Euromicron AG

Sponsored Research Update

26 June 2019

Return to sustainable profitability

Buy

Hold

Sell

Following four years of reorganization and transformation of the euromicron group, from 2019e onwards the company could increase its profitability sustainably. Main driver is the execution on the group's strategy and the abolition of extraordinary expenses in the scope of 400bsp, resulting in an adj. EBITDA margin of 4.6%. We implemented IFRS 16 into our forecast. We maintain our Buy rating as our DCF based TP of EUR 6.80 implies an upside of 100%.

Smart Buildings (SB) segment to lift group profitability

In 2018 the division digested EUR 9.5m costs for bad projects. After the exchange of key personnel, improved monitoring and other structural changes we estimate that the cost does not reoccur and hence the adj. EBITDA margin should be up by 500 bsp.

Modified strategy towards more digitalization

Management will direct more focus on digitalization in all its three segments. This should lead to a higher share of service sales and a higher share of value-added services. In addition, there is room to generate quality synergies between the segments.

Financial debt reduction estimated

Despite a EUR 2.5m repayment of bank loans in Q1, negative operating cash flow in Q1 led to a net debt expansion to EUR 104.9 (was EUR 100.4m March 2017). End of January 2020 a debt repayment of EUR 25.0m is due. Despite our expectation of a positive FCF (ex IFRS 16), internal cash generation should be insufficient to repay the obligation and thus various options are taken under consideration, including the sale of non-core assets.

EURm	2017	2018	2019e	2020e	2021e
Revenues	333	318	335	359	378
EBITDA	10	2	23	26	29
EBIT	1	(8)	6	10	12
EPS	(0.53)	(1.59)	(0.04)	0.35	0.62
EPS adj	(0.13)	(1.14)	(0.04)	0.35	0.62
DPS	-	-	-	0.08	0.12
EV/EBITDA	15.2	58.3	6.1	4.9	4.1
EV/EBIT	-	-	24.2	13.3	9.6
P/E adj	-	-	-	9.7	5.5
P/B	0.75	0.29	0.38	0.36	0.34
ROE (%)	-	-	-	3.8	6.4
Div yield (%)	-	-	-	2.3	3.5
Net debt	86	91	114	102	93

Source: Pareto

Target price (EUR)	6.8
Share price (EUR)	3.4

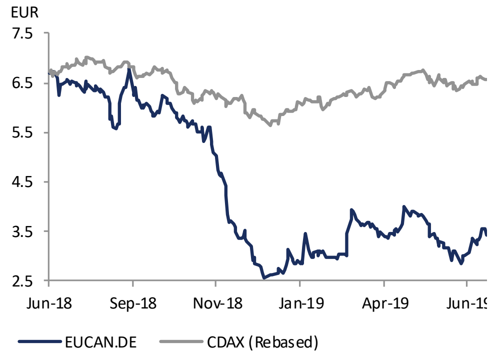
Forecast changes

%	2019e	2020e	2021e
Revenues	1	4	NM
EBITDA	52	50	NM
EBIT adj	(11)	8	NM
EPS reported	NM	(35)	NM
EPS adj	NM	(35)	NM

Source: Pareto

Ticker	EUCAN.DE, EUCA GY
Sector	Hardware & Equipment
Shares fully diluted (m)	7.2
Market cap (EURm)	25
Net debt (EURm)	114
Minority interests (EURm)	1
Enterprise value 19e (EURm)	140
Free float (%)	95

Performance



Source: Factset

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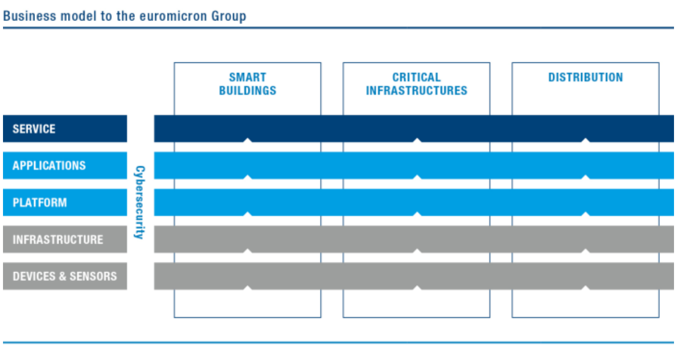
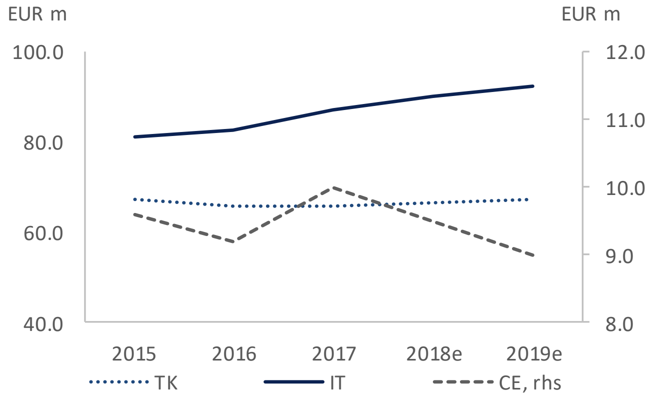
Investment case in six charts

