Research Report (Anno)

Integration and consolidation due to the Agenda 500 negatively influenced the result – 2014 and later on, rising EBIT-Margins are expected

Target price: 21.50 €

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 19

Completion: 10/4/2014 **First Publication: 11/4/2014**

GBC AG Investment Research

euromicron AG*5

Company profile

Sector: Technology

Speciality: Network- und fiber optic technology

Employees: 1741 (31/12/2013)

Founded: 1998

Registered Office: Frankfurt am Main

Executive Board: Dr. Willibald Späth, Thomas Hoffmann

BUY

Price Target: € 21.50

current price 12.60
8/4/2014 / ETR / 12:08
currency: EUR

Key date:

ISIN: DE000A1K0300
WKN: A1K030
Ticker symbol: EUCA
Number of shares³: 7.720
Marketcap³: 97.27
EnterpriseValue³: 167.37
³ in m / in EUR m
Freefloat: 86.0 %

Transparency Level:
Prime Standard
Market Segment:
Regulierter Markt
Accounting Standard:
IFRS

Financial year-end: 12/31

Designated Sponsor:
EQUINET

Analyst:

Philipp Leipold
leipold@gbc-ag.de

Felix Gode
gode@gbc-ag.de

* catalogue of potential conflicts of interests on page 19

euromicron AG provides complete solutions for communication, transmission, data and security networks. The euromicron network infrastructures integrate speech, image and data transmission using wireless, copper cable and glass fibre technology. euromicron builds its market-leading applications on these network infrastructures, applications such as e-health, security, control and monitoring systems. The euromicron group consists of the parent company, euromicron AG, and a further 23 companies which are consolidated in the group accounts. The vast majority of the group's sales are generated in Germany. Activities can be divided into three divisions: projects & systems, components & assembly and distribution & services.

P&L in EURm / Due date	FY 2012	FY 2013	FY 2014e	FY 2015e
Sales	330.03	329.37	348.00	375.00
EBITDA	25.03	14.41	21.56	28.80
EBIT	17.08	5.51	12.66	20.20
Net profit	8.57	-0.89	6.00	11.18
Figures in EUR				
Net Profit per share	1.29	-0.12	0.78	1.45
Dividend per share	0.30	0.00	0.25	0.60
Ratios				
EV/Umsatz	0.54	0.51	0.48	0.45
EV/EBITDA	7.09	11.61	7.76	5.81
EV/EBIT	10.39	30.38	13.22	8.29
P/E	11.35	neg.	16.21	8.70
P/B		0.79		

Financial Dates
09/05/2014: Report Q1
15/05/2014: Annual Meeting
08/08/2014: Report Q2
07/11/2014: Report Q3

** last research published by GBC:
Date: publication/price target in €/Rating
13/8/2013: RS / 26,50 / Buy
17/7/2013: RG / 25,50 / Buy
15/4/2013: RS / 25,50 / Buy
** 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

EXECUTIVE SUMMARY

- At around EUR 330 million, turnover during the 2013 financial year just ended was approximately the same as the prior year, and thus below expectations, due to postponements of orders. During 2013, the operating result was subject to a significant negative influence from integration and consolidation measures as part of Agenda 500. Expenses for the integration measures as well as project assessments amounted to more than EUR 10 million for 2013.

- By contrast, operating cash flow developed very favourably. This amounted to just under EUR 40 million for 2013. However, in this regard it must be considered that the operating cash flow was largely positively influenced by two effects. In addition, the equity position was solidified through a capital increase in December 2013.

- For the current 2014 financial year, we expect growth in turnover to be around 11% to EUR 348.0 million. In addition to both acquisitions, postponed orders from the prior year are expected to have a positive influence on turnover. According to information provided by the company, the early months of the current 2014 financial year have progressed very favourably. Additional integration costs will be incurred during 2014; however they will not be on the same scale as during the prior year. In particular, we expect a significant improvement in results for the segment "Süd" in 2014.

- We expect the margin situation to improve continuously in the coming years. In this context, we have not taken larger acquisitions into account for the purposes of this assessment. The expected EBIT margin should increase continuously from 3.6% in 2014 to 6.8% in 2016. According to our DCF model, shares in euromicron AG are clearly undervalued and the expected improvement in results is not reflected in the current share price in our opinion. We believe the target price to be EUR 21.50 and we thus confirm the buy rating.

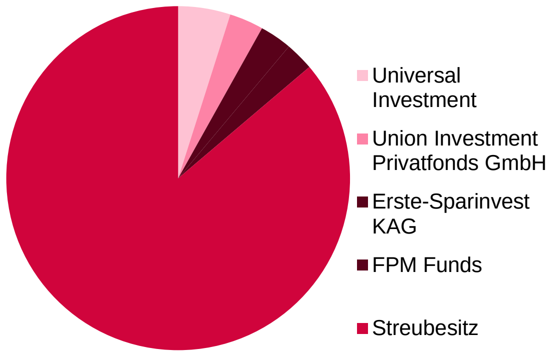
TABLE OF CONTENT

COMPANY

Shareholder structure

shareholder in %	30/03/2014
Universal Investment	4.9 %
Union Investment Privatfonds GmbH	3.2 %
Erste-Sparinvest KAG	3.0 %
FPM Funds	2.7 %
Streubesitz	86.1 %

Source: comdirect; GBC AG



Group

euromicron GROUP

SEGMENT LEVEL

euromicron NORTH	euromicron SOUTH	euromicron WAN
including Poland and France	including Austria and Italy	services

