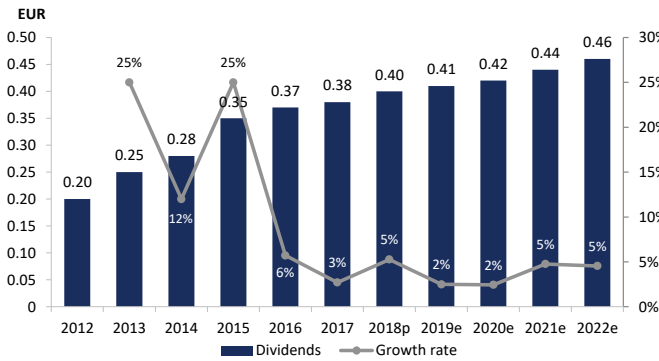
Source: SYZYGY, Pareto

Exhibit 2: ... and a gradual stabilisation of the margin at 10%



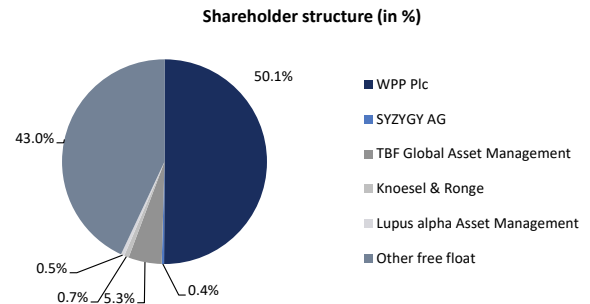
Source: SYZYGY, Pareto

Exhibit 3: Continuous dividend growth...



Source: SYZYGY, Pareto

Exhibit 4: ...and limited downside due to takeover potential



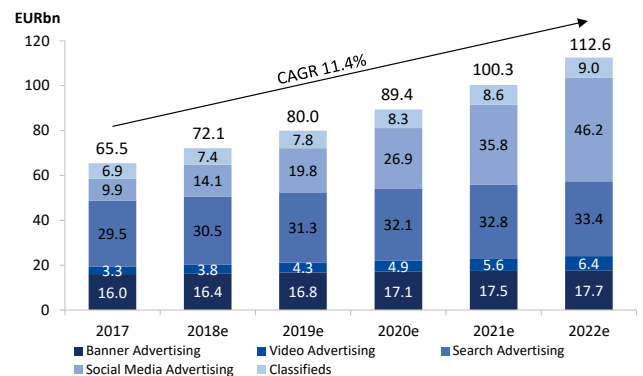
Source: FactSet, Pareto

Exhibit 5: A three pillar business model...

Strategy	Product	Marketing
Business Consulting Research & Innovation Data Science Content & Media Brand & Purpose Team Enablement	Experience Design Service Design Frontend Technology UI Architecture / Build Backend Technology Platform Architecture & Build	Campaigns Creative Production SEO Paid Media Social Media Creative Technology AR & VR

