Research Report (Initial Coverage)

Purchasing service provider on a profitable growth course

Target price: €2.30

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page III and ff.

Completion: 20/08/2012 **First publication: 21/08/2012**

Rating: Buy
Price target: € 2.30

current price: € 1.26
17/08/2012 / ETR

currency: EUR

Key date:

ISIN: DE000A0JCY37

WKN: A0JCY3

Ticker symbol: CEW3

Number of shares³: 7,250

Marketcap³: 9.16
EnterpriseValue³: 7.61
³ in m / in EUR m

Freefloat: 25.0 %

Transparency Level: Entry Standard

Market Segment: Freiverkehr

Accounting Standard: HGB

Financial year-end: 12/31

Designated Sponsor: SAB AG

Analyst:

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filker@gbc-ag.de

* catalogue of potential conflicts of interests on page IV

HPI AG *5

Company profile

Sector: Logistic

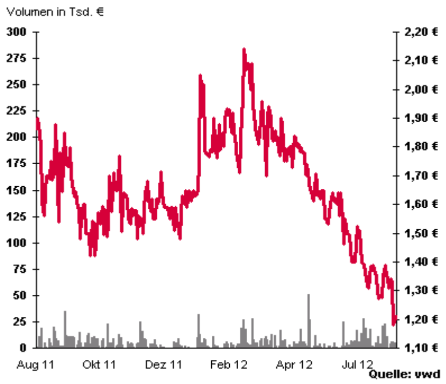
Speciality: Purchase and logistics

Employees: 112 (31/12/2011)

Founded: 1976

Registered office: Münich

Executive Board: Michael Negel, Falk Raudis



According to its own account, HPI AG is a leading European industrial services provider in the field of purchasing and logistics, with highly specialised industry know-how in the areas of electronics, automotive and aerospace defence, the chemical and pharmaceutical industry as well as machinery and plant engineering. With a managed purchasing volume of over €4 billion and approximately 1,800 customers, 4,000 negotiated contracts and over 130 employees, HPI is Europe's largest independent service provider for strategic procurement management. The company is able to offer its customers everything from a single source - from short-term inventory management (brokerage) to the complete takeover of the entire procurement process (business processing) as well as warehousing. HPI Group handles more than 2 million goods movements and more than 750,000 orders per year. In addition, HPI Group supervises purchasing volumes in excess of 4 billion euros per year, including 200 million euros for orders in transport and logistics. HPI Group is globally represented in 21 locations – 16 of which are in Europe, two in North America and three in Asia.

P&L in EURm / Due date	31/12/2010	31/12/2011	31/12/2012e	31/12/2013e
Sales	29.90	77.11	80.11	88.44
EBITDA	1.31	3.20	3.05	3.43
EBIT	0.45	1.69	2.32	2.65
Net profit	0.42	0.20	0.88	1.07
Figures in EUR				
Earnings per share	0.07	0.03	0.12	0.15
Dividend per share	0.00	0.00	0.00	0.00
*2010/2011 based on HGB, 2012e/2013e based on IFRS				
Ratios				
EV/Sales	0.25	0.10	0.10	0.09
EV/EBITDA	5.81	2.38	2.50	2.22
EV/EBIT	16.92	4.51	3.28	2.87
P/E	21.82	45.82	10.41	8.56
P/B		0.78		

Financial Dates:

Date: Event
28/09/2012: Release HY- Report 2012
30/11/2012: Release Q3-Report 2012
12/05/2012: MKK

**** last research published by GBC:**

Date: publication/price target in €/Rating

RS = Research Report; RG = Research Guide;
** the research reports can be found on our webside www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

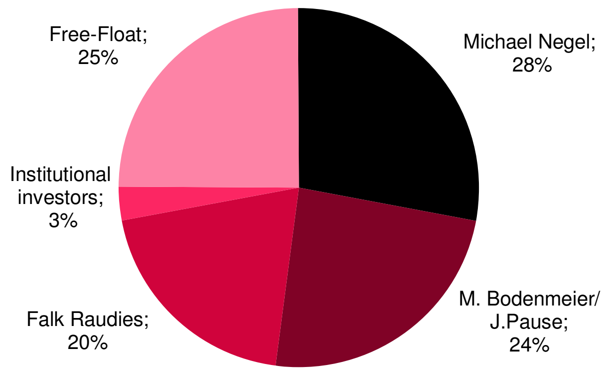
Table of Contents

Company

Shareholder structure

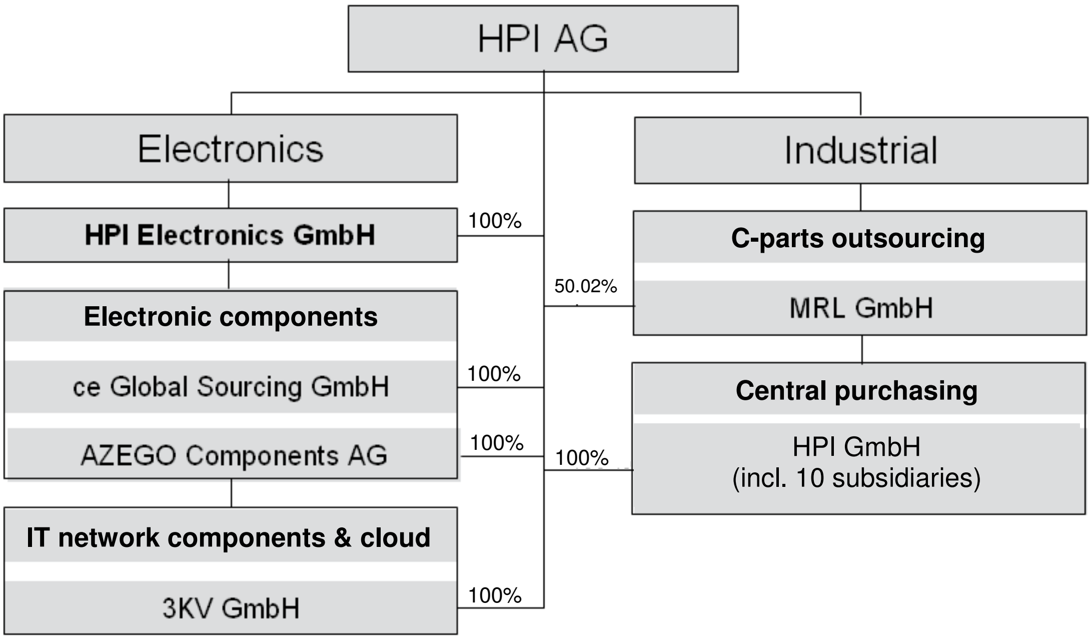
Shareholder structure as of: June 2012

Michael Negel	28%
M. Bodenmeier/J.Pause	24%
Falk Raudies	20%
Institutional investors	3%
Free-Float	25%
Total	**100%**



Source: HPI, GBC

Company structure



*Source: HPI, GBC; * With effect from 01/01/2012, the subsidiary HPI Distribution and 51% of VCE Virtual Chip Exchange were sold, and HPI Components was merged with HPI GmbH and they no longer fall within the scope of consolidation of HPI AG*

Important customers

Source: HPI, GBC

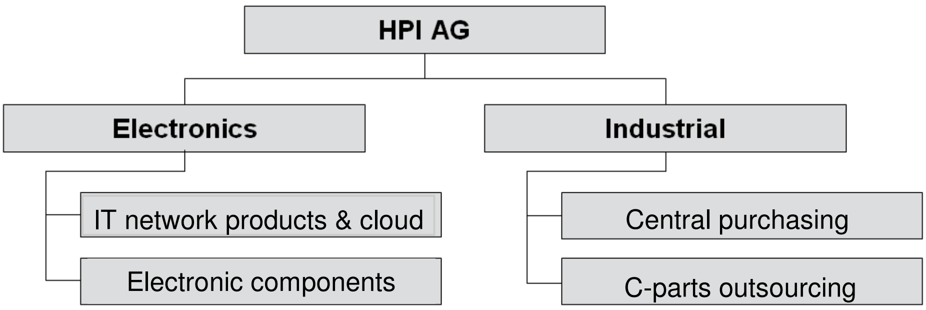
Business model

Important milestones in the company's history

1976	Foundation of ce Consumer Electronic GmbH
1998	Initial public offering of ce Consumer Electronic AG on the Neuer Markt
1998	Foundation of Hoechst Procurement International GmbH as a shared service provider of Hoechst AG
2006	Restructuring of ce Consumer Electronic AG, shift in the open market and change of name to ce Global Sourcing AG
2009	Increase of shares of ce Global Sourcing AG for a further 46% by M. Negel/Camcan
2010	Merger of HPI GmbH and ce Global Sourcing AG
2010	Purchase of 50.02% of MRL Mannesmannröhren Logistic GmbH
2010	Acquisition of 100% of shares from 3KV GmbH
2010	Acquisition of Azego Components AG to 100%
2012	Streamlining the corporate structure by selling HPI Distribution and 51% of VCE Virtual Chip Exchange as well as the merger of HPI Components to HPI GmbH

Source: HPI, GBC

Segments and Business Units



Source: HPI, GBC

HPI AG's business model is divided into the two segments: **electronics** and **industrial**. These, in turn, are subdivided into two more areas. While the segment of electronics is divided into the two areas of *electronic components* and *IT network products* , the industrial segment contains the areas of *C-parts outsourcing* and *central purchasing* .