Exhibit 1:Euromicron business model



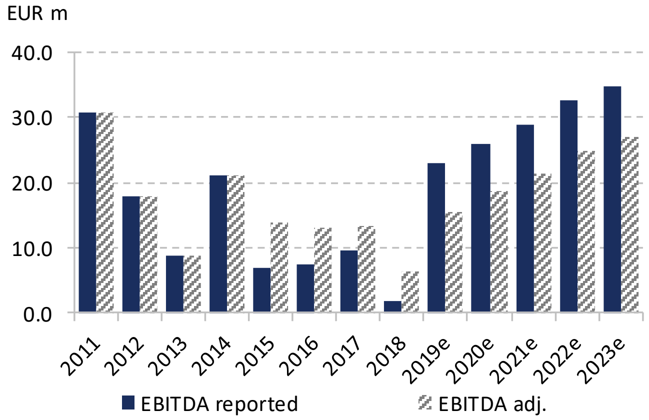
Source: Company information

Exhibit 2: German ICT-market to continue to grow 2019e



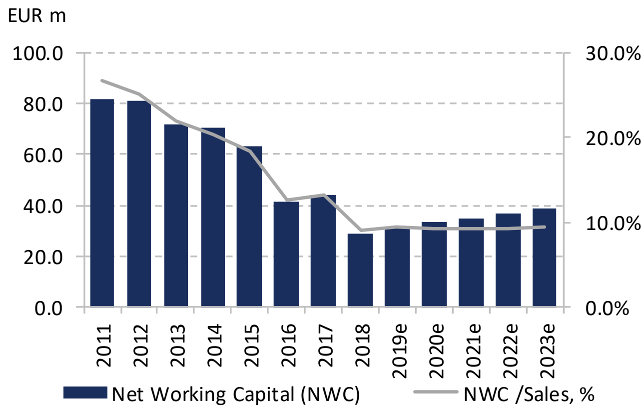
Source: Bitkom

Exhibit 3: Margin improvement expected



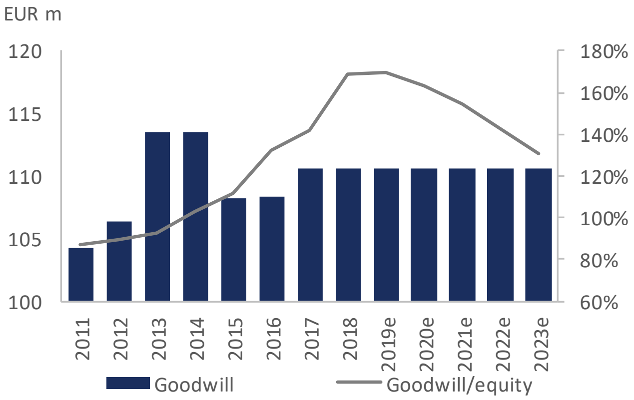
Source: Company data, Pareto Securities Research

Exhibit 4: Tight control of working capital



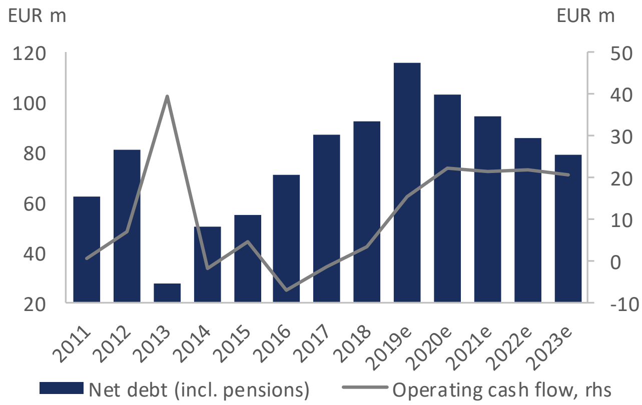
Source: Company data, Pareto Securities Research

Exhibit 5: euromicron with high goodwill exposure



Source: Company data, Pareto Securities Research

Exhibit 6: Net debt und cash flow



Source: Company data, Pareto Securities Research

Investment case

Return to profitability justifies higher share price level in our view

euromicron is a typical German mid-sized company and offers digital infrastructure solutions in three defined end-markets: Smart Buildings, Industry 4.0 and Critical Infrastructures.
Looking back, 2015 and 2016 can be qualified as the “reorganization years”, followed by the “transformation process” which was finalized int 2018 according to management statements. Looking forward, the focus is on revenue growth with significant improvement in profitability expected. Main input factors for the expected development are:

- A modified strategy focusing on digitalization with the aim to increase share of service sales in combination with the offering of higher value-added services.

- Adj. EBITDA-margin (excluding IFRS 16 effects) is estimated to reach 4.0 – 5.5% (PAS 4.6%) from 2.0% a year earlier. Next to positive effects from the new strategy and measure undertaken in the past years (e.g. portfolio restructuring) this rise increase would be mainly explained by the absence of EUR 9.5m of project related costs eliminated by a better operational set up and more stringent project management at euromicron Deutschland.

- Financial restructuring: Reduction of the group’s net financial debt which amounted to EUR 92.5m (Pareto definition) end of 2018. End of March this year EUR 2.5m were repaid. End of January 2020 another EUR 25.0m have to be repaid. Therefore, various options are taken under consideration, including the sale of non-core assets.

Following the profit warning in early November 2018 the share price dropped to EUR 2.55, the lowest level during 2018. Despite some financial constrains the stock offers significant turnaround potential if our FY 2019e expectations materialize. Our DCF based target price of EUR 6.80 implies near 100% upside potential. We confirm our Buy recommendation.

Risk to the investment case

Key risks comprise among other factors:
- A significant amount of euromicron revenues are connected to project business and the absence of cost overruns is a main driver of the profitability improvement in FY 19e.
- The need to hire skilled employees, especially for project execution, could become more difficult looking forward
- Goodwill-to-equity ratio of >100% is unusual high; inherent potential risk of impairments
- General risk of an economic downturn, particularly in the Buildings/Construction industry, could lower profitability
- A lack of improvement of the operating cash flow versus the average of the past year’s, is a danger to swift refinancing in the future

Valuation update

- Buy recommendation confirmed

- TP cut from EUR 8.9 to EUR 6.8 mainly on a more cautious approach on long term margin development