COMPETENCE LEVEL

AREAS OF EXPERTISE / OPERATIONAL SKILLS / KNOW HOW

Development and production of components and product categories	Planning, design and integration of systems and solutions	Consulting, distribution, sourcing and network services

PRODUCT AND SERVICE LEVEL

PRODUCTS AND SERVICES

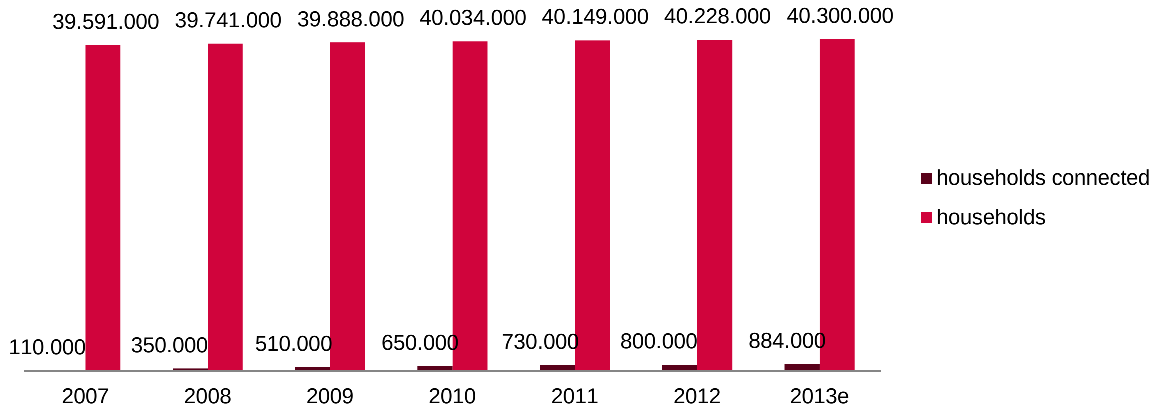
Optical and hybrid connectors, assembly, switches and cable systems	Voice, data and video communication, intercom and public adress systems, convergent systems	Active and passive network components from a global range
Networked workplace systems, examination and testing equipment	All-round solutions for networked working and living	Top-performance cabling systems
Control and monitoring stations	Optical, wireline and wireless networks	Consulting, training, network analysis and services
Customized product solutions	Analysis, planning, implementation, maintenance, service and operation	Customer- and project-specific spare parts management and logistics
TDM, IP and MPLS systems		Nationwide service and project management capacity for complex systems
Cable and wireless systems		
Software-based network, system, infrastructure and security management solutions		
Intercom and public adress systems		

MARKET

With its broad product portfolio, euromicron AG covers demand, inter alia, in the markets for transmission technology, information and telecommunications technology as well as the transportation and rail industry. In this regard, the Group is particularly able to benefit from the increasing networking of private households and the expansion of data transmission via fibre optic cables.

As a result of increasing networking between electronic devices, global data volume is expected to increase more than ten-fold by 2020 according to U.S.-based telecommunications supplier Cisco. For instance to be able to keep pace with the growing demand for ever-increasing data volumes, Deutsche Telekom wants to invest some EUR 6 billion up to 2016 in the modernisation of existing land-line and mobile telephone networks as well as their further expansion. euromicron AG is expected to benefit from the expansion of the telecommunications network by Deutsche Telekom which is included amongst its broad customer base. Data transmission via fibre optic cables in particular is expected to significantly increase in the coming years as there is a significant investment back-log in this segment. The following graphic shows development to date in households connected to a fibre optic network in Germany.

The number of households in Germany connected to a fibre optic network



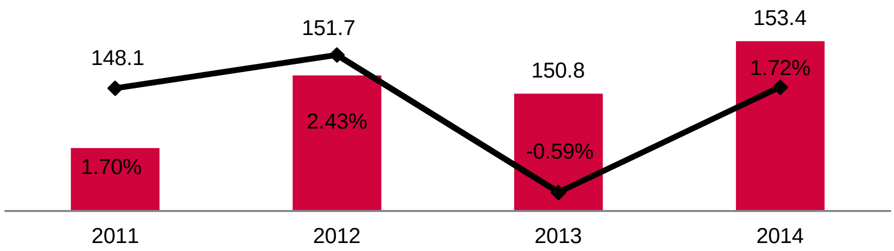
Source: VATM; Dialog Consult; GBC AG

As may be seen from the graphic, and is reported by the industry organisation for network suppliers FTTH Council Europe, Germany lags significantly behind in relation to the rest of Europe when it comes to the expansion of Internet access via fibre optic cables. According to Statista.de, of the 40.2 million private households in Germany, only around 2% were connected to the network, and were accordingly supplied data, via fibre optic cables in 2012. This figure is far behind the goal set by the Federal Government. When the broadband strategy was announced in February 2009, the goal was namely that by the end of 2014 around 75% of households would be connected to the network via connections with a data transfer rate of at least 50 megabytes per second. Thus, there is significant need for catch-up in order to be able to achieve this target figure.

The plans of the individual mobile telephone providers are similarly ambitious to those of the Federal Government. For example, Deutsche Telekom's goal is that the number of VDSL connections, with a transfer rate of between 50 and 100 megabytes/second, should double from 12 million in 2014 to 24 million in 2016. This goal requires continual expansion of the existing broadband network and additional investments. In the course of expanding broadband, Telekom is replacing existing lines and copper cables with new high-performance fibre optic cables. Via its subsidiary, euromicron solutions GmbH, euromicron AG has the opportunity to win significant calls for tender in this industry in the future as well, and to generate the corresponding orders. Via its Mobile Solutions business division, euromicron AG additionally covers the market for smart data solutions such as GSM, UMTS or LTE. According to the industry association BITKOM, data transmission to end customers exclusively via fibre optic cables is not possible in the near term. According to BITKOM, a reasonable and sound data provision solution requires the commitment and the combination of all available technologies such as DSL, VDSL and mobile communications technologies such as LTE. In order to be able to ensure corresponding provision in the mobile sector as well, the association indicates that some eight to ten billion euros need to invested in LTE expansion in the next two years.