The area of *central purchasing* is the traditional business of HPI GmbH, while the business of *electronic components* was originally assigned to ce Consumer Electronic GmbH. This area was also recently added through the acquisition of Azego Components AG.

By means of acquiring the majority stake in MRL Mannesmannröhren Logistic GmbH, the area of *C-parts outsourcing* was gained. The acquisition of 3KV GmbH has expanded the business to the area of *IT network products* .

The customer base of HPI Group was expanded significantly in recent years through the expansion of the group structure and the broadened alignment of business divisions. So customers today come from various industries. Because of the strong ties of MRL in the area of steel, the steel industry represents a significant group of customers. But customers can also be found in other fields of the manufacturing industry, such as automotive and vehicle construction, machinery and plant engineering and automation engineering. Finally, the IT and telecom industry, as well as the chemical and pharmaceutical industry, represent large groups of customers.

In total HPI Group manages a purchasing volume of €4 billion in over 200 material groups and over 4,000 articles. Especially electronic components, IT products and equipment as well as procurement and development software are among the products in the assortment in the range of electronics. Mainly mechanical products, chemicals, metals, electronics, pharmaceutical ingredients, as well as use and consumption products (Part C) belong to the assortment in the industrial segment.

The individual companies affiliated with HPI AG will be presented below at a glance:

Electronic components

ce Global Sourcing GmbH

ce Global Sourcing GmbH is an independent service provider of procurement services for electronic components. The products range from semiconductors to passive components to electro-mechanical and IT products, which are kept in a warehouse of more than 2,000 sqm. The company assumes purchase, storage and congestion management in order to procure semiconductors and electronic components for original equipment manufacturers and contract manufacturers. Because of the international orientation of the purchase organisation, the customer can be given purchase price advantages, delivery times can be shortened and warehousing reduced. Customers of ce Global Sourcing GmbH are renowned companies in the electronics processing industry. In addition to the traditional trade business, the company also offers excess stock management and consulting.

Share of HPI AG:	100%	General manager:	Harald Heutink
Year of foundation:	1976	Employees:	38
Company domicile:	Feldkirchen	Turnover 2011 (in million €)	18,00

Source: HPI, GBC

AZEGO Components AG

AZEGO Components AG (AZEGO) is a global component and technology supplier to the semiconductor industry. For this purpose, the company has a warehouse of approximately 2,000 sqm near Munich. Besides the mere delivery activity, AZEGO also takes charge of logistics services around inventory management, to allow an optimal and efficient parts supply to the customer.

Share of HPI AG:	100%	General manager:	Alexander Schrödl
Year of foundation:	2008	Employees:	14
Company domicile:	Feldkirchen	Turnover 2011 (in million €)	2,00

Source: HPI, GBC

IT network products

3KV GmbH

3KV GmbH is a specialist distributor of wireless and wired IT network infrastructure and security solutions. The service portfolio also includes solutions for the areas of passive network infrastructure and cloud computing. 3KV GmbH supports its customers in the design, implementation and enhancement of their procurement processes in the IT environment. Today, more than 1,500 customers at home and abroad use 3KV GmbH's services. Besides logistics, value added services are offered to customers, such as technical consulting services for the selection of products, professional services for the implementation of complex IT infrastructures as well as commercial procurement services.

Share of HPI AG:	100%	General manager:	Falk Raudies
Year of foundation:	1996	Employees:	27
Company domicile:	Krailling	Turnover 2011 (in million €)	24,58

Source: HPI, GBC

C-parts outsourcing

MRL Mannesmannröhren Logistic GmbH

MRL Mannesmannröhren Logistic GmbH (MRL) is a strategic partner and full-service provider and manages the entire supply chain management on behalf of its customers in the area of C-parts, i.e. consumables, supplies and operating materials of low value, which are not part of the production. In doing so, MRL works with over 780 suppliers and has a content management of over 200 commodity groups. For this purpose, the company has a warehouse of 10,000 sqm available. The e-procurement system supplySMART is available for customers to submit orders online. MRL's most significant customers are the two steel companies HKM Hüttenwerke Krupp Mannesmann and Vallourec Mannesmann Tubes. In addition, the company supplies approximately out 30 additional customers with more than 1,000 employees each.

Share of HPI AG:	50,02%	General manager:	Gerhard Koch
Year of foundation:	1890	Employees:	40
Company domicile:	Ratingen	Turnover 2011 (in million €)	22,42

Source: HPI, GBC

Central purchasing

HPI GmbH

HPI GmbH is a procurement service provider, which provides process services both on a strategic as well as an operational level and helps customers to reduce purchase terms and process costs. Market research, strategic purchasing and supply chain management, as well as product group management, outsourced buying centres and its own IT process tools are part of the scope of services. In addition to sourcing and business process outsourcing (BPO), HPI GmbH offers professional waste disposal and waste management, in cooperation with "Der Grüne Punkt - Duales System Deutschland". HPI GmbH manages thereby a purchasing volume of over €4 billion with 1,200 negotiated contracts in over 200 product and service categories . HPI GmbH's network consists of more than 500 contract partners as suppliers with whom over 50,000 orders are settled each year. The company has international subsidiaries in Shanghai, Wroclaw, Bratislava and New Delhi.

Share of HPI AG:	100%	General manager:	Burkhard Schnitker
Year of foundation:	1998	Employees:	26
Company domicile:	Sulzbach/Taunus	Turnover 2011 (in million €)	5,89

Source: HPI, GBC

Strategic concentration

HPI AG's goal is the realisation of potential savings for its customers. Because of HPI AG's full-service approach, savings can be achieved along the entire logistics value chain of a company, which can lead to significant improvements.

By combining purchasing volumes, HPI AG achieves significantly better purchase conditions than a company that handles its procurement processes itself could achieve. HPI AG is represented with its subsidiaries and representative in 20 locations in 10 countries. Besides a strong presence in Europe, there are also offices in the U.S., Canada, Taiwan, India and China. This proximity to the major markets of the world allows the company to offer top quality sourcing services to its customers.

In addition, savings can be achieved for customers because the process costs are kept low through orders based on current framework contracts under a collected, monthly invoice. Availability is also significantly better ensured by the existing stock. Last but not least, logistics costs may be optimised, as multiple orders will be processed together.

At the same time, customer internal resources are released that can help increase productivity. To this end inventories are reduced, which contributes to a reduction in working capital and thus to an optimisation of cash flow. In addition, customers can customise their material requirements to their own operational cycles. On the one hand, products can be obtained when there is a scarcity in the market ("Fire brigade of electronics") and on the other hand HPI AG takes over the excess stock when it is not needed by the customer.

Finally, HPI AG's customers are also supported in disposal issues. Firstly excess stock from HPI AG's subsidiaries continues to be marketed, which saves the customer transaction or disposal fees. Secondly, the 26%-owned subsidiary of HPI Resources also offers a disposal and waste management. Principal shareholder of HPI Resources is "Der Grüne Punkt - Duales System Deutschland", which ensures the professional management of disposal.

Overall, HPI AG's full-service approach achieved a significant reduction in total cost of ownership (TCO) for its customers in the areas of B-and C-parts. This does not only come down to lower product prices, but especially to those costs incurred as part of the logistics process. According to the company even for large groups reductions of up to 20% in total cost can be achieved in the area of B-and C-parts.

Board of Directors and Supervisory Board

Director

Michael Negel, Chairman

After his apprenticeship as an industrial business management assistant and positions in material management and distribution at Südrohrbau GmbH + Co. KG as well as at Diener Steinhaus GmbH, Mr Michael Negel began his career as a sales engineer at ce Consumer Electronic AG in 1986. In subsequent years, he held various positions within the company, most recently as executive vice president for brokerage worldwide. From 12/2005 to 04/2008 and 12/2009 to 12/2011 Mr Negel was then sole Chairman of ce Global Sourcing AG (former ce Consumer Electronic AG). Since 01/2012 Mr Negel is HPI AG's CEO. Michael Negel was recently appointed honorary senator of the European Economic Senate (EES). For years he has also been a senator h.c. in the German Association for Small and Medium-Sized Businesses (BVMW).

Falk Raudies, Deputy Chairman

In 1996 Falk Raudies founded 3KV GmbH and is still the company's CEO. In recent years, Mr Raudies was also active as a Chairman and manager of rhinos Energy Drink & Food AG and Alldis Computer GmbH. Since January 2011, Mr Raudies has been a member of the management board of HPI AG and area manager of HPI Electronics. In January 2012 he was appointed to the board of HPI AG.

