GBC AG
Investment Research

Research Report (Anno)

euromicron

Restructuring successfully completed
-
Qualitative improvements clearly visibly already
-
Strong organic growth expected for the FY2017

Target Price: EUR 10.50 (before: EUR 10.50)

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page 18

Date of Completion: 09/05/2017 **Date of first Publication: 09/05/2017**

Rating: BUY
Kursziel: €10.50

Current price: 7.05
9/5/2017 / ETR

Currency: EUR

Key Figures:

ISIN: DE000A1K0300
WKN: A1K030
Ticket symbol: EUCA

Number of shares[3]: 7.176

Marketcap[3]: 50.59
Enterprise Value[3]: 122.02
[3] in mEUR

Free Float: 100.00%

Transparency Level:
Prime Standard

Market Segment:
Regulated Market

Accounting Standard:
IFRS

Financial Year: 31.12.

Designated Sponsor:
EQUINET BANK AG

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* catalogue of potential conflicts of interests on page 19

euromicron AG[*5a,5b,11]

Company Profile

Sector: Technology

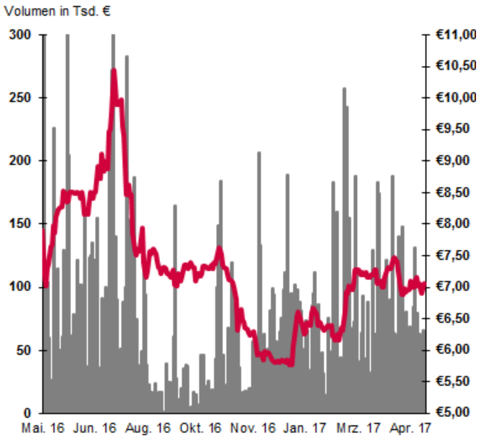
Focus: Digitalization of infrastructures and interconnection of IT-structures

Employees: 1,804

Founded: 1998

Registered Office: Frankfurt am Main

Executive Board: Bettina Meyer, Jürgen Hansjosten



euromicron AG is a group that unites medium-sized high-tech companies from the fields of Digital Buildings, Smart Industry and Critical Infrastructures. As a German specialist for the Internet of Things, euromicron enables its customers to network business and production processes to successfully move to a digital future. The companies in the euromicron Group are leading manufacturers of products and solutions "Made in Germany" from the fields of fiber-optic technology and network components. Backed by this manufacturing know-how and many years of experience in developing and integrating technologies, euromicron delivers customized solutions – from design and implementation, operation, to related services – and creates the IT structures required for that. euromicron's solutions enable users to increase the flexibility and efficiency of their business and production processes.

P&L in m€	31/12/2015	31/12/2016	31/12/2017e	31/12/2018e
Sales	344.89	325.31	335.00	353.77
EBITDA	6.92	7.39	12.61	19.59
EBIT	-8.65	-2.26	4.11	10.84
Net profit	-13.25	-12.66	-0.82	4.01
Per Share Figures in €				
Earnings per share	-1.85	-1.76	-0.12	0.56
Dividend per share	0.00	0.00	0.00	0.00
Key Figures				
EV/Sales	0.35	0.38	0,36	0.34
EV/EBITDA	17.62	16.52	9.68	6.23
EV/EBIT	neg.	neg.	29.69	11.26
P/E	neg.	neg.	neg.	12.62
P/B		0.61		

Finanztermine
11/05/2017: Q1 report
14/06/2017: Annual General Meeting
10/08/2017: HY report
09/11/2017: Q3 report

**last research published by GBC:
Date: publication/price target in €/Rating
19/08/2016: RS / 10.50 / BUY
16/08/2016: RS / 10.50 / BUY
11/04/2016: RS / 12.10 / BUY
04/04/2016: RS / 12.10 / BUY
16/10/2015: RS / 15.50 / BUY

** the research reports can be found on our web-side www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

EXECUTIVE SUMMARY

- In FY 2016, euromicron AG achieved sales of €325.31 million, 5.7% less than in the previous year. In particular, this decrease was mainly caused by the “Critical Infrastructures” segment which discontinued the business unit fibreglas infrastructure and could not materialise some sales due to not granted export licenses. In the “Smart Buildings” segment the sales decrease only was marginal, due to project postponements for component deliveries. However, it has to be mentioned that a large-scale order was contained in the previous financial years sales, which did not repeat in 2016. The “Distribution” segment, on the other hand, was able to record an increase in sales. Adjusted for the product lines that were discontinued in the previous year (€10.6 million), the decline in organic sales was only about 2.7%.

- Despite a decline in sales the reported EBITDA was reported at €7.39 million, slightly above the previous year´s figure (€6.92 million), even though the core segment, “Smart Buildings”, had a detrimental impact on the operating profit due to temporary effects. Moreover, the operating profit was reduced by restructuring costs of €5.8 million. Adjusted for special effects from restructuring measures, operating EBITDA was €13.15 million, compared to €13.76 million in the previous year.

- It should be emphasized that the restructuring measures announced by the management were implemented and have had an increasing impact on key indicators. Breaking with its past, the company is now more focused on profitable orders and puts more emphasis on earnings performance than revenue development. The new orientation of the Group, which was initiated in 2015, is now almost complete. We therefore expect a much lower negative impact on earnings in the future. In general, we believe that the company is on the right track, with successes becoming more obvious.

- For FY 2017, we expect a significant increase in sales and earnings. We expect sales of about €335.00 million, mainly from the “Critical Infrastructures” segment, and EBITDA of €12.61 million. These again contain extraordinary expenses of €2.5 million in connection with the restructuring of the Group. Adjusted operating EBITDA (adjusted for restructuring effects) is thus expected to be at €15.1 million; this corresponds to an operating EBITDA margin of 4.5%. For 2018, we do not expect additional extraordinary expenses, which should result in EBITDA increasing to €19.6 million. Accordingly, we expect to achieve an EBITDA margin of 5.5%.