Exhibit 7: DCF model signals upside potential

	Phase I					Phase II					Phase III
EUR m	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	
Revenues	**335**	**359**	**378**	**395**	**411**	**427**	**442**	**456**	**468**	**479**	
growth rate	*5.3%*	*7.1%*	*5.2%*	*4.5%*	*4.2%*	*3.8%*	*3.5%*	*3.1%*	*2.7%*	*2.4%*	
EBIT	**5.8**	**9.6**	**12.4**	**15.7**	**17.8**	**19.5**	**21.2**	**22.9**	**24.6**	**26.3**	
EBIT margin	*1.7%*	*2.7%*	*3.3%*	*4.0%*	*4.3%*	*4.6%*	*4.8%*	*5.0%*	*5.3%*	*5.5%*	
Tax	**-1.7**	**-2.9**	**-3.7**	**-4.7**	**-5.3**	**-5.8**	**-6.4**	**-6.9**	**-7.4**	**-7.9**	
Tax rate	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	
Depr. & Amort. [1]	**9.6**	**9.1**	**9.1**	**9.2**	**9.3**	**10.5**	**11.3**	**12.3**	**13.0**	**13.7**	
% of sales	*2.9%*	*2.5%*	*2.4%*	*2.3%*	*2.3%*	*2.5%*	*2.6%*	*2.7%*	*2.8%*	*2.9%*	
Capex	**-9.5**	**-11.2**	**-11.7**	**-12.0**	**-12.3**	**-12.8**	**-13.2**	**-13.7**	**-14.0**	**-14.4**	
% of sales	*2.8%*	*3.1%*	*3.1%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	
Change in WC & P	**-2.7**	**-2.0**	**-1.6**	**-1.6**	**-2.0**	**-1.9**	**-1.8**	**-1.6**	**-1.5**	**-1.3**	
% of sales	*0.8%*	*0.6%*	*0.4%*	*0.4%*	*0.5%*	*0.4%*	*0.4%*	*0.4%*	*0.3%*	*0.3%*	
Free Cash Flow	**1.4**	**2.7**	**4.5**	**6.6**	**7.5**	**9.5**	**11.1**	**13.1**	**14.8**	**16.4**	**221.6**
growth rate	*nm*	*88.2%*	*68.1%*	*47.6%*	*13.6%*	*26.5%*	*17.5%*	*17.6%*	*12.7%*	*11.5%*	*2.0%*
Present Value FCF	**1.3**	**2.3**	**3.5**	**4.8**	**5.0**	**5.7**	**6.1**	**6.6**	**6.8**	**6.9**	**92.9**

PV Phase I	**16.9**	**Risk free rate**	3.50%	**Targ. equity ratio**	80%
PV Phase II	**32.1**	**Premium Equity**	5.00%	**Beta**	1.5
PV Phase III	**92.9**	**Premium Debt**	2.00%	**WACC**	9.57%

Enterprise value	**142.0**
- Net Debt (Cash)	**91.1**
- Pension Provisions	**1.4**
- Minorities & Peripherals	**0.8**
+ MV of financial assets	
- Paid-out dividends for last FY	
+/- Other EV items	**0.0**
Equity value	**48.7**
Number of shares	**7.2**
Value per share (€)	**6.8**
Current Price (€)	**3.5**
Upside	**92%**

Sensitivity		Growth in phase III				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
	8.61%	8.1	9.1	10.3	11.7	13.4
	9.09%	6.5	7.4	8.4	9.6	11.0
WACC	**9.57%**	5.2	5.9	6.8	7.8	8.9
	10.05%	4.0	4.6	5.3	6.2	7.1
	10.53%	2.9	3.4	4.1	4.8	5.6

Source: FactSet (share price as of 26 June 2019), Pareto Securities ;
1) Depreciation & Amortization ex IFRS 16

Our forecasts are based on organic growth, thus excluding acquisitions or divestments. We continue to follow the guidance of euromicron and expect revenues of EUR 335m, which is in line with the company's EUR 325-340m. Despite a good start into the year, we would like to be on the conservative side given the project nature of a larger portion of the business. Mid- to long-term, euromicron, based on the modified strategy, wants to achieve an EBITDA-margin of 8.0% with depreciation and capex level (ex IFRS 16 effects) estimated by us in the range of 3%. We remain cautious and do not foresee this level by FY23e yet.

As euromicron provides IFRS 16 adjusted figures for EBITDA going forward, we have excluded the effect and in turn subsequent debt increases on the balance sheet in our DCF model as from a cash view, the change in the lease accounting has no effect. The new rules for lease accounting (IFRS 16) led to an increase of the balance sheet total by some EUR 27m.

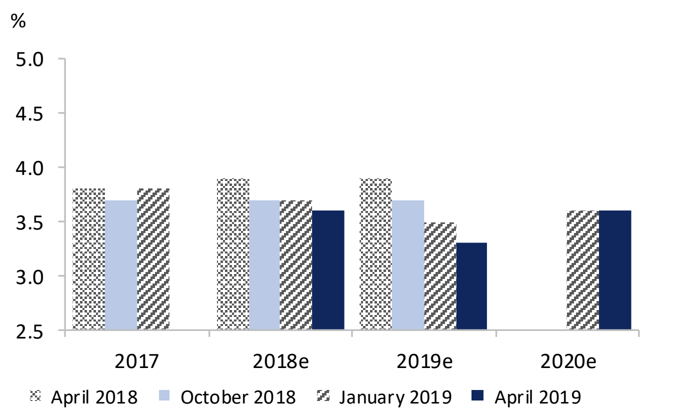
On this basis our new equity value amounted to EUR 49.0m or EUR 6.80 per share.

Market outlook

The overall macro picture has become worse during the last months. The IMF recently presented an update of their World Economic Outlook. In general, projections were revised down further and the World Output estimate for 2019e now amounts to a growth rate of 3.3% yoy compared to 3.5% yoy from January 2019. A more drastic revision was made for Germany: The forecast was revised down to +0.8% yoy compared to +1.3% from January 2019. An agreement concerning the trade dispute between China and the US could lead to a new, in our view more short-term stimulus for the global economy or vice versa.

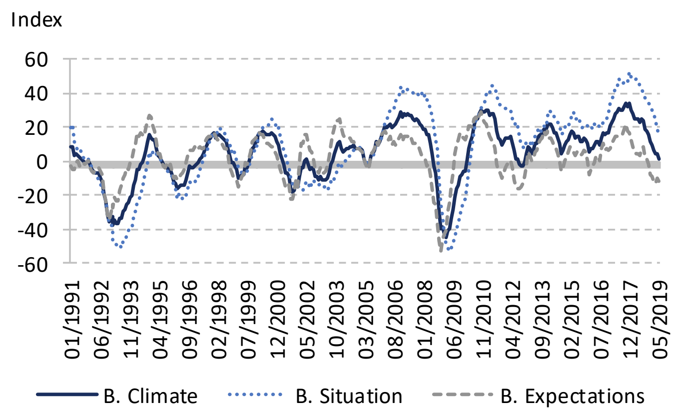
The Business Climate indicator for Germany, provided by Ifo, in June 2019 continue to hover around 98. Nevertheless, this could be labelled a first stabilization. In contrast, the Business Climate for the Manufacturing sector (Exhibit 9) continued to drop with no signs of slowing. A first silver lining could be that the Business Expectations sub-index after it reached the lowest level since November 2012, could be on the start of a bottoming phase.