Supervisory Board

Boris Dürr, Chairman of the Supervisory Board

● Legal studies at Albert-Ludwigs-University in Freiburg

● Lawyer and Partner at Heuking Kühn Lüer Wojtek, areas of focus: Corporate Acquisition/M&A, securities, corporate law

Günter Seefelder, Deputy Chairman of the Supervisory Board

● Legal studies at the LMU Munich and business administration at the FH Munich

● Manager at the SEEFELDER-Firmengruppe for strategic business consultancy

Jürgen Rödig

● Student of business administration at the University of Regensburg and University of Colorado

● Managing Partner of RFC GmbH corporate investments

● Areas of focus: Investment controlling, financial and cost management, consulting for medium-sized enterprises within the framework of corporate acquisitions and management

Market and market environment

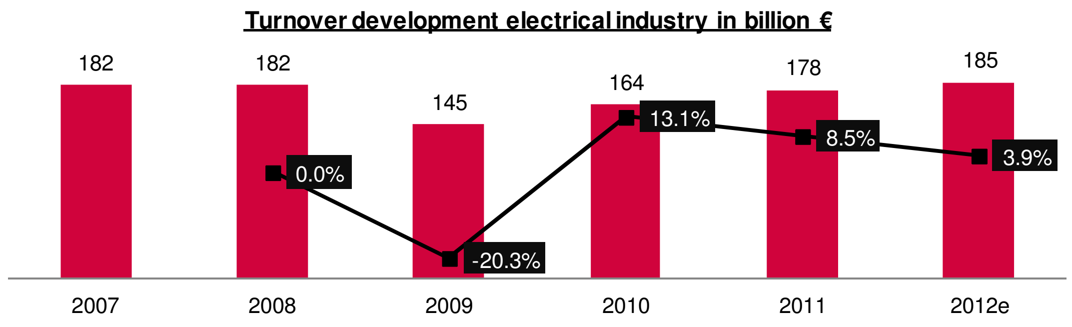
Due to the broad base of HPI AG in terms of its product and customer groups, the company is not subject to any particular dependence on an industry. Rather, a variety of industries determines the development of the individual affiliates. In the case of the electronics segment, in which the company mainly provides electronic components and IT network products, the development of the electronics and IT industry particularly determines sales revenues. In the industrial segment, in which mainly C-parts are delivered to the customer, the development of the affiliates needs to be seen more independently from the overall economic development, as C-parts are largely consumed regardless of the economic activity of customers. Furthermore, long-term purchase commitments exist with major customers which give some turnover stability even during downward cycles.

Concerning future growth, especially for the area of industrial, the underlying trend of outsourcing business processes (Business Process Outsourcing/ BPO) is crucial. While in the past mostly major corporations have outsourced some areas of little strategic relevance, such as ordering C-parts, more and more medium-sized companies are deciding to take these steps as well. Outsourcing strategically unimportant processes to external service providers, such as HPI AG, enables the company to conserve internal resources while achieving a least-cost solution. Focusing on core issues can thus be enhanced, which may bring a significant competitive advantage particularly for medium-sized businesses.

Market for electronic components

The years 2010 and 2011 were very successful for the German electronics industry, with strong tendencies for a rebound in the aftermath of the phase of economic weakness as part of the housing crisis. Especially in 2011 the dynamics significantly accelerated, so that the sales revenues of the industry with €178.4 billion could not only be increased by 8.5%, compared to the previous year, but the pre-crisis level was nearly reached again.

For the past seven months, the German electrical industry has been experiencing a decline in incoming orders. In April 2012 they were 5% below the level of the previous year, but the



Source: ZVEI

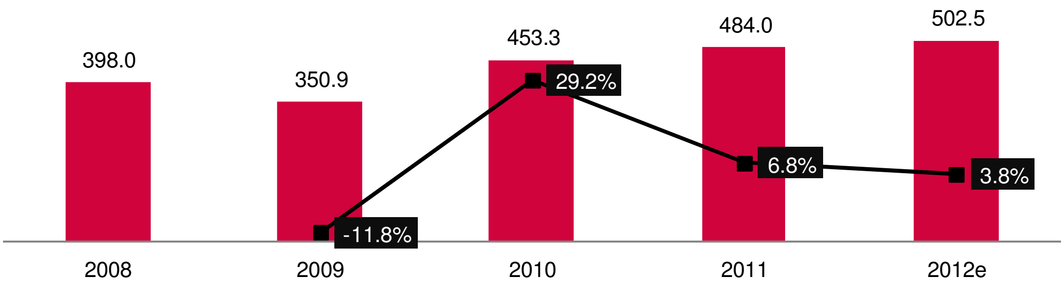
high standard of the previous year also needs to be taken into account. For the entire period of the first four months of 2012, the decline in incoming orders is also 5%. The decline in incoming orders also makes itself felt in terms of sales revenues, although only marginally. In April, sales revenues of the industry stood at €13.4 billion, an increase of 1% below the previous year's level. Looking at the months from January to April, the industry recorded an increase in sales revenues of 0.5% to €56.2 billion.

The high utilisation rate, which still stood at 84.1% in Q2 2012, has the industry being optimistic. During the dynamic catching-up process in the years 2010 and 2011, values of over 86% were partially achieved, whereby the current value is still estimated to be very satisfactory. Against this background, industry association ZVEI is still optimistic that the turnover forecast for the year 2012 can be achieved. Expectations in this case are that a further increase in turnover of almost 4% to €185 billion can be achieved.

The German electronics market is divided into different sections. An essential part is the section of electronic components, which represents a percentage of around 12% of the total electronics market.

The world market for electronic components was found to be more robust than the total market for electronics in the last few years. During the downturn in 2009, which at 11.8% turned out significantly flatter, the growth rates in the years 2010 and 2011 with 29.2%, 6.8% respectively, were above the values of the overall industry. In particular, the Asian market experienced above-average growth, while the growth rates in Europe run slightly flatter, but still over-proportional compared to the overall market. It is also important to note that the Japanese market declined due to the natural disaster in 2011 and worldwide growth would have been even higher under normal circumstances.

World market for electronic components in billion $



Source: Central Association of the Electrical Engineering and Electronics Industry [ZVEI] forecast: ZVEI

The ZVEI also assumes that further growth, equivalent to 3.8%, can be achieved for the global market for electronic components in 2012. The Asia/Pacific region is supposed to continue to be the biggest growth market, especially China. For Japan it is also expected that the level from before the natural disaster can be achieved again.

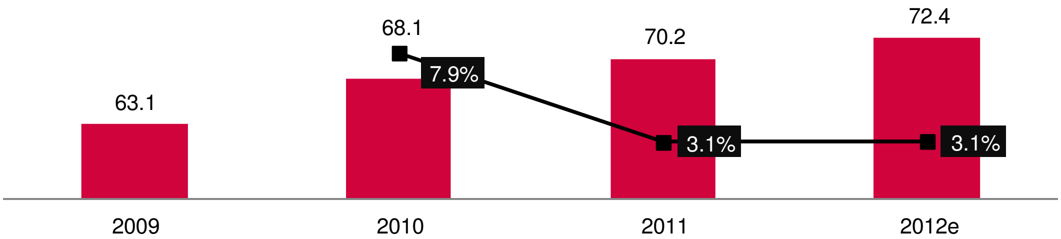
The numbers of the German distribution market for components also indicate a slight growth in 2012. According to the statements of industry association FBDi e.V. sales revenues of the member , namely in the first quarter of 2012, declined by 12.1% to €760 million, which to a large part, however, needs to be viewed in the context of the exceptional situation in the past year, in the wake of the natural disaster in Japan. Regardless of this, the third-highest sales revenues in history have been made in Q1 2012, only surpassed by quarters one and two of the previous year. Against this background, and also due to the good book-to-bill ratio of 0.92, FBDi Chairman Georg Steinberger assumes that balanced development is to be expected for the 2012 fiscal year.

Regarding HPI AG’s dependence on the market for electronic components, it should be noted that there will be greater focus particularly in this area, which will be accompanied by lowering investment amounts of individual investments to below 50%, as it was already done with VCE recently. The volatility of the market for electronic components is weakened on a group level.

Market for IT network products

In accordance with the expectations of the industry association BITKOM, the market for information technology should also continue to develop well in 2012. After the industry's growth in 2010 at 8.0% was very dynamic, this levelled off somewhat in 2011, as expected, to 3.1%, but is still clearly above the developments of the economy as a whole. BITKOM expects growth for the year 2012 to be on a similarly strong level. With a further surplus of 3.1%, the association predicts that the German IT industry will grow to €72.4 billion and therefore reach a new peak.

Market volume ITC market Germany, in billion €



Source: BITKOM, EITO

The start of the new fiscal year 2012 has gone well for most companies in the IT industry, so that 85% of companies surveyed by BITKOM expect a rise in sales revenues for 2012. The BITKOM industry barometer was correspondingly stable, priced at 56 points in the second quarter of 2012, which represented only a slight decline compared to Q1 2012. In addition to tablets and smart phones, and associated applications, particularly in the network area the topic of cloud computing is a determining factor and key driver for growth of the industry in general.

Market for business process outsourcing

Business process outsourcing (BPO) describes the outsourcing of entire business processes to an external provider. As a provider of outsourcing of procurement (Procurement Outsourcing) HPI AG is subject to the general trend in the field of procurement outsourcing. The tendency to outsource an area of operations is certainly much more common in the Anglo-Saxon area than here at home. However, in recent years, an emerging trend toward the outsourcing of business processes has been observed due to the ever increasing cost pressure even in continental Europe.

This is also confirmed by the latest market data. According to the surveys done by Everest Group, the market for procurement outsourcing was able to very dynamically grow by 14% in the past year. Thus, the volume that providers take care of for their customers, has grown to $190 billion. In this regard, medium-sized companies contributed significantly to the industry's growth, which has by now outsourced a purchase volume comparable to that of some major corporations. This trend will be consistent in 2012 as well, according to market experts of Everest Group. Market researchers believe that the procurement outsourcing market will grow dynamically for the third time in a row in 2012, driven mainly by smaller companies. It is assumed that the volume of the industry will grow by a further 15% to $220 billion.

When it comes to the German market, the market volume in recent years has been estimated to average €2 billion in various analyses with double-digit growth rates expected for the coming years. The market potential, however, was estimated at around 31.5 to 33.0 billion in 2009 by the Offshoring Institute, which would correspond to annual growth rates of around 30%, should the volume be exhausted within the next 10 years.

