GBC AG Investment Research

Research Report (Anno)

GREIFFENBERGER AG
Zukunft ist machbar

The FY2014 was characterised by focusing on the expansion as well as the improvement of the product portfolio

- After declines in sales and earnings in FY2014, growth can be expected for FY2015

Target Price: €7.10

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 20

Date of Completion: 29/04/2015 **Date of first Publication: 29/04/2015**

GBC AG
Investment Research

Greiffenberger AG*5a,5b,11

Rating: BUY
Target Price: €7.10

Current price: €4.15
29/04/2015 / ETR
Currency: EUR

Key information:

ISIN: DE0005897300
WKN: 589730
Ticker symbol: GRF
Number of shares³: 5.323
Marketcap³: 22.09
Enterprise Value³: 90.99
³ in m EUR

Freefloat: 42.02 %

Transparency level:
General Standard

Market segment:
Regulated market

Accounting standard:
IFRS

Financial year-end: 31/12

Designated Sponsor:
EQUINET BANK AG

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* catalogue of potential conflicts of interests on page 21

Company Profile

Sector: Industry

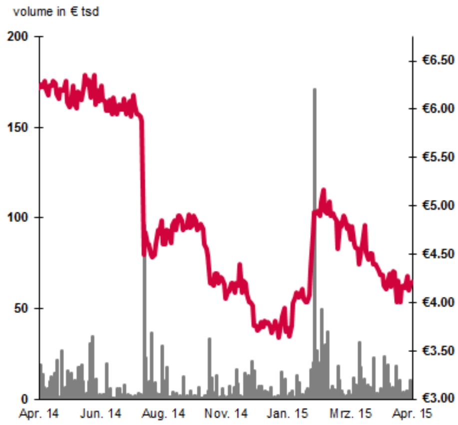
Specialty: Drive technology, metal band saw blades & precision strip steel, sewer renovation

Employees: 1,091

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 Greifenberger 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 subisidaries 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	31/12/2013	31/12/2014	31/12/2015e	31/12/2016e
Sales	155.24	152.23	159.20	167.59
EBITDA	12.59	9.41	11.21	13.70
EBIT	6.03	2.41	4.16	6.90
Net profit	1.30	-0.44	0.47	2.85
Per Share Figures in EUR				
Earnings per share	0.27	-0.09	0.09	0.54
Dividend per share	0.00	0.00	0.00	0.00
Key Figures				
EV/Sales	0.59	0.60	0.57	0.54
EV/EBITDA	7.23	9.67	8.12	6.64
EV/EBIT	15.09	37.73	21.87	13.19
P/E	17.05	-50.21	47.00	7.75
P/B		0.67		

Financial dates
11/05/2015: Report Q1 2015
20/05/2015: 19th MKK
25/06/2015: Annual Shareholder Meeting
24/08/2015: Report Q2 2015
09/11/2015: Report Q3 2015

**last research published by GBC:
Date: publication/price target in €/Rating
08/12/2014: RG / 7.10 / BUY
27/08/2014: RS / 7.10 / BUY
29/07/2014: RG / 9.80 / BUY
30/04/2014: RS / 9.80 / BUY

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EXECUTIVE SUMMARY

- Improvement and optimisation of the production processes and procedures were notable aspects of the past financial year 2014 for all divisions of Greiffenberger AG. In addition, the focus was on enhancing the value added and increasing product quality as well as expanding the product portfolio and the associated expansion of the market position.

- Commissioning of the new plant in Lublin, Poland within the subgroup ABM (drive technology division) was successfully completed in 2014 and production was brought on stream successfully.

- As a result of a weak second and third quarter and heterogeneous ordering behaviour of customers in the largest division, drive technology, the group recorded a fall in revenues of 1.9% to €152.23 million (previous year: €155.24 million).

- At the same time, there was an increase in revenues in 2014 both in the metal band saw blades & precision strip steel division (Eberle) as well as in the pipeline renovation technology division (BKP).

- In terms of earnings, an increase in staff, caused in particular by the new plant in Poland, as well as a quantitative framework focused on growth, led to a fall in EBIT from €6.03 million to €2.41 million. A positive EBIT was achieved in all segments.

- As a result of the expanded and improved product portfolio, intensified sales activities and expected catch-up effects, renewed growth is to be expected for the financial year 2015. Based on our estimate, the increase in sales in 2015 should be 4.6%, resulting in revenues of €159.20 million. The growth will be driven by all divisions, although the drive technology division will contribute the largest part.

- In terms of earnings, a significantly lower CAPEX is to be expected after the intensive investment activities of the past years, and a significant improvement in earnings is to be expected as a result of the swung-in state of the plant in Lublin, the correspondingly enhanced value added and optimised processes. Based on our estimates, we assume that there will be an EBIT of €4.16 million and an EBIT margin of 2.6%.

