

Q2 2017 RESULTS

Investment thesis

- Geberit is a best-in-class company and offers an attractive business model with high entry barriers, strong pricing power and very healthy margins, resulting in attractive free cash generation and supported by a strong balance sheet.
- Geberit's acquisition of Sanitec in 2015, a leading producer and supplier of bathroom ceramics in Europe, strengthens Geberit's access to end consumers and makes it the leader in the sanitary products industry. The integration of Sanitec is well on track, with the majority of the targeted synergies of EUR45m achieved earlier than expected. We expect Geberit to realise further sales and cost synergies from the continued harmonisation and optimisation of business processes, systems and tools, which should provide upside potential to growth and profitability.
- The outlook for construction markets in Geberit's main region Europe remains benign, which, along with product innovation and last year's comprehensive marketing activities, should support growth and profitability, and help to at least partly offset headwinds from high raw material costs.

Q2 sales

- Net sales fell 3.8% y/y to CHF732m, 2% below consensus, including an organic decline of 0.8% y/y. According to management, the main reason for the organic decline was three working days less compared to the prior-year quarter, which represents a 5% impact. When adjusted for working days, the adjusted organic sales growth was therefore ca. 4% y/y, which we regard solid. Management also noted that while June was relatively weak, July has been a relatively good sales month.
- By region, the sales miss was mainly driven by the organic decline of 0.9% y/y in H1 (no disclosure by quarter) in the key market Germany, which was due to a tough comparison base, the lack of installers which continues to limit market growth and the trend to low-cost multi-family dormitories (partly due to refugees), a market where Geberit is less exposed.

Q2 profits

- Adjusted EBITDA fell 7.1% y/y to CHF216m, 6% below consensus, implying a margin contraction of 110bps y/y to 29.5%, on higher raw material prices and staff costs.
- EBIT fell 31.5% y/y to CHF134m, 9% below consensus, affected by one-off restructuring costs of CHF44m related to the closure of two ceramic production plants in France, which was announced on 12 July.

Management guidance

- For 2017, management reiterated its view of an overall favourable development in construction industries although with different performance levels by individual markets and stated that it expects organic sales growth of 3%-4% y/y (vs. consensus of ca. +5% y/y) and an adjusted EBITDA margin of ca. 28% (vs. consensus of ca. 28.5%). While momentum in Q2 poses downside risks to consensus forecasts, this, however, should be largely offset by a better currency impact and some improvement in H2 (e.g. peak of the raw material price pressure passed).

Stock rating (relative)	Buy
New price target	CHF 500.00
Previous price target	CHF 500.00
Closing price	CHF 451.40
Return potential	10.77%
MSCI ESG rating*	AA
MSCI ESG Controversies**	●
Risk rating	Medium

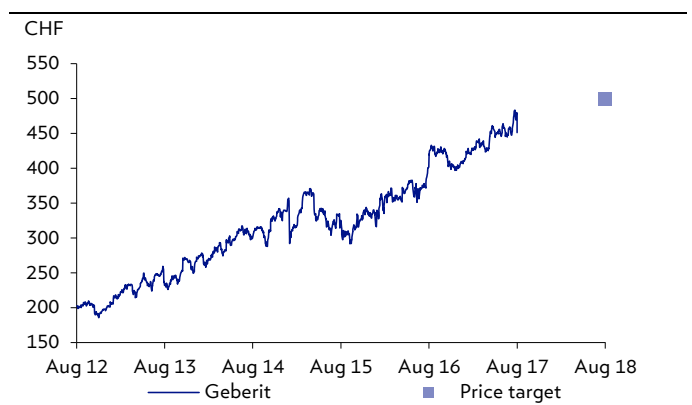
* as of 31 July 2017

** Green

Company profile

Geberit is the European market leader in sanitary systems and piping solutions with a global presence. Following the acquisition of Sanitec, a leading producer and supplier of bathroom ceramics in Europe, Geberit has expanded its product portfolio from behind-the-wall bathroom products and piping systems to front-of-the-wall bathroom products.

Performance



	1 month	3 months	6 months	12 months
Absolute return	-1.74%	1.21%	5.74%	7.63%

Source: FactSet, Julius Baer

SWOT ANALYSIS

Strengths

- Dominant position in most of its markets with excellent brand loyalty
- Strong focus on innovation
- Strong financial situation, with a solid growth profile, above sector-average profitability, a strong balance sheet and cash-flow generation

Weaknesses

- Concentration risk given the high exposure to Europe
- Exposure to volatile commodity prices
- Distribution through wholesalers in the legacy business may result in pricing risk from wholesalers (although this has not been the case in the past given Geberit's high customer loyalty)