Exhibit 8: IMF World Output: Growing pessimism for 2019e



Source: IMF World Economic Outlook

Exhibit 9: Ifo Business Climate Manufacturing sector



Source: Ifo Institute (data until April 2019)

The German Information and Communications Technology (ICT) market 2018 according to Bitkom reached a total volume of EUR 166.0bn or + 2.0% yoy (Exhibit 2). The most relevant segment for euromicron, Information Technology, increased by 3.1% yoy to EUR 89.9m. The Consumer Electronics subsegment was the only subsegment with a reported decline. Looking forward into 2019e the German market is expected to grow by another 1.5% to EUR 168.5bn.

Smart Buildings (SB)

SB segment with strongest recovery potential within the group

The segment's results in 2018 did not meet the company's expectations. Divisional (external) sales declined by 9.2% yoy, what is mainly due to settlements with customers over receivables. This is also the main driver for the significant amount of one-time burdens of EUR 9.5m, which however were not adjusted at EBITDA. Disposals (Telecommunications division to the German Ostertag-Gruppe in March 2017) and lower sales in the divisions Network Technology and Industry 4.0 were the remaining items to explain the FY 18 revenue reduction. In contrast, the division Heavy Current achieved higher sales.

The segment's operating EBITDA of EUR 0.1m, down from EUR 6.9m, was lower than initially expected by the company. However, taking the one-off type customer settlement into account, some of the fruits of the repositioning of the buildings/construction related business of the segment comes to light.

Reductions in overhead and general administration costs resulted in further extraordinary costs of EUR 1.4m, leading to a reported EBITDA loss of EUR 1.3m.

Exhibit 10: SB with strongest recovery potential

SB (EUR m)	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Order backlog	60.8	53.3	65.7	75.8	82.7	86.7	82.7	84.7	87.2	94.2
Order intake	n.a.	n.a.	n.a.	205.3	179.6	192.0	198.0	215.0	227.0	243.0
External sales	192.7	193.5	191.2	190.0	172.6	188.0	202.0	213.0	224.5	236.0
Working capital (WCap)	59.9	59.9	53.6	54.1	41.1	42.7	44.0	45.3	46.7	48.1
EBITDA reported (P&L)	12.8	7.5	4.2	6.0	-1.3	13.4	15.1	17.0	19.2	20.2
EBITDA adj.	12.8	10.1	5.9	6.9	0.1	9.9	12.0	13.7	15.0	16.2
Analysis										
Growth										
Order backlog		-12.3%	23.3%	15.4%	9.1%	4.8%	-4.6%	2.4%	3.0%	8.0%
External sales		0.4%	-1.2%	-0.6%	-9.2%	8.9%	7.4%	5.4%	5.4%	5.1%
EBITDA adj.		-21.3%	-41.5%	16.9%	-98.6%	n.m.	21.2%	14.2%	9.5%	8.0%
Book-to-bill-ratio (x)				1.08	1.04	1.02	0.98	1.01	1.01	1.03
Margins										
Wcap / Sales	31.1%	31.0%	28.0%	28.5%	23.8%	22.7%	21.8%	21.3%	20.8%	20.4%
EBITDA adj. *	6.6%	5.2%	3.1%	3.6%	0.1%	5.3%	5.9%	6.4%	6.7%	6.9%

* based on external sales

Source: Company data, Pareto Securities Research

Looking forward into FY 2019e the SB segment should have the strongest recovery potential from all three divisions, in our view. Segment sales are expected to increase by c.9% yoy to EUR 188m.

Around half of the expected improvement stems from the reversal of the settlement effect. Other operational related growth, e.g. at switches, accounts for the remainder. The adj. EBITDA should jump from EUR 0.1m to EUR 9.9m in our view. This corresponds to the company's respective segment forecast of a mid-single digit profit margin. Nearly all of the improvement stems from the reversal of the settlement effect, which means we were cautious about the contribution margin of the additional business.

End of September last year euromicron Deutschland GmbH received a new framework contract in Germany from Deutsche Bahn Station&Service AG in an open tender procedure for the equipment and optimization of the existing video surveillance system at German long-distance train stations. The contract covers delivery, installation, configuration, and system integration of these systems. Contract length is about three years with the possibility to extend by one year. A contract value was not disclosed but is significant in our view. Given the contract profile, euromicron will support Deutsche Bahn's overall security concept. euromicron already equipped several long-distance train stations like e.g. Bremen, Hamburg, Hanover, Cologne, or Nuremberg with full-HD IP video surveillance systems.

Critical Infrastructure (CI)

CI with slight margin recovery in 2019

In FY 2018 the segment's performance did not fully meet the company's own targets. External sales increased by only 0.3% yoy to EUR 120.1m and compares to euromicron's original target to achieve a mid-single digit growth rate. The adj. EBITDA-margin declined to 4.6% and is explained by a shift to lower margin projects in the Technology solutions business. No extraordinary costs occurred 2018 in this segment.

Exhibit 11: CI segment with moderate margin improvement

CI (EUR m)	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Order backlog	52.9	50.5	54.3	49.1	64.1	74.6	69.9	71.9	74.9	78.9
Order intake	n.a.	n.a.	n.a.	113.6	131.7	133.0	126.0	140.0	145.0	149.0
External sales	128.3	120.8	110.1	119.7	120.1	122.5	130.7	138.0	142.0	145.0
Working capital (WCap)	21.2	15.1	1.9	6.6	6.4	6.5	6.7	6.8	6.9	7.1
EBITDA reported (P&L)	14.4	7.9	7.1	6.8	5.5	9.4	10.6	11.3	12.2	13.0
EBITDA adj.	14.4	8.1	7.6	6.8	5.5	6.0	7.1	7.9	9.4	10.2
Analysis										
Growth										
Order backlog		-4.5%	7.5%	-9.6%	30.5%	16.4%	-6.3%	2.9%	4.2%	5.3%
External sales		-5.8%	-8.9%	8.7%	0.3%	2.0%	6.7%	5.6%	2.9%	2.1%
EBITDA adj.		-43.8%	-6.2%	-10.5%	-19.1%	n.m.	18.3%	11.3%	19.0%	8.5%
Book-to-bill-ratio (x)				0.95	1.10	1.09	0.96	1.01	1.02	1.03
Margins										
Wcap / Sales	16.5%	12.5%	1.7%	5.5%	5.3%	5.3%	5.1%	4.9%	4.9%	4.9%
EBITDA adj. *	11.2%	6.7%	6.9%	5.7%	4.6%	4.9%	5.4%	5.7%	6.6%	7.0%

* based on external sales

Source: Company data, Pareto Securities Research

Mainly driven by a growing Technology solutions business we estimate for FY 2019e a sales growth of 2.0%, which is a bit more cautious that euromicron's mid-single digit rate expectations. In line with euromicron's guidance we expect a slight increase in adj. EBITDA margin. Again, we assume that no extraordinary costs will occur this year.

