15 February 2007

BHF BANK
PRIVAT SEIT 1854

Technology

euromicron

- Growth through IT and telco networks -

Strong Buy

Initiating coverage

Target price: €29.40

Closing price: €21.99
(14 February 2007)

- ***Listed in the Prime Standard since mid-2006, euromicron is consequently focussing on the expansion of its market position for commercial network solutions in the German-speaking region.***
- ***Taking into consideration the positive sales and earnings trends which should remain intact in the long term, the valuation of the share is low.***
- ***We initiate coverage of the share with a Strong Buy recommendation.***

Based on its core competence in the component production of fiber optics connectors, systems integration, consulting and distribution services, the company strives for a leading position as system house for the planning, implementation and maintenance of networks. It is the company's goal to offer comprehensive solutions to the industry, service companies and to public administrations or institutions.

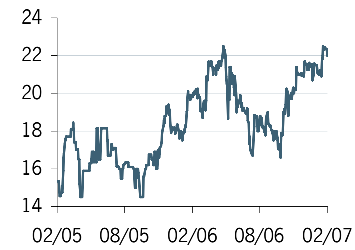
euromicron is pursuing a consistent acquisition and enhancement strategy (buy and build). After adjusting its portfolio of shareholdings via the takeover of locally active IT and telco network providers in Germany, the company's position in German-speaking countries is now on the agenda.

The financial basis for the growth ambitions comes from the continuously high free cash flow (FY07F: 3.2% of sales) that stems from the high profitability (FY07F EBIT margin: ~10%) and the low capitalization ratio (FY07F: 4.8%) of the business.

Next to the planned external growth, we expect organic sales growth of almost 10% per year due to the high degree of innovations in these technologies. Due to rising economies of scale we assume above-average earnings growth going forward.

euromicron's valuation is at a low level compared with other network component suppliers and network providers. The share should now be more in the investors' focus after it was listed in the Prime Standard in 2006.

Share price performance



Source: Datastream

Key ratios	2006F	2007F	2008F
Sales (€m)	118	149	161
Sales YoY (%)	3.4	26.2	8.1
EBIT (€m)	10	14	17
Net income (€m)	6	9	11
EPS (€)	1.39	1.85	2.25
EV/Sales	0.7	0.7	0.6
EV/EBITDA	7.3	6.3	5.3
PER	14.0	11.9	9.8

Source: Company data, BHF-BANK estimates

Share data	
Reuters Code	EUCX
Index	Technology All Share
Price (€)	21.99
High / Low (€)	22.50 / 16.60
Free float (%)	70
Market cap (€m)	102

Source: Datastream, BHF-BANK

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Summary

IT and telco equipment manufacturer active across Germany

euromicron sees itself as a system house which is focused on the future market for network and telecommunications technology. The group has subsidiaries across Germany so that it can meet the local need for network services region-wide.

Market with high single-digit growth rates

The group is active in a growth market which is underpinned by the innovation ratios of the information and telecommunications technology. We anticipate annual market growth of 7-9% on average. The constant need to find the latest technology solutions will likely continue.

Transformation from fiber optics component producer to solutions provider has been completed

The core competence of the group was the production of complex network components on the basis of the fiber optics technology and especially the manufacture of fiber optics connectors. euromicron's core competence was gradually extended by systems installations and the integration of networks as well as by consulting and distribution services. Meanwhile the group is able to offer all network services as required by customers. Its range of products and services, nation-wide position and high technological expertise enable the group to address new projects and position euromicron as solutions provider.

Following the successful market presence in Germany, further target markets are now Austria and Switzerland

The company will continue its acquisition and enhancement strategy (buy and build) to widen its still very low market share (~1%) in 2007F, in our view. The focus lies especially on German-speaking countries. euromicron's external growth strategy targets the takeover of mid-sized IT and telco installation and service companies with long-term and stable customer relationships in local markets.

Strong sales and earnings increase realistic in 2007F

Driven by the acquisition of an annual sales volume of €30m, the company should continue to grow in terms of sales and earnings after a sharp sales gain of estimated 22% (on a comparable basis) in the running year, too. In our forecasts we assume sales of €149m (+26%) and EBIT of €14m (+35%) for 2007F.

euromicron sets itself apart from its competitive environment

The group is in competition with mid-sized suppliers and local branches of specialised units of large conglomerates. The market entry barriers are very low due to the low capital needed. euromicron sets itself apart from its competitors due to its competence as manufacturer, independence from material selection, nation-wide sales approach, high customer orientation, high flexibility and rapid know-how transfer made possible by highly qualified employees.

Valuation of share is low compared with peers

The valuation of the group is low compared with its peers in the component and installation industries. euromicron's above-average profitability versus its competitors is based on its relatively high hardware contribution of its product mix and secures the generation of constant free cash flows.

Strong Buy at a target price of €28.50

We initiate coverage of the technological share listed in the Prime Standard with a Strong Buy rating.

Valuation

Peer group analysis builds on the comparison of euromicron with cable component manufacturers, installation companies and system houses

We believe that the current business model of euromicron cannot be found at any other listed company in Germany at the moment. For our peer group analysis we have thus chosen the following approach. Our first peer group consists of companies that focus on the production of special cables and connectors for electronic applications and networks. We have included in our peer group the internationally active companies Draka, Huber&Suhner, Belden, Leoni and Molex. We use the multiples of this group so that we can compare them with those assets of the euromicron group which mainly refer to component and assembly know-how. A specific feature of these companies are their in part two-digit operating margins. An example for the valuation level of mid-size companies with such a technological background is the take-over of the Swiss Studer by Leoni in 2005 at a sales multiple of 1x.

Fig 1 Peer group: Cable and connector component manufacturers

	Price as of	Ccy	EBIT margin	EV/Sales		EV/EBITDA		EV/EBIT		PER	
	14/02/07		2007F	2007F	2008F	2007F	2008F	2007F	2008F	2007F	2008F
Draka Holding	24.76	€	4.4%	0.55	0.53	8.2	7.2	12.5	10.5	15.4	12.8
Huber&Suhner	226.00	SFR	11.5%	1.50	1.44	9.6	9.1	13.1	13.0	17.3	17.1
Belden CDT Inc.	46.67	US$	11.8%	1.24	1.53	8.9	7.7	10.6	9.1	19.8	17.2
Leoni	33.59	€	7.1%	0.62	0.58	6.1	6.3	8.7	8.2	10.6	10.2
Molex	30.08	US$	11.8%	1.42	1.24	7.2	6.7	12.0	10.5	17.3	15.1
Median			11.5%	0.93	1.01	8.6	7.4	11.5	9.8	16.4	14.9
euromicron	21.99	€	9.4%	0.68	0.62	6.3	5.3	7.3	6.0	11.9	9.8
Premium (+)/discount(-)				-27.9%	-38.4%	-27.0%	-28.2%	-37.8%	-38.3%	-27.1%	-34.7%

Source: IBES, BHF-BANK estimates

In our second peer group we compare euromicron with the Dutch Batenheer and the ImTech group as well as the British T.Clarke. Batenheer is an electronics installation company active nationwide across The Netherlands that generates high- and low-voltage current for the industry, public administration and the real estate industry. The ImTech group operates as technical service provider in the Benelux countries, Spain, the UK and in Germany in the business areas of information and communications technology (ICT), marine & offshore, telecommunications and technology. The British T.Clarke group is an electronics installer that is active in the UK.

Fig 2 Peer group: Installers

	Price as of	Ccy	EBIT margin	EV/Sales		EV/EBITDA		EV/EBIT		PER	
	14/02/07		2007F	2007F	2008F	2007F	2008F	2007F	2008F	2007F	2008F
Batenheer	49.10	€	4.6%	0.34	0.32	5.8	5.2	7.4	6.5	11.2	9.6
Imtech	52.25	€	4.2%	0.48	0.45	9.1	8.0	11.3	9.8	15.5	13.5
T.Clarke	226.50	£	4.0%	0.46	0.43	10.2	8.3	11.5	9.0	16.5	12.7
Median			4.2%	0.46	0.43	9.1	8.0	11.3	9.0	15.5	12.7
euromicron	21.99	€	9.4%	0.68	0.62	6.3	5.3	7.3	6.0	11.9	9.8
Premium (+)/discount(-)				49.1%	45.5%	-30.5%	-33.5%	-35.6%	-32.9%	-23.3%	-22.9%

Source: IBES, BHF-BANK estimates

As euromicron is targeting the system solution market, we think it is also possible to compare the company with listed system houses in Germany that offer IT and software competence it its customers. Among them are Bechtle, Cancom IT Software, Cenit, PC Ware and PSI. These companies are all listed in the Technology All Share Index of Deutsche Börse but most of them tend to post operating margins in the low single digits except for Cenit.

