

euromicron AG

Restructuring still not completed

28/01/2016

Hold (Hold)
7.70 EUR (9.70 EUR)

Close 25/01/2016 7.00 EUR
Bloomberg: EUCA GY WKN: A1K030
Sector Technology

Share price performance

52 week high 14.18 EUR
52 week low 6.86 EUR
Compared to Prime All Share
YTD 1.5%
1 month -2.6%
12 months -32.7%



Share data

EV (m EUR; 2016) 136.1
Market Cap (m EUR) 50.2
No. of shares (m) 7.2
Free float 100.0%

Next event

Annual Results 23/03/2016

Change in model

	Sales	EBIT	EPS
2015e	-1.4%	-108.9%	-210.2%
2016e	-1.4%	-26.5%	-43.0%
2017e	-1.4%	-12.9%	-21.6%

Analyst

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See end of document for disclaimer.

German Small Caps in 2016 - Cloudy with sunny spells

Euromicron is still in the midst of a costly restructuring phase. Based on our estimates, we expect the company to end FY 2015 with a net loss and a negative FCF. With lower revenue and earnings estimates for 2015-17, we have lowered our price target from € 9.70 to € 7.70.

INVESTMENT CASE

In FY 2015, Euromicron was once more forced to reduce its guidance in the course of the year. Despite expected positive earnings in Q4, we project a net loss for the full year. In view of higher net debt (BHL 2015e: € 87 m vs. € 49 m in 2014, partly driven by dispensing with factoring), debt restructuring appears to be highly likely in the current year. In terms of the operating performance, we project a significant increase in profitability in 2016 thanks to a lower cost base and new structures in the group. However, market expectations for a recovery of EBITDA and EPS in 2016 and 2017 are too high, in our view. We believe that the company needs to return to sustainable growth and positive FCFs before the capital market will consider a higher valuation to be justified.

CATALYSTS

- FY 2016 outlook: We expect a revenue guidance of € 340-360 m with a target range for the EBITDA margin of 5-7%.
- Order book as per 31/12/2015: BHL € 130 m (+7% yoy).
- Debt restructuring: We expect a slight increase in the financing conditions.

VALUATION

We analyse Euromicron stock based on a three-stage DCF model. A peer-group comparison with EV/EBIT and P/FCF multiples for 2016e and 2017e would allow for a ~ 10% higher valuation.

in m EUR	2013	2014	2015e	2016e	2017e
Sales	329.4	346.3	346.3	359.8	375.3
EBIT	5.5	11.4	-1.0	10.9	15.8
EBIT margin	1.7%	3.3%	-0.3%	3.0%	4.2%
Net financial debt	37.9	54.4	86.8	84.2	80.3
Free cash-flow	34.3	-16.2	-32.3	2.3	3.6
EPS (in EUR)	-0.12	0.36	-0.61	0.56	1.03
DPS (in EUR)	0.00	0.00	0.00	0.00	0.10
Dividend yield	0.0%	0.0%	0.0%	0.0%	1.4%
EV/Sales	0.4	0.4	0.4	0.4	0.4
EV/EBIT	25.9	12.1	-150.0	12.5	8.4
Price Earnings ratio (P/E)	-119.8	32.1	-12.5	12.5	6.8

Source: Company information, Bankhaus Lampe Research estimates

28/01/2016

Company Overview

SWOT

Strengths/Opportunities

- Positioning in structural growth markets
- Options for bolt-on acquisitions
- Potential acquisition target
- Important customers are resolving investment logjam
- New regional market entries

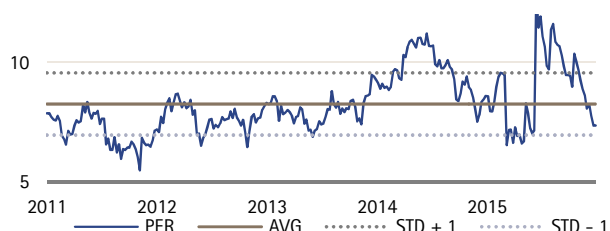
MANAGEMENT

- Bettina Meyer
- Jürgen Hansjosten

SHORT-TERM GUIDANCE

- 2014: revenue lower end € 340-360 m; EBITDA margin 2-4%

HISTORICAL P/E



COMPANY EVENTS

Next event: 23/03/2016 Annual Results

KEY RATIOS

	2013	2014	2015e	2016e	2017e
R&D/Sales	-	-	-	-	-
Capex/Sales	1.9%	1.8%	2.7%	3.2%	3.5%
Capex/Depreciation	0.7	0.7	0.9	1.0	1.1
ROCE	2.7%	6.3%	-0.4%	4.9%	6.9%
Free cash flow yield	33.3%	-19.8%	-62.6%	4.5%	7.0%
Equity ratio	37.3%	38.4%	36.3%	36.6%	37.8%
Net debt / Equity	31%	49%	82%	76%	68%
Net debt / EBITDA	2.6	2.6	8.6	3.8	2.9
Interest cover	> 10	> 10	-0.2	> 10	> 10