Cross-technology expansion of internet supply will accordingly generate additional growth in future within the information and telecommunications industry. In this regard, the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM e.V.) projects positive growth for the industry sector of around 1.7% for 2014. Within the telecommunications infrastructure segment, projections even call for growth of 3.0% for 2014. The following graphic shows the trend in market volume within the information and telecommunications industry and the corresponding growth during the past three years.

Developement of the german ITC-market since 2011



Source: BITKOM, GBC AG

In addition to the expansion of broadband coverage and the mobile telephone networks, the modernisation of railway stations by Deutsche Bahn AG will likely generate more contracts for euromicron AG. Within Germany, Deutsche Bahn AG owned some 5,645 railway stations in 2012. Between 2009 and 2011, around EUR 326 million had already been invested in the modernisation and expansion of these existing railway stations. Deutsche Bahn AG has budgeted capital investments of EUR 100 million per year for future expansion and maintenance of the structures in coming years. euromicron AG plans to benefit, via its subsidiary telent GmbH, from the modernisation and investment measures to be realised.

GBC AG Investment Research

Development of the company & forecast

Overview of the figures

in m €)	FY 2011	FY 2012	FY 2013	FY 2014e	FY 2015e
Sales	305,31	330,03	329,37	348,00	375,00
Increase in finished goods work-in-process	-7,44	-5,85	-0,70	0,00	0,00
internally produced and capitalised assets	1,95	5,61	3,13	2,00	2,20
Other operating income	2,72	2,80	1,90	2,50	2,80
Material expenses	-159,62	-171,00	-176,44	-184,44	-195,00
Gross profit	142,92	161,58	157,27	168,06	185,00
Personnel expenses	-76,93	-93,59	-99,18	-103,00	-110,20
Depreciation	-6,56	-7,94	-8,90	-8,90	-8,60
Other operating expenses	-35,26	-42,97	-43,68	-43,50	-46,00
EBIT	**24,16**	**17,08**	**5,51**	**12,66**	**20,20**
Financial result	-6,36	-4,86	-3,81	-3,80	-3,80
EBT	**17,80**	**12,23**	**1,70**	**8,86**	**16,40**
Taxes	-4,95	-3,40	-2,47	-2,66	-4,92
EBT before minority i.	**12,85**	**8,83**	**-0,76**	**6,20**	**11,48**
Minority interests	-0,67	-0,26	-0,12	-0,20	-0,30
Net profit	**12,18**	**8,57**	**-0,89**	**6,00**	**11,18**

EBITDA	30,73	25,03	14,41	21,56	28,80
EBITDA-margin	*10,1%*	*7,6%*	*4,4%*	*6,2%*	*7,7%*
EBIT	24,16	17,08	5,51	12,66	20,20
EBIT-margin	*7,9%*	*5,2%*	*1,7%*	*3,6%*	*5,4%*
Earnings per share in €	1,83	1,29	-0,12	0,78	1,45
Dividends	1,15	0,30	0,00	0,25	0,60
Number of shares in million	6,66	6,66	7,72	7,72	7,72

Business development 2013

in m €	FY 2012	Δ	FY 2013
Sales	330.03	-0.2%	329.37
EBITDA	25.03	-42.4%	14.41
EBITDA-Margin	*7.6%*		*4.4%*
EBIT	17.08	-67.7%	5.51
EBIT- Margin	*5.2%*		*1.7%*
Net profit	8.57	-110.4%	-0.89
EPS in €	1.29	-109.0%	-0.12

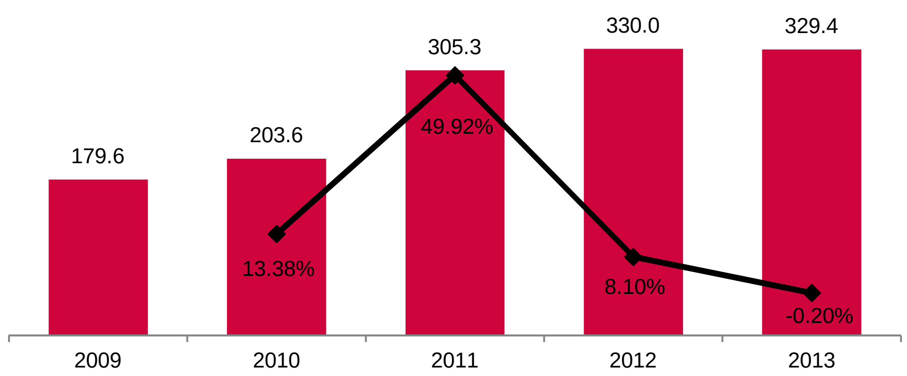
Source*: euromicron AG; GBC AG*

Turnover development - Turnover flat year-on-year due to project postponements

At the group level, euromicron AG generated revenues of EUR 329.37 million during the 2013 financial year and thus was nearly on par with the prior year. However, as a result, the turnover figures were significantly below our forecasts as well as those of the company. For this reason, euromicron AG had to undertake a surprising adjustment in its turnover projections to EUR 320 million in December 2013, which however were exceeded once final figures were disclosed.