Fig 3 Peer Group: System houses

	Price as of 14/02/07 (€)	EBIT margin 2007F	EV/Sales 2007F	EV/Sales 2008F	EV/EBITDA 2007F	EV/EBITDA 2008F	EV/EBIT 2007F	EV/EBIT 2008F	PER 2007F	PER 2008F
Bechtle	22.80	3.8%	0.36	0.35	7.5	6.8	9.4	8.5	14.3	12.7
Cancom IT Software	3.54	1.9%	0.15	0.15	6.7	6.1	8.1	7.3	11.4	10.1
Cenit	12.50	14.5%	1.04	0.97	6.2	5.8	7.2	6.5	11.8	10.5
PC Ware	14.72	1.9%	0.11	0.10	4.8	4.1	5.9	4.9	10.7	9.0
PSI	4.51	4.3%	0.32	0.30	4.8	4.1	7.5	5.8	19.2	11.1
Median		3.8%	0.26	0.25	6.5	5.9	7.7	6.9	11.6	10.3
euromicron	21.99	9.4%	0.68	0.62	6.3	5.3	7.3	6.0	11.9	9.8
Premium (+)/discount(-)			164.5%	150.8%	-2.0%	-10.4%	-5.3%	-13.5%	2.7%	-5.4%

Source: IBES, BHF-BANK estimates

We believe that the business model of euromicron is better comparable with the companies of the first two peer groups. In contrast to other system houses euromicron will put more emphasise on its competitive edge with regard to its hardware know how in the network technology and less on the software and services approach of system solutions companies. From the clear difference in margins of the majority of system houses in comparison with euromicron it becomes obvious that the business models of the companies vary.

Fig 4 Calculation of fair value

	Fair value of euromicron share giving same weight to peer groups based on FY08F (€)	Weighting
Segments		
Component producers	33.91	30%
Installers	27.43	70%
Fai value of euromicron (€ per share)		**29.37**

Source: BHF-BANK estimates

Weighting leads to a fair value of €28.50 per share

To calculate the fair value per share we have weighted the value per share on the basis of the FY08F key ratios of the first peer group with 40% and of the second peer group with 60%. The key ratios are based on FY08F. In our view, the above-stated weighting represents the key focuses within the euromicron group. A fair value per share of €28.50 results from our calculation.

Review of fair value according to DCF model

We have reviewed the fair value of euromicron which we had derived from our peer group comparison with a three-phase DCF model. The discounted net cash flows of the first phase (2007-09F) result from our detailed forecasts. For the second phase (2010-17F) we assume a very conservative sales growth rate of 5%. During this phase we expect an EBIT margin of 10%. For the terminal growth rate of the free cash flows in phase 3 (2018F and beyond) we have assumed 3%.

Fig 5 DCF model

As of: 14/02/2007	2007F	Phase 1 2008F	2009F	2010F	2011F	2012F	Phase 2 2013F	2014F	2015F	2016F	2017F	Phase 3 Terminal value
Sales	149.0	161.0	174.0	182.7	191.8	201.4	211.5	222.1	233.2	244.8	257.1	
YoY	26.2%	8.1%	8.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
EBIT	14.0	16.6	19.3	18.3	19.2	20.1	21.1	22.2	23.3	24.5	25.7	
EBIT margin	9.4%	10.3%	11.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Taxes	4.6	5.4	6.7	6.2	6.5	6.8	7.2	7.6	7.9	8.3	8.7	
Tax rate	32.8%	32.3%	35.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	
NOPAT	9.4	11.2	12.6	12.1	12.7	13.3	14.0	14.7	15.4	16.2	17.0	
Depreciation and amortisation	2.0	2.2	2.4	2.6	2.7	2.8	3.0	3.1	3.3	3.4	3.6	
Net operating cash flow	11.4	13.4	15.0	14.6	15.3	16.1	16.9	17.8	18.7	19.6	20.6	
Change in working capital	-3.0	-4.1	-6.3	-4.6	-4.9	-5.1	-5.4	-5.7	-5.9	-6.2	-6.5	
CAPEX	2.8	3.3	3.2	2.4	2.5	2.6	2.7	2.9	3.0	3.2	3.3	
Free cash flow	5.6	6.0	5.5	7.6	8.0	8.4	8.8	9.2	9.7	10.2	10.7	
WACC	8.5%	8.5%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	
Discounted cash flow	5.2	5.2	4.3	5.5	5.3	5.1	4.9	4.7	4.6	4.4	4.3	81.1
Enterprise value	**134.6**											
Net financial position	3.8											
Minorities	0.2											
Net present value	**138.1**											
Number of shares (m)	4.66											
Net present value per share (€)	**29.64**											

Assumptions for cost of capital calculation			
Debt risk premium	1.0%	Beta	1,0
Market risk premium	11.0%	Risk-free interest rate	4.0%
Cost of equity	16.1%	Cost of debt	3.4%

Source: BHF-BANK estimates

We have derived a fair value of €29.64 per share from our DCF model. This outcome is only about 1% higher than the fair value per share which we have derived from our peer group analysis. Hence the fair value of the peer group comparison was confirmed.

In order to highlight how the calculated enterprise value depends on the terminal FCF growth and on the change in the EBIT margin we have applied a sensitivity analysis which will put the change in capital cost in relation to the terminal growth and the EBIT margin in phase 3.

Fig 6 Sensitivity analysis I

(€ per share)		Terminal growth 1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
	6.5%	34.86	37.13	39.91	43.40	47.90	53.94	62.47	75.43	97.45
	7.0%	31.67	33.47	35.63	38.27	41.59	45.87	51.62	59.74	72.06
	7.5%	28.99	30.43	32.13	34.19	36.70	39.86	43.94	49.41	57.13
	8.0%	26.69	27.87	29.24	30.86	32.81	35.21	38.21	42.09	47.30
WACC	8.5%	24.71	25.68	26.79	28.10	**29.64**	31.50	33.78	36.64	40.33
	9.0%	22.99	23.79	24.71	25.77	27.01	28.48	30.25	32.42	35.13
	9.5%	21.47	22.14	22.91	23.78	24.79	25.97	27.37	29.05	31.11
	10.0%	20.12	20.69	21.33	22.06	22.89	23.85	24.98	26.31	27.91
	10.5%	18.93	19.41	19.95	20.56	21.25	22.05	22.96	24.03	25.29

Source: BHF-BANK estimates

Fig 7 Sensitivity analysis II

(€ per share)		EBIT margin								
		8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
	6.5%	30.96	34.54	38.11	41.69	45.27	48.84	52.42	56.00	59.57
	7.0%	27.10	30.23	33.36	36.49	39.61	42.74	45.87	49.00	52.13
	7.5%	24.22	27.01	29.80	32.60	35.39	38.18	40.98	43.77	46.56
	8.0%	22.01	24.54	27.08	29.62	32.16	34.69	37.23	39.77	42.31
WACC	8.5%	20.29	22.63	24.97	27.30	**29.64**	31.98	34.32	36.66	39.00
	9.0%	18.94	21.12	23.30	25.48	27.67	29.85	32.03	34.21	36.39
	9.5%	17.87	19.93	21.99	24.05	26.10	28.16	30.22	32.28	34.34
	10.0%	17.02	18.98	20.95	22.91	24.87	26.83	28.79	30.75	32.71
	10.5%	16.36	18.24	20.12	22.01	23.89	25.77	27.65	29.54	31.42

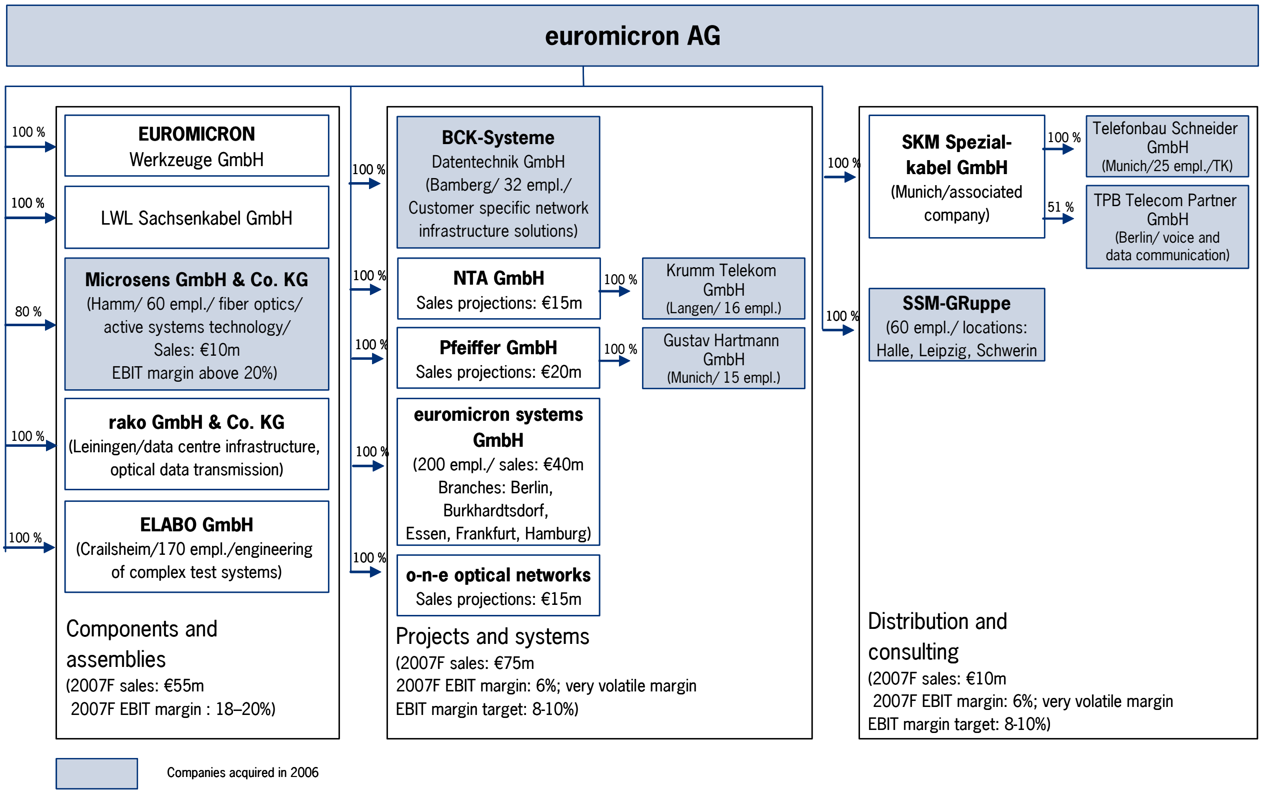
Source: BHF-BANK estimates

Company profile

Strategic management holding with 10 subsidiaries at present

euromicron AG with its 10 employees (previous year: 7) is the holding company of the euromicron group. By increasing its staff number, the holding company has formed the organisational basis to achieve the growth potential as targeted by the group. This qualifies the approximately €3m in holding costs which we regard as very high.

Fig 8 Organisation chart

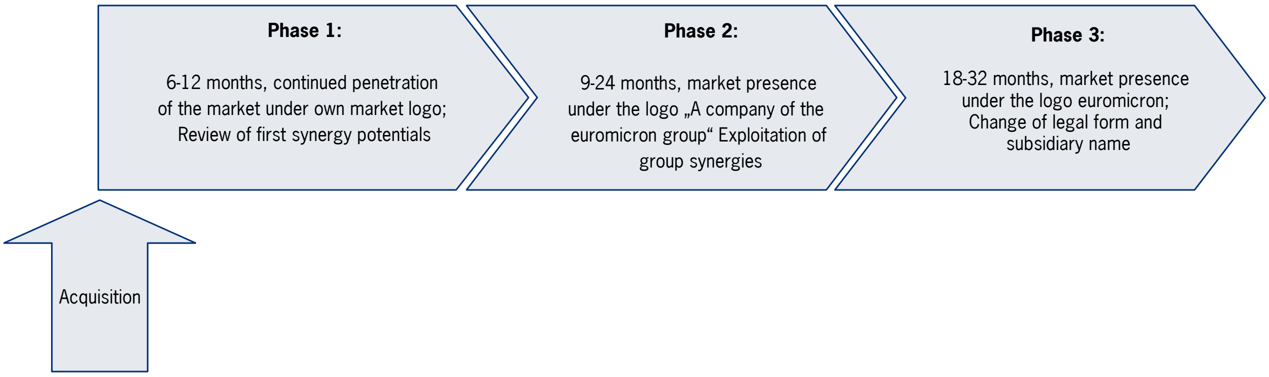


Source: Company data, BHF-BANK

According to the current consolidated group structure, the subsidiaries as described in the chart above can be spilt into the three divisions: components and assemblies, projects and systems as well as distribution and consulting. However, this breakdown is not reflect in the segment reporting. Presently, euromicron does not publish any sales and earnings figures on the operating level and will probably not do so in the future.

In the medium term it is planned that the subsidiaries will address the market under the brand name euromicron. Management expects a transitional period of up to 36 months for the newly planned market approach. After that a further consolidation could make sense from an organizational and financial point of view. We do not want to exclude this option. The consolidation of delcom GmbH into euromicron systems GmbH could be stated as an example. Especially, in order to reduce the complexity of the market approach it is important to consolidate and to hereby simplify the structure of the group.

Fig 9 Acquisition- and integration approach



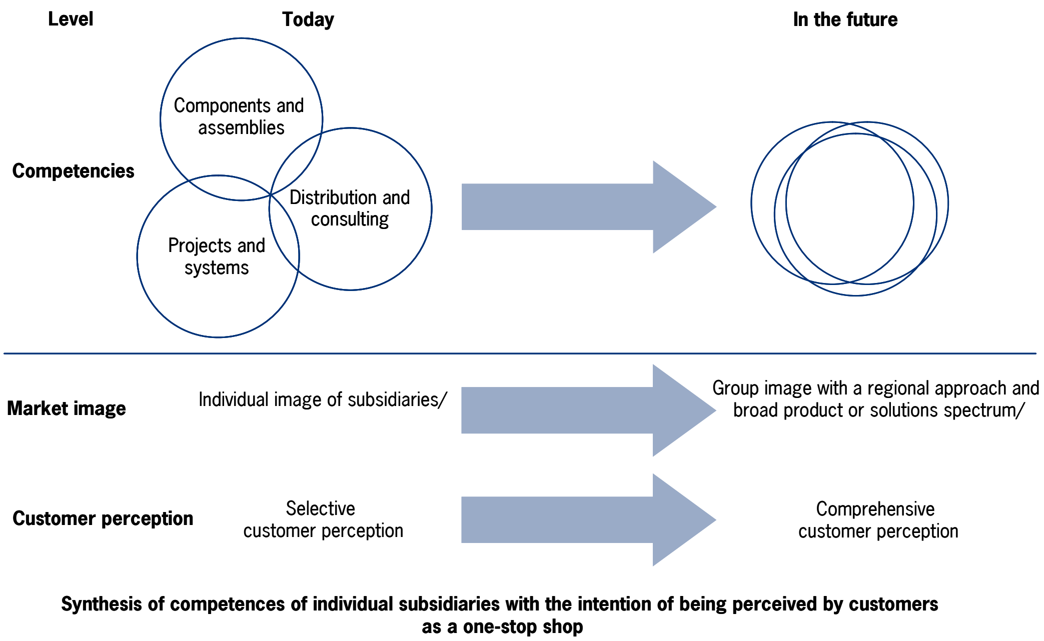
Source: Company data, BHF-BANK

The company has a group-wide cash pooling and refinances its acquisitions on the holding company level. In connection with the acquisition strategy the necessary controlling instruments were extended. But there is a latent risk that acquired companies cannot be integrated successfully and that the purchase price payments were too high. However, due to the long-term experience of management in running a holding company we think this risk is low.

Strategic positioning

The core competence of the group lies in its network and fiber optics technology. The linkage between the divisions reflects the needs of euromicron's customers. This connection is designed to set the group apart from its competitors and to position it as a solution provider versus its customers. The company regards this as a unique position.

