

Theon International

Delivering the acquisition strategy

Theon has acquired German-based Kappa Group, a specialist optoelectronics business offering rugged and high-tech application for defence and niche applications. This will broaden Theon's technology and application suite and is in line with the acquisition strategy, offering additional capabilities, whereas Harder Digital, acquired in 2024, brought key image intensifier tube components.

Year end	Revenue (€m)	PBT (€m)	EPS (EUc)	DPS (EUc)	P/E (x)	Yield (%)
12/23	218.7	49.9	-	0.00		N/A
12/24	352.4	86.7	98.00	34.00	25.4	1.4
12/25e	430.0	105.2	114.00	39.90	21.8	1.6
12/26e	523.4	130.4	141.00	49.35	17.7	2.0

Note: PBT and EPS are normalised, excluding exceptional items and share-based payments.

Acquisition to expand optronics capabilities

Theon is buying Kappa Optronics GmbH (KAPPA), a German-based specialist in aviation and land optronics. KAPPA claims it 'leads in compliance, certification, and validation, delivering the safest, most robust, and highly efficient vision systems for defense mobility and autonomous machines on the ground and in the air'. KAPPA provides design and low capital intensity assembly for specialist vision systems. Its product portfolio includes aerospace cameras and vision systems for a range of applications from inspection to unmanned aircraft navigation, while on land for military vehicle driver vision enhancement and situational awareness solutions as well as inspection systems for high-calibre gun barrels. Other applications include digital cameras for automotive. KAPPA is forecast to generate revenues of at least €37m and EBITDA of approximately €8m (EBITDA margin c 22%) for FY25. Management commented that it expects to improve operating margins to Theon levels, c 25%, in the short term. Theon is paying an Enterprise Value of €75m, to be financed from cash resources and debt (net cash at the end of H1 was €38m). On FY25 forecasts, this translates to EV/sales of 2.0x or EV/EBITDA of 9.1x before any synergy benefits. We expect more details with the capital markets event in Q4.

Forecasts

We have increased our FY25 sales expectation in line with the earlier management guidance of 'top end of range', but have not changed any profit numbers, reflecting the change in accounting announced with the H1 update and the seasonal importance of Q4. We have not included KAPPA for FY25 as the timing of completion is uncertain. However, we have included a full year contribution for FY26 pre synergy benefits. We estimate FY25 sales of €430m (+2.4%), with PBT and EPS unchanged. For FY26, we estimate sales of €523m (+8.4%), PBT of €130.4m (+5.4%) and EPS of 141c (+6.0%). Note that management has stated it will provide FY26 guidance by end October.

Valuation: Increased by 20%

We have updated our peer-based valuation (using specialist optronics companies and broader defence groups) to €32.5 a share, up from €28.8 (last updated 29 April), reflecting the re-rating seen in the defence sector and the KAPPA deal. Our DCF valuation comes to €32.1 a share (WACC 8%, long-term growth rate 3%).

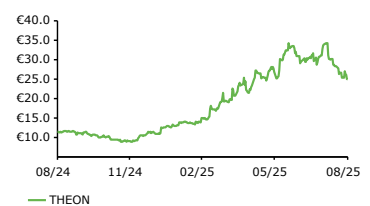
Acquisition of Kappa Group

Aerospace and defence

11 August 2025

Price	€24.90
Market cap	€1,827m
Net cash at 30 June	€38.1m
Shares in issue	70.0m
Code	THEON
Primary exchange	AEX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(16.1)	(5.7)	130.3
52-week high/low		€35.0	€8.5

Business description

Theon International develops and manufactures customisable night vision and thermal imaging systems, primarily for military and security applications. These optoelectronic devices are developed for both man-portable and platform applications.

Next events

H1 results	2 September 2025
Q3 update	3 November 2025
Capital markets event	Q425

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Forecasts

We have increased our FY25 sales expectation in line with the earlier management guidance of top end of the range of €410–430m. We have not changed any profit numbers despite H1 being ahead of the mid 20s margin guidance. This reflects the change in accounting for equity investments and the seasonal importance of Q4, and we expect to revisit our forecasts either with the full H1 results or after the Q3 update. We have not included KAPPA for FY25 as the timing of clearances and hence completion is uncertain. However, we have included a full year contribution for FY26 before synergy benefits. This should prove conservative given management's comments on being able to achieve similar margins to Theon's core activities (we estimate c 500bp upside) in the short term.