In our opinion, medium-term growth levels continue to remain intact. In light of the foregoing, we believe that euromicron AG continues to be on track to be able to successfully implement Agenda 500 through 2015 and 2016. Despite revenue trends that are merely stable, it must be noted that important markers were set during the 2013 financial year with regard to integration and realignment in order to be able to achieve the strategic goal, Agenda 500.

Turnover development (in m €)

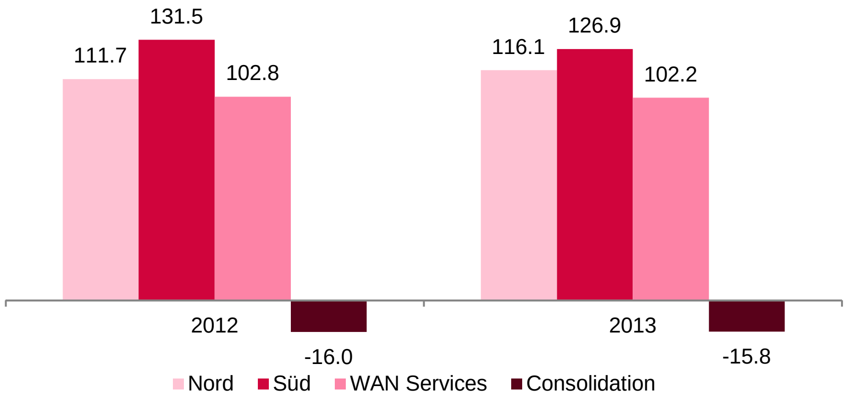


Source*: euromicron AG; GBC AG*

Turnover for 2013, which lagged behind expectations, was primarily the result of weaker operating results on the part of subsidiaries in both segments **Components** (development and production of components and products) and **Networks** (planning, design and integration of systems). In this context, postponements of already commissioned projects into future quarters as well as contracts that were not secured ultimately led to the failure to meet revenue forecasts. In our opinion, around EUR 10 million of this is attributable to the manufacturing segment and around EUR 15 million to systems operations within the corporate group.

The following graphic shows the allocation of turnover based on the various segments.

Turnover development segments (in m. €)



Quelle: euromicron AG; GBC AG

A decline in turnover from EUR 131.5 million in 2012 to EUR 126.9 million in 2013 was reported in the largest segment "Süd". In this context, the trend in turnover was significantly impaired as a result of a series of redundancies and restructuring measures. Likewise, subsidiary telent, which is assigned to the WAN Services segment along with RSR Datacom, was not able to realise planned growth in part as a result of political uncertainty in the energy and telecommunications segments. At EUR 102.2 million, turnover was equal here to the prior year's levels.

By contrast, revenue generated abroad was subject to marked growth. During the 2013 financial year, international turnover increased to EUR 38.1 million, which corresponds to just under 12% of total turnover. The acquisition of Procom during the past year was also a contributing factor.

International turnover development (in m €)

Source*: euromicron AG; GBC AG*

According to the 2013 annual report, the euromicron group generated turnover of some EUR 36 million with its largest customer. In our view, this was likely Deutsche Bahn. Additional important customers likely include, inter alia, Deutsche Telekom, Colt and Toll Collect.

Development of earnings - Integration measures exert downward pressure on earnings

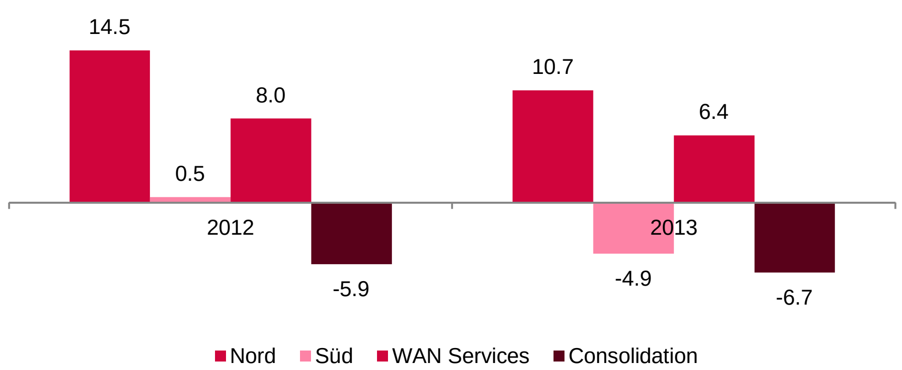
The gross profit declined disproportionately during the just ended 2013 financial year to EUR 157.27 million compared to EUR 161.58 million for the prior year. The decrease was primarily due to special effects from project valuations of nearly EUR 5.0 million which are largely reflected in material expenses. Amongst other things, this was caused by higher employee turnover, in particular in the segment "Süd" which led to several projects being concluded at a loss. By contrast, synergy effects from the newly established central purchasing function had a positive effect on the gross profit margin.

Furthermore, declining gross profit is attributable to lower internally produced and capitalised assets (2013: EUR 3.1 million compared to EUR 5.6 million) as well as lower other operating income of just under EUR 1.0 million. During the prior year, production operations such as MICROSENS, ELABO and euromicron Werkzeuge, developed a series of new products which resulted in higher internally produced and capitalised assets.

Personnel expenses increased disproportionately during the 2013 reporting period to EUR 99.18 million following EUR 93.59 million during the prior year. This was, on one hand, attributable to consolidation effects. During the prior year, RSR Datacom, as well as Stark- und Schwachstrommontage, had not yet been consolidated for the entire year. The number of employees increased to 1,741 as at the end of December 2013 (prior year: 1,699). It must be noted in this regard that around 80 new employees were added as a result of the acquisition of ATECS and SIM. On balance, headcount declined by around 40 employees. Associated one-time expenses were incurred in the course of restructuring. On the whole, the company reported integration expenses of around EUR 5.5 million (prior year: approx. EUR 4.4 million) which is primarily included within personnel expenses. In addition, new employees were hired in the course of the expansion of euromicron networks and the Competence Center.