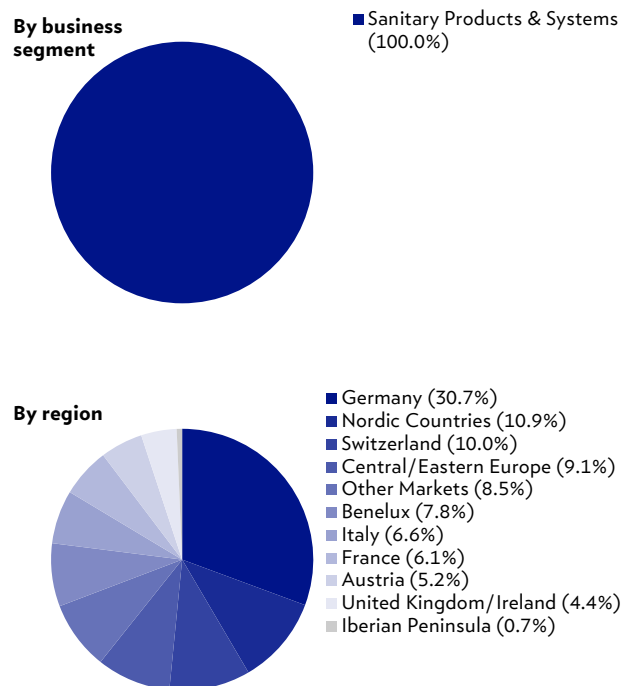
Opportunities

- Organic growth prospects from new products like Aqua Clean
- High barriers to entry in Geberit's sanitary technology business as the key customers are the plumbers, who have to provide multi-year warranties on their work
- Acquisition of Sanitec, a leading producer and supplier of bathroom ceramics in Europe, will strengthen Geberit's access to end consumers and help broaden its business profile

Threats

- Downturn in residential and non-residential construction markets in Europe
- Competition from private label manufacturers
- Risk of a less defensive business profile as a result of the acquisition of Sanitec which increases exposure to the more volatile end-consumers market

Sales segmentation (FY 2016)



Source: FactSet

FACTS & FIGURES

Consensus rating

Buy	Hold	Sell
2 analyst(s)	9 analyst(s)	1 analyst(s)
Consensus target (CHF)		
		436.35
Consensus target return potential (%)		
		-3.33
Market capitalisation (CHFbn)		
		16.72
Free float (%)		
		98.40
Beta		
		0.77
Average Daily volume (m)		
		0.11
52-week high (CHF)		
		483.40
52-week low (CHF)		
		397.00
Exchange		SIX Swiss Exchange
Ex-dividend date		7 April 2017
Results date		31 October 2017
Standard & Poor's rating		A+
ISIN		CH0030170408

Financials

	2015	2016	2017E*	2018E*
Sales (CHFm)	2,594	2,809	2,909	3,059
EBIT (CHFm)	498	660	695	762
EBIT Margin (%)	19.21	23.48	23.88	24.91
EV/EBITDA (x)	21.42	19.60	20.82	19.10
Adjusted EPS (CHF)	13.21	15.84	16.60	17.80
EPS growth (%)	-0.68	19.91	4.83	7.18
P/E (x)	24.96	24.14	27.19	25.36
P/B (x)	8.47	9.19	-	-
Dividend yield (%)	2.47	2.45	2.36	2.56
Net debt/equity (%)	45.82	28.19	-	-

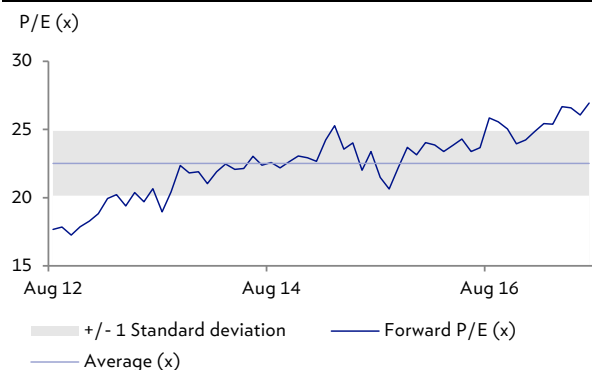
* Estimates

- Implies not available/not meaningful

Source: FactSet

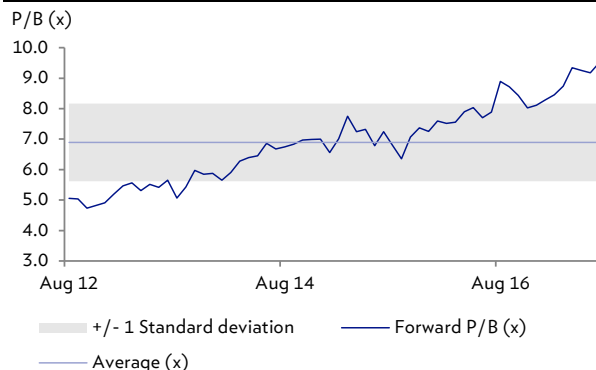
CHARTS & FINANCIAL DETAILS

12-month forward P/E (Aug 2012 - present)