In January telent GmbH and Colt Technology Service GmbH (Berlin) prolonged their partnership agreement by another five years. Within this cooperation Colt delivers on-demand, high bandwidth, connectivity solutions, while telent is responsible for mainly the installation and 24/7 services in Germany and other CEE countries like e.g. Poland, Czech Republic or Slovakia, Austria and the Netherlands. The prolonged contract is important for telent because it will extend existing contracts and helps to utilize telent's capacities. In our view Colt ranks among the most important customers/partners for euromicron.

In Germany the government currently is overhauling the existing IT law from 2005 (draft name: "IT security law 2.0"). Among other factors the law is responsible for operators of critical infrastructures and the suppliers of digital services and related equipment. The new rules should offer companies like euromicron new business opportunities to sell their equipment and services. The relevant companies have to invest into the new equipment for critical infrastructures, otherwise monetary fines have to be paid. With regard to cyber security issues, euromicron with its daughter company KORAMIS is well positioned in our view.

Distribution (D)

Segment with best margin level within the group

Since several years the segment is the most profitable business within the group. No restructuring was necessary and no extraordinary costs occur and therefore reported and operating results are the same.

The Distribution segment had a favourable year 2018. The segment's external sales of EUR 25.1m (+11.8% yoy) were better than planned by the company. The segment benefitted from a strong demand outside Germany. The adj. EBITDA-margin 2018 reached a new record level of 19.9%. Besides the better volumes the increase is explained by stable selling prices compared to an expected decline.

Exhibit 12: Distribution segment with continuing high margin level

D (EUR m)	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Order backlog	1.4	1.4	2.0	1.9	2.2	2.9	3.6	4.6	6.0	5.8
Order intake	n.a.	n.a.	n.a.	22.3	25.4	25.0	26.0	27.5	29.5	30.0
External sales	19.8	20.0	20.7	22.4	25.1	24.3	25.3	26.5	28.1	30.2
Working capital (WCap)	3.1	4.3	3.9	3.7	3.4	3.4	3.5	3.5	3.5	3.6
EBITDA reported (P&L)	2.8	2.5	3.1	4.0	5.0	5.2	5.3	5.6	5.6	6.2
EBITDA adj.	2.8	2.5	3.1	4.0	5.0	4.6	4.7	4.8	5.0	5.2
Analysis										
Growth										
Order backlog		0.0%	42.9%	-5.0%	15.8%	31.8%	24.1%	27.8%	30.4%	-3.3%
External sales		1.0%	3.5%	8.2%	12.1%	-3.2%	4.1%	4.7%	6.0%	7.5%
EBITDA adj.		-10.7%	24.0%	29.0%	25.0%	n.m.	2.2%	2.1%	4.2%	4.0%
Book-to-bill-ratio (x)				1.00	1.01	1.03	1.03	1.04	1.05	0.99
Margins										
Wcap / Sales	15.7%	21.5%	18.8%	16.5%	13.5%	14.1%	13.7%	13.2%	12.6%	11.8%
EBITDA adj. *	14.1%	12.5%	15.0%	17.9%	19.9%	18.9%	18.6%	18.1%	17.8%	17.2%

* based on external sales

Source: Company data, Pareto Securities Research

euromicron's expects in the current year sales will slightly decline. We estimate that the adj. EBITDA-margin will decline slightly to 18.9%, due some expected pricing pressure and expenses for the expansion of distribution channels. Mid-to long-term we expect high level margins above 17%.

2019e – year one after transformation process

Q1 '19 supports estimated FY development

euromicron started with a c.10% lower order intake of EUR 80.9m into the first quarter. Group sales amounted to EUR 70.3m and came out below our estimate of EUR 76.0m. By segment, Critical Infrastructure (-18.5% yoy), due to seasonal effects and project billings was responsible for the decline. The book-to-bill-ratio reached 1.15 versus 1.20 in the previous year's quarter.

The EBITDA adj. (before IFRS 16 effects) turned into positive terrain and reached EUR 1.3m, respectively a margin of 1.8%. The operating cash flow mildly improved to EUR -10.7m from EUR -12.0m a year earlier. We view it positive that the working capital ratio improved to 12.2% from 15.2% in Q1 2018.

The full-year financial targets were confirmed as expected. Group sales should reach EUR 325 – 345m (Pareto: EUR 335m) and the EBITDA adj. margin should reach a range of 4.0% - 5.5% (Pareto: 4.6%). It should be noted that the major part of the profit normally will be realized in the last quarter of each business year. Hence, we continue to be confident, that the full-year targets 2019 will be reached, especially as the Q1 progress at Smart Buildings supports our FY assumptions for the respective business unit. Recall that Smart Buildings is the largest contributor to FY 19 earnings progression.

Exhibit 13: Q1 2019 with EBITDA-margin of 1.8%

euromicron (EUR m)	Q1	Q1	Q1 2019e		Deviation 2019		Pareto estimates		
Deviation table	2018	2019	Pareto	consensus	Pareto	consensus	2019e	2020e	2021e
Group order intake	**90.2**	**80.9**	**85.0**		**-4.8%**		**346.7**	**358.8**	**373.2**
Smart Buildings	40.2	40.0					188.0	202.0	213.0
Critical Infrastructures	28.6	23.3					122.5	130.7	138.0
Distribution	6.2	6.9					24.3	25.3	26.5
Other	0.1	0.1					0.2	0.8	0.0
Central Services	0.0	0.0					0.0	0.0	0.0
Group sales	**75.1**	**70.3**	**76.0**	**n.a.**	**-7.5%**	**n.a.**	**335.0**	**358.8**	**377.5**
Book-to-bill-ratio (x)	**1.20**	**1.15**	**1.12**				**1.03**	**1.00**	**0.99**
Smart Buildings	-1.0	1.4					9.9	12.0	13.7
Critical Infrastructures	0.4	0.1					6.0	7.1	7.9
Distribution	1.4	1.4					4.6	4.7	4.8
Other	-0.1	-0.1					-0.1	-0.1	0.0
Central Services	-1.8	-1.5					-5.0	-5.0	-4.9
EBITDA adj. *	**-1.1**	**1.3**	**1.7**	**n.a.**	**n.m.**	**n.a.**	**15.4**	**18.7**	**21.5**
EBITDA adj. - margin, %	**n.m.**	**1.8%**	**2.2%**				**4.6%**	**5.2%**	**5.7%**
Smart Buildings	-1.0	2.3					13.4	15.1	17.0
Critical Infrastructures	0.4	0.7					9.4	10.6	11.3
Distribution	1.4	1.5					5.2	5.3	5.6
Other	0.0	0.0					-0.1	0.0	0.0
Central Services	-1.8	-1.4					-5.0	-5.0	-4.9
EBITDA reported	**-1.0**	**3.1**	**2.6**	**n.a.**	**19.2%**	**n.a.**	**22.9**	**26.0**	**29.0**
EPS adj., EUR	**-0.50**	**-0.29**	**-0.10**				**-0.04**	**0.35**	**0.62**

* adjusted for IFRS 16 (Leasing)

Source: Company data, Pareto Securities Research

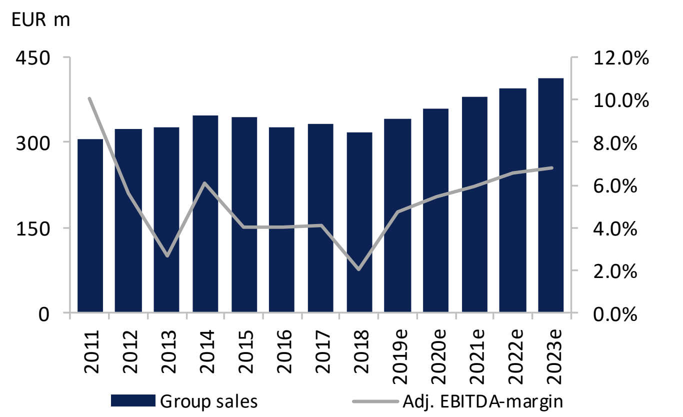
2019 will mark the start of a new growth phase

euromicron should have entered new period of growth in FY 2019. Looking back, the years 2015 and 2016 can be qualified as the restructuring years, whereas 2017 and 2018 were the transformation years. Among other items that will become visible, extraordinary items are no longer expected to occur.

Currently the management internally works on a more focussed strategy in order to better meet the future needs of their existing and potential new customers. What has been announced so far is, that digitalization in general will become more important on the vertical integration of sensors and services, infrastructure, platforms, applications, and services. It will lead to a higher share of service sales and to higher value-added services in our view. Furthermore, we would expect more synergies between the three segments.

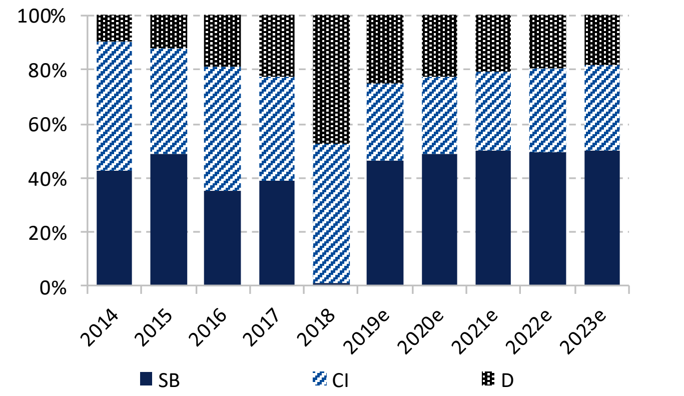
For the current year 2019e euromicron wants to achieve group sales between EUR 325 – 345m. Based on an order book of EUR 149m this target seems reasonable to us and we estimate EUR 335m. The adj. EBITDA-margin should reach a corridor between 4.0 – 5.5%. That compares to our forecast of 4.6%, respectively EUR 15.4m in absolute terms.

Exhibit 14: Adj. EBITDA-margin increase expected



Source: Company data, Pareto Securities Research

Exhibit 15: Adj. EBITDA by segment



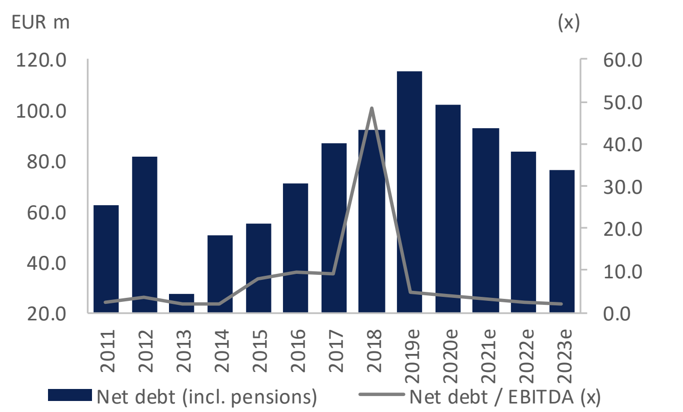
Source: Company data, Pareto Securities Research

Helped by the positive effects from the modified strategy mid- to long-term we expect a further margin increase.

The first-time application of the new IFRS 16 standard "Leasing" will lift the balance sheet total by EUR c.27m. As a result, the equity ratio will decline by approximately 3%-points. Due to a shortfall of rental and leasing expenses in the other operating expenses line, the EBITDA will improve, but no concrete number was mentioned so far.