Earnings before interest, taxes, amortisations and depreciations (EBITDA) were EUR 14.41 million. Our expectations were thus not met. As mentioned above, extraordinary expenses associated with integration measures as well as project valuations amounted to more than EUR 10 million. The cost budgets were also set with higher growth in mind so that this likewise had a negative impact on EBITDA. Amortisation increased by some EUR 1.1 million to EUR 4.6 million during 2013 primarily due to higher internally produced and capitalised assets.

EBIT development segments (in Mio. €)



Source: euromicron AG; GBC AG

The above graphic shows that results in all four segments developed negatively. The decrease in the segment “Süd” in which a large part of the extraordinary expenses is attributable was especially remarkable. For 2013, the loss amounted to EUR -4.9 million. However, weaker margins in earlier years were, in our opinion, also evidence of already extant structural weaknesses in the segment “Süd”.

During the 2013 financial year just ended, financial results improved significantly to EUR -3.81 million compared to EUR -4.86 million. The euromicron group is able to obtain refinancing on favourable terms from banks. Liabilities to banks, plus an industrial loan, amounted to around EUR 67 million as at the end of 2013. In addition, the impairment of an equity holding undertaken in the prior year had a negative impact on financial results of some EUR 0.3 million.

The higher tax ratio of more than 140% was primarily attributable to the circumstance that deferred taxes were not capitalised. The reason for this is that the segment “Süd” expects to generate slightly positive results during the current financial year 2014 following a large loss in 2013. The net annual loss for 2013 amounted to EUR -0.89 million (prior year: EUR 8.83 million).

Dividend payments were suspended as a result of the net annual loss. In our forecasts, we expect dividend payments will resume for the 2014 financial year.

Assets, liabilities and financial situation

in m €	FY 2011	FY 2012	FY 2013
Equity	119.56	118.52	122.21
Equity-Ratio	0.45	0.42	0.37
Operating fixed Assets	33.39	37.29	38.18
Working Capital	53.56	63.35	49.69
Net Debt	62.66	80.22	70.14

Source*: euromicron AG; GBC AG*

During the 2013 financial year just concluded, the financial condition of euromicron AG improved significantly according to our assessments despite results that lagged behind expectations. This is the result of very favourable operating cash flow and the low pay-out ratio of the dividend in addition to the capital increase conducted.

As at the end of December 2013, the equity ratio declined to around 37%, which we continue to view as sound. Thanks primarily to the capital increase, equity capital increased to around EUR 122.21 million. The capital increase conducted in December 2013 resulted in gross proceeds of EUR 7.1 million. The placement price was EUR 13.86. The number of shares outstanding rose to 7.176 million as a result of this capital measure.

As a result of the acquisition of ATECS and SIM, goodwill recognised on the balance sheet increased by around EUR 7 million to EUR 113.53 million. Intangible assets amounting to some EUR 23.71 million (prior year: EUR 21.03 million) as at 31.12.2013 are closely associated with the capitalisation of development expenses in prior years as well as assets identified as part of the purchase price allocation. We view as positive the decrease in capitalised self-produced assets in the amount of EUR 3.13 million in 2013 after EUR 5.61 in the prior year.

According to our calculations, net working capital improved significantly to EUR 49.69 million (prior year: EUR 63.35 million). In our view, this improvement partly reflects measures intended to improve working capital management which have already been implemented. On the other hand, in our opinion balance sheet date effects related to invoice timing also played a role.

Operating cash flow was improved greatly during the 2013 reporting period to EUR 39.43 million (prior year: EUR 6.96 million). However, in this regard it must be considered that the operating cash flow was largely positively influenced by two effects. For example, liquid funds increased by some EUR 20 million as a result of factoring. On the liability side, this resulted in a corresponding rise in other financial liabilities (client funds to be distributed). Furthermore, purchase price liabilities increased by around EUR 10 million as a result of the acquisition of ATECS and SIM. A large part of the purchase price is to be paid during the first half of 2014. We have included these two positions as net debt for the purposes of our balance sheet analysis.

But even adjusted for these two extraordinary effects, operating cash flow amounted to around EUR 10 million for the 2013 financial year just ended, which we see as a step in the right direction. During 2013, investments (including capitalised internally-produced assets) totalled EUR 6.4 million (prior year: EUR 10.8 million) and thus was below amortisation levels of EUR 8.9 million (prior year: EUR 7.9 million).

SWOT-Analysis

Strengths	Weaknesses
• Leading network specialist with a comprehensive network of branches throughout Germany • Broad product portfolio within the segments systems house, production and distribution • Crisis-proof business model, thanks to broadly diversified customer base • Well placed in a growing market for network infrastructure and data communications • Comfortable order book of nearly EUR 130 million as at year's end • Good relationship to house banks and ability to obtain refinancing on favourable terms • Good track record in relation to past acquisitions	• Comparatively high levels of goodwill in the balance sheet • A traditionally high earnings contribution in the fourth quarter causes seasonality in the business • Net debt is relatively high
Opportunities	**Risks**
• The increased size of the euromicron group could yield potential benefits in bidding on large projects • Larger acquisitions could result in more dynamic development of turnover and results accompanied by favourable financing terms • Significant earnings potential from integration and restructuring measures that have been introduced • Political decisions could have positive effects on investment behaviour in relation to broadband expansion	• Relatively high goodwill presents a risk of a value adjustment in the event performance weakens • Delays or miscalculations related to large projects • Increasing pressure on prices and margins in project-based business if the economy weakens

