GBC AG
Investment Research

Research Report (Update)

euromicron
Aktiengesellschaft

Positive sales and earnings trend from Q1 2014 is continuing in Q2 2014 – Guidance and price target confirmed

Price Target: 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 11**

Completion: 14/8/2014 **Completion: 14/8/2014**

GBC AG Investment Research

euromicron AG*5

BUY

Price Target: € 21.50

current price 12.60
13/8/2014 / 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: 86.1 %

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

Financial year-end: 12/31

Designated Sponsor:
EQUINET

Analyst:

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Company profile

Sector: Technology

Speciality: Network- und fiber optic technology

Employees: 1784 (30/06/2014)

Founded: 1998

Registered Office: Frankfurt am Main

Executive Board: Dr. Willibald Späth, Thomas Hoffmann

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 27 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/Sales	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
02/09/2014: SCC
10/09/2014: 4. ZKK
07/11/2014: Q3 Report
26/11/2014: EKF

** last research published by GBC:
Date: publication/price target in €/Rating
8/4/2014: RS / 21.50 / BUY
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 website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

EXECUTIVE SUMMARY

- In Q2 2014, euromicron AG achieved a respectable growth in turnover of 8.4%. The upward trend in turnover also continued compared with the previous quarter. The WAN services segment, which enjoyed a growth rate of approximately 14% in the first six months of 2014, must be particularly emphasized in this regard. In Q2 2014, it was also possible to achieve progress compared with the previous quarter in terms of earnings. Here, the EBIT amounted to €3.2 million, following on from a figure of €2.3 million in Q1 2014. We regard this development as positive, even against the background of higher depreciations and lower internally produced and capitalized assets. Furthermore, a strain was placed on the result due to integration costs amounting to approximately €2.6 million.

- In the first six months of 2014, it was possible to improve the capital ratio slightly to approximately 39%. By contrast, net indebtedness increased considerably in the first half of 2014 as a result of an increase in net working capital. This can be attributed, on the one hand, to the seasonal nature of euromicron AG's business model and, on the other, to a clear reduction in the factoring volume in the first half of 2014.

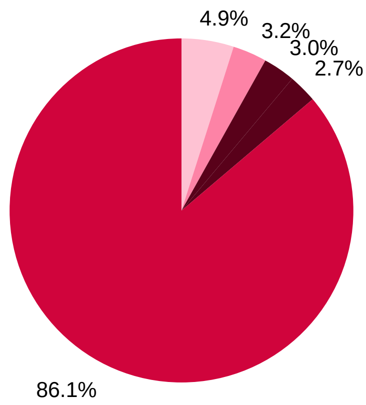
- With the submission of the interim report 2014, we have confirmed our estimates for the current financial year 2014. These estimates make provision for a growth in turnover to €348 million and an EBIT in the amount of €12.7 million. Against this background of respectable figures for the first half of 2014 and the stronger performance in the second half of the year that is anticipated, we assess the forecasts as being clearly achievable.

- **In our estimation, a continuous improvement in the margin situation over the coming years has still not been taken into account in any way in the current share price. Following the obvious adjustment to the forecast in 2013, the first half of 2014 is a step along the path to rebuilding lost confidence. Based on our DCF [discounted cash flow] model, euromicron AG's share price has been significantly undervalued. We see the target price as being unchanged at €21.50. With this we are confirming the "Buy" rating.**

Shareholder structure

shareholder in %	30/06/2014
Universal Investment	4.9 %
Union Investment Privatfonds GmbH	3.2 %
Erste-Sparinvest KAG	3.0 %
FPM Funds	2.7 %
Free float	86.1 %

Source: comdirect; GBC AG



Group

euromicron GROUP

SEGMENT LEVEL

euromicron NORTH
including Poland and France

euromicron SOUTH
including Austria and Italy

euromicron WAN
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

Networked workplace systems, examination and testing equipment

Control and monitoring stations

Customized product solutions

TDM, IP and MPLS systems

Cable and wireless systems

Software-based network, system, infrastructure and security management solutions

Intercom and public adress systems

Voice, data and video communication, intercom and public adress systems, convergent systems

All-round solutions for networked working and living

Optical, wireline and wireless networks

Analysis, planning, implementation, maintenance, service and operation

Active and passive network components from a global range

Top-performance cabling systems

Consulting, training, network analysis and services

Customer- and project-specific spare parts management and logistics

Nationwide service and project management capacity for complex systems

DEVELOPMENT OF THE COMPANY & FORECAST

Overview of the figures

P&L 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 HY 2014

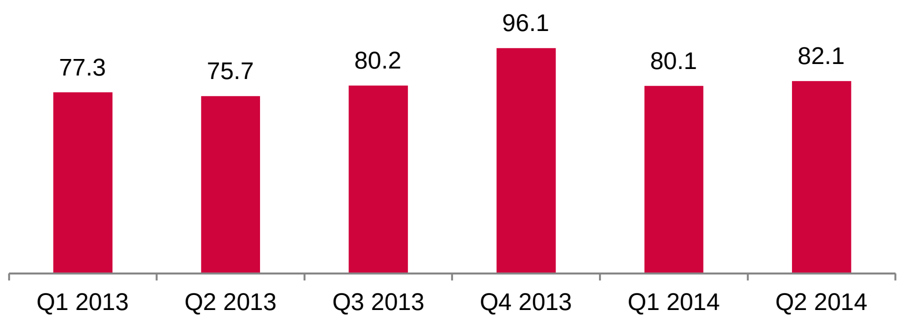
in m €	HY 2013	Δ	HY 2014
Sales	153.09	6.0%	162.19
EBITDA	13.42	-21.7%	10.50
EBITDA-Margin	*8.8%*		*6.5%*
EBIT	9.22	-40.2%	5.51
EBIT- Margin	*6.0%*		*3.4%*
Net profit	5.04	-51.3%	2.46
EPS in €	0.76		0.34

Source: euromicron AG; GBC AG

Sales trend – the positive trend from Q1 2014 is continuing in Q2 2014

euromicron AG was able to build on the respectable business development achieved in Q1 2014, achieving sales revenue to the tune of €82.12 million in Q2 2014 compared with €75.74 million in the same quarter of the previous year. This represents growth of 8.4%. Hence, it was possible to advance the growth dynamic slightly compared with Q1 2014.

Sales development (in m €)



Source: euromicron AG; GBC AG

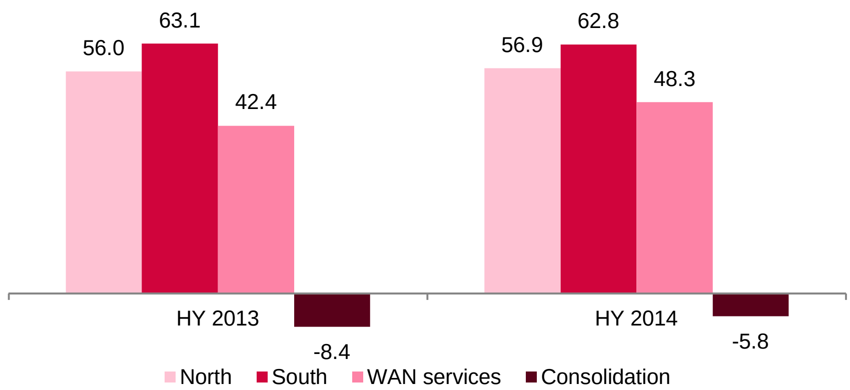
After the first six months of the current financial year 2014, the company raised turnover by 6.0% to €162.19 million (previous year: €153.09 million). This increase can be attributed equally to organic and inorganic growth. Operational development is within our estimates. Likewise, incoming orders in the first six months of 2014, which stood at €164.1 million (previous year: €154.8 million), were at a good level, just above turnover.

In terms of sales, the WAN services segment recorded the most dynamic growth. Here, turnover increased appreciably by almost 14% to €48.3 million, compared with a figure of €42.4 million from the same period of the previous year. In our estimation, this can primarily be attributed to the subsidiary Telent, which, alongside RSR Datacom, is assigned to the WAN services segment. Here, among other things, new projects were acquired in the area of broadband development and also in connection with Munich airport.

In the first half of 2014, however, the largest South segment again recorded a slight drop in sales to €62.8 million (previous year: €63.1 million). The two subsidiaries, ATECS and SIM, which were acquired in December 2013, were included in the South division for the first time. In our view, the sales trend in the South segment also demonstrates that the structural deficits have not yet been entirely rectified in this regard.

A look at the graph below shows the breakdown of turnover according to the different segments.

Sales development segments (in m. €)



Source: euromicron AG; GBC AG

An appreciable increase was achieved in terms of sales abroad. In the first six months of 2014, international sales increased appreciably to €22.8 million (previous year: €16.0 million). The acquisition of the two companies ATECS and SIM, which can be seen from the sales trend in the "Rest of the world" region (first six months of 2012: €7.6 million compared with €2.7 million in the first six months of 2013), was jointly responsible in this regard.

Development of earnings - Operating result in the context of expectations; integration costs declining

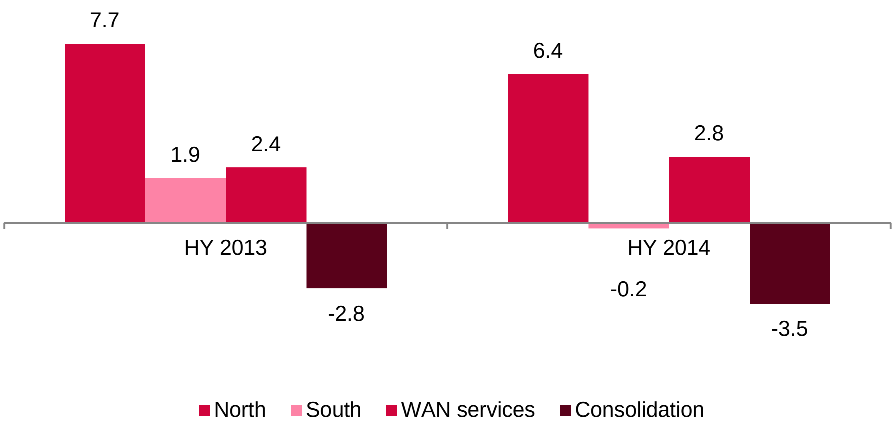
In our estimation, in terms of earnings, euromicron AG is well on the way to achieving both our own estimates and also the company's own forecasts.

In Q2 2014, compared with the previous quarter, earnings before interest and taxes (EBIT) rose to €3.2 million (Q1 2014: €2.3 million). In the first six months of the previous year, an EBIT figure of €9.2 million was achieved. In the first half of 2014, one-off integration costs amounting to approximately €2.6 million were included, in which connection, according to data provided by the company, these were largely accrued in Q1 2014. These integration costs should decrease further in the second half of the year.

Furthermore, in our opinion, it still needs to be emphasised that the quality of its results improved as a result of lower internally produced and capitalized assets and higher depreciations. The net effect on the EBIT figure can be estimated at approximately €1.5 million in the first half of 2014 compared with the same period of the previous year.

In keeping with the gratifying sales trend, the profit situation in the WAN services segment has also improved. Here, the operating result rose to €2.8 million (previous year: €2.4 million). The downturn in the South and Central services divisions is, however, partly due to the integration costs in the region of €2.6 million that have accrued and also the weaker sales trend in the South segment. The North segment achieved a respectable result of €6.4 million compared with €7.7 million in the previous year.