Exhibit 1: Forecast changes (€m)

	2025e			2026e		
	Old	New	Change	Old	New	Change
Revenues	420	430	2.4%	483	523	8.4%
Normalised operating profit	105	105	0.0%	124	132	7.0%
Normalised operating profit margin	24.2%	24.5%	0.3%	24.8%	25.3%	0.5%
Normalised PBT	105	105	0.0%	124	130	5.4%
Normalised basic EPS (c)	114	114	0.0%	133	141	6.0%
Dividend per share (c)	40	40	0.0%	47	49	6.0%
Net debt/(cash)	(65)	9	N/A	(103)	(40)	-60.9%

Source: Edison Investment Research

Valuation

We have updated our key peer group valuation. This reflects the positive revaluation of defence related stocks seen in recent months as well as the upgrade to forecasts for Theon post the KAPPA deal. Our valuation comes to €32.5 per share (€34.0 using specialist optonics peers and €31.0 using a broader defence-exposed peer group).

Exhibit 2: Peer group valuation

	Currency	Share price	Market cap	EV/EBIT (x)			EV/EBITDA (x)			P/E (x)		
				Local	€m	2025	2026	2027	2025	2026	2027	2025
Enhanced vision systems peers												
Elbit Systems	ILS	148,070	17,956	104.4	83.9	71.3	80.4	64.4	63.0	133.1	106.5	99.0
Hensoldt	EUR	99	11,719	36.3	28.7	23.1	24.8	20.6	17.2	57.0	44.6	35.3
L3Harris	USD	270	43,794	19.7	17.9	17.1	15.9	14.9	14.2	25.7	22.1	19.6
Exosens	EUR	39	2,030	21.1	18.7	16.6	16.4	14.5	12.9	24.8	21.0	18.8
Teledyne	USD	547	22,255	22.7	21.1	19.6	19.0	17.4	16.4	25.5	23.0	21.1
Average				40.8	34.1	29.5	31.3	26.4	24.7	53.2	43.4	38.8
Median				22.7	21.1	19.6	19.0	17.4	16.4	25.7	23.0	21.1
THEON EBIT (€m)/EBITDA (€m)/EPS (€)				105	132	129	116	146	144	114	141	138
Enterprise valuation (€m)				2,391	2,796	2,523	2,204	2,537	2,358			
Cash/(debt) (€m)				(9)	40	91	(9)	40	91			
THEON equity valuation (€m)				2,382	2,836	2,614	2,195	2,577	2,448			
THEON valuation (€ per share)				34.0	40.5	37.3	31.4	36.8	35.0	29.3	32.4	29.1
Specialist defence companies												
Avon Technologies	GBP	2,110	750	19.2	16.0	14.1	15.0	12.0	11.3	26.2	19.5	17.0
Cadre Holdings	USD	34	1,195	17.0	14.6	13.3	12.2	10.9	9.8	27.3	23.5	22.2
Chemring	GBP	549	1,757	20.1	17.4	14.2	15.6	13.5	11.3	28.0	24.0	19.4
Cohort	GBP	1,564	859	20.8	17.9	15.6	16.5	14.4	12.8	26.3	23.5	21.1
DroneShield	AUD	3	1,691	74.6	48.0	33.9	64.4	41.4	27.3	91.1	69.5	44.6
Invisio	SEK	325	1,370	37.4	27.2	22.0	31.5	23.7	19.5	50.2	37.1	30.0
QinetiQ	GBP	506	3,225	12.5	11.7	10.7	9.0	8.3	7.8	16.4	14.5	13.2
RENK	EUR	72	7,315	33.6	27.0	21.9	27.8	22.6	18.5	51.1	39.0	30.8
Average				29.4	22.5	18.2	24.0	18.4	14.8	39.6	31.3	24.8
Median				20.8	17.9	15.6	16.5	14.4	12.8	28.0	24.0	22.2
THEON EBIT (€m)/EBITDA (€m)/EPS (€)				105	132	129	116	146	144	114	141	138
Enterprise valuation (€m)				2,184	2,371	2,007	1,911	2,101	1,841			
Cash/(debt) (€m)				(9)	40	91	(9)	40	91			
THEON equity valuation (€m)				2,175	2,411	2,098	1,902	2,141	1,931			
THEON valuation (€ per share)				31.1	34.4	30.0	27.2	30.6	27.6	31.9	33.8	30.6

Source: Edison Investment Research, LSEG Data & Analytics consensus (at 4 August 2025)

We have also revised our discounted cash flow valuation. Exhibit 3 provides a valuation per share relative to the cost of capital (WACC) and long-term or terminal growth rate assumptions. Our expectation is for 3% terminal growth and a

Distributed by London South East

WACC of 8%, giving a valuation of €32.1 per share.