- **Based on the forecasts for FY 2017 and 2018, we have kept our target price for euromicron AG at the same level. The fair market value based on our DCF model is €10.50 (previously: €10.50). Based on the current share price, this results in an unchanged BUY rating. Over the long-term, we are convinced that euromicron will be able to achieve much higher EBITDA margins than before. Furthermore, we are also convinced that the mostly completed Group restructuring will have a positive impact on future sales and earnings. Against this backdrop, it seems to us that the euromicron AG share is favourably valued.**

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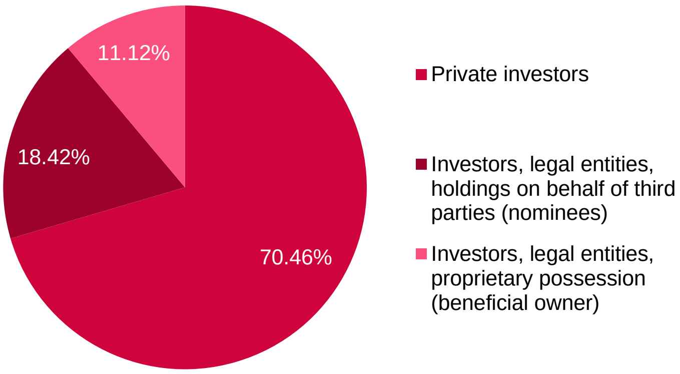
COMPANY

Shareholder Structure

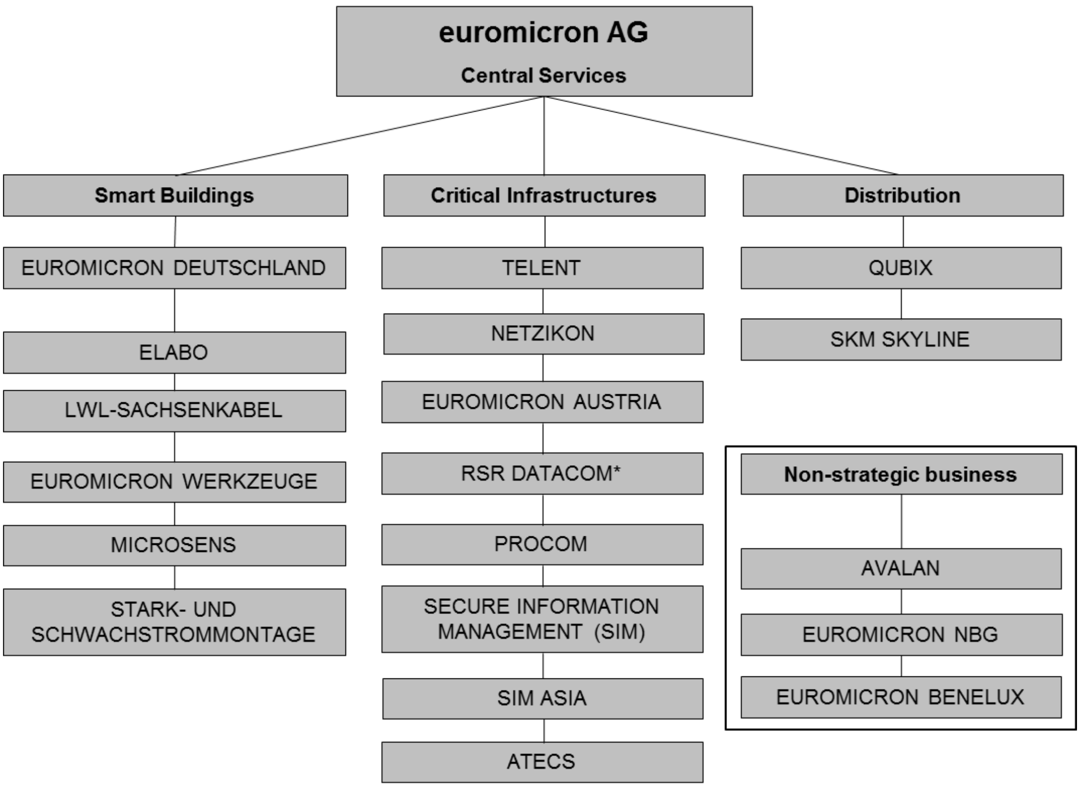
Shareholders in %	as of 31/03/2017
Private investors	70.46%
Investors, legal entities, holdings on behalf of third parties (nominees)	18.42%
Investors, legal entities, proprietary possession (beneficial owner)	11.12%
Total	100.00%

Source: euromicron, GBC



Group Structure

The euromicron Group targets the markets “Digital Buildings”, “Industry 4.0” and “Critical Infrastructures”. To address these target markets the group operates with the three segments “Smart Buildings”, “Critical Infrastructures” and “Distribution”. The two large systems houses euromicron Deutschland in the “Smart Buildings” segment and telent in the “Critical Infrastructures” segment are supplemented by various technology companies in order to be able to provide holistic solutions. The euromicron group differentiates itself from the competition through the combination of systems integration and technology expertise. euromicron AG acts as a strategic holding company and therefore takes responsibility for the strategic management and cross-departmental functions within the Group.

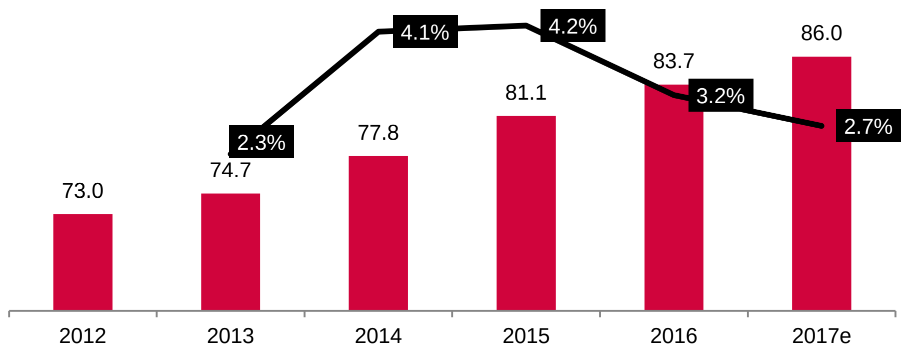


*Source: euromicron; *business will be terminated during HY1 2017; as of: 31/12/2016*

MARKET AND MARKET DEVELOPMENT

The German IT market continued to develop dynamically in 2016, rising 3.2% compared to the previous year. Market volume in Germany increased accordingly to €83.7 billion. In this environment, it was specifically the software segment which grew significantly in particular in view of the increasing digitalisation of almost all industries and economic sectors. Particularly due to the company's new orientation, euromicron AG should be able to increasingly profit from this trend in the future as the digitalisation of companies, buildings and infrastructures will represent a central element. The industry association BITKOM forecast assumes that market growth will remain strong in 2017. It is expected that IT market volume will increase to €86.0 billion, which corresponds to a growth rate of 2.7%.

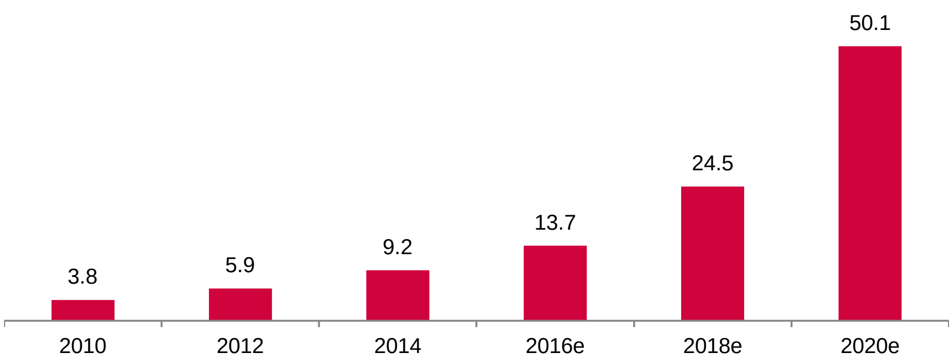
Development of the German IT market (in bn€)



Source: BITKOM

Particularly the Internet of Things (IoT) will play an important role in coming years and a large number of segments will be accordingly involved in this trend. euromicron AG has set itself a clear focus which also carries great market potential with its orientation on the segments "Digital Buildings", "Industry 4.0" and "Critical Infrastructures". Overall, it is expected that the IoT market will achieve strong growth rates in the coming years. While the German market likely had a volume of €13.7 billion in 2016, it is expected that it will grow to four times this size to approx. €50.1 billion by 2020. In view of euromicron AG's offensive in the product area we perceive a good chance that the company will be able to profit from the digitalisation trend.

Spending on Internet of Things in Germany (in bn$)



Source: TechNavio, Deloitte, GBC

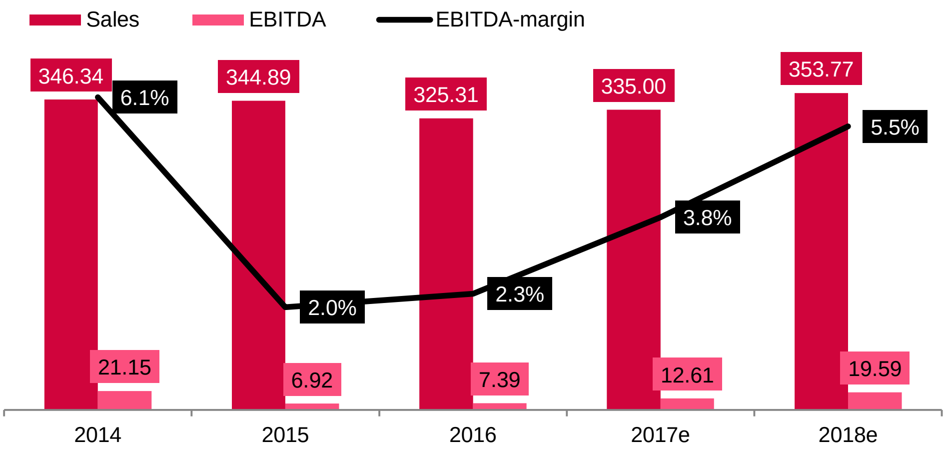
BUSINESS DEVELOPMENT & ESTIMATES

Key Financial Figures

P&L in m€	FY 2015		FY 2016		FY 2017e		FY 2018e	
Sales	**344.89**	***100.0%***	**325.31**	***100.0%***	**335.00**	***100.0%***	**353.77**	***100.0%***
Changes in inventory	0.83	*0.2%*	-0.86	*-0.3%*	0.00	*0.0%*	0.00	*0.0%*
Own work capitalised	2.94	*0.9%*	2.81	*0.9%*	2.50	*0.7%*	2.50	*0.7%*
Other operating income	3.07	*0.9%*	4.50	*1.4%*	3.00	*0.9%*	3.00	*0.8%*
Cost of materials	-189.83	*-55.0%*	-171.51	*-52.7%*	-174.20	*-52.0%*	-182.55	*-51.6%*
Gross Profit	**161.90**	***46.9%***	**160.25**	***49.3%***	**166.30**	***49.6%***	**176.72**	***50.0%***
Personnel expenses	-107.88	*-31.3%*	-109.06	*-33.5%*	-110.50	*-33.0%*	-112.00	*-31.7%*
Depreciation and amortization	-15.57	*-4.5%*	-9.65	*-3.0%*	-8.50	*-2.5%*	-8.75	*-2.5%*
Other operating expenses	-47.10	*-13.7%*	-43.81	*-13.5%*	-43.19	*-12.9%*	-45.13	*-12.8%*
EBIT	**-8.65**	***-2.5%***	**-2.26**	***-0.7%***	**4.11**	***1.2%***	**10.84**	***3.1%***
Financial result	-4.06	*-1.2%*	-5.36	*-1.6%*	-5.00	*-1.5%*	-4.75	*-1.3%*
EBT	**-12.71**	***-3.7%***	**-7.62**	***-2.3%***	**-0.89**	***-0.3%***	**6.09**	***1.7%***
Income taxes	-0.42	*-0.1%*	-4.85	*-1.5%*	0.27	*0.1%*	-1.83	*-0.5%*
Net profit before minority interest	**-13.13**	***-3.8%***	**-12.47**	***-3.8%***	**-0.62**	***-0.2%***	**4.26**	***1.2%***
Minority interest	-0.12	*0.0%*	-0.19	*-0.1%*	-0.20	*-0.1%*	-0.25	*-0.1%*
Net profit after minority interest	***-13.25***	***-3.8%***	***-12.66***	***-3.9%***	***-0.82***	***-0.2%***	***4.01***	***1.1%***

EBITDA	6.92	7.39	12.61	19.59
in % of sales	*2.0%*	*2.3%*	*3.8%*	*5.5%*
EBIT	-8.65	-2.26	4.11	10.84
in % of sales	*-2.5%*	*-0.7%*	*1.2%*	*3.1%*
Earnings per share in €	-1.85	-1.76	-0.12	0.56
Dividend per share in €	0.00	0.00	0.00	0.00
Ø number of shares outstanding	7.176	7.176	7.176	7.176

Development of Sales, EBITDA (m€) and EBITDA margin (in %)



Source: euromicron, GBC

Business Development FY2016

P&L (in m€)	FY 2015	Delta Δ	FY 2016
Sales	344.89	-5.7%	325.31
EBITDA (*margin*)	6.92 (*2.0%)*	+6.7%	7.39 (*2.3%)*
EBIT (*margin*)	-8.65 (*-2.5%)*	n.A.	-2.26 (*neg.)*
Net profit	-13.25	n.A.	-12.66
EPS in €	-1.85	n.A.	-1.76

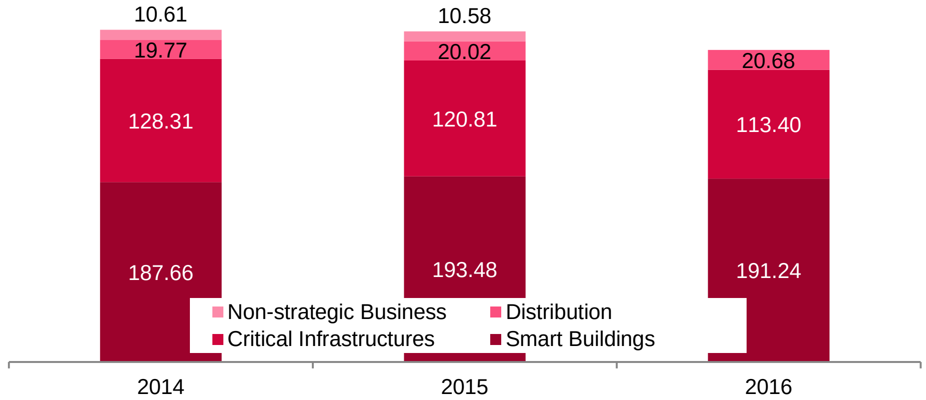
Source: euromicron AG, GBC

Development of Sales

euromicron AG's FY 2016 continued to be strongly impacted by the new orientation and restructuring which commenced in 2015. In Q3 2016 therefore the management had to adjust its sales and earnings forecast. The Critical Infrastructure segment in particular showed weak performance and thus lagged behind expectations. Segment sales dropped by 6.0% to €113.40 million. This decline in sales was caused by the discontinuation of the fibreglas infrastructure division (€1.7 million). The additional decline in sales was mainly caused by primarily unrealised sales due to export licenses not granted in the product business.

In the Smart Buildings segment sales only slightly were below the previous year´s figure, in the Distribution segment sales were moderately increased. Overall, sales declined by 5.7% compared to the previous year; however, it must be taken into account that the two now discontinued business divisions had contributed €10.6 million to total sales in the previous year. Adjusted for these effects, organic sales only declined by 2.7%.

Development of sales by segment (in m€)



Source: euromicron, GBC

The largest Smart Buildings segment recorded a slight decline in sales by 1.2% in FY 2016 to €191.24 million. The strong single-digit growth expected by management for this segment was not achieved. The main reason for the deviation from the forecast was the missing growth in sales by euromicron Deutschland, the largest part of this segment. During the previous financial year, distribution underwent a reorientation in this segment part. As part of this reorientation, sub-contractor orders relating to large high-risk orders were avoided. Thus, consciously low-margin sales were avoided to increase profitability and decrease risk. In addition, the large orders were not received due to annual fluctuations in the business and the shift in international large-scale projects had a negative impact on segment sales.

In addition, in 2016, euromicron Deutschland had to complete old projects. This primarily had effects on the earnings side, but also on sales as employee resources were tied up and therefore were not available for alternative projects. In the current financial year, projects of these types should no longer have any meaningful negative impact.

In contrast to the two largest segments, the Distribution segment performed well. It managed to increase sales by 3.3% to €20.68 million compared to the previous year. Management expectations were beaten in this respect.

Overall, it can be concluded that sales performance in FY 2016 was not yet satisfactory. However, it must be mentioned that the actual organic decline in sales was only moderate, despite the fact that business performance was impacted by the restructuring. Furthermore, the sales decline was affected by a large-scale order in the previous year and by project postponements, which both have to be considered when drawing the comparison between both financial years.

Development of Earnings

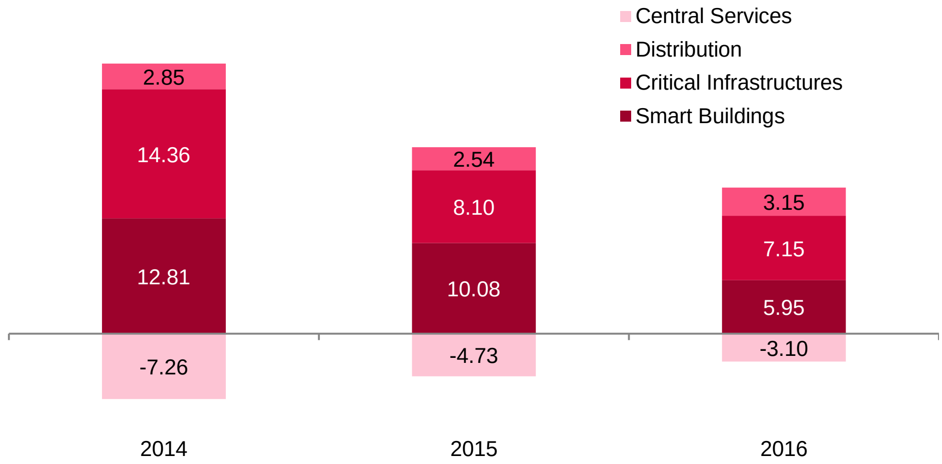
euromicron AG's strategic reorientation and restructuring is reflected in its earnings performance. Operating EBITDA (adjusted for restructuring effects) decreased by 4.4% to €13.15 million. Similar to the trend in sales, this was primarily caused by the Critical Infrastructures and Smart Buildings segments.

In the Smart Buildings segment, earnings were mainly impacted by euromicron Deutschland. In this segment, old orders had to be completed in FY 2016 that tied up staff capacity which could have otherwise been used for higher margin projects. We estimate a corresponding negative impact of approx. €3.0 million. In addition, we also recorded a negative margin effect caused by the loss of a non-annually recurring large-scale order for equipping data centres with special plugs. In total, this results in a loss of contribution margins. Operating EBITDA for this segment thus significantly decreased by 41.0% to €5.95 million.

The second largest segment, Critical Infrastructures, showed similar performance. As shown in the sales trend, the fiberglass infrastructure division was discontinued in this segment and outstanding export licenses caused a decline in sales. Both had a negative effect on earnings (€2.4 million) which led to a decline in operating EBITDA year-on-year by 12.0% to €7.15 million. The two largest divisions were not able to meet earnings-related management expectations.

The Distribution segment, on the other hand, performed well. Thanks to the positive sales trend and the significantly improved gross profit margin of the product mix offered, operating EBITDA increased by 24.0% to €3.15 million. Management expectations were exceeded in this segment.

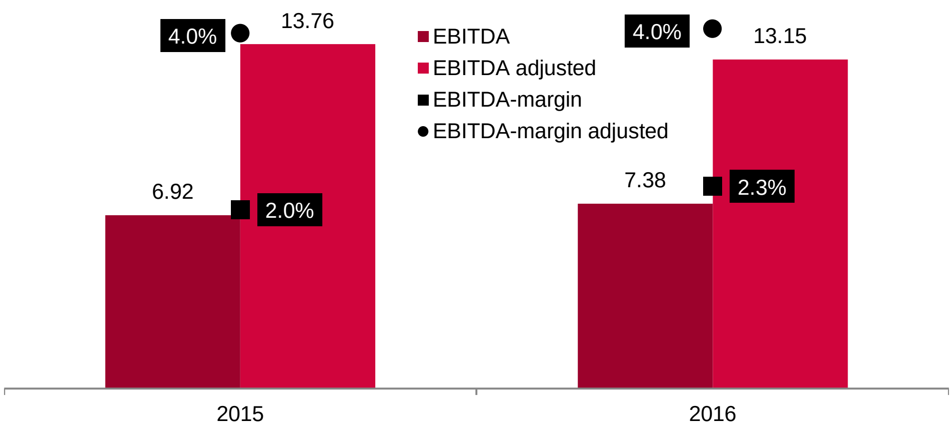
Development of operating EBITDA by segment (in m€)



Source: euromicron, GBC

The Central Services (Group administration) segment also performed well. Here too, the initiated restructuring measures had a positive impact on segment earnings. It was, for example, possible to realise savings in personnel and material costs. Furthermore, one-off earnings of €1.4 million were realised. In total, operating EBITDA improved by €1.6 million to €-3.1 million year-on-year.

Illustration of adjusted EBITDA (in m€) and adjusted EBITDA-margin (in %)



Source: euromicron, GBC

As in the previous year, FY 2016 was characterised by extraordinary expenses in relation with the reorientation and restructuring. These accrued primarily at the holding company euromicron AG as well as euromicron Deutschland GmbH and were mostly related to advisory costs associated with the restructuring, costs for personnel measures and costs for the planned re-structuring of the group financing, especially for financial advisory and the arrangement of the financing agreement. Overall, these expenses amounted to €5.76 million in financial year 2016. Adjusted by these extraordinary expenses, EBITDA was €13.15 million in the previous financial year, which is almost on the same level year-on-year. Due to the mostly completed restructuring, we anticipate a significantly lower impact on earnings for the current financial year.

Overall, euromicron AG's earnings performance in the past financial year was still unsatisfactory. Particularly, euromicron Deutschland has had a strong impact on Group earnings due to old business that needed to be completed. The respective negative effect, however, should only be temporary and not carry over into the current financial year. In addition, the company's longer than expected restructuring process had a negative impact on earnings. It must be emphasised, however, that despite the sales decline, the operating EBITDA margin could be kept on the same level year-on-year at 4.0%.

The measures enacted by management to increase profitability are also having an increasingly positive impact on earnings. Even if the Group's reorientation and associated impact on earnings are taking somewhat longer than originally expected, we believe that the company is on the right track. The positive results of the reorientation are becoming increasingly obvious.

Balance Sheet and Financial Situation

in m€	FY 2014	FY 2015	FY 2016
Equity	110.40	97.04	82.36
Equity-ratio (in %)	*38.4%*	*35.8%*	*33.7%*
Interest bearing debt	64.78	66.50	77.81
Liquid assets	15.62	10.72	6.84
Net debt	49.16	55.78	70.97
Operating Assets (incl. Goodwill)	148.40	141.04	140.27
Net Working Capital	64.74	59.67	36.17

Source: euromicron, GBC

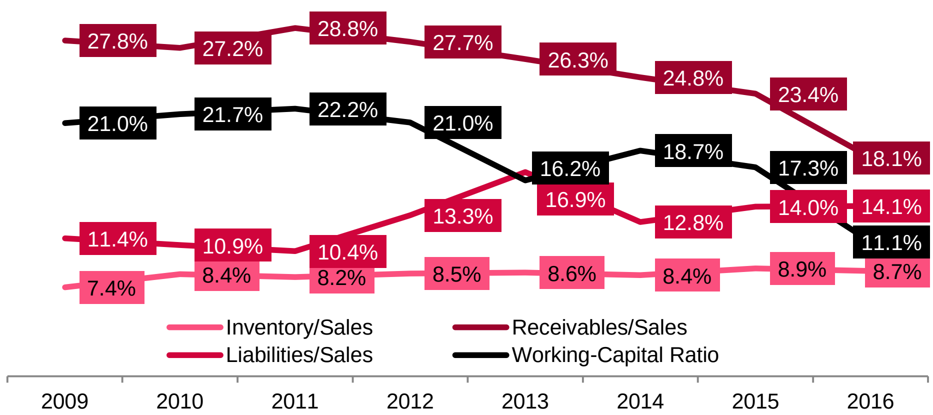
The general business performance and restructuring measures also had an impact on the balance sheet. Equity decreased significantly to €82.36 million due to the loss primarily caused by restructuring measures. This also resulted in a decline in the equity ratio.

As part of the strategic reorientation of euromicron AG, the focus was also on optimising working capital. After the initial success in improving working capital in the previous year, again an optimisation in this area in the year under review was recorded. The total item was reduced by 40.0%, particularly in relation to trade receivables as well as contract work with payment due from customers. At the same time, the working capital ratio was reduced significantly by 6 percentage points from 17.8% to 11.8%.

In the past, factoring had a very strong impact on working capital and cashflow. However, in 2016, the previous factoring approach was changed and customer deposits are now forwarded directly to the factoring agent, while they were previously forwarded periodically which resulted in high balance sheet fluctuations. As a result, liabilities in relation to customer deposits to be forwarded declined by €21.8 million. This had a one-time negative effect on operating cashflow. Opposed to that there were positive effects from a higher amount of receivables that were sold within the factoring agreement. In the future, however, operating cash flow should fluctuate less as a result of factoring activities thanks to this change.

The change effect amounting to €8.4 million resulted in an increase in interest-bearing liabilities as it was financed by a higher usage of current accounts. The massive working capital improvement, however, should have an ongoing positive effect on the Group's capital structure in the future. Moreover, the predictability of cashflows has increased.

Development of Working Capitals (in m€)



Source: calculations GBC

SWOT-Analysis

Strenghts	Weaknesses
• Leading network specialist with a comprehensive branch network in Germany • Differentiating feature due to combination of expertise in systems integration and technology solutions • Crisis-resistant business model due to broad customer diversification • Strategic repositioning and focusing is already bearing first fruits	• Comparatively high level of goodwill in the balance sheet, which makes up around 40% of total assets • Traditionally high earnings contribution in the fourth quarter results in highly seasonal business development • Relatively high net debt • Since FY 2012, significantly lower margins than in previous years; however, improvement expected due to restructuring
Opportunities	**Threats**
• Strengthening of the product and solutions capability could positively influence margins • Better use of synergy effects between the subsidiaries could have a positive effect on the revenue and earnings situation. • The market for smart buildings and critical infrastructure is expected to grow at around 20.0% per year until 2024 • The special topic of the Internet of Things and Industry 4.0 is still at the start of its development and market penetration. This could result in huge growth potential • euromicron AG could achieve an improved strategic position for projects due to an increased focus on products and thus increase its margins	• The pace of growth in the Internet of Things segment could be slower than currently expected • Developments in the Internet of Things segment could take place in core areas other than those addressed by euromicron • euromicron AG could focus on products and solutions that are not accepted on the market to the extent expected and thus slow the pace of growth • The synergy leverage between the subsidiaries may not succeed to the extent planned and thus reduce the pace of growth and margin increase

Estimates and Model Assumptions

P&L (in m€)	FY2016	FY2017e (old)	FY2017e (new)	FY2018e
Sales	325.31	354.73	335.00	353.77
EBITDA (*margin*)	7.39 (*2.3%)*	17.44 (*4.9%)*	12.61 (*3.8%)*	19.59 (*5.5%)*
EBIT (*margin*)	-2.26 (*-0.7%)*	8.69 (*2.4%)*	4.11 (*1.2%)*	10.84 (*3.1%)*
Net profit	-12.66	3.81	-0.82	4.01
EPS in €	-1.76	0.53	-0.12	0.56

Source: GBC AG

Sales estimates

Now that the restructuring which was initiated in 2015 has been largely completed, a basis for sustained future profitable growth should have been created. The positioning towards the “IoT”, “Industry 4.0”, and “Smart Services” market trends should have a particularly growth-boosting effect.

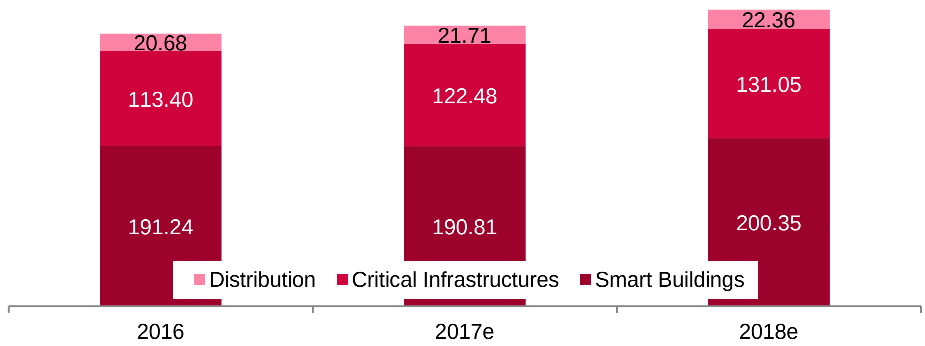
Even if the Group’s reorientation and restructuring took a little longer than expected, we now see the foundation for sustained growth. Due to the restructuring measures lasting longer than expected, particularly during the euromicron Deutschland GmbH reorientation, the sales and earnings forecast for 2016 was adjusted downward at the half-year point.

Based on previous year’s sales (€325.3 million) and the omission of sales from the telecommunications division of euromicron Deutschland GmbH as well as the discontinuation of the fibreglass infrastructure division (RSR GmbH & Co. KG), euromicron AG expects sales of between €330.0 million and €350.0 million for 2017. Taking into account these losses, we expect a significant increase in sales on an organic basis.

For financial year 2017, we expect sales amounting to €335.0 million which would be in the middle of the range forecast by the company. We expect that in FY 2017 the Critical Infrastructure segment in particular will grow dynamically thanks to a stronger product business and the market launches of proprietary products, despite a lower sales basis due to the discontinuation of the fiberglass business. For the second largest segment, we expect sales growth of 8.0% to approx. €122.5 million compared to the previous year.

For Smart Buildings, the largest segment, we expect sales to be in line with last year’s figures of around €190.81 million due to the discontinuation of the telecommunications business. We estimate the sales contribution from that business unit to be about €10.0 million in FY 2016. Adjusted by the negative effect from the discontinuation, the organic growth for this segment is expected to be 5.3%. This is to be achieved as part of the general market development, with the market viability of new products and the discontinuation of unpaid services, as well as through positive effects from the reorientation of euromicron Deutschland GmbH. But we also expect a moderate single-digit percentage increase for the Distribution segment.

Expected development of sales by segment (in m€)



Source: GBC

For FY 2018, we expect significant growth of 5.6%. The restructuring and distribution reorganisation effects and the increasing positioning of the company in growth markets should have a positive impact on the business. In the coming year, this should generate sales of about €354.0 million, which corresponds to an increase of 5.6%.

Earnings Estimates

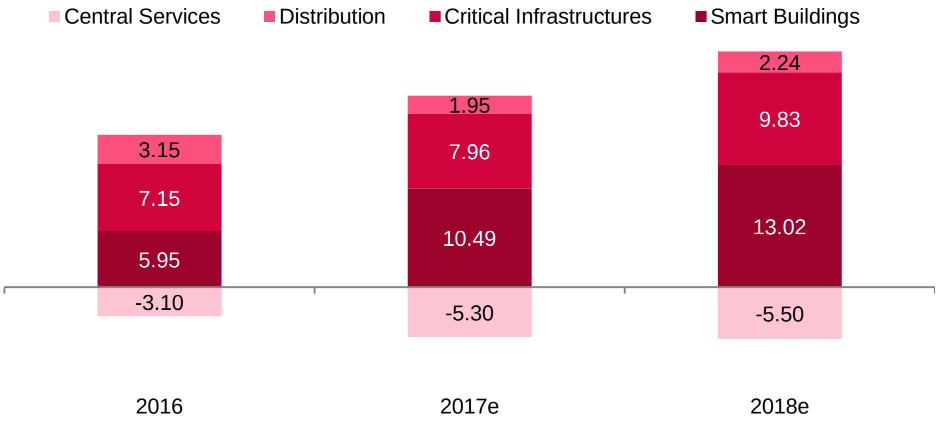
Based on the published sales forecast, the euromicron Group expects an operating EBITDA margin of between 4.0% and 5.0% for financial year 2017. In addition, restructuring costs of €2.0–3.0 million are expected. Accordingly, the EBITDA margin reported is expected to range between 3.1% and 4.1%.

We expect that the middle of the forecast range will be reached and that in FY 2017, an EBITDA of about €12.61 million will be achieved which corresponds to an EBITDA margin of 3.8%. Taking into account the expected restructuring costs, operating EBITDA should reach approx. €15.11 million, which is equivalent to an adjusted EBITDA margin of 4.5%.

Particularly the Smart Buildings segment is expected to make a significant contribution to a higher operating EBITDA. For this segment, we expect earnings to increase by 76.3% to €10.49 million. As shown in our sales forecast, this should be the result of general market trends, new product launches, the removal of low margin projects and positive effects from euromicron Deutschland's reorientation. In this respect, it must also be taken into account that in 2016 there will be an additional impact on earnings due to restructuring costs of approx. €0.5 million. We thus expect a reported EBITDA of €9.99 million in this segment.

In the segment Critical Infrastructures, we also expect an increase in operating EBITDA, but not of the same size as in the largest segment. Combined with the expected significant sales growth in this area thanks to an increased product business and to new product launches, we expect earnings to grow by 11.3% to €7.96. For this segment, we expect only very low restructuring expenses in 2017 and a reported EBITDA in line with the operating EBITDA.

Expected development of operating EBITDA by segment (in m€)



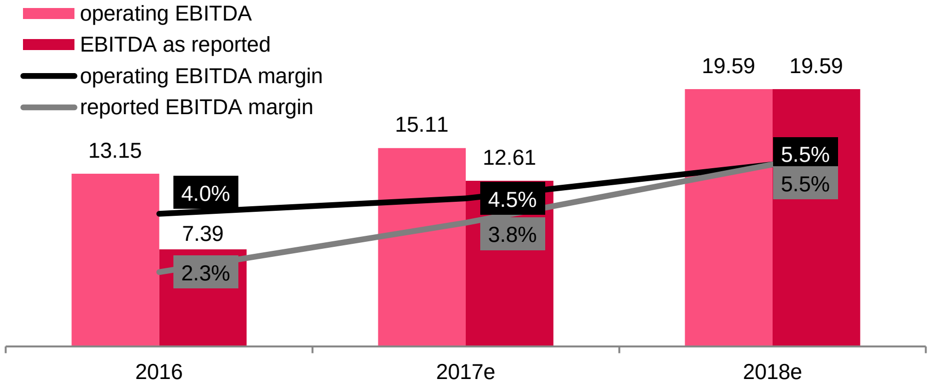
Source: GBC

In contrast to the two largest segments, we expect a decline in operating EBITDA for the Distribution segment. This is due to the fact that we expect to carry out investments in the sales organisation that will have a negative impact on earnings. We expect an EBITDA decline of 38.1% to €1.95 million.

In the segment Central Services we again expect extraordinary expenses in connection with restructuring measures of €1.6 million. For the Central Services segment, we expect an overall EBITDA of €-5.30 million in FY 2017. Compared to the previous year, this will result in a 70.1% decline, while the previous year's earnings were positively impacted by extraordinary revenue of €1.4 million.

In the following financial year 2018, we expect significant earnings growth. On the one hand, this will occur because no extraordinary expenses will be incurred as part of the restructuring. On the other, the unprofitable old projects that will be completed by the end of FY 2016, should have a positive impact on earnings. Currently tied-up personnel will be freed up and can be utilised for new projects and provide a much better contribution margin.

Expected development of EBITDA as reported and of operating EBITDA (in m€)



Source: GBC

Overall, the financial indicators also reflect euromicron AG's successful reorientation. Based on the restructuring success so far and the still-to-be-realised potential for efficiency increases and synergies between subsidiaries, we should be able to achieve significantly higher margins than before. Moreover, the company has already shown in the past that double-digit EBITDA margins are possible.

VALUATION

Model assumptions

The euromicron AG has been valued using a three-phase DCF model. Starting from the specific estimates for the financial years 2017 to 2018 in phase 1, in the second phase from 2019 to 2024 forecasts are performed under the assumptions of value drivers. In the process, we have assumed constant sales growth rates of 3.0%. As a target EBITDA-margin, we assumed a level of 6.0%. In phase 2 a tax rate of was 30% is applied. Beyond the forecast horizon, a residual value was calculated using a perpetual annuity formula. For the final value we assume a growth rate of 2.0%.

Calculation of the Cost of Capital

The weighted average cost of capital (WACC) for euromicron AG is calculated on the basis of cost of equity and cost of debt. In order to determine the cost of equity, the fair market premium, the company beta and the risk-free interest rate need to be established.

The riskless interest rate is calculated based on the recommendations of the "Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW, and is derived from the yield curve of riskless bonds. The interest rates for zero bonds are based on the Svensson-method, published by the "Deutsche Bundesbank", and provide the basis for the calculation. Due to market fluctuations, we use smoothed average returns on a three-month basis, rounded to 0.25 basis points. **The current riskless interest rate in use amounts to 1.25%.**

We used the historic market premium of 5.50% as a suitable expectation of market premium. This is supported by historical analyses of stock market yields. The market premium reflects the percentage of the expected excess return of the stock market over the low-risk government bonds.

Using the GBC estimation method there currently a beta of 1.79 is applied.

Applying these assumptions we can calculate a cost of equity of 11.1% (beta multiplied by the risk premium, plus risk-free interest rate). As we assume a long-term weight of equity of 50%, the weighted average cost of capital (WACC) is 7.6%.

Valuation Result

Discounting of future cash flows was carried out using the entity approach. We calculated the relevant costs of capital (WACC) at 7.6%. The resulting fair value per share by the end of the FY2018 corresponds to a target price of €10.50. Compared to our previous estimates we left our target price unchanged.

DCF-Model

euromicron AG - Discounted Cashflow (DCF) model

Value driver used in the DCF-model´s estimate phase:

consistency - phase	
Sales growth	3.0%
EBITDA-margin	6.0%
Depreciation on fixed assets	6.0%
Working capital to sales	10.0%

final - phase	
Perpetual growth rate	2.0%
Perpetual EBITA - margin	4.0%
Effective tax rate in terminal value	30.0%

Three-phase DCF - model:

phase	estimate		consistency						final
in mEUR	FY 17e	FY 18e	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	TV
Sales	335.00	353.77	364.52	375.61	387.02	398.79	410.91	423.41	
Sales change	3.0%	5.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Sales to fixed assets	2,36	2.51	2.59	2.68	2.77	2.86	2.96	3.05	
EBITDA	12.61	19.59	21.92	22.58	23.27	23.98	24.70	25.46	
EBITDA-margin	3.8%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
EBITA	4.11	10.84	13.45	14.15	14.86	15.59	16.34	17.12	
EBITA-margin	1.2%	3.1%	3.7%	3.8%	3.8%	3.9%	4.0%	4.0%	4.0%
Taxes on EBITA	-1.23	-3.25	-4.04	-4.24	-4.46	-4.68	-4.90	-5.14	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	2.88	7.59	9.42	9.90	10.40	10.91	11.44	11.98	
Return on Capital	1.6%	4.2%	5.3%	5.6%	5.9%	6.1%	6.4%	6.7%	6.8%
Working Capital (WC)	36.88	36.18	36.45	37.56	38.70	39.88	41.09	42.34	
WC to sales	11.0%	10.2%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investment in WC	-0.71	0.69	-0.27	-1.11	-1.14	-1.18	-1.21	-1.25	
Operating fixed assets (OFA)		141.76	141.01	140.55	140.12	139.71	139.33	138.97	138.63
Depreciation on OFA	-8.50	-8.75	-8.46	-8.43	-8.41	-8.38	-8.36	-8.34	
Depreciation to OFA	6.0%	6.2%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
CAPEX	-9.99	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Capital Employed	178.64	177.20	177.00	177.68	178.41	179.21	180.06	180.97	
EBITDA	12.61	19.59	21.92	22.58	23.27	23.98	24.70	25.46	
Taxes on EBITA	-1.23	-3.25	-4.04	-4.24	-4.46	-4.68	-4.90	-5.14	
Total Investment	-10.70	-7.31	-8.27	-9.11	-9.14	-9.18	-9.21	-9.25	
Investment in OFA	-9.99	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Investment in WC	-0.71	0.69	-0.27	-1.11	-1.14	-1.18	-1.21	-1.25	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	0.68	9.03	9.61	9.23	9.67	10.12	10.59	11.07	154.97

Value operating business (due date)	144.97	146.89
Net present value explicit FCF	51.87	46.76
Net present value Terminal Value	93.10	100.13
Net debt	75.29	71.01
Value of equity	69.68	75.88
Minority interests	-0.50	-0.54
Value of share capital	69.19	75.34
Shares outstanding in million	7.18	7.18
Fair value per share in EUR	9.64	**10.50**

Cost of Capital:

Risk free rate	1.25%
Market risk premium	5.5%
Beta	1.79
Cost of equity	11.1%
Target weight	50.0%
Cost of debt	5.0%
Target weight	50.0%
Taxshield	19.4%
WACC	**7.6%**

Return on Capital	WACC 7.0%	7.3%	7.6%	7.9%	8.2%
6.3%	11.02	9.97	9.03	8.19	7.44
6.5%	11.87	10.76	9.76	8.88	8.08
6.8%	12.72	11.54	**10.50**	9.56	8.72
7.0%	13.57	12.33	11.23	10.25	9.36
7.3%	14.42	13.12	11.97	10.93	10.00

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