

### Cloud Computing in Germany – A stockpicker’s guide

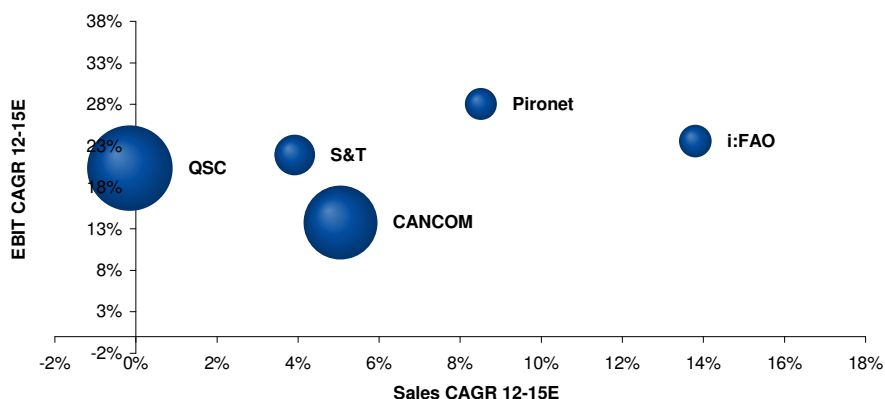
Thanks to its strong growth prospects and lively M&A activity, Cloud Computing is on everyone’s lips. But while investors should be well-acquainted with US-based Cloud Computing heavyweights such as Salesforce.com or Amazon Web Services, cloud beneficiaries amongst German small- and mid-caps are less well-known – **despite their evident appeal:**

- **Double-digit growth:** The German Cloud Computing market is expected to grow at a 13% CAGR between 2012 and 2016E from \$ 4.8bn to \$ 7.8bn as companies discover the cloud’s distinct advantages including cost savings, flexible use of IT resources, better performing IT and mobile access.
- **M&A potential:** The NSA surveillance scandal should have reinforced that Germany is at least partly a “closed shop” as the security-concerned Mittelstand is looking for home-grown cloud providers with a long-standing reputation and domestic data centres. As such, incumbent cloud providers should be M&A targets for both outside companies (e.g. IBM) AND domestic ones like T-Systems which has just stated that it is looking to snap up cloud providers targeting German SMEs.
- **Undiscovered, undervalued:** German small- and mid-cap cloud providers trade at substantial valuation discounts to foreign peers such as Rackspace, Equinix and CenturyLink. While this may partly reflect their smaller size and the fact that Cloud Computing commonly explains only part of their businesses, it is also due to their undiscovered nature suggesting re-rating potential.

In this stock picker, we present our Top Picks amongst German small- and mid-cap Cloud Computing companies targeting the German Mittelstand:

- **CANCOM** (BUY; PT € 29.00) is seeing rapid growth in Private Cloud solutions helped by its proprietary AHP software which makes the implementation faster and cheaper.
- **i:FAO** (BUY; PT € 15.50) provides business travel management software as a service to customers like BASF, Siemens and VW who pay a fee per transaction.
- **Pironet** (BUY; PT € 5.00) is transforming into a Cloud Computing pure play offering clients IT hardware and software on demand from its Northern German data centre.
- **QSC** (BUY; PT € 4.70) is a provider of server housing and hosting services operating five data centres in Germany. It also sells cloud-related software applications.
- **S&T** (BUY; PT € 4.20) offers security appliances which combine hardware and software to protect cloud networks from unauthorised access

#### Cloud Computing coverage: Sales and EBIT CAGR 12-15E



Source: Hauck & Aufhäuser

**CANCOM (COK)** – BUY; PT € 29.00

**i:FAO (FAO2)** – BUY; PT € 15.50

**Pironet (PNG)** – BUY, PT € 5.00

**QSC (QSC)** – BUY; PT € 4.70

**S&T (SANT)** – BUY; PT € 4.20

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## Cloud Computing – A paradigm shift in IT

**The IT industry is undergoing a paradigm shift:** Companies are moving away from the traditional do-it-yourself IT approach towards Cloud Computing which involves the delivery of IT hardware and software on demand via the Internet. **This paradigm shift is being driven by:**

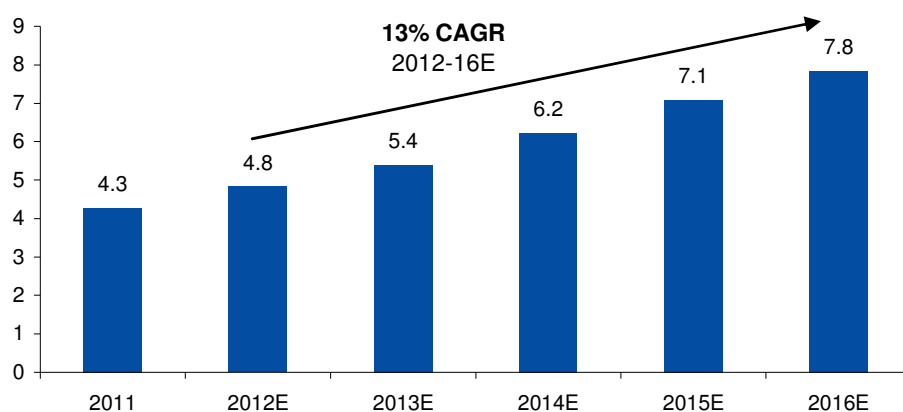
- **Maturing cloud technologies.** The Cloud Computing market is now rapidly gaining traction thanks to faster broadband connections, more mature security technology and improvements in hardware and (virtualisation) software performance.
- **Ever more complex IT environments.** Especially small- and mid-sized enterprises (SMEs) neither have the resources to manage complex but mission-critical IT environments nor do they want to purchase expensive hardware.
- **Major Cloud Computing advantages.** Benefits such as lower cost, better performing IT, and flexible use of IT resources (*see below*) drive companies towards Cloud Computing. Further, **market acceptance is growing** as many companies have become more comfortable with the idea given that they already rely on some form of IT outsourcing.

## Cloud Computing in Germany – A market worth a closer look

**There are several good reasons for investors to take a look at small- and mid-cap companies exposed to the German cloud market:**

- **Sound growth expectations.** According to Gartner, the German Cloud Computing market (services only) is expected to grow strongly disproportionately to GDP at a 13% CAGR between 2012 and 2016E from \$ 4.8bn to \$ 7.8bn as companies discover the cloud's distinct advantages (*listed below*).

### German Cloud Computing market 2011-16E (in \$ bn)



Source: Gartner

- **M&A activity heating up.** According to Ernst & Young, Cloud Computing explained 15% of the global technology M&A deal volume in 2012. Recent deals include the take-over of Host Europe for 12x EV/EBITDA (according to industry sources) and IBM snapping up cloud infrastructure provider SoftLayer for \$ 2bn in June '13, valuing it at 9x EV/EBITDA. As SoftLayer should have high D&A operating its own data centre resources, the transaction multiple on EV/EBIT and PER should be much higher. Also, T-Systems has announced it is looking to acquire companies specialised in Cloud Computing for German SMEs. **German-based small- and mid-cap cloud providers are evident targets**, in our view.

- **Undiscovered, undervalued.** While investors should be well-acquainted with US-based Cloud Computing heavyweights such as Salesforce.com, Amazon and IBM, cloud beneficiaries amongst German small- and mid-caps are less well known – offering potential for superior returns: German cloud providers trade at substantial discounts to foreign peers: While a certain discount looks justified given their smaller size and the fact that Cloud Computing explains only part of their businesses, the undiscovered nature of our Cloud Computing companies suggests there is significant re-rating potential.

	EV/Sales 13E (x)	EV/Sales 14E (x)	EV/Sales 15E (x)	EV/EBIT 13E (x)	EV/EBIT 14E (x)	EV/EBIT 15E (x)	PER 13E (x)	PER 14E (x)	PER 15E (x)
Rackspace	4.1	3.5	3.1	44.0	31.7	24.8	76.6	56.3	41.0
Equinix	5.2	4.5	4.1	24.2	19.4	15.9	62.5	40.0	23.8
CenturyLink	2.3	2.3	2.4	14.6	14.6	14.3	13.2	13.1	12.7
<b>Average (peer group)</b>	<b>3.9</b>	<b>3.4</b>	<b>3.2</b>	<b>27.6</b>	<b>21.9</b>	<b>18.3</b>	<b>50.8</b>	<b>36.5</b>	<b>25.8</b>
CANCOM	0.4	0.4	0.3	10.8	9.0	7.4	18.5	15.6	13.5
Pironet	0.7	0.6	0.5	10.3	7.9	6.1	18.8	15.1	12.7
QSC	1.0	0.9	0.8	15.1	10.7	8.9	17.2	12.5	11.0
<b>Average (cloud coverage)</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>12.0</b>	<b>9.2</b>	<b>7.5</b>	<b>18.1</b>	<b>14.4</b>	<b>12.4</b>
<b>Discount of cloud coverage</b>	<b>-82%</b>	<b>-82%</b>	<b>-83%</b>	<b>-56%</b>	<b>-58%</b>	<b>-59%</b>	<b>-64%</b>	<b>-61%</b>	<b>-52%</b>

Source: MarketMap, H&A. Note: S&T and i:FAO not included as they are not comparable to peers listed above.

Also, **recent take-over multiples look very favourable:** For instance, Host Europe was acquired for € 508m by investment company Cinven in July 2013. This values Host Europe at **12x EV/EBITDA** (according to industry sources) which is clearly above the valuation of closest peers CANCOM (6.8x EV/EBITDA '14E), Pironet (3.6x) and QSC (4.7x).

- **Access to a “closed” shop.** The German Cloud Computing market is at least partially a “closed shop” protected by entry barriers from outsiders as was recently underpinned by the NSA internet surveillance scandal: Fearing for the security of their data, German SMEs are looking for home-grown providers with a long-standing reputation and domestic data centres. As such, investors wishing to tap the growth potential offered by Cloud Computing for German SMEs will need to look for German-based small- and mid-cap cloud providers.

## Presenting our Cloud Computing top picks

- **CANCOM** – Formerly a pure IT system house, CANCOM is seeing rapid growth in Private Cloud solutions for the German Mittelstand, helped by its unique AHP Cloud software and long-standing ties to 25,000 SMEs in Germany. Private Cloud solutions are expected to throw off c. € 11m EBITDA by '15E, explaining 28% of group EBITDA. Given the recurring and high-margin nature of cloud-related sales, CANCOM's business model is set to become more profitable and visible, driving a positive re-rating of the shares. **BUY with a PT of € 29.00.**
- **i:FAO** – A niche player, i:FAO provides business travel management software as a service to a broad base of Blue Chip customers including BASF, Siemens, VW and RWE which benefit from significant cost savings. Customers pay a fee per transaction while incurring little upfront costs for the implementation of the software. The integration into customers' IT systems and the transaction based business model provide the basis for >90% recurring sales. Winning new customers AND penetrating the existing client base should drive future growth. **BUY** this undiscovered cloud software provider: **PT € 15.50** (FCFY '14E).
- **Pironet** – Following the divestment of various non-core subsidiaries in recent years, Pironet is well on track transforming into a pure-play on Cloud Computing (75% of sales / >100% of group EBIT), offering customers IT hardware and software on demand from its proprietary data centre in

Germany. This is not only expected to improve Pironet's competitive quality and growth prospects but also its visibility as 80% of Cloud Computing sales are recurring. **BUY; PT € 5.00.**

- **QSC** – Following its transformation away from pure telco, QSC has become a full-service ICT provider. Its cloud computing solutions include software applications as well as server hosting/housing. Given its telco expertise, QSC can provide clients with end-to-end ICT solutions and thereby bridge the gap between telco and IT. **BUY, PT € 4.70.**
- **S&T** combines an IT system house business with security appliances (14% of sales but 47% of net income) amongst other used to protect cloud networks from cyber attacks which keep escalating in frequency AND sophistication. While cloud-related sales are yet slim (€ 20m), S&T is in the right spot to grow as more and more SMEs are considering moving into the cloud but feel uneasy about data safety. Security appliances offer 65% gross margins – related growth should hence come at excellent profitability. **BUY with a PT of € 4.20.**

Cloud Computing coverage: Valuation																			
Name	Ticker	Rating	Price	PT	Upside	Mcap	EV	EV / Sales 13E	EV / Sales 14E	EV / Sales 15E	EV/ EBIT 13E	EV/ EBIT 14E	EV / EBIT 15E	PER 13E	PER 14E	PER 15E	FCFY 13E	FCFY 14E	FCFY 15E
CANCOM	COK	Buy	24.6	29.0	18%	279	250	0.4	0.4	0.3	10.8	9.0	7.4	18.5	15.6	13.5	7%	9%	10%
i:FAO	FAO2	Buy	11.0	15.5	42%	55	48	3.2	2.8	2.3	11.1	8.6	6.9	14	11.2	9.3	9%	12%	15%
Pironet	PNG	Buy	3.7	5.0	36%	54	32	0.7	0.6	0.5	10.3	7.9	6.1	18.8	15.1	12.7	9%	11%	15%
QSC	QSC	Buy	3.0	4.7	56%	374	452	1.0	0.9	0.8	15.1	10.7	8.9	17.2	12.5	11.0	12%	14%	16%
S&T	SANT	Buy	2.2	4.2	91%	87	109	0.3	0.3	0.2	7.1	5.4	4.4	7.5	6.0	5.3	13%	17%	22%

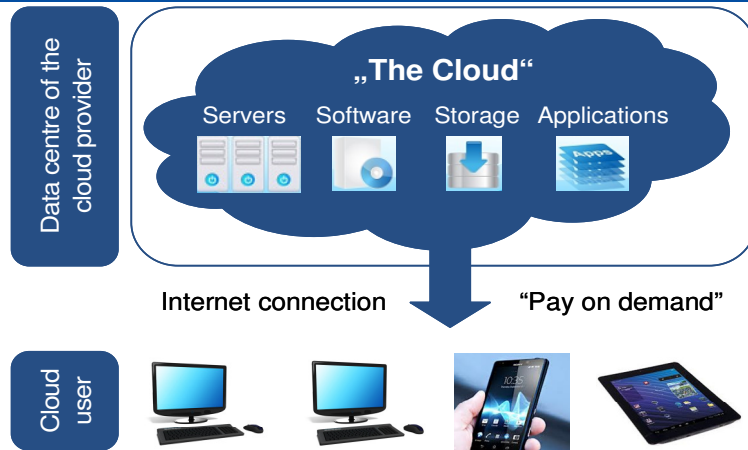
Source: Company data, Hauck & Aufhäuser

Cloud Computing coverage: Operating performance																
Name	Sales 13E	Sales 14E	Sales 15E	Sales CAGR (12-15E)	EBIT 13E	EBIT 14E	EBIT 15E	EBIT CAGR (12-15E)	EBIT margin 13E	EBIT margin 14E	EBIT margin 15E	Avg. EBIT margin (13-15)	ROCE 13E	ROCE 14E	ROCE 15E	
CANCOM	591	622	647	5%	22.6	26.2	30.4	14%	3.8%	4.2%	4.7%	4.2%	22%	23%	23%	
i:FAO	14.7	16.7	19.2	14%	4.3	5.4	6.4	24%	29.2%	32.2%	33.5%	31.6%	29%	36%	38%	
Pironet	47.4	51.4	55.2	9%	3.1	3.9	4.6	28%	6.5%	7.5%	8.4%	7.5%	9%	11%	12%	
QSC	454	465	479	0%	29.1	38.6	42.8	20%	6.4%	8.3%	8.9%	7.9%	9%	12%	12%	
S&T	351	369	381	4%	15.0	18.3	20.2	22%	4.3%	4.9%	5.3%	4.8%	11%	12%	12%	

Source: Company data, Hauck & Aufhäuser

## Cloud Computing I: The business in a nutshell

### Cloud Computing in a nutshell



Source: Pironet, Hauck & Aufhäuser

In simple terms, **Cloud Computing refers to the on-demand usage of hardware (e.g. servers, storage) and software (e.g. ERP, Microsoft Office) run by a third party and situated in external premises.**

Cloud Computing involves heavy usage of the internet to grant remote “anywhere” access to users whether they are at the office at home or travelling.

For users, the beauty of Cloud Computing lies in its ability to reduce costs and enable the flexible use of IT resources: Cloud users can access software and hardware on an as-needed basis, paying only for those resources actually utilised.

In return, the cloud services provider benefits from significant economies of scale as he relies on virtualised, centralised and standardised IT resources: **These are the three main building blocks of every cloud solution.**

- **Virtualisation** refers to the pooling and sharing of IT resources amongst users, driving down cost (e.g. power savings). The method: Virtualisation software (e.g. from VMware) converts one physical server into multiple virtual devices, boosting utilisation and reducing the number of servers needed to support the IT infrastructure.
- **Centralisation** implies moving all applications, servers and storage resources out of the branch offices and into a centralised data centre. This not only reduces costs (fewer personnel, lower rental costs etc.) but also improves data control i.e. deciding who has access to which sets of data.
- **Standardisation** of IT resources reduces complexity and hence cost by e.g. falling back on a single supplier for IT components and ensuring that each user has the same operating system and the same version of a specific software solution.

## Cloud Computing II: The Benefits

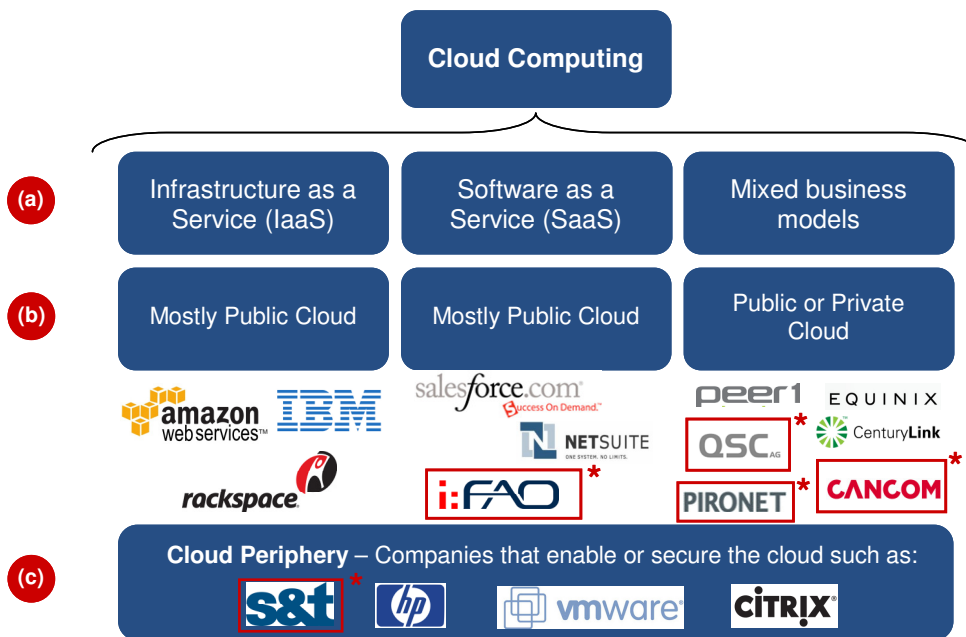
**Customers derive several important benefits from Cloud Computing:**

- **Cost savings.** Cloud users benefit from the cloud provider’s economies of scale as well as from cost savings carried by a centralised, standardised and virtualised IT infrastructure. A further appeal: The business model is capex-free.

- **Flexible use of IT resources.** Cloud users can access software and hardware on an as-needed basis paying only for those resources actually utilised. Delivery is quick – the second a company needs more computing or storage resources, the cloud provider can instantly meet the demand thanks to his vast resources.
- **Better performing IT and mobile access.** Customers benefit from the deeper IT know-how of the service provider as well as from regular and automatic software upgrades. Also, they may access IT resources from wherever they are.

## Cloud Computing III: The Different Business Models

### The different Cloud Computing business models



Source: Hauck & Aufhäuser \* Companies presented in this stock picker

### (a) IaaS vs. SaaS vs. Mixed business models

The German Cloud Computing companies presented in this stock picker mostly operate **mixed business models**: These may combine software and infrastructure as a service with customised hosting of business applications as well as services and software targeting Private Cloud implementations. Importantly, no cloud provider in our coverage competes with heavyweights by exclusively offering standard “off-the-shelf” storage and computing resources on demand.

i:FAO and S&T are the only two companies which do **not** engage in mixed business models: i:FAO is a software-as-a-service provider for online travel procurement. S&T offers security appliances to shield Cloud Computing networks from unauthorised access. The company hence does not itself provide cloud services but is situated in the ecosystem of Cloud Computing providers.

## The different business models in detail:

- **Infrastructure as a Service (IaaS)** – In this business model pursued by the likes of Amazon and IBM, the cloud provider delivers computing and storage capacity over the internet and the customer pays according to demand. Offering little room for differentiation, this is a pure scale business model where size matters: Providers operate huge server farms. **Note that no company in our coverage competes here.**

### Infrastructure as a Service from Amazon: Price (\$) for one hour of computing capacity

#### On-Demand Instance Prices

Region: <input type="text" value="EU (Ireland)"/>	
	Windows Usage
<b>Standard On-Demand Instances</b>	
Small (Default)	\$0.091 per Hour
Medium	\$0.182 per Hour
Large	\$0.364 per Hour
Extra Large	\$0.728 per Hour

Source: Amazon Web Services

- **Software as a Service (SaaS)** refers to a special delivery model for **proprietary** software: Instead of selling software in the typical upfront license fee / annual maintenance fee model, a company may choose to sell its software as a service via the internet, charging a monthly or annual subscription fee per user or fee per transaction. To run the software, SaaS vendors usually operate data centres or rent data centre space. Note that SaaS vendors do not compete with each other unless they offer the same type of software (e.g. ERP on demand).

In a wider sense, SaaS may also refer to the delivery of **non-proprietary** software such as Microsoft Office to the customer as a service and charge according to demand.

The best-known SaaS provider is Salesforce.com which “sells” its own ERP software via the internet. In our coverage universe, **i:FAO pursues a SaaS model for its proprietary travel software.**

### Software as a Service from Salesforce.com: Delivering software via the internet

Most popular			
Group	Professional	Enterprise	Unlimited
Basic sales & marketing for up to 5 users	Complete CRM for any size team	Customize CRM for your entire business	Premier+ Success Plan optimizes CRM for your business
<b>\$25</b>	<b>\$65</b>	<b>\$125</b>	<b>\$250</b>
/user/month* (Billed annually)	/user/month* (Billed annually)	/user/month* (Billed annually)	/user/month* (Billed annually)
<b>14-day free trial</b>	<b>30-day free trial</b>	<b>30-day free trial</b>	<b>30-day free trial</b>

Source: Salesforce.com

- **Mixed business models are the most relevant for Cloud Computing providers in our coverage universe.** These business models involve a customised component and combine a mix of IaaS, SaaS and cloud-related services. For instance, Pironet offers its clients the cloud-based (on demand) provisioning of hardware and standard software (e.g. Office) resources combined with managed hosting of business-critical applications like SAP. CANCOM implements Private Cloud solutions with the help of a

proprietary software called AHP and, following installation, operates and manages the Private Cloud for its customers.

## (b) Public versus Private Clouds

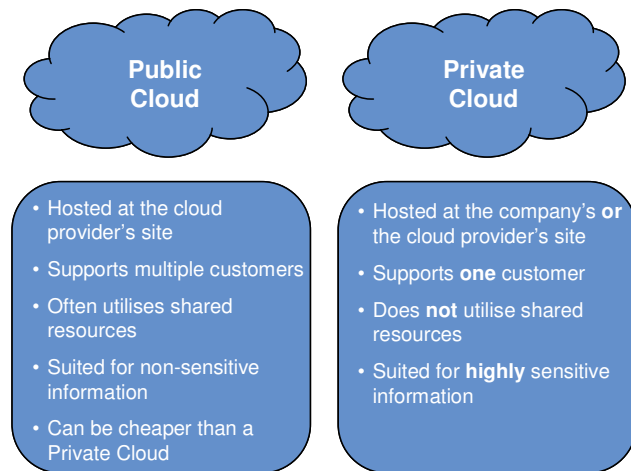
Customers can usually choose whether they want to use a Public Cloud or a Private Cloud solution.

**Public Clouds** are “true” cloud solutions offering highest efficiency gains for customers which purchase computing and storage resources on-demand via the internet. The hardware and software is owned by the cloud provider, located in his data centre and **shared amongst users**: The customer hence does not know on which server his data is situated.

**Private Clouds** are dedicated to one customer. In contrast to Public Clouds, the customer remains the owner of the hardware **and is the only one using it** even though the IT resources **may** be located on external premises. The advantage is that the customer has the reassurance of knowing the location of his data and that he is the only one having access to the respective server. **The drawback**: Private Clouds offer some but not all of the efficiency gains of Cloud Computing.

**Not all cloud providers offer Private Clouds.** For instance, infrastructure as a service (e.g. Amazon Web Services) can not be delivered via a Private Cloud.

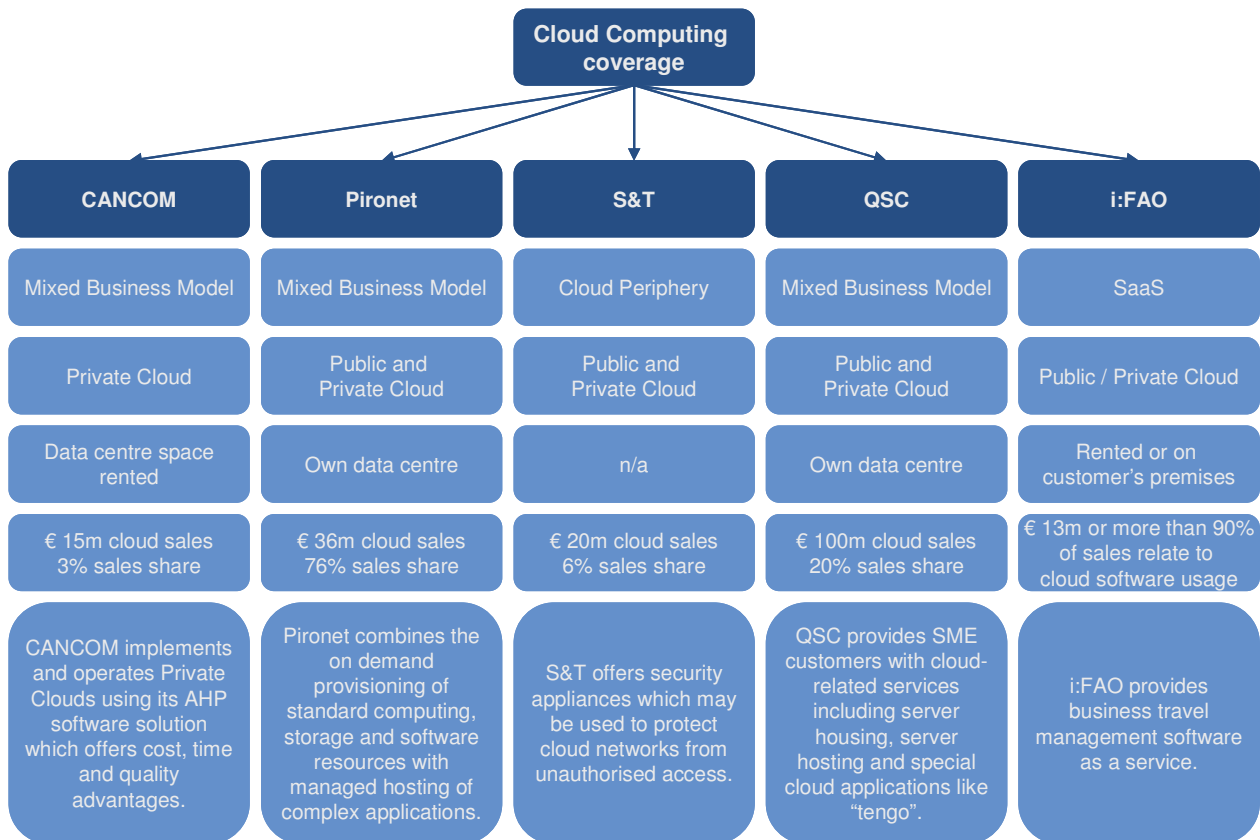
### The differences between Public and Private Clouds



Source: Hauck & Aufhäuser

## (c) Cloud Periphery

**Ecosystem beneficiaries** are companies which themselves do not offer cloud services but sell product and services to enable or secure cloud architectures. **This includes for instance S&T** (security appliances) and VMware (virtualisation software).



Source: Company data, Hauck & Aufhäuser

# CANCOM SE

## Germany - IT Services

**Buy** (old: Buy)

**Price target: EUR 29.00** (old: EUR 29.00)

<b>Price:</b>	EUR 24.59	<b>Next result:</b>	Q2 13: 13.08.13
<b>Bloomberg:</b>	COK GR	<b>Market cap:</b>	EUR 279.2 m
<b>Reuters:</b>	COKG.DE	<b>Enterprise Value:</b>	EUR 243.4 m

31-July-13

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### Riding the cloud towards higher profitability

Formerly a little exciting pure IT system house, CANCOM is seeing rapid growth in Private Cloud solutions for the German Mittelstand helped by its unique AHP cloud software **which drives differentiation** from rivals like Bechtle and Computacenter due to its multiple benefits including **significant cost and time savings, greater transparency AND higher stability of the final cloud solution.**

Thanks to its software's unique features, an early mover advantage and access to 25,000 long-standing SME customers, CANCOM looks set to **capture a material share** of the burgeoning Private Cloud market translating into expected 39% sales growth p.a. for its Cloud Computing business driving related sales from c. € 10m in '12 to € 27m in '15E (4% of group sales).

But the beauty of Cloud Computing is really its **recurring and high-margin nature** offering EBITDA margins of 30%+. Helped by price increases given excess demand for CANCOM's cloud know-how, cloud-related EBITDA should increase by 54% p.a. from € 3.0m ('12) to € 11.0m by 2015E **explaining 28% of group EBITDA.**

**News flow looks set to remain positive** as the growing visibility AND profitability of the business model should **drive a positive re-rating** of the stock **which is still attractively valued** trading at 7.4x EV/EBIT '15E and at a discount to cloud peers like Rackspace and Equinix.

Evidently, several private investors with in-depth industry know-how seem to think alike: Mr.Schick and Mr.Vielberth have both recently snapped up 10% stakes supporting our view that **CANCOM is an appealing take-over target** especially for companies looking for cloud exposure to German SMEs such as IBM and T-Systems. **BUY with a PT of € 29.00 based on DCF.**



Source: Company data, Hauck & Aufhäuser

**High/low 52 weeks:** 24.59 / 10.78

**Price/Book Ratio:** 3.1

**Relative performance (TecDAX):**

3 months 40.6 %

6 months 54.2 %

12 months 36.6 %

#### Changes in estimates

		Sales	EBIT	EPS
2013	<b>old:</b>	591.0	22.6	1.33
	Δ	-	-	-
2014	<b>old:</b>	622.0	26.2	1.58
	Δ	-	-	-
2015	<b>old:</b>	647.0	30.4	1.82
	Δ	-	-	-

#### Key share data:

Number of shares: (in m pcs)	11.4
Authorised capital: (in € m)	4.0
Book value per share: (in €)	8.0
Ø trading volume: (12 months)	60,000

#### Major shareholders:

Free Float	71.3 %
Family Schick	10.2 %
Elber Beteiligung	10.0 %
AGI	4.7 %
Stefan Kober	2.3 %
Klaus Weinmann	1.6 %

#### Company description:

CANCOM is Germany's 3rd largest independent system house operating a scalable eCommerce business.

Y/E 31.12 (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Sales	348.3	474.6	544.4	558.1	591.0	622.0	647.0
Sales growth	2 %	36 %	15 %	3 %	6 %	5 %	4 %
EBITDA	9.5	19.0	25.0	28.1	30.6	34.6	38.7
EBIT	7.1	15.2	18.5	20.7	22.6	26.2	30.4
Net income	5.1	7.8	11.5	11.5	15.2	18.1	20.8
Net debt	-3.5	-0.9	-18.5	-29.2	-36.0	-44.7	-55.4
Net gearing	-8.0 %	-1.8 %	-30.4 %	-36.3 %	-39.2 %	-42.4 %	-45.8 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS fully diluted	0.49	0.76	1.11	1.00	1.33	1.58	1.82
CPS	0.80	1.28	2.18	0.89	1.22	1.45	1.65
DPS	0.15	0.15	0.30	0.35	0.40	0.45	0.50
Dividend yield	0.6 %	0.6 %	1.2 %	1.4 %	1.6 %	1.8 %	2.0 %
Gross profit margin	31.0 %	29.3 %	29.1 %	29.5 %	30.1 %	30.5 %	30.8 %
EBITDA margin	2.7 %	4.0 %	4.6 %	5.0 %	5.2 %	5.6 %	6.0 %
EBIT margin	2.0 %	3.2 %	3.4 %	3.7 %	3.8 %	4.2 %	4.7 %
ROCE	10.5 %	19.5 %	20.6 %	21.1 %	21.6 %	22.8 %	23.4 %
EV/sales	0.7	0.5	0.4	0.4	0.4	0.4	0.3
EV/EBITDA	26.5	13.2	9.4	8.9	8.0	6.8	5.8
EV/EBIT	35.4	16.6	12.7	12.1	10.8	9.0	7.4
PER	51.1	26.7	21.5	23.1	18.5	15.6	13.5
Adjusted FCF yield	2.4 %	4.6 %	6.7 %	6.2 %	7.3 %	8.6 %	10.3 %

Source: Company data, Hauck & Aufhäuser Close price as of: 30.07.2013

## Cloud Computing exposure: A leader for Private Clouds

**CANCOM is a leader for implementing and operating Private Clouds for German small- and mid-sized enterprises.**

The company's business model is **unique** thanks to its proprietary software solution **Application Hosting Platform (AHP)** which provides an out-of-the-box blueprint for implementing a Private Cloud. There are two key parts to the AHP solution:

- First, AHP offers an **automated approach** to setting up a Private Cloud architecture: The software works off a pre-determined script to install all relevant cloud components (i.e. software, management tools, virtual desktop). **This makes the installation faster, more cost-efficient and more stable** ensuring 24/7 operations.
- Second, AHP offers **software tools to manage the Private Cloud** following implementation. These are needed to quickly add new users to the cloud, validate existing users, monitor performance and allocate costs to certain users (i.e. billing).