Source: SYZYGY, Pareto

Exhibit 6: ...in a growing German Digital Advertising market



Source: Statista, Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018p	2019e	2020e
Revenues	35	47	57	64	61	65	71	76
EBITDA	3	5	7	7	6	8	9	10
Depreciation & amortisation	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
EBIT	2	4	5	6	4	6	7	7
Net interest	1	1	1	1	0	1	1	0
Other financial items	1	1	1	1	1	-	-	-
Profit before taxes	4	6	7	7	6	7	7	8
Taxes	(1)	(1)	(2)	(2)	(1)	(2)	(2)	(2)
Minority interest	0	0	(0)	(0)	1	(0)	(0)	(0)
Net profit	3	4	5	5	5	5	5	6
EPS reported	0.26	0.35	0.37	0.39	0.39	0.36	0.40	0.43
EPS adjusted	0.26	0.35						
DPS	0.25	0.28	0.35	0.37	0.38	0.40	0.41	0.42
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018p	2019e	2020e
Tangible non current assets	2	3	3	2	6	7	7	7
Other non-current assets	20	26	26	35	60	60	60	60
Other current assets	37	42	22	22	22	23	24	25
Cash & equivalents	7	13	27	22	16	16	18	17
Total assets	66	83	78	81	105	106	108	108
Total equity	49	51	51	50	56	56	56	56
Interest-bearing non-current debt	3	7						
Interest-bearing current debt	-	-						
Other Debt	14	26	8	8	8	9	9	9
Total liabilities & equity	66	83						
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018p	2019e	2020e
Cash earnings	4	10	5	7	4	8	8	8
Change in working capital	(2)	4	(8)	(1)	0	0	(0)	(0)
Cash flow from investments	3	(5)	(3)	2	(4)	(2)	(3)	(3)
Cash flow from financing	(4)	(4)	(4)	(5)	(0)	(5)	(4)	(6)
Net cash flow	1	6	(9)	3	0	0	1	(1)
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018p	2019e	2020e
Share price (EUR end)	5.1	6.4	8.8	11.6	11.3	8.0	9.0	9.0
Number of shares end period	13	13	13	13	14	14	14	14
Net interest bearing debt	(7)	(10)	(27)	(22)	(10)	(11)	(12)	(11)
Enterprise value	58	71	86	126	141	98	110	111
EV/Sales	1.7	1.5	1.5	2.0	2.3	1.5	1.6	1.4
EV/EBITDA	21.0	14.1	11.6	17.1	22.9	11.8	11.9	11.2
EV/EBIT	28.8	18.5	16.2	22.5	34.5	16.1	16.3	14.9
P/E reported	19.4	18.3	24.1	29.7	29.2	22.5	22.8	21.2
P/E adjusted	20.0	18.3						
P/B	1.3	1.6	2.2	3.0	2.7	1.9	2.2	2.2
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018p	2019e	2020e
ROE adjusted (%)		8.8						
Dividend yield (%)	4.9	4.4	4.0	3.2	3.4	5.0	4.5	4.7
EBITDA margin (%)	7.9	10.8	12.9	11.5	10.2	12.7	13.1	13.0
EBIT margin (%)	5.8	8.2	9.2	8.7	6.8	9.3	9.6	9.7
NIBD/EBITDA	(2.38)	(1.90)	(3.62)	(2.97)	(1.68)	(1.29)	(1.26)	(1.10)
EBITDA/Net interest	-	-						

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Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5% of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,842,964	18.50%	Sparebanken Vest	4,506,060	7.63%

Pareto Securities AS or its affiliates own as determined in accordance with Section 13(d) of the US Exchange Act, 1% or more of the equity securities of:

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1Østfold Akersl	1,129,560	9.12%
NHST Media Group AS	21,475	1.85%	Sparebanken Møre	311,739	3.15%
Pareto Bank ASA	10,842,964	18.50%	Sparebanken Sør	460,589	2.94%
Selvaag Bolig ASA	2,174,147	2.32%	Sparebanken Vest	4,506,060	7.63%
SpareBank 1BV	1,549,440	2.46%	Totens Sparebank	78,246	1.28%
SpareBank 1SMN	1,879,292	1.45%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Grieg Seafood	0	770	Prosafe	0	5,984
Aker	0	514	Helgeland Sparebank	0	1,700	Protector Forsikring	0	14,685
Aker BP	0	5,420	Høegh LNG	0	7,203	REC Silicon	0	159,249
Aker Solutions	0	1,825	Jæren Sparebank	0	500	SailMar	0	130
AKVA Group	0	1,500	Komplett Bank	0	99,934	Sandnes Sparebank	0	17,282
Archer	0	73,520	Kongsberg Gruppen	0	5,901	Scatec Solar	0	35,635
Atea	0	450	KWS Saat	15	15	Seadrill	0	7,384
Austevoll Seafood	0	5,780	Lerøy Seafood	0	33,795	Selvaag Bolig	0	5,000
Avance Gas	0	34,095	Mageis Fairfield	0	12,879	SpareBank 1BV	0	10,000
Axactor	0	15,933	Monobank	0	1,355,000	SpareBank 1Nord-Norge	0	30,000
Bonheur	0	45,209	Mowi	0	1,864	SpareBank 1SMN	0	16,590
Borr Drilling	0	4,415	NEXT Biometrics	0	2,621	SpareBank 1SR-Bank	0	39,187
BWLPG	0	5,569	Nordic Semiconductor	0	5,115	SpareBank 1Østlandet	0	4,041
DNB	0	35,072	Norsk Hydro	0	113,571	Sparebanken Møre	0	6,550
DNO	0	28,392	Northern Drilling	0	4,060	Sparebanken Sør	0	43,280
DOF	0	138,498	Norwegian Air Shuttle	0	3,264	Sparebanken Øst	0	3,000
Entra	0	14,362	Norwegian Property	0	150,000	Storebrand	0	5,005
Equinor	0	10,101	Ocean Yield	0	32,047	Subsea 7	0	9,001
Europpris	0	14,510	Odfjell Drilling	0	8,731	Telenor	0	2,272
Faroe Petroleum	9,600	9,600	Orkla	0	23,746	TGS-NOPEC	0	2,050
Flex LNG	0	13,677	Panoro Energy	0	5,670	XXL	0	10,546
Frontline	0	14,043	Pareto Bank	0	967,091	Yara International	0	19,786
Gjensidige Forsikring	0	8,547	Petroleum Geo-Services	0	60,134	Zenterio	0	78,865
Golden Ocean Group	0	1,824						