- According to our estimates, we expect there to be continued improvement of the relevant figures in the following year of 2016 both in terms of sales and earnings.

- **An improvement in sales and, in particular, the earnings situation, should begin to be evident in 2015 after the extensive improvement and expansion measures taken in 2014. Based on our estimates, we have maintained our previous target price for Greiffenberger AG of €7.10, which at the current stock price offers a significant potential for improvement. Accordingly, we continue to award a BUY rating to the Greiffenberger AG share.**

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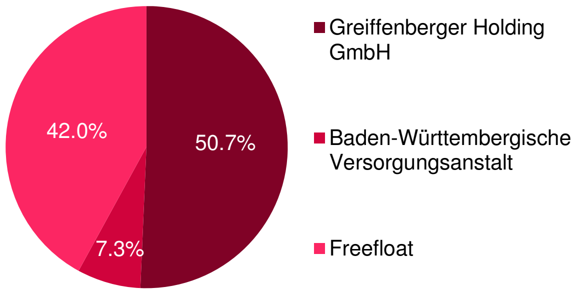
COMPANY OVERVIEW

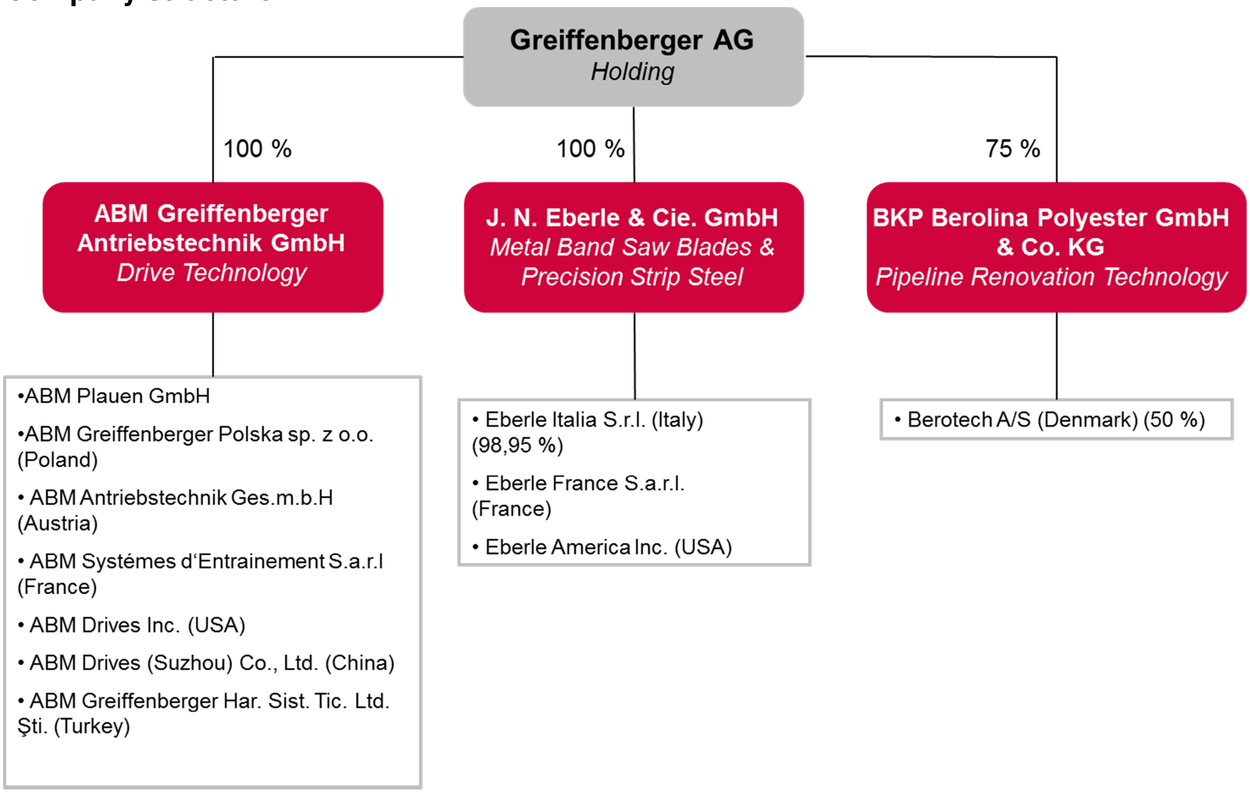
Shareholder structure

Shareholder in %	
Greiffenberger Holding GmbH	50.70 %
Baden-Württembergische Versorgungsanstalt	7.28 %
Freefloat	42.02 %

Source: Greiffenberger AG, GBC AG



Company structure



Important target markets

Drive Technology

Drive solutions for branches like:

- Hoisting technology
- Material handling equipment
- Intra- and warehousing logistics
- Renewable energies
- Medