Research Report (Anno)

ABM makes progress improving the EBIT-Margin - Sales and earnings growth to be expected

Target price: 9.80 €

Rating: BUY

Completion: 30/4/2014

First Publication: 30/4/2014

GBC AG Investment Research

Greiffenberger AG*5

BUY
Target price: € 9.80

current price: 6.16
28/4/2014 / ETR
currency: EUR

Key information:

ISIN: DE0005897300
WKN: 589730
Ticker symbol: GRF
Number of shares³: 5.323
Marketcap³: 32.79
EnterpriseValue³: 91.58
³ in m / in EUR m
Freefloat: 43.0 %

Transparency level:
General Standard
Market segment:
Regulated market
Accounting standard:
IFRS

Financial year-end: 12/31

Designated Sponsor:
Donner & Reuschel AG

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* catalogue of potential conflicts of interests on page 20

Company Profile

Sector: Industry

Speciality: Drive technology, Metal band saw blades & Precision strip steel, Sewer renovation

Employees: 1,051 (31/12/2013)

Founded: 1986

Registered Office: Marktredwitz

Executive Board: Stefan Greiffenberger

Greiffenberger AG, with its registered office in Marktredwitz and its management in Augsburg, is a family-run holding company with shareholdings in various industries divided into three business areas. The Drive Technology business is represented by the largest subsidiary ABM Greiffenberger Antriebstechnik GmbH, based in Marktredwitz. In addition, ABM has foreign subsidiaries in China, France, Austria, Poland, Turkey and the USA. The Metal Band Saw Blades & Precision Strip Steel business unit comprises J. N. Eberle & Cie. GmbH, based in Augsburg. Eberle also has subsidiaries in France, Italy and the USA. BKP Berolina Polyester GmbH & Co. KG, based in Velten, operates in the fields of sewer renovation technology and pipe lagging. Greiffenberger AG has been listed since 1986.

P&L in EUR m	31/12/2012	31/12/2013	31/12/2014e	31/12/2015e
Sales	157.96	155.24	163.00	171.00
EBITDA	15.39	12.59	15.17	17.01
EBIT	8.80	6.03	8.17	10.01
Net profit	2.55	1.30	3.46	4.82

Figures in EUR				
Earnings per share	0.53	0.27	0.65	0.91
Dividend per share	0.00	0.00	0.00	0.00

Ratios				
EV/Sales	0.59	0.59	0.56	0.54
EV/EBITDA	6.03	7.27	6.04	5.38
EV/EBIT	10.54	15.19	11.21	9.15
P/E	11.62	22.81	9.48	6.77
P/B		1.00		

Financial dates	
12/05/2014:	Report Q1
26/06/2014:	Annual Meeting
25/08/2014:	Report Q2
10/11/2014:	Report Q3

** last research published by GBC:
Date: publication/price target in €/Rating
27/8/2013: RS / 9.30 / BUY
19/7/2013: RG / 9.30 / BUY
29/4/2013: RS / 9.30 / BUY

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Executive Summary

- By generating sales of €155.24 million in the fiscal year 2013, Greiffenberger AG was almost able to achieve the same result as in the previous year 2012, falling behind by 2%. Contrary to the two subsidiaries Eberle and BKP, the largest subsidiary ABM was able to continue the positive sales development of the preceding years.

- The reduction in profitability in 2013 is partially based on one-off effects of €2 million in conjunction with the new plant in Poland and lower sales of the two subsidiaries Eberle and BKP. In 2013, the adjusted EBIT-Margin of ABM was closely to 7%. Consequently, ABM is making good progress reaching the intended margin-level of 8%, on a midterm perspective.

- The balance sheet figures slightly improved in the fiscal year 2013. Despite above average capital expenditures, Greiffenberger was able to reduce net debt by undertaking an efficient working capital management strategy. Due to the visible effects of the implemented arrangements, we expect the development to be sustainable.

- For the fiscal year 2014, as well as for the subsequent years, we are convinced that Greiffenberger AG will improve its profitability and reach higher margin levels. Our forecast includes a rising EBITDA-margin in 2014 as well as in 2015 to a level of 9.3% and 10.0% respectively. Therefore, we expect a significant appreciation of equity along with an additional reduction of net debt.

- **For the shares of Greiffenberger AG, we increased our target price to €9.80 (prior: €9.30), whereby the dilution due to the capital increase from April 2014 is already taken into consideration. Based on the actual share price, an upside potential of approximately 60 % can be derived. Based on the significant underpricing, we assign a buy-rating to the shares of the Greiffenberger AG.**

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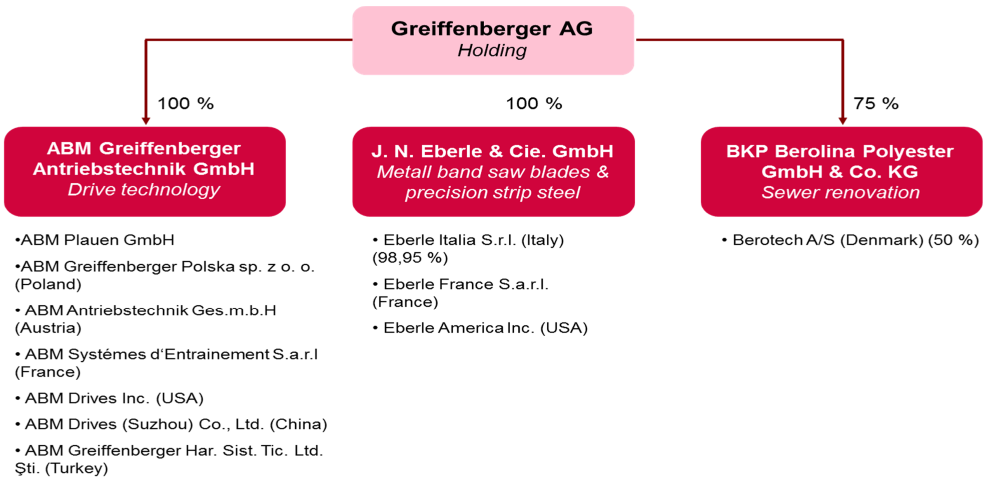
COMPANY