Fig 10 Effects of link-up of divisions

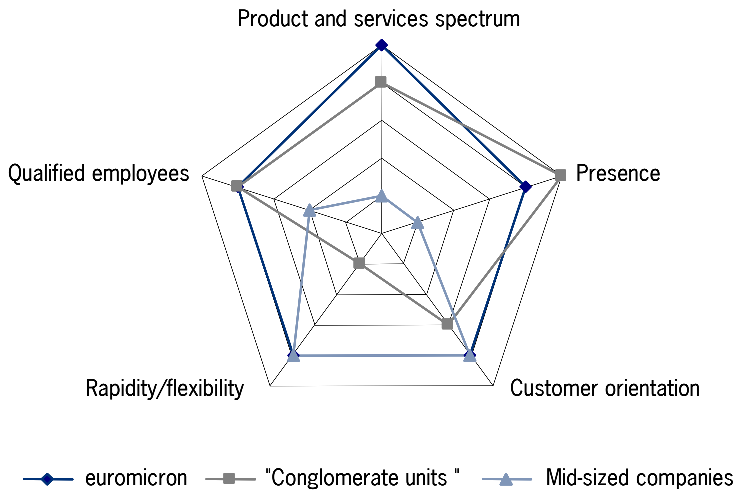


Source: BHF-BANK

The euromicron group intends to increasingly set itself apart from its competitors by a specific position. We have rated euromircron and its competitors, among them subsidiaries of conglomerates (e.g. Siemens T Solutions or T Systems) as well as mid-size IT and telecommunications providers, in terms of the criteria which are important to customers. These criteria comprise the product and services spectrum, presence, customer orientation, rapidity/flexibility and staff qualification/know-how.

The following figure shows that the center of the net can be hardly achieved whereas the marginal segments can be easily achieved. The chart shows that euromicron has a balanced profile with an above-average degree of achievement in all criteria and that it clearly sets itself apart from its competitors.

Fig 11 euromicron's profile compared with competitors



Source: BHF-BANK

Customer environment

The customer environment of euromicron is heterogeneous. Therefore, the company is not exposed to a specific customer risk. According to the company, its biggest customer in 2006 was Deutsche Telekom with sales of €7m. This would represent a sales contribution of merely 5.9%. Between 2007 and 2009 euromicron plans to benefit from the expansion of the VDSL network of Deutsche Telekom. The company expects that annual sales generated with Deutsche Telekom will mount to €9m by 2008F.

According to company statements, the sales breakdown by customer groups is difficult. With some companies euromicron has a relationship as supplier and service provider while with others euromicron it is competing on other value-added levels.

euromicron can refer to long-term customer ties and major reference projects. For instance, euromicron is a certified supplier of Deutsche Telekom for the production of network components thanks to its excellent technological competence. Major projects in the recent past were the installation of a data, communications and security network for around 2,000 workplaces for Neue Deutsche Börse or the planning, installation and integration of a complete fiber optics network for Nord LB.

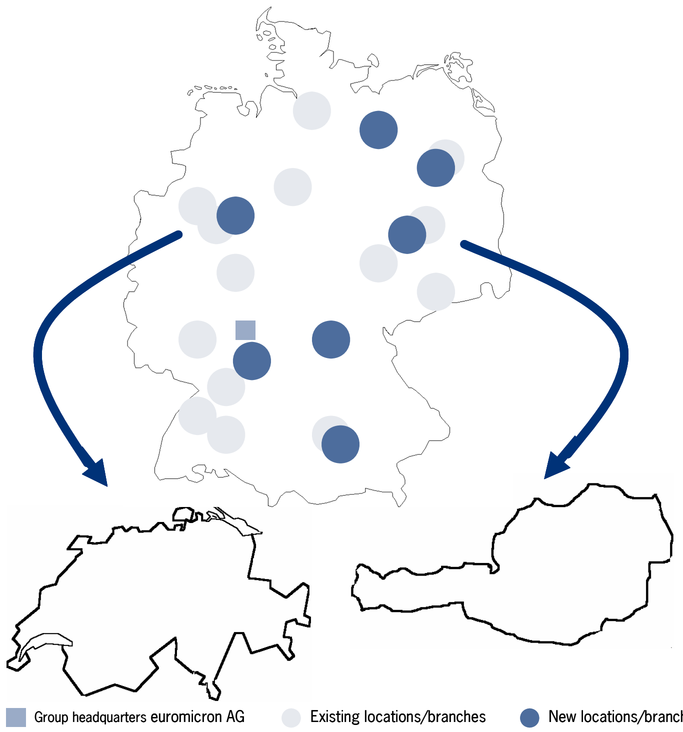
The winning of an order from the state of North Rhine-Westphalia to install, implement and service a new security network for state-owned prisons has a pilot function. We believe that the volume of the contract, which could be won against the competition of Siemens, reaches a low million euro level. However, more important than the size of the contract is, in our view, the long-term sales and earnings potential that the contract could bring along. According to euromicron, a roll-out of the respective technology in all federal states is possible.

Acquisition approach

Through acquisitions a nation-wide customer service, the use of high-margin own-label products and the exploitation of synergies become possible

For the search and selection of suitable acquisition targets, management uses the expertise of M&A consultants. By acquiring Mikrosens, euromicron has strengthened its competence in terms of production. In addition, the company focused on German project companies and service providers. According to the euromicron management, the company has achieved a nation-wide coverage of its German home market. The group can now offer its entire group-specific product and service spectrum and thus use the high-margin proprietary production opportunities.

Fig 12 Locations in Germany and targets areas for future acquisitions



Source: Company data, BHF-BANK

euromicron pays purchase prices that are lower than its own valuation and offers attractive incentives to the former owners

Purchase price payments have not been mentioned in the press releases on acquisition transactions. However, we estimate that sales (€30m on an annual basis) with a maximum sales multiple of 0.5x were acquired. Total costs for external growth in FY06 should thus amount to roughly €15m (compared with cash outflows from operating activities as of 30/9/2006: €-11.9m). euromicron grants attractive incentives to the sellers of the companies that used to be managed almost exclusively by its owners (keeping of a minority stake, continuing to work in the management board, continuing to run the operating business etc.). In this way the company avoids relatively expensive purchase price maximizing procedures such as auctions.

After Germany the company will likely focus on Austria and Switzerland

We anticipate that in a next step external growth will be achieved via acquisitions in German-speaking countries (Austria, Switzerland). These potential acquisitions should lead to maximum costs on the low double-digit euro million level. However, we do not want to exclude acquisitions in the medium and long run which have euromicron's sales increase by a three-digit million euro amount.

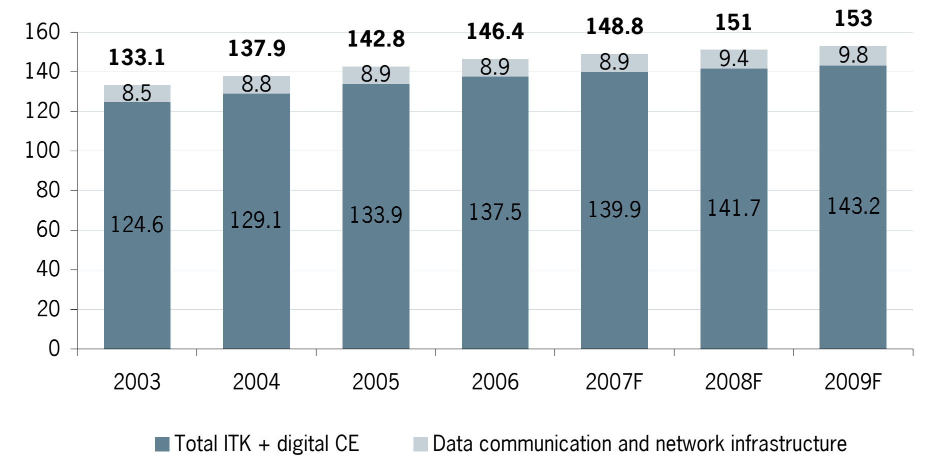
Market and competition

Market

Overall market experiences continued slight growth

The market volume in the information and telecommunications industry (ITK) has pursued a positive trend over the past few years. According to the BITKOM industry association, the German information and telecommunications market will amount to €148.8bn (+1.6%) in 2007. The data communications and network infrastructure market relevant to euromicron has a volume of €8.9bn. This sub-market has not posted any significant growth in the last three years, according to BITKOM. However, we expect a growth rate of 5% per year in this segment over the next two years.