**The AHP solution combines proprietary with third-party software:**

CANCOM relies on e.g. Citrix for the virtual desktop to grant users access to cloud-based applications like Office or SAP. While Citrix may explain 15% of the AHP solution, the major part is the automated approach and the management tools representing **know-how largely proprietary to CANCOM.**

The beauty of the cloud business is simple: Following implementation, CANCOM **receives a high-margin recurring fee** for maintaining and operating the cloud given that the AHP solution will be an integral part of the customer's Private Cloud: Depending on the size of the cloud, the fee may start at € 30,000 per month and reach up to € 200,000 per month.

In 2013E, CANCOM is expected to generate € 15m recurring sales and € 5.0m recurring EBITDA with Cloud Computing, equal to 16% of group EBITDA. **This should go up to 28% of group EBITDA by 2015E.** Cloud customers include automotive supplier Mahle, German newspaper FAZ, publisher MairDuMont and logistics company DB Schenker.

The Private Cloud may be situated at the customer's premises or in an external location: CANCOM has rented space in the data centre of M-Net in Munich where it can host the servers of customers if need be.



**Explanation**

**CANCOM is a leader in implementing and operating Private Cloud solutions.** Its AHP Private Cloud software offers a standardised and automated method to install a Private Cloud architecture - yielding speed, cost and quality advantages.

AHP also provides management tools for operating and supervising the Private Cloud following its installation. For this, CANCOM receives recurring monthly maintenance / operating fees.

<b>Sales 13E (€ m)</b>	15	<b>591</b>
<b>Sales share</b>	3%	<b>100%</b>

**Customers**      **CANCOM can cross-sell its Private Cloud solution to its long-standing IT customer base** in Germany and Austria, comprising >25,000 SMEs. Cloud customers relying on CANCOM's AHP solution include AL-KO, Bayerischer Rundfunk, CeramTec, DB Schenker, FAZ, IHK Stuttgart, Häfele, Hansa, HHLA, Gardena, MAIRDUMONT, Mahle, Langenscheidt, Stadt Heilbronn and others.

**Raw materials & suppliers**      For the infrastructure and the middleware of the Private Cloud, CANCOM procures hardware and software from e.g. HP, Cisco, Citrix, IBM, Microsoft and NetApp.

**Competitors**      Competitors include e.g. Bechtle, Computacenter and Pironet - however these do **not** have a software solution like CANCOM's AHP offering a standardised and automated method to implement a Private Cloud architecture. They have to fall back on a manual approach - which is slower, more expensive and more error-prone. **Visionapp is one of the few rivals with a solution similar to CANCOM's.**

**Data centre sites**      **CANCOM does not own a data centre.** It rents data centre space from M-Net in Munich where it can host the servers (i.e. the Private Cloud) of its customers if need be.

<b>EBITDA 13E (€ m)</b>	5.0	<b>30.6</b>
<b>EBITDA margin</b>	33%	<b>5.2%</b>

Source: Company data, Hauck & Aufhäuser

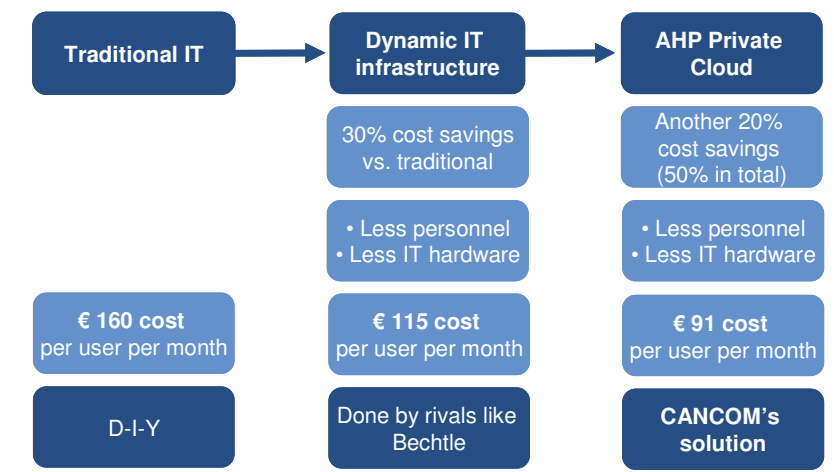
## Quality: AHP Cloud software the key differentiator

While the market for the implementation and operation of Private Clouds is crowded with contenders including Bechtle, Pironet and Computacenter, **CANCOM's cloud business model is unique:**

Its AHP Private Cloud solution combines third-party with proprietary software to offer a standardised and automated method for the implementation of Private Cloud architectures – competitors have to do this “by hand”. **Differentiation from rivals is based on the solution's multiple advantages** including:

- **Cost and speed improvements** – Working off a pre-determined script automatically and providing various needed software solutions “out-of-the-box”, the AHP cloud software ensures the fast and cost-efficient implementation and operation of a Private Cloud architecture – rivals like Bechtle using a manual approach require a lot more IT hardware and personnel than CANCOM.

### CANCOM's approach and cost savings vs. rivals



Source: Company data

- **Stability** – The standardised approach of the AHP solution yields a homogeneous cloud architecture which improves the stability of the solution i.e. there are fewer errors (e.g. all applications run, all users can log in without problems). Hence, CANCOM can ensure 24/7 cloud availability. In contrast, a manual approach leads to more heterogeneous cloud environments, making them more error-prone.
- **Transparency** – Thanks to its standardised line of action, the AHP solution allows CANCOM to provide customers with transparency regarding the cost involved and time-needed **prior to** the cloud implementation. Also, it makes the installation audit-proof.

Overall, there are **few rivals** which can offer customers something similar to CANCOM's AHP solution. Visionapp is a notable competitor; however following its take-over by ASG its cloud software solution is no longer in the strategic focus of the combined group.

**Value and perception of the AHP solution** is shown by partnerships with leading cloud players like IBM, various awards including the Citrix Best Cloud Partner Award 2012 and the position in Experton's leading quadrant for cloud services in Germany in 2012.

**Defensibility looks solid.** First, the AHP solution comprises several years' worth of further development – in fact, CANCOM first started developing the software in the early 2000s and has put several hundred man-years of effort into it, according to management, **meaning replication is cumbersome.**

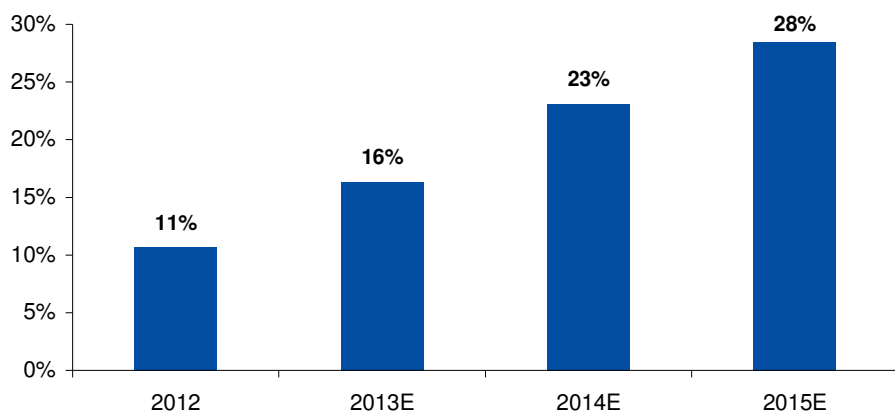
Second, it is important to note that companies like Citrix **do not represent competitors but partners** – Citrix’ virtual desktop solution is part of CANCOM’s AHP software accounting for c. 15% of the solution’s functionality.

Third, while big players like IBM may decide to target German SMEs with cloud services one day, they lack a prerequisite – a broad system house network. CANCOM’s decentralised set-up means it is close to its more than 25,000 SME clients everywhere in Germany and Austria **guaranteeing exactly what this customer base demands** – rapid on-site service.

In any case, even if new rivals were to enter in the next years, strong market growth (>50% p.a. expected) should subdue competition and CANCOM commands a **first mover advantage** which it should transform into a material share of the German Private Cloud market for SMEs. **Market share is sticky** given a very strong lock-in effect due to high switching costs (e.g. IT disruptions). Notably, once in a Private Cloud, customers mainly care about smooth operations.

**CANCOM’s already sound business quality has material upside** thanks to the shift towards Cloud Computing which makes the business **more visible** given that all cloud sales are recurring AND more profitable due to the high-margin nature of Private Cloud deals.

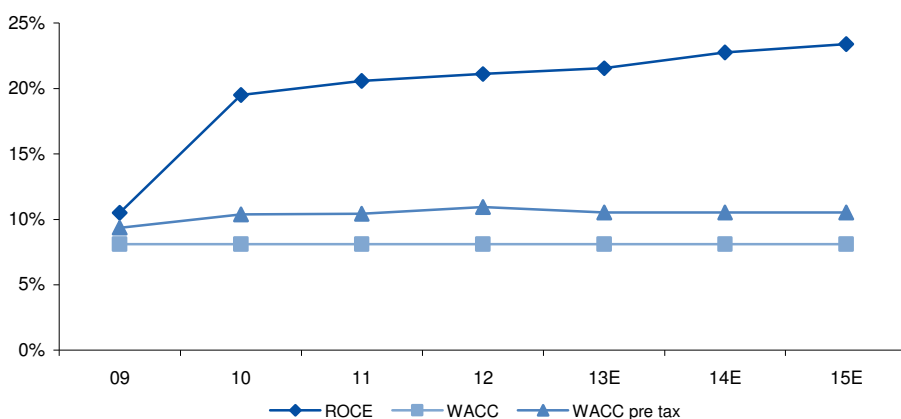
#### Recurring EBITDA (in % of group EBITDA) 2012-2015E



Source: Company data, Hauck & Aufhäuser

All of this should become evident in **further growth of already lofty returns (ROCE)**.

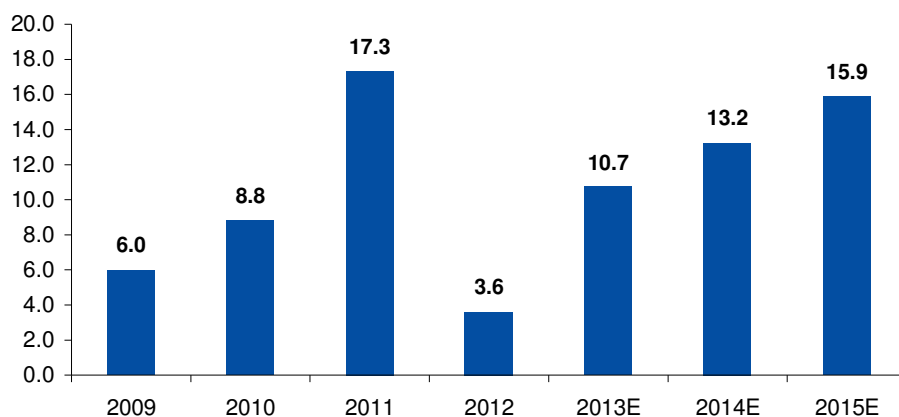
#### Returns



Source: Company data, Hauck & Aufhäuser

Given low capex and w/c needs, CANCOM has a strong record of generating positive free cash. The move towards high margin and recurring cloud revenues should help **drive up FCF further to some € 16m by 2015E**, in our view. Note that FCF was overstated in 2011 and understated in 2012 due to working capital fluctuations.

#### FCF generation (in € m) 2009-15E



Source: Company data, Hauck & Aufhäuser

#### Growth: Cloud Computing to drive profitability improvements

CANCOM SE: Trend in operating performance 2009-15E								
	2009	2010	2011	2012	2013E	2014E	2015E	CAGR 2012-15E
<b>Sales</b>	<b>348</b>	<b>475</b>	<b>544</b>	<b>558</b>	<b>591</b>	<b>622</b>	<b>647</b>	<b>5%</b>
y-o-y	17.2%	36.2%	14.7%	2.5%	5.9%	5.2%	4.0%	
<b>Cloud Computing</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>10.0</b>	<b>15.0</b>	<b>21.0</b>	<b>27.0</b>	<b>39%</b>
y-o-y	n/a	n/a	n/a	n/a	50%	40%	29%	n/a
in % of sales	n/a	n/a	n/a	2%	3%	3%	4%	
<b>Traditional IT business</b>	<b>348</b>	<b>475</b>	<b>544</b>	<b>548</b>	<b>576</b>	<b>601</b>	<b>620</b>	<b>4%</b>
y-o-y	17.2%	36.2%	14.7%	0.7%	5.1%	4.3%	3.2%	+ 2.5 pp
in % of sales	100%	100%	100%	98%	97%	97%	96%	
<b>EBITDA</b>	<b>9.5</b>	<b>19.0</b>	<b>25.0</b>	<b>28.1</b>	<b>30.6</b>	<b>34.6</b>	<b>38.7</b>	<b>11%</b>
EBITDA-margin	2.7%	4.0%	4.6%	5.0%	5.2%	5.6%	6.0%	+ 1.0 pp
<b>Cloud Computing</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>3.0</b>	<b>5.0</b>	<b>8.0</b>	<b>11.0</b>	<b>54%</b>
EBITDA-margin	n/a	n/a	n/a	30%	33%	38%	41%	+ 11 pp
in % of EBITDA	n/a	n/a	n/a	11%	16%	23%	28%	
<b>Traditional IT business</b>	<b>9.5</b>	<b>19.0</b>	<b>25.0</b>	<b>25.1</b>	<b>25.6</b>	<b>26.6</b>	<b>27.7</b>	<b>3%</b>
EBITDA-margin	2.7%	4.0%	4.6%	4.6%	4.4%	4.4%	4.5%	- 0.1 pp
in % of EBITDA	100%	100%	100%	89%	84%	77%	72%	
<b>Net income</b>	<b>5.1</b>	<b>7.8</b>	<b>11.5</b>	<b>11.5</b>	<b>15.2</b>	<b>18.1</b>	<b>20.8</b>	<b>22%</b>
in % of sales	1.5%	1.6%	2.1%	2.1%	2.6%	2.9%	3.2%	+ 1.2 pp

Source: Company data, Hauck & Aufhäuser

**The IT market is undergoing a paradigm shift:** Companies are moving away from the traditional do-it-yourself IT approach towards Cloud Computing driven by major cost and flexibility advantages, faster broadband connections, more mature security technology, and improvements in hardware and (virtualisation) software performance.

Accordingly, market research firm IDC expects global Private Cloud services to **grow at rates of above 50% (CAGR 2012-16E)** to top \$ 24bn by 2016E.

A beneficiary of this trend, CANCOM is expected to achieve **group sales growth of 5% p.a. and EBITDA growth of 11% p.a.** between 2012 and '15E

on average. While CANCOM's traditional IT business is seen to show a modest performance in-line with expected German IT market growth, Cloud Computing looks set to emerge as the **key sales and EBITDA growth driver**:

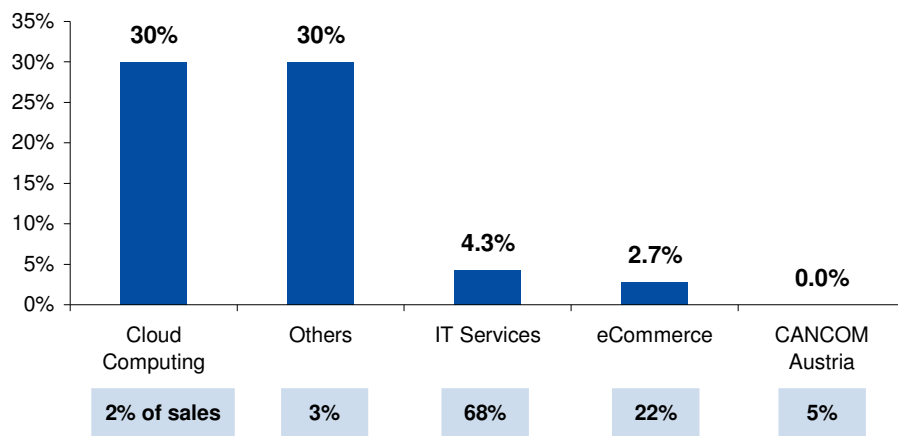
Related sales should increase by 39% p.a. between 2012 and '15E from € 10m to € 27m driven by:

- **A first mover advantage** relating to the AHP Private Cloud software solution which provides cost, speed and quality advantages in the implementation of a Private Cloud.
- **Access to more than 25,000 SMEs in Germany** which have been doing business with CANCOM on average for more than 10 years – establishing a relationship of trust crucial for clients looking to move into the cloud.
- **X-selling** – CANCOM has 70 SAP hosting customers which should provide for excellent cloud **cross-selling opportunities** – after all, these clients were willing to outsource “the core” of their businesses (i.e. their ERP system) and hence should be open to moving one step ahead into the cloud.
- **“Capacity” expansion** – With demand for its Private Cloud solution exceeding supply (i.e. consultants with cloud know-how), CANCOM is looking to expand its capacity of consultants capable of implementing Private Clouds using the AHP solution. Hence, CANCOM is hiring new personnel and shifting top consultants into the cloud business.

**The cloud project pipeline looks well filled** with CANCOM speaking to a total of 70 customers interested in its cloud solution currently. Three major deals are in the final stages of implementation which alone should throw off **annualised cloud sales of € 2.4m**. On top, CANCOM has just won another two big deals which should be good for a **total of € 4-5m annual cloud sales** once installed (eH&A: end of '13E / start of '14E).

**This provides excellent visibility** on our growth expectations for CANCOM's cloud business for 2014E.

#### CANCOM: EBITDA margin according to segment



Source: Company data, Hauck & Aufhäuser

The beauty of the Cloud Computing business model lies in its **recurring and high-margin nature** (i.e. all cloud sales are recurring) which should be the main driver behind group profitability improvements going forward:

- **Strong profitability** – Cloud sales throw off EBITDA margins of 30%+ as they involve complex services requiring special know-how AND as CANCOM relies on its scalable AHP software solution.
- **Price increases** – Given that demand for Private Clouds exceeds supply, CANCOM is seen able to increase prices (eH&A), explaining the rising EBITDA margins of Cloud Computing.

## Valuation – All methods point to undervaluation

Trading on 9.0x EV/EBIT '14E and 7.4x EV/EBIT '15E, CANCOM looks attractively valued in both absolute and relative terms. In our view, CANCOM should experience a **positive re-rating** with the move towards Cloud Computing as it supplies the company with **visible and high-margin recurring revenues**.

- A DCF model yields a **price target of € 29.00**. Key assumptions include a terminal year EBIT margin of 5.0% (thanks to growing importance of cloud revenues), a WACC of 8.0% and a long-term growth rate of 2.0%.

Sensitivity analysis DCF						Sensitivity analysis DCF							
		Long term growth							EBIT margin terminal year				
		0%	1.0%	2.0%	2.5%	3.0%			3.0%	4.0%	5.0%	6.0%	7.0%
WACC	10.0%	19.2	20.5	22.0	22.9	23.9	WACC	10.0%	16.6	19.3	22.0	24.7	27.4
	9.0%	21.2	22.8	24.9	26.2	27.7		9.0%	18.3	21.6	24.9	28.3	31.6
	8.0%	23.8	26.0	29.0	30.9	33.2		8.0%	20.6	24.8	29.0	33.2	37.4
	7.0%	27.2	30.4	34.9	37.9	41.6		7.0%	24.0	29.4	34.9	40.3	45.8
	6.0%	31.9	36.7	43.9	49.1	55.9		6.0%	29.2	36.6	43.9	51.3	58.6

Source: Hauck & Aufhäuser

- The FCFY model results in a fair value of € 27.60 based on 2014E and a hurdle rate of 7.5% with further upside on 2015E numbers (€ 31.70). Importantly, 2014E only marginally reflects the growth potential offered by CANCOM's Cloud Computing business.

FCF yield, year end Dec. 31	2012	2013E	2014E	2015E	
<b>Sales</b>	<b>558.1</b>	<b>591.0</b>	<b>622.0</b>	<b>647.0</b>	
Actual EV/sales	0.4x	0.4x	0.4x	0.3x	
Hurdle rate	7.5%	7.5%	7.5%	7.5%	
FCF margin	2.7%	2.9%	3.2%	3.5%	
Fair EV/sales	0.4x	0.4x	0.4x	0.5x	
<b>Fair EV</b>	<b>204.5</b>	<b>230.9</b>	<b>263.5</b>	<b>298.4</b>	
- EV Reconciliations	-33.7	-41.2	-50.5	-61.8	
<b>Fair Market Cap</b>	<b>238.2</b>	<b>272.1</b>	<b>314.0</b>	<b>360.2</b>	
No. of shares (million)	11.4	11.4	11.4	11.4	
<b>Fair value per share</b>	<b>21.0</b>	<b>24.0</b>	<b>27.6</b>	<b>31.7</b>	
<b>Premium (-) / discount (+) in %</b>	<b>-14.7%</b>	<b>-2.6%</b>	<b>12.4%</b>	<b>29.0%</b>	
Sensitivity analysis fair value					
	5.0%	30.0	34.1	39.3	44.9
Hurdle rate	7.5%	21.0	24.0	27.6	31.7
	10.0%	16.5	18.9	21.8	25.2
	12.5%	13.8	15.8	18.4	21.2

Source: Hauck & Aufhäuser

## News flow: Re-rating thanks to cloud exposure

**Recent news flow was positive.** CANCOM reported preliminary Q2 '13 results which **beat expectations on EBITDA and EBT**: Main driver should have been the growing footprint in Cloud Computing (16% of EBITDA '13E), where CANCOM is generating **EBIT margins exceeding 30%** thanks to proprietary IP and excess demand. Importantly, CANCOM improved group profitability **despite** up front costs (e.g. hardware, service) incurred in Q2 due to the implementation of three large cloud projects, which will go live in the course of Q3. Overall, Q2 '13 figures underpin CANCOM's successful and ongoing transition from an IT system house to a differentiated Cloud Computing provider, **benefitting from recurring and high-margin revenues**.

EUR	Q2 13	Q2 13 est	Q2 12	yoy	Q1 13	qoq
<b>Sales</b>	<b>140.0</b>	<b>140.0</b>	<b>127.0</b>	10%	<b>135.1</b>	4%
<b>EBITDA</b>	<b>7.8</b>	<b>7.0</b>	<b>6.4</b>	22%	<b>7.0</b>	12%
EBITDA margin	5.6%	5.0%	5.0%	+ 0.5 pp	5.2%	+ 0.4 pp
<b>EBT</b>	<b>5.3</b>	<b>4.8</b>	<b>4.4</b>	21%	<b>4.6</b>	15%
EBT margin	3.8%	3.5%	3.4%	+ 0.3 pp	3.4%	+ 0.4 pp

Source: Company data, Hauck & Aufhäuser.

**News flow is expected to remain very positive:**

### Relatively undiscovered

The stock is yet in the process of being discovered as a Cloud Computing play, **driving a positive re-valuation of the shares**. First, CANCOM has provided transparency on its Cloud Computing business (i.e. detailed figures) for the first time only in May '13; before then it was a black box. Second, the company is starting to roadshow again – something it has not done in over a year when the cloud exposure was still much less material.

### Cloud exposure to quickly become more material

The various big deals CANCOM is working on currently should make the Cloud Computing exposure **much more material** – in our view driving related recurring EBITDA from € 3.0m (2012) to € 8.0m (2014E). As such, the deals which should be fully implemented by the end of '13E / start of '14E should serve as proof of concept and increase investors' confidence in CANCOM's investment case.

### Take-over speculation

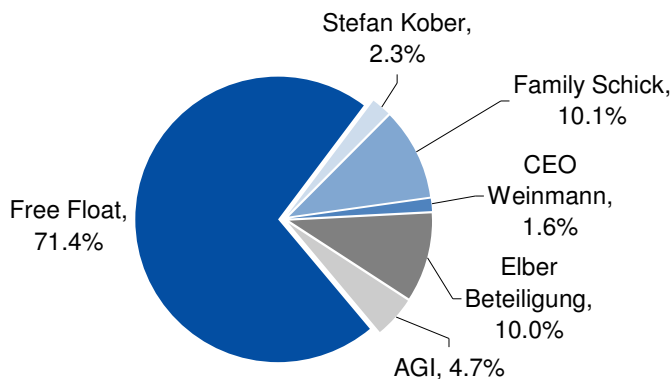
**CANCOM is a take-over target.** The business model should be attractive to various companies including Bechtle, IBM and ATEA which may lust for CANCOM's access to more than 25,000 German SMEs and its rather unique AHP Private Cloud solution. Also, T-Systems may be a suitor as it has just announced it is looking for companies with cloud exposure to German SMEs.

**Remember that CANCOM's key rival Visionapp was acquired by ASG in 2011** (multiples unknown). Also, Host Europe, which does not even own IP like CANCOM, was snatched up for 12x EV/EBITDA by investment group Cinven, underpinning CANCOM's still modest valuation despite the recent strong share price performance.

**CANCOM's shareholder structure has already seen interesting changes recently:** Mr. Schick, the co-founder and main shareholder of Bechtle (34% stake) has acquired some 10% of CANCOM. In our view, he could be looking to increase his stake to 25% with the intent to repel possible hostile take-over attempts or merge Bechtle and CANCOM, Germany's leading IT service companies. In any case, **sentiment should benefit from recent (and possibly upcoming) changes in the shareholder structure.**

**Shareholders' structure CANCOM as of July 2013**

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Source: Company data

## Financials

Profit and loss (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Net sales</b>	<b>348.3</b>	<b>474.6</b>	<b>544.4</b>	<b>558.1</b>	<b>591.0</b>	<b>622.0</b>	<b>647.0</b>
<i>Sales growth</i>	1.6 %	36.2 %	14.7 %	2.5 %	5.9 %	5.2 %	4.0 %
Increase/decrease in finished goods and work-in-process	1.0	1.3	0.9	2.5	1.0	1.0	1.0
<b>Total sales</b>	<b>349.3</b>	<b>475.8</b>	<b>545.3</b>	<b>560.6</b>	<b>592.0</b>	<b>623.0</b>	<b>648.0</b>
Other operating income	2.3	3.3	0.7	0.6	0.4	0.5	0.5
Material expenses	241.1	336.3	386.6	395.1	414.0	433.1	448.3
Personnel expenses	79.2	97.0	108.0	112.4	119.0	125.7	130.3
Other operating expenses	21.8	26.8	26.4	25.8	28.8	30.1	31.2
Total operating expenses	339.8	456.8	520.3	532.5	561.4	588.4	609.3
<b>EBITDA</b>	<b>9.5</b>	<b>19.0</b>	<b>25.0</b>	<b>28.1</b>	<b>30.6</b>	<b>34.6</b>	<b>38.7</b>
Depreciation	2.4	3.8	2.8	4.0	4.8	5.0	5.3
<b>EBITA</b>	<b>7.1</b>	<b>15.2</b>	<b>22.2</b>	<b>24.0</b>	<b>25.8</b>	<b>29.6</b>	<b>33.4</b>
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	3.7	3.4	3.2	3.4	3.0
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>7.1</b>	<b>15.2</b>	<b>18.5</b>	<b>20.7</b>	<b>22.6</b>	<b>26.2</b>	<b>30.4</b>
Interest income	0.2	0.1	0.3	0.4	0.5	0.6	0.7
Interest expenses	1.3	1.9	2.2	2.1	1.5	1.1	1.1
Other financial result	0.0	0.0	0.4	0.0	0.4	0.4	0.0
Financial result	-1.1	-1.8	-1.6	-1.8	-0.6	-0.1	-0.4
<b>Recurring pretax income from continuing operations</b>	<b>5.9</b>	<b>13.3</b>	<b>16.9</b>	<b>18.9</b>	<b>22.0</b>	<b>26.1</b>	<b>30.0</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>5.9</b>	<b>13.3</b>	<b>16.9</b>	<b>18.9</b>	<b>22.0</b>	<b>26.1</b>	<b>30.0</b>
Taxes	0.9	3.7	4.9	6.6	6.6	7.8	9.0
<b>Net income from continuing operations</b>	<b>5.0</b>	<b>9.6</b>	<b>12.0</b>	<b>12.3</b>	<b>15.4</b>	<b>18.3</b>	<b>21.0</b>
Result from discontinued operations (net of tax)	-0.1	1.7	0.3	0.7	0.0	0.0	0.0
<b>Net income</b>	<b>5.1</b>	<b>7.9</b>	<b>11.7</b>	<b>11.6</b>	<b>15.4</b>	<b>18.3</b>	<b>21.0</b>
Minority interest	0.0	0.1	0.2	0.1	0.2	0.2	0.2
<b>Net income (net of minority interest)</b>	<b>5.1</b>	<b>7.8</b>	<b>11.5</b>	<b>11.5</b>	<b>15.2</b>	<b>18.1</b>	<b>20.8</b>
Average number of shares	10.4	10.3	10.4	10.6	11.4	11.4	11.4
<b>EPS reported</b>	<b>0.49</b>	<b>0.76</b>	<b>1.11</b>	<b>1.09</b>	<b>1.33</b>	<b>1.58</b>	<b>1.82</b>

Profit and loss (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Net sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Increase/decrease in finished goods and work-in-process	0.3 %	0.3 %	0.2 %	0.5 %	0.2 %	0.2 %	0.2 %
<b>Total sales</b>	<b>100.3 %</b>	<b>100.3 %</b>	<b>100.2 %</b>	<b>100.5 %</b>	<b>100.2 %</b>	<b>100.2 %</b>	<b>100.2 %</b>
Other operating income	0.6 %	0.7 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
Material expenses	69.2 %	70.9 %	71.0 %	70.8 %	70.1 %	69.6 %	69.3 %
Personnel expenses	22.7 %	20.4 %	19.8 %	20.1 %	20.1 %	20.2 %	20.1 %
Other operating expenses	6.3 %	5.7 %	4.8 %	4.6 %	4.9 %	4.8 %	4.8 %
Total operating expenses	97.6 %	96.3 %	95.6 %	95.4 %	95.0 %	94.6 %	94.2 %
<b>EBITDA</b>	<b>2.7 %</b>	<b>4.0 %</b>	<b>4.6 %</b>	<b>5.0 %</b>	<b>5.2 %</b>	<b>5.6 %</b>	<b>6.0 %</b>
Depreciation	0.7 %	0.8 %	0.5 %	0.7 %	0.8 %	0.8 %	0.8 %
<b>EBITA</b>	<b>2.0 %</b>	<b>3.2 %</b>	<b>4.1 %</b>	<b>4.3 %</b>	<b>4.4 %</b>	<b>4.8 %</b>	<b>5.2 %</b>
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	0.0 %	0.0 %	0.7 %	0.6 %	0.5 %	0.5 %	0.5 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>2.0 %</b>	<b>3.2 %</b>	<b>3.4 %</b>	<b>3.7 %</b>	<b>3.8 %</b>	<b>4.2 %</b>	<b>4.7 %</b>
Interest income	0.0 %	0.0 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
Interest expenses	0.4 %	0.4 %	0.4 %	0.4 %	0.3 %	0.2 %	0.2 %
Other financial result	0.0 %	0.0 %	0.1 %	0.0 %	0.1 %	0.1 %	0.0 %
Financial result	-0.3 %	-0.4 %	-0.3 %	-0.3 %	-0.1 %	0.0 %	-0.1 %
<b>Recurring pretax income from continuing operations</b>	<b>1.7 %</b>	<b>2.8 %</b>	<b>3.1 %</b>	<b>3.4 %</b>	<b>3.7 %</b>	<b>4.2 %</b>	<b>4.6 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Earnings before taxes</b>	<b>1.7 %</b>	<b>2.8 %</b>	<b>3.1 %</b>	<b>3.4 %</b>	<b>3.7 %</b>	<b>4.2 %</b>	<b>4.6 %</b>
Tax rate	15.6 %	28.1 %	28.8 %	35.0 %	30.0 %	30.0 %	30.0 %
<b>Net income from continuing operations</b>	<b>1.4 %</b>	<b>2.0 %</b>	<b>2.2 %</b>	<b>2.2 %</b>	<b>2.6 %</b>	<b>2.9 %</b>	<b>3.2 %</b>
Income from discontinued operations (net of tax)	0.0 %	0.4 %	0.1 %	0.1 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>1.5 %</b>	<b>1.7 %</b>	<b>2.1 %</b>	<b>2.1 %</b>	<b>2.6 %</b>	<b>2.9 %</b>	<b>3.2 %</b>
Minority interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income (net of minority interest)</b>	<b>1.5 %</b>	<b>1.6 %</b>	<b>2.1 %</b>	<b>2.1 %</b>	<b>2.6 %</b>	<b>2.9 %</b>	<b>3.2 %</b>