The driving factor for the dynamic growth of outsourcing is the increasing need for interdisciplinary collaboration within a company as part of the on-going globalisation process. Due to the global network of business processes an increasing resort to external know-how will continue, in order to be able to fulfil the more complex needs and at the same time to keep response times short and to not strain the budget unnecessarily.

Another reason is the increased attention to environmental issues. The requirements in this regard have risen significantly in recent years and have become very complex, when it comes to verification, documentation, and disposal and so on. The outsourcing of procurement processes can reduce the administrative effort in this area tremendously and simultaneously regulate the disposal of old stock.

Company development & forecast

Overview of figures

Profit and loss (in million €)	FY 2010*	in%	FY 2011*	in%	FY 2012e**	in%	FY 2013e**	in%
Sales revenues	**29.901**	**100.0%**	**77.106**	**100.0%**	**80.110**	**100.0%**	**88.440**	**100.0%**
Inventory change	0.000	0.0%	-0.006	0.0%	0.000	0.0%	0.000	0.0%
Other operational income	2.401	8.0%	1.427	1.9%	1.500	1.9%	1.500	1.7%
Cost of Materials	-18.237	-61.0%	-54.236	-70.3%	-56.157	-70.1%	-62.129	-70.3%
Gross profit	**14.065**	**47.0%**	**24.291**	**31.5%**	**25.453**	**31.8%**	**27.811**	**31.4%**
Personnel expenditure	-5.849	-19.6%	-10.591	-13.7%	-11.250	-14.0%	-12.000	-13.6%
Write-offs	-0.854	-2.9%	-1.506	-2.0%	-0.730	-0.9%	-0.780	-0.9%
Other operating expenses	-6.910	-23.1%	-10.504	-13.6%	-11.153	-13.9%	-12.381	-14.0%
EBIT	**0.452**	**1.5%**	**1.690**	**2.2%**	**2.320**	**2.9%**	**2.650**	**3.0%**
Interest income	0.083	0.3%	0.060	0.1%	0.150	0.2%	0.150	0.2%
Amortisation on financial assets	0.000	0.0%	-0.077	-0.1%	0.000	0.0%	0.000	0.0%
Interest expense	-0.269	-0.9%	-0.534	-0.7%	-0.600	-0.7%	-0.650	-0.7%
EBT	**0.266**	**0.9%**	**1.139**	**1.5%**	**1.870**	**2.3%**	**2.150**	**2.4%**
Income taxes	0.103	0.3%	-0.513	-0.7%	-0.561	-0.7%	-0.645	-0.7%
Other taxes	-0.006	0.0%	-0.012	0.0%	-0.015	0.0%	-0.015	0.0%
Annual profit for the year before minority interests	**0.363**	**1.2%**	**0.614**	**0.8%**	**1.294**	**1.6%**	**1.490**	**1.7%**
Minority interests	0.055	0.2%	-0.412	-0.5%	-0.410	-0.5%	-0.425	-0.5%
Annual profit	**0.418**	**1.4%**	**0.202**	**0.3%**	**0.884**	**1.1%**	**1.065**	**1.2%**
EBITDA	1.306		3.196		3.050		3.430	
as a % of sales revenues	*4.4%*		*4.1%*		*3.8%*		*3.9%*	
EBIT	0.452		1.690		2.320		2.65	
as a % of sales revenues	*1.5%*		*2.2%*		*2.9%*		*3.0%*	
Earnings per share	0.07		0.03		0.12		0.15	
Dividend per share	0.00		0.00		0.00		0.00	
Number of shares in million shares	5,637		7,250		7,250		7,250	

** annual financial statements 2010 and 2011 are based on HGB [German Commercial Code]*
*** Since HPI AG will prepare its annual financial statement 2012 in accordance with the international accounting standards IAS/IFRS for the first time, forecasts are based on IFRS. The previously accumulated goodwill write-offs will therefore no longer accrue after FY 2012*

Historic business development

in million €	FY 2010	Δ 2010/2011	FY 2011
Sales revenues	29.90	+157.9%	77.11
EBITDA (margin)	1.31 (4.4%)	+144.7%	3.20 (*4.1%*)
EBIT (margin)*	0.45 (1.5%)	+273.9%	1.69 (*2.2%*)
Annual profit*	0.42	-51.6%	0.20

*Source: HPI, GBC; *Results are based on accounting according to HGB*

Sales trend - double-digit organic growth - increased diversification

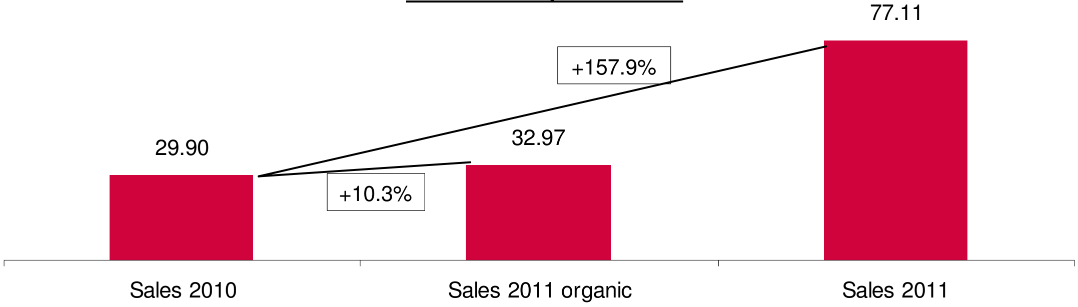
Compared to FY 2010, HPI AG could establish sales revenues higher by 157.9% at €77.11 million. It should firstly be noted, that an increase in turnover was inorganically caused by the consolidation of MRL and 3KV. Thus, MRL was first consolidated on 01/02/2011 and for the first time in FY 2011 made a contribution to sales revenue in the amount of. In FY 2011 KV3 made a contribution to sales revenue in the amount of €24.58 million, after €2.86 million in the previous year. The reason for this is the fact that 3KV was first consolidated in FY 2010 by 01/11/2010 and therefore contributed only two months to the yearly turnover.

But even after adjusting these two consolidation effects, sales revenues were €32.97 million and therefore 10.3% above the value of the previous year, so that correspondingly strong organic growth was recorded.

Sales revenues in the past FY 2011 experienced a one-time effect because of the natural disasters in Japan and Thailand, which led to temporary supply shortages. The two subsidiaries in the area of electronics - electronic components, ce Global Sourcing GmbH and VCE Virtual Chip Exchange (deconsolidated as of 01/01/2012), have experienced a lively demand against this background, which, according to statements made by the management, greatly increased the sales revenues for the two companies by 10-30%. The resulting positive effect on sales has amounted accordingly up to €6 million.

Overall, we assess the sales trend of HPI AG in 2011 as being very satisfactory. Both the organic and inorganic contributions have helped to propel the group into a new and also advanced the diversification of sales revenues.

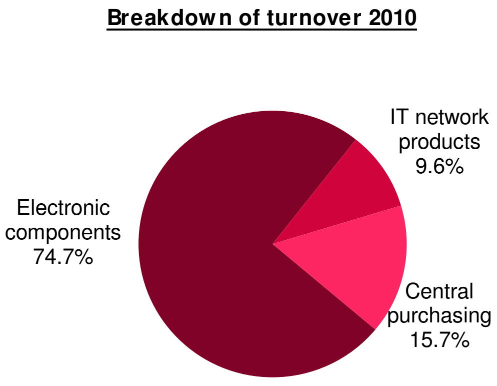
Sales development 2011

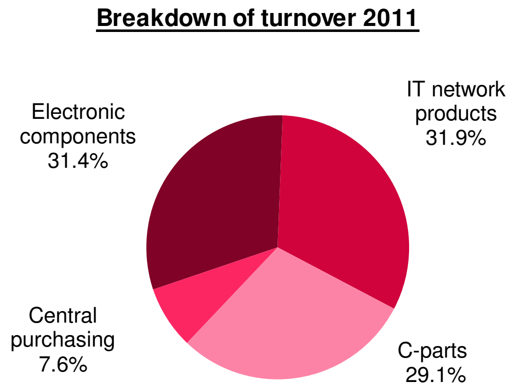


Source: HPI, GBC

The advanced diversification of sales revenues becomes particularly clear upon a review of the breakdown of turnover for the different areas. MRL (area of C-parts outsourcing) already contributed 29.1% of sales revenues in 2011 (see reverse for graphic). This is a major stabiliser for sales revenues, as the two largest customers of MRL, HKM Hüttenwerke Krupp Mannesmann and Vallourec Mannesmann Tubes, have given extensive revenue guarantees for the coming years. In addition, there are more large corporations that are customers in this area, which also stabilises revenues should it come to an economic downturn.

3KV (area of IT network products) contributed a significant share of sales with 31.9%. In the coming years, significant potential for growth for the group as a whole will come from 3KV.