Weaknesses/Threats (Risks)

- Loss of investor confidence after profit warnings in 2014/2015
- Stagnating order book
- Pricing pressure in the high-margin manufacturing business
- Strengthening of equity capital might be necessary
- Resuming of dividend payment not decided yet

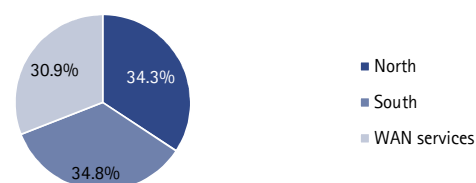
COMPANY BACKGROUND

Frankfurt-based Euromicron AG is a provider of complete infrastructure solutions for communications, transport, security and data networks. The company acts as a manufacturer, system integrator and distributor. Its portfolio comprises planning, implementing and maintaining networks, as well as developing, producing and distributing network components based on optical transmission technology.

MEDIUM-TERM GUIDANCE

- EBITDA margin 8-11%

REVENUE BREAKDOWN (LAST ACTUAL YEAR)



MAJOR SHAREHOLDERS (%)

Universal Investment	2.8
MMP	2.6
Lazard	2.3

BHL VS. CONSENSUS

	2015e	2016e	2017e
Sales (in m EUR)			
BHL	346.3	359.8	375.3
Consensus	345.6	360.0	375.0
EBIT (in m EUR)			
BHL	-1.0	10.9	15.8
Consensus	3.1	14.1	18.7
EPS (EUR)			
BHL	-0.61	0.56	1.03
Consensus	0.43	0.95	1.41

Source: Company information, FactSet, BHL estimates

Key figures

euromicron AG – Income statement

in m EUR	2013	2014	2015e	2016e	2017e
Sales	329.4	346.3	346.3	359.8	375.3
Own work capitalised	4.3	5.4	5.3	5.0	5.0
Total sales	333.7	351.7	351.6	364.8	380.3
Material expenses	-176.4	-182.5	-185.6	-188.9	-195.2
Personnel expenses	-99.2	-103.2	-110.5	-107.2	-110.0
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0
Other operating result	-43.7	-44.9	-45.4	-46.8	-47.7
EBITDA	14.4	21.1	10.1	21.9	27.5
Depreciation	8.9	9.7	11.1	11.0	11.7
EBITA	5.5	11.4	-1.0	10.9	15.8
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	0.0	0.0	0.0
EBIT	5.5	11.4	-1.0	10.9	15.8
Financial result	-3.8	-3.7	-4.2	-4.4	-4.2
Income on ordinary activities	1.7	7.8	-5.2	6.5	11.6
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
EBT	1.7	7.8	-5.2	6.5	11.6
Taxes	-2.5	-4.9	1.1	-2.0	-3.5
Net income from cont. operations	-0.8	2.9	-4.1	4.5	8.1
Net income from discount. operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.1	-0.3	-0.3	-0.5	-0.7
Net income (adj.)	-0.9	2.6	-4.4	4.0	7.4
No. of shares	7.2	7.2	7.2	7.2	7.2
EPS	-0.12	0.36	-0.61	0.56	1.03

Source: Company information, Bankhaus Lampe Research estimates

	2013	2014	2015e	2016e	2017e
Gross margin	46.4%	47.3%	46.4%	47.5%	48.0%
EBITDA margin	4.4%	6.1%	2.9%	6.1%	7.3%
EBITA margin	1.7%	3.3%	-0.3%	3.0%	4.2%
EBIT margin	1.7%	3.3%	-0.3%	3.0%	4.2%
EBT margin	0.5%	2.2%	-1.5%	1.8%	3.1%
Net profit margin	-0.3%	0.7%	-1.3%	1.1%	2.0%
Tax rate	144.7%	63.2%	21.4%	30.7%	30.1%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2013	2014	2015e	2016e	2017e
Sales	-0.2%	5.1%	0.0%	3.9%	4.3%
EBITDA	-42.5%	46.7%	-51.9%	>100%	25.6%
EBIT	-67.8%	>100%	---	---	45.0%
EBT	-86.1%	>100%	---	---	78.4%
Net income (adj.)	---	---	---	---	84.9%
EPS	---	---	---	---	84.9%