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>31.5</b>	<b>42.5</b>	<b>39.6</b>	<b>41.2</b>	<b>41.0</b>	<b>40.6</b>	<b>40.6</b>
Property, plant and equipment	6.5	9.7	12.9	17.6	19.4	21.4	23.1
Financial assets	0.2	3.2	2.2	5.0	5.0	5.0	5.0
<b>FIXED ASSETS</b>	<b>38.2</b>	<b>55.4</b>	<b>54.6</b>	<b>63.8</b>	<b>65.4</b>	<b>67.0</b>	<b>68.7</b>
Inventories	12.6	13.4	15.0	8.7	11.8	13.0	14.1
Accounts receivable	47.2	68.0	72.2	88.3	92.3	98.8	104.6
Other current assets	5.1	6.4	7.2	0.9	0.9	0.9	0.9
Liquid assets	25.8	31.5	44.4	44.6	46.9	55.6	66.3
Deferred taxes	2.6	0.7	0.6	1.1	1.1	1.1	1.1
Deferred charges and prepaid expenses	3.4	2.0	0.9	1.1	1.1	1.1	1.1
<b>CURRENT ASSETS</b>	<b>96.7</b>	<b>122.0</b>	<b>140.2</b>	<b>144.8</b>	<b>154.2</b>	<b>170.5</b>	<b>188.1</b>
<b>TOTAL ASSETS</b>	<b>134.9</b>	<b>177.4</b>	<b>194.9</b>	<b>208.6</b>	<b>219.6</b>	<b>237.5</b>	<b>256.8</b>
<b>SHAREHOLDERS EQUITY</b>	<b>43.9</b>	<b>50.9</b>	<b>60.7</b>	<b>80.6</b>	<b>91.8</b>	<b>105.3</b>	<b>121.0</b>
<b>MINORITY INTEREST</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>	<b>0.8</b>
Long-term debt	21.6	29.0	16.7	14.1	6.4	6.4	6.4
Provisions for pensions and similar obligations	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other provisions	4.3	3.2	7.6	5.1	5.1	5.1	5.1
<b>Non-current liabilities</b>	<b>26.0</b>	<b>32.2</b>	<b>24.4</b>	<b>19.3</b>	<b>11.6</b>	<b>11.6</b>	<b>11.6</b>
short-term liabilities to banks	0.7	1.6	9.1	1.3	4.5	4.5	4.5
Accounts payable	47.9	64.4	72.9	76.9	81.0	85.2	88.6
Advance payments received on orders	1.1	1.5	1.9	3.6	3.6	3.6	3.6
Other liabilities (incl. from lease and rental contracts)	10.7	16.3	17.4	18.8	18.8	18.8	18.8
Deferred taxes	2.0	4.3	2.7	2.8	2.8	2.8	2.8
Deferred income	2.7	6.0	5.6	5.1	5.1	5.1	5.1
<b>Current liabilities</b>	<b>65.0</b>	<b>94.2</b>	<b>109.6</b>	<b>108.6</b>	<b>115.8</b>	<b>120.0</b>	<b>123.5</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>134.9</b>	<b>177.4</b>	<b>194.9</b>	<b>208.6</b>	<b>219.6</b>	<b>237.5</b>	<b>256.8</b>

Balance sheet (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>23.4 %</b>	<b>24.0 %</b>	<b>20.3 %</b>	<b>19.8 %</b>	<b>18.7 %</b>	<b>17.1 %</b>	<b>15.8 %</b>
Property, plant and equipment	4.8 %	5.5 %	6.6 %	8.4 %	8.8 %	9.0 %	9.0 %
Financial assets	0.1 %	1.8 %	1.1 %	2.4 %	2.3 %	2.1 %	2.0 %
<b>FIXED ASSETS</b>	<b>28.3 %</b>	<b>31.2 %</b>	<b>28.0 %</b>	<b>30.6 %</b>	<b>29.8 %</b>	<b>28.2 %</b>	<b>26.8 %</b>
Inventories	9.3 %	7.5 %	7.7 %	4.2 %	5.4 %	5.5 %	5.5 %
Accounts receivable	35.0 %	38.3 %	37.1 %	42.3 %	42.0 %	41.6 %	40.7 %
Other current assets	3.8 %	3.6 %	3.7 %	0.4 %	0.4 %	0.4 %	0.4 %
Liquid assets	19.2 %	17.7 %	22.8 %	21.4 %	21.3 %	23.4 %	25.8 %
Deferred taxes	1.9 %	0.4 %	0.3 %	0.5 %	0.5 %	0.5 %	0.4 %
Deferred charges and prepaid expenses	2.5 %	1.1 %	0.4 %	0.5 %	0.5 %	0.5 %	0.4 %
<b>CURRENT ASSETS</b>	<b>71.7 %</b>	<b>68.8 %</b>	<b>72.0 %</b>	<b>69.4 %</b>	<b>70.2 %</b>	<b>71.8 %</b>	<b>73.2 %</b>
<b>TOTAL ASSETS</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>SHAREHOLDERS EQUITY</b>	<b>32.5 %</b>	<b>28.7 %</b>	<b>31.2 %</b>	<b>38.6 %</b>	<b>41.8 %</b>	<b>44.3 %</b>	<b>47.1 %</b>
<b>MINORITY INTEREST</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.1 %</b>	<b>0.1 %</b>	<b>0.2 %</b>	<b>0.2 %</b>	<b>0.3 %</b>
Long-term debt	16.0 %	16.3 %	8.6 %	6.8 %	2.9 %	2.7 %	2.5 %
Provisions for pensions and similar obligations	0.0 %	0.0 %	0.0 %	0.1 %	0.1 %	0.1 %	0.0 %
Other provisions	3.2 %	1.8 %	3.9 %	2.4 %	2.3 %	2.1 %	2.0 %
<b>Non-current liabilities</b>	<b>19.3 %</b>	<b>18.2 %</b>	<b>12.5 %</b>	<b>9.3 %</b>	<b>5.3 %</b>	<b>4.9 %</b>	<b>4.5 %</b>
short-term liabilities to banks	0.5 %	0.9 %	4.7 %	0.6 %	2.0 %	1.9 %	1.8 %
Accounts payable	35.5 %	36.3 %	37.4 %	36.9 %	36.9 %	35.9 %	34.5 %
Advance payments received on orders	0.8 %	0.9 %	1.0 %	1.7 %	1.7 %	1.5 %	1.4 %
Other liabilities (incl. from lease and rental contracts)	7.9 %	9.2 %	9.0 %	9.0 %	8.6 %	7.9 %	7.3 %
Deferred taxes	1.5 %	2.4 %	1.4 %	1.4 %	1.3 %	1.2 %	1.1 %
Deferred income	2.0 %	3.4 %	2.9 %	2.4 %	2.3 %	2.1 %	2.0 %
<b>Current liabilities</b>	<b>48.2 %</b>	<b>53.1 %</b>	<b>56.2 %</b>	<b>52.0 %</b>	<b>52.7 %</b>	<b>50.5 %</b>	<b>48.1 %</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Net profit/loss	5.1	7.9	11.7	11.6	15.4	18.3	21.0
Depreciation of fixed assets (incl. leases)	2.4	3.8	2.8	4.0	4.8	5.0	5.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	3.7	3.4	3.2	3.4	3.0
Others	-0.6	3.0	4.7	2.9	0.0	0.0	0.0
Cash flow from operations before changes in w/c	6.9	14.7	22.9	21.9	23.4	26.7	29.3
Increase/decrease in inventory	-0.9	0.3	-6.3	6.2	-3.1	-1.1	-1.1
Increase/decrease in accounts receivable	0.8	-15.2	-5.2	-16.1	-4.0	-6.5	-5.7
Increase/decrease in accounts payable	2.7	17.1	15.3	4.0	4.0	4.2	3.4
Increase/decrease in other working capital positions	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	3.8	2.2	3.8	-5.8	-3.1	-3.4	-3.4
<b>Cash flow from operating activities</b>	<b>10.7</b>	<b>16.9</b>	<b>26.7</b>	<b>16.1</b>	<b>20.3</b>	<b>23.2</b>	<b>25.9</b>
CAPEX	4.7	8.1	9.4	12.5	9.6	10.0	10.0
Payments for acquisitions	0.4	10.5	3.6	0.1	0.0	0.0	0.0
Financial investments	-0.2	-0.1	-0.3	0.0	0.0	0.0	0.0
Income from asset disposals	2.3	1.1	4.8	2.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-2.6</b>	<b>-17.3</b>	<b>-7.9</b>	<b>-10.6</b>	<b>-9.6</b>	<b>-10.0</b>	<b>-10.0</b>
Cash flow before financing	8.0	-0.4	18.8	5.5	10.7	13.2	15.9
Increase/decrease in debt position	0.1	8.1	-2.6	-11.9	-4.5	0.0	0.0
Purchase of own shares	0.2	-0.6	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	11.2	0.0	0.0	0.0
Dividends paid	0.0	1.5	1.6	3.3	4.0	4.5	5.1
Others	-1.0	-1.3	-1.6	-1.4	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	0.1	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-1.1</b>	<b>5.9</b>	<b>-5.8</b>	<b>-5.3</b>	<b>-8.5</b>	<b>-4.5</b>	<b>-5.1</b>
Increase/decrease in liquid assets	7.0	5.6	13.0	0.2	2.2	8.7	10.8
<b>Liquid assets at end of period</b>	<b>25.8</b>	<b>31.5</b>	<b>44.5</b>	<b>44.6</b>	<b>46.9</b>	<b>55.6</b>	<b>66.3</b>

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Domestic	386.1	441.7	502.0	529.1	561.5	591.5	615.9
yoy change	19.8 %	14.4 %	13.7 %	5.4 %	6.1 %	5.4 %	4.1 %
Rest of Europe	36.4	32.9	42.4	29.0	29.6	30.5	31.1
yoy change	n/a	-9.6 %	28.9 %	-31.7 %	2.1 %	3.1 %	1.9 %
NAFTA	0.0	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	0.0	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	0.0	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>TTL</b>	<b>422.5</b>	<b>474.6</b>	<b>544.4</b>	<b>558.1</b>	<b>591.0</b>	<b>622.0</b>	<b>647.0</b>
yoy change	31.1 %	12.3 %	14.7 %	2.5 %	5.9 %	5.2 %	4.0 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>P&amp;L growth analysis</b>							
Sales growth	1.6 %	36.2 %	14.7 %	2.5 %	5.9 %	5.2 %	4.0 %
EBITDA growth	21.3 %	100.7 %	31.6 %	12.2 %	9.0 %	13.1 %	11.8 %
EBIT growth	26.0 %	114.0 %	21.7 %	12.0 %	9.4 %	15.9 %	16.0 %
EPS growth	87.8 %	55.5 %	46.4 %	-2.1 %	22.5 %	18.8 %	15.1 %
<b>Efficiency</b>							
Total operating costs / sales	97.6 %	96.3 %	95.6 %	95.4 %	95.0 %	94.6 %	94.2 %
Sales per employee	196.0	257.7	273.1	270.9	278.4	280.2	279.5
EBITDA per employee	5.3	10.3	12.5	13.6	14.4	15.6	16.7
<b>Balance sheet analysis</b>							
Avg. working capital / sales	3.4 %	2.8 %	2.6 %	2.6 %	3.0 %	3.4 %	3.8 %
Inventory turnover (sales/inventory)	27.7	35.5	36.3	63.8	50.0	48.0	46.0
Trade debtors in days of sales	49.5	52.3	48.4	57.7	57.0	58.0	59.0
A/P turnover [(A/P*365)/sales]	50.1	49.6	48.9	50.3	50.0	50.0	50.0
Cash conversion cycle (days)	-3.9	-3.1	-6.3	-5.3	-4.0	-2.9	-1.7
<b>Cash flow analysis</b>							
Free cash flow	6.0	8.8	17.3	3.6	10.7	13.2	15.9
Free cash flow/sales	1.7 %	1.9 %	3.2 %	0.6 %	1.8 %	2.1 %	2.5 %
FCF / net profit	118.4 %	113.1 %	150.3 %	31.4 %	70.6 %	73.3 %	76.4 %
FCF yield	2.4 %	3.5 %	6.9 %	1.3 %	3.8 %	4.7 %	5.7 %
Capex / deprec	188.4 %	206.6 %	139.0 %	169.0 %	120.0 %	119.0 %	120.5 %
Capex / maintenance capex	137.6 %	133.1 %	151.6 %	n/a	101.5 %	102.9 %	98.6 %
Capex / sales	1.3 %	1.7 %	1.7 %	n/a	n/a	n/a	n/a
<b>Security</b>							
Net debt	-3.5	-0.9	-18.5	-29.2	-36.0	-44.7	-55.4
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / equity	-0.1	0.0	-0.3	-0.4	-0.4	-0.4	-0.5
Interest cover	5.4	8.0	8.3	9.7	15.1	23.6	27.4
Dividend payout ratio	30.7 %	19.7 %	26.7 %	34.7 %	29.9 %	28.3 %	27.3 %
<b>Asset utilisation</b>							
Capital employed turnover	4.9	5.6	5.8	5.5	5.5	5.1	4.7
Operating assets turnover	20.1	18.9	21.5	16.4	15.2	14.0	13.1
Plant turnover	53.4	49.0	42.2	31.8	30.5	29.1	28.1
Inventory turnover (sales/inventory)	27.7	35.5	36.3	63.8	50.0	48.0	46.0
<b>Returns</b>							
ROCE	10.5 %	19.5 %	20.6 %	21.1 %	21.6 %	22.8 %	23.4 %
ROE	11.5 %	15.4 %	19.0 %	14.2 %	16.6 %	17.1 %	17.2 %
<b>Other</b>							
Interest paid / avg. debt	5.9 %	7.2 %	7.9 %	10.3 %	11.4 %	10.2 %	10.2 %
No. employees (average)	1777	1842	1994	2060	2123	2220	2315
Number of shares	10.4	10.3	10.4	10.6	11.4	11.4	11.4
DPS	0.2	0.2	0.3	0.4	0.4	0.5	0.5
EPS reported	0.49	0.76	1.11	1.09	1.33	1.58	1.82
<b>Valuation ratios</b>							
P/BV	5.8	5.0	4.2	3.5	3.1	2.7	2.3
EV/sales	0.7	0.5	0.4	0.4	0.4	0.4	0.3
EV/EBITDA	26.5	13.2	9.4	8.9	8.0	6.8	5.8
EV/EBITA	35.4	16.6	10.6	10.4	9.4	7.9	6.7
EV/EBIT	35.4	16.6	12.7	12.1	10.8	9.0	7.4
EV/FCF	41.9	28.4	13.5	69.5	22.7	17.7	14.1
Dividend yield	0.6 %	0.6 %	1.2 %	1.4 %	1.6 %	1.8 %	2.0 %

Source: Company data, Hauck & Aufhäuser



**Buy** (old: Buy)

**Price target: EUR 15.50** (old: EUR 15.50)

**Price:** EUR 10.95      **Next result:** Q3: tba  
**Bloomberg:** FAO2 GR      **Market cap:** EUR 55.1 m  
**Reuters:** FAOGn.DE      **Enterprise Value:** EUR 47.5 m

31-July-13

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Analyst

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## Undiscovered cloud software provider

Over more than a decade and after spending >€ 60m in development, **iFAO has built a leading cloud software application for online travel procurement** (so called online booking tool "OBT") helping companies save travel costs – direct (procurement costs) and indirect (process costs). iFAO charges mainly a fee per transaction (i.e. for booking a flight, train, hotel, car, etc.) while customers incur only little upfront costs for implementation. Hence, a low financial hurdle coupled with cost savings promise a fast ROI for companies with travel budgets of >€ 5m p.a.

The integration into customers' IT systems and the transaction based business model **provide the basis for recurring sales (>90% of group sales)**. In fact, a high customer satisfaction among companies such as Siemens, BASF and E.ON is reflected in churn rates close to zero. Thanks to this, iFAO benefits from a very stable and continuously growing revenue stream.

Most importantly, **iFAO should capitalise on low adoption rates of OBTs at companies in Europe**, which are still below 20% compared to c. 50% in North America. Adoption is however expected to increase given the search for cost savings. A recent survey underlines that travel managers concentrate efforts on reducing costs and manage travel in a more cost-effective way. This trend has also allowed iFAO to grow even in difficult times when business travel contracted (iFAO achieved 5% growth in 2009 and 7% in 2012). For instance leading travel agency Carlson Wagonlit experienced a decline of 4.5% in business travel in Europe in 2012.

In the past, iFAO relied on sales activities of its management and travel agencies. The latter have been however reluctant to sell iFAO's solution which cannibalises their traditional business (manual booking). As a result, management **has started to invest in its sales force** which has been increased to 10 FTEs in the last two years. At the same time it has built up a pipeline of c. **90 potential direct clients of which each can add an average of € 200-300k** in annual sales.

Based on the increasing interest from companies and the well filled pipeline sales growth looks set to accelerate. **BUY with a PT of € 15.50 based on FCFY 2014E.**



Source: Company data, Hauck & Aufhäuser

**High/low 52 weeks:** 12.38 / 8.80  
**Price/Book Ratio:** 4.0  
**Relative performance (TecDAX):**  
3 months -8.4 %  
6 months -15.4 %  
12 months -6.6 %

### Changes in estimates

		Sales	EBIT	EPS
2013	old:	14.7	4.3	0.78
	Δ	-	-	-
2014	old:	16.7	5.4	0.98
	Δ	-	-	-
2015	old:	19.2	6.4	1.17
	Δ	-	-	-

### Key share data:

Number of shares: (in m pcs) 5.0  
Authorised capital: (in € m) 2.6  
Book value per share: (in €) 2.8  
Ø trading volume: (12 months) 7,200

### Major shareholders:

Free Float 46.0 %  
Louis Arnitz (Founder and CEO) 44.6 %  
Evergreen 9.4 %  
Treasury stock 4.7 %  
Ennismore 5.0 %  
AGI 3.0 %

### Company description:

Leading provider of business travel software solutions

Y/E 31.12 (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Sales	10.6	11.6	12.2	13.0	14.7	16.7	19.2
Sales growth	5 %	9 %	5 %	7 %	13 %	14 %	15 %
EBITDA	3.3	3.7	3.8	3.7	4.6	5.7	6.8
EBIT	2.8	3.3	3.5	3.4	4.3	5.4	6.4
Net income	3.1	3.4	3.2	3.2	3.9	4.9	5.9
Net debt	-9.1	-9.6	-8.6	-7.2	-7.6	-8.7	-10.6
Net gearing	-66.1 %	-65.4 %	-60.0 %	-50.9 %	-54.8 %	-56.8 %	-60.6 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS fully diluted	0.62	0.67	0.64	0.63	0.78	0.98	1.17
CPS	0.53	0.57	0.66	0.57	0.74	0.93	1.10
DPS	0.50	0.70	0.65	0.65	0.70	0.75	0.90
Dividend yield	4.6 %	6.4 %	5.9 %	5.9 %	6.4 %	6.8 %	8.2 %
Gross profit margin	97.4 %	97.7 %	98.0 %	99.3 %	99.3 %	99.3 %	99.3 %
EBITDA margin	31.0 %	31.5 %	30.7 %	28.4 %	31.3 %	34.0 %	35.6 %
EBIT margin	26.6 %	28.2 %	28.3 %	26.2 %	29.2 %	32.2 %	33.5 %
ROCE	21.0 %	22.4 %	23.1 %	23.1 %	29.5 %	35.6 %	38.0 %
EV/sales	4.3	3.9	3.8	3.7	3.2	2.8	2.3
EV/EBITDA	13.9	12.4	12.4	12.9	10.4	8.2	6.5
EV/EBIT	16.2	13.9	13.5	14.1	11.1	8.6	6.9
PER	17.5	16.3	17.0	17.4	14.0	11.2	9.3
Adjusted FCF yield	7.2 %	7.9 %	7.7 %	7.1 %	8.9 %	11.6 %	14.6 %

Source: Company data, Hauck & Aufhäuser Close price as of: 30.07.2013

## Cloud exposure: Business travel management SaaS

i:FAO is a **leading provider of on-demand business travel management software**. This is a niche market with the three leading European providers including i:FAO, France based KDS and Amadeus' e-Travel Management together generating c. € 40m in annual revenues in Europe.

i:FAO's integrated online booking and expense software ("cytric") is offered to companies as a **web based software application, i.e. as Software as a Service ("SaaS")**. Hereby, the company charges mainly a fee per transaction (booking of flight, train, hotel, car, etc.) while customers incur little upfront costs for the implementation. Hence, a low financial hurdle coupled with cost savings promise a fast ROI for companies with travel budgets of > € 5m p.a.

Importantly, the integration into the companies' IT systems and the transaction based business model provide the basis for **the high share of recurring sales (>90% of group sales)**. In fact, a high customer satisfaction among companies such as Siemens, BASF and E.ON is reflected in churn rates close to zero.

	Transaction based revenues	Others	Group
<b>Products</b>			
Sales 13E (€ m)	14.2	0.4	14.7
Sales share	97%	3%	
End markets	Business clients from large to mid size companies in all industries. In total >3200 customers are served in 36 countries.		
Market positions	i:FAO is a leading developer and provider of eProcurement software for business travel. The company's software <b>cytric</b> is Europe's most widely used solution for planning, booking, expense reporting and management of business travel.		
Customers / Distribution partners	<p><b>Over 50 distribution partners</b> sell cytric under their own brand. Selected partners are American Express Travel, BCD Travel, Carlson Wagonlit Travel, HRG Corporate Travel, Lufthansa City Centre and others.</p> <p><b>BASF, Siemens, VW, OMV, Krones, CapGemini, PriceWaterhouseCoopers, Canon, e.on, RWE, Fortis, ThyssenKrupp, etc.</b></p>	<p>cytric is directly connected to the <b>car rentals</b> Alamo, AVIS, Europcar, Hertz, National Car Rental, Sixt, Thrifty, Terstappen and others.</p>	<p>cytric is directly connected to <b>hotel booking systems</b> like DERhotel.com, HRS, hotel.de, ebook, Hotelzon, TravelRes and others.</p>
Competitors	KDS (France), Concur (US), Traveldoo (France), Onesto (Germany), GetThere (US)		
Sales/transaction distribution by region (10)	<p><b>Sales</b></p> <p>Domestic, 88% Rest of world, 12%</p>	<p><b>Transactions</b></p> <p>Domestic, 50% International, 50%</p>	
Locations	Headquarter: Frankfurt, Germany. Software development centre: Sofia, Bulgaria and Hannover, Germany.		
EBIT 13E (€ m)	n.a.	n.a.	4.3
EBIT-margin	n.a.	n.a.	29%
ROCE 13	n.a.	n.a.	31%

Source: Company data, Hauck & Aufhäuser

## **Competitive Quality: A state of the art online procurement solution**

Over more than a decade and after spending > € 60m in development, **i:FAO has developed a leading cloud software application for online travel procurement** (so called online booking tool “OBT”) helping companies to save travel costs – direct (procurement costs) and indirect (process costs). At the same time the small market size has prevented large software developers from addressing the market.

The use of a travel and expense management **software can bring considerable cost savings** while increasing policy compliance and reducing fraud. This becomes even more important in difficult economic times and due to increasingly strict regulation on corporate governance.

Hence, customers value the **software as it helps to lower direct and indirect travel costs significantly by up to 25%**. With the right policy, process and system in place, significant gains can be achieved in terms of efficiency and savings as well as improved compliance.

As a result the use of the software allows for a strong return on investment which is supported by the SaaS approach – i.e. the low initial investment requirements.

In detail savings for customers are achieved by:

- Direct cost savings thanks to the ability to compare content providers, the enforcement of compliance with a strict travel policy and direct links to service providers.
- Lower indirect (process) costs of online booking. According to i:FAO's largest customer Siemens, online booking transaction costs are one third less than the equivalent offline option also supported by lower fees for travel agencies.
- Better bargaining power with suppliers thanks to data tracking and improved transparency.
- Reduction of processing costs of expense claims – filling, approving, reimbursement, auditing, VAT reclaim - thanks to automated expense management.

**A high customer loyalty is supported by the implementation of cytric into the companies' IT system infrastructure** such as ERP systems and by the fact that users need to become familiar with the booking masks. On average it takes 6 months to get a high number of employees using the tool. Hence, as long as the software is working properly and is up to date there is little risk that a customer switches providers.

As a result, competition is mainly for new customers who consider outsourcing/automating travel management. In that respect, i:FAO strongly benefits from its first mover advantage which allowed it to develop its state of the art platform (according to Siemens) and a **respectable customer base including well-known and large companies such as Siemens, BASF, VW, ThyssenKrupp, Krones, Jungheinrich, PriceWaterhouseCoopers** etc. This adds to its credibility which is additionally being supported by the stock listing and the healthy balance sheet.

Whilst two large customers explain c. 32% of sales, **i:FAO is seen to face limited price pressure thanks to the high cost savings its software achieves for its customers**. One of the large customers is a distribution partner, i.e. a travel agency. The remaining 70% of revenues are well spread among thousands of customers, thereof >40 large direct customers. Moreover, the company is currently pitching for around 90 implementation projects. Hence, i:FAO is expected to further diversify its customer base in the coming years.

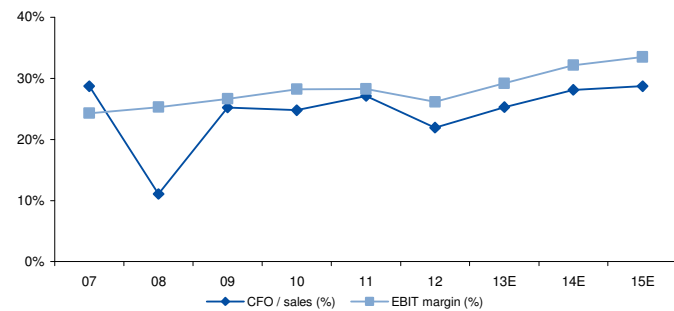
Finally, **competition is subdued** by the vast growth opportunities in the market. Whilst a study by the CWT Travel Institute suggests a penetration of travel management and expense software of only 2% in Europe among companies with more than 50 employees, the penetration in the addressable market is also seen at a low level <20%. At the same time the need for cost savings and efficiency is continuously increasing.

## High business quality

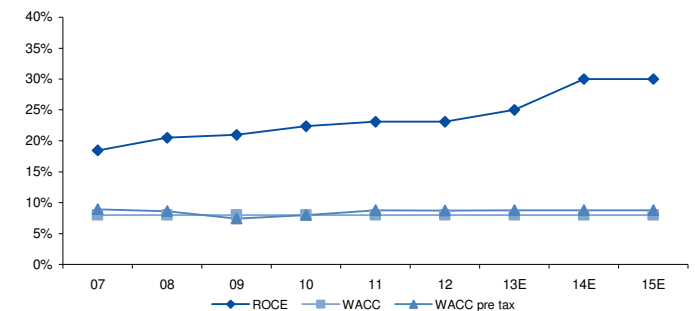
Notably, i:FAO is able to translate its sound competitive quality into an outstanding business quality. This is reflected in both:

- High earnings quality, **translating >25% of sales into FCF** thanks to a high profitability mainly due to its transaction related business model, limited w/c and capex needs and tax loss carryforwards reducing tax payments significantly (cash tax rate of only c. 10%).
- **Significant and continuously increasing returns (ROCE)** which are even biased by the high non operating cash pile of € 8m. ROCE is mainly driven by the high profitability and markedly i:FAO increased ROCE slightly even during the financial crisis in 2009.

CFO/sales and EBIT margin



Returns



## Growth

**Top-line growth of 14% p.a.** (CAGR 12-15E) should be driven by:

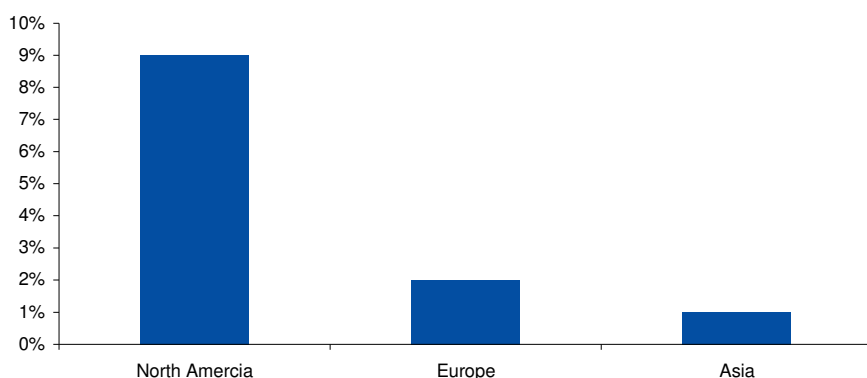
1. New customers who opt for outsourcing and the adoption of a travel management and expense software.
2. Increasing penetration of the usage of i:FAO's online booking software within its existing customer base.

### New customers

i:FAO is focused on the **nascent market of travel management and expense software** and has developed a state of the art software platform. This has allowed the company to win large and highly reputable companies such as Siemens, BASF, ThyssenKrupp and RWE as customers.

### Penetration of travel and expense management systems

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Source: CWT Travel Management Institute

Still only **very few companies use external travel management and expense software**. In fact, such systems have penetrated only very large corporations. According to a study by the CWT travel institute, the penetration rates in companies with more than 50 employees ranges from only 2% in Europe to 9% in North America. According to the management of i:FAO the penetration of the addressable market is less than 20% in Europe vis-à-vis 50% in the US, still implying significant growth potential. A recent survey underlines that travel managers concentrate efforts on reducing costs and manage travel in a more cost-effective way. This trend has also allowed the company to grow even in difficult times when business travel contracted (in 2009 iFAO achieved 5% growth and in 2012 7%).

**A rising penetration should be driven by:**

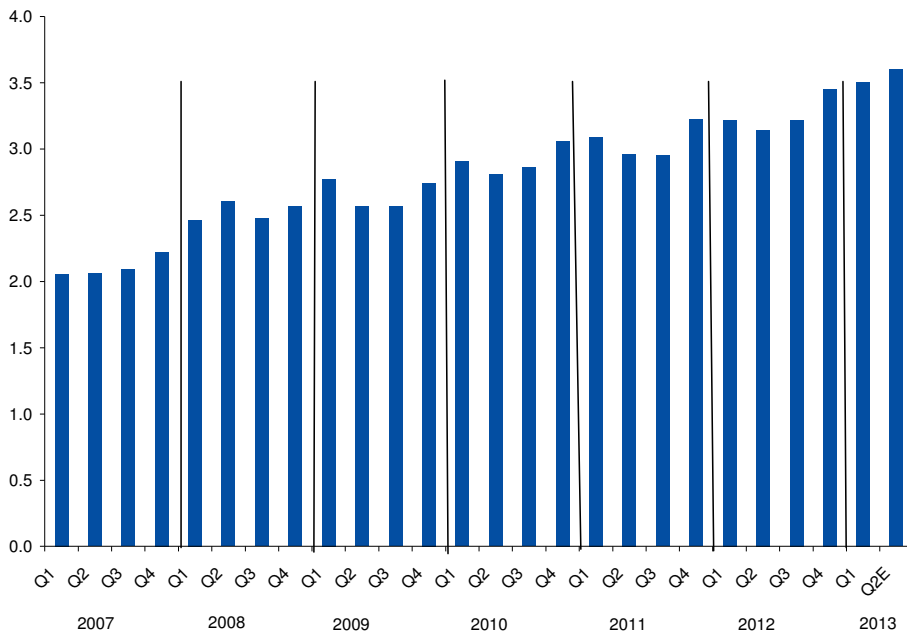
- **Search for cost cutting** potential without scrutinising operations. The application of travel and expense management software allows reducing direct and indirect travel costs significantly.
- **Stricter corporate governance** rules requiring companies to adhere to strict standards of accountability, which requires stringent reporting and compliance measures.

Basically, more than **90% of sales are of recurring** nature assuming constant travel intensity and a steady penetration of the usage of i:FAO by customers' employees. This is due to its fee model as i:FAO charges a small fee per booking and low monthly maintenance fee per direct customer. Hence, **sales are driven by the number of bookings** but not the overall travel expenses.

Customer loyalty is supported by implemented interfaces between i:FAO's

platform and the existing software architecture of customers as well as by the fact that it takes time until users within companies have become familiar with using the tools saving companies' cost. As a result switching costs increase over time and in fact **i:FAO experiences practically no churn of direct customers**. Thanks to this, the company benefits from a very stable and continuously growing revenue stream.

Quartely sales since 2007 (€ m)



Source: Company data, Hauck & Aufhäuser

In the past, i:FAO relied mainly on sales activities of its management and travel agencies. The latter have been however somewhat reluctant to sell i:FAO's solution which cannibalise their traditional business of manually booking travel content.

In order to better exploit the market opportunities, i:FAO has started to invest in its sales force which has been increased to 10 FTEs over the last two years. At the same time it has built up a **pipeline of c. 90 potential direct clients of which each can add an avg. of € 200-300k in annual sales** suggesting a total annual sales volume of € 18-27m.