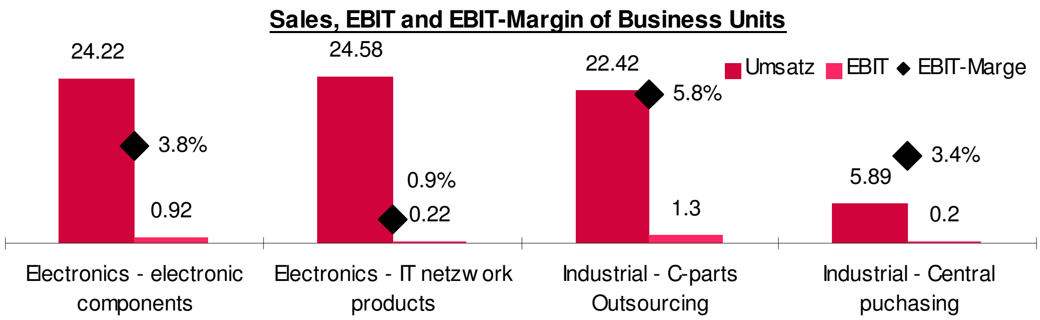


Source: HPI, GBC

Development of earnings – acquisition of MRL strengthens earnings and margins

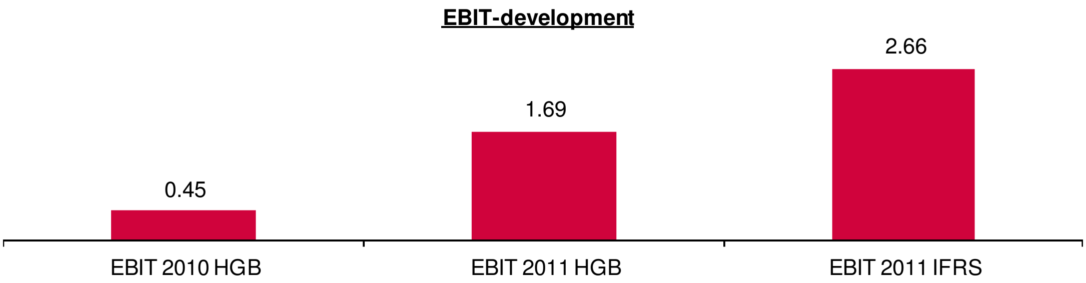
The acquisition of MRL and 3KV in the past FY 2011 also paid off. MRL in particular, due to its disproportionately high profitability in comparison to the other areas, made a significant contribution to the increase in earnings and profit margins. Thus, the EBIT margin of MRL was 5.8% and therefore above the level of the group as a whole. In the context of the profitability calculation it should also be emphasised that all four areas of HPI Group worked profitably in FY 2011.

In total, HPI AG generated an EBIT of €1.69 million, which represents an increase of 273.9% compared to the previous year. In this regard, the acquisition of MRL acted as the primary driver. 3KV generated an even lower EBIT contribution with €0.22 million. It is to be significantly expanded in the coming years through the advancement of the excess stock business, the expansion of existing and the creation of new manufacturer partnerships, so that an organic EBIT growth can also originate from 3KV (see page 16 - Growth Strategy).



Source: HPI, GBC

Since HPI AG prepares its books according to HGB, goodwill, which goes back to the consolidation of 3KV and HPI GmbH, can be amortised in instalments. Amortisation accordingly accumulates to the amount of €0.97 million annually. In an accounting in accordance with International Financial Reporting Standards as per IFRS, these regular amortisations would be omitted and the EBIT is correspondingly higher, . For FY 2012, HPI AG will recognise in accordance with IFRS for the first time.

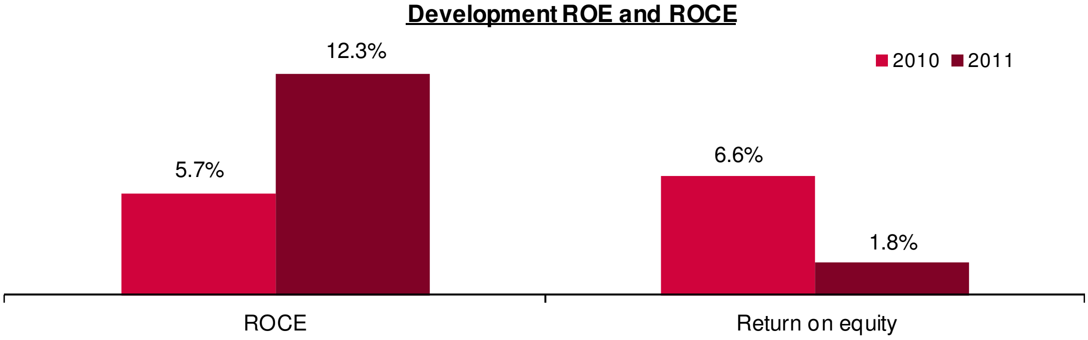


Source: HPI, GBC

Thus, the EBIT margin, if accounted for in accordance with IFRS, would be 3.4%. The corresponding HGB value, as presented, is 2.2%. Compared to last year, when the EBIT margin stood at 1.5% (HGB), in 2011 a significant improvement has been brought about, which is particularly due to the acquisition of high-margin MRL.

The net result, despite the significant increase in EBIT of million €0.20, was below the previous year's level (2010: €0.42 million). Since only a 50.02% interest in MRL was acquired, increased minority interests accrued in 2011 for the first time.

Development of equity returns - ROCE significantly increased in 2011



Source: HPI, GBC

Increased minority interests also reflect in return on equity (ROE). In comparison to 2010, it has declined in spite of the significant increase in sales and EBIT. The improved operating parameters, however, had a positive effect on the return on capital employed (ROCE), which now stands at 12.3% from 5.7% in the previous year. This indicator depicts the increased profitability in the course of operative development, as well as inorganic expansions, really well.

Key figures of subsidiaries at a glance

An overview of sales and EBIT contributions of the individual segments and of related subsidiaries is provided below. No segment thus reported a negative result in FY 2011. In addition, acquisitions have contributed to an improvement in the sales mix and have increased diversification.

Subsidiaries	Turnover 2011 (in million €)	EBIT (in million €)
Electronics – electronic components	**24.22**	**0.94**
ce Global Sourcing GmbH	18.00	0.90
VCE Virtual Chip Exchange*	2.00	0.03
AZEGO Components AG	2.00	0.03
HPI Distribution GmbH*	1.90	-0.04
HPI Components GmbH*	0.32	0.00
Electronics – IT network products	**24.58**	**0.22**
3KV GmbH	24.58	0.22
Industrial - logistics	**22.42**	**1.30**
MRL GmbH	22.42	1.30
Industrial – purchasing consultancy	**5.89**	**0.20**
HPI GmbH	5.89	0.20
Total	**77.11**	**2.66**

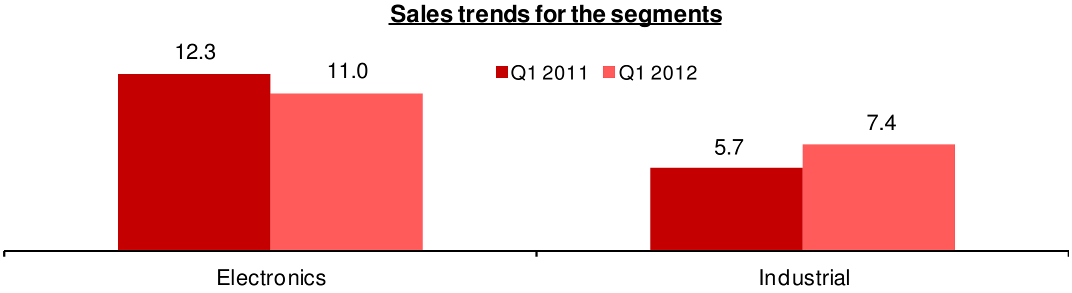
*Source: HPI, GBC; * With effect from 01/01/2012, the subsidiary HPI Distribution and 51% of VCE Virtual Chip Exchange were sold and HPI Components was merged with HPI GmbH and they no longer fall within the scope of consolidation of HPI AG*

Business development in Q1 2012 - positive trend continues

Q1 2012 has been very gratifying for HPI AG. Here, sales revenues could be increased by 2.2% to €77.11 million. This improvement in the low single-digit percent range is to be evaluated positively for two reasons:

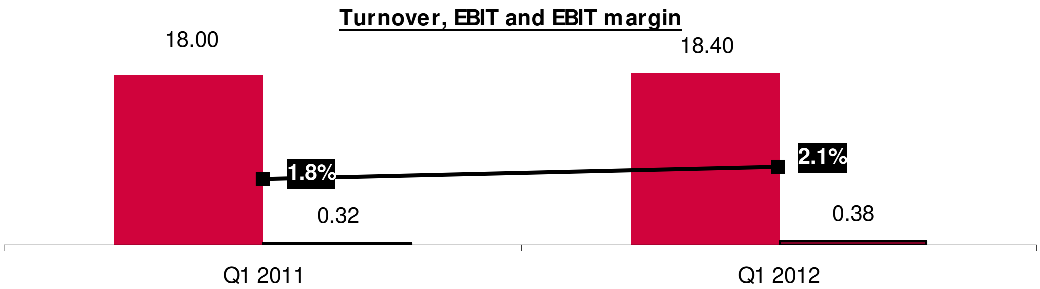
1. In the electronics segment a drop in sales of 10.6%, compared to the previous year had to be accepted. On the one hand this is due to deconsolidating subsidiaries HPI Distribution, HPI Components and VCE Virtual Chip Exchange. The companies only contributed low turnover and earnings. As part of the streamlining of the group's organisational structure, both companies were sold on 01/01/2012. It is estimated that sales revenues are around €1 million lower than in the previous year due to the deconsolidation.
2. However, the far more important effect in this regard was the natural disaster in Japan during the past year which resulted in particular demand for electronic components within the electronic sector due to short-term shortages. Consequently, a decline in sales revenues in the electronics segment was to be expected and has been taken into account in the planning for the year 2012.