Profile

Greiffenberger AG, with its registered office in Marktredwitz and its management in Augsburg, is a family-run holding company with shareholdings in various industries divided into three business areas. The Drive Technology business is represented by the largest subsidiary **ABM Greiffenberger Antriebstechnik GmbH**, based in Marktredwitz. In addition, ABM has foreign subsidiaries in China, France, Austria, Poland, Turkey and the USA. The Metal Band Saw Blades & Precision Strip Steel business unit comprises **J. N. Eberle & Cie. GmbH**, based in Augsburg. Eberle also has subsidiaries in France, Italy and the USA. **BKP Berolina Polyester GmbH & Co. KG**, based in Velten, operates in the fields of sewer renovation technology and pipe lagging. Greiffenberger AG has been listed since 1986.

The following diagram shows Greiffenberger AG's organisational chart:

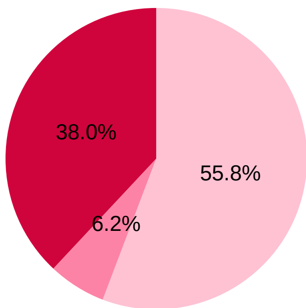


Source: Greiffenberger AG; GBC AG

Shareholder structure

shareholder in %	31/03/2014
Greiffenberger Holding GmbH	55.8 %
Baden-Württembergische Versorgungsanstalt	6.2 %
Free float	38.0 %

Source: Greiffenberger AG; GBC AG



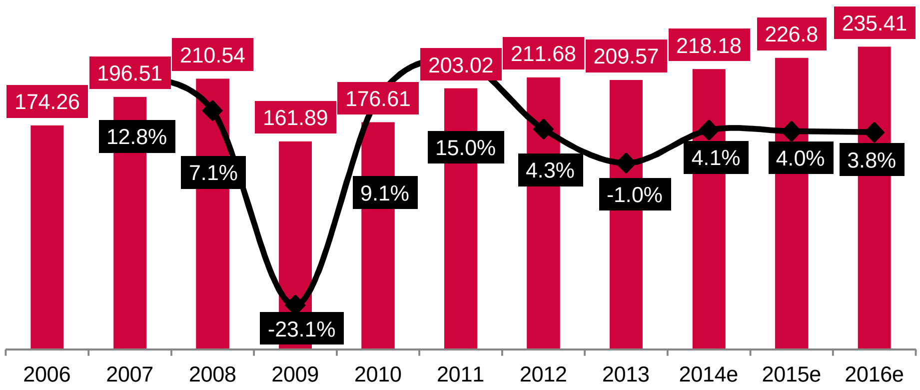
GBC AG Investment Research

MARKET

Market and sector analysis

According to the German Engineering Association (VDMA), 2013 was a rather disappointing business year, while the desired 2% increase in output could not be achieved and had to be revised down to a -1% downturn. For the first time since 2010 therefore, output among machinery and plant manufacturers again declined in 2013. Over the next three years, however, the International Monetary Fund (IMF) and the Federal Office of Statistics are anticipating a renewed recovery for the German market and expect steady growth on average of 4 %.

Sales trend in machinery construction in Germany in billions of Euros

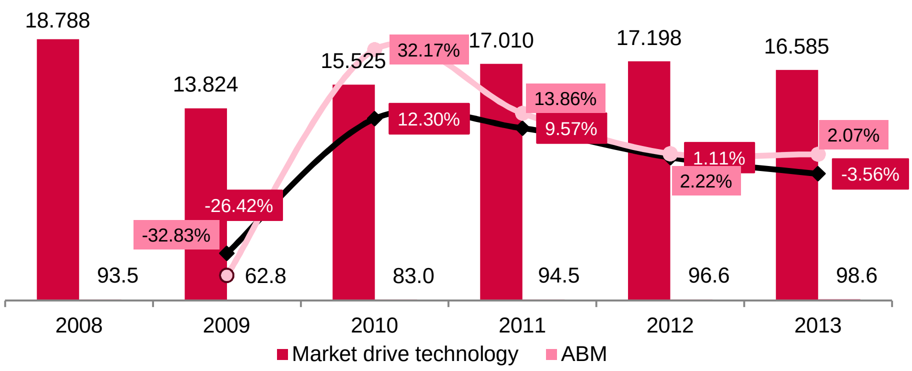


Source: IWF; Statistisches Bundesamt; GBC AG

If the difficult global economic picture over the course of the last financial year is taken into account, the slight -1.0% downturn must nevertheless be regarded as a respectable development. At the same time, Q1 2013 was primarily characterised by the cyclical slump in 2012 and could no longer be fully offset throughout the remainder of 2013. With sales revenue amounting to €218.18 billion for 2014, both the IMF and the Federal Office of Statistics are nevertheless anticipating a new record level for the last ten years.

With its 8.6% share of exports among German plant and machinery manufacturers, the drive technology sector, which is important for Greiffenberger AG, among others, constitutes one of the principal drivers of growth and sales. In the process, during 2013, the drive technology sector developed better than the mechanical engineering sector as a whole and, compared with 2012, only declined slightly by -0.4% on the export side, while imports rose by 0.4%. Hence, the drive technology sector should be able to benefit in a disproportionate manner from the positive developments over the next few years within the mechanical engineering sector as a whole. ABM, the largest division within the Greiffenberger Group, is a drive technology system provider, offering customised solutions comprising of an engine, gear system, brake and frequency converter.

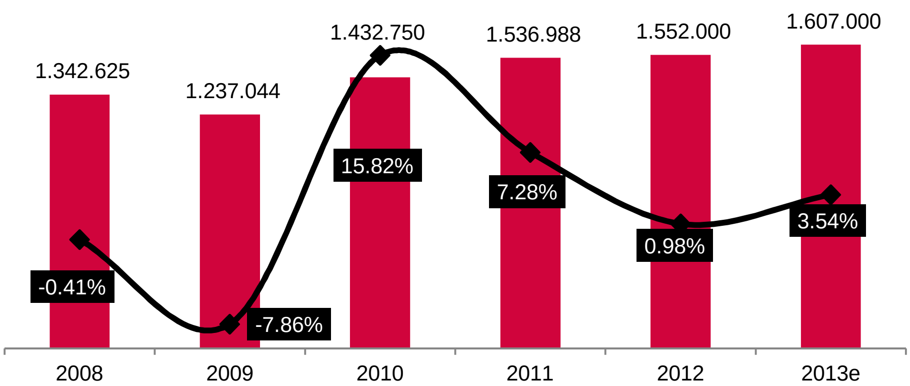
Sales trend in the drive technology sector in Germany in millions of Euros in relation to Greiffenberger AG



Source: Statistisches Bundesamt; GBC AG

With regards to the subsidiary Eberle, parent company of the Metal Band Saw Blades & Precision Strip Steel division, global crude steel production represents an important indicator of operational business development. Viewed against the market as a whole, the 2013 business year can thereby definitely be regarded as a positive environment. Above all, however, 2013 was also characterised by very heterogeneous developments in the individual regions, with key markets continuing to suffer from cyclical difficulties and a partial downturn in economic performance. According to the World Steel Association (WSA) and Reuters News Agency, global crude steel production increased by 3.5% to 1,607 billion tonnes compared with the previous year. The increase in utilisation was also gratifying for the segment. Over the past year, worldwide capacity utilisation rose from 76.2% to 78.1% in 2013.

Global crude steel production in millions of tonnes



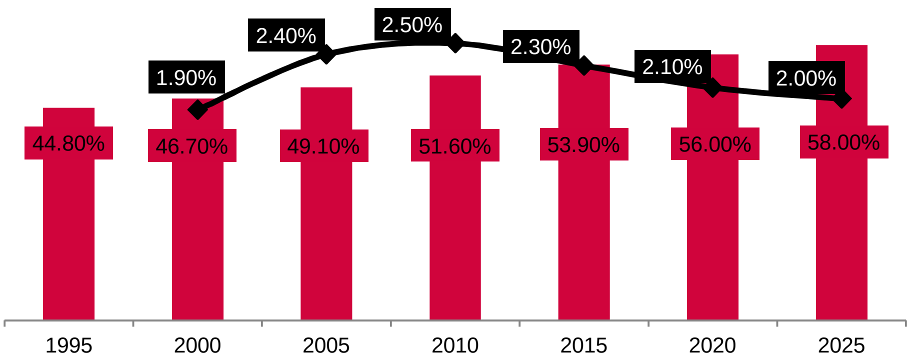
Source: World Steel Association; GBC AG

The start of the 2014 business year was, however, somewhat patchy with regards to crude steel production. According to the WSA, although production in February 2014 did increase by 0.6% to 125 million tonnes compared with the same month last year, in January 2014, it still fell slightly by -0.4%. The IMF's growth forecast for the global economy of 3.7% for 2014 and 3.9% for 2015 should, however, also ensure increased capacity utilisation and rising growth rates in the sphere of crude steel production in the event that these growth rates are realised.

In addition to plant construction and engineering as well as drive technology and crude steel production, Greiffenberger AG, in the form of its subsidiary BKP Berolina Polyester

GmbH & Co. KG, depends on development and investment in underground infrastructure. In this context, the proportion of the population living in towns and cities will increase further in the future, necessitating accordingly additional and continuous expansion and modernisation of the already existing underground infrastructure, such as the sewage and waste water systems.

Proportion of the population living in towns and cities by 2025



Source: United Nations; GBC AG

DEVELOPMENT OF THE COMPANY & FORECAST

Overview of the figures

in m €	FY 2011	FY 2012	FY 2013	FY 2014e	FY 2015e
Sales	156.61	157.96	155.24	163.00	171.00
Other operating income	2.99	3.38	2.82	3.00	3.00
Increase in finished goods work-in-process	4.38	0.65	1.41	0.00	0.00
Internally produced and capitalised assets	0.73	0.65	1.04	0.80	0.80
Total Output	**164.71**	**162.64**	**160.51**	**166.80**	**174.80**
Material expenses	-79.33	-76.55	-74.39	-74.23	-77.79
Personnel expenses	-48.98	-49.44	-52.84	-57.40	-59.00
Depreciation	-6.47	-6.59	-6.56	-7.00	-7.00
Other operating expenses	-21.61	-21.26	-20.70	-20.00	-21.00
EBIT	**8.31**	**8.80**	**6.03**	**8.17**	**10.01**
Financial result	-4.51	-5.30	-3.65	-3.50	-3.50
EBT	**3.81**	**3.51**	**2.38**	**4.67**	**6.51**
Taxes	-1.29	-0.95	-1.08	-1.22	-1.69
Net profit	**2.52**	**2.55**	**1.30**	**3.46**	**4.82**

EBITDA	14.78	15.39	12.59	15.17	17.01
EBITDA-margin	*9.4%*	*9.7%*	*8.1%*	*9.3%*	*10.0%*
EBIT	8.31	8.80	6.03	8.17	10.01
EBIT-margin	*5.3%*	*5.6%*	*3.9%*	*5.0%*	*5.9%*
Earnings per share in €	0.52	0.53	0.27	0.65	0.91
Dividends per share in €	0.00	0.00	0.00	0.00	0.00
Number of shares in million	4.84	4.84	4.84	5.32	5.32

Business developement 2013

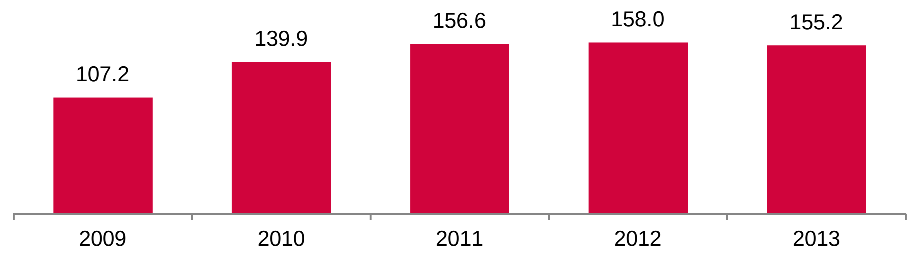
in m €	FY 2012	Δ	FY 2013
Sales	157.96	-1.7%	155.24
EBITDA	15.39	-18.2%	12.59
EBITDA-Margin	*9.7%*		*8.1%*
EBIT	8.80	-31.5%	6.03
EBIT- Margin	*5.6%*		*3.9%*
Net profit	2.55	-49.2%	1.30
EPS in €	0.53	-49.2%	0.27

Source: Greiffenberger AG; GBC AG

Sales development – ABM's growth continues, while Eberle and BKP have not achieved the level of the previous year

In the 2013 business year, Greiffenberger AG achieved sales amounting to €155.24 million, slightly below the level of the previous year (previous year: €157.96 million) and slightly below our estimates of €159.00 million. By contrast, incoming orders totalled €159.8 million, approximately 11% above the previous year's figure. While the steady upward trend at ABM has continued unchanged, both of the other two subsidiaries Eberle and BKP had to accept a decline in sales.

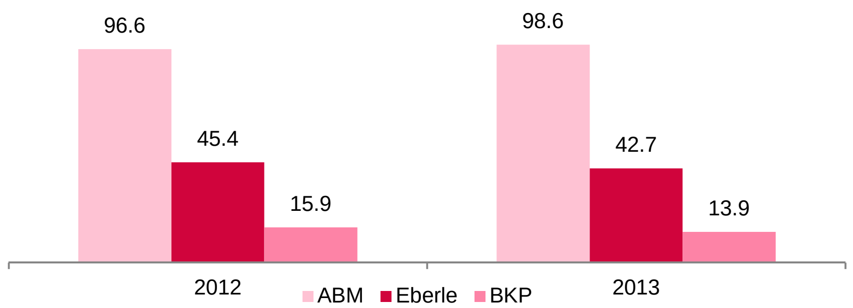
Sales development (in m €)



Source: Greiffenberger AG; GBC AG

Following the appreciable increases in 2009 and 2010, Group sales have consolidated at a stable level.

Sales development by segment (in m €)



Source: Greiffenberger AG; GBC AG

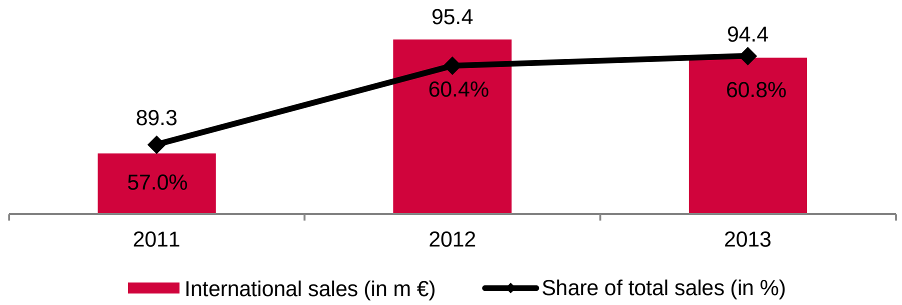
The largest subsidiary, ABM, was able to record the strongest growth dynamic in recent years. Here, sales in the 2013 business year were able to be increased by approximately 2% to €98.6 million (previous year: €96.6 million). The sales threshold of €100 million is therefore firmly in our sights and should already be achieved, in our estimation, during 2014. ABM has a broad customer base which has expanded continuously over recent years and is active in a large number of sectors. The company has long-standing relationships with customers in the following sectors: forklifts, hoisting technology, textile machines and general engineering. By our reckoning, these customer groups should be responsible for roughly half of the sales. ABM has other important groups of customers in the following sectors: medical technology, renewable energies (biomass heating systems and wind power), e-mobility and intra/warehouse logistics.

The new ABM plant in Poland was opened on schedule in Q4 2013 and production started. At the end of December 2013, Lublin already had just under 90 employees; currently, there are approximately 120. The new plant in Poland will not provide any additional sales impetus, when viewing the Group as a whole, since this concerns intra-Group sales. However, the new plant is an important building block in optimising the supply chain further and improving the level of quality. This should already be reflected in this business year in a higher gross profit margin.

In the case of the subsidiary Eberle, sales in the 2013 business year fell to €42.7 million (previous year: €45.4 million). This downturn can be explained by lower demand from abroad. The adverse economic environment was particularly noticeable in the countries of south-east Europe and in France. In Europe, sales fell by over 10%. In Germany, sales remained constant at approximately €3.7 million. The high export ratio of approximately 91% reflects Eberle's international focus on the regions of Asia, Europe and North America. The reduced numbers of requests from customers abroad should have affected equally the band saw blade, precision strip steel and bi-metal strip steel product segments.

In the 2013 business year, BKP recorded a drop in sales of just under 13% to €13.9 million (previous year: €15.9 million), something which can primarily be attributed to three factors. On the one hand, the severe winter of 2012/13 resulted, by and large, in weaker building activity in the area of sewer renovations. Furthermore, BKP saw itself confronted with caution on the part of the public sector in the awarding of contracts, which had a negative impact in the hose linings segment. Furthermore, in the previous year, BKP received an unexpectedly large one-off order in the area of gas pipe lagging estimated to be worth in the region of €2 million. These effects are responsible for the clear decline in sales on the key German market (2013: €7.9 million versus 2012: €10.3 million). Sales abroad were approximately 7% above the previous year's level, standing at €6.0 million.

International sales (in m €)



Source: Greiffenberger AG; GBC AG

Over 2013 as a whole, international sales amounted to €94.4 million, compared with €95.4 million for the previous year. While, in 2013, ABM was able to make slight gains in terms of foreign sales, Eberle saw its foreign sales fall by around 7%. According to information provided by the company, across the Group in 2013, the growth markets of environmental technology and energy efficiency accounted for approximately 31% of total sales.

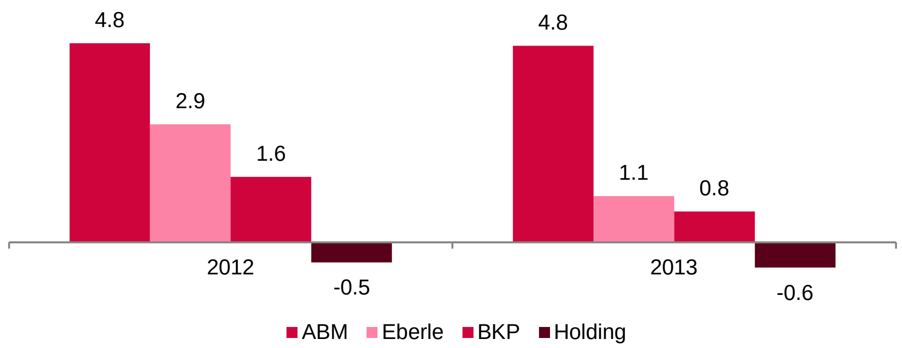
Earnings development – adjusted EBIT margin for ABM of just under 7%

At Group level, the material costs ratio again improved during the 2013 business year. This came to 47.9%, compared to 48.5% in the previous year. The previous year had already seen a considerable reduction in this area (2011: 50.7%). Important raw materials for the subsidiaries in this regard include, inter alia, steel, aluminium, copper, synthetic resin and fibreglass. Alongside the favourable trend in raw material prices, however, the measures implemented in terms of optimising purchasing (internationalisation of suppliers, increased bundling of purchased services as well as the continued pursuit of the platform strategy) have primarily had a positive impact on the material costs ratio. This positive trend should also continue in years to come as a result of the newly opened plant in Poland.

Staff costs in 2013 amounted to €52.84 million (previous year: €49.44 million). Towards the end of 2013, the Greiffenberger Group employed 1,051 workers. The addition of approximately 80 new employees can be attributed almost exclusively to the plant in Poland. All told, with approximately 700 employees, ABM is the largest employer within the group.

At €12.59 million, earnings before interest, taxes, depreciation and amortisation (EBITDA) were below the figure for the previous year (previous year: €15.39 million). Our forecast of €13.76 million was therefore slightly out. The slight discrepancy can be explained, first and foremost, by the weaker earnings contributions provided by the subsidiaries Eberle and BKP. The one-off costs associated with the new plant in Poland in the region of €2 million had been budgeted for.

EBIT by segment (in m €)



Source: Greiffenberger AG; GBC AG

In our estimation, ABM's operating result for 2013 was thoroughly gratifying. Here, the result posted for this segment of €4.8 million was on a par with the previous year's figure. Taking into account the one-off expenditure of approximately €2 million associated with the newly opened plant in Poland, the adjusted EBIT margin already stood at 6.9% (previous year: 5.0%). Consequently, the company is well on the way to achieving the intended EBIT margin of 8% in the medium term.

By contrast, the subsidiaries Eberle and BKP were not able to repeat the positive result of the previous year. This is essentially attributable to the lower sales volume in each case. Furthermore, in the case of Eberle, numerous measures designed to improve internal processes, such as the renewal of the IT landscape, resulted in a higher cost base.

The financial results were able to be improved appreciably. In the 2013 business year, the financial loss figure stood at €-3.65 million (previous year: €-5.30 million), a considerable improvement therefore on the same period in the previous year. In addition to the fact that one-off expenditure incurred in the course of the restructuring of Group financing in March 2012 ceased to apply, this can also be explained by the appreciably lower interest rates and the slightly positive revenue of €0.1 million resulting from the market valuation of interest rate swaps. In 2013, the fair value measurement of interest rate hedges still resulted in a non-cash charge of approximately €0.9 million. The minority interests stood at just €0.06 million (previous year: €0.27 million), since BKP's net earnings fell in 2013.

The high taxation ratio in 2013 exceeding 45% can be attributed to the start-up losses incurred by ABM Greiffenberger Polska, since in this case, the accumulated losses brought forward could not be capitalised. In the 2013 business year, the annual net profit stood at €1.30 million, compared to €2.55 million, corresponding to earnings per share of €0.27 (previous year: €0.53).

Assets, liabilities and financial situation

in m €	FY 2011	FY 2012	FY 2013
Equity	30.65	31.25	32.28
Equity-Ratio in %	25.1	25.3	24.9
Operating fixed Assets	56.99	58.10	61.76
Working Capital	33.30	36.29	31.52
Net Debt	57.30	60.59	58.79

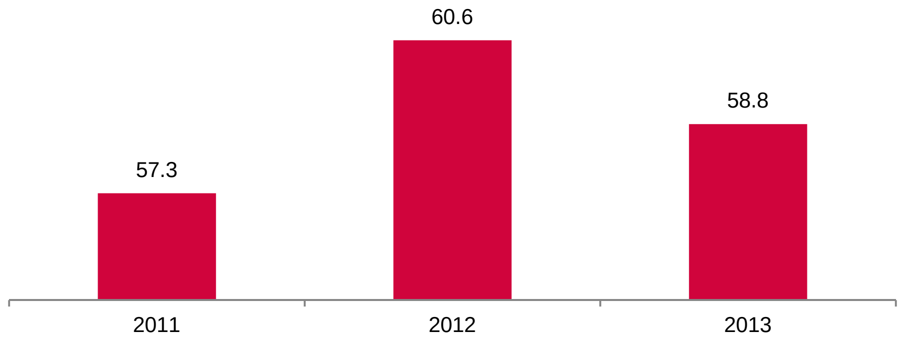
Source: Greiffenberger AG; GBC AG

In our estimation, the balance sheet relations for Greiffenberger AG improved slightly in the 2013 business year. On the one hand, this is associated with the positive earnings and, on the other, with working capital management optimisation.

By December 2013, thanks to the annual net profit, equity capital increased slightly to €32.28 million. At 24.9%, the equity ratio was roughly at the level of the previous year (previous year: 25.3%). It is still the aim of Greiffenberger AG to raise the equity ratio to 33% and, in the years to come, to definitely restore further the still relatively high level of net indebtedness.

It was possible to achieve pleasing progress on the aspect of working capital management. According to our calculations, net working capital could be reduced appreciably to €31.52 million, as against €36.29 million for the previous year. In our view, this is not so much down to purely reporting date effects as it is to structural improvements in inventory management and the procurement of goods as a result of the optimisation measures implemented.

Net Debt (in m €)



Source: Greiffenberger AG; GBC AG

It was also possible to improve the net debt (including pensions, leasing and deferred taxes) slightly to €58.79 million. We view this as a positive, in light of the high level of investment. Investment in 2013 stood at a high, above-average level of €10.6 million (previous year: €7.8 million). The subsidiary ABM was the recipient of the majority of investment, at €5.4 million. Of this, approximately €2 million was allotted to the new plant in Poland. Eberle made investments of €3.0 million, thereby on a similar scale to 2012. Investments here were made in facilities for diversifying the product line as well as in a new strip edge trimming machine. The slight increase in internally produced and capitalised assets is closely connected with the introduction of new IT systems at ABM and Eberle (2013: €1.04 million versus 2012: €0.65 million).

SWOT-Analysis

Strenghts	Weaknesses
• The subsidiaries are technology leaders in attractive niche markets • Hidden reserves associated with properties in Augsburg and Marktredwitz • A broadly diversified and long-standing customer base • International positioning of the subsidiaries with an export ratio in excess of 60% • Secure, long-term Group financing on attractive terms • Good position in the growth markets of environmental technology and energy efficiency, with an approximate 31% share of turnover at present • A high level of organisational flexibility and a pronounced ability to effect reorganisation	• No dividend payout as yet • Only limited operational synergy effects between the subsidiaries • Equity ratio still too low • Net indebtedness relatively high
Opportunities	**Risks**
• A further reduction in net indebtedness and an increase in the equity ratio facilitate the resumption of a dividend payment • ABM's new plant in Lublin results in an improvement in the gross profit margin • Further expansion of the environmental technology and energy efficiency segments in the light of global trends and corresponding legislation • Exploitation of economies of scale with increased growth in turnover, which can be supported by the existing production capacities • Further increase in ABM's margin • BKP is benefiting from increasing investment in infrastructure as a result of the global trend towards urbanisation	• A downturn in global economic conditions may have a negative effect on sales, in particular in those segments which are more sensitive to the economic cycle - drive technology and metal band saw blades. • Increased prices for important raw materials may put a strain on material costs

Forecast and model assumptions

in m €	FY 2013	FY 2014e	FY 2015e
Sales	155.24	163.00	171.00
EBITDA	12.59	15.17	17.01
EBITDA-Margin	*8.1%*	*9.3%*	*10.0%*
EBIT	6.03	8.17	10.01
EBIT- Margin	*3.9%*	*5.0%*	*5.9%*
Net profit	1.30	3.46	4.82
EPS in €	0.27	0.65	0.91

Source: GBC AG

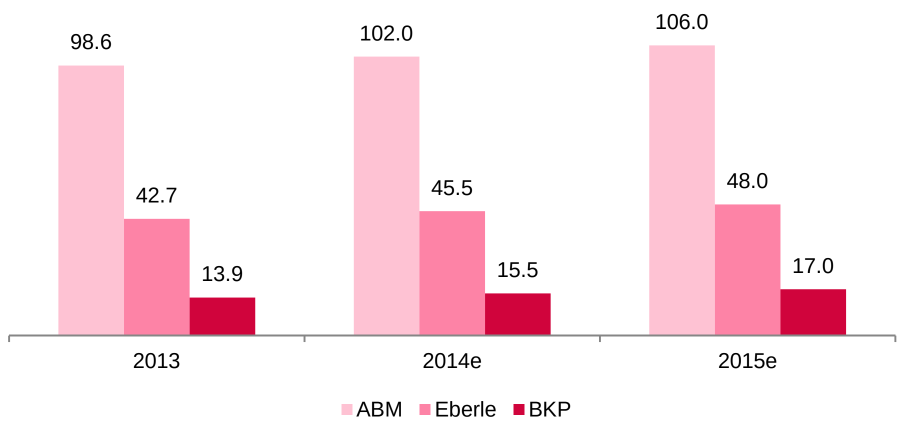
Sales forecasts – record figures expected at Group level and at ABM

For the current 2014 business year, we are assuming that sales across the Group will grow by 5.0% to €163.00 million. Hence, for the first time in the firm's history, the sales threshold of €160 million should be exceeded. Our forecasts are based on the assumption that growth shall be borne equally by all three subsidiaries. After 2013 saw a slight downturn in output among German machinery and plant manufacturers, various research institutes are assuming solid growth in this sector in years to come. Subsidiaries in the Greiffenberger Group should be able to benefit from this accordingly.

Greiffenberger AG started the new 2013 business year with a comfortable number of orders in hand, the figure of €34.6 million being appreciably above the comparable value for the previous year (previous year: €32.3 million). At the same time, the book-to-bill ratio at the end of the year was 1.1, indicating pleasing business development over the next few quarters.

The chart below shows our expectations in relation to sales for the years 2014 and 2015, apportioned between the subsidiaries.

Sales forecasts by segments (in m €)



Source: GBC AG

In the case of ABM, growth will also continue in 2014. Here, for the first time according to our forecast, sales in excess of €100 million should be achieved. Following the decline in Eberle's sales over both of the last two years, a friendlier economic picture among European countries will again result in increased demand for saw blades and strip steel. We are anticipating additional growth stimuli in connection with Eberle's business operations from Asia and the USA. Furthermore, Eberle is striving to grow by acquiring an additional market share in hard metal band saw blades.

In the case of BKP, sales should primarily be increased by expanding the foreign customer base further. In 2013, the sales obtained abroad was already in the region of €6 million, following €5.6 million in 2012 and €5.4 million in 2011. With the expansion in production capacities over recent years, in our opinion, BKP is in a position to increase its sales volume appreciably.

Earnings forecasts – a marked increase in margins is anticipated in 2014

We firmly believe that Greiffenberger AG will succeed, beginning with 2014, in improving its earnings level considerably and in a sustainable manner. Over the past four years, annual net profit has been between €1.3 million and €2.6 million. Here, there has been a series of one-offs which have impacted on earnings.

We are expecting an EBITDA of €15.17 million for 2014, which corresponds to an EBITDA margin of 9.3%. According to our estimate, depreciation should increase slightly to €7.00 million. Consequently, the EBIT in 2014 shall amount to €8.17 million. Aside from the fact that one-off expenditure at ABM has ceased to apply, the principal drivers of earnings in this regard will prove to be the other two subsidiaries, Eberle and BKP. Increased economies of scale will come into play here as a result of rising sales revenues.

We are anticipating financial losses in 2014 of €-3.50 million, at the level of the previous year. Here, the most recent capital increase carried out in April 2014, which resulted in gross proceeds of just under €3 million, will lead to a reduction in net indebtedness. At the same time, BKP's minority interests included in the financial result will again increase as a result of the anticipated improvement in earnings.

Assuming a taxation ratio at Group level of 26.0%, annual net profit for the 2014 business year has been calculated at €3.46 million. Based on the number of shares outstanding following the capital increase (5.323 million shares), earnings per share will be €0.65.

Following the high, above-average level of investment in 2013, according to our estimate, investment in 2014 will be roughly at the level of depreciations. Furthermore, despite the growth in sales, our assumptions for 2014 only presuppose a moderate increase in net working capital. In conjunction with the clearly positive operating result, together with the existing accumulated losses brought forward which can still be utilised from the point of view of taxation, this should result in an appreciable reduction in net indebtedness.

VALUATION

Model assumptions

We valued Greiffenberger AG using a three-phase DCF model. Starting from the specific estimates for the years 2014 to 2015 in phase 1, the second phase from 2016 to 2021 forecasts are performed under the assumptions of value drivers. In the process, we have assumed growth in sales of 3.0% based on a conservative approach.