### Increasing penetration within the existing customer base

Generally it takes up to two years until cytric is widely used within large organisations. Hence, after winning a company as a customer, transaction volumes and sales increase over a certain time period irrespective of the overall number of bookings of that company. Moreover, most new customers start implementing and using the software for its domestic employees and roll out the usage to its foreign subsidiaries in a second step.

In case of Siemens which is a long-standing customer, TravelNet which is the company's booking intranet runs on cytric already in several countries including Germany, Switzerland, Belgium, Netherland, Spain, England and many more countries. Yet, there are some countries which still have to be integrated with the goal to make TravelNet available worldwide. Another example is PriceWaterhouseCoopers which opted for cytric in 2005 introducing it as "PwC EasyBooking". After 18 months the online rate for flights reached c. 60% and in 2007 c. 76% while in the meantime it should have increased further.

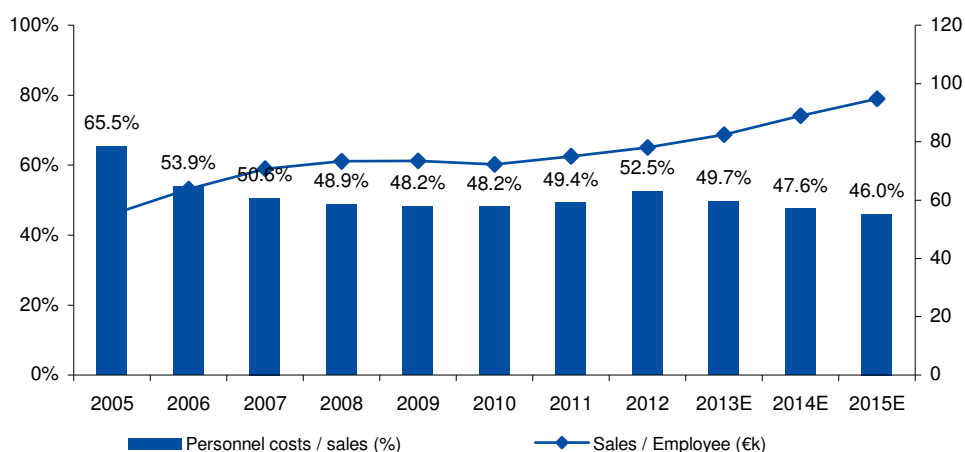
According to the company the **average usage rate is only around 50% among its existing customer base**, suggesting a significant growth potential with existing customers even if overall booking volumes were to remain flat.

**Disproportionate bottom-line growth of 23% CAGR (2012-2015E)** thanks to its transaction based business model and a highly scalable platform:

- The ramp up of booking volumes with an existing customer or new customer does not require a proportionate built up of costs while at the same time its SaaS software model allows for gross-margins of 98%.
- Leveraging the newly build up sales team which has burdened profitability in the last two years.

The major cost block are personnel costs explaining 73% of total costs and which mainly relate to development capacity with 120 developers accounting for 75% of the workforce. The investment in sales capacities in 2011 and 2012 increased the personnel cost ratio to 52.5% in 2012 or by 4.3pp since 2010. As we expect sales growth to accelerate the company should return to profitable growth. In fact, the personnel cost ratio is seen to drop by 6.5pp to 46% by 2015E explaining most of the expected improvement of the EBIT margin from 26.2% in 2012 to 33.5% in 2015E.

## Personnel



Source: Company data, Hauck & Aufhäuser

Other expenses comprise office rent, travel, IT and server costs and are rather of variable character.

The table below depicts the development of single P&L items. Regarding the tax rate it is important to note that i:FAO has tax loss carryforwards of c. € 28m which are off balance sheet. Hence, a yearly adjustment of the deferred tax asset is likely to result in a very moderate tax rate also in the P&L. The cash tax rate should be in any case only around 9%.

(m €)	2008	2009	2010	2011	2012	2013E	2014E	2015E
<b>Sales</b>	<b>10.1</b>	<b>10.6</b>	<b>11.6</b>	<b>12.2</b>	<b>13.0</b>	<b>14.7</b>	<b>16.7</b>	<b>19.2</b>
yoy	20.0%	5.2%	9.3%	5.1%	6.6%	12.5%	14.0%	15.0%
<b>Input costs</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
yoy	9.2%	-8.7%	-2.2%	-9.3%	-65.0%	12.5%	14.0%	15.0%
in % of sales	3.0%	2.6%	2.3%	2.0%	0.7%	0.7%	0.7%	0.7%
<b>Personnel</b>	<b>4.9</b>	<b>5.1</b>	<b>5.6</b>	<b>6.0</b>	<b>6.9</b>	<b>7.3</b>	<b>8.0</b>	<b>8.8</b>
yoy	16.0%	3.9%	9.2%	7.7%	13.5%	6.4%	9.3%	11.1%
in % of sales	48.9%	48.2%	48.2%	49.4%	52.5%	49.7%	47.6%	46.0%
<b>Other expenses</b>	<b>1.8</b>	<b>1.9</b>	<b>2.1</b>	<b>2.2</b>	<b>2.4</b>	<b>2.7</b>	<b>3.0</b>	<b>3.4</b>
yoy	18.3%	8.8%	8.1%	4.6%	9.4%	12.5%	10.0%	15.0%
in % of sales	17.6%	18.2%	18.0%	17.9%	18.4%	18.4%	17.8%	17.8%
<b>EBITDA</b>	<b>3.1</b>	<b>3.3</b>	<b>3.7</b>	<b>3.8</b>	<b>3.7</b>	<b>4.6</b>	<b>5.7</b>	<b>6.8</b>
EBITDA margin (%)	30.5%	31.0%	31.5%	30.7%	28.4%	31.3%	34.0%	35.6%
<b>EBIT</b>	<b>2.6</b>	<b>2.8</b>	<b>3.3</b>	<b>3.5</b>	<b>3.4</b>	<b>4.3</b>	<b>5.4</b>	<b>6.4</b>
EBIT margin (%)	25.3%	26.6%	28.2%	28.3%	26.2%	29.2%	32.2%	33.5%
<b>Financial result</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>EBT</b>	<b>2.9</b>	<b>2.9</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>4.4</b>	<b>5.5</b>	<b>6.5</b>
Income tax expense	0.2	-0.2	0.0	0.4	0.3	0.4	0.5	0.6
Tax rate	7.4%	-7.1%	-0.1%	9.8%	9.4%	9.8%	9.8%	9.8%
<b>Net income</b>	<b>2.7</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>	<b>3.2</b>	<b>3.9</b>	<b>4.9</b>	<b>5.9</b>
<b>EPS reported</b>	<b>0.54</b>	<b>0.63</b>	<b>0.67</b>	<b>0.64</b>	<b>0.63</b>	<b>0.78</b>	<b>0.98</b>	<b>1.17</b>

Source: Company data, Hauck & Aufhäuser

## Valuation

- A DCF model yields a fair value of € 19.10. Key assumptions include a beta of 1.0, a 30% terminal year EBIT margin, a 3.0% long-term growth rate and 8.0% WACC. Even a conservative scenario with a 10% WACC and a 25% terminal year EBIT margin would result in a fair value of € 13.30 and hence signal upside from the current share price.

Sensitivity analysis DCF							Sensitivity analysis DCF						
		Long term growth							EBIT margin terminal year				
		0%	1.0%	3.0%	2.5%	3.0%			25.0%	27.5%	30.0%	32.5%	35.0%
WACC	10.0%	12.1	12.8	14.6	14.1	14.6	WACC	10.0%	13.3	13.9	14.6	15.3	16.0
	9.0%	13.1	13.9	16.5	15.7	16.5		9.0%	14.8	15.6	16.5	17.3	18.2
	8.0%	14.3	15.4	19.1	18.0	19.1		8.0%	17.0	18.1	19.1	20.2	21.3
	7.0%	15.9	17.5	23.2	21.3	23.2		7.0%	20.4	21.8	23.2	24.6	26.0
	6.0%	18.1	20.5	30.0	26.6	30.0		6.0%	26.0	28.0	30.0	32.1	34.1

Source: Hauck & Aufhäuser

- **An adjusted Free Cash Flow Yield points to a price target of € 15.50 based conservatively on FCFY 2014E**, hence not reflecting the significant growth potential beyond 2014.

FCF yield, year end Dec. 31	2012	2013E	2014E	2015E
EBITDA	3.7	4.6	5.7	6.8
= Adjusted Free Cash Flow	3.1	3.9	4.8	5.8
<b>Actual Market Cap</b>	<b>55.4</b>	<b>55.4</b>	<b>55.4</b>	<b>55.4</b>
= Actual EV'	43.9	43.5	42.1	40.0
<b>Adjusted Free Cash Flow yield</b>	<b>7.0%</b>	<b>8.9%</b>	<b>11.5%</b>	<b>14.5%</b>
<b>Sales</b>	<b>13.0</b>	<b>14.7</b>	<b>16.7</b>	<b>19.2</b>
Actual EV/sales	3.4x	3.0x	2.5x	2.1x
Hurdle rate	7.5%	7.5%	7.5%	7.5%
FCF margin	23.6%	26.3%	29.0%	30.2%
Fair EV/sales	3.1x	3.5x	3.9x	4.0x
<b>Fair EV</b>	<b>41.0</b>	<b>51.4</b>	<b>64.6</b>	<b>77.4</b>
- EV Reconciliations	-11.5	-11.9	-13.3	-15.4
<b>Fair Market Cap</b>	<b>52.5</b>	<b>63.3</b>	<b>77.9</b>	<b>92.7</b>
No. of shares (million)	5.0	5.0	5.0	5.0
<b>Fair value per share</b>	<b>10.44</b>	<b>12.59</b>	<b>15.47</b>	<b>18.42</b>
<b>Premium (-) / discount (+) in %</b>	<b>-5.1%</b>	<b>14.4%</b>	<b>40.7%</b>	<b>67.4%</b>
<b>Sensitivity analysis fair value</b>				
	10.4	12.6	15.5	18.4
<b>Hurdle rate</b>	8.4	10.0	12.3	14.6
	7.2	8.5	10.3	12.3
	6.4	7.5	9.1	10.7

Source: Hauck & Aufhäuser

- **Peer group analysis.** A reasonable peer group in Europe is hard to find in this niche market of the software industry. Its most comparable European peer is France based Klee Data Systems SA which is however not listed. Hence, our peer group consist of comparable companies which are listed in the US and companies which also benefit from rising online transactions. **The peer-group analysis implies that the stock is strongly undervalued.** The closest peer is Concur Technologies Inc. which is a US based cloud software company in the travel area mainly active in the US. In contrast to i:FAO however the company generates most of its revenues with its expense solution. **Concur is valued at 37x EV/EBIT 2014E.**

- **Concur Technologies Inc.** provides on-demand employees spend management solutions and generated 85% of its \$ 440m sales (2012) in the US. Besides several supporting tools the company's main software solutions include 1) Concur Travel & Expense, which integrates online travel booking with automated expense reporting; 2) Concur Expense, which automates, simplifies, reduces the cost of, and enhances internal controls associated with the travel and entertainment expense management process; 3) Concur Cliqbook Travel, the online travel management solution that automates corporate travel procurement and processing. Concur Technologies, Inc. markets and sells its solutions through direct sales organisations and indirect distribution channels. The company was founded in 1993 and is headquartered in Redmond, Washington.
- **Wirecard** is a German provider of electronic payment and risk management applications (sales of € 394m 2012) for online transactions. Its services include acceptance and execution of electronic payment transactions as well as related processes such as credit card acquiring and issuing of credit and prepaid cards.
- **hotel.de** is a German-based company which provides hotel reservation services through its websites and a 24-hour multilingual call centre (sales of € 45m 2012). It enables business and private customers to book international hotels of various categories. It also offers preferential

room rates for large booking volumes handled by the company.

i:FAO AG	FX	Price*	MC (m)	EPS CAGR 12-15E	EBITDA margin 13E	Dividend yield 13E
CONCUR TECHNOLOGIES I	(USD)	84.8	4,737	19%	21.7%	0.0%
WIRECARD AG	(EUR)	21.9	2,495	19%	26.5%	0.5%
HOTEL.DE NA	(EUR)	31.0	116	28%	4.0%	1.1%
<b>i:FAO AG</b>	<b>(EUR)</b>	<b>10.8</b>	<b>56.2</b>	<b>23%</b>	<b>31.3%</b>	<b>6.5%</b>

\* Close prices as of 10/07/2013

i:FAO AG	EV/Sales 13E (x)	EV/Sales 14E (x)	EV/Sales 15E (x)	EV/EBITDA 13E (x)	EV/EBITDA 14E (x)	EV/EBITDA 15E (x)	EV/EBIT 13E (x)	EV/EBIT 14E (x)	EV/EBIT 15E (x)	PER 13E (x)	PER 14E (x)	PER 15E (x)
CONCUR TECHNOLOGIES I	8.3	6.6	5.5	38.3	29.9	25.8	51.0	37.4	30.1	93.2	69.5	55.5
WIRECARD AG	4.9	4.2	3.5	18.4	15.1	12.6	21.6	17.5	14.4	28.8	22.6	18.9
HOTEL.DE NA	2.1	1.6	1.5	53.0	42.4	35.4	53.0	53.0	42.4	61.9	48.4	44.2
<b>i:FAO AG</b>	<b>3.3</b>	<b>2.9</b>	<b>2.5</b>	<b>10.7</b>	<b>8.6</b>	<b>7.2</b>	<b>11.4</b>	<b>9.1</b>	<b>7.6</b>	<b>13.8</b>	<b>11.0</b>	<b>9.2</b>
Average (peer group)	5.1	4.1	3.5	36.6	29.1	24.6	41.9	36.0	29.0	61.3	46.8	39.5
Premium+discount-in (%)	-34%	-29%	-27%	-71%	-70%	-71%	-73%	-75%	-74%	-78%	-77%	-77%

Source: H&A estimates, CapitalIQ, company filings

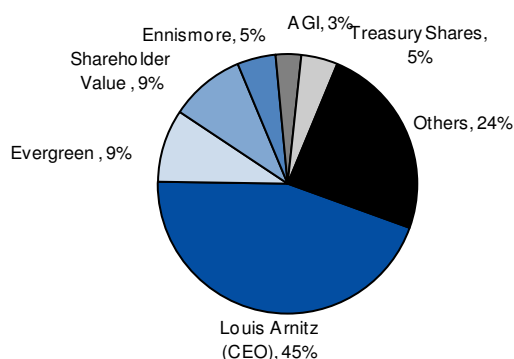
## Theme

### Unknown and not well owned

Due to the limited free-float and liquidity the stock has been neglected by international investors and is neither well known nor well owned, in our view. The **CEO still owns 45% of the outstanding share capital** while a German private equity investors (Evergreen) holds around 9%.

Besides this, there are mainly three institutional investors owning shares in the company. These are Ennismore Funds (UK), Allianz Global Investors (Germany) and Shareholder Value Management (Germany).

In our view, any improvement of the liquidity would be seen as positive for the share price performance.



Source: Company data, Deutsche Börse

### Growth looks set to accelerate

The company has started to invest into its own sales capacities and at the same time companies are increasingly open to adapt cloud based software solutions. Moreover, companies are continuously looking for costs savings potential while the adoption of online booking tools is fairly low, i.e. around 20% in Europe at companies with annual travel budgets of > € 5m p.a.

Thanks to its state of the art solution, its highly credible customer base and the increased sales activities, i:FAO has built up a sales pipeline of 90 potential direct customers. Each **potential direct customer would contribute € 200-300k in recurring revenues p.a. which implies an annual sales potential of €18-27m**. This is more than we expect the company to generate in 2013 (eH&A € 14.7m) implying significant growth potential.

## Financials

Profit and loss (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Net sales</b>	<b>10.6</b>	<b>11.6</b>	<b>12.2</b>	<b>13.0</b>	<b>14.7</b>	<b>16.7</b>	<b>19.2</b>
<i>Sales growth</i>	5.2 %	9.3 %	5.1 %	6.6 %	12.5 %	14.0 %	15.0 %
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total sales</b>	<b>10.6</b>	<b>11.6</b>	<b>12.2</b>	<b>13.0</b>	<b>14.7</b>	<b>16.7</b>	<b>19.2</b>
Other operating income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Material expenses	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Personnel expenses	5.1	5.6	6.0	6.9	7.3	8.0	8.8
Other operating expenses	2.0	2.1	2.2	2.4	2.7	3.0	3.5
Total operating expenses	7.4	8.0	8.5	9.3	10.1	11.0	12.4
<b>EBITDA</b>	<b>3.3</b>	<b>3.7</b>	<b>3.8</b>	<b>3.7</b>	<b>4.6</b>	<b>5.7</b>	<b>6.8</b>
Depreciation	0.3	0.3	0.2	0.2	0.3	0.3	0.4
<b>EBITA</b>	<b>3.0</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>4.3</b>	<b>5.4</b>	<b>6.4</b>
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>2.8</b>	<b>3.3</b>	<b>3.5</b>	<b>3.4</b>	<b>4.3</b>	<b>5.4</b>	<b>6.4</b>
Interest income	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Interest expenses	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Recurring pretax income from continuing operations</b>	<b>2.9</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>4.4</b>	<b>5.5</b>	<b>6.5</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>2.9</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>4.4</b>	<b>5.5</b>	<b>6.5</b>
Taxes	-0.2	0.0	0.4	0.3	0.4	0.5	0.6
<b>Net income from continuing operations</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>	<b>3.2</b>	<b>3.9</b>	<b>4.9</b>	<b>5.9</b>
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>	<b>3.2</b>	<b>3.9</b>	<b>4.9</b>	<b>5.9</b>
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income (net of minority interest)</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>	<b>3.2</b>	<b>3.9</b>	<b>4.9</b>	<b>5.9</b>
Average number of shares	5.0	5.0	5.0	5.0	5.0	5.0	5.0
<b>EPS reported</b>	<b>0.63</b>	<b>0.67</b>	<b>0.64</b>	<b>0.63</b>	<b>0.78</b>	<b>0.98</b>	<b>1.17</b>

Profit and loss (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Net sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Increase/decrease in finished goods and work-in-process	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Total sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Other operating income	0.3 %	0.4 %	0.2 %	0.2 %	0.2 %	0.2 %	0.2 %
Material expenses	2.6 %	2.3 %	2.0 %	0.7 %	0.7 %	0.7 %	0.7 %
Personnel expenses	48.2 %	48.2 %	49.4 %	52.5 %	49.7 %	47.6 %	46.0 %
Other operating expenses	18.5 %	18.4 %	18.1 %	18.6 %	18.6 %	18.0 %	18.0 %
Total operating expenses	69.0 %	68.5 %	69.3 %	71.6 %	68.7 %	66.0 %	64.4 %
<b>EBITDA</b>	<b>31.0 %</b>	<b>31.5 %</b>	<b>30.7 %</b>	<b>28.4 %</b>	<b>31.3 %</b>	<b>34.0 %</b>	<b>35.6 %</b>
Depreciation	2.5 %	2.2 %	1.6 %	1.6 %	2.0 %	1.8 %	2.1 %
<b>EBITA</b>	<b>28.4 %</b>	<b>29.3 %</b>	<b>29.1 %</b>	<b>26.9 %</b>	<b>29.2 %</b>	<b>32.2 %</b>	<b>33.5 %</b>
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	1.8 %	1.1 %	0.8 %	0.7 %	0.0 %	0.0 %	0.0 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>26.6 %</b>	<b>28.2 %</b>	<b>28.3 %</b>	<b>26.2 %</b>	<b>29.2 %</b>	<b>32.2 %</b>	<b>33.5 %</b>
Interest income	1.9 %	0.9 %	1.2 %	1.1 %	0.5 %	0.5 %	0.5 %
Interest expenses	0.9 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	0.9 %	0.9 %	1.2 %	1.1 %	0.5 %	0.5 %	0.5 %
<b>Recurring pretax income from continuing operations</b>	<b>27.6 %</b>	<b>29.1 %</b>	<b>29.4 %</b>	<b>27.2 %</b>	<b>29.7 %</b>	<b>32.7 %</b>	<b>34.1 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Earnings before taxes</b>	<b>27.6 %</b>	<b>29.1 %</b>	<b>29.4 %</b>	<b>27.2 %</b>	<b>29.7 %</b>	<b>32.7 %</b>	<b>34.1 %</b>
Tax rate	-7.0 %	0.1 %	9.8 %	9.4 %	9.8 %	9.8 %	9.8 %
<b>Net income from continuing operations</b>	<b>29.5 %</b>	<b>29.0 %</b>	<b>26.6 %</b>	<b>24.7 %</b>	<b>26.8 %</b>	<b>29.5 %</b>	<b>30.7 %</b>
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>29.5 %</b>	<b>29.0 %</b>	<b>26.6 %</b>	<b>24.7 %</b>	<b>26.8 %</b>	<b>29.5 %</b>	<b>30.7 %</b>
Minority interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income (net of minority interest)</b>	<b>29.5 %</b>	<b>29.0 %</b>	<b>26.6 %</b>	<b>24.7 %</b>	<b>26.8 %</b>	<b>29.5 %</b>	<b>30.7 %</b>

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
Property, plant and equipment	0.6	0.5	0.5	1.5	1.5	1.5	1.4
Financial assets	1.5	1.5	2.5	1.0	1.0	1.0	1.0
<b>FIXED ASSETS</b>	<b>2.6</b>	<b>2.6</b>	<b>3.5</b>	<b>3.0</b>	<b>3.0</b>	<b>3.1</b>	<b>3.0</b>
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	1.6	1.6	1.5	1.9	1.8	2.1	2.4
Other current assets	0.2	0.3	0.1	1.6	0.4	0.4	0.4
Liquid assets	9.1	9.6	8.6	7.2	7.6	8.7	10.6
Deferred taxes	1.3	1.7	1.7	1.7	1.9	2.0	2.1
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT ASSETS</b>	<b>12.3</b>	<b>13.1</b>	<b>11.9</b>	<b>12.3</b>	<b>11.7</b>	<b>13.2</b>	<b>15.4</b>
<b>TOTAL ASSETS</b>	<b>14.9</b>	<b>15.7</b>	<b>15.3</b>	<b>15.3</b>	<b>14.7</b>	<b>16.3</b>	<b>18.4</b>
<b>SHAREHOLDERS EQUITY</b>	<b>13.8</b>	<b>14.7</b>	<b>14.3</b>	<b>14.1</b>	<b>13.9</b>	<b>15.4</b>	<b>17.4</b>
<b>MINORITY INTEREST</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.4	0.4	0.5	0.6	0.5	0.5	0.6
<b>Non-current liabilities</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>
short-term liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	0.4	0.3	0.1	0.2	0.2	0.2	0.2
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	0.1	0.0	0.3	0.3	0.0	0.0	0.0
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred income	0.1	0.2	0.0	0.2	0.2	0.2	0.2
<b>Current liabilities</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>14.9</b>	<b>15.7</b>	<b>15.3</b>	<b>15.3</b>	<b>14.7</b>	<b>16.3</b>	<b>18.4</b>

Balance sheet (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>3.2 %</b>	<b>3.2 %</b>	<b>2.9 %</b>	<b>2.8 %</b>	<b>3.2 %</b>	<b>3.1 %</b>	<b>3.0 %</b>
Property, plant and equipment	3.7 %	3.4 %	3.2 %	10.0 %	10.4 %	9.4 %	7.8 %
Financial assets	10.3 %	9.7 %	16.5 %	6.7 %	7.0 %	6.3 %	5.5 %
<b>FIXED ASSETS</b>	<b>17.2 %</b>	<b>16.3 %</b>	<b>22.6 %</b>	<b>19.5 %</b>	<b>20.6 %</b>	<b>18.8 %</b>	<b>16.3 %</b>
Inventories	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts receivable	11.1 %	10.1 %	9.9 %	12.2 %	12.3 %	12.7 %	12.9 %
Other current assets	1.0 %	1.6 %	0.9 %	10.5 %	2.4 %	2.5 %	2.2 %
Liquid assets	61.4 %	61.3 %	56.0 %	46.9 %	51.8 %	53.7 %	57.2 %
Deferred taxes	9.1 %	10.6 %	10.8 %	10.8 %	12.9 %	12.3 %	11.4 %
Deferred charges and prepaid expenses	0.2 %	0.2 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>CURRENT ASSETS</b>	<b>82.8 %</b>	<b>83.7 %</b>	<b>77.6 %</b>	<b>80.4 %</b>	<b>79.4 %</b>	<b>81.2 %</b>	<b>83.7 %</b>
<b>TOTAL ASSETS</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.2 %</b>	<b>99.9 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>SHAREHOLDERS EQUITY</b>	<b>92.9 %</b>	<b>93.7 %</b>	<b>93.4 %</b>	<b>92.2 %</b>	<b>94.4 %</b>	<b>94.5 %</b>	<b>94.5 %</b>
<b>MINORITY INTEREST</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
Long-term debt	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Provisions for pensions and similar obligations	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other provisions	3.0 %	2.8 %	3.4 %	3.7 %	3.4 %	3.1 %	3.3 %
<b>Non-current liabilities</b>	<b>3.0 %</b>	<b>2.8 %</b>	<b>3.4 %</b>	<b>3.7 %</b>	<b>3.4 %</b>	<b>3.1 %</b>	<b>3.3 %</b>
short-term liabilities to banks	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts payable	2.9 %	2.2 %	0.9 %	1.0 %	1.1 %	1.2 %	1.2 %
Advance payments received on orders	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other liabilities (incl. from lease and rental contracts)	0.5 %	0.2 %	2.3 %	2.1 %	0.0 %	0.0 %	0.0 %
Deferred taxes	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Deferred income	0.7 %	1.1 %	0.0 %	1.0 %	1.0 %	1.2 %	1.1 %
<b>Current liabilities</b>	<b>4.2 %</b>	<b>3.5 %</b>	<b>3.2 %</b>	<b>4.2 %</b>	<b>2.2 %</b>	<b>2.4 %</b>	<b>2.3 %</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Net profit/loss	3.1	3.4	3.2	3.2	3.9	4.9	5.9
Depreciation of fixed assets (incl. leases)	0.3	0.3	0.2	0.2	0.3	0.3	0.4
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Others	-0.5	-0.6	0.2	0.0	-0.3	0.0	-0.1
Cash flow from operations before changes in w/c	3.1	3.2	3.7	3.5	3.9	5.2	6.2
Increase/decrease in inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in accounts receivable	-0.2	-0.1	0.1	-0.4	0.1	-0.3	-0.3
Increase/decrease in accounts payable	0.3	0.2	-0.2	0.0	0.0	0.0	0.0
Increase/decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	0.0	0.1	-0.1	-0.4	0.1	-0.2	-0.3
<b>Cash flow from operating activities</b>	<b>3.1</b>	<b>3.3</b>	<b>3.6</b>	<b>3.2</b>	<b>4.0</b>	<b>5.0</b>	<b>5.9</b>
CAPEX	0.2	0.4	0.2	1.3	0.3	0.3	0.3
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	1.5	0.0	1.0	0.0	0.0	0.0	0.0
Income from asset disposals	6.0	0.1	0.1	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>4.3</b>	<b>-0.3</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-0.3</b>
Cash flow before financing	7.5	3.0	2.5	1.9	3.7	4.7	5.6
Increase/decrease in debt position	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	2.0	2.5	3.5	3.3	3.3	3.5	3.8
Others	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Effects of exchange rate changes on cash	3.5	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-1.9</b>	<b>-2.5</b>	<b>-3.5</b>	<b>-3.3</b>	<b>-3.3</b>	<b>-3.5</b>	<b>-3.8</b>
Increase/decrease in liquid assets	9.1	0.5	-1.0	-1.4	0.4	1.1	1.8
<b>Liquid assets at end of period</b>	<b>9.1</b>	<b>9.6</b>	<b>8.6</b>	<b>7.2</b>	<b>7.6</b>	<b>8.7</b>	<b>10.6</b>

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>P&amp;L growth analysis</b>							
Sales growth	5.2 %	9.3 %	5.1 %	6.6 %	12.5 %	14.0 %	15.0 %
EBITDA growth	6.8 %	11.1 %	2.5 %	-1.3 %	23.8 %	23.9 %	20.5 %
EBIT growth	10.8 %	15.7 %	5.3 %	-1.4 %	25.7 %	25.5 %	19.8 %
EPS growth	16.0 %	7.3 %	-4.7 %	-1.6 %	24.1 %	25.3 %	19.8 %
<b>Efficiency</b>							
Total operating costs / sales	69.0 %	68.5 %	69.3 %	71.6 %	68.7 %	66.0 %	64.4 %
Sales per employee	75.2	76.0	75.2	78.8	86.3	96.4	213.7
EBITDA per employee	23.3	23.9	23.1	22.4	27.0	32.7	76.0
<b>Balance sheet analysis</b>							
Avg. working capital / sales	11.0 %	10.6 %	10.7 %	11.8 %	11.5 %	10.5 %	10.5 %
Inventory turnover (sales/inventory)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade debtors in days of sales	56.4	49.4	45.1	52.5	45.1	45.1	45.1
A/P turnover [(A/P*365)/sales]	14.6	10.6	4.2	4.4	4.2	4.2	4.2
Cash conversion cycle (days)	-503.6	-406.4	-165.7	-609.6	-591.8	-591.8	n/a
<b>Cash flow analysis</b>							
Free cash flow	2.9	2.9	3.4	1.9	3.7	4.7	5.6
Free cash flow/sales	27.5 %	24.8 %	27.8 %	14.2 %	25.0 %	27.9 %	29.0 %
FCF / net profit	93.2 %	85.5 %	104.8 %	57.8 %	93.3 %	94.5 %	94.6 %
FCF yield	5.3 %	5.2 %	6.2 %	3.4 %	6.7 %	8.5 %	10.1 %
Capex / deprec	373.5 %	99.1 %	409.5 %	442.2 %	113.3 %	113.3 %	85.0 %
Capex / maintenance capex	41.4 %	61.3 %	101.7 %	102.0 %	100.0 %	100.0 %	75.0 %
Capex / sales	16.1 %	3.2 %	9.9 %	n/a	n/a	n/a	n/a
<b>Security</b>							
Net debt	-9.1	-9.6	-8.6	-7.2	-7.6	-8.7	-10.6
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / equity	-0.7	-0.7	-0.6	-0.5	-0.5	-0.6	-0.6
Interest cover	29.6	999.0	999.0	999.0	999.0	999.0	999.0
Dividend payout ratio	79.9 %	104.3 %	100.7 %	101.7 %	89.6 %	76.6 %	76.7 %
<b>Asset utilisation</b>							
Capital employed turnover	0.7	0.8	0.8	0.9	1.0	1.1	1.1
Operating assets turnover	6.0	6.6	6.6	4.0	4.6	4.9	5.4
Plant turnover	19.1	21.8	24.7	8.5	9.6	10.9	13.4
Inventory turnover (sales/inventory)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Returns</b>							
ROCE	21.0 %	22.4 %	23.1 %	23.1 %	29.5 %	35.6 %	38.0 %
ROE	22.8 %	23.0 %	22.7 %	22.7 %	28.4 %	32.1 %	33.9 %
<b>Other</b>							
Interest paid / avg. debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a
No. employees (average)	142	153	163	166	170	174	90
Number of shares	5.0	5.0	5.0	5.0	5.0	5.0	5.0
DPS	0.5	0.7	0.7	0.7	0.7	0.8	0.9
EPS reported	0.63	0.67	0.64	0.63	0.78	0.98	1.17
<b>Valuation ratios</b>							
P/BV	4.0	3.8	3.9	3.9	4.0	3.6	3.2
EV/sales	4.3	3.9	3.8	3.7	3.2	2.8	2.3
EV/EBITDA	13.9	12.4	12.4	12.9	10.4	8.2	6.5
EV/EBITA	15.2	13.4	13.1	13.7	11.1	8.6	6.9
EV/EBIT	16.2	13.9	13.5	14.1	11.1	8.6	6.9
EV/FCF	15.7	15.8	13.7	25.8	12.9	9.9	8.0
Dividend yield	4.6 %	6.4 %	5.9 %	5.9 %	6.4 %	6.8 %	8.2 %

Source: Company data, Hauck & Aufhäuser

**Buy** (old: Buy)

**Price target: EUR 5.00** (old: EUR 5.00)

<b>Price:</b>	EUR 3.67	<b>Next result:</b>	Q2 2013: 22.08.13
<b>Bloomberg:</b>	PNG GR	<b>Market cap:</b>	EUR 53.5 m
<b>Reuters:</b>	PNG.DE	<b>Enterprise Value:</b>	EUR 31.7 m

31-July-13

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Analyst

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## Up on cloud number nine

Following the divestment of various non-core subsidiaries in recent years, Pironet is well on track **transforming into a pure-play on Cloud Computing** (76% of sales / 13% EBIT margin pre central costs / >100% of group EBIT), offering customers IT hardware and software on demand from its German data centre.

**Sound competitive quality in Cloud Computing** is based on the focus on SMEs with a tailor-made and service-oriented offering. This helps avoid competition to gorillas like IBM and HP which address mainly Blue Chips with standardised services. Hence competing mostly with the likes of CANCOM, QSC and itelligence, Pironet achieves some differentiation through:

- **Reputation** having been active in Cloud Computing for 10+ years.
- **Know-how** about migrating and managing complex IT environments.
- **Service breadth** comprising private AND public cloud models as well as the managed hosting of business-critical applications like SAP.