Overall, the decrease of 10.6% therefore has to be considered as being very moderate. In particular, a sales trend of 3KV which continues to be strong, should have achieved a significantly smoothing effect.



Source: HPI, GBC

The decline in sales revenues in the electronics segment, however, could be overcompensated by the industrial area. Here a growth of 29.8% in Q1 2012 could be recorded. This could have been the result of an inorganic effect due to the fact that MRL was only consolidated from 01/02/2011 in the previous year. We estimate the effect for Q1 2012 to be approximately.



Source: HPI, GBC

Improvements have also been made in earnings, which is probably due in large part to consolidating MRL over the entire reference period. In the previous year, the high-margin business of MRL was only included for five months. As part of this, an increase in EBIT of 21.6% to €0.38 million could be achieved. The EBIT margin improved to 2.1% corresponding to the disproportionate growth in results.

All in all, the Board's turnover expectations were exceeded by more than 10%, also confirming the forecasts for the complete 2012 year.

Financial situation

in million €	FY 2010	FY 2011
Equity capital	6.34	11.23
Equity ratio	*30.7%*	*43.1%*
Financial liabilities	0.25	1.39
Liquid assets	2.40	4.44
Net funds	2.15	3.05
Operational fixed assets	9.43	8.40
Net working capital	-3.62	2.43
Total Assets	20.63	26.06

Source: Calculations GBC

The balance sheet change during FY 2011 was largely due to the acquisition of a 50.02% stake in MRL Mannesmannröhren Logistic GmbH (MRL). As a result, HPI AG's equity ratio increased by more than 10% to 43.1%. In this respect, MRL's minority interests represent a share of €1.50 million Removing this amount results in an equity ratio 37.4%.

On the asset side, current assets increased in particular, as only an insignificant amount of fixed assets were added to the balance sheet in the course of the acquisition. Rather, the regular amortisation of goodwill in the amount of €0.97 million, which comes from the consolidation of 3KV GmbH and HPI GmbH, has reduced fixed assets accordingly. Acquiring MRL has led to no further capitalisation of goodwill.

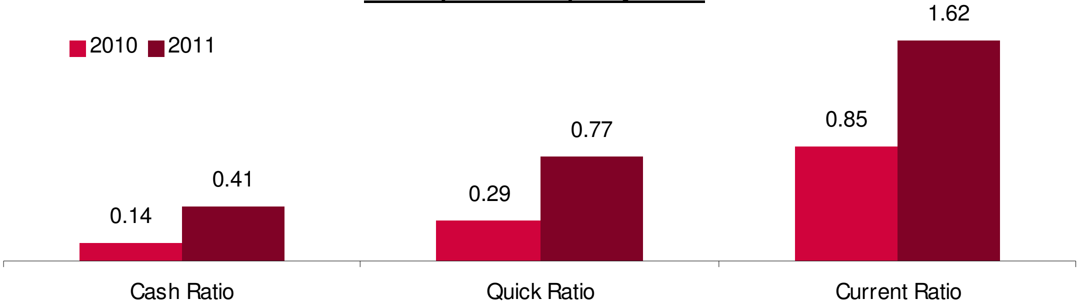
The acquisition was made by means of a mix of equity capital and debt, as well as earn-outs. However, the full consolidation of MRL also resulted in an increase in the financial holdings of liquid assets in the amount of €2.24 million. This resulted in other improvements in terms of net financial assets. At €3.05 million, liquid assets exceeded debt as at 31/12/2011. The debt equity ratio is to be classed as being very moderate. HPI AG additionally issued bonds during the course of 2012 which total €2.5 million to date. The average interest rate on all bonds and convertible bonds issued by mid-2012, according to our calculations, lies at 7.6%.

Significantly changed, especially with MRL's acquisition, is the net working capital, which at €2.43 million is well above the previous year's figure, when a negative net working capital was reported. This effect was in particular caused by the increase in inventories and receivables from deliveries and services.

Overall, financial ratios have improved though the acquisition of MRL. While the equity ratio has significantly increased, the debt equity ratio remains unchanged and is still at a very moderate level.

The liquidity ratios indicate that the financial situation has improved significantly during the year, with respect to all three measurement parameters (see graphic). At the same time, the company can rely on current account lines amounting to €0.5 million. By the end of 2011 €0.19 million of these lines had been used.

Development of liquidity ratios



Source: Calculations GBC

SWOT-Analysis HPI AG

Strengths

- Long-term revenue guarantees from the biggest customers of the highly profitable subsidiary MRL
- Low debt and solid equity ratio
- High ratio of customers are large companies with more than 1,000 employees
- Overcapacity business has great growth potential

Weaknesses

- MRL's high dependence on few customers
- Business model allows only low margin levels
- Total income should be further improved in relation to the holding costs
- MRL's high minority interests reduce shareholders profit

Opportunities

- Further acquisitions of profitable companies could improve the group's EBIT margin
- Outsourcing of purchasing services is additionally being adopted by more and more mid -size businesses, which could provide additional growth potential
- Sales of excess inventory makes a still comparatively low turnover. In the coming years, this model could establish itself as a source of turnover
- Because of the group's broad segmentation into different areas, synergy effects could be lifted and cross-selling opportunities opened.

Risks

- HPI AG's business model is in part sensitive to the economic climate, so that sales revenues could come under pressure in the course of an economic slowdown.
- In the area of C-parts customers are very cost-sensitive, which can lead to increased pressure on margins.
- The excess stock business requires constant access to valuable excess stock of the industry. Should this not be guaranteed, the existing excess stock business could be affected
- Since HPI AG performs both purchases and sales in different currency areas, currency fluctuations could have a negative impact on sales revenues and earnings performance. However, the risk is minimised to the extent that sales and purchases are carried out in the same currency as often as possible.

Forecast and model assumptions

Strategy and growth opportunities

3KV GmbH

In 2011 3KV GmbH expanded its operations by adding the IT excess stock business Since the speed of technological innovation in the area of IT networks is high, many dealers and distributors often have high excess stock. 3KV acquires this excess stock and sells it on. The marketing of excess stock already contributed a rate of 10% of total revenues in 2011.

Against this backdrop, the company plans to bring to the market a B2B online platform for used IT network products, such as servers, routers and switches, in the 2nd quarter of 2012. A similar concept of this kind is not yet available on the market. Therefore, 3KV's concept promises a high additional growth potential in the coming years.

Due to the rapid technological transition in the field of IT products, there is a constant pressure for renewal on the market. In addition to that, the security requirements for IT networks are developing steadily. Both give the excess stock business an increased independence from the general economic cyclic. Finally, 3KV has focused its development on cloud computing, with an emphasis on concentrating on a “software as a service”-based communications solution. The high growth rates of this IT sector promise good prospects for the company. 3KV's core business is the purchasing service in networking concepts with products from Enterasys, Rapidcom, Securpoint, Cisco and HP.

This is also confirmed by the recently signed distribution agreement with KEMP Technologies for load balancers (server load balancers) and application delivery solutions in the DACH region, which already brought 3KV a turnover for 2012 in the medium- and for 2013 in the high single-digit million ranges.

AZEGO Components AG

The excess stock business is to be extended to AZEGO Components AG, which is the business with electronic components, such as transistors, diodes, microprocessors, etc. While customers' excess stock has so far only been accepted on a commission basis, in the future the stocks are to be acquired on their own account and are then resold in smaller fractions via a B2B platform, to electronics retailers worldwide. This business is very lucrative, as goods can be purchased at up to 5% of the original price.

Especially in a weakened economic phase many companies strive for a reduction of their inventory, which offers AZEGO Components AG the opportunity to cheaply purchase excess stock and sell it at a later time for a good price.

MRL Mannesmannröhren Logistic GmbH

MRL's customers operate largely in steel production and the steel processing industry. But HPI AG's customers also come from other industries. To be named here are adidas, WAZ publishing group, Schott Glas, Webasto or KfW banking group, among others. MRL's largest customer, and at the same time minority shareholder, Vallourec Mannesmann Germany, intends to utilise logistics services of MRL beyond German operations to operations in Belgium and France. This expansion of the business will provide MRL with an additional revenue amount in the mid single-digit million area.

Currently, MRL caters exclusively to large companies with more than 1,000 employees. Since mid-size businesses have a growing demand for outsourcing services in the field of C -parts, MRL plans on providing its services to medium-sized companies with 50-500 employees in the future, since large quantities are already delivered every day.

For the two steps described, the previous warehouse in Ratingen has become too small with an area of around 4,000 sqm. Therefore, a new warehouse was built with a total area of 10,000 sqm, in order to meet future requirements. In addition, existing logistics resources were bundled in the new warehouse, which should have a positive impact on efficiency.

Finally, according to HPI AG itself, it has the option to acquire a further 26% of MRL. Exercising this option would increase the investment share to 76.02%. This option should also be exercised in the medium term, which would lead to an investment of about €1.5 to 2.0 million. Other shareholders of MRL are Vallourec Mannesmann Germany (12.80%), HKM Hüttenwerke Krupp Mannesmann (12.40%) and Induser (24.78%).