Forecast and model assumptions

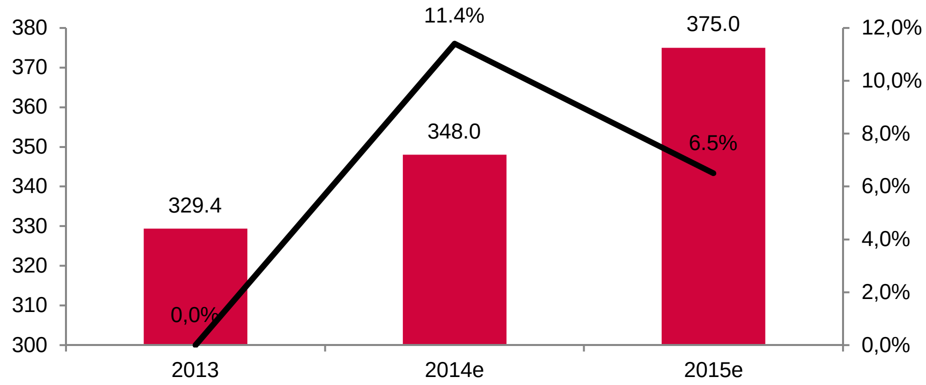
in Mio. €	FY 2013	FY 2014e	FY 2015e
Sales	329.37	348.00	375.00
EBITDA	14.41	21.56	28.80
EBITDA-Margin	*4.4%*	*6.2%*	*7.7%*
EBIT	5.51	12.66	20.20
EBIT- Margin	*1.7%*	*3.6%*	*5.4%*
Net profit	-0.89	6.00	11.18
EPS in €	-0.12	0.78	1.45

Source*: GBC AG*

Turnover forecasts - Slight organic growth expected in 2014

We expect a rise in turnover for the current financial year 2014 of 5.7% to EUR 348.0 million. The company itself has forecast a turnover range of between EUR 340 million and EUR 360 million for 2014. In relation to the segments, the situation is in line with our assessment. Whereas we expect growth of around 6% to 7% for the two segments “Nord” and “Süd”, we expect turnover within the WAN Services segment to be at the same level as 2013.

Turnover development (inm €)



Source: *GBC AG*

The group has started the 2014 financial year with a solid order book just above that of the prior year. In addition, at the press conference presenting the financial statements, it was reported that incoming orders had developed favourably at the subsidiary level during the early months of the year. This was in part due to orders that had been postponed from the prior year. As a result, we expect a respectable Q1 2014.

The acquisition of ATECS and SIM in December 2013 resulted in a base effect of more than EUR 10 million. These will be fully consolidated for 2014. We estimate turnover for both companies to be some EUR 12 to 13 million.

As part of the acquisition strategy, we can conceive of three or four smaller acquisitions during the remainder of 2014. These could be companies operating in network technology niche markets. A larger corporate acquisition is planned between 2015 and 2016 that will help attain target turnover of EUR 500 million set as part of Agenda 500. All integration and consolidation measures are likewise supposed to be completed by then. However, we have not taken any acquisitions into consideration as part of our assessment.

Earnings forecasts

We have underestimated the size of the extensive integration measures for the transformation process in the course of implementing Agenda 500. During the current 2014 financial year, integration expenses will once more have a negative effect on the operating result. However, extraordinary expenses are not expected to equal those of the prior year and we do not expect project valuations to result in charges during 2014.

We estimate results before interest, taxes and depreciation and amortisation (EBITDA) for the current financial year 2014 at EUR 21.56 million, which corresponds to an EBITDA margin of 6.2%. The company has forecast an EBITDA margin of between 6% and 8%.

With regard to the segments, we expect that the "Nord" and WAN Services segments will once again make the largest contributions to earnings in 2014. On a cumulative basis, we expect EBIT of around EUR 20 million for 2014. Integration measures will continue as well for the segment "Süd" during 2014. Nevertheless, the operating result should be slightly positive due to planned growth in turnover in conjunction with already-implemented cost savings measures. This will result in a marked improvement year-on-year (2013 EBIT: EUR -4.9 million). The two profitable companies ATECS and SIM are expected to make a contribution here as well.

For 2014, we expect EBIT of EUR 12.66 million at the group level, representing an EBIT margin of 3.6%. At this level, euromicron AG is far behind its medium-term target margin of between 8% and 11%. However, with regard to later years, we are convinced that the group will gradually approach this target margin following conclusion of the integration measures. With regard to the EBIT margin, our forecasts call for a significant improvement to 5.4% in 2014 as well as 6.8% in 2015.

Furthermore, in our view, dividend payments should resume for the 2014 financial year (GBC: EUR 0.25). In our opinion, the suspension of dividend payments during the 2013 financial year represents an exception.

VALUATION

Model assumptions

We valued euromicron AG using a three-phase DCF model. Starting from the specific estimates for the years 2014 to 2015 in phase 1, the second phase from 2016 to 2021 forecasts are performed under the assumptions of value drivers. In the process, we have assumed growth in turnover of 4.0% based on a conservative approach.

We have assumed a target EBITDA margin of 9.0%. euromicron AG has indicated a target EBIT margin of between 8% and 11% for 2016. We have employed a discount based on a conservative approach. Realisation of this goal would result in great additional upside price potential based on our DCF model.

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. For the final value we assume a growth rate of 2.0% as well as a tax rate of 30.0%.

Calculation of the cost of capital

The weighted average cost of capital (WACC) for euromicron AG is calculated on the basis of equity costs and debt costs. In order to determine the equity 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 1.61.