An early mover, **Pironet is seen to flourish on the dynamic trend** towards Cloud Computing driving group sales growth of 9% p.a. (2012-15E) possibly aided by targeted co-operations with e.g. IT system houses or SAP service providers, which would grant the company access to a SME customer base. Growth should only be diluted by the non-core Content Management segment (25% of sales / negative EBIT).

Meanwhile, EBIT is seen to increase at 28% p.a. in the same time frame as economies of scale carried by 60% spare data centre capacity should overcompensate for annual price pressure of 3-5% as the market gets more crowded.

Valuation is very attractive with discretionary net cash of € 22m ('13E) covering more than 40% of the market cap. Trading at 7.9x EV/EBIT '14E does neither adequately account for the company's improved quality and growth prospects nor for the **much enhanced business quality** reflected in 80% recurring revenues in Cloud Computing and 20%+ ROCE when adjusted for cash. **BUY** with a PT of € 5.00 based on FCFY '14E.

Y/E 31.12 (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Sales	51.2	45.1	43.1	43.2	47.4	51.4	55.2
Sales growth	-14 %	-12 %	-5 %	0 %	10 %	8 %	7 %
EBITDA	8.1	9.4	4.9	6.1	7.3	8.5	9.5
EBIT	-4.5	-7.2	0.9	2.2	3.1	3.9	4.6
Net income	-5.7	-9.9	-1.2	2.3	2.9	3.5	4.2
Net debt	-12.0	-13.5	-15.7	-21.3	-21.9	-23.3	-25.2
Net gearing	-27.1 %	-39.2 %	-46.6 %	-64.6 %	-62.7 %	-62.6 %	-62.6 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS fully diluted	-0.39	-0.68	-0.08	0.16	0.20	0.24	0.29
CPS	-0.08	0.21	0.04	0.26	0.17	0.24	0.29
DPS	0.00	0.00	0.10	0.10	0.11	0.12	0.13
Dividend yield	0.0 %	0.0 %	2.7 %	2.7 %	3.0 %	3.3 %	3.5 %
Gross profit margin	44.3 %	38.4 %	40.3 %	41.7 %	42.0 %	42.0 %	42.0 %
EBITDA margin	15.8 %	20.8 %	11.5 %	14.1 %	15.4 %	16.4 %	17.2 %
EBIT margin	-8.8 %	-15.9 %	2.1 %	5.1 %	6.5 %	7.5 %	8.4 %
ROCE	-8.3 %	-16.0 %	2.5 %	6.6 %	9.1 %	10.7 %	11.9 %
EV/sales	0.8	0.9	0.9	0.7	0.7	0.6	0.5
EV/EBITDA	5.1	4.3	7.7	5.3	4.3	3.6	3.0
EV/EBIT	-9.2	-5.6	41.3	14.7	10.3	7.9	6.1
PER	-6.6	-6.9	27.7	22.5	18.8	15.1	12.7
Adjusted FCF yield	12.8 %	25.6 %	5.3 %	6.0 %	8.7 %	11.4 %	14.6 %



Source: Company data, Hauck & Aufhäuser

<b>High/low 52 weeks:</b>	3.89 / 2.36
<b>Price/Book Ratio:</b>	1.5
<b>Relative performance (SDAX):</b>	
3 months	11.5 %
6 months	5.2 %
12 months	29.1 %

### Changes in estimates

		Sales	EBIT	EPS
2013	<b>old:</b>	47.4	3.1	0.20
	Δ	-	-	-
2014	<b>old:</b>	51.4	3.9	0.24
	Δ	-	-	-
2015	<b>old:</b>	55.2	4.6	0.29
	Δ	-	-	-

### Key share data:

Number of shares: (in m pcs)	14.6
Authorised capital: (in € m)	7.3
Book value per share: (in €)	2.4
Ø trading volume: (12 months)	22,909

### Major shareholders:

Free Float	33.4 %
Otto Wolff Gmbh	27.4 %
Felix Höger (CEO)	13.2 %
RPV Gmbh	9.4 %
Other	9.3 %
Mehrdad Piroozram	7.3 %

### Company description:

Pironet is a leading Cloud Computing provider for small- and mid-sized enterprises in Germany.

## Exposure to Cloud Computing

Following a multi-year repositioning involving the divestment of various non-core subsidiaries, Cloud Computing has become Pironet's key growth and value driver **explaining 76% of sales and more than 100% of group EBIT (13% EBIT margin)**.

Pironet operates a **mixed Cloud Computing business model** combining managed hosting of business critical applications (e.g. SAP) with the cloud-based provisioning of standard applications (e.g. Microsoft Office) and IT hardware (e.g. computing and storage resources).

**80% of Cloud Computing sales are recurring** in what is Pironet's Public Cloud model: Fully outsourced customers access IT software and hardware on demand paying per seat and per month. The IT resources are largely owned and run by Pironet and located in its Northern German data centre which is c. 40% utilised.

An example best underpins this: A key client of Pironet has 70 sites throughout Germany with 300 employees. Following the move to Pironet's Public Cloud, the customer accesses storage and computing resources as well as standard software (e.g. Office) via the internet paying per month per user. Meanwhile, an industry-specific application is hosted and run by Pironet for the customer, who pays per managed server. **Total expenses for the fully-outsourced customer amount to some € 30,000 per month** and the contract runs for three years.

The remaining 20% of Cloud Computing sales are of a **one-time, project nature**: Pironet helps clients plan and implement Private Clouds based on centralised, standardised and virtualised IT resources. In Private Cloud projects, the customer remains owner of the IT resources which typically stay on his premises.

Pironet NDH AG	Cloud Computing	Group
	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>80%</p> <p><b>Recurring Revenue</b></p> <p>"Public Cloud"</p> </div> <div style="text-align: center;"> <p>20%</p> <p><b>Project-nature</b></p> <p>"Private Cloud"</p> </div> </div>	
<b>Products</b>	Pironet offers <b>cloud services</b> , i.e. storage, server capacity and standard software as a service, as well as managed hosting of business-critical applications. Customers pay per seat, per application, per month.	
<b>Sales 13E (€ m)</b>	36.1	<b>47.4</b>
<b>Sales share</b>	76%	
	<b>No customer accounts for more than 10% of sales</b>	
<b>Customers</b>	120 customers in total: Mainly hidden champions of the German Mittelstand. The typical Cloud Computing contract runs for 3-5 years -Pironet has been doing business with the "average client" for roughly six years. The churn rate is less than 5% and mostly due to customers going bankrupt or being acquired.	
<b>Competitors</b>	Big Cloud Computing providers like IBM or HP target mainly Blue Chip customers with standard services (e.g. IaaS). <b>Focussing on SMEs</b> , Pironet's key rivals are QSC AG, IT System Houses such as CANCOM and niche hosting players like itelligence.	
<b>Raw Materials</b>	IT hardware such as servers or storage resources.	
<b>Suppliers</b>	Hewlett-Packard, Dell and many more.	
<b>Sales split by region (13E)</b>	<b>c. 93% Germany</b> , 7% Rest of Europe, mainly Switzerland	
<b>Sites</b>	One core data centre and one backup centre in Northern Germany. HQ situated in Cologne.	
<b>Capacity utilisation</b>	40%	
<b>EBIT 13E (€ m)</b>	4.8	<b>3.1</b>
<b>EBIT-margin</b>	13%	<b>6.5%</b>
<b>ROCE 13E</b>	17%	<b>9.1%</b>

Source: Company data, Hauck & Aufhäuser

## Competitive Quality: A leader in Cloud Computing for German SMEs

The shift towards Cloud Computing means that Pironet is today **focussing on an attractive growth market with a customised offering** fulfilling the special requirements of its targeted customer group, German SMEs:

- Pironet operates a **service-oriented cloud business model** which combines the provisioning of standard applications and hardware resources from the cloud with managed hosting of customers mission-critical applications like SAP.
- **All IT resources are located in its Northern German data centre** easing customers' concerns about data security.

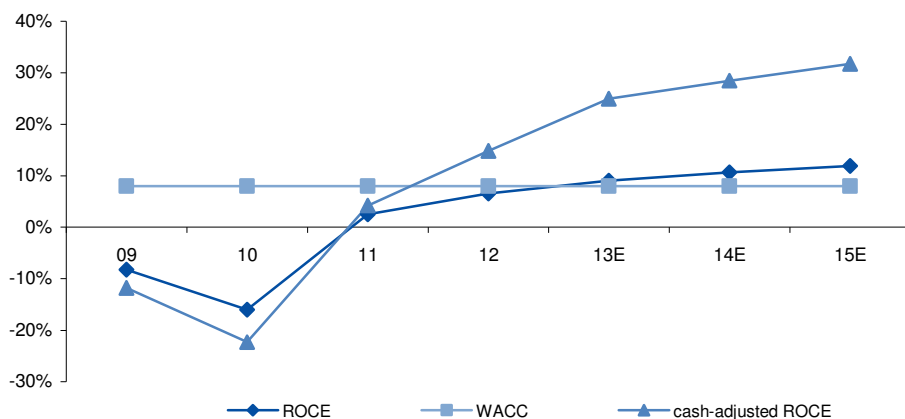
In contrast, big cloud providers like IBM and HP operate data centres outside Germany and target mostly Blue Chip companies with **standardised services** to achieve economies of scale. For instance, customers can use a credit card to purchase standard computing and storage resources from Amazon on demand – but Amazon will not host and manage their SAP systems.

This narrows competition to IT system houses such as CANCOM, Cloud Computing providers like Info AG (now part of QSC) and specialised hosting companies like itelligence or All for One Steeb. **Pironet achieves some differentiation through:**

- **Brand reputation** having been active in the Cloud Computing market for 10+ years.
- **Know-how** in migrating complex IT environments into the cloud and managing them for the customer.
- **A broad service portfolio** comprising Private and Public Clouds and managed hosting of applications. Competitors such as itelligence or All for One Steeb offer SAP hosting only while CANCOM is focused on Private Clouds.

As entry barriers are modest, Pironet's target market is expected to become more crowded going forward **explaining why we model c. 3-5% price pressure per year**. Still, there is room for further EBIT margin and ROCE expansion in our view.

### Returns



Source: Company data, Hauck & Aufhäuser

The reasons:

- **Future growth should be scalable** as Pironet operates at only 40% data centre utilisation, offsetting price pressure.
- Expected Cloud Computing growth of c. 13% (CAGR 2012-16E) looks set to alleviate the increasing competitive pressure.
- Pironet has an **early mover advantage** which should translate into sustainable market share given a strong lock-in effect: Once in the cloud, customers mainly care about a stable performance of their IT.

## Growth

Pironet: Sales trend 2009-15E							
in € m	2009*	2010*	2011*	2012	2013E	2014E	2015E
<b>Sales</b>	<b>51.2</b>	<b>45.1</b>	<b>43.1</b>	<b>43.2</b>	<b>47.4</b>	<b>51.4</b>	<b>55.2</b>
yoy	-14%	-12%	-5%	0%	10%	8%	7%
<b>Cloud Computing</b>	<b>21.2</b>	<b>24.5</b>	<b>25.9</b>	<b>32.2</b>	<b>36.1</b>	<b>39.9</b>	<b>43.5</b>
yoy	n/a	15%	6%	24%	12%	11%	9%
in % of sales	41%	54%	60%	75%	76%	78%	79%
<b>Other &amp; Discontinued</b>	<b>29.9</b>	<b>20.6</b>	<b>17.2</b>	<b>11.0</b>	<b>11.3</b>	<b>11.5</b>	<b>11.7</b>
yoy	n/a	-31%	-17%	-36%	n/a	n/a	n/a
in % of sales	59%	46%	40%	25%	24%	22%	21%

Source: Company data, Hauck & Aufhäuser. \*Growth decline in these years largely due to divestments.

**Pironet's Cloud Computing sales are expected to grow at an 11% CAGR ('12-15E) from € 32.2m to € 43.5m** as the company looks well positioned to participate in the expected dynamic growth of the German Cloud Computing market:

- Pironet focuses on German SMEs which represent a **large and untapped client base** of 14,000 potential customers on average relying only to a degree of 10-15% on external IT resources. Pironet's Germany-based data centre is a key advantage as it helps alleviate customers' fears about data security.
- Pironet's **know-how** about implementing and operating complex Cloud Computing models serves as a differentiating factor. Its service quality and breadth have led Experton to rank **Pironet in the leading quadrant for cloud services in 2012** underpinning the potential for market share gains.
- Pironet's early mover advantage and resulting long track record have supplied the company with a **sound brand reputation and several reference projects** which should help win new customers.

However, Pironet is seen to face **two key challenges** given (1) Its limited customer network. For instance, in contrast to Pironet, CANCOM has long-standing relationships with thousands of IT system house customers to which it can cross-sell; (2) Client's general reluctance to go "all-in" and fully outsource business-critical applications already in a first step.

Pironet plans to overcome these challenges in three ways:

- First, **Pironet has started offering Private Cloud Solutions in 2012.** These involve a lesser degree of outsourcing than Public Clouds and hence are the favoured "first step" by customers willing to move into the cloud. However, **Pironet does not command any proprietary IP in this field, unlike CANCOM.**
- Second, **Pironet is looking to set up a partner distribution channel.** Potential partners could include companies focused on implementing ERP systems: When a customer decides on implementing an ERP system, Pironet and the partner can immediately address the question of "where" the ERP system should be run, i.e. offer hosting / cloud services.
- Third, **Pironet may be looking for selected take-overs** to acquire a customer base which can be used to cross-sell cloud-based services. Its net cash base of c. € 21m should serve as an ample war chest.

Pironet: Earnings trend 2009-15E							
in € m	2009	2010	2011	2012	2013E	2014E	2015E
<b>Sales</b>	<b>51.2</b>	<b>45.1</b>	<b>43.1</b>	<b>43.2</b>	<b>47.4</b>	<b>51.4</b>	<b>55.2</b>
<b>Gross Profit</b>	<b>22.7</b>	<b>17.3</b>	<b>17.4</b>	<b>18.0</b>	<b>19.9</b>	<b>21.6</b>	<b>23.2</b>
Gross margin	44.3%	38.4%	40.3%	41.7%	42.0%	42.0%	42.0%
<b>Sales &amp; Marketing</b>	<b>10.6</b>	<b>6.1</b>	<b>5.4</b>	<b>5.3</b>	<b>5.8</b>	<b>6.3</b>	<b>6.8</b>
in % of sales	20.7%	13.6%	12.6%	12.3%	12.3%	12.3%	12.3%
<b>General &amp; Administration</b>	<b>7.6</b>	<b>9.8</b>	<b>8.5</b>	<b>8.2</b>	<b>8.8</b>	<b>9.3</b>	<b>9.6</b>
in % of sales	14.9%	21.7%	19.8%	19.0%	18.5%	18.0%	17.4%
<b>Research &amp; Development</b>	<b>6.2</b>	<b>4.5</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
in % of sales	12.0%	10.0%	5.4%	5.1%	4.6%	4.3%	4.0%
<b>Other operating expenses</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
in % of sales	-0.3%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%
<b>EBIT</b>	<b>-4.5</b>	<b>-7.2</b>	<b>0.9</b>	<b>2.2</b>	<b>3.1</b>	<b>3.9</b>	<b>4.6</b>
EBIT margin	-8.8%	-15.9%	2.1%	5.1%	6.5%	7.5%	8.4%
<b>EBIT Cloud Computing</b>	<b>1.2</b>	<b>2.9</b>	<b>3.1</b>	<b>4.1</b>	<b>4.8</b>	<b>5.5</b>	<b>6.3</b>
Segment EBIT margin	5.9%	11.9%	11.9%	12.7%	13.4%	13.8%	14.5%
<b>EBIT Other</b>	<b>-5.7</b>	<b>-10.1</b>	<b>-2.2</b>	<b>-1.9</b>	<b>-1.7</b>	<b>-1.7</b>	<b>-1.7</b>
Segment EBIT margin	-19.2%	-48.9%	-12.6%	n/a	n/a	n/a	n/a
<b>Net income</b>	<b>-5.7</b>	<b>-9.9</b>	<b>-1.2</b>	<b>2.3</b>	<b>2.9</b>	<b>3.5</b>	<b>4.2</b>
Net margin	-11.2%	-21.9%	-2.8%	5.3%	6.0%	6.9%	7.6%

Source: Company data, Hauck & Aufhäuser

**Cloud Computing EBIT is expected to increase at a 15% CAGR between 2012 and 2015E** explaining more than 100% of group EBIT. The Cloud Computing EBIT margin is seen to rise by 1.8pp to 14.5% by 2015E driven mainly by economies of scale on admin and R&D. Overall, **we expect Pironet to generate 20% incremental EBIT margins in Cloud Computing.**

When judging on the scalability of Cloud Computing growth a distinction has to be made between Public Cloud (80% of sales) and Private Cloud (20% of sales) implementations: **The former are more profitable for Pironet than the latter**, in our view:

**Public Cloud growth should be scalable** as Pironet has some 60% spare capacities in its data centre allowing for sales of € 80m+. This means that with customer wins all Pironet has to do is periodically invest into additional storage and computing resources and increase its headcount e.g. hire new employees to operate and supervise the cloud. **Recurring revenues accrue every month without causing material incremental expenses.**

In contrast, Private Cloud projects offer less scalability as Pironet has to invest more into hardware and does not receive a recurring service fee following project implementation. A significant part of Pironet's sales growth should stem from Private Cloud installations as these are yet more en vogue amongst German SME who fear for the security of their data. Still, overall scalability should suffice to **overcompensate for competition-driven price pressure of 3-5% p.a.**

## Valuation

- A DCF model yields a fair value of € 5.30. Key assumptions include a beta of 1.30, a 7.0% terminal year EBIT margin, a 2.0% long-term growth rate and 8.0% WACC. Even a conservative scenario with a 10% WACC and a 6.0% terminal year EBIT margin would result in a fair value of € 4.10 and hence signal upside from the current share price.

Sensitivity analysis DCF						Sensitivity analysis DCF							
Long term growth						EBIT margin terminal year							
		0%	1.0%	2.0%	2.5%	3.0%			6.0%	7.0%	8.0%	9.0%	10.0%
WACC	10.0%	4.2	4.3	4.5	4.6	4.7	WACC	10.0%	4.1	4.3	4.5	4.7	4.9
	9.0%	4.4	4.6	4.8	5.0	5.2		9.0%	4.4	4.6	4.8	5.1	5.3
	8.0%	4.7	5.0	5.3	5.5	5.8		8.0%	4.7	5.0	5.3	5.6	5.9
	7.0%	5.1	5.5	6.0	6.3	6.8		7.0%	5.2	5.6	6.0	6.4	6.8
	6.0%	5.6	6.2	7.1	7.7	8.5		6.0%	6.0	6.5	7.1	7.6	8.1

Source: Hauck & Aufhäuser

- An adjusted Free Cash Flow Yield points to a price target of € 5.00 based on FCFY 2014E and a 7.5% after-tax hurdle rate.

FCF yield, year end Dec. 31	2012	2013E	2014E	2015E	
<b>Sales</b>	<b>43.2</b>	<b>47.4</b>	<b>51.4</b>	<b>55.2</b>	
Actual EV/sales	0.7x	0.6x	0.6x	0.5x	
Hurdle rate	7.5%	7.5%	7.5%	7.5%	
FCF margin	4.8%	6.2%	7.1%	7.9%	
Fair EV/sales	0.6x	0.8x	0.9x	1.1x	
<b>Fair EV</b>	<b>27.5</b>	<b>38.9</b>	<b>48.6</b>	<b>58.4</b>	
- EV Reconciliations	-22.4	-22.9	-24.2	-26.0	
<b>Fair Market Cap</b>	<b>49.9</b>	<b>61.8</b>	<b>72.8</b>	<b>84.4</b>	
No. of shares (million)	14.6	14.6	14.6	14.6	
<b>Fair value per share</b>	<b>3.4</b>	<b>4.2</b>	<b>5.0</b>	<b>5.8</b>	
<b>Premium (-) / discount (+) in %</b>	<b>-6.7%</b>	<b>15.3%</b>	<b>36.0%</b>	<b>57.6%</b>	
Sensitivity analysis fair value					
	7.5%	3.4	4.2	5.0	5.8
Hurdle rate	10.0%	3.0	3.6	4.2	4.8
	12.5%	2.7	3.2	3.7	4.2
	15.0%	2.5	2.9	3.3	3.8

Source: Hauck & Aufhäuser

- The transaction multiple of Info AG, which was snapped up by QSC in 2011, would point to a **fair value of € 4.20** for Pironet's Cloud Computing business alone. The value of the non-core Content Management segment would come on top: If Pironet were to divest this, it should at least receive € 7m of cash which is equal to only 2x maintenance sales (700 client installations). With a value of € 0.5 per share for Content Management and € 4.2 per share for Cloud Computing, **Pironet's total value would be € 4.70**, supporting our FCFY-based PT.

Pironet: Cloud Computing fair value (2013E)	
EV/EBITDA INFO AG take over	7.0
Fair EV Pironet Cloud Computing (in € m) less central costs	40
Total net debt & pensions (in € m)	-22
<b>Fair market cap (in € m)</b>	<b>62</b>
No. of shares	14.6
<b>Fair Value per share Cloud Computing (€)</b>	<b>4.2</b>

Source: Hauck & Aufhäuser, QSC

## News Flow

- **The transformation into a Cloud Computing pure play should drive a re-rating of the shares** given that this business offers recurring sales (80% of Cloud Computing revenues), better competitive quality, more attractive growth prospects and higher ROCE.
- That this re-rating has not yet happened, in our view, is due to the fairly undiscovered nature of Pironet. Accordingly, **valuation does not adequately reflect the new Cloud Computing focus**. A rough calculation underpins this: If Pironet were to divest its non-core Content Management, it should at least receive € 7m (eH&A) without hurting group EBIT. The resulting net cash pile of € 29m would imply a valuation of only 3.2x EV/EBITDA '14E – far below the 7.0x multiple paid for peer INFO AG in the 2011 take-over.
- The net cash pile of € 22m (2013E) means Pironet has an **ample war chest for selected acquisitions** – likely targets would be companies offering a customer base of small- and mid-sized enterprises to which Pironet could cross-sell its Cloud Computing services.

# Financials

Profit and loss (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Sales</b>	<b>51.2</b>	<b>45.1</b>	<b>43.1</b>	<b>43.2</b>	<b>47.4</b>	<b>51.4</b>	<b>55.2</b>
Sales growth	-14.1 %	-11.8 %	-4.6 %	0.3 %	9.7 %	8.4 %	7.4 %
Cost of sales	28.5	27.8	25.7	25.2	27.5	29.8	32.0
<b>Gross profit</b>	<b>22.7</b>	<b>17.3</b>	<b>17.4</b>	<b>18.0</b>	<b>19.9</b>	<b>21.6</b>	<b>23.2</b>
Sales and marketing	10.6	6.1	5.4	5.3	5.8	6.3	6.8
General and administration	7.6	9.8	8.5	8.2	8.8	9.3	9.6
Research and development	6.2	4.5	2.3	2.2	2.2	2.2	2.2
Other operating income	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other operating expenses	0.1	0.0	0.1	0.1	0.0	0.0	0.0
Unusual or infrequent items	-3.0	-4.1	-0.1	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>8.1</b>	<b>9.4</b>	<b>4.9</b>	<b>6.1</b>	<b>7.3</b>	<b>8.5</b>	<b>9.5</b>
Depreciation	3.5	2.6	2.8	2.8	3.0	3.3	3.5
<b>EBITA</b>	<b>4.6</b>	<b>6.7</b>	<b>2.1</b>	<b>3.3</b>	<b>4.3</b>	<b>5.2</b>	<b>6.0</b>
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	9.1	13.9	1.2	1.1	1.2	1.3	1.4
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-4.5</b>	<b>-7.2</b>	<b>0.9</b>	<b>2.2</b>	<b>3.1</b>	<b>3.9</b>	<b>4.6</b>
Interest income	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Interest expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Financial result	0.1	0.2	0.1	0.5	0.2	0.2	0.2
<b>Recurring pretax income from continuing operations</b>	<b>-4.4</b>	<b>-6.9</b>	<b>1.0</b>	<b>2.7</b>	<b>3.3</b>	<b>4.0</b>	<b>4.8</b>
Extraordinary income/loss	-2.2	-0.4	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>-6.6</b>	<b>-7.3</b>	<b>1.0</b>	<b>2.7</b>	<b>3.3</b>	<b>4.0</b>	<b>4.8</b>
Taxes	-0.4	-1.7	-1.0	0.3	0.4	0.5	0.6
<b>Net income from continuing operations</b>	<b>-6.2</b>	<b>-5.6</b>	<b>2.0</b>	<b>2.4</b>	<b>2.9</b>	<b>3.5</b>	<b>4.2</b>
Result from discontinued operations (net of tax)	0.6	6.2	3.3	0.1	0.0	0.0	0.0
<b>Net income</b>	<b>-6.8</b>	<b>-11.8</b>	<b>-1.2</b>	<b>2.3</b>	<b>2.9</b>	<b>3.5</b>	<b>4.2</b>
Minority interest	-1.0	-1.9	0.0	0.0	0.0	0.0	0.0
<b>Net income (net of minority interest)</b>	<b>-5.7</b>	<b>-9.9</b>	<b>-1.2</b>	<b>2.3</b>	<b>2.9</b>	<b>3.5</b>	<b>4.2</b>
Average number of shares	14.6	14.6	14.6	14.6	14.6	14.6	14.6
<b>EPS reported</b>	<b>-0.39</b>	<b>-0.68</b>	<b>-0.08</b>	<b>0.16</b>	<b>0.20</b>	<b>0.24</b>	<b>0.29</b>

Profit and loss (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Cost of sales	55.7 %	61.6 %	59.7 %	58.3 %	58.0 %	58.0 %	58.0 %
<b>Gross profit</b>	<b>44.3 %</b>	<b>38.4 %</b>	<b>40.3 %</b>	<b>41.7 %</b>	<b>42.0 %</b>	<b>42.0 %</b>	<b>42.0 %</b>
Sales and marketing	20.7 %	13.6 %	12.6 %	12.3 %	12.3 %	12.3 %	12.3 %
General and administration	14.9 %	21.7 %	19.8 %	19.0 %	18.5 %	18.0 %	17.4 %
Research and development	12.0 %	10.0 %	5.4 %	5.1 %	4.6 %	4.3 %	4.0 %
Other operating income	0.4 %	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %
Other operating expenses	0.1 %	0.0 %	0.1 %	0.2 %	0.0 %	0.0 %	0.0 %
Unusual or infrequent items	-5.8 %	-9.0 %	-0.3 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBITDA</b>	<b>15.8 %</b>	<b>20.8 %</b>	<b>11.5 %</b>	<b>14.1 %</b>	<b>15.4 %</b>	<b>16.4 %</b>	<b>17.2 %</b>
Depreciation	6.9 %	5.9 %	6.5 %	6.5 %	6.3 %	6.4 %	6.3 %
<b>EBITA</b>	<b>8.9 %</b>	<b>14.9 %</b>	<b>5.0 %</b>	<b>7.6 %</b>	<b>9.0 %</b>	<b>10.0 %</b>	<b>10.9 %</b>
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	17.7 %	30.8 %	2.8 %	2.5 %	2.5 %	2.5 %	2.5 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>-8.8 %</b>	<b>-15.9 %</b>	<b>2.1 %</b>	<b>5.1 %</b>	<b>6.5 %</b>	<b>7.5 %</b>	<b>8.4 %</b>
Interest income	0.3 %	0.5 %	0.3 %	0.4 %	0.4 %	0.4 %	0.4 %
Interest expenses	0.0 %	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %
Other financial result	0.0 %	0.0 %	0.0 %	0.8 %	0.0 %	0.0 %	0.0 %
Financial result	0.3 %	0.5 %	0.2 %	1.2 %	0.4 %	0.4 %	0.4 %
<b>Recurring pretax income from continuing operations</b>	<b>-8.5 %</b>	<b>-15.4 %</b>	<b>2.3 %</b>	<b>6.3 %</b>	<b>6.9 %</b>	<b>7.9 %</b>	<b>8.7 %</b>
Extraordinary income/loss	-4.3 %	-0.9 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Earnings before taxes</b>	<b>-12.9 %</b>	<b>-16.2 %</b>	<b>2.4 %</b>	<b>6.3 %</b>	<b>6.9 %</b>	<b>7.9 %</b>	<b>8.7 %</b>
Tax rate	6.0 %	23.4 %	-98.0 %	12.5 %	12.5 %	12.5 %	12.5 %
<b>Net income from continuing operations</b>	<b>-12.1 %</b>	<b>-12.4 %</b>	<b>4.7 %</b>	<b>5.5 %</b>	<b>6.0 %</b>	<b>6.9 %</b>	<b>7.6 %</b>
Result from discontinued operations (net of tax)	1.1 %	13.7 %	7.6 %	0.2 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>-13.2 %</b>	<b>-26.2 %</b>	<b>-2.9 %</b>	<b>5.3 %</b>	<b>6.0 %</b>	<b>6.9 %</b>	<b>7.6 %</b>
Minority interest	-2.0 %	-4.3 %	-0.1 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income (net of minority interest)</b>	<b>-11.2 %</b>	<b>-21.9 %</b>	<b>-2.8 %</b>	<b>5.3 %</b>	<b>6.0 %</b>	<b>6.9 %</b>	<b>7.6 %</b>

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>25.8</b>	<b>13.7</b>	<b>5.3</b>	<b>4.2</b>	<b>4.4</b>	<b>4.5</b>	<b>4.6</b>
Property, plant and equipment	4.6	4.1	4.4	4.0	4.4	4.8	5.3
Financial assets	4.1	7.0	3.4	0.3	0.3	0.3	0.3
<b>FIXED ASSETS</b>	<b>34.4</b>	<b>24.8</b>	<b>13.1</b>	<b>8.5</b>	<b>9.1</b>	<b>9.6</b>	<b>10.2</b>
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	13.4	11.6	9.0	6.3	7.5	8.4	9.4
Other current assets	1.2	0.6	0.6	0.6	0.7	0.7	0.8
Liquid assets	12.0	13.5	15.7	21.3	21.9	23.3	25.2
Deferred taxes	3.6	5.0	4.6	4.2	4.6	5.0	5.5
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT ASSETS</b>	<b>30.2</b>	<b>30.8</b>	<b>29.9</b>	<b>32.4</b>	<b>34.7</b>	<b>37.5</b>	<b>40.9</b>
<b>TOTAL ASSETS</b>	<b>64.7</b>	<b>55.5</b>	<b>43.0</b>	<b>40.9</b>	<b>43.8</b>	<b>47.1</b>	<b>51.1</b>
SHAREHOLDERS EQUITY	44.3	34.5	33.6	32.9	34.9	37.2	40.2
MINORITY INTEREST	5.9	3.9	-0.2	-0.2	-0.2	-0.2	-0.2
Long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.4	0.9	0.3	0.2	0.3	0.3	0.3
<b>Non-current liabilities</b>	<b>0.4</b>	<b>0.9</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
short-term liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	7.5	7.7	7.6	6.5	7.1	7.7	8.2
Advance payments received on orders	1.8	1.1	0.9	0.6	0.8	1.0	1.2
Other liabilities (incl. from lease and rental contracts)	0.1	3.4	0.3	0.2	0.3	0.3	0.3
Deferred taxes	2.4	2.0	0.0	0.0	0.0	0.0	0.0
Deferred income	2.2	2.2	0.6	0.6	0.7	0.9	1.0
<b>Current liabilities</b>	<b>14.1</b>	<b>16.3</b>	<b>9.4</b>	<b>7.9</b>	<b>8.9</b>	<b>9.9</b>	<b>10.8</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>64.7</b>	<b>55.5</b>	<b>43.0</b>	<b>40.9</b>	<b>43.8</b>	<b>47.1</b>	<b>51.1</b>