Fig 13 Market development in the ITK industry in Germany (€bn)

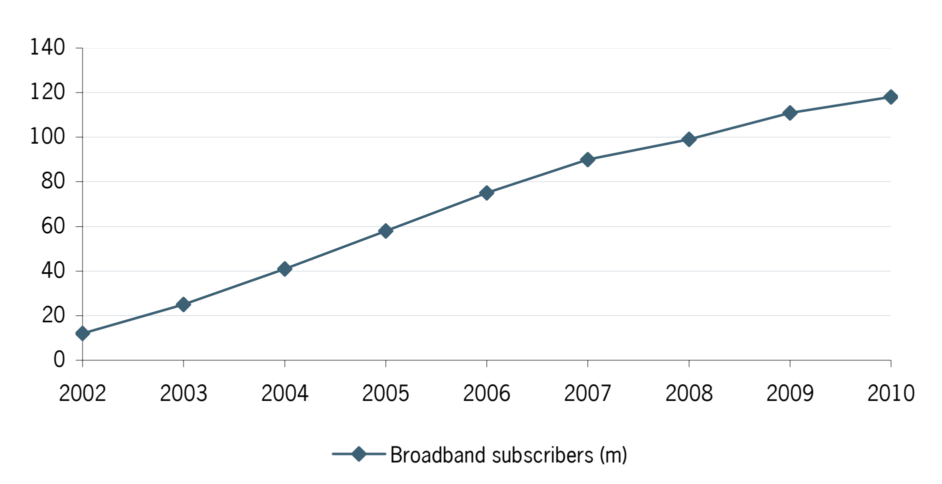


Source: BITKOM; BHF-BANK (estimates 2008 und 2009)

Breakthrough of broadband applications is major growth driver for the expansion of the network infrastructure

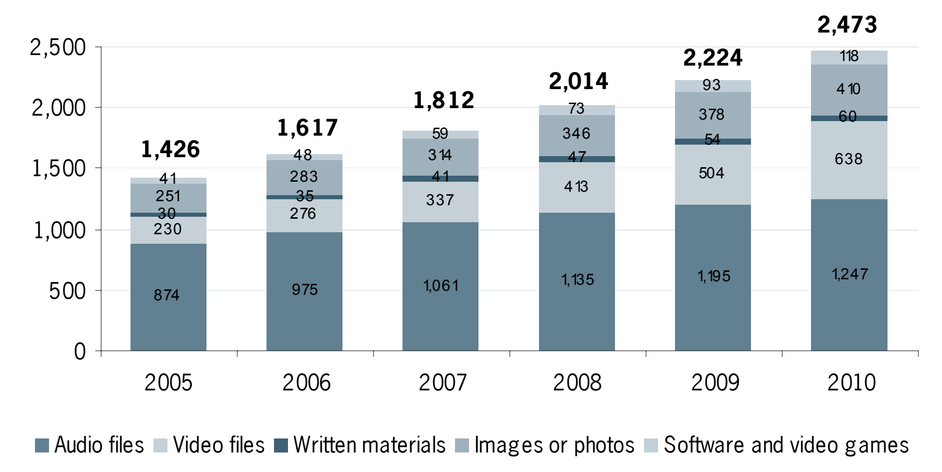
Growth is mainly driven by a higher catch-up demand in the maintenance and substitution of the existing network infrastructure and, to not an insignificant degree, by a macroeconomically induced expansion demand. The expansion demand is generated by the growth driver V-DSL (high-speed Internet access). The marketing of triple-play applications (telephone, Internet and TV-broadcast via one line) forced by Deutsche Telekom and its competitors require an upgrade of the existing network and a roll-out of additional network infrastructure for higher transmission bandwidths. According to the European Information Technology Observatory (EITO), the number of broadband subscribers in the EU-25 countries will rise at relatively stable growth rates in the coming years and the number of average data downloads per user will almost double by 2010F.

Fig 14 Development of broadband connections



Source: EITO 2006, BHF-BANK

Fig 15 Number of file downloads per average subscriber and year

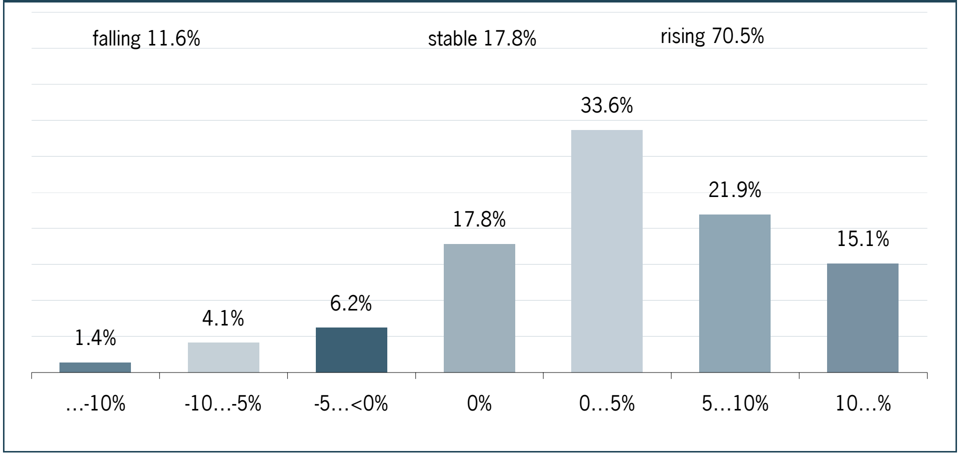


Source: EITO 2006, BHF-BANK

Positive sentiment persists in the ITK market

We believe that the positive sentiment is boosted by the ITK providers who responded in the latest survey carried out by the industry association that they would expect a recovery of their business activities. Approximately 71% of the respondents were of the opinion that sales in FY07 could accelerate versus the previous year. Fifteen percent of the respondents even said that two-digit sales rises could be possible. That this expected improvement of the sales situation covers a longer period of time, can be derived from the staff planning of the companies. Around 45% of the respondents forecast a rise in personnel requirements.

Fig 16 Expected sales increase in German ITK market (2007 vs. 2006)

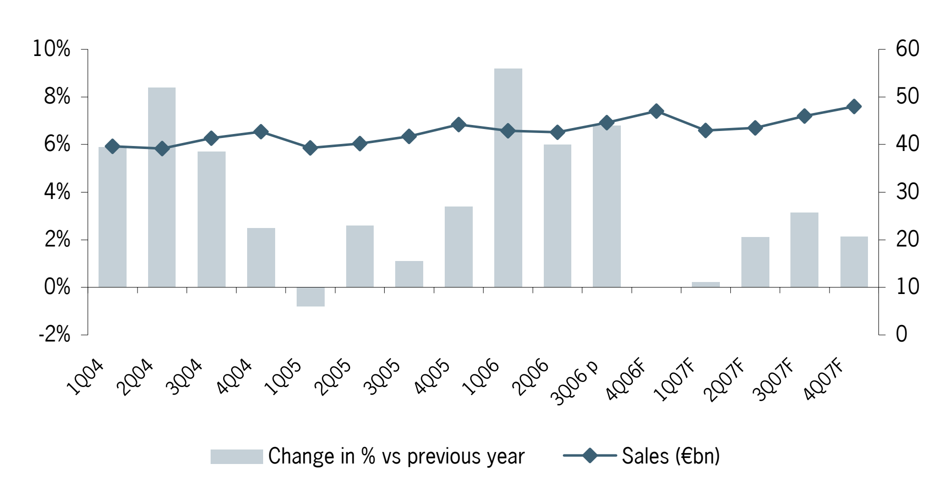


Source: BITKOM, BHF-BANK

Positive sales and earnings performance in the electronics industry

The sustained positive performance of the electronics industry is underpinned by the statistics of the German Electrical and Electronic Manufacturers' Association (ZVEI). Polls of this association show that sales and order intake have experienced significant growth rates over the past few quarters compared with the year-earlier period.

Fig 17 Sales development in the electronics industry



Source: ZVEI, BHF-BANK estimates

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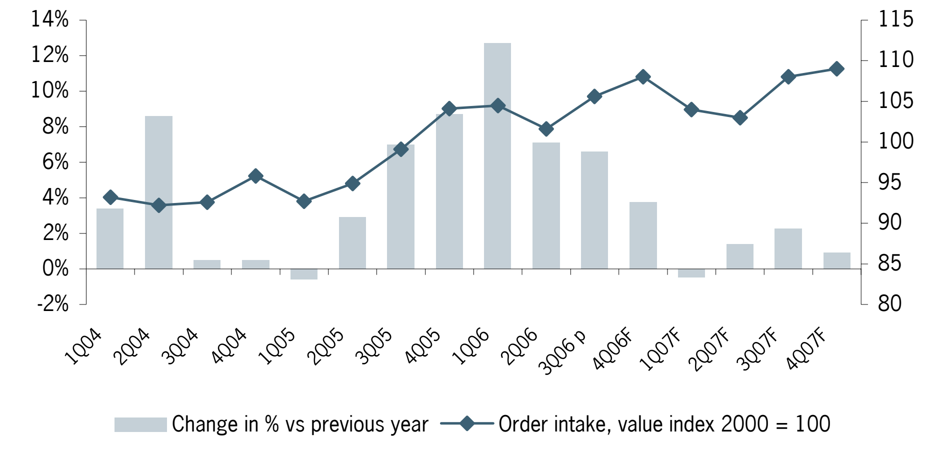
Fig 18 Order intake development in the electronics industry



Source: ZVEI, BHF-BANK estimates

Trends

euromicron should benefit as basic provider and supplier of the upcoming IT trends

According to a survey of BITKOM and Roland Berger, the technological development in the information and communications industry is marked by four major trends: (1) Internet technology and related thereto rising bandwidths of data networks as a prerequisite for the merging of markets. (2) Process digitalization through organizations and companies to create more flexibility. (3) Omnipresence of ITK. (4) Use of mounting data volumes. The analysis of this trend has led to newly defined growth areas, among them broadband technology and the IT security segment. Both are areas where euromicron is bundling its core competences.