Source: FactSet

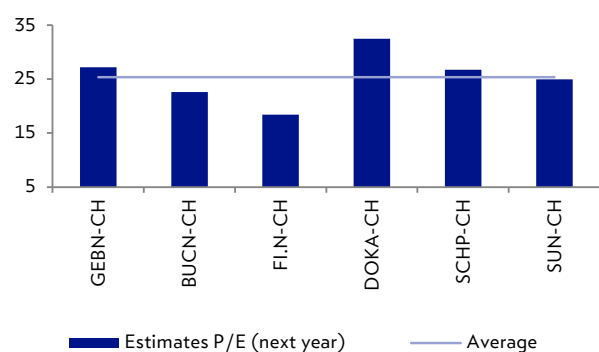
12-month forward P/B (Aug 2012 - present)



Source: FactSet

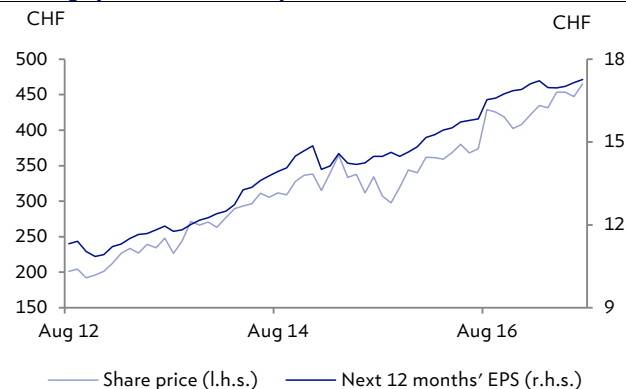
Peer valuation

Estimates P/E (next year)



GEBN-CH-Geberit, BUCN-CH-Bucher Industries, FI.N-CH-Georg Fischer, DOKA-CH-dormakaba, SCHP-CH-Schindler, SUN-CH-Sulzer,
Source: FactSet

Earnings per share versus performance



Source: FactSet

Valuation ratios (x)

	2014	2015	2016	2017E*	2018E*
P/E	22.61	24.96	24.14	27.19	25.36
P/B	7.39	8.47	9.19	-	-
P/S	4.63	4.71	5.04	5.75	5.47
P/CF	19.51	20.08	19.84	23.26	20.82
EV/EBITDA	18.34	21.42	19.60	20.82	19.10
EV/EBIT	20.89	27.17	23.62	24.65	22.39
Dividend yield (%)	2.45	2.47	2.45	2.36	2.56

* Estimates

- Implies not available/not meaningful

Source: FactSet

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CAGR	Compound annual growth rate	Consensus rating	Consensus rating indicates the analysts' opinions on the security. It shows the number of analysts covering the security and the breakdown between Buy, Hold and Sell ratings.	Consensus target	The consensus target is the average price to which analysts expect the security to rise.
DCF	Discounted cash flow	EBIT	Earnings before interest and taxes	EBITDA	Earnings before interest, taxes, depreciation and amortisation
EPS	Earnings per share	EV	Enterprise value	FCF	Free cash flow
FY	Fiscal year	MV	Market value	P/B	Price-to-book value
P/CF	Price to cash flow	P/E	Price-to-earnings ratio	P/S	Price to sales
PEG	P/E divided by year-on-year EPS growth	ROA	Return on Assets	ROE	Return on equity

Equity rating allocation as of 18/8/2017

Buy	29.2%	Hold	67.3%	Reduce	3.5%
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Equity rating change history as of 18/8/2017

Company	Rating	History
Bucher Industries	Hold (initiation of coverage)	Since 17/12/2012
dormakaba	Hold	Since 9/3/2017
	Buy (initiation of coverage)	Since 16/12/2014
Geberit	Buy	Since 14/1/2016
Georg Fischer	Hold	Since 25/11/2016
	Buy (initiation of coverage)	Since 14/3/2005
Schindler	Hold	Since 20/5/2009
Sulzer	Hold	Since 13/11/2006

Rating system for global Equity Research

Buy	Expected to outperform the regional industry group by at least 5% in the coming 9–12 months, unless otherwise stated.
Hold	Expected to perform in line ($\pm 5\%$) with the regional industry group in the coming 9–12 months, unless otherwise stated.
Reduce	Expected to underperform the regional industry group by at least 5% in the coming 9–12 months, unless otherwise stated.

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Flag	Flag description
●	A red flag indicates recent very serious and/or extremely widespread controversies on a particular issue. Such a flag is also assessed when the problems are systemic or repetitive or indicate wilful negligence.
●	An orange flag indicates ongoing severe controversies on a particular issue when the problems are systemic or repetitive.
●	A yellow assessment indicates significant concern, where the impact on the relevant stakeholders is high.
●	No evidence of major and/or systematic problems.

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