Balance sheet (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>39.8 %</b>	<b>24.6 %</b>	<b>12.2 %</b>	<b>10.2 %</b>	<b>9.9 %</b>	<b>9.5 %</b>	<b>8.9 %</b>
Property, plant and equipment	7.1 %	7.4 %	10.3 %	9.9 %	10.1 %	10.3 %	10.4 %
Financial assets	6.3 %	12.6 %	8.0 %	0.7 %	0.7 %	0.6 %	0.6 %
<b>FIXED ASSETS</b>	<b>53.2 %</b>	<b>44.6 %</b>	<b>30.5 %</b>	<b>20.8 %</b>	<b>20.8 %</b>	<b>20.4 %</b>	<b>19.9 %</b>
Inventories	0.0 %	0.0 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
Accounts receivable	20.8 %	20.9 %	20.8 %	15.5 %	17.2 %	17.9 %	18.4 %
Other current assets	1.9 %	1.1 %	1.5 %	1.5 %	1.5 %	1.5 %	1.6 %
Liquid assets	18.5 %	24.4 %	36.4 %	52.0 %	50.0 %	49.4 %	49.2 %
Deferred taxes	5.6 %	9.0 %	10.7 %	10.2 %	10.5 %	10.7 %	10.8 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>CURRENT ASSETS</b>	<b>46.8 %</b>	<b>55.4 %</b>	<b>69.5 %</b>	<b>79.2 %</b>	<b>79.2 %</b>	<b>79.6 %</b>	<b>80.1 %</b>
<b>TOTAL ASSETS</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
SHAREHOLDERS EQUITY	68.5 %	62.2 %	78.0 %	80.6 %	79.7 %	79.0 %	78.6 %
MINORITY INTEREST	9.2 %	7.0 %	-0.5 %	-0.6 %	-0.5 %	-0.5 %	-0.5 %
Long-term debt	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Provisions for pensions and similar obligations	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other provisions	0.6 %	1.5 %	0.6 %	0.6 %	0.6 %	0.6 %	0.6 %
<b>Non-current liabilities</b>	<b>0.6 %</b>	<b>1.5 %</b>	<b>0.6 %</b>	<b>0.6 %</b>	<b>0.6 %</b>	<b>0.6 %</b>	<b>0.6 %</b>
short-term liabilities to banks	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts payable	11.6 %	13.8 %	17.8 %	15.9 %	16.2 %	16.3 %	16.1 %
Advance payments received on orders	2.9 %	2.0 %	2.1 %	1.5 %	1.8 %	2.2 %	2.4 %
Other liabilities (incl. from lease and rental contracts)	0.1 %	6.0 %	0.6 %	0.6 %	0.6 %	0.6 %	0.6 %
Deferred taxes	3.8 %	3.6 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Deferred income	3.4 %	3.9 %	1.4 %	1.5 %	1.7 %	1.9 %	2.0 %
<b>Current liabilities</b>	<b>21.7 %</b>	<b>29.4 %</b>	<b>21.9 %</b>	<b>19.4 %</b>	<b>20.2 %</b>	<b>20.9 %</b>	<b>21.2 %</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Net profit/loss	-6.8	-11.8	-1.2	2.3	2.9	3.5	4.2
Depreciation of fixed assets (incl. leases)	3.5	2.6	2.8	2.8	3.0	3.3	3.5
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	9.1	13.9	1.2	1.1	1.2	1.3	1.4
Others	6.1	4.2	4.6	0.0	0.2	0.3	0.4
Cash flow from operations before changes in w/c	12.0	9.0	7.4	6.2	7.2	8.4	9.5
Increase/decrease in inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in accounts receivable	-3.0	-1.8	-2.7	2.6	-1.2	-0.9	-0.9
Increase/decrease in accounts payable	-5.5	0.2	0.0	-1.2	0.6	0.6	0.6
Increase/decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	-8.5	-1.6	-2.7	1.5	-0.6	-0.3	-0.4
<b>Cash flow from operating activities</b>	<b>3.5</b>	<b>7.3</b>	<b>4.7</b>	<b>7.6</b>	<b>6.6</b>	<b>8.1</b>	<b>9.1</b>
CAPEX	8.0	4.7	4.8	4.4	4.8	5.1	5.5
Payments for acquisitions	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.5	4.2	0.3	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-11.0</b>	<b>-4.7</b>	<b>-4.3</b>	<b>-0.2</b>	<b>-4.5</b>	<b>-5.1</b>	<b>-5.5</b>
Cash flow before financing	-7.5	2.6	0.4	7.4	2.1	3.0	3.6
Increase/decrease in debt position	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	1.0	0.0	0.0	1.5	1.5	1.6	1.8
Others	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-0.9</b>	<b>0.2</b>	<b>0.0</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-1.6</b>	<b>-1.8</b>
Increase/decrease in liquid assets	-8.4	2.8	0.5	6.0	0.6	1.4	1.9
<b>Liquid assets at end of period</b>	<b>12.0</b>	<b>14.8</b>	<b>15.3</b>	<b>21.3</b>	<b>21.9</b>	<b>23.3</b>	<b>25.2</b>

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Domestic	0.0	39.2	47.7	39.7	43.8	47.8	51.6
yoy change	n/a	n/a	21.7 %	-16.6 %	10.3 %	9.0 %	8.0 %
Rest of Europe	0.0	6.0	5.3	3.5	3.6	3.6	3.6
yoy change	n/a	n/a	-12.2 %	-34.2 %	2.9 %	1.2 %	-0.3 %
NAFTA	0.0	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	0.0	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	0.0	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>TTL</b>	<b>0.0</b>	<b>45.1</b>	<b>52.9</b>	<b>43.2</b>	<b>47.4</b>	<b>51.4</b>	<b>55.2</b>
yoy change	n/a	n/a	17.2 %	-18.4 %	9.7 %	8.4 %	7.4 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>P&amp;L growth analysis</b>							
Sales growth	-14.1 %	-11.8 %	-4.6 %	0.3 %	9.7 %	8.4 %	7.4 %
EBITDA growth	-8.9 %	15.9 %	-47.3 %	23.5 %	19.3 %	16.1 %	12.7 %
EBIT growth	-255.9 %	59.3 %	-112.8 %	139.9 %	40.0 %	25.0 %	20.0 %
EPS growth	-314.8 %	72.4 %	-87.7 %	-288.0 %	25.3 %	23.9 %	19.4 %
<b>Efficiency</b>							
Total operating costs / sales	47.3 %	45.3 %	37.9 %	36.6 %	35.5 %	34.5 %	33.7 %
Sales per employee	126.7	122.7	113.6	113.7	138.6	144.5	149.9
EBITDA per employee	20.0	25.5	13.0	16.1	21.3	23.8	25.9
<b>Balance sheet analysis</b>							
Avg. working capital / sales	5.5 %	7.6 %	3.8 %	-0.3 %	-1.1 %	-0.5 %	-0.2 %
Inventory turnover (sales/inventory)	n/a	22,573.0	1,133.2	1,136.0	1,200.0	1,200.0	1,200.0
Trade debtors in days of sales	95.7	93.9	75.9	53.5	58.0	60.0	62.0
A/P turnover [(A/P*365)/sales]	96.1	100.8	108.5	94.0	94.0	94.0	94.0
Cash conversion cycle (days)	n/a	-6.8	-32.1	-39.9	-35.5	-33.5	-31.5
<b>Cash flow analysis</b>							
Free cash flow	-4.5	2.6	-0.1	3.2	1.8	3.0	3.6
Free cash flow/sales	-8.8 %	5.8 %	-0.2 %	7.5 %	3.9 %	5.8 %	6.6 %
FCF / net profit	78.6 %	-26.7 %	6.6 %	142.5 %	64.1 %	84.4 %	86.2 %
FCF yield	-8.4 %	4.9 %	-0.1 %	6.1 %	3.4 %	5.6 %	6.8 %
Capex / deprn	63.2 %	28.5 %	119.1 %	112.8 %	114.3 %	110.9 %	111.8 %
Capex / maintenance capex	72.6 %	51.5 %	82.4 %	76.9 %	81.0 %	80.4 %	81.1 %
Capex / sales	15.5 %	10.4 %	11.1 %	10.2 %	10.1 %	9.9 %	9.9 %
<b>Security</b>							
Net debt	-12.0	-13.5	-15.7	-21.3	-21.9	-23.3	-25.2
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / equity	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6
Interest cover	0.0	0.0	29.6	999.0	999.0	999.0	999.0
Dividend payout ratio	0.0 %	0.0 %	100.0 %	64.0 %	56.2 %	49.5 %	44.9 %
<b>Asset utilisation</b>							
Capital employed turnover	1.0	1.2	1.3	1.3	1.4	1.4	1.4
Operating assets turnover	5.9	6.5	8.8	13.0	11.4	11.1	10.5
Plant turnover	11.2	11.0	9.7	10.7	10.7	10.6	10.4
Inventory turnover (sales/inventory)	n/a	22,573.0	1,133.2	1,136.0	1,200.0	1,200.0	1,200.0
<b>Returns</b>							
ROCE	-8.3 %	-16.0 %	2.5 %	6.6 %	9.1 %	10.7 %	11.9 %
ROE	-12.9 %	-28.6 %	-3.6 %	6.9 %	8.2 %	9.5 %	10.5 %
<b>Other</b>							
Interest paid / avg. debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a
No. employees (average)	404	368	379	380	342	356	368
Number of shares	14.6	14.6	14.6	14.6	14.6	14.6	14.6
DPS	0.0	0.0	0.1	0.1	0.1	0.1	0.1
EPS reported	-0.39	-0.68	-0.08	0.16	0.20	0.24	0.29
<b>Valuation ratios</b>							
P/BV	1.2	1.6	1.6	1.6	1.5	1.4	1.3
EV/sales	0.8	0.9	0.9	0.7	0.7	0.6	0.5
EV/EBITDA	5.1	4.3	7.7	5.3	4.3	3.6	3.0
EV/EBITA	9.1	5.9	17.7	9.8	7.4	5.9	4.7
EV/EBIT	-9.2	-5.6	41.3	14.7	10.3	7.9	6.1
EV/FCF	-9.2	15.2	-473.5	9.9	17.3	10.1	7.8
Dividend yield	0.0 %	0.0 %	2.7 %	2.7 %	3.0 %	3.3 %	3.5 %

Source: Company data, Hauck & Aufhäuser

**Buy** (old: Buy)

**Price target: EUR 4.70** (old: EUR 4.70)

<b>Price:</b>	EUR 3.02	<b>Next result:</b>	Q2 12.08.13
<b>Bloomberg:</b>	QSC GR	<b>Market cap:</b>	EUR 373.6 m
<b>Reuters:</b>	QSCG.DE	<b>Enterprise Value:</b>	EUR 439.8 m

31-July-13

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## The cloud one-stop-shop

QSC is undergoing a transition from a pure telecommunications business to a full-service ICT provider. Focussing on IT consulting and outsourcing, the company operates five data centres in Germany offering customers server housing (i.e. accommodating clients' servers) and hosting services, i.e. operating clients' IT on proprietary servers.

QSC **differentiates itself by being a cloud one-stop-shop** thereby managing telco with IT services in the cloud. Long-standing ties to German SME's have supplied QSC with a **strong reputation as a reliable and trustworthy outsourcing partner** while highest levels of data centre security and their location in Germany are unique selling points for the cautious but well-endowed customer base. Evidence: QSC hosts many banks and insurances which represent customers with highest requirements.

Cloud computing and outsourcing should be dynamic growth drivers for the company. However declining sales from its legacy telecoms business and a regulatory change explain why **revenues are expected to largely stagnate** between 2012-2015E. Still, a better sales mix and a growing utilisation of the data centres look set to **drive EBITDA up to € 91m in 2015E (5.3% CAGR 2012-2015E)**.

**FCF growth should be even more dynamic.** While having generated € 33m on average between 2009-2012 supported by low capex needs, FCF looks set to climb further to € 40m by '14E due to expected € 20m network cost savings (eH&A). FCF sustainability is provided by long-term contracts averaging 3-5 years and cancellation periods of up to one year with low churn rates.

**Management is well-inclined to hand-out FCF to investors** as shown in '12 when QSC paid a dividend of € 0.09 per share and bought back shares worth € 29m **adding up to € 40m**. Dividend payments are expected to rise further to € 0.10 per share (eH&A) already for this year. Hence, QSC should remain a **high-yield vehicle** supported by the expected € 20m cost savings from '14E onwards. **BUY with a PT of € 4.70 based on FCFY 2013/14E.**

Y/E 31.12 (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Sales	420.5	422.1	478.1	481.5	453.6	465.4	479.4
Sales growth	2 %	0 %	13 %	1 %	-6 %	3 %	3 %
EBITDA	77.6	68.5	79.5	77.5	79.6	87.7	90.7
EBIT	9.7	20.9	26.2	24.6	29.1	38.6	42.8
Net income	5.5	24.2	28.0	18.9	21.7	29.9	33.9
Net debt	49.7	-15.8	47.5	71.8	59.1	31.5	1.1
Net gearing	31.1 %	-8.6 %	23.2 %	39.8 %	30.1 %	14.7 %	0.5 %
Net Debt/EBITDA	0.6	0.0	0.6	0.9	0.7	0.4	0.0
EPS fully diluted	0.04	0.02	0.20	0.15	0.18	0.24	0.27
CPS	0.31	0.31	0.40	0.28	0.25	0.39	0.43
DPS	0.00	0.00	0.08	0.09	0.10	0.11	0.12
Dividend yield	0.0 %	0.0 %	2.6 %	3.0 %	3.3 %	3.6 %	4.0 %
Gross profit margin	22.7 %	25.3 %	24.6 %	25.4 %	25.7 %	27.8 %	28.2 %
EBITDA margin	18.4 %	16.2 %	16.6 %	16.1 %	17.6 %	18.8 %	18.9 %
EBIT margin	2.3 %	4.9 %	5.5 %	5.1 %	6.4 %	8.3 %	8.9 %
ROCE	3.6 %	8.8 %	10.2 %	8.2 %	9.3 %	11.6 %	12.1 %
EV/sales	1.1	0.9	1.0	0.9	1.0	0.9	0.8
EV/EBITDA	6.0	5.8	5.9	5.8	5.5	4.7	4.2
EV/EBIT	48.0	19.1	17.8	18.4	15.1	10.7	8.9
PER	75.1	17.1	14.8	19.8	17.2	12.5	11.0
Adjusted FCF yield	11.5 %	13.8 %	18.5 %	11.3 %	11.9 %	14.3 %	16.2 %

Source: Company data, Hauck & Aufhäuser Close price as of: 30.07.2013



Source: Company data, Hauck & Aufhäuser

**High/low 52 weeks:** 3.09 / 2.00

**Price/Book Ratio:** 1.9

**Relative performance (TecDAX):**

3 months 15.4 %

6 months 21.1 %

12 months 2.1 %

### Changes in estimates

		Sales	EBIT	EPS
2013	old:	453.6	29.1	0.18
	Δ	-	-	-
2014	old:	465.4	38.6	0.24
	Δ	-	-	-
2015	old:	479.4	42.8	0.27
	Δ	-	-	-

### Key share data:

Number of shares: (in m pcs) 123.7

Authorised capital: (in € m) 65.0

Book value per share: (in €) 1.6

Ø trading volume: (12 months) 441,000

### Major shareholders:

Free Float 74.9 %

Gerd Eickers 12.6 %  
(Chairman)

Dr Bernd Schlobohm 12.5 %  
(CEO)

### Company description:


Nationwide provider of ICT solutions that comprises telephony, internet, cloud computing, server housing and hosting as well as IT consulting and outsourcing. The company operates its own IP-based next generation network and mainly focuses on SME clients.

## Exposure to Cloud Computing

By acquiring IP Partner and INFO AG in 2010 and 2011, QSC has transformed itself into a one-stop-shop for information and communication technology (ICT) provider. This transformation laid the basis for **QSC's cloud computing business which represents some 20% or c. € 100m of group sales** (2012), according to the company. Detailed Cloud Computing figures including profitability are **not** being reported.

QSC operates a **mixed Cloud Computing business model** combining managed hosting / housing of business critical applications (e.g. SAP) with cloud-based provisioning of standard applications (e.g. Microsoft Office) as well as IT hardware (e.g. computing and storage resources). QSC is an established and trusted partner of the German *Mittelstand* which represents its main customer group. Contracts run between 3-5 years on average.

More than **70% of cloud sales are recurring**. For QSC's cloud-based applications like tengo, customers pay per seat, per application, per month. In order to host and house the necessary servers QSC operates five own data centres. All of them are located in Germany and hence subject to Germany's strict data protection laws.

	Direct Sales	Indirect Sales	Group
<b>Cloud computing</b>  <p>Managed hosting / housing &amp; cloud applications (e.g. QSC tengo). <b>Cloud Computing sales amount to c. € 100m or 20% of group sales.</b></p>			
<b>Sales 12 (€ m)</b>	187.9	125.1	<b>481.5</b>
<b>Sales share</b>	45%	27%	<b>100%</b>
<b>Customers</b>	SMEs of >€ 50m of revenue	SMEs of any size	
<b>Distribution channel</b>	B2B	B2B2B	
<b>Customers</b>	Tschibo, German Red Cross, Olympus, Imperial Tobacco, ARAG, Hamburg Süd, Amprion	c. 400 distribution partners (e.g. regionally active IT system houses)	<b>c. 30.000</b>
<b>Competitors</b>	Cancom, Pironet, T-Systems, Colt, IBM, Microsoft		
<b>Suppliers</b>	IT hardware suppliers like Cisco, Fujitsu, HP etc		
<b>EBIT 12 (€ m)</b>	2.7	22.9	<b>24.6</b>
<b>EBIT-margin</b>	1%	18%	<b>5.1%</b>
<b>ROCE 12</b>			<b>8%</b>

Source: Company data; Hauck & Aufhäuser. Note: The legacy telecom business is not being displayed.

## Competitive Quality: The German Cloud one-stop shop

In the absence of any significant entry barriers to the ICT market, QSC differentiates itself from its peers through four key advantages:

### 1. Full-service ICT provider

QSC is a full-service ICT provider. Thereby it **can offer its clients the whole range of ICT products from a single source**, from a landline to an internet connection to the housing of servers and IT consulting services. As such, QSC is likely to benefit in two ways from the cloud computing trends:

- First, because QSC can consult companies in matters of outsourcing.
- Second, it can provide its outsourcing customers with the necessary IT infrastructure (e.g. data centres) to benefit from cloud computing.

### 2. Technological expertise

QSC develops its own cloud applications (e.g. tengo). In this way it can address specific demands of companies from different business sectors. **This technological expertise enables QSC to provide their clients with unique and integrated ICT solutions** (cloud applications, server housing/hosting, internet, telecommunications and consulting) tailored to their needs.

QSC offers its customers so-called end-to-end solutions that make them largely technologically independent. Therefore companies do not have to worry about whom to contact in cases of problems: QSC provides the whole range of services, hence they are their main point of contact

### 3. Data security & local footprint

**The foundation for QSC's cloud solutions are its own data centres.** All of them are located within Germany, thereby being subject to Germany's strict data protection laws. Data security holds utmost importance for the company as this topic has an important signalling function towards established and new clients. Latest revelations that the US National Security Agency has been collecting vast amounts of communication technology data from all over the world should further highlight the importance of data security.

Customer evaluations have shown that clients do feel safer by knowing that sensible company records are kept and stored within proximity. Furthermore, they foster customer loyalty, given the high importance of data security.

### 4. SME focus and industry expertise

QSC's long-standing track-record as a partner of the German *Mittelstand* equips the company with the necessary knowledge and credibility to understand the needs of its customers. Although QSC also counts larger companies (i.e. >500 employees) amongst its clients, its target group are clearly SMEs, which constitute the largest group of IT customers in Germany.

Being an SME itself, QSC sees itself on equal footing with its clients and can react quicker and more flexible towards its clients' demands. QSC's success is reflected in low churn and complaint rates. The soundness of QSC's business model and the loyalty of its clients is underlined by the fact that c. 70% of sales growth is coming from existing customers.

## Growth

QSC's main growth drivers in the coming years should be:

- IT outsourcing / consulting

AND

- Cloud computing

Companies are seen to increasingly outsource parts or even their entire IT. The **benefit of outsourcing lays in the savings potential this step offers**: Capital intensive hardware investments become redundant which lead to efficiency gains. Moreover the introduction of enterprise resource planning software like SAP creates demand for IT consultants to accompany and implement such the outsourcing and consulting projects.

The other main **growth driver should be cloud computing** in our view. Since employees become ever more mobile and need to access company networks from wherever they are, cloud computing provides an excellent solution to this.

Due to unfavourable regulation QSC's sales are seen to decrease by around € 30m in 2013E – this should only accrue to the legacy and non-core telco business which is not presented in this note. For 2014E and 2015E we expect moderate sales growth of 2.6% and 3% respectively. This we assume on the back of an increasing demand for IT and telco services which become ever more entwisted.

in m €	2008	2009	2010	2011	2012	2013E	2014E	2015E
<b>Total Sales</b>	<b>413.3</b>	<b>420.5</b>	<b>422.1</b>	<b>478.1</b>	<b>481.5</b>	<b>453.6</b>	<b>465.4</b>	<b>479.4</b>
yoy	23.2%	1.8%	0.4%	13.3%	0.7%	-5.8%	2.6%	3.0%
Cost of revenues	323.3	325.1	315.2	360.5	359.2	337.0	336.0	344.0
in % of sales	78.2%	77.3%	74.7%	75.4%	74.6%	74.3%	72.2%	71.8%
Gross profit	90.0	95.5	106.9	117.6	122.4	116.6	129.4	135.4
Gross margin in %	21.8%	22.7%	25.3%	24.6%	25.4%	25.7%	27.8%	28.2%
Sales & marketing exp.	54.1	54	55.9	56.7	56.2	54.4	56.3	57.5
in % of sales	13.1%	12.8%	13.2%	11.9%	11.7%	12.0%	12.1%	12.0%
G&A	30.8	32.3	29.6	35.1	39.0	33.6	34.4	35.0
in % of sales	9.5%	9.9%	9.4%	9.7%	10.9%	10.0%	10.3%	10.2%
Other operating income	2.7	1.8	0.7	1.8	1.0	1.8	1.9	1.9
in % of sales	5.0%	3.3%	1.3%	3.2%	1.7%	3.3%	3.3%	3.3%
Other operating expenses	1.8	1.4	1.2	1.4	3.5	1.3	1.9	2.0
in % of sales	5.8%	4.3%	4.1%	4.0%	9.0%	3.9%	5.5%	5.6%
Depreciation & Amortisation	61.8	67.9	47.6	53.3	52.9	50.5	49.0	47.9
in % of sales	15.0%	16.1%	11.3%	11.1%	11.0%	11.1%	10.5%	10.0%
<b>EBITDA</b>	<b>67.8</b>	<b>77.5</b>	<b>68.5</b>	<b>79.5</b>	<b>77.5</b>	<b>79.6</b>	<b>87.6</b>	<b>90.7</b>
EBITDA margin in % of sales	16.4%	18.4%	16.2%	16.6%	16.1%	17.6%	18.8%	18.9%
<b>EBIT</b>	<b>6.0</b>	<b>9.6</b>	<b>20.9</b>	<b>26.2</b>	<b>24.6</b>	<b>29.1</b>	<b>38.6</b>	<b>42.8</b>
EBIT margin in % of sales	1.4%	2.3%	5.0%	5.5%	5.1%	6.4%	8.3%	8.9%

Source: Company data; Hauck & Aufhäuser

### Investors should focus on FCF

However we urge investors to focus on QSC's FCF generation. For 2013E we expect € 24m of FCF. Due to already agreed network savings of € 20m, **FCF should jump to around € 40m in 2014E** and further increase to € 44m in 2015E.

in m €	2009	2010	2011	2012E	2013E	2014E	2015E
<b>Operating cash flow</b>	65.5	56.6	76.8	61.0	57.7	75.9	81.0
<b>Capex</b>	40.3	25.1	29.1	33.2	33.8	35.9	37.0
<b>Free cash flow</b>	25.2	31.5	47.7	27.8	23.9	39.9	44.0

Source: Company data; Hauck & Aufhäuser

## Latest news flow / catalysts

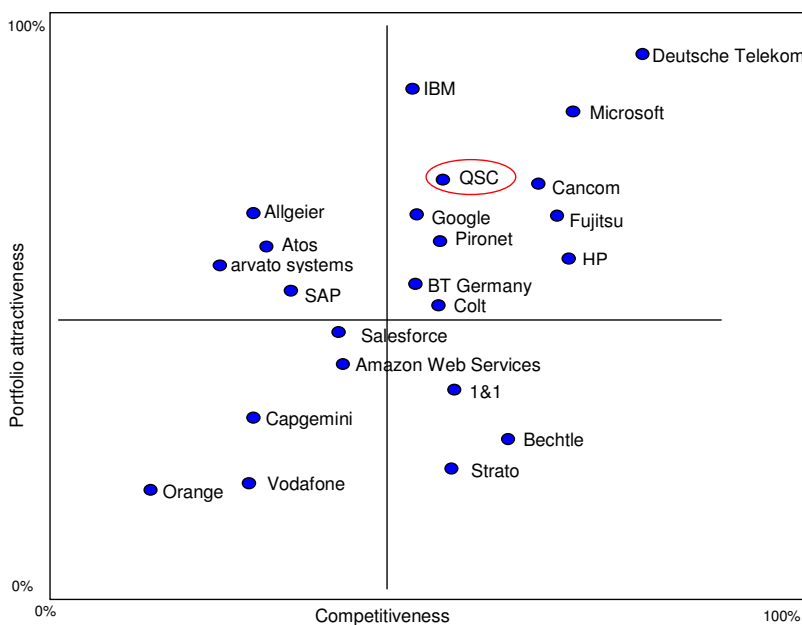
Market researcher Experton recently named **QSC one of the leading cloud operators in Germany**. In a research report published end of April, Experton sees QSC leading in the categories of cloud services for SMEs and in IaaS (Infrastructure-as-a-Service) managed private cloud. To recall, as of 2012 QSC generated some 20% of group sales with cloud computing (i.e. almost € 100m eH&A). The company's cloud portfolio comprises everything from IaaS like server hosting and housing to SaaS (software-as-a-Service) like the recently launched "QSC tengo" product.

**In terms of cloud solutions for SMEs, QSC is amongst the top five providers in Germany.** However only QSC and Cancom are truly focussed on SMEs. The other three competitors are blue chips like IBM, Microsoft and Dt. Telekom. Although they are seen to increasingly try to win SME clients they lack the qualities of companies such as QSC, namely understanding the needs of the German *SMEs*, quick decision-making, partnership of equals etc.

**This achievement shows once more that QSC has taken the right path by shifting away from pure telco towards a comprehensive ICT provider.** To establish such a strong position in the highly fragmented IT market in Germany seems illusionary without the repositioning and the takeover of IP Partner (2010) and INFO AG (2011).

**Especially the launch of tengo in April should have opened the door for QSC to the highly lucrative SaaS market.** Tengo is a cloud-based SaaS solution that offers programmes like Windows and MS Office on a per seat per month basis. Here significantly higher margins are possible than in the classical IT and telco business of managing servers and telephone lines. In our view tengo should contribute € 3-5m in sales in 2013E.

QSC ranked in leader quadrant for Cloud services



Source: Hauck & Aufhäuser; Experton Group

## Valuation

- A DCF model yields a fair value of € 4.50. Key assumptions include a beta of 1.2, a 7.3% terminal year EBIT margin, a 2.5% long-term growth rate and 8% WACC.

Sensitivity analysis DCF						Sensitivity analysis DCF							
Long term growth						EBIT margin terminal year							
		0%	1.0%	2.5%	3.0%			5.3%	6.3%	7.3%	8.3%	9.3%	
WACC	10.0%	2.8	3.0	3.4	3.4	3.5	WACC	10.0%	2.8	3.1	3.4	3.6	3.9
	9.0%	3.1	3.3	3.8	3.8	4.0		9.0%	3.1	3.5	3.8	4.1	4.5
	8.0%	3.5	3.8	4.5	4.5	4.8		8.0%	3.6	4.0	4.5	4.9	5.3
	7.0%	3.9	4.4	5.4	5.4	5.9		7.0%	4.3	4.8	5.4	5.9	6.5
	6.0%	4.5	5.2	6.9	6.9	7.8		6.0%	5.4	6.1	6.9	7.7	8.4

Source: Company data, Hauck & Aufhäuser

- An adjusted Free Cash Flow Yield points to a price target of € 4.70 which is based on the average FCFY for 2013E and 2014E and a 7.5% after-tax hurdle rate.

FCF yield, year end Dec. 31	2011	2012E	2013E	2014E	2015E
Sales	478.1	481.5	453.6	465.4	479.4
Actual EV/sales	0.7x	0.9x	0.9x	0.8x	0.8x
Hurdle rate	7.5%	7.5%	7.5%	7.5%	7.5%
FCF margin	10.3%	7.7%	8.1%	12.2%	12.3%
Fair EV/sales	1.4x	1.0x	1.1x	1.6x	1.6x
Fair EV	658.6	492.8	489.1	756.3	787.9
- EV Reconciliations	48.3	64.1	51.3	22.7	-8.8
Fair Market Cap	610.2	428.7	437.8	733.6	796.7
No. of shares (million)	137.3	123.7	123.7	123.7	123.7
Fair value per share	4.4	3.5	3.5	5.9	6.4
Premium (-) / discount (+) in %	112.8%	15.6%	18.0%	97.7%	114.7%

Sensitivity analysis fair value						
	7.5%	4.4	3.5	3.5	5.9	6.4
Hurdle rate	10.0%	3.2	2.5	2.6	4.4	4.8
	12.5%	2.5	1.9	2.0	3.5	3.9
	15.0%	2.0	1.5	1.6	2.9	3.3

Source: Company data, Hauck & Aufhäuser

## Financials

Profit and loss (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Sales</b>	<b>420.5</b>	<b>422.1</b>	<b>478.1</b>	<b>481.5</b>	<b>453.6</b>	<b>465.4</b>	<b>479.4</b>
Sales growth	1.8 %	0.4 %	13.3 %	0.7 %	-5.8 %	2.6 %	3.0 %
Cost of sales	325.1	315.2	360.5	359.2	337.0	336.0	344.0
<b>Gross profit</b>	<b>95.5</b>	<b>106.9</b>	<b>117.6</b>	<b>122.3</b>	<b>116.6</b>	<b>129.4</b>	<b>135.4</b>
Sales and marketing	54.0	56.0	56.7	56.2	54.4	56.3	57.5
General and administration	32.3	29.6	35.1	39.0	33.6	34.4	35.0
Research and development	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	1.8	0.7	1.8	1.0	1.8	1.9	1.9
Other operating expenses	1.4	1.2	1.4	3.5	1.3	1.9	2.0
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>77.6</b>	<b>68.5</b>	<b>79.5</b>	<b>77.5</b>	<b>79.6</b>	<b>87.7</b>	<b>90.7</b>
Depreciation	32.3	19.6	31.4	35.2	34.4	33.4	32.4
<b>EBITA</b>	<b>45.2</b>	<b>48.9</b>	<b>48.1</b>	<b>42.3</b>	<b>45.2</b>	<b>54.3</b>	<b>58.3</b>
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	35.6	28.0	21.8	17.7	16.1	15.6	15.5
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>9.7</b>	<b>20.9</b>	<b>26.2</b>	<b>24.6</b>	<b>29.1</b>	<b>38.6</b>	<b>42.8</b>
Interest income	0.8	0.3	0.5	0.8	0.4	0.6	1.0
Interest expenses	3.3	2.3	3.3	4.6	5.3	5.4	5.6
Other financial result	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	-2.5	-2.0	-2.8	-3.9	-4.8	-4.8	-4.5
<b>Recurring pretax income from continuing operations</b>	<b>7.2</b>	<b>18.8</b>	<b>23.4</b>	<b>20.7</b>	<b>24.3</b>	<b>33.8</b>	<b>38.3</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>7.2</b>	<b>18.8</b>	<b>23.4</b>	<b>20.7</b>	<b>24.3</b>	<b>33.8</b>	<b>38.3</b>
Taxes	1.7	-5.3	-4.6	1.7	2.6	3.9	4.4
<b>Net income from continuing operations</b>	<b>5.5</b>	<b>24.2</b>	<b>28.0</b>	<b>19.0</b>	<b>21.7</b>	<b>29.9</b>	<b>33.9</b>
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>5.5</b>	<b>24.2</b>	<b>28.0</b>	<b>19.0</b>	<b>21.7</b>	<b>29.9</b>	<b>33.9</b>
Minority interest	0.0	0.0	0.0	0.1	0.0	0.0	0.0
<b>Net income (net of minority interest)</b>	<b>5.5</b>	<b>24.2</b>	<b>28.0</b>	<b>18.9</b>	<b>21.7</b>	<b>29.9</b>	<b>33.9</b>
Average number of shares	137.0	137.1	137.3	123.7	123.7	123.7	123.7
<b>EPS reported</b>	<b>0.04</b>	<b>0.18</b>	<b>0.20</b>	<b>0.15</b>	<b>0.18</b>	<b>0.24</b>	<b>0.27</b>

Profit and loss (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Cost of sales	77.3 %	74.7 %	75.4 %	74.6 %	74.3 %	72.2 %	71.8 %
<b>Gross profit</b>	<b>22.7 %</b>	<b>25.3 %</b>	<b>24.6 %</b>	<b>25.4 %</b>	<b>25.7 %</b>	<b>27.8 %</b>	<b>28.2 %</b>
Sales and marketing	12.8 %	13.3 %	11.9 %	11.7 %	12.0 %	12.1 %	12.0 %
General and administration	7.7 %	7.0 %	7.3 %	8.1 %	7.4 %	7.4 %	7.3 %
Research and development	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other operating income	0.4 %	0.2 %	0.4 %	0.2 %	0.4 %	0.4 %	0.4 %
Other operating expenses	0.3 %	0.3 %	0.3 %	0.7 %	0.3 %	0.4 %	0.4 %
Unusual or infrequent items	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBITDA</b>	<b>18.4 %</b>	<b>16.2 %</b>	<b>16.6 %</b>	<b>16.1 %</b>	<b>17.6 %</b>	<b>18.8 %</b>	<b>18.9 %</b>
Depreciation	7.7 %	4.6 %	6.6 %	7.3 %	7.6 %	7.2 %	6.8 %
<b>EBITA</b>	<b>10.8 %</b>	<b>11.6 %</b>	<b>10.1 %</b>	<b>8.8 %</b>	<b>10.0 %</b>	<b>11.7 %</b>	<b>12.2 %</b>
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	8.5 %	6.6 %	4.6 %	3.7 %	3.5 %	3.4 %	3.2 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>2.3 %</b>	<b>4.9 %</b>	<b>5.5 %</b>	<b>5.1 %</b>	<b>6.4 %</b>	<b>8.3 %</b>	<b>8.9 %</b>
Interest income	0.2 %	0.1 %	0.1 %	0.2 %	0.1 %	0.1 %	0.2 %
Interest expenses	0.8 %	0.5 %	0.7 %	1.0 %	1.2 %	1.2 %	1.2 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	-0.6 %	-0.5 %	-0.6 %	-0.8 %	-1.1 %	-1.0 %	-0.9 %
<b>Recurring pretax income from continuing operations</b>	<b>1.7 %</b>	<b>4.5 %</b>	<b>4.9 %</b>	<b>4.3 %</b>	<b>5.4 %</b>	<b>7.3 %</b>	<b>8.0 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Earnings before taxes</b>	<b>1.7 %</b>	<b>4.5 %</b>	<b>4.9 %</b>	<b>4.3 %</b>	<b>5.4 %</b>	<b>7.3 %</b>	<b>8.0 %</b>
Tax rate	23.4 %	-28.2 %	-19.6 %	8.2 %	10.5 %	11.5 %	11.5 %
<b>Net income from continuing operations</b>	<b>1.3 %</b>	<b>5.7 %</b>	<b>5.9 %</b>	<b>4.0 %</b>	<b>4.8 %</b>	<b>6.4 %</b>	<b>7.1 %</b>
Result from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>1.3 %</b>	<b>5.7 %</b>	<b>5.9 %</b>	<b>4.0 %</b>	<b>4.8 %</b>	<b>6.4 %</b>	<b>7.1 %</b>
Minority interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income (net of minority interest)</b>	<b>1.3 %</b>	<b>5.7 %</b>	<b>5.9 %</b>	<b>3.9 %</b>	<b>4.8 %</b>	<b>6.4 %</b>	<b>7.1 %</b>

