

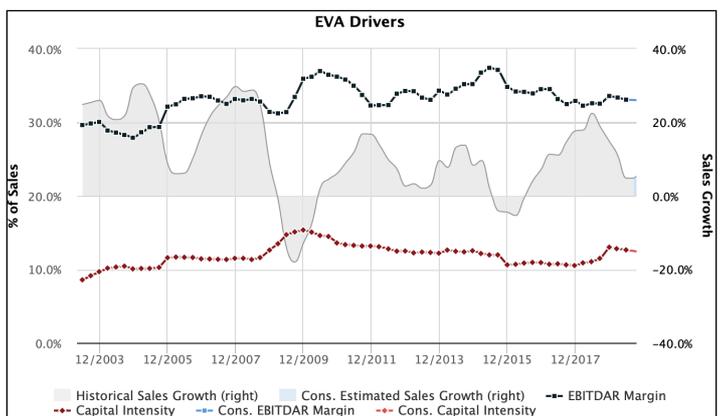
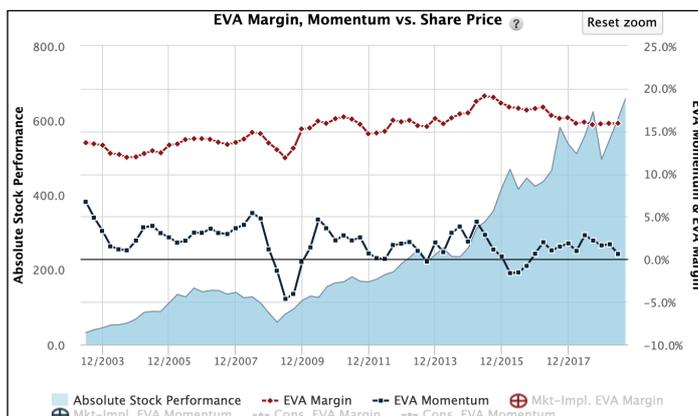
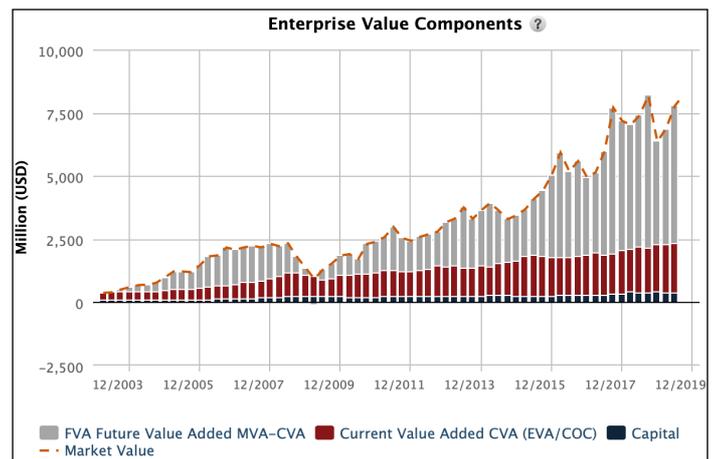
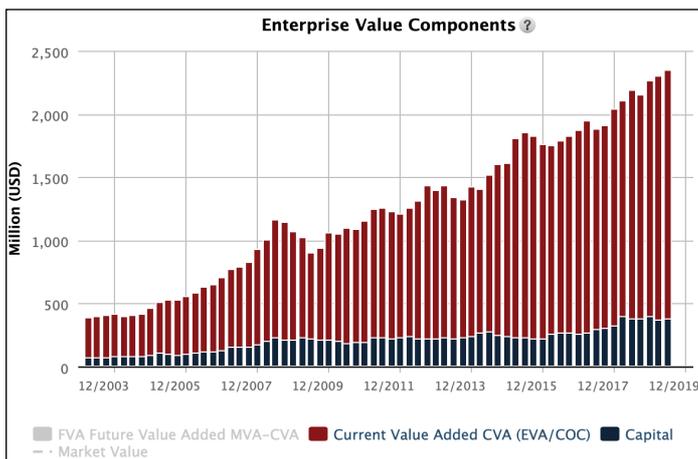
**Rational AG (RAA GR)**

Sept 23rd, 2019

<b>Moat Category</b> Capital-Light Compounder	<b>Fair Value Estimate</b> -	<b>Price</b> \$724.50	<b>Enterprise Value</b> \$8.2bn
<b>Moat Type</b> Intangible Assets - Brand Cost Adv - Scale + Distribution	<b>Economic Moat</b> Wide	<b>Stewardship Rating</b> -	<b>Market Cap</b> \$8.2bn

**What does it do:** "Rational AG makes and distributes cooking appliances used in professional kitchens. The company produces self-cooking appliances that use steam, hot air, or liquids to heat food combining conventional cooking systems, allowing for an automated meal-preparation process. The customers include restaurants, hotels, large-scale catering operations, and quick-service providers. Rational's

segments are reported as: DACH (Germany, Austria, Switzerland), EMEA (Europe, Middle East, Africa), Americas (North and Latin America) and Asia. Their core market is Europe, generating more than half of total sales revenue." (Source: Morningstar)