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet

Assets (in m EUR)	2013	2014	2015e	2016e	2017e
Fixed assets	155.1	150.7	149.1	149.7	151.2
Property, plant and equipment	14.5	14.1	12.5	13.0	14.4
Intangible assets	137.2	134.3	134.3	134.3	134.3
Financial assets	1.0	0.9	0.9	0.9	1.0
Other long-term assets	2.4	1.5	1.5	1.5	1.6
Current assets	173.8	136.7	143.3	150.6	159.9
Inventories	28.0	29.0	28.5	29.6	30.8
Accounts receivable	98.4	85.8	85.4	88.7	92.5
Other current assets	8.6	6.3	6.3	6.5	6.8
Securities	0.0	0.0	0.0	0.0	0.0
Cash	38.8	15.6	23.2	25.8	29.7
Total assets	328.9	287.4	292.4	300.3	311.1
Equity and liabilities in m EUR					
Shareholders' equity	122.6	110.4	106.0	110.1	117.5
Shareholders' equity (before minority)	122.2	110.0	105.6	109.7	117.1
Minorities	0.4	0.4	0.4	0.4	0.4
Non-current liabilities	53.4	57.6	77.6	78.0	78.5
Pension provisions	0.9	1.2	1.2	1.2	1.3
Other provisions	1.8	1.9	1.9	2.0	2.1
Long-term financial debt	42.0	47.1	67.1	67.1	67.1
Other long-term debt	8.7	7.4	7.4	7.6	8.0
Current liabilities	152.9	119.4	108.8	112.3	115.1
Short-term debt	34.7	22.9	42.8	42.8	42.8
Other accruals short-term	2.3	1.7	1.7	1.8	1.9
Accounts payable	54.6	44.2	41.7	44.2	46.0
Other liabilities	61.2	50.6	22.6	23.4	24.4
Total equity and liabilities	328.9	287.4	292.4	300.3	311.1

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet structure

Assets	2013	2014	2015e	2016e	2017e
Fixed assets	47.2%	52.4%	51.0%	49.9%	48.6%
Property, plant and equipment	4.4%	4.9%	4.3%	4.3%	4.6%
Intangible assets	41.7%	46.7%	45.9%	44.7%	43.2%
Current assets	52.8%	47.6%	49.0%	50.1%	51.4%
Inventories	8.5%	10.1%	9.7%	9.8%	9.9%
Accounts receivable	29.9%	29.9%	29.2%	29.5%	29.7%
Cash	11.8%	5.4%	7.9%	8.6%	9.5%
Equity and liabilities					
Shareholders' equity	37.3%	38.4%	36.3%	36.6%	37.8%
Non-current liabilities	16.2%	20.0%	26.5%	26.0%	25.2%
Pension provisions	0.3%	0.4%	0.4%	0.4%	0.4%
Long-term financial debt	12.8%	16.4%	23.0%	22.4%	21.6%
Current liabilities	46.5%	41.6%	37.2%	37.4%	37.0%
Short-term debt	10.6%	8.0%	14.7%	14.3%	13.8%
Accounts payable	16.6%	15.4%	14.2%	14.7%	14.8%