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>82.9</b>	<b>72.2</b>	<b>132.6</b>	<b>126.8</b>	<b>122.9</b>	<b>120.1</b>	<b>117.9</b>
Property, plant and equipment	126.2	108.1	145.1	134.9	122.1	111.8	103.1
Financial assets	2.4	3.3	4.5	3.7	3.7	3.7	3.7
<b>FIXED ASSETS</b>	<b>211.6</b>	<b>183.6</b>	<b>282.1</b>	<b>265.3</b>	<b>248.7</b>	<b>235.6</b>	<b>224.7</b>
Inventories	2.4	1.0	1.6	1.4	1.3	1.3	1.4
Accounts receivable	53.6	61.3	69.3	68.3	63.4	65.0	67.0
Other current assets	2.5	31.2	6.2	0.0	0.0	0.0	0.0
Liquid assets	41.3	46.6	24.1	35.2	49.4	82.3	111.7
Deferred taxes	0.0	8.5	8.0	10.5	10.5	10.5	10.5
Deferred charges and prepaid expenses	0.0	0.0	0.0	6.4	6.4	6.4	6.4
<b>CURRENT ASSETS</b>	<b>99.7</b>	<b>148.6</b>	<b>109.2</b>	<b>121.8</b>	<b>131.0</b>	<b>165.5</b>	<b>197.0</b>
<b>TOTAL ASSETS</b>	<b>311.3</b>	<b>332.2</b>	<b>391.3</b>	<b>387.1</b>	<b>379.6</b>	<b>401.1</b>	<b>421.7</b>
<b>SHAREHOLDERS EQUITY</b>	<b>159.7</b>	<b>184.0</b>	<b>204.9</b>	<b>180.2</b>	<b>196.4</b>	<b>213.9</b>	<b>234.2</b>
<b>MINORITY INTEREST</b>	<b>0.0</b>	<b>0.0</b>	<b>2.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Long-term debt	76.0	20.8	43.4	82.0	82.0	82.0	82.0
Provisions for pensions and similar obligations	0.7	1.1	5.3	6.9	7.0	7.2	7.3
Other provisions	2.0	4.3	9.7	10.8	10.8	10.8	10.8
<b>Non-current liabilities</b>	<b>78.8</b>	<b>26.2</b>	<b>58.4</b>	<b>99.7</b>	<b>99.9</b>	<b>100.0</b>	<b>100.2</b>
short-term liabilities to banks	15.0	10.0	28.2	25.0	26.5	31.7	30.8
Accounts payable	41.0	38.0	46.6	52.5	46.6	45.1	46.2
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	3.1	4.1	5.1	5.3	5.3	5.3	5.3
Deferred income	13.8	69.8	45.7	24.4	5.0	5.1	5.1
<b>Current liabilities</b>	<b>72.8</b>	<b>122.0</b>	<b>125.6</b>	<b>107.1</b>	<b>83.4</b>	<b>87.2</b>	<b>87.4</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>311.3</b>	<b>332.2</b>	<b>391.3</b>	<b>387.1</b>	<b>379.6</b>	<b>401.1</b>	<b>421.7</b>

Balance sheet (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>26.6 %</b>	<b>21.7 %</b>	<b>33.9 %</b>	<b>32.8 %</b>	<b>32.4 %</b>	<b>30.0 %</b>	<b>28.0 %</b>
Property, plant and equipment	40.5 %	32.5 %	37.1 %	34.8 %	32.2 %	27.9 %	24.5 %
Financial assets	0.8 %	1.0 %	1.1 %	0.9 %	1.0 %	0.9 %	0.9 %
<b>FIXED ASSETS</b>	<b>68.0 %</b>	<b>55.3 %</b>	<b>72.1 %</b>	<b>68.5 %</b>	<b>65.5 %</b>	<b>58.7 %</b>	<b>53.3 %</b>
Inventories	0.8 %	0.3 %	0.4 %	0.4 %	0.3 %	0.3 %	0.3 %
Accounts receivable	17.2 %	18.4 %	17.7 %	17.7 %	16.7 %	16.2 %	15.9 %
Other current assets	0.8 %	9.4 %	1.6 %	0.0 %	0.0 %	0.0 %	0.0 %
Liquid assets	13.3 %	14.0 %	6.2 %	9.1 %	13.0 %	20.5 %	26.5 %
Deferred taxes	0.0 %	2.6 %	2.0 %	2.7 %	2.8 %	2.6 %	2.5 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	1.7 %	1.7 %	1.6 %	1.5 %
<b>CURRENT ASSETS</b>	<b>32.0 %</b>	<b>44.7 %</b>	<b>27.9 %</b>	<b>31.5 %</b>	<b>34.5 %</b>	<b>41.3 %</b>	<b>46.7 %</b>
<b>TOTAL ASSETS</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>SHAREHOLDERS EQUITY</b>	<b>51.3 %</b>	<b>55.4 %</b>	<b>52.4 %</b>	<b>46.6 %</b>	<b>51.7 %</b>	<b>53.3 %</b>	<b>55.5 %</b>
<b>MINORITY INTEREST</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.6 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
Long-term debt	24.4 %	6.3 %	11.1 %	21.2 %	21.6 %	20.5 %	19.5 %
Provisions for pensions and similar obligations	0.2 %	0.3 %	1.4 %	1.8 %	1.9 %	1.8 %	1.7 %
Other provisions	0.7 %	1.3 %	2.5 %	2.8 %	2.8 %	2.7 %	2.6 %
<b>Non-current liabilities</b>	<b>25.3 %</b>	<b>7.9 %</b>	<b>14.9 %</b>	<b>25.8 %</b>	<b>26.3 %</b>	<b>24.9 %</b>	<b>23.8 %</b>
short-term liabilities to banks	4.8 %	3.0 %	7.2 %	6.4 %	7.0 %	7.9 %	7.3 %
Accounts payable	13.2 %	11.5 %	11.9 %	13.5 %	12.3 %	11.2 %	11.0 %
Advance payments received on orders	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other liabilities (incl. from lease and rental contracts)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Deferred taxes	1.0 %	1.2 %	1.3 %	1.4 %	1.4 %	1.3 %	1.3 %
Deferred income	4.4 %	21.0 %	11.7 %	6.3 %	1.3 %	1.3 %	1.2 %
<b>Current liabilities</b>	<b>23.4 %</b>	<b>36.7 %</b>	<b>32.1 %</b>	<b>27.7 %</b>	<b>22.0 %</b>	<b>21.7 %</b>	<b>20.7 %</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Net profit/loss	5.5	24.2	28.0	19.0	21.7	29.9	33.9
Depreciation of fixed assets (incl. leases)	32.3	19.6	31.4	35.2	34.4	33.4	32.4
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	35.6	28.0	21.8	17.7	16.1	15.6	15.5
Others	-4.5	-5.9	-4.5	-11.1	-13.8	0.1	0.1
Cash flow from operations before changes in w/c	68.9	65.9	76.7	60.8	58.5	80.0	81.9
Increase/decrease in inventory	1.3	1.3	-0.5	0.2	0.1	0.0	0.0
Increase/decrease in accounts receivable	4.3	-7.7	-8.0	1.0	5.0	-1.6	-2.0
Increase/decrease in accounts payable	-9.0	-2.9	8.6	5.8	-5.8	-1.5	1.1
Increase/decrease in other working capital positions	0.0	0.0	0.0	-6.9	0.0	0.0	0.0
Increase/decrease in working capital	-3.4	-9.3	0.0	0.1	-0.8	-3.2	-0.9
<b>Cash flow from operating activities</b>	<b>65.5</b>	<b>56.6</b>	<b>76.8</b>	<b>61.0</b>	<b>57.7</b>	<b>75.9</b>	<b>81.0</b>
CAPEX	40.3	25.1	29.1	33.2	33.8	35.9	37.0
Payments for acquisitions	0.0	0.0	57.6	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	1.4	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-40.3</b>	<b>-25.1</b>	<b>-85.3</b>	<b>-33.2</b>	<b>-33.8</b>	<b>-35.9</b>	<b>-37.0</b>
Cash flow before financing	25.2	31.5	-8.6	27.8	23.9	40.8	44.0
Increase/decrease in debt position	0.0	0.0	0.0	29.1	1.5	5.3	-0.9
Purchase of own shares	0.0	0.0	0.0	29.1	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	11.0	11.1	12.4	13.6
Others	-33.0	-26.2	-13.9	-5.8	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-33.0</b>	<b>-26.2</b>	<b>-13.9</b>	<b>-16.7</b>	<b>-9.6</b>	<b>-7.1</b>	<b>-14.5</b>
Increase/decrease in liquid assets	-7.9	5.3	-22.5	11.1	14.2	33.8	29.5
<b>Liquid assets at end of period</b>	<b>41.0</b>	<b>46.2</b>	<b>23.8</b>	<b>35.2</b>	<b>49.4</b>	<b>82.3</b>	<b>111.7</b>

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Domestic	420.5	422.1	478.1	481.5	453.6	465.4	479.4
yoy change	1.8 %	0.4 %	13.3 %	0.7 %	-5.8 %	2.6 %	3.0 %
Rest of Europe	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
NAFTA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>TTL</b>	<b>420.5</b>	<b>422.1</b>	<b>478.1</b>	<b>481.5</b>	<b>453.6</b>	<b>465.4</b>	<b>479.4</b>
yoy change	1.8 %	0.4 %	13.3 %	0.7 %	-5.8 %	2.6 %	3.0 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>P&amp;L growth analysis</b>							
Sales growth	1.8 %	0.4 %	13.3 %	0.7 %	-5.8 %	2.6 %	3.0 %
EBITDA growth	14.3 %	-11.7 %	16.1 %	-2.5 %	2.7 %	10.1 %	3.5 %
EBIT growth	59.7 %	115.9 %	25.6 %	-6.3 %	18.5 %	32.6 %	10.9 %
EPS growth	300.0 %	350.0 %	13.3 %	-25.1 %	15.2 %	37.6 %	13.3 %
<b>Efficiency</b>							
Total operating costs / sales	20.4 %	20.4 %	19.1 %	20.3 %	19.3 %	19.5 %	19.3 %
Sales per employee	582.5	641.5	366.3	324.2	293.7	289.8	632.9
EBITDA per employee	107.4	104.0	60.9	52,193.9	51,565.6	54,578.5	119,791.
<b>Balance sheet analysis</b>							
Avg. working capital / sales	3.2 %	8.0 %	8.0 %	4.3 %	3.9 %	4.2 %	4.5 %
Inventory turnover (sales/inventory)	177.3	403.9	305.9	352.7	352.7	352.7	352.7
Trade debtors in days of sales	46.5	53.0	52.9	51.8	51.0	51.0	51.0
A/P turnover [(A/P*365)/sales]	46.0	44.1	47.2	53.3	50.5	49.0	49.0
Cash conversion cycle (days)	3.2	10.2	7.3	-0.1	1.9	3.4	3.4
<b>Cash flow analysis</b>							
Free cash flow	25.2	31.5	47.6	27.8	23.9	39.9	44.0
Free cash flow/sales	6.0 %	7.5 %	10.0 %	5.8 %	5.3 %	8.6 %	9.2 %
FCF / net profit	456.3 %	130.2 %	170.2 %	147.4 %	109.7 %	133.5 %	129.8 %
FCF yield	6.1 %	7.0 %	16.6 %	7.4 %	6.4 %	10.7 %	11.8 %
Capex / deprec	59.4 %	52.8 %	54.7 %	62.7 %	67.0 %	73.3 %	77.3 %
Capex / maintenance capex	53.2 %	47.5 %	71.8 %	81.3 %	81.5 %	85.4 %	87.4 %
Capex / sales	9.6 %	6.0 %	6.1 %	6.9 %	7.5 %	7.7 %	7.7 %
<b>Security</b>							
Net debt	49.7	-15.8	47.5	71.8	59.1	31.5	1.1
Net Debt/EBITDA	0.6	0.0	0.6	0.9	0.7	0.4	0.0
Net debt / equity	0.3	-0.1	0.2	0.4	0.3	0.1	0.0
Interest cover	3.0	9.1	7.9	5.3	5.5	7.1	7.7
Dividend payout ratio	0.0 %	0.0 %	39.2 %	59.0 %	56.9 %	45.5 %	43.8 %
<b>Asset utilisation</b>							
Capital employed turnover	1.7	1.9	1.6	1.6	1.4	1.3	1.3
Operating assets turnover	3.0	3.2	2.8	3.2	3.2	3.5	3.8
Plant turnover	3.3	3.9	3.3	3.6	3.7	4.2	4.6
Inventory turnover (sales/inventory)	177.3	403.9	305.9	352.7	352.7	352.7	352.7
<b>Returns</b>							
ROCE	3.6 %	8.8 %	10.2 %	8.2 %	9.3 %	11.6 %	12.1 %
ROE	3.5 %	13.1 %	13.7 %	10.5 %	11.1 %	14.0 %	14.5 %
<b>Other</b>							
Interest paid / avg. debt	3.1 %	3.8 %	6.5 %	5.2 %	4.9 %	4.9 %	4.9 %
No. employees (average)	722	658	1305	1	2	2	1
Number of shares	137.0	137.1	137.3	123.7	123.7	123.7	123.7
DPS	0.0	0.0	0.1	0.1	0.1	0.1	0.1
EPS reported	0.04	0.18	0.20	0.15	0.18	0.24	0.27
<b>Valuation ratios</b>							
P/BV	2.6	2.3	2.0	2.1	1.9	1.7	1.6
EV/sales	1.1	0.9	1.0	0.9	1.0	0.9	0.8
EV/EBITDA	6.0	5.8	5.9	5.8	5.5	4.7	4.2
EV/EBITA	10.3	8.2	9.7	10.7	9.7	7.6	6.6
EV/EBIT	48.0	19.1	17.8	18.4	15.1	10.7	8.9
EV/FCF	18.5	12.7	9.8	16.3	18.4	10.3	8.7
Dividend yield	0.0 %	0.0 %	2.6 %	3.0 %	3.3 %	3.6 %	4.0 %

Source: Company data, Hauck & Aufhäuser

**Buy** (old: Buy)

**Price target: EUR 4.20** (old: EUR 4.20)

<b>Price:</b>	EUR 2.20	<b>Next result:</b>	Q2 2013: 06.08.13
<b>Bloomberg:</b>	SANT GR	<b>Market cap:</b>	EUR 86.5 m
<b>Reuters:</b>	SANT1.DE	<b>Enterprise Value:</b>	EUR 106.1 m

31-July-13

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## Securing the Cloud

Combining an IT service business with security appliances, **S&T generates some € 20m of sales in Cloud Computing** (6% of group sales) by implementing Private Cloud solutions for its customers (pure service; € 10m cloud-related sales) AND protecting their cloud networks from cyber attacks using its appliances (€ 10m cloud-related sales).

Evidenced by gross margins exceeding 65% (versus 35% group average), **appliances offer highest competitive quality** and should become the key value driver going forward. Here, S&T has a **tight focus on niche applications** for SMEs which prevents competition to heavyweights like Check Point. **Differentiation** from smaller or equal-sized rivals is driven by:

- **Partnerships with leading security software and hardware makers** (e.g. Microsoft) which ensure access to latest innovations.
- **Know-how in engineering** providing value-add through customisation of the (third-party) security software for the respective end-markets (10-15% is own development).
- **Strong distribution channels** including e.g. Siemens and S&T's broad system house network in Eastern Europe granting access to a large base of SMEs.

As more and more SMEs are considering moving into the cloud but feel uneasy about data safety, **S&T is in the right spot at the right time** to achieve sales growth of 4% p.a. (2012-15E) driven by expected healthy double-digit appliances market growth, cross-selling opportunities (in Eastern Europe) and the entry into new markets (e.g. medical) – offset only by the discontinuation of low-margin hardware business.

Meanwhile, € 3m annual cost savings stemming from the legal merger between Quanmax and S&T and the mix shift towards high-margin appliances should drive disproportionate EBIT growth of 22% p.a. in the same time frame.

Despite evidence to the contrary, the capital market yet doubts the success of the merger between S&T and Quanmax **explaining the large discount to the fair value**: A FCFY model points to a price target of € 4.20 based on 2013E estimates. The expected good operating performance in 2013E (guidance: "12m net income before minorities") should help establish a track record and initiate a re-rating. **BUY**.

Y/E 31.12 (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Sales	59.9	80.7	153.2	339.5	351.0	369.0	381.0
Sales growth	112 %	35 %	90 %	122 %	3 %	5 %	3 %
EBITDA	2.6	4.6	12.3	16.6	21.3	25.0	27.5
EBIT	1.8	3.2	9.5	11.1	15.0	18.3	20.2
Net income	3.3	3.8	6.9	7.7	11.6	14.5	16.4
Net debt	-9.3	-2.1	27.5	19.4	16.5	9.1	-1.2
Net gearing	-51.0 %	-6.5 %	56.0 %	31.4 %	22.8 %	10.6 %	-1.2 %
Net Debt/EBITDA	0.0	0.0	2.2	1.2	0.8	0.4	0.0
EPS fully diluted	0.39	0.19	0.29	0.20	0.29	0.37	0.42
CPS	0.04	-0.20	-0.09	0.16	0.10	0.21	0.29
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Gross profit margin	18.1 %	24.6 %	29.9 %	34.4 %	35.7 %	36.2 %	36.4 %
EBITDA margin	4.3 %	5.6 %	8.0 %	4.9 %	6.1 %	6.8 %	7.2 %
EBIT margin	3.0 %	4.0 %	6.2 %	3.3 %	4.3 %	4.9 %	5.3 %
ROCE	8.1 %	8.4 %	10.2 %	8.3 %	10.7 %	11.9 %	11.9 %
EV/sales	0.2	0.5	0.6	0.3	0.3	0.3	0.2
EV/EBITDA	3.9	9.3	6.9	6.6	5.0	4.0	3.2
EV/EBIT	5.5	13.1	8.9	9.8	7.1	5.4	4.4
PER	5.6	11.5	7.5	11.2	7.5	6.0	5.3
Adjusted FCF yield	37.2 %	11.8 %	10.2 %	9.6 %	13.4 %	17.2 %	21.6 %

Source: Company data, Hauck & Aufhäuser Close price as of: 30.07.2013



Source: Company data, Hauck & Aufhäuser

**High/low 52 weeks:** 2.72 / 2.00  
**Price/Book Ratio:** 1.2  
**Relative performance (TecDAX):**  
 3 months -3.7 %  
 6 months -16.4 %  
 12 months -32.1 %

### Changes in estimates

		Sales	EBIT	EPS
2013	<b>old:</b>	351.0	15.0	0.29
	$\Delta$	-	-	-
2014	<b>old:</b>	369.0	18.3	0.37
	$\Delta$	-	-	-
2015	<b>old:</b>	381.0	20.2	0.42
	$\Delta$	-	-	-

### Key share data:

Number of shares: (in m pcs) 39.3  
 Authorised capital: (in € m) 12.1  
 Book value per share: (in €) 1.8  
 Ø trading volume: (12 months) 60,000

### Major shareholders:

Free Float 47.3 %  
 Quanmax Inc. 32.3 %  
 Grosso 20.4 %

### Company description:

S&T combines an IT system house business with a portfolio of security appliances targeting Cloud Computing applications.

## Exposure to Cloud Computing

**S&T is an expert for security appliances** ('13E: € 50m of sales or 14% of sales BUT 47% of net income before minorities) which may be used to protect cloud networks from unauthorised access. Combining hardware (e.g. CPU, memory) and software (e.g. firewall, anti-virus), an appliance is a box exclusively dedicated to one task – **in this case security**:

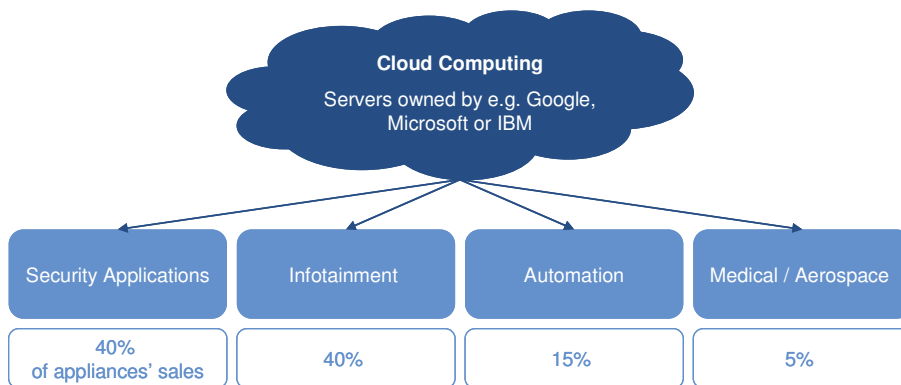
**Situated at the client's premises**, S&T's appliances scramble the data transmitted between the client and the cloud and report back in cases of unauthorised data access.

While S&T's appliances may serve to protect cloud networks they are also used to secure regular computer networks: **Cloud-related appliances sales amounted to € 10m in 2012 or 27% of segment sales**. Applications include:

- In industrial automation, IP-based welding robots connected to cloud servers may be protected from third-party access (i.e. to prevent sabotage).
- In general security applications, small- and mid-sized enterprises (e.g. lawyer's offices) may use S&T's appliances to protect their cloud access.
- In medical applications, health insurance companies are urging doctors to move patients' x-rays and other information into the Cloud to make it accessible to other doctors treating the same patient. Appliances may serve to protect this sensible information stored in the cloud.

S&T's appliances cost € 3,000 on average – one-half is an up-front payment, the other half a maintenance fee payable per year over the average three-year contract period. In return, S&T provides remote maintenance services and automatic software updates. As such, **c. 50% of appliances revenues are recurring**.




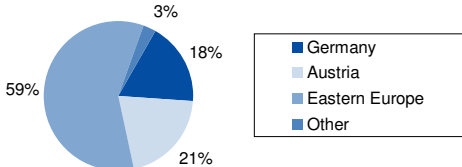
### S&T: Protecting Cloud Computing networks with security appliances



Source: Company data

S&T combines its portfolio of security appliances with an **IT System House business** ('13E: € 205m sales / 58% of sales / 45% of net income): It provides customers in 14 Eastern European countries with the full range of IT hardware and services **including the implementation of Private Clouds** – cloud-related service sales amounted to € 10m (5% of segment sales) in 2012.

In total, **cloud sales add up to some € 20m or 6% of group sales**: € 10m accrue to the appliances segment and € 10m to IT Solutions.

	Appliances	IT Solutions	Products	Group
Explanation	 <p>This segment comprises S&amp;T's <b>appliances which may be used to protect cloud networks from unwanted traffic</b>. To this end, they combine hardware with software including firewall, anti-virus and spam filter functionality. S&amp;T sells a broad range of appliances ranging from cost-attractive low-end solutions to high-performance high-end products. Key end-markets: Security, Infotainment, Industrial Automation, Medical.</p>	 <p>S&amp;T offers the <b>full range of IT services</b> to Eastern European customers including consulting, integration and outsourcing as well as IT hardware.</p> <p>S&amp;T is also helping customers <b>implement Private Cloud solutions</b> e.g. it has recently installed a cloud for retailer Mercator in Croatia.</p>		
	<p><b>S&amp;T generates € 20m cloud-related sales in total in the Appliances and IT Solutions segments</b></p> <p>Cloud sales ('12): € 10m / 27% of segment sales</p> <p>Cloud sales ('12): € 10m / 5% of segment sales</p>			€ 20m
<b>Segment sales 12 (€ m)</b>	37.4	214.5	87.6	<b>340</b>
<b>Sales share</b>	11%	63%	26%	100%
<b>Market positions</b>	<b>Niche player</b> active in Germany, Switzerland, Austria and Eastern Europe.	In this segment, S&T is <b>only</b> active in Eastern Europe where it is one of the leading IT system houses.	IT Products are sold as an add-on to IT Services.	
<b>Customers</b>	S&T serves more than 3,000 customers in Germany, Austria, Switzerland and Eastern Europe. <b>The 10 largest customers account for &lt;20% of sales</b> and include e.g. O2, Siemens and Erste Bank. The largest customer explained c. 4% of sales.			
<b>Competitors</b>	Check Point, SonicWALL, Barracuda Networks and others.	Small regionally active system houses in Eastern Europe are key rivals - Larger players like IBM and HP address mainly big Blue Chip clients.		
<b>Raw Materials</b>	Hardware components including e.g. CPU, memory, and hard drives as well as software such as Microsoft TMG.	IT hardware including personal computers, servers, notebooks and periphery.		
<b>Suppliers</b>	Microsoft, IKARUS, PointSharp, Intel, Art of Defence, Microdasys, Oracle, HP, IBM, SAP, NVIDIA, EMC, Cisco, Dell and others.			
<b>Sales distribution by region (12)</b>				
<b>Production sites</b>	S&T is responsible for assembling the appliances and adding third-party and proprietary software. Partly, the company relies on external assembly partners such as Pyramid GmbH.			
<b>Gross Profit 12 (€ m)</b>	25	83	8	<b>117</b>
<b>Gross margin</b>	68%	39%	9%	<b>34%</b>

Source: Company data, Hauck & Aufhäuser

## Competitive Quality

As enterprises are considering moving into the cloud and as cyber attacks escalate in frequency and sophistication, **data security has become a central issue for many companies**. Compared to simply installing stand-alone security software, appliances made by S&T offer **substantial advantages**:

- They run **more robustly** and are **independent** – they operate even when the PC shuts down.
- They offer **better performance**: With the appliance dedicated to one task only, it may offer 500x the speed of a common desktop PC.
- They are **customised** to the specific end-market's needs while combining various security software solutions to provide for comprehensive protection.

**S&T exclusively targets niche markets** largely unattractive to heavyweights like Check Point Software or Microsoft. For instance, industrial automation offers a volume of merely € 20-30m p.a. in Europe: A customer would need no more than a € 3,000 solution from S&T to protect € 1m worth of welding robots. In contrast, Check Point's solutions start at c. € 50,000.

What is more, unlike the solutions of rival Check Point, S&T's appliances are **real time capable**: For instance, in industrial automation information has to pass the firewall within 5 milliseconds while in office applications it may take up to 15 minutes. S&T invested 300 man-years to satisfy the real-time requirements of its target markets, **which together with their niche size erects some market entry barriers**.

Accordingly, competition exists mainly in the form of small or equal-sized rivals **from which S&T achieves some differentiation thanks to**:

- **Partnerships with leading security software and hardware makers** including above all Microsoft but also Art of Defence and Intel, ensuring that S&T has access to latest innovations.
- **Know-how in engineering** supplied by 200 R&D engineers – Receiving the source code from Microsoft for e.g. Threat Management Gateway, S&T provides value-add by customising the security software for the end-markets (10-15% is own development) and engineering complete modules to perfectly align the hardware's capability with the software's requirements.
- **Strong distribution channels** which include e.g. Siemens and Lufthansa Systems as well as S&T's proprietary and broad system house network in Eastern Europe granting access to a large base of SMEs.

**Customer perception and value** is underpinned by the appliances' strong gross margins of 65%, S&T's leading market shares in its niches (e.g. 60% in infotainment) and healthy **renewal quotes of 99%** following expiration of the typical three-year contracts.

With disproportionate growth in security appliances expected going forward, **sound competitive quality should more and more yield improving business quality** given the appliances' high gross margins and 50% recurring revenues.

## Growth

S&T: Top-line trend 2009-15E								
	2009	2010	2011*	2012*	2013E	2014E	2015E	CAGR 12-15E
<b>Sales</b>	<b>59.9</b>	<b>80.7</b>	<b>153.2</b>	<b>339.5</b>	<b>351.0</b>	<b>369.0</b>	<b>381.0</b>	<b>4%</b>
y-o-y	112%	35%	90%	122%	3%	5%	3%	
<b>Appliances</b>		<b>12.5</b>	<b>27.7</b>	<b>37.4</b>	<b>50.0</b>	<b>62.3</b>	<b>75.0</b>	<b>26%</b>
y-o-y			122%	35%	34%	25%	20%	
in % of sales		15%	18%	11%	14%	17%	20%	
<b>Solutions</b>			<b>51.3</b>	<b>214.5</b>	<b>205.0</b>	<b>203.0</b>	<b>201.0</b>	<b>-2%</b>
y-o-y			-	318%	-4%	-1%	-1%	
in % of sales			33%	63%	58%	55%	53%	
<b>Products</b>	<b>59.9</b>	<b>68.2</b>	<b>74.2</b>	<b>87.6</b>	<b>96.0</b>	<b>103.7</b>	<b>105.0</b>	<b>6%</b>
y-o-y	112%	14%	9%	18%	10%	8%	1%	
in % of sales	100%	84%	48%	26%	27%	28%	28%	

Source: Company data, Hauck & Aufhäuser. \*Note: Growth in 2011 and 2012 boosted by merger between Quanmax and S&T.

While overall group sales growth should be anemic given that S&T looks set to scale back low-margin service and hardware sales, **appliances revenues are expected to show dynamic sales growth of 26% p.a. from c. € 37m in '12 to € 75m by '15E**. Note that our expectations are below management's target of reaching € 150m sales with appliances within the next five years which may however include acquisitions.

### Key growth drivers:

- **Healthy market dynamics.** While only 5% of today's installed base of welding robots relies on appliances for protection from cyber attacks, nearly 100% of newly installed robots are secured this way. The reason: Only four years ago no welding robot had an IP address – today, almost every robot installed is equipped with one in an effort to integrate supply chains to e.g. enable just in time delivery. As this makes robots vulnerable to cyber attacks (e.g. to sabotage production), security appliances are in high demand.

While this is just one example, **the trend is valid across S&T's markets:** As the "internet of things" is becoming a reality and more and more companies are moving into the cloud, cyber attacks keep escalating in frequency and sophistication: Security has hence become a critical issue **driving double-digit market growth for security appliances** going forward, in our view.

- **New distribution partners and cross-selling.** S&T is looking for new distribution partners targeting small- and mid-sized enterprises: CANCOM and Bechtle come to mind which would provide S&T with access to several thousand customers from the German Mittelstand. Also, next to major partner Siemens, S&T may be signing new distribution partners for its "Industrial Automation" end-market. Finally, S&T is still in the process of leveraging its Eastern European system house network as a distribution platform for its appliances.
- **Entry into new end-markets.** S&T is in advanced discussions with a leading Austrian hospital carrier which is expected to become a distribution partner in the fairly new end-market Medical. According to management, medical appliances offer a € 20m annual revenue opportunity and should start contributing to S&T's top-line in 2013E. Lufthansa Systems is a new distribution partner for the aerospace market where S&T's appliances will be used to protect WLAN networks – a new trend in airplanes.