We took as our target an EBITDA margin of 10.5%. Should ABM achieve an EBIT margin of 8% in the medium term, our assumption at this point would be overly pessimistic. We made a conservative deduction on this EBIT margin assumption. Realisation of these objectives would yield a not inconsiderable additional potential price increase in the context of our DCF model.

We applied a tax rate of 26.0%. For the third phase 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% as well as a tax rate of 29.0%.

Calculation of the cost of capital

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

The interest rate for 10-year German federal bonds is taken as the risk-free interest rate. This currently stands at 2.00%.

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 is currently a beta of 1.47.

Applying these assumptions we can calculate an equity cost of capital of 10.1% (beta multiplied by the risk premium, plus 10-year risk free interest rate). As we assume a long-term weighting of equity capital costs of 80%, the weighted average cost of capital (WACC) is 9.2%.

Valuation result

Discounting future cash flows was carried out using the entity approach. We calculated the relevant capital costs (weighted average cost of capital) at 9.2%. The resulting fair value per share at the end of the 2014 business year corresponds to a target price of €9.80. Moreover, we have taken the dilutive effect arising from the most recent capital increase into account in the context of the DCF model.

We have raised slightly the previous target price of €9.30. A clear potential price increase of approximately 60% for shares in Greiffenberger AG ensues when using the current low price level as a basis. In our opinion, the share is clearly undervalued and does not reflect the company's promising business outlook.

DCF-Valuation

Greiffenberger - Discounted Cashflow (DCF) Valuation

Value driver of the DCF - model after the estimate phase:

consistency - Phase	
Sales growth	3.0%
EBITDA-Margin	10.5%
Depreciation to fixed assets	10.9%
Working Capital to revenue	18.9%

final - Phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	7.2%
Taxe rate final value	29.0%

three phases DCF - model:

Phase	estimate		consistency						
in €m	FY 14e	FY 15e	FY 16e	FY 17e	FY 18e	FY 19e	FY 20e	FY 21e	Final value
Sales	163.00	171.00	176.13	181.41	186.86	192.46	198.24	204.18	
Sales change	5.0%	4.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Sales to fixed assets	2.64	2.78	2.86	2.95	3.04	3.13	3.22	3.32	
EBITDA	15.17	17.01	18.49	19.05	19.62	20.21	20.81	21.44	
EBITDA-Margin	9.3%	9.9%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	
EBITA	8.17	10.01	11.80	12.35	12.92	13.51	14.12	14.74	
EBITA-Margin	5.0%	5.9%	6.7%	6.8%	6.9%	7.0%	7.1%	7.2%	7.2%
Taxes on EBITA	-2.13	-2.60	-3.42	-3.58	-3.75	-3,92	-4.09	-4.28	
Taxes to EBITA	26.0%	26.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
EBI (NOPLAT)	6.05	7.41	8.38	8.77	9.18	9.59	10.02	10.47	
Return on capital	6.5%	7.9%	8.9%	9.3%	9.6%	9.9%	10.2%	10.6%	10.6%
Working Capital (WC)	32.00	32.30	33.27	34.27	35.30	36.36	37.45	38.57	
WC to revenue	19.6%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	
Investment in WC	-0.48	-0.30	-0.97	-1.00	-1.03	-1.06	-1.09	-1.12	
Operating fixed assets (OAV)	61.70	61.50	61.50	61.50	61.50	61.50	61.50	61.52	
Depreciation on OAV	-7.00	-7.00	-6.70	-6.70	6.70	6.70	6.70	6.70	
Depreciation to OAV	11.3%	11.4%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	
Investment in OAV	-6.94	-6.80	-6.70	-6.70	-6.70	-6.70	-6.70	-6.72	
Capital employed	93.70	93.80	94.77	95.77	96.80	97.86	98.95	100.09	
EBITDA	15.17	17.01	18.49	19.05	19.62	20.21	20.81	21.44	
Taxes on EBITA	-2.13	-2.60	-3.42	-3.58	-3.75	-3.92	-4.09	-4.28	
Total investment	-7.43	-7.10	-7.67	-7.70	-7.73	-7.76	-7.79	-7.84	
Investment in OAV	-6.94	-6.80	-6.70	-6.70	-6.70	-6.70	-6.70	-6.72	
Investment in WC	-0.48	-0.30	-0.97	-1.00	-1.03	-1.06	-1.09	-1.12	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	5.62	7.31	7.40	7.77	8.15	8.53	8.93	9.32	120.87

Value operating business (due date)	105.94	108.33
Net present value explicit free CF	40.47	36.86
Net present value of terminal value	65.48	71.47
Net debt	53.77	49.96
Value of equity	52.18	58.37
Minority interests	0.00	0.00
Value of share capital	52.18	58.37
Outstanding shares in m	5.32	5.32
Fair value per share in €	9.80	10.97

Cost of capital:

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.47
Cost of equity	10.1%
Target weight	80.0%
Cost of debt	7.5%
Target weight	20.0%
Taxshield	28.7%
WACC	**9.2%**

Return on capital	WACC				
	8.6%	**8.9%**	**9.2%**	**9.5%**	**9.8%**
10.1%	10.65	9.83	9.09	8.41	7.79
10.4%	11.05	10.21	9.45	8.75	8.11
10.6%	11.46	10.59	**9.80**	9.08	8.42
10.9%	11.86	10.97	10.16	9.42	8.74
11.1%	12.26	11.35	10.51	9.75	9.06

ANNEX

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