This overview is updated monthly (last updated 17.01.2019).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Africa Energy	Floatel	Panoro Energy
Akva Group	Fortum	Pareto Bank
APC Forsikringsmæglere A/S	Gfinity Plc	PetroMatad Limited
Arnarlax	Gulf Keystone Petroleum	Petroleum Geo-Services
Atlantic Sapphire AS	Hertha BSC GmbH	Pioneer Public Properties Finland Oy
Avida Holding AB	Hunter Group	Point Resources AS
Bank Norwegian	Instabank	Quant AB
Bluewater Holding	Jactel AS	Rødovre Port Holding A/S
Borealis Finance	Klavness Ship Holding	Sakti Global Auto Holdings
Borr Drilling Limited	Magseis	Sand Hill Petroleum
Brado AB	McDermott International	SAS
Camanchaca	Monobank ASA	Scatec Solar
DNO ASA	Nemaska Lithium	Scorpio Tankers
DOFASA	Northern Drilling	Shamaran
Dof Subsea AS	Northmill Group AB	Siccar Point Energy
Echo Energy	Norwegian Air Shuttle	SL Bidco
Eco Atlantic Oil and Gas	Ocean Yield	Sparebank 1 Østlandet
Eidesvik Offshore	Odfjell	SpareBank 1 Buskerud-Vestfold
Eland Oil & Gas	Odfjell Drilling	Sparebanken Vest
FFS Bidco	Okea AS	Union Maritime Limited
Filo Mining Corp	Okeanis Eco Tankers	Vantage Drilling
Flex LNG	Pandion Energy	

This overview is updated monthly (this overview is for the period 31.12.2017 – 31.12.2018).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	73%
Hold	23%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	91%
Hold	9%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 17.01.2019).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Aspire	Green Landscaping Holding	Powercell	Sedana Medical
Azelio	Jetpak Top Holding AB	Magnolia Bostad	ShaM aran Petroleum
Cibus Nordic Real Estate	Lehto Group	Scibase	Vostok New Ventures

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universes:

Byggmästare Anders J Ahlström	Cibus Nordic Real Estate	Saltängen Property Invest	ShaM aran Petroleum
Byggpartner i Dalarna	Delarka Holding	SciBase Holding	Tethys Oil
Cavotec	Isofol Medical	Sedana Medical	Vostok Emerging Finance

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 15.01.2019).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Freenet	MLP *	Siemens Healthineers AG
Aixtron *	Gesco *	MOBOTIX AG	SMT Scharf AG *
Baywa	GFT Technologies *	MTU Aero Engines	Surteco Group *
Biotest *	Gigaset *	OVH Holding AG	Syzygy AG *
Brenntag	Heidelberg Pharma *	Procredit Holding *	TAKKT AG
CORESTATE Capital Holding S.A.	Hypoport AG	PSI SOFTWARE AG *	Vapiano
Daldrup & Soehne *	Intershop Communications AG	PWO *	va-Q-tec *
Demire	Logwin *	RIB Software *	Viscom *
Epigenomics AG*	Manz AG *	S&T AG *	windeln.de
Euromicron AG *	MAX Automation SE *	Schaltbau Holding AG	
Eyemaxx Real Estate	Merkur Bank	SCOUT24	

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	Hypoport AG	OHB SE	Vapiano
Baywa	Intershop Communications AG	OVH Holding AG	
BB Biotech	Merkur Bank	Schaltbau Holding AG	
Eyemaxx Real Estate	MOBOTIX AG	Siegfried Holding AG	

This overview is updated monthly (last updated 17.01.2018).