<b>S&amp;T: Bottom-line trend 2009-15E</b>							
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Gross Profit</b>	<b>10.8</b>	<b>20.0</b>	<b>46.0</b>	<b>117.0</b>	<b>125.6</b>	<b>133.9</b>	<b>138.9</b>
Gross Margin	18.1%	24.7%	30.0%	34.5%	35.8%	36.3%	36.5%
<b>Appliances</b>	<b>n/a</b>	<b>9.1</b>	<b>17.7</b>	<b>25.3</b>	<b>34.3</b>	<b>41.7</b>	<b>48.8</b>
Gross Margin	n/a	73.1%	63.9%	67.7%	68.5%	67.0%	65.0%
<b>Solutions</b>	<b>n/a</b>	<b>n/a</b>	<b>16.7</b>	<b>83.5</b>	<b>78.9</b>	<b>78.2</b>	<b>77.4</b>
Gross Margin	n/a	n/a	32.5%	38.9%	38.5%	38.5%	38.5%
<b>Products</b>	<b>10.8</b>	<b>10.5</b>	<b>10.9</b>	<b>7.8</b>	<b>12.4</b>	<b>14.0</b>	<b>12.8</b>
Gross Margin	18.0%	15.4%	14.7%	8.9%	12.9%	13.5%	12.2%
<b>Personnel expenses</b>	<b>4.0</b>	<b>8.1</b>	<b>23.4</b>	<b>71.9</b>	<b>72.3</b>	<b>76.3</b>	<b>78.1</b>
in % of sales	6.6%	10.0%	15.3%	21.2%	20.6%	20.7%	20.5%
<b>Other operating expenses</b>	<b>4.5</b>	<b>7.6</b>	<b>15.6</b>	<b>34.9</b>	<b>35.3</b>	<b>36.2</b>	<b>37.1</b>
in % of sales	7.5%	9.5%	10.2%	10.3%	10.1%	9.8%	9.7%
<b>Other operating income</b>	<b>0.2</b>	<b>0.3</b>	<b>5.2</b>	<b>6.4</b>	<b>3.3</b>	<b>3.6</b>	<b>3.8</b>
in % of sales	0.3%	0.3%	3.4%	1.9%	0.9%	1.0%	1.0%
<b>Depreciation</b>	<b>0.8</b>	<b>1.3</b>	<b>2.8</b>	<b>5.4</b>	<b>6.3</b>	<b>6.8</b>	<b>7.3</b>
in % of sales	1.3%	1.6%	1.8%	1.6%	1.8%	1.8%	1.9%
<b>EBIT</b>	<b>1.8</b>	<b>3.2</b>	<b>9.5</b>	<b>11.1</b>	<b>15.0</b>	<b>18.3</b>	<b>20.2</b>
EBIT margin	3.0%	4.0%	6.2%	3.3%	4.3%	4.9%	5.3%
<b>Net income before minorities</b>	<b>3.3</b>	<b>4.0</b>	<b>8.2</b>	<b>9.4</b>	<b>12.6</b>	<b>15.6</b>	<b>17.6</b>
Net margin	5.4%	5.0%	5.3%	2.8%	3.6%	4.2%	4.6%
<b>Appliances</b>	<b>n/a</b>	<b>1.2</b>	<b>4.5</b>	<b>3.9</b>	<b>5.9</b>	<b>8.1</b>	<b>10.3</b>
Net margin	n/a	9.7%	16.2%	10.4%	11.8%	13.0%	13.7%
<b>Solutions</b>	<b>n/a</b>	<b>n/a</b>	<b>2.3</b>	<b>6.2</b>	<b>5.7</b>	<b>6.1</b>	<b>6.2</b>
Net margin	n/a	n/a	4.5%	2.9%	2.8%	3.0%	3.1%
<b>Products</b>	<b>3.3</b>	<b>2.8</b>	<b>1.5</b>	<b>-0.7</b>	<b>1.0</b>	<b>1.4</b>	<b>1.1</b>
Net margin	5.4%	4.1%	2.0%	-0.7%	1.0%	1.4%	1.0%
<b>Minorities</b>	<b>0</b>	<b>0.3</b>	<b>1.3</b>	<b>1.7</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>
in % of sales	0.0%	0.3%	0.8%	0.5%	0.3%	0.3%	0.3%
<b>Net income after minorities</b>	<b>3.3</b>	<b>3.8</b>	<b>6.9</b>	<b>7.7</b>	<b>11.6</b>	<b>14.5</b>	<b>16.4</b>
Net margin	5.4%	4.7%	4.5%	2.3%	3.3%	3.9%	4.3%

Source: Company data, Hauck & Aufhäuser

**EBIT is expected to rise strongly disproportionately to sales by 22% p.a. between 2012 and 2015E** mainly driven by:

- **Cost savings** – S&T expects to generate € 3m annual cost savings from the merger between S&T and Quanmax (executed in Dec. 2012) stemming from e.g. the de-listing of “old” S&T (Vienna Stock Exchange) and the elimination of double positions (S&T management, supervisory board etc.). In 2013E the expected cost savings should only be offset by c. € 1m one-off expenses relating to the merger.
- **Entry into Russian infotainment market** – Paying a total of € 4m, S&T has recently acquired a customer base and distribution rights in Russia for its infotainment appliances. It expects to generate high-margin revenue: € 0.7m sales this year should throw off € 0.5m EBIT in 2013E (c. 70% margin); in 2014E it targets € 1.5m sales in Russia at an EBIT of € 1.1m (c. 70% margin). The expected high profitability comes from the fact that the business in Russia should involve mainly software.
- **Sales mix** – While offering strong gross margins of 65%+, appliances look set to increase their share in total group revenues from 11% in 2012 to 20% in 2015E, in our view. This should benefit overall gross margins which are seen up by 2pp to 36.5% by 2015E. Note that S&T plans to raise gross margins even to 40% by 2015E (not reflected in our estimates).

**Net income after minorities is seen to increase by 28% p.a. between 2012 and 2015E** benefitting from the reduction of minority interest through the merger between S&T and Quanmax as well as more than € 100m loss carry forwards which should ensure a low tax rate of some 10% going forward.

## Valuation

- **The FCFY results in a price target of € 4.20 based on FCFY 2013E.**  
2014E would indicate an even higher fair value of € 5.30 benefitting from rising profitability AND deleveraging (i.e. debt reduction).

FCF yield, year end Dec. 31	2012	2013E	2014E	2015E	
<b>Sales</b>	<b>339.5</b>	<b>351.0</b>	<b>369.0</b>	<b>381.0</b>	
Actual EV/sales	0.3x	0.3x	0.3x	0.2x	
Hurdle rate	7.5%	7.5%	7.5%	7.5%	
FCF margin	3.0%	3.9%	4.4%	4.8%	
Fair EV/sales	0.4x	0.5x	0.6x	0.6x	
<b>Fair EV</b>	<b>133.9</b>	<b>182.7</b>	<b>217.6</b>	<b>243.5</b>	
- EV Reconciliations	18.6	15.8	8.4	-1.9	
<b>Fair Market Cap</b>	<b>115.3</b>	<b>167.0</b>	<b>209.1</b>	<b>245.4</b>	
No. of shares (million)	39.3	39.3	39.3	39.3	
<b>Fair value per share</b>	<b>2.9</b>	<b>4.2</b>	<b>5.3</b>	<b>6.2</b>	
<b>Premium (-) / discount (+) in %</b>	<b>33%</b>	<b>93%</b>	<b>142%</b>	<b>184%</b>	
<b>Sensitivity analysis fair value</b>					
	7.5%	2.9	4.2	5.3	6.2
<b>Hurdle rate</b>	10.0%	2.1	3.1	3.9	4.7
	12.5%	1.6	2.4	3.1	3.8
	15.0%	1.2	1.9	2.6	3.1

Source: Company data, Hauck & Aufhäuser

- **The DCF model yields a fair value of € 4.70.** Key assumptions include a 2.0% long-term growth rate, a 5.5% terminal year EBIT margin (vs. 3.3% in 2012), a beta of 1.20 and 8.0% WACC.

Sensitivity analysis DCF						Sensitivity analysis DCF							
		Long term growth							EBIT margin terminal year				
		0%	1.0%	2.0%	2.5%	3.0%			3.5%	4.5%	5.5%	6.5%	7.5%
WACC	10.0%	3.0	3.2	3.5	3.6	3.8	WACC	10.0%	2.5	3.0	3.5	4.0	4.5
	9.0%	3.3	3.6	4.0	4.2	4.5		9.0%	2.8	3.4	4.0	4.6	5.2
	8.0%	3.8	4.2	4.7	5.1	5.5		8.0%	3.2	3.9	4.7	5.5	6.3
	7.0%	4.4	5.0	5.8	6.3	7.0		7.0%	3.8	4.8	5.8	6.8	7.8
	6.0%	5.3	6.1	7.4	8.3	9.6		6.0%	4.7	6.0	7.4	8.8	10.1

Source: Company data, Hauck & Aufhäuser

## Sentiment and catalysts

- Following the merger between the “old” S&T and Quanmax in December 2012 and the related capital increase, the market cap has increased to almost € 90m and the corporate structure has become much simpler (previously Quanmax fully consolidated S&T while owning only c. 40%) resulting in the reduction of minority interest which amounted to 18% of net income in 2012. **This is expected to improve the attractiveness of the equity story to investors.**
- **Management remains highly involved in the company with their personal assets.** This is nicely underpinned by CEO Niederhauser, founder of S&T and former mastermind behind Kontron’s rise in the 2000s, who holds some 20% of S&T (directly and indirectly) and does not earn a salary – a strong evidence of management’s conviction.
- With a 32% equity ratio and interest-bearing liabilities of € 49m, S&T’s balance sheet quality is yet a concern for many investors – **but this should improve going forward.** Already in 2012, S&T generated better-than-expected FCF of € 7.5m while reducing gross debt by some € 8m. In 2013E, **management guides for FCF of € 6m+**, ahead of our current expectations of € 3m.

Overall, **S&T is yet trading at a massive discount to its fair value** – we think this is due to (1) Investors yet remaining sceptical whether the merger between S&T and Quanmax has been successfully concluded; (2) The leveraged balance sheet; (3) Some forced selling of holdings of the “old” S&T (i.e. prior to the merger) – there have been rumours that a former private shareholder had to file for insolvency and liquidate his shareholdings.

In our view, S&T needs to establish a **track record showing sustainable profitability** (especially of its IT Solutions segment which is the “old” S&T) to obtain the confidence of investors – this may take several quarters. Until then, FCF generation AND the conclusion of the selling of “old” S&T shareholders should also eliminate or at least alleviate the other two burdening factors mentioned above.

## Financials

Profit and loss (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Net sales</b>	<b>59.9</b>	<b>80.7</b>	<b>153.2</b>	<b>339.5</b>	<b>351.0</b>	<b>369.0</b>	<b>381.0</b>
Sales growth	112.1 %	34.8 %	89.9 %	121.5 %	3.4 %	5.1 %	3.3 %
Increase/decrease in finished goods and work-in-process	0.0	0.3	0.7	0.3	0.8	0.9	0.9
<b>Total sales</b>	<b>59.9</b>	<b>81.1</b>	<b>153.9</b>	<b>339.8</b>	<b>351.8</b>	<b>369.9</b>	<b>381.9</b>
Other operating income	0.2	0.3	5.2	6.4	3.3	3.6	3.8
Material expenses	49.0	61.1	108.0	222.9	226.2	236.0	243.0
Personnel expenses	4.0	8.1	23.4	71.9	72.3	76.3	78.1
Other operating expenses	4.5	7.6	15.6	34.9	35.3	36.2	37.1
Total operating expenses	57.3	76.5	141.7	323.3	330.5	344.9	354.4
<b>EBITDA</b>	<b>2.6</b>	<b>4.6</b>	<b>12.3</b>	<b>16.6</b>	<b>21.3</b>	<b>25.0</b>	<b>27.5</b>
Depreciation	0.2	0.3	1.1	2.7	3.2	3.5	3.9
<b>EBITA</b>	<b>2.4</b>	<b>4.2</b>	<b>11.1</b>	<b>13.8</b>	<b>18.1</b>	<b>21.5</b>	<b>23.6</b>
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.6	1.0	1.6	2.7	3.1	3.3	3.4
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>1.8</b>	<b>3.2</b>	<b>9.5</b>	<b>11.1</b>	<b>15.0</b>	<b>18.3</b>	<b>20.2</b>
Interest income	0.1	0.0	0.3	0.6	0.8	0.9	1.1
Interest expenses	0.5	0.4	1.3	2.0	1.8	1.8	1.8
Other financial result	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	-0.4	-0.4	-1.0	-1.4	-1.0	-0.9	-0.7
<b>Recurring pretax income from continuing operations</b>	<b>1.4</b>	<b>2.8</b>	<b>8.5</b>	<b>9.8</b>	<b>14.0</b>	<b>17.3</b>	<b>19.5</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>1.4</b>	<b>2.8</b>	<b>8.5</b>	<b>9.8</b>	<b>14.0</b>	<b>17.3</b>	<b>19.5</b>
Taxes	-1.9	-1.2	0.3	0.3	1.4	1.7	2.0
<b>Net income from continuing operations</b>	<b>3.3</b>	<b>4.0</b>	<b>8.2</b>	<b>9.4</b>	<b>12.6</b>	<b>15.6</b>	<b>17.6</b>
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>3.3</b>	<b>4.0</b>	<b>8.2</b>	<b>9.4</b>	<b>12.6</b>	<b>15.6</b>	<b>17.6</b>
Minority interest	0.0	0.3	1.3	1.7	1.0	1.2	1.2
<b>Net income (net of minority interest)</b>	<b>3.3</b>	<b>3.8</b>	<b>6.9</b>	<b>7.7</b>	<b>11.6</b>	<b>14.5</b>	<b>16.4</b>
Average number of shares	8.3	19.6	23.5	28.3	39.3	39.3	39.3
<b>EPS reported</b>	<b>0.39</b>	<b>0.19</b>	<b>0.29</b>	<b>0.27</b>	<b>0.29</b>	<b>0.37</b>	<b>0.42</b>

Profit and loss (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Net sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Increase/decrease in finished goods and work-in-process	0.0 %	0.4 %	0.5 %	0.1 %	0.2 %	0.2 %	0.2 %
<b>Total sales</b>	<b>100.0 %</b>	<b>100.4 %</b>	<b>100.5 %</b>	<b>100.1 %</b>	<b>100.2 %</b>	<b>100.2 %</b>	<b>100.2 %</b>
Other operating income	0.3 %	0.3 %	3.4 %	1.9 %	0.9 %	1.0 %	1.0 %
Material expenses	81.9 %	75.7 %	70.5 %	65.6 %	64.4 %	64.0 %	63.8 %
Personnel expenses	6.6 %	10.0 %	15.3 %	21.2 %	20.6 %	20.7 %	20.5 %
Other operating expenses	7.5 %	9.5 %	10.2 %	10.3 %	10.1 %	9.8 %	9.7 %
Total operating expenses	95.7 %	94.8 %	92.5 %	95.2 %	94.2 %	93.5 %	93.0 %
<b>EBITDA</b>	<b>4.3 %</b>	<b>5.6 %</b>	<b>8.0 %</b>	<b>4.9 %</b>	<b>6.1 %</b>	<b>6.8 %</b>	<b>7.2 %</b>
Depreciation	0.3 %	0.4 %	0.7 %	0.8 %	0.9 %	0.9 %	1.0 %
<b>EBITA</b>	<b>3.9 %</b>	<b>5.2 %</b>	<b>7.2 %</b>	<b>4.1 %</b>	<b>5.2 %</b>	<b>5.8 %</b>	<b>6.2 %</b>
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	1.0 %	1.2 %	1.1 %	0.8 %	0.9 %	0.9 %	0.9 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>3.0 %</b>	<b>4.0 %</b>	<b>6.2 %</b>	<b>3.3 %</b>	<b>4.3 %</b>	<b>4.9 %</b>	<b>5.3 %</b>
Interest income	0.2 %	0.0 %	0.2 %	0.2 %	0.2 %	0.2 %	0.3 %
Interest expenses	0.9 %	0.5 %	0.8 %	0.6 %	0.5 %	0.5 %	0.5 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	-0.7 %	-0.5 %	-0.7 %	-0.4 %	-0.3 %	-0.2 %	-0.2 %
<b>Recurring pretax income from continuing operations</b>	<b>2.3 %</b>	<b>3.5 %</b>	<b>5.5 %</b>	<b>2.9 %</b>	<b>4.0 %</b>	<b>4.7 %</b>	<b>5.1 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Earnings before taxes</b>	<b>2.3 %</b>	<b>3.5 %</b>	<b>5.5 %</b>	<b>2.9 %</b>	<b>4.0 %</b>	<b>4.7 %</b>	<b>5.1 %</b>
Tax rate	-138.5 %	-42.7 %	3.4 %	3.4 %	10.0 %	10.0 %	10.0 %
<b>Net income from continuing operations</b>	<b>5.4 %</b>	<b>5.0 %</b>	<b>5.3 %</b>	<b>2.8 %</b>	<b>3.6 %</b>	<b>4.2 %</b>	<b>4.6 %</b>
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>5.4 %</b>	<b>5.0 %</b>	<b>5.3 %</b>	<b>2.8 %</b>	<b>3.6 %</b>	<b>4.2 %</b>	<b>4.6 %</b>
Minority interest	0.0 %	0.3 %	0.8 %	0.5 %	0.3 %	0.3 %	0.3 %
<b>Net income (net of minority interest)</b>	<b>5.4 %</b>	<b>4.7 %</b>	<b>4.5 %</b>	<b>2.3 %</b>	<b>3.3 %</b>	<b>3.9 %</b>	<b>4.3 %</b>

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>10.1</b>	<b>20.6</b>	<b>40.9</b>	<b>39.7</b>	<b>38.7</b>	<b>37.8</b>	<b>36.9</b>
Property, plant and equipment	2.2	2.7	11.1	9.9	10.7	11.6	12.3
Financial assets	0.0	0.1	4.4	3.8	3.8	3.8	3.8
<b>FIXED ASSETS</b>	<b>12.3</b>	<b>23.4</b>	<b>56.4</b>	<b>53.4</b>	<b>53.2</b>	<b>53.3</b>	<b>53.0</b>
Inventories	5.4	13.2	20.6	23.4	26.0	27.3	28.2
Accounts receivable	3.1	8.9	85.0	81.9	91.4	101.1	109.6
Other current assets	0.8	1.2	25.9	15.4	16.2	16.8	17.2
Liquid assets	15.8	15.2	29.9	29.9	32.8	40.2	50.6
Deferred taxes	1.7	2.9	9.2	9.9	9.9	9.9	9.9
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT ASSETS</b>	<b>26.8</b>	<b>41.4</b>	<b>170.6</b>	<b>160.5</b>	<b>176.2</b>	<b>195.3</b>	<b>215.5</b>
<b>TOTAL ASSETS</b>	<b>39.1</b>	<b>64.8</b>	<b>227.0</b>	<b>214.0</b>	<b>229.5</b>	<b>248.6</b>	<b>268.5</b>
SHAREHOLDERS EQUITY	18.1	32.8	49.2	61.8	72.5	85.9	101.3
MINORITY INTEREST	0.0	0.6	5.4	2.2	3.2	4.3	5.5
Long-term debt	3.0	9.9	23.3	11.5	26.5	26.5	26.5
Provisions for pensions and similar obligations	0.9	1.2	5.4	3.0	3.1	3.1	3.1
Other provisions	1.3	2.7	18.4	17.2	18.0	18.9	19.5
<b>Non-current liabilities</b>	<b>5.2</b>	<b>13.8</b>	<b>47.0</b>	<b>31.7</b>	<b>47.6</b>	<b>48.6</b>	<b>49.2</b>
short-term liabilities to banks	3.5	3.1	34.2	37.8	22.8	22.8	22.8
Accounts payable	6.1	11.3	60.6	53.7	55.8	58.6	60.5
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	6.2	3.3	29.4	25.6	26.3	27.1	27.9
Deferred taxes	0.0	0.0	1.4	1.2	1.2	1.2	1.2
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current liabilities</b>	<b>15.8</b>	<b>17.7</b>	<b>125.5</b>	<b>118.3</b>	<b>106.1</b>	<b>109.8</b>	<b>112.5</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>39.1</b>	<b>64.8</b>	<b>227.0</b>	<b>214.0</b>	<b>229.5</b>	<b>248.6</b>	<b>268.5</b>

Balance sheet (common size)	2009	2010	2011	2012	2013E	2014E	2015E
<b>Intangible assets</b>	<b>25.8 %</b>	<b>31.8 %</b>	<b>18.0 %</b>	<b>18.6 %</b>	<b>16.9 %</b>	<b>15.2 %</b>	<b>13.8 %</b>
Property, plant and equipment	5.7 %	4.2 %	4.9 %	4.6 %	4.7 %	4.7 %	4.6 %
Financial assets	0.0 %	0.1 %	2.0 %	1.8 %	1.7 %	1.5 %	1.4 %
<b>FIXED ASSETS</b>	<b>31.5 %</b>	<b>36.2 %</b>	<b>24.9 %</b>	<b>25.0 %</b>	<b>23.2 %</b>	<b>21.4 %</b>	<b>19.7 %</b>
Inventories	13.9 %	20.4 %	9.1 %	10.9 %	11.3 %	11.0 %	10.5 %
Accounts receivable	7.9 %	13.8 %	37.5 %	38.3 %	39.8 %	40.7 %	40.8 %
Other current assets	2.1 %	1.8 %	11.4 %	7.2 %	7.0 %	6.8 %	6.4 %
Liquid assets	40.3 %	23.4 %	13.2 %	14.0 %	14.3 %	16.2 %	18.8 %
Deferred taxes	4.3 %	4.4 %	4.0 %	4.6 %	4.3 %	4.0 %	3.7 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>CURRENT ASSETS</b>	<b>68.5 %</b>	<b>63.8 %</b>	<b>75.1 %</b>	<b>75.0 %</b>	<b>76.8 %</b>	<b>78.6 %</b>	<b>80.3 %</b>
<b>TOTAL ASSETS</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
SHAREHOLDERS EQUITY	46.4 %	50.6 %	21.7 %	28.9 %	31.6 %	34.6 %	37.7 %
MINORITY INTEREST	0.0 %	0.9 %	2.4 %	1.0 %	1.4 %	1.7 %	2.1 %
Long-term debt	7.7 %	15.3 %	10.2 %	5.4 %	11.6 %	10.7 %	9.9 %
Provisions for pensions and similar obligations	2.2 %	1.8 %	2.4 %	1.4 %	1.3 %	1.3 %	1.2 %
Other provisions	3.4 %	4.2 %	8.1 %	8.0 %	7.9 %	7.6 %	7.3 %
<b>Non-current liabilities</b>	<b>13.3 %</b>	<b>21.2 %</b>	<b>20.7 %</b>	<b>14.8 %</b>	<b>20.8 %</b>	<b>19.5 %</b>	<b>18.3 %</b>
short-term liabilities to banks	9.0 %	4.8 %	15.1 %	17.7 %	9.9 %	9.2 %	8.5 %
Accounts payable	15.6 %	17.4 %	26.7 %	25.1 %	24.3 %	23.6 %	22.5 %
Advance payments received on orders	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other liabilities (incl. from lease and rental contracts)	15.8 %	5.0 %	12.9 %	11.9 %	11.5 %	10.9 %	10.4 %
Deferred taxes	0.0 %	0.0 %	0.6 %	0.6 %	0.5 %	0.5 %	0.4 %
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Current liabilities</b>	<b>40.4 %</b>	<b>27.3 %</b>	<b>55.3 %</b>	<b>55.3 %</b>	<b>46.3 %</b>	<b>44.2 %</b>	<b>41.9 %</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Net profit/loss	3.3	4.0	8.2	9.4	12.6	15.6	17.6
Depreciation of fixed assets (incl. leases)	0.2	0.3	1.1	2.7	3.2	3.5	3.9
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.6	1.0	1.6	2.7	3.1	3.3	3.4
Others	-2.1	0.3	-8.1	2.3	0.1	0.1	0.0
Cash flow from operations before changes in w/c	1.9	5.6	2.8	17.2	18.9	22.4	24.9
Increase/decrease in inventory	3.1	-4.6	-0.1	-2.8	-2.6	-1.3	-0.9
Increase/decrease in accounts receivable	3.5	-2.6	-17.6	3.1	-9.4	-9.7	-8.5
Increase/decrease in accounts payable	-9.2	-2.1	15.3	-6.9	2.1	2.9	1.9
Increase/decrease in other working capital positions	1.8	0.1	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	-0.8	-9.1	-2.3	-6.6	-9.9	-8.2	-7.5
<b>Cash flow from operating activities</b>	<b>1.1</b>	<b>-3.5</b>	<b>0.5</b>	<b>10.6</b>	<b>9.0</b>	<b>14.2</b>	<b>17.4</b>
CAPEX	0.8	1.0	2.8	3.2	6.1	6.8	7.0
Payments for acquisitions	8.6	1.2	11.6	0.2	0.0	0.0	0.0
Financial investments	0.0	0.1	2.6	-0.6	0.0	0.0	0.0
Income from asset disposals	9.7	0.0	0.2	0.5	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>0.2</b>	<b>-2.3</b>	<b>-16.8</b>	<b>-2.2</b>	<b>-6.1</b>	<b>-6.8</b>	<b>-7.0</b>
Cash flow before financing	1.3	-5.8	-16.3	8.4	2.9	7.4	10.4
Increase/decrease in debt position	3.0	1.3	11.9	-13.2	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.2	4.2	2.4	1.7	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	-0.1	-0.3	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	0.1	0.1	0.5	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>3.2</b>	<b>5.5</b>	<b>14.3</b>	<b>-11.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Increase/decrease in liquid assets	4.6	-0.2	-2.0	-2.9	2.9	7.4	10.4
<b>Liquid assets at end of period</b>	<b>12.3</b>	<b>12.1</b>	<b>29.9</b>	<b>29.9</b>	<b>32.8</b>	<b>40.2</b>	<b>50.6</b>

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
Domestic	43.7	28.5	43.2	70.0	66.7	70.1	72.4
yoy change	n/a	-34.7 %	51.2 %	62.2 %	-4.7 %	5.1 %	3.3 %
Rest of Europe	16.2	52.2	110.1	269.5	284.3	298.9	308.6
yoy change	n/a	223.0 %	111.0 %	144.8 %	5.5 %	5.1 %	3.3 %
NAFTA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>TTL</b>	<b>59.9</b>	<b>80.7</b>	<b>153.2</b>	<b>339.5</b>	<b>351.0</b>	<b>369.0</b>	<b>381.0</b>
yoy change	n/a	34.8 %	89.9 %	121.5 %	3.4 %	5.1 %	3.3 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2009	2010	2011	2012	2013E	2014E	2015E
<b>P&amp;L growth analysis</b>							
Sales growth	112.1 %	34.8 %	89.9 %	121.5 %	3.4 %	5.1 %	3.3 %
EBITDA growth	-132.3 %	78.5 %	169.3 %	35.1 %	28.7 %	17.4 %	10.0 %
EBIT growth	-121.6 %	81.4 %	194.2 %	17.4 %	34.6 %	21.7 %	10.7 %
EPS growth	-152.1 %	-51.2 %	53.2 %	-6.6 %	7.3 %	25.0 %	13.3 %
<b>Efficiency</b>							
Total operating costs / sales	95.7 %	94.8 %	92.5 %	95.2 %	94.2 %	93.5 %	93.0 %
Sales per employee	549.2	429.3	161.1	201.2	209.4	213.1	211.4
EBITDA per employee	23.4	24.2	12.9	9.8	12.7	14.4	15.3
<b>Balance sheet analysis</b>							
Avg. working capital / sales	3.4 %	8.2 %	18.2 %	14.2 %	16.1 %	17.8 %	19.3 %
Inventory turnover (sales/inventory)	11.0	6.1	7.4	14.5	13.5	13.5	13.5
Trade debtors in days of sales	18.8	40.4	202.6	88.1	95.0	100.0	105.0
A/P turnover [(A/P*365)/sales]	37.1	51.1	144.3	57.7	58.0	58.0	58.0
Cash conversion cycle (days)	14.1	51.8	67.5	38.5	47.0	51.6	56.5
<b>Cash flow analysis</b>							
Free cash flow	0.3	-4.5	-2.3	7.5	2.9	7.4	10.4
Free cash flow/sales	0.4 %	-5.6 %	-1.5 %	2.2 %	0.8 %	2.0 %	2.7 %
FCF / net profit	8.0 %	-119.7 %	-34.0 %	96.4 %	24.9 %	51.2 %	63.4 %
FCF yield	1.4 %	-10.4 %	-4.5 %	8.6 %	3.3 %	8.6 %	12.0 %
Capex / deprn	109.3 %	81.3 %	196.1 %	46.9 %	96.8 %	100.7 %	96.2 %
Capex / maintenance capex	29.8 %	121.8 %	52.0 %	n/a	76.9 %	75.9 %	74.5 %
Capex / sales	1.4 %	1.3 %	3.5 %	n/a	n/a	n/a	n/a
<b>Security</b>							
Net debt	-9.3	-2.1	27.5	19.4	16.5	9.1	-1.2
Net Debt/EBITDA	0.0	0.0	2.2	1.2	0.8	0.4	0.0
Net debt / equity	-0.5	-0.1	0.6	0.3	0.2	0.1	0.0
Interest cover	3.5	7.4	7.5	5.6	8.2	10.0	11.1
Dividend payout ratio	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Asset utilisation</b>							
Capital employed turnover	2.2	1.6	1.1	2.5	2.4	2.3	2.1
Operating assets turnover	12.8	5.9	2.7	5.5	4.9	4.5	4.3
Plant turnover	27.1	29.4	13.8	34.2	32.7	31.7	31.1
Inventory turnover (sales/inventory)	11.0	6.1	7.4	14.5	13.5	13.5	13.5
<b>Returns</b>							
ROCE	8.1 %	8.4 %	10.2 %	8.3 %	10.7 %	11.9 %	11.9 %
ROE	17.9 %	11.5 %	14.0 %	12.5 %	15.9 %	16.8 %	16.2 %
<b>Other</b>							
Interest paid / avg. debt	10.9 %	4.4 %	3.6 %	3.7 %	3.7 %	3.7 %	3.7 %
No. employees (average)	109	188	952	1688	1677	1731	1802
Number of shares	8.3	19.6	23.5	28.3	39.3	39.3	39.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS reported	0.39	0.19	0.29	0.27	0.29	0.37	0.42
<b>Valuation ratios</b>							
P/BV	1.0	1.3	1.1	1.4	1.2	1.0	0.9
EV/sales	0.2	0.5	0.6	0.3	0.3	0.3	0.2
EV/EBITDA	3.9	9.3	6.9	6.6	5.0	4.0	3.2
EV/EBITA	4.2	10.0	7.6	7.9	5.9	4.6	3.7
EV/EBIT	5.5	13.1	8.9	9.8	7.1	5.4	4.4
EV/FCF	37.8	-9.4	-36.1	14.6	36.8	13.3	8.5
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Company data, Hauck & Aufhäuser

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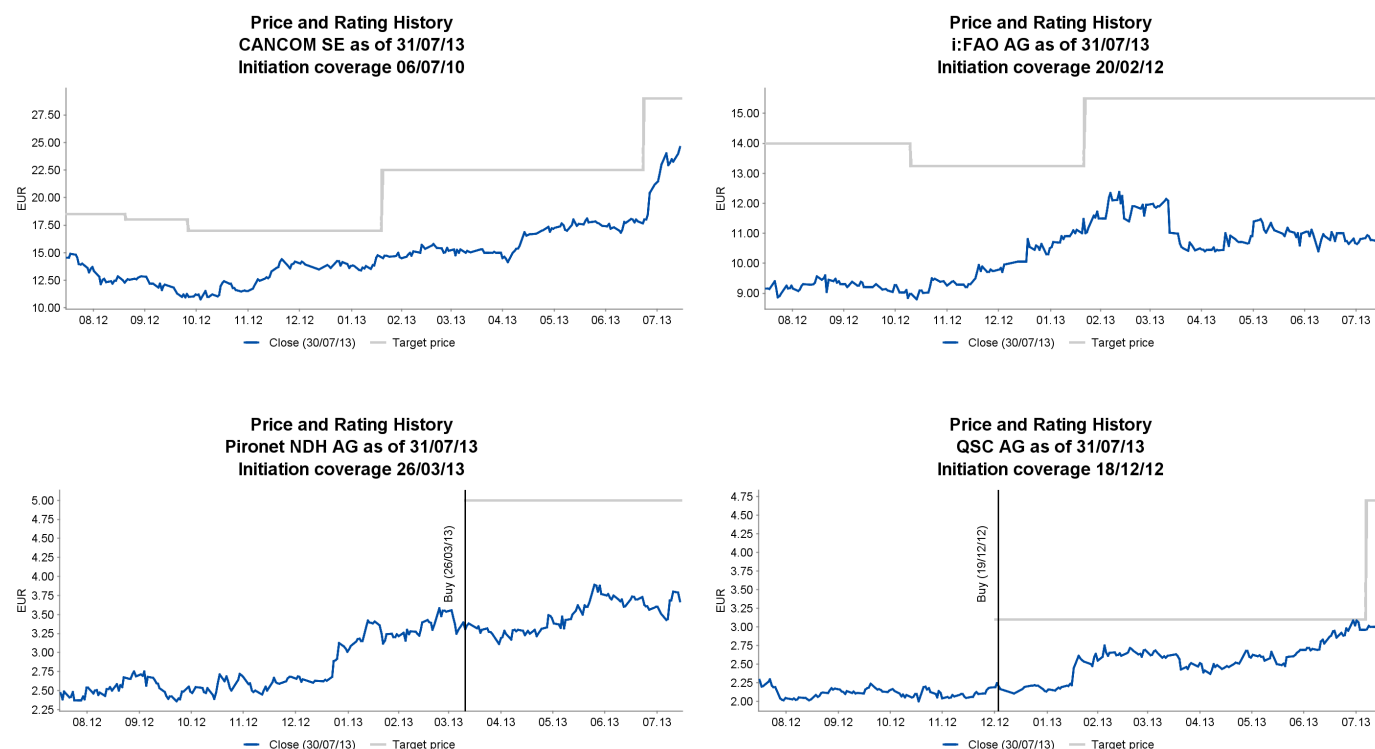
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## Historical target price and rating in the last 12 months



**Price and Rating History**  
**S&T AG as of 31/07/13**  
**Initiation coverage 30/05/12**



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