EBIT development segments (in m. €)



Source: euromicron AG; GBC AG

Assets, liabilities and financial situation

in m €	HY 2013	FY 2013	HY 2014
Equity	121.56	122.21	124.66
Equity-Ratio	42.5%	37.2%	38.9%
Operating fixed Assets	36.24	38.18	36.67
Net Working Capital	74.08	49.69	88.89
Net Debt	86.37	70.14	103.64

Source: euromicron AG; GBC AG

At the end of June 2014, the capital figure stood at €124.7 million, corresponding to a book value per share of approximately €17.4. On the asset side, goodwill makes up the largest balance sheet item, accounting for €113.5 million. As at 30 June 2014, thanks to the positive annual net profit, the capital ratio improved slightly to approximately 39%.

In the first six months of 2014, operating assets declined to €36.67 million (31/12/2013: €38.18 million). Here, lower investments in intangible and tangible assets of approximately €3.6 million were confronted with depreciations of €5.0 million. In addition, the purchase price of €8.0 million for the acquisition of ATECS and SIM was paid in the first half of 2014.

The increase in net working capital was the primary cause of the increase in net indebtedness. According to our calculations, net working capital increased appreciably to €88.9 million (previous year: €49.7 million). This is also reflected in the operating cash flow, which amounted to €-36.3 million (previous year: €6.05 million) in the first half of 2014. However, the cash flow-adjusted factoring volume improved to €-11.7 million (previous year: €-16.4 million). As a result of the seasonal nature of the business model, euromicron AG normally records a negative operating Cash Flow during the first half of the year.

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

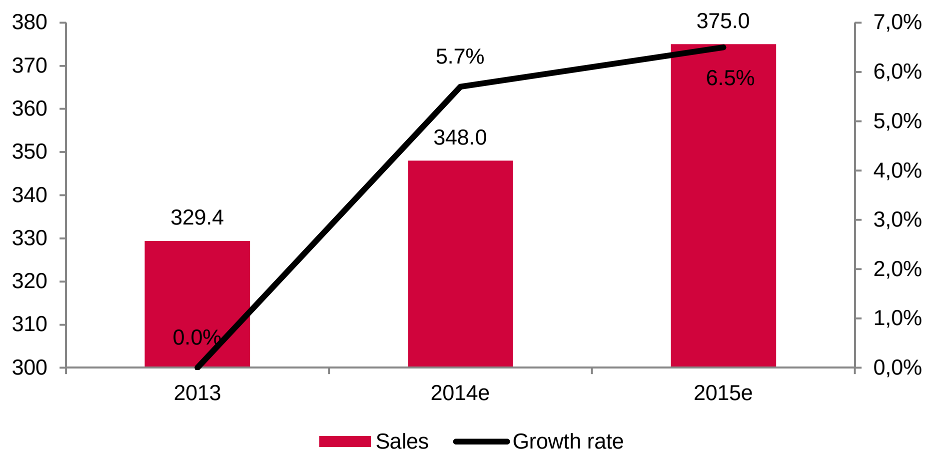
Source: GBC AG

Sales and earnings forecasts – estimates confirmed after the first half of 2014

In view of the solid operating performance and the positive level of orders received in the first half of 2014 we anticipate that euromicron AG is well on the way to achieving our estimates for the current financial year. We therefore confirm our turnover and earnings forecasts for 2014 and 2015.

For the current financial year 2014 our turnover prediction of €348.0 million remains unchanged, corresponding to a growth of around 6 %. euromicron AG normally records a higher turnover in the second half of the year than in the first half of the year. We have not taken into account possible acquisitions when making our estimates. With the publication of its interim report the company has also confirmed its own turnover range of €340 to 360 million.

Expected sales development (in € millions) and growth rate (in %)



Source: GBC AG

Our earnings prediction for 2014 remains unchanged with an EBIT of €12.66 million. We feel that this figure is clearly achievable in view of the results achieved during the first half of 2014. We also feel that our forecast is reinforced by the fact that the second half of the year normally produces a higher contribution to earnings as a result of seasonal fluctuations.

Furthermore, we anticipate that the integration costs will fall further compared to the first half of 2014 (~€2.6 million). This should also mean that the South division will post slightly positive earnings once more.

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-ree 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.

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%
Tax rate final value	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

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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.

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

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

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