Network technologies in industry applications are future growth areas

One indication for sustainable and strong growth in network components was given by a study that ARC Advisory Group published in April 2006. It shows that growth opportunities could result from newer network technologies by the link-up of industry applications. According to this study, the market for industrial Ethernet (introduction of IP and Ethernet in the production) will grow by 51% per year (59% in Germany) in the next five years. In 2004 only 840,000 industrial Ethernet components (39,000 in Germany) were shipped. It is expected that this figure will be at 6.7m in 2009F. During the same period the market volume for industrial Ethernet switches will increase from US$ 124.4m (US$ 6m in Germany) to US$ 939.8m.

Overview of competitive environment

euromicron holds only a very small market share available

As the market volume which can be addressed by euromicron in Germany amounts to around €9bn, we calculate a hypothetical market share for euromicron of merely 1%. This give a chance for strong growth in this market.

Companies such as euromicron that are trying to cover all phases of the value-added chain from production to network components to system consulting for IT networks have not been found in this market so far. Therefore, it makes sense to differentiate the competitors from each other according to their value-added phases or the areas they are covering.

euromicron positions itself as quality provider in the components segment

We estimate that euromicron generated sales of around €50-60m from components and customer-specific products in 2006F. Thanks to its focus on high-standard products euromicron does not compete with low-standard providers in the Far East but with the quality brand manufacturers such as Huber & Suhner, Diamond, Reichle & DeMasari, Molex or 3M. The American conglomerate 3M took over the German components provider Quante in 2000 and paid the free preferred shareholders €19.00 per share. This translated into a sales multiple of 66% based on the market capitalization of Quante back then. The much bigger providers in terms of sales stated above have a much larger product programme than euromicron. A list of the specific component sales of these companies in Germany is not available.

In the systems, service and project business segment, euromicron (contribution to group sales: approx. 61% = €85m) competes with project planning companies, systems houses and IT companies. Due to euromicron's focus on high-quality projects the latter are only competing to a low degree with the company. One of the biggest competitors in Germany in this segment is Siemens. The Com-Business division of Siemens group achieved sales of €3.6bn in 2005. After the carrier business in this division was merged with Nokia in a joint venture, the remaining assets of the division are now up for sale.

The ICT & Technology division of the Dutch ImTech group generated sales of €469m in 2005. We estimate that the sales contribution attributable to Germany is around 50% and climbing. Another company on the German market which competes in sub-segments and in project assignments with euromicron is the French Cegetel (emerging from the former German AEG subsidiary for automation technology). In the system house segment T-Systems, the B2B division of Deutsche Telekom (FY05 sales in Germany: €11bn, FY05 EBIT: €699m) and Bechtle (FY05 sales: €811m) are amongst the competitors although they have clearly higher sales volumes than euromicron.

A differentiation of the competitors is difficult and overlapping due to the various customer groups, fields of application and value-added phases. For instance, euromicron is in competition with sub-divisions of companies which at the same time are its customers. Here euromircon is active as supplier, sub-contractor or OEM.

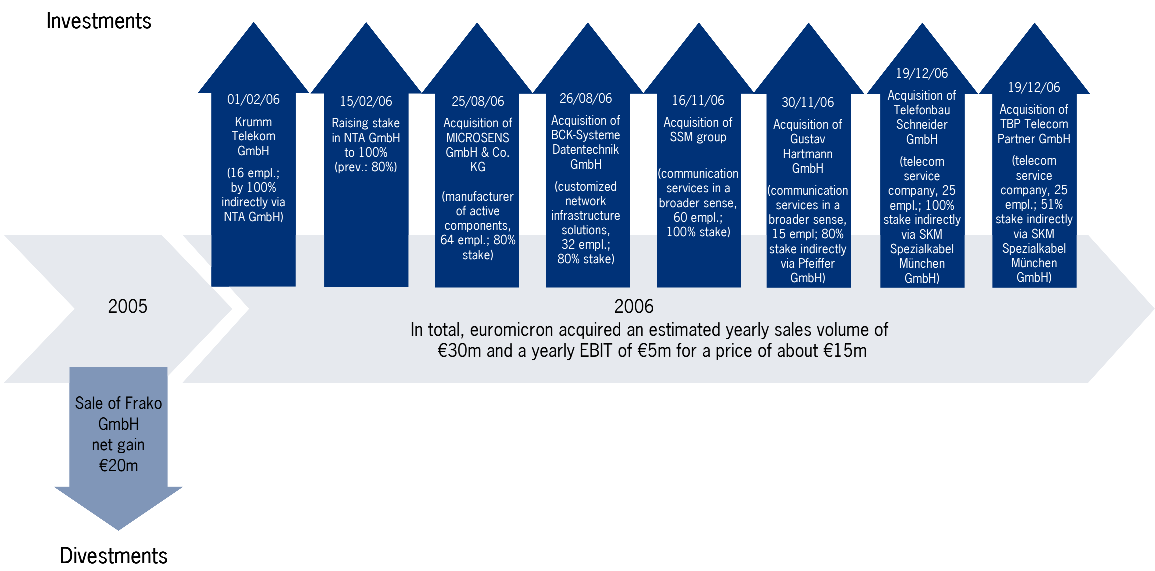
Performance and outlook

2006 marked by acquisitions and strong operating business

Sales and earnings increase in 2006F expected due to internal and external growth

Sales performance in 2006 was marked by the acquisition of several smaller companies from the IT and telco environment. The date of first-time consolidation of the acquired sales volume is crucial to assess total 2006F sales. We estimate that euromicron increased its sales by 23% to €118m in 2006F on a like-for-like basis. About 55% of the sales growth should stem from the acquisitions made in 2006 but also organic growth should have been in the double-digits and thus well above the level of the past few years. EBIT in 2006F should have increased to €10.4m (+25%) and 2006F net income should come in at €6.5m (+12%). As of 30 September 2006, the company saw a sales growth of 20.8% to €76.0m and an increase in EBIT to €3.0m (prev. year €2.0m). EPS for 9M06 was €0.43 and thus on previous year's level. However, the 2005 result had been impacted by a one-time positive tax effect.

Fig 19 "Buy and Build" in 2006



Source: BHF-BANK

Management highlighted its confidence on operating performance in December 2006

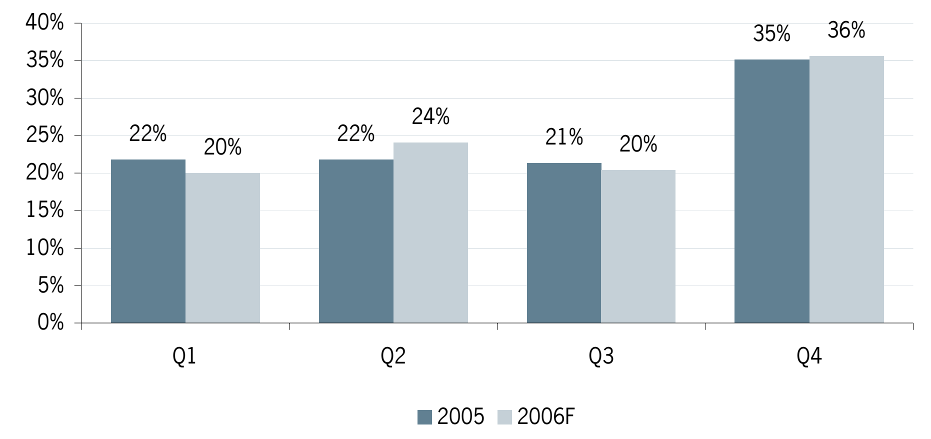
At the beginning of December 2006, management indicated a FY06F sales range of €114-120m (FY05: €97m). EBIT in 2006F should come in between €10.2-10.8m, according to euromicron (2005: €8.3m), net income should amount to about €6.5m (2005: €5.6m) – depending on deferred taxes, which cannot be exactly assessed for the moment.