Inorganic growth

In the future, HPI AG's holdings network is to be further expanded. In this regard, the focus is on profitable logistics and IT service providers, technical traders or companies that are active in e-procurement or operate an online marketplace. Negotiations are currently under way with attractive target companies which complement both the group's service and product range, and would also expand the customer base. For the industrial segment as well, the market is also being probed opportunistically for an expansion of existing business opportunities.

Verschlankung der Unternehmensstruktur

Company structure, which at the moment is still fairly complex, will be simplified in the coming years. This is to be achieved by selling or merging subsidiaries with a subordinate meaning for revenues and in the overall group.

As part of this strategic orientation, the companies HPI Distribution and 51% of VCE Virtual Chip Exchange were sold and HPI Components was merged with HPI GmbH in Q1 2012 already. Both companies only contributed a small turnover and earning in 2011. Selling the two companies thus boosts the profitability of the overall group and serves the operational business in having a better focus on strategic core elements.

Further consolidation is particularly to take place in the field of electronic components. The business of electronic components certainly is an important area of strategic importance, but is also characterised by high volatility. Therefore, lowering the investment amounts of the subsidiaries for this range to below 50% - and thus their deconsolidation – would significantly minimise the industry's dependence for electronic components at a group level.

At the same time, the electronics sector is to be increasingly concentrated. So that HPI Electronics GmbH, which has so far not performed any significant business of its own and made a very minor contribution within the group, will be acting as an interim holding for the area of electronics and provide a uniform appearance of the segment to customers. In the future, HPI Electronics GmbH will act as a "spear head" for all group services in the field of electronics. This organisational alteration should contribute to an improved organisation of distribution and synergy potentials can be raised.

Cost structures will also be improved in the course of this streamlining, which, given the low margins in the electronics business, will make an important contribution to medium-and long-term improvements in profitability.

All in all, simplifying the corporate structure is to be viewed positively, as it should not only improve transparency, but also enable synergy effects, which have a positive impact on HPI AG's sales and earnings.

Turnover forecasts – further growth expected for 2012 and 2013

Note: Since HPI AG will prepare its annual financial statement 2012 in accordance with international accounting standards IAS/IFRS, the forecasts below are based on IFRS.

in million €	FY 2011	FY 2012e	FY 2013e
Sales revenues	77.11	80.11	88.44
EBITDA (margin)	3.20 (*4.1%*)	3.05 (*3.8%*)	3.43 (*3.9%*)
EBIT (margin)*	2.66 (*3.5%*)	2.32 (*2.9%*)	2.65 (*3.0%*)
Annual profit*	1.17	0.88	1.07

*Source: Calculation GBC; *according to IFRS*

The natural disasters in Japan and Thailand, have resulted in an exceptionally strong rise in sales revenues for ce Global Sourcing in 2011 due to the temporary shortage in electronic components. Because of the elimination of this special effect, it is likely that in 2012 sales revenues will be significantly weaker. HPI AG's management assumes that this special effect has resulted in 20-30% more in turnover. Corresponding tendencies for normalisation have already made themselves felt in Q1 2012.

In addition, the deconsolidation of VCE and HPI Distribution by 01/01/2012 will be reflected in the electronics segment. Both companies jointly achieved a sales revenue contribution of €4.22 million which will be missing in FY 2012.

Conservatively, we therefore expect a decline in turnover by 30% for ce Global Sourcing. In addition to deconsolidation, we expect a sales revenue contribution from the electronic components area of.

However, we do expect further strong growth for 3KV (see page 16), which should largely compensate for the decrease in business of electronic components. Altogether, the decline in sales in the electronics segment should turn out moderately and the sales volume should be at €47.8 million. The distribution agreement with KEMP Technologies, which was recently finalised and which in 2012 is supposed to add a medium- and in 2013 a high single-digit million amount to sales, reinforces this assumption.

Areas (in million €)	Turnover 2011	Turnover 2012e	Delta 11/12	Turnover 2013e	Delta 12/13
Electronics - electronic components	24.22	12.80	-47.1%	13.25	+3.5%
Electronics – IT network products	24.58	35.00	+42.4%	38.50	+10.0%
Segment electronics total	**48.80**	**47.80**	**-2.0%**	**51.75**	**+8.3%**
Industrial - C-parts Outsourcing	22.42	25.83	+15.2%	29.88	+15.7%
Industrial – Central purchasing	5.89	6.48	+10.0%	6.80	+5.0%
Segment industrial total	**28.31**	**32.31**	**+14.1%**	**36.69**	**+13.6%**
Total	**77.11**	**80.11**	**+3.9%**	**88.44**	**+10.4%**

Source: Calculations GBC

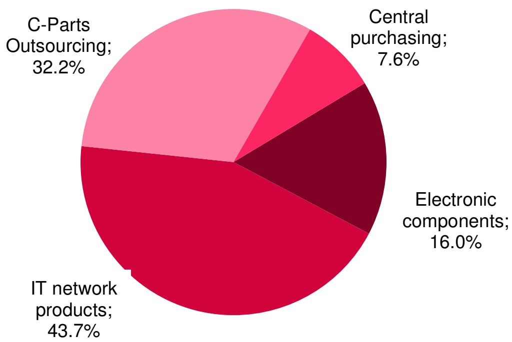
In the area of C-parts outsourcing, a slight inorganic increase in turnover, estimated at €1.5 million will result, because MRL was only consolidated by 01/02/2011 in the previous year and thus was taken into account for the first time over the entire period in FY 2012.

But the increase in turnover in light of the expansion of the distribution area to France and Belgium (see page 16) will also have a positive impact and lead to an increase in sales revenues of 15.2% to €25.83 million.

In total, we expect increased sales revenues by 14.1% to. The increase in turnover by 29.6% in Q1 2012 confirms this positive development

At Group level we accordingly expect a slight overall upward trend in sales by 3.9% to €80.11 million . In doing so, we are in line with the management's turnover forecast, which held out the prospect of more than €80 million for FY 2012. Given the special situation in the previous year and the deconsolidation effects, we assess this objective to be a respectable and satisfactory value.

Breakdown of turnover 2012e



Source: Calculation GBC

HPI AG's sales mix will shift in favour of IT network products following the strong growth rates for 3KV and the expected decline in turnover development for the area of electronic components. The distribution of sales revenuesbetween the segments of industrial and electronics remains largely unaffected.

In the medium term, the targeted turnover is €100 million, which will be achieved through both organic as well as inorganic growth. In our planning, however, we did not consider any other acquisitions. With a corresponding acquisition, the targeted turnover of €100 million could be reached much faster.

Regarding turnover risk in the coming years, it should be emphasised that the area of C-parts outsourcing will be provide significant support for turnover due to extensive revenue guarantees from the largest customers of MRL. Fluctuations within the context of economic cycles should therefore only have a very subdued impact on the field.

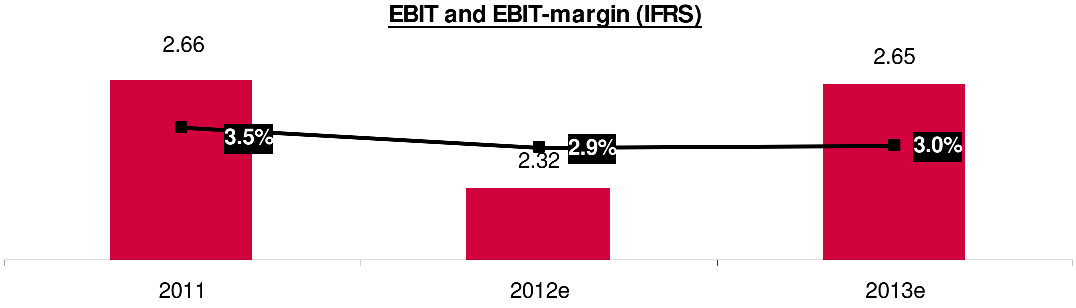
The electronic components business is especially dependent on the general economic situation, which can lead to sales fluctuations in this area. Here, however, a flattening of the cyclic should be achieved by strengthening the excess stock business. The area of IT network products, however, is less dependent on economic cycles, since here in particular the technological advancement is a driver for growth, since topics such as cloud computing and IT security progress regardless of the overall state of the economy (see page 16).

Earnings forecasts – synergy effects and consolidation for strengthening EBIT

On the topic of earnings, HPI AG's management is planning to generate an EBIT of more than €2.3 million in the current FY 2012. It should be noted that the annual report for 2012 will be prepared for the first time in accordance with accounting rules IAS/IFRS. With that said, the pro rata write-offs of goodwill, which burden the earnings by €0.97 million annually according to HGB, will decline and EBIT will correspondingly be higher.

According to our calculations, we consider the achievement of the objective set to be realistic and expect an EBIT in the amount of €2.32 million. Although this reflects a decline of 12.8% year-on-year. This decline, however, is especially due to the omitted contributions in earnings in the previous year, caused by special effects in the wake of the catastrophe in Japan.

For FY 2013, however, we assume that increases can be brought about for both EBIT and EBIT margin. Therefore we expect EBIT growth of 14.2% to the equivalent of . The EBIT margin is expected to improve to 3.1%, due to the disproportionate growth compared to sales revenues.



Source: Calculation GBC

The largest earnings are likely to still be contributed by MRL, which already contributed almost 50% of group EBIT in 2011. But for the other affiliates alike, particularly in electronics, we expect cost reductions as part of streamlining the corporate structure (see page 17).

At the same time synergy effects between the individual subsidiaries should be lifted in operative areas, e.g. distribution, which could also lead to cost reductions.