Applying these assumptions we can calculate an equity cost of capital of 10.8% (beta multiplied by the risk premium, plus 10-year risk free interest rate). As we assume a long-term weighting of equity capital costs of 80%, the weighted average cost of capital (WACC) is 9.4%.

Valuation result

Discounting future cash flows was carried out using the entity approach. We calculated the relevant capital cost (WACC) at 9.4%. The resulting fair value per share at the end of the financial year 2014 corresponds to a target share price of EUR 21.50.

We have thus reduced our prior target share price of EUR 26.50 on the basis of company performance below expectations. In addition, the capital increase effected in December 2013 resulted in a dilutive effect.

Accordingly, based on the current share price, the shares have upside potential of around 60%. In our view, the shares are clearly undervalued.

DCF-VALUATION

euromicron - Discounted Cashflow (DCF) Valuation

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

consistency - Phase	
Revenue growth	20,0%
EBITDA-Margin	9,0%
Depreciation to fixed assets	22,0%
Working Capital to revenue	15,6%

final - Phase	
Eternal growth rate	2,0%
Eternal EBITA - margin	7,1%
effektive Steuerquote im Endwert	30,0%

three phases DCF - model:

Phase	estimate		consistency						final
in €m	FY 14e	FY 15e	FY 16e	FY 17e	FY 18e	FY 19e	FY 20e	FY 21e	value
Revenue	348,00	375,00	390,00	405,60	421,82	438,70	456,24	474,49	
Revenue change	5,7%	7,8%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	2,0%
Revenue to fixed assets	9,16	9,62	9,95	10,30	10,66	11,00	11,33	11,63	
EBITDA	21,56	28,80	35,10	36,50	37,96	39,48	41,06	42,70	
EBITDA-Margin	6,2%	7,7%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	
EBITA	12,66	20,20	26,52	27,88	29,30	30,77	32,29	33,85	
EBITA-Margin	3,6%	5,4%	6,8%	6,9%	6,9%	7,0%	7,1%	7,1%	7,1%
Taxes on EBITA	-3,80	-6,06	-7,96	-8,36	-8,79	-9,23	-9,69	-10,15	
Taxes to EBITA	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%	30,0%
EBI (NOPLAT)	8,86	14,14	18,56	19,52	20,51	21,54	22,60	23,69	
Return on capital	10,1%	15,2%	18,8%	19,5%	20,0%	20,5%	20,9%	21,3%	21,0%
Working Capital (WC)	55,00	60,00	60,76	63,19	65,72	68,35	71,08	73,93	
WC to revenue	15,8%	16,0%	15,6%	15,6%	15,6%	15,6%	15,6%	15,6%	
Investment in WC	-5,31	-5,00	-0,76	-2,43	-2,53	-2,63	-2,73	-2,84	
Operating fixed assets (OAV)	38,00	39,00	39,20	39,39	39,59	39,87	40,26	40,79	
Depreciation on OAV	-8,90	-8,60	-8,58	-8,62	-8,67	-8,71	-8,77	-8,86	
Depreciation to OAV	23,4%	22,1%	22,0%	22,0%	22,0%	22,0%	22,0%	22,0%	
Investment in OAV	-8,72	-9,60	-8,77	-8,82	-8,86	-8,99	-9,17	-9,38	
Capital employed	93,00	99,00	99,96	102,58	105,31	108,21	111,35	114,71	
EBITDA	21,56	28,80	35,10	36,50	37,96	39,48	41,06	42,70	
Taxes on EBITA	-3,80	-6,06	-7,96	-8,36	-8,79	-9,23	-9,69	-10,15	
Total investment	-14,03	-14,60	-9,54	-11,25	-11,39	-11,62	-11,90	-12,22	
Investment in OAV	-8,72	-9,60	-8,77	-8,82	-8,86	-8,99	-9,17	-9,38	
Investment in WC	-5,31	-5,00	-0,76	-2,43	-2,53	-2,63	-2,73	-2,84	
Investment in Goodwill	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	
Free cashflows	3,73	8,14	17,61	16,89	17,78	18,64	19,47	20,33	294,66

Value operating business (due date)	238,86	253,14
Net present value explicit free Cashflows	81,60	81,12
Net present value of terminal value	157,26	172,02
Net debt	72,52	70,50
Value of equity	166,34	182,64
Minority interests	-0,43	-0,47
Value of share capital	165,91	182,17
Outstanding shares in m	7,72	7,72
Fair value per share in €	21,50	23,61

Cost of capital:	
Risk free rate	2,0%
Market risk premium	5,5%
Beta	1,61
Cost of equity	10,8%
Target weight	80,0%
Cost of debt	5,0%
Target weight	20,0%
Taxshield	28,7%
WACC	**9,4%**

Return on capital	WACC				
	8,8%	**9,1%**	**9,4%**	**9,7%**	**10,0%**
20,5%	23,57	22,21	20,96	19,83	18,78
20,7%	23,87	22,49	21,23	20,08	19,02
21,0%	24,17	22,78	**21,50**	20,33	19,26
21,2%	24,48	23,06	21,77	20,59	19,50
21,5%	24,78	23,35	22,04	20,84	19,74

ANNEX

Section 1 Disclaimer and exclusion of liability

This document is intended solely for information purposes. All data and information in this study come from sources that GBC regards as reliable. In addition, the authors have taken every care to ensure that the facts and opinions presented here are appropriate and accurate. Nevertheless, no guarantee or liability can be accepted for their correctness – whether explicitly or implicitly. In addition, all information may be incomplete or summarised. Neither GBC nor the individual authors accept liability for any damage which may arise as the result of using this document or its contents, or in any other way in this connection.