New orders reached €72.9m (prev. year €67.0m) as of 30 September 2006. We view this as an indication for a continuation of the positive sales and earnings trend. euromicron regards this development as a result of the increasing level of awareness for the group, the expansion of its problem-solving competence as well as a good industry performance.

2006F earnings performance is burdened by low visibility

Visibility of sales and earnings performance is low. On the one hand, this is due to sales and earnings coming from acquired companies, which are hard to gauge, as well as the exact dates of consolidation. On the other hand, it stems from the high seasonality of the business which has its invoicing focus in the fourth quarter, due to its project nature. Accordingly, the biggest share of sales and earnings falls into this quarter.

Fig 20 Sales contributions by quarter 2005 vs. 2006F



Source: Company data, BHF-BANK estimates

However, as the larger part of acquisitions was made in 2H06, we do not expect a significant sales or even earnings contribution from the acquired companies on a group level.

Company outlook for 2007F still optimistic

Company guidance sees continuation of profitable growth via acquisitions in 2007F

According to the company, sales in 2007F should be marked by an organic growth of about 5-10%. The started Buy-and-Build strategy shall be continued consistently. Management aims to generate yearly sales of €170-180m and an EBIT of €16-18m before holding costs. We have estimated 9% of organic growth. Under this assumption, sales would rise to €149m. Thus the additional sales potential from acquisition that is not yet reflected in our estimates would amount to about €30m, based on the company's guidance.

Share buy-back programme underlines management's positive growth expectations

Share buy-back programme should help limit a pronounced drop in the share price

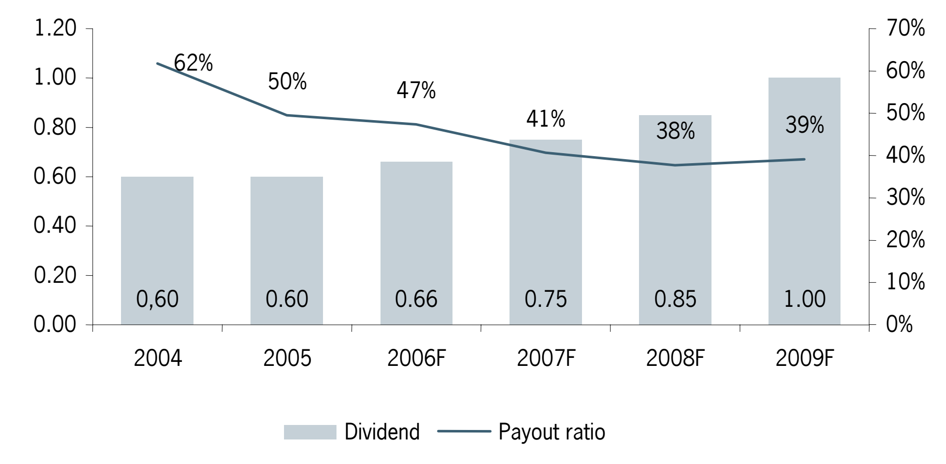
Management's confidence about earnings and cash flow performance has been supported by the announcement of buying back a maximum of 5% of outstanding share capital by 30 April 2007 (233,000 shares). As of 8 December 2006, only 6.7% of the maximum volume had been bought back (estimate for end-January 2007: 19%). The shares purchased in this way shall be used as an acquisition currency in the future and thus can complement the cash component used in takeovers. We believe the share buy-back should limit the downside risk of the stock. The earnings-accretive effect on EPS stemming from a lower number of shares, however, is negligible, in our view.

Sticking to its dividend policy

Historical payout ratio is still defined as target by management

Management's dividend policy should not change, even in spite of accelerating external growth. Historically, the payout ratio amounted to about 50%. Due to the low share price level, we estimate a dividend yield of about 3%. We regard it as possible that the range of the payout ratio will expand, depending on the further growth strategy of the company. However, we think the 50% ratio will still mark the target.

Fig 21 Dividend development (€) and payout ratio



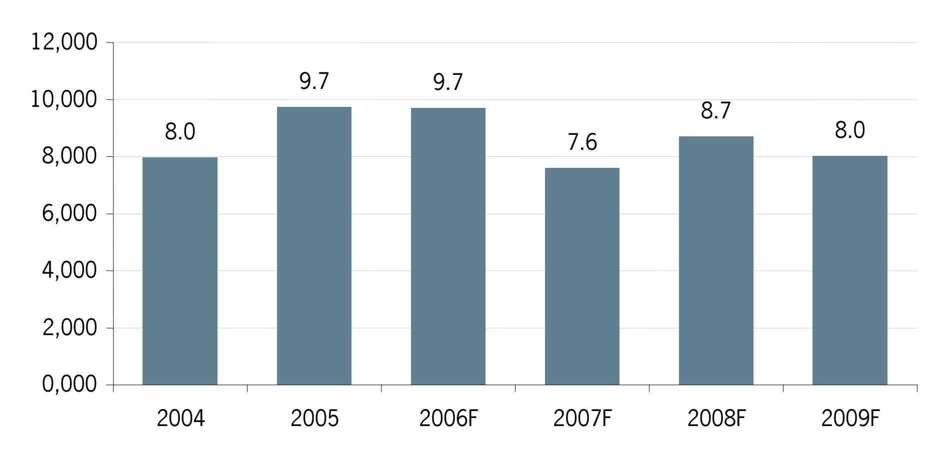
Source: Company data, BHF-BANK estimates

Securing growth financing

Apart from strong operating cash flow, external growth partially secured by credit financing

In our view, the company has secured the financing of its growth via its strong cash flow. According to our estimates, rising cash earnings will be used to finance a growing working capital. Operating cash flow, however, should stay on a high level in the next two years.

Fig 22 Operating cash flow performance (€ '000)



Source: Company data, BHF-BANK estimates

Acquisitions shall partially be financed by taking on debt

On the other hand, euromicron plans to increase its leverage and to partially finance its growth via credit facilities. According to our estimates, euromicron has no financial net debt at the moment (as of 31 Dec 2006). However, a continuation of the company's acquisition strategy might well lead to an increase in debt. The company already has credit lines available in the amount of €20m and thus has a adequate basis for financing growth. Moreover, the company sees itself in a position to expand its credit facilities in case of larger acquisitions.

In our view, net financial debt can hardly surpass two times EBITDA without having a negative effect on the ratings from banks which currently have opened credit lines for the company. According to our estimates, this implies a potential net debt of about €40m that would be available for acquisitions. We believe euromicron will not let its buy-and-build strategy endanger its credit rating, which is currently within the investment grade range, and the relatively low financing costs attributable to it.