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Cash flow statement

in m EUR	2013	2014	2015e	2016e	2017e
Net income (adj.)	-0.9	2.6	-4.4	4.0	7.4
Depreciation	8.9	9.7	11.1	11.0	11.7
Amortisation of goodwill & intangible assets	0.0	0.0	0.0	0.0	0.0
Change of provisions	0.8	-0.2	0.0	0.2	0.2
Other	-10.0	-6.8	0.0	-0.1	0.0
Operating Cash-flow before changes in w/c	-1.1	5.3	6.8	15.1	19.3
Change in inventory	-0.5	-1.1	0.6	-1.1	-1.3
Change in accounts receivable	-1.6	12.6	0.4	-3.3	-3.8
Change in accounts payable	11.8	-10.4	-2.6	2.5	1.8
Change in other working capital positions	30.8	-8.3	-28.0	0.6	0.7
Operating Cash-flow	39.4	-1.9	-22.8	13.8	16.7
Capex, excluding maintenance	-6.4	-6.4	-9.5	-11.5	-13.1
Payments for acquisitions	0.0	-8.0	0.0	0.0	0.0
Financial investments	0.5	0.1	0.0	0.0	0.0
Income from asset disposals	0.8	0.0	0.0	0.0	0.0
Income from financial investments	0.0	0.0	0.0	0.0	0.0
Cash-flow from investing activities	-5.1	-14.3	-9.5	-11.5	-13.1
Free cash-flow	34.3	-16.2	-32.3	2.3	3.6
Capital measures	6.7	0.0	0.0	0.0	0.0
Increase/decrease in debt position	-5.4	-6.8	39.9	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	-0.2	-0.2	0.0	0.3	0.3
Dividend paid	-2.0	0.0	0.0	0.0	0.0
Cash-flow from financing activities	-0.9	-7.0	39.9	0.3	0.3
Increase/ decrease in liquid assets	33.4	-23.2	7.6	2.6	3.9
Effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Cash at beginning of period	5.4	38.8	15.6	23.2	25.8
Change in total cash and cash equivalents	33.4	-23.2	7.6	2.6	3.9
Cash at end of period	38.8	15.6	23.2	25.8	29.7

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Ratios

	2013	2014	2015e	2016e	2017e
Per Share Data					
EPS	-0.12	0.36	-0.61	0.56	1.03
Book value per share	17.08	15.38	14.78	15.34	16.37
Free Cash-flow per share	4.78	-2.26	-4.51	0.32	0.50
Dividend per share	0.00	0.00	0.00	0.00	0.10
Valuation ratios					
EV/Sales	0.4	0.4	0.4	0.4	0.4
EV/EBITDA	9.9	6.5	14.1	6.2	4.8
EV/EBIT	25.9	12.1	-150.0	12.5	8.4
Price Earnings ratio (P/E)	-119.8	32.1	-12.5	12.5	6.8
Price to book (total equity)	0.8	0.7	0.5	0.5	0.4
Dividend yield	0.0%	0.0%	0.0%	0.0%	1.4%
Profitability ratios					
EBITDA margin	4.4%	6.1%	2.9%	6.1%	7.3%
EBIT margin	1.7%	3.3%	-0.3%	3.0%	4.2%
Net return on sales	-0.3%	0.7%	-1.3%	1.1%	2.0%
Return on capital employed (ROCE)	2.7%	6.3%	-0.4%	4.9%	6.9%
Productivity ratios					
Capital turnover	68.8%	63.9%	63.9%	62.2%	60.9%
Operating leverage	0.7	-1.1	1.1	12.5	-0.4
Sales per employee	189,202	194,114	193,037	199,465	206,326
EBIT per employee	3,159	6,401	0	6,049	8,696
Number of employees (in thousands)	1.7	1.8	1.8	1.8	1.8
Financial ratios					
Equity ratio	37.3%	38.4%	36.3%	36.6%	37.8%
Net financial debt (in m EUR)	37.9	54.4	86.8	84.2	80.3
Net debt / Equity	30.9%	49.3%	81.8%	76.5%	68.3%
Interest cover	> 10	> 10	-0.2	> 10	> 10
Net debt / EBITDA	2.63	2.58	8.55	3.84	2.92
Working Capital (in m EUR)	71.7	70.6	72.2	74.1	77.4
Change Working Capital (in m EUR)	-9.7	-1.1	1.6	1.9	3.3
WC /sales	21.8%	20.4%	20.8%	20.6%	20.6%
Stocks in days of sales	30	30	30	30	30
Trade debtors in days of sales	107	86	90	90	90
Trade creditors in days of COGS/Material cost	47	50	44	45	45
Cash conversion cycle	90	66	76	75	75
Invest. (property/plant/equity) / Depreciation	71.8%	66.0%	85.6%	104.5%	112.0%
Others					
Sales CAGR (last 3 years)	17.4%	4.3%	1.6%	3.0%	2.7%
EBIT CAGR (last 3 years)	-35.1%	-22.2%	-138.2%	25.7%	11.5%
Net income CAGR (last 3 years)	-142.2%	-40.7%	-179.8%	-267.1%	42.8%
Pay out ratio	0.0%	0.0%	0.0%	0.0%	9.7%
Free cash-flow (in m EUR)	34.3	-16.2	-32.3	2.3	3.6
Free cash flow yield	33.3%	-19.8%	-59.5%	4.6%	7.2%

Source: Company information, Bankhaus Lampe Research estimates