We would also point out that this document does not constitute an invitation to subscribe to nor to purchase any securities and must not be interpreted in this way. Nor may it nor any part of it be used as the basis for a binding contract of any kind whatsoever, or be cited as a reliable source in this context. Any decision relating to the probable offer for sale of securities for the company or companies discussed in this publication should be taken solely on the basis of information in the prospectuses or offer documents which are issued in relation to any such offer.

GBC does not provide any guarantee that the indicated returns or stated target prices will be achieved. Changes to the relevant assumptions on which this document is based can have a material impact on the targeted returns. Income from investments is subject to fluctuations. Investment decisions should always be made with the assistance of an investment advisor. This document cannot replace the role of an advisor.

Sale outside the Federal Republic of Germany:

This publication, if sold in the UK, may only be made available to those persons who, in the meaning of the Financial Services Act 1986 are authorised and exempt, or persons as defined in section 9 (3) of the Financial Services Act 1986 (Investment Advertisement) (Exemptions) Decree 1988 (amended version) and must not be transmitted directly or indirectly to other persons or groups of persons.

Neither this document nor any copy of it may be taken into, transferred to or distributed within the United States of America or its territories and possessions. The distribution of this document in Canada, Japan or other jurisdictions may be restricted by law, and persons who come into possession of this publication should find out about any such restrictions and respect them. Any failure to respect these restrictions may represent a breach of the US, Canadian or Japanese securities laws or laws governing another jurisdiction.

By accepting this document you accept all disclaimers of liability and the restrictions cited above.

You can find the details of this disclaimer/exclusion of liability at:
http://www.gbc-ag.de/de/Disclaimer.htm

Legal information and disclosures as required by section 34b para. 1 of Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)

This information can also be found on the internet at the following address::
http://www.gbc-ag.de/de/Offenlegung.htm

Section 2 (I) Updates

A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

Section 2 (II) Recommendation/ Classifications/ Rating

Since 1/7/2006 GBC AG has used a 3-level absolute share rating system. Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months. Previously the ratings related to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are defined based on the categories described below, including reference to the expected returns. Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification, but can result in a revision of the original recommendation.

The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10 %.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the rel 10 % and < + 10 %.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the <= - 10 %.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

Section 2 (III) Past recommendations

Past recommendations by GBC on the current analysis/analyses can be found on the internet at the following address:
http://www.gbc-ag.de/de/Offenlegung.htm

Section 2 (IV) Information basis

For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc.) which GBC believes to be reliable. In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends.

Section 2 (V) 1. Conflicts of interest as defined in section 34b para. 1 of the Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)

GBC AG and the analysts concerned hereby declare that the following potential conflicts of interest exist for the company/companies described, at the time of this publication, and in so doing meet the requirements of section 34b of the Securities Trading Act (WpHG). A detailed explanation of potential conflicts of interest is also listed in the catalogue of potential conflicts of interest under section 2 (V) 2.

In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (4;5)

section 2 (V) 2. Catalogue of potential conflicts of interest

(1) GBC AG or a legal person connected to them holds shares or other financial instruments of this company at the time of publication.
(2) This company holds over 3 % of the shares in GBC AG or a legal person connected to them.
(3) GBC AG or a legal person connected to them is a market maker or designated sponsor for the financial instruments of this company.
(4) GBC AG or a legal person connected to them has, over the previous 12 months, organised or played a leading role in the public issue of financial instruments for this company.
(5) GBC AG or a legal person connected to them has over the last 12 months agreed to create research reports for this company in return for payment. As part of this agreement the issuer was shown the draft of this analysis (excluding the evaluation section) prior to publication.
(6) GBC AG or a legal person connected to them has over the last 12 months agreed with a third party to create research reports about this company in return for payment. As part of this agreement the issuer was shown the draft of this analysis (excluding the evaluation section) prior to publication.
(7) The analyst responsible for this report holds shares or other financial instruments of this company at the time of publication.
(8) The analyst responsible for this company is a member of the company's Executive Board or Supervisory Board.
(9) The analyst responsible for this report received or purchased shares in the company analysed by said analyst, prior to the time of publication.

Section 2 (V) 3. Compliance

GBC has defined internal regulatory measures in order to prevent potential conflicts of interest arising or, where they do exist, to declare them publicly. Responsibility for the enforcement of these regulations rests with the current Compliance Officer, Markus Lindermayr, Email: lindermayr@gbc-ag.de.

Section 2 (VI) Responsibility for report

The company responsible for the creation of this/these analysis/analyses is GBC AG, with registered office in Augsburg, which is registered as a research institute with the responsible supervisory authority (Federal Financial Supervisory Authority or BaFin, Lurgiallee 12, 60439 Frankfurt, Germany).

GBC AG is currently represented by its board members Manuel Hölzle (Chairman), Jörg Grunwald and Christoph Schnabel.

The analysts responsible for this analysis are:
Philipp Leipold, Dipl. Volkswirt, Finanzanalyst
Felix Gode, Dipl. Wirtschaftsjurist (FH), stellvertr. Chefanalyst

Section 3 Copyright

GBC AG
Halderstraße 27
D 86150 Augsburg
Tel.: 0821/24 11 33-0
Fax.: 0821/24 11 33-30
Internet: http://www.gbc-ag.de

E-Mail: compliance@gbc-ag.de

GBC AG®

- R E S E A R C H & I N V E S T M E N T A N A L Y S E N -

GBC AG
Halderstraße 27
86150 Augsburg
Internet: http://www.gbc-ag.de
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de