Financials

Fig 23 Income statement

(€m)	2004	2005	2006F	2007F	2008F
Sales	110.0	114.1	118.0	149.0	161.0
Change in finished goods and work in progress	-3.4	-3.4	2.5	1.0	2.0
Material expenses	49.9	54.4	58.2	73.5	79.0
Personnel expenses	33.9	35.9	36.4	44.5	47.2
Depreciation and amortization (excl. goodwill)	2.2	2.1	1.6	2.0	2.2
Other operating income	3.7	5.4	0.8	1.0	1.4
Other operating expenses	14.2	15.3	14.7	17.0	19.4
Operating income (EBIT)	10.1	8.3	10.4	14.0	16.6
Other income, net	-0.7	-0.6	-1.0	-1.2	-1.1
Earnings before taxes	9.4	7.7	9.4	12.8	15.5
Taxes on income	4.6	1.8	2.9	4.2	5.0
Net income from continuing operations	4.8	5.8	6.5	8.6	10.5
Net income	4.8	5.8	6.5	8.6	10.5
Minority interests	0.3	0.2	0.0	0.0	0.0
Net income after minorities	4.5	5.6	6.5	8.6	10.5
Adjusted net income	4.5	5.6	6.5	8.6	10.5
Adjusted earnings per share (basic) (€)	1.0	1.2	1.4	1.8	2.3
Income statement (YoY)					
Sales	-	3.7%	3.4%	26.2%	8.1%
Change in finished goods and work in progress	-	0.8%	-172.3%	-59.4%	100.0%
Material expenses	-	9.0%	6.9%	26.3%	7.5%
Personnel expenses	-	5.9%	1.3%	22.2%	6.1%
Depreciation and amortization (excl. goodwill)	-	-0.8%	-23.6%	22.7%	10.0%
Other operating income	-	47.0%	-84.7%	21.2%	40.0%
Other operating expenses	-	8.1%	-3.8%	15.4%	14.1%
Operating income (EBIT)	-	-18.2%	25.1%	34.8%	18.6%
Other income, net	-	-13.5%	59.7%	18.0%	-8.3%
Earnings before taxes	-	-18.5%	22.2%	36.7%	21.1%
Taxes on income	-	-60.2%	56.2%	45.9%	19.0%
Net income from continuing operations	-	21.8%	11.4%	32.6%	22.1%
Net income	-	21.8%	11.4%	32.6%	22.1%
Minority interests	-	-31.1%	-102.9%	-100.0%	n.a.
Net income after minorities	-	24.7%	14.9%	32.5%	22.1%
Adjusted net income	-	24.7%	14.9%	32.5%	22.1%
Adjusted earnings per share (basic)	-	24.7%	14.9%	32.5%	22.1%
Income statement (of total)					
Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Change in finished goods and work in progress	-3.1%	-3.0%	2.1%	0.7%	1.2%
Material expenses	45.4%	47.7%	49.3%	49.3%	49.1%
Personnel expenses	30.8%	31.5%	30.8%	29.9%	29.3%
Depreciation and amortization (excl. goodwill)	2.0%	1.9%	1.4%	1.3%	1.4%
Other operating income	3.3%	4.7%	0.7%	0.7%	0.9%
Other operating expenses	12.9%	13.4%	12.5%	11.4%	12.0%
Operating income (EBIT)	9.2%	7.3%	8.8%	9.4%	10.3%
Other income, net	-0.7%	-0.6%	-0.9%	-0.8%	-0.7%
Earnings before taxes	8.5%	6.7%	7.9%	8.6%	9.6%
Taxes on income	4.2%	1.6%	2.4%	2.8%	3.1%
Net income from continuing operations	4.3%	5.1%	5.5%	5.8%	6.5%
Net income	4.3%	5.1%	5.5%	5.8%	6.5%
Minority interests	0.2%	0.2%	0.0%	0.0%	0.0%
Net income after minorities	4.1%	4.9%	5.5%	5.8%	6.5%
Adjusted net income	4.1%	4.9%	5.5%	5.8%	6.5%

Source: Company data, BHF-BANK estimates

Fig 24 Balance sheet

(€m)	2004	2005	2006F	2007F	2008F
Assets					
Cash and cash equivalents	11.4	20.5	6.3	3.7	5.6
Accounts receivable, net	20.8	17.0	17.0	18.0	19.4
Inventories	21.5	15.8	18.0	20.0	21.6
Other current assets	4.0	3.7	4.0	4.0	4.4
Current assets	57.6	57.0	45.3	45.7	51.1
Property, plant and equipment, net	5.6	3.3	5.0	5.5	6.5
Intangible assets, net	41.1	37.8	53.0	53.3	53.4
Financial assets	0.5	0.2	0.0	0.0	0.0
Other non current assets	2.8	2.3	1.0	1.0	1.0
Non current assets	50.1	43.7	59.0	59.8	60.9
Total assets	**107.7**	**100.8**	**104.3**	**105.5**	**112.0**
Liabilities and shareholders' equity					
Accounts payables	6.0	8.0	7.0	7.0	7.6
Short term debt	10.6	1.0	0.0	0.0	0.0
Other current liabilities	24.2	17.5	23.3	19.0	17.8
Current liabilities	40.9	26.5	30.3	26.0	25.4
Long term debt	0.0	5.3	1.0	1.0	1.0
Pension provisions	1.6	0.7	1.5	1.5	1.7
Deferred revenue	1.5	1.8	1.3	1.3	1.2
Minority interests	0.4	0.2	0.2	0.2	0.2
Total liabilities	44.3	34.5	34.3	30.0	29.5
Shareholders' equity	63.4	66.2	69.9	75.5	82.5
Total liabilities and shareholders' equity	**107.7**	**100.8**	**104.3**	**105.5**	**112.0**
Balance sheet (of total)					
Cash and cash equivalents	10.6%	20.3%	6.0%	3.5%	5.0%
Accounts receivable, net	19.3%	16.9%	16.3%	17.1%	17.4%
Inventories	20.0%	15.7%	17.3%	19.0%	19.3%
Other current assets	3.7%	3.7%	3.8%	3.8%	3.9%
Current assets	53.5%	56.6%	43.4%	43.3%	45.6%
Property, plant and equipment, net	5.2%	3.3%	4.8%	5.2%	5.8%
Intangible assets, net	38.2%	37.5%	50.8%	50.5%	47.7%
Financial assets	0.5%	0.2%	0.0%	0.0%	0.0%
Other non current assets	2.6%	2.3%	1.0%	0.9%	0.9%
Non current assets	46.5%	43.4%	56.6%	56.7%	54.4%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Accounts payables	5.6%	8.0%	6.7%	6.6%	6.8%
Short term debt	9.8%	1.0%	0.0%	0.0%	0.0%
Other current liabilities	22.5%	17.3%	22.3%	18.0%	15.9%
Current liabilities	37.9%	26.3%	29.1%	24.6%	22.7%
Long term debt	0.0%	5.2%	1.0%	0.9%	0.9%
Pension provisions	1.5%	0.7%	1.4%	1.4%	1.5%
Deferred revenue	1.4%	1.8%	1.2%	1.2%	1.1%
Minority interests	0.3%	0.2%	0.2%	0.2%	0.2%
Total liabilities	41.1%	34.3%	32.9%	28.5%	26.3%
Shareholders' equity	58.9%	65.7%	67.1%	71.5%	73.7%
Total liabilities and shareholders' equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, BHF-BANK estimates

Fig 25 Cash flow statement

(€m)	2004	2005	2006F	2007F	2008F
Net income	4.8	5.8	6.5	8.6	10.5
Depreciation and amortization	2.2	2.1	1.6	2.0	2.2
Other non cash items	-5.9	-3.8	0.2	0.0	0.1
Cash earnings	1.0	4.1	8.4	10.6	12.8
Change in working capital	7.0	5.6	1.4	-3.0	-4.1
Net cash provided by operating activities	8.0	9.7	9.7	7.6	8.7
Capital expenditure	-12.0	-1.5	-16.8	-2.8	-3.3
Proceeds from disposal of assets	1.8	9.1	0.0	0.0	0.0
Others	-0.6	-0.1	0.0	0.0	0.0
Net cash used in investing activities	-10.7	7.5	-16.8	-2.8	-3.3
Free cash flow	-2.8	17.3	-7.1	4.8	5.4
Dividends paid	-2.3	-2.8	-2.8	-3.1	-3.5
Net proceeds from/repayment of debt	-17.4	-5.3	-4.3	-4.3	0.0
Others	0.0	-0.1	0.0	0.0	0.0
Cash flow from financing activities	-19.7	-8.2	-7.1	-7.4	-3.5
Effect of exchange rate changes	0.3	0.0	0.0	0.0	0.0
Change in cash and cash equivalents	-22.2	9.1	-14.2	-2.6	1.9
Cash and cash equivalents at beginning of period	33.6	11.4	20.5	6.3	3.7
Cash and cash equivalents at end of period	11.4	20.5	6.3	3.7	5.6

Source: Company data, BHF-BANK estimates

Fig 26 Key ratios

(€m)	2004	2005	2006F	2007F	2008F
Net debt (-) / cash (+)	-0.8	13.5	3.8	1.2	2.9
Working capital	34.8	23.0	26.7	29.7	32.3
Capital employed	81.5	64.2	84.7	88.5	92.2
ROE	7.5%	8.8%	9.3%	11.4%	12.7%
ROCE	16.0%	12.5%	14.8%	18.6%	20.1%
Net gearing	1.2%	-20.4%	-5.4%	-1.6%	-3.5%

Source: Company data, BHF-BANK estimates

Fig 27 Valuation

	2004	2005	2006F	2007F	2008F
PER	14.3	13.5	14.0	11.9	9.8
P/NAV	1.0	1.2	1.3	1.4	1.2
EV/Sales	0.6	0.6	0.7	0.7	0.6
EV/EBITDA	5.3	6.0	7.3	6.3	5.3
EV/EBIT	6.5	7.6	8.4	7.3	6.0
Dividend yield	4.3%	3.7%	3.4%	3.4%	3.9%

Source: Company data, BHF-BANK estimates

Notes on equity research products

Our recommendations and the corresponding target prices are based on a six-month forecast period unless stated otherwise in the report.

Share prices used in our reports are closing prices of the day before publication unless a different date is stated.

We will update our research products in accordance with the performance of the equity market and/or following press conferences on annual results, interim reports, ad hoc statements of the companies.

Publications of the last 12 months: **Initiating coverage**

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