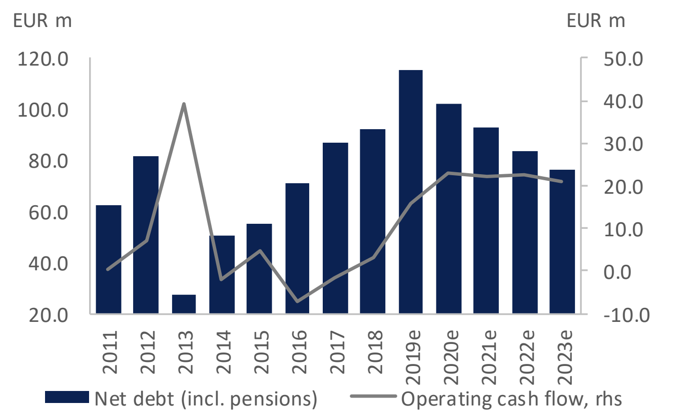
Of particular importance is the control and reduction of the financial debt. In March 2018 the company signed a follow-up financing contract with a contract length until 31 March 2021. End of March this year EUR 2.5m were repaid in due course. Another tranche of EUR 25.0m has to be repaid by the end of January 2020. However, internal cash generation is unlikely sufficient to generate the necessary funds for the redemption, in our view.

Exhibit 16: Peak net debt in 2018 expected



Source: Company data, Pareto Securities Research

Exhibit 17: Operating cash flow will help to reduce debt



Source: Company data, Pareto Securities Research

As outlined in the annual report and discussed with the company, management takes various options into consideration:

- Using capital markets for raising fresh money; in this context the comparably low share price is a burden factor in our view
- Divestment of assets
- Refinancing of the current framework contract by investors and finance companies
- Prolongation of the unscheduled repayment II with the financial partners involved.

Based on the various options which are available for euromicron, a reduction of the financial debt during the next years is likely in our view.

PROFIT & LOSS (fiscal year) (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Revenues	**346**	**345**	**325**	**333**	**318**	**335**	**359**	**378**
EBITDA	**23**	**7**	**7**	**10**	**2**	**23**	**26**	**29**
Depreciation & amortisation	(12)	(16)	(10)	(8)	(10)	(17)	(16)	(17)
EBIT	**11**	**(9)**	**(2)**	**1**	**(8)**	**6**	**10**	**12**
Net interest	(4)	(4)	(5)	(5)	(6)	(6)	(6)	(6)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	**8**	**(13)**	**(8)**	**(4)**	**(14)**	**(0)**	**3**	**6**
Taxes	(5)	(0)	(5)	0	3	0	(1)	(2)
Minority interest	(0)	(0)	(0)	(0)	(0)	(0)	0	0
Net profit	**3**	**(13)**	**(13)**	**(4)**	**(11)**	**(0)**	**3**	**4**
EPS reported	0.36	(1.85)	(1.76)	(0.53)	(1.59)	(0.04)	0.35	0.62
EPS adjusted	**0.36**	**(0.57)**	**(1.10)**	**(0.13)**	**(1.14)**	**(0.04)**	**0.35**	**0.62**
DPS	-	-	-	-	-	-	0.08	0.12

BALANCE SHEET (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Tangible non current assets	14	15	16	19	19	40	35	31
Other non-current assets	135	127	126	128	129	129	128	129
Other current assets	122	118	97	100	89	92	95	96
Cash & equivalents	16	11	7	5	7	10	10	11
Total assets	**287**	**271**	**245**	**252**	**244**	**272**	**268**	**266**
Total equity	110	97	82	79	66	66	68	72
Interest-bearing non-current debt	65	65	77	91	98	124	112	104
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	111	108	84	82	78	80	86	88
Total liabilites & equity	**287**	**271**	**245**	**252**	**244**	**272**	**268**	**266**

CASH FLOW (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Cash earnings	(3)	(3)	(29)	1	(12)	18	24	23
Change in working capital	1	8	22	(3)	15	(3)	(2)	(2)
Cash flow from investments	(3)	(9)	(8)	(13)	(8)	(10)	(10)	(12)
Cash flow from financing	(1)	(0)	11	13	6	(2)	(12)	(8)
Net cash flow	(23)	(5)	(4)	(2)	2	3	(0)	2

CAPITALIZATION & VALUATION (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Share price (EUR end)	**11.4**	**7.6**	**5.9**	**8.1**	**2.62**	**3.42**	**3.42**	**3.42**
Number of shares end period	7	7	7	7	7	7	7	7
Net interest bearing debt	49	54	70	86	91	114	102	93
Enterprise value	**131**	**109**	**112**	**144**	**111**	**140**	**127**	**118**
EV/Sales	0.4	0.3	0.3	0.4	0.3	0.4	0.4	0.3
EV/EBITDA	**5.6**	**15.7**	**15.2**	**15.2**	**58.3**	**6.1**	**4.9**	**4.1**
EV/EBIT	11.5	-	-	-	-	24.2	13.3	9.6
P/E reported	31.7	-	-	-	-	-	9.7	5.5
P/E adjusted	**31.7**	**-**	**-**	**-**	**-**	**-**	**9.7**	**5.5**
P/B	0.7	0.6	0.5	0.7	0.3	0.4	0.4	0.3

FINANCIAL ANALYSIS & CREDIT METRICS	2014	2015	2016	2017	2018	2019e	2020e	2021e
ROE adjusted (%)	2.2	-	-	-	-	-	3.8	6.4
Dividend yield (%)	-	-	-	-	-	-	2.3	3.5
EBITDA margin (%)	6.8	2.0	2.3	2.9	0.6	6.8	7.3	7.7
EBIT margin (%)	3.3	-	-	0.3	-	1.7	2.7	3.3
NIBD/EBITDA	2.09	7.80	9.45	9.01	47.94	5.00	3.92	3.21
EBITDA/Net interest	5.73	3.41	2.46	2.90	1.03	2.53	3.05	3.49

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NHST Media Group AS	21,475	1.85%	SpareBank 1Østfold Akersl	1,140,010	9.20%
Pareto Bank ASA	10,852,450	18.51%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,174,147	2.32%	Sparebanken Sør	460,589	2.94%
SpareBank 1BV	1,639,640	2.61%	Sparebanken Vest	4,507,960	7.64%
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Aker	0	702	Grieg Seafood	0	970	SalMar	0	280
Aker BP	0	8,480	Helgeland Sparebank	0	4,127	Sandnes Sparebank	0	23,832
AKVA Group	0	1,500	Höegh LNG	0	6,514	Scatec Solar	0	35,735
American Shipping Compar	0	3,105	Jæren Sparebank	0	500	Schibsted ASA B Aksjer	0	357
Archer	0	60,770	Komplett Bank	0	105,684	Seadrill	0	12,642
Atea	0	450	Kongsberg Gruppen	0	5,901	Selvaag Bolig	0	5,000
Atlantic Sapphire	0	5,305	KWS	75	75	SpareBank 1BV	0	17,700
Austevoll Seafood	0	5,780	Lerøy Seafood	0	37,095	SpareBank 1Nord-Norge	0	26,500
Avance Gas	0	6,645	Magseis Fairfield	0	12,379	SpareBank 1Ringerike Had	0	500
Axactor	0	12,724	Monobank	0	1,371,000	SpareBank 1SMN	0	15,490
BASF	270	270	Mowi	0	2,639	SpareBank 1SR-Bank	0	29,391
B2Holding	0	5,500	NEXT Biometrics	0	10,976	Sparebank 1Østfold Akersh	0	450
Bonheur	0	46,535	Nordic Semiconductor	0	6,000	SpareBank 1Østlandet	0	4,042
Borr Drilling	0	7,685	Norsk Hydro	0	127,415	Sparebanken Møre	0	6,550
BWLPG	0	5,569	Northern Drilling	0	6,060	Sparebanken Sør	0	43,280
DNB	0	34,587	Norwegian Air Shuttle	0	60,996	Sparebanken Vest	0	1,900
DNO	0	33,377	Norwegian Energy Compan	0	350	Sparebanken Øst	0	1,500
Entra	0	14,362	Ocean Yield	0	33,967	Stolt-Nielsen	0	900
Equinor	0	9,231	Odfjell Drilling	0	6,149	Storebrand	0	5,565
Europris	0	10,850	Okeanis Eco Tankers	0	1,738	Subsea 7	0	6,007
Fjord1	0	50,000	Orkla	0	24,176	Telenor	0	2,311
Fjordkraft Holding	0	4,132	Panoro Energy	0	5,670	TGS-NOPEC	0	2,050
Flex LNG	0	1,032	Pareto Bank	0	976,577	XXL	0	10,115
Frontline	0	13,003	Pioneer Property	0	2,050	Yara International	0	18,366
Gjensidige Forsikring	0	8,601	Protector Forsikring	0	15,567	Zenterio	0	78,865

This overview is updated monthly (last updated 17.06.2019).

*Analyst holdings refers to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

African Petroleum Corporation	Gfinity Plc	Okeanis Eco Tankers
Agder Energi	GG. St. Kongensgade 100 og 106	Panoro Energy
Akva Group	Gulf Keystone Petroleum	Petro Matad Limited
American Tanker	Hafslund E-CO	Petroleum Geo-Services
Andfjord Salmon	Hertha BSC GmbH	PetroTal
APC Forsikringsmæglere A/S	HKN Energy Ltd	Pioneer Public Properties Finland Oy
Arnarlax	Hunter Group	Point Resources AS
Avida Holding AB	Hörmann Industries	Quant AB
Bank Norwegian	Ice Group	Questerre Energy Corporation
Bluewater Holding	Jactel AS	Rødovre Port Holding A/S
DNO ASA	Klaveness Ship Holding	SAS
Dof Subsea AS	Lundin Petroleum	Scatec Solar
Eco Atlantic Oil and Gas	Magseis	Shamaran
Eland Oil & Gas	Monobank ASA	Shamaran Petroleum
Exmar NV	Navig8	Sparebank 1 Østlandet
FFS Bidco	NGEx Resources	SpareBank 1 Buskerud-Vestfold
Flex LNG	Northmill Group AB	Sparebanken Vest
Floatel	Norwegian Air Shuttle	Union Martime Limited
Fortum	Odfjell	Vantage Drilling
Genel Energy	Okea AS	

This overview is updated monthly (this overview is for the period 31.05.2018 – 31.05.2019).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11 (4)

Distribution of recommendations

Recommendation	% distribution
Buy	64%
Hold	32%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	92%
Hold	8%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 17.06.2019).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments
The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates
Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Azelio	Green Landscaping Holding	Jetpak Top Holding AB	ShaMaran Petroleum
Bionvent	IRRAS AB	Sedana Medical	Vostok New Ventures
Climeon			

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Cavotec	Saltängen Property Invest	Sedana Medical	Tethys Oil
Cibus Nordic Real Estate	SciBase Holding	ShaMaran Petroleum	Vostok Emerging Finance
Isofol Medical			

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 24.06.2019).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor
Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Gesco *	Merkur Bank	SCOUT24
Aixtron *	GFT Technologies *	MLP *	Siemens Healthineers AG
Baywa	Gigaset *	MOBOTIX AG	SMT Scharf AG *
Biotest *	Heidelberg Pharma *	OVB Holding AG	Surteco Group *
Brenntag	Hypoport AG	Procredit Holding *	Syzygy AG *
CORESTATE Capital Holding S.A.	init*	PSI SOFTWARE AG *	TAKKT AG
Demire	Intershop Communications AG	PWO *	Vapiano
Epigenomics AG*	Leifheit *	RIB Software *	va-Q-tec *
Euromicron AG *	Logwin *	S&T AG *	Viscom *
Eyemaxx Real Estate	Manz AG *	Schaltbau Holding AG	windeln.de
Freenet	MAX Automation SE *		

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research
Pareto Securities has entered into an agreement with these companies about the preparation of research reports and – in return - receives compensation.

Adler Modemaerkte	Eyemaxx Real Estate	Intershop Communications AG	OVB Holding AG
Baywa	First Sensor	Merkur Bank	Schaltbau Holding AG
BB Biotech	Hypoport AG	MOBOTIX AG	Siegfried Holding AG
comdirect	Godewind Immobilien AG	OHB SE	Vapiano
Daldrup & Söhne			

This overview is updated monthly (last updated 17.06.2019).