Finally, it is to be assumed that 3KV provides a growing contribution to earnings in future periods. While 3KV's EBIT in FY 2011 at only €0.22 million was reflected in the budget, we expect that the high growth rates that the company exhibits will lead to economies of scale, which should have similar effects on absolute and relative earnings.

It should be noted especially that further acquisitions of companies with higher profit margins could lead to an improvement of the margin situation for the entire group. However, inorganic effects have not been taken into consideration in our forecasts.

With regard to interest expenses, it is to be expected that they will be slightly higher in FY 2012 compared to the prior year as additional long-term debt has been taken on during the course of the year to finance growth plans. However, this is offset by an expected increased income from investments which have been made in the course of scheduled deconsolidation.

The net result in FY 2011 was characterised by MRL's minority interests. We expect minority interests to be of a similar dimension in the coming years. On the other hand, exercising the option of purchasing additional shares in MRL would have a positive impact on the net gain, insofar as the shares of third parties would decline.

On the whole, we expect that HPI AG will report an annual net profit of €0.88 million and €1.07 million respectively, in FY 2012 and FY 2013. This corresponds to earnings of €0.12 and €0.15 per share.

Valuation

Discounted cash flow valuation

Model assumptions

HPI AG was valued using a three-phase DCF model. Starting from the specific estimates for the years 2012 to 2013 in phase 1, the second phase from 2014 to 2019 forecasts the effect of value drivers. We expect an annual increase in turnover of 5.0%. We took as our target an EBITDA margin of 3.90%. For Phase 2, we applied a tax rate of 30.0%. For the third phase beyond the forecast horizon, a residual value was calculated using a perpetual annuity formula. In the final value, we assume conservatively a growth rate of 2.0%. .

Definition of cost of capital

The weighted average cost of capital (WACC) for HPI AG is calculated on the basis of internal capital costs and external capital costs. In order to determine the internal cost of capital, the fair market premium, the company beta and the risk-free interest rate need to be established.

The interest rate for 10-year German federal bonds is taken as the risk-free interest rate. This currently stands at 2.00%.

We used the historic market premium of 5.50% as a suitable expectation of market premium. This is supported by historical analyses of stock market yields. The market premium reflects the percentage of the expected excess return of the stock market over the low-risk government bonds.

Using the GBC estimation method there is currently a beta of 1.81.

Applying these assumptions we can calculate an internal cost of capital of 11.96% (beta multiplied by the risk premium, plus 10-year interest rate). As we assume a long-term weighting of internal capital costs of 100%, the weighted average cost of capital (WACC) is 11.96%.

Valuation result

Discounting future cash flows was carried out using the entity approach. Applying the corresponding cost of capital (WACC) of 11.96%, results in a fair company value at the end of fiscal year 2013 in the amount of **€16.68 million** or **€2.30 per share**.

HPI AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after the estimate phase:

consistency - phase	
Sales growth	5.0%
EBITDA-Margin	3.9%
Depreciation to fixed assets	10.0%
Working Capital to sales	5.0%

final - phase	
Eternal growth rate	2.0%
Eternal EBITA - margin	2.8%
Effective tax rate in final phase	30.0%

three phases DCF - model:

Phase	estimate		consistency						final
In € m	80.11	88.44	92.82	97.41	102.23	107.29	112.61	118.18	
Sales	3.9%	10.4%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Sales change	9.42	9.83	9.77	9.50	9.50	9.50	9.50	9.50	
Sales to fixed assets	3.05	3.43	3.57	3.75	3.94	4.13	4.34	4.55	
EBITDA	3.8%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	
EBITDA-Margin	2.32	2.65	2.67	2.80	2.91	3.05	3.20	3.36	
EBITA	2.9%	3.0%	2.9%	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%
EBITA-Margin	-0.71	-0.81	-0.80	-0.84	-0.87	-0.91	-0.96	-1.01	
Taxes on EBITA	30.8%	30.7%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Taxes to EBITA	1.61	1.84	1.87	1.96	2.03	2.13	2.24	2.35	
EBI (NOPLAT)	14.8%	14.7%	13.9%	13.8%	13.4%	13.4%	13.4%	13.4%	13.0%
Return on capital									
	4.01	4.42	4.68	4.91	5.15	5.41	5.68	5.96	
Working Capital (WC)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
WC to sales	-1.58	-0.42	-0.26	-0.23	-0.24	-0.26	-0.27	-0.28	
Investment in WC	8.50	9.00	9.50	10.25	10.76	11.29	11.85	12.44	
Operating fixed assets (OAV)	-0.73	-0.78	-0.90	-0.95	-1.03	-1.08	-1.13	-1.19	
Depreciation on OAV	8.6%	8.7%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Depreciation to OAV	-0.83	-1.28	-1.40	-1.71	-1.54	-1.61	-1.69	-1.78	
Investment in OAV	12.51	13.42	14.18	15.16	15.91	16.70	17.53	18.40	
Capital employed									
	3.05	3.43	3.57	3.75	3.94	4.13	4.34	4.55	
EBITDA	-0.71	-0.81	-0.80	-0.84	-0.87	-0.91	-0.96	-1.01	
Taxes on EBITA	-2.41	-1.70	-1.66	-1.94	-1.78	-1.87	-1.96	-2.06	
Total invesment	-0.83	-1.28	-1.40	-1.71	-1.54	-1.61	-1.69	-1.78	
Invesmtent in OAV	-1.58	-0.42	-0.26	-0.23	-0.24	-0.26	-0.27	-0.28	
Investment in WC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Investment in Goodwill	-0.07	0.92	1.11	0.97	1.28	1.35	1.41	1.48	20.37
Free Cashflows	4.29	10.17	12.09	13.12	13.78	14.47	15.19	15.95	252.57

Value operating business (due date)	14.61	15.44
Net present value explicit free Cashflows	5.38	5.10
Net present value of terminal value	9.24	10.34
Net debt	-2.53	-2.95
Net present value of options	0.00	0.00
Value of equity	17.15	18.39
Minority interests	-1.60	-1.72
Value of share capital	15.54	16.68
Outstanding shares in m	7.250	7.250
Fair value per share in €	2.14	**2.30**

Cost of capital

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.81
Cost of equity	12.0%
Target weight	100.0%
Cost of debt	7.6%
Target weight	0.0%
Taxshield	28.7%
WACC	**12.0%**

Sensitivity analysis - fair value per share in €

	WACC				
Return on Capital	10.0%	11.0%	12.0%	13.0%	14.0%
11.0%	2.50	2.24	2.04	1.88	1.75
12.0%	2.68	2.40	2.17	1.99	1.84
13.0%	2.86	2.55	**2.30**	2.10	1.94
14.0%	3.04	2.70	2.43	2.21	2.04
15.0%	3.22	2.85	2.56	2.33	2.14

Conclusion

Still on a growth course in 2012 - EBIT margin of 3.0% can be reached in 2012 - fortunate valuation on book value level - Target price: €2.30 - Rating PURCHASE

The past FY 2011 was very successful for HPI AG. Sales revenues could be increased by 157.9% to €77.11 million. Inorganic growth was recorded for the first time due to the first time consolidation of 3KV and MRL in 2011. But even viewed organically, HPI AG increased by at a two-digit rate of 10.3%. Based on the acquisitions in the previous year, the company's sales revenues could be distributed onto additional pillars, which contributes to an improved diversification.

Considerable improvements could also be made in terms of earnings. EBIT rose from €0.45 million to now €1.69 million, which represents an increase of 273.9%. Here, the acquisition of MRL has had an especially positive impact. The purchase service provider for C-parts contributed an EBIT of €1.3 million in 2011 and was largely responsible for the good performance of the group EBIT.

The company's good development continued in Q1 2012. Sales revenues have been increased by 2.2% to €18.4 million in the first three months of the year. Among other things, the sales of subsidiaries HPI Distribution and 51% of VCE Virtual Chip Exchange in order to streamline group structure especially negatively influenced the turnover. At the same time, however, EBIT could be improved from €0.32 million to €0.38 million. The EBIT margin also increased by 0.3 percentage points to 2.1%.

In view of the positive development in the first months, the management still expects that revenues of more than €80 million can be achieved. Given the very dynamic growth of 3KV, and the expected increase in sales of MRL, it should be possible to overcompensate the predicted decline in electronic components. As a result, we expect a turnover of €80.11 million for fiscal year 2012, however, we have not taken into account any further acquisitions.

We made the EBIT forecasts based on IAS/IFRS, as HPI AG will prepare its annual financial statement in accordance with the international accounting standards for the first time in 2012. Therefore we expect an EBIT of €2.32 million, after a similar value of €2.66 million in 2011. The slight decline in EBIT is due in particular to the omitted profit contributions in the previous year, based on the positive special effects in the wake of the catastrophe in Japan. For FY 2013, we expect an increase in EBIT margin to 3.0% in the course of streamlining the group structure and raising synergy effects.

HPI AG is a dynamically growing company especially in the area of electronics, which wants to generate significant sales increases in the coming years, in an organic as well as inorganic way. Raising synergy effects and streamlining the group structure has also created potential for an increase in margins. With a market valuation equivalent to book value, plus a price-earning ratio of 8.2 for 2013, the company appears to be valued moderately, especially since positive operating cash flows and double-digit returns are earned on the invested capital.

We estimated a target price of €2.30 for HPI AG, which leads to a price potential of almost 100%. Against this background the rating is to BUY.

Annex

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