Source: www.evaexpress.com

## Past 10-year performance metrics

Profitability		RAA GR's exceptionally strong return on capital and its outstanding rate, 94th percentile f								
		2011TFQ2	2012TFQ2	2013TFQ2	2014TFQ2	2015TFQ2	2016TFQ2	2017TFQ2	2018TFQ2	2019TFQ2
1	Sales	509	559	571	646	656	652	725	887	930
2	EBITDAR (EBITDA+Rent+R&D+Ad+Etc)	178	181	190	223	245	223	240	289	308
3	NOPAT (Net Operating Profit After Tax)	101	103	107	129	146	134	143	171	179
4	Capital (Net Operating Assets)	233	223	220	273	227	265	290	379	376
5	Return on Capital (ROC) (NOPAT/Capital)	49.0%	45.6%	48.7%	53.2%	60.6%	57.0%	53.8%	50.2%	47.2%
6	Cost of Capital (COC)	8.5%	8.5%	8.1%	9.0%	8.5%	7.9%	7.9%	8.2%	8.2%
7	EVA (ROC-COC) x Capital)	84	84	89	107	126	115	122	143	148
9	EVA Spread (EVA/Capital = ROC-COC)	40.5%	37.1%	40.6%	44.3%	52.1%	49.0%	45.9%	42.0%	39.1%
10	EVA Margin (EVA/Sales)	16.4%	15.0%	15.7%	16.6%	19.1%	17.7%	16.9%	16.1%	15.9%
11	EBITDAR Margin (EBITDAR/Sales)	35.0%	32.4%	33.4%	34.6%	37.4%	34.1%	33.2%	32.6%	33.1%
12	Sales Growth	12.1%	9.9%	2.1%	13.2%	1.5%	-0.5%	11.1%	22.4%	4.8%
13	EVA Momentum ( $\Delta$ EVA/Sales)	2.2%	0.1%	1.0%	3.1%	2.9%	-1.5%	1.0%	2.8%	0.6%
14	EVA Momentum ( $\Delta$ EVA/Capital)	4.9%	0.1%	2.4%	8.0%	7.7%	-4.2%	2.9%	7.7%	1.6%
15	3 Year Trend ( $\Delta$ EVA/Capital)	2.0%	4.9%	2.2%	3.5%	6.2%	4.1%	1.5%	2.4%	4.2%
16	Last Quarter ( $\Delta$ EVA/Capital)	5.1%	3.6%	-6.2%	16.8%	1.2%	2.8%	-6.7%	13.1%	-0.1%

Source: [www.evaexpress.com](http://www.evaexpress.com)

Figures in USD millions.

### Wide Moat Checklists

Competitive Strengths	Does RAA have it?	Evidence
Product or service is needed or desired (and will continue to do so)	<input checked="" type="checkbox"/>	Commercial cooking appliances is at the core of many establishments such as restaurants, hotels and large-scale catering companies.
Product is perceived by its customers to have no close substitute	<input type="checkbox"/>	Rational is in a highly competitive market with players all over the world competing internationally. Rational's largest geographic segment is Europe. Its presence in North America is growing, intensifying competition in the continent.
Product is not subject to price regulation	<input checked="" type="checkbox"/>	The industry is moderately regulated, mainly regarding environmental and health-and-safety concerns. The industry is not price regulated.
Strong barriers to entry	<input checked="" type="checkbox"/>	Prospective entrants would have to incur many challenges to enter the market. The industry requires substantial start-up costs, from purchasing land and raw materials, to costly machinery and hiring skilled labour. These initial outlays pose a great risk for new competitors. Existing players produce a variety of goods, and new participants would be forced to limit their product range in order to stay afloat. Rapidly changing technology is another barrier that new entrants would have to face. They must make sure they maintain a high degree of expertise in order to stay competitive. Players compete on the basis of design, brand recognition, reliability, durability, energy efficiency, price, after-sale service and timeliness of delivery. It can take a long time for new entrants to develop customer relations and create a sense of familiarity among clients.
Loyal customers	<input checked="" type="checkbox"/>	Rational claims that 96% of its customers say they would recommend Rational products to their peers. Rational has built a 40+ year old brand that stands for superior quality, energy efficiency and space-saving.
Low risk of technological obsolescence	<input type="checkbox"/>	There is a moderate risk of technological obsolescence. The industry is increasingly moving towards environmentally friendly ways to heat, prepare, and clean food in kitchens, with greater efficiency.
Abundant growth possibilities	<input checked="" type="checkbox"/>	Rational states several positive megatrends, including increasing purchasing power in developing countries, demand for healthier nutrition, a rising eat-out trend, and increasing pressure on customers to become more energy efficient. Moreover, number of hotels and restaurants, two of Rational's main clients, are expected to grow in developing nations.
Limited capital requirements	<input checked="" type="checkbox"/>	Capital requirements are limited in the industry. Labour costs are rising.
Significant and growing free cash flows (and EVAs)	<input type="checkbox"/>	More evidence required.