Exhibit 3: DCF valuation per share (€)

		Terminal growth rate				
		1%	2%	3%	4%	5%
WACC	12%	15.6	16.7	18.1	19.8	22.0
	11%	17.1	18.5	20.3	22.5	25.6
	10%	19.0	20.8	23.1	26.2	30.5
	9%	21.3	23.7	26.8	31.3	38.0
	8%	24.3	27.5	32.1	39.0	50.4
	7%	28.2	32.9	40.0	51.8	75.3
	6%	33.8	41.1	53.2	77.3	149.9

Source: Edison Investment Research

Exhibit 4: Financial summary

€m	2022	2023	2024	2025e	2026e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	142.9	218.7	352.4	430.0	523.4
Cost of Sales	(92.7)	(148.5)	(243.2)	(291.1)	(350.7)
Gross Profit	50.2	70.2	109.2	138.9	172.7
EBITDA	41.7	57.2	89.4	115.8	145.5
Normalised operating profit	40.2	55.7	86.9	105.2	132.4
Reported operating profit	40.2	55.7	86.9	105.2	132.4
Joint ventures & associates (post tax)	0.0	0.6	2.4	0.0	0.0
Net Interest	(2.5)	(6.5)	(2.6)	0.0	(2.0)
Profit Before Tax (norm)	37.8	49.9	86.7	105.2	130.4
Profit Before Tax (reported)	37.8	49.9	86.7	105.2	130.4
Reported tax	(7.8)	(13.8)	(19.3)	(24.2)	(30.0)
Profit After Tax (norm)	30.0	36.1	67.3	81.0	100.4
Profit After Tax (reported)	30.0	36.1	67.4	81.0	100.4
Minority interests	0.0	0.0	0.0	(1.5)	(2.0)
Net income (normalised)	30.0	36.1	67.3	79.5	98.4
Net income (reported)	30.0	36.1	67.4	79.5	98.4
Basic average number of shares outstanding (m)	20	60	67	70	70
EPS - basic normalised (c)			98	114	141
EPS - diluted normalised (c)			98	114	141
EPS - basic reported (c)			100	114	141
Dividend (c)	0.00	0.00	34.00	39.90	49.35
Revenue growth (%)	77.4	53.1	61.1	22.0	21.7
Gross Margin (%)	35.1	32.1	31.0	32.3	33.0
EBITDA Margin (%)	29.2	26.1	25.4	26.9	27.8
Normalised Operating Margin (%)	28.2	25.5	25.0	24.5	25.3
BALANCE SHEET					
Fixed Assets	22.0	21.7	60.9	80.9	97.9
Intangible Assets	0.8	1.5	22.1	24.6	26.1
Tangible Assets	10.6	17.4	32.4	49.1	64.2
Investments & other	10.6	2.9	6.4	7.2	7.6
Current Assets	135.4	188.8	331.5	325.4	430.7
Stocks	34.0	63.6	75.9	92.6	112.7
Debtors	68.0	46.1	133.6	163.0	198.4
Cash & cash equivalents	24.0	65.6	117.8	65.6	115.3
Other	9.3	13.4	4.2	4.2	4.2
Current Liabilities	(89.1)	(100.1)	(107.6)	(103.9)	(119.8)
Creditors	(24.0)	(41.8)	(36.4)	(44.4)	(54.0)
Tax and social security	(6.1)	(8.0)	(14.8)	(17.2)	(20.2)
Short-term borrowings	(31.0)	(32.4)	(34.9)	(28.3)	(28.3)
Other	(28.1)	(17.9)	(21.4)	(14.0)	(17.3)
Long-Term Liabilities	(4.0)	(33.0)	(48.7)	(21.3)	(63.7)
Long-term borrowings	(3.1)	(32.1)	(46.8)	(46.8)	(46.8)
Other long-term liabilities	(0.9)	(0.9)	(1.9)	25.5	(16.9)
Net Assets	64.3	77.5	236.2	281.1	345.0
Minority interests	0.0	0.0	(11.8)	(11.8)	(11.8)
Shareholders' equity	64.3	77.5	224.4	269.3	333.2
CASH FLOW					
Op Cash Flow before WC and tax	41.7	57.2	89.4	115.8	145.5
Working capital	(44.1)	(8.6)	(101.4)	(17.7)	(15.9)
Exceptional & other	0.0	0.4	2.9	(2.0)	(3.0)
Tax	(3.7)	(11.3)	(13.5)	(21.8)	(27.0)
Net operating cash flow	(6.1)	37.7	(22.7)	74.4	99.6
Capex (net)	(3.7)	(7.6)	(8.7)	(20.0)	(20.0)
Acquisitions/disposals	(0.3)	(0.5)	0.0	(75.0)	0.0
Net interest	(0.2)	(2.0)	(0.6)	0.0	(2.0)
Equity financing	0.0	0.0	92.2	(6.7)	0.0
Dividends	0.0	(10.0)	(14.4)	(23.8)	(27.9)
Net Cash Flow	(10.3)	17.6	45.9	(51.1)	49.7
Opening net debt/(cash)	(9.0)	10.0	(0.8)	(41.7)	9.5
FX	0.0	(0.4)	0.0	0.0	0.0
Other non-cash movements	(8.7)	(6.4)	(5.0)	0.0	0.0
Closing net debt/(cash)	10.0	(0.8)	(41.7)	9.5	(40.2)

Source: Edison Investment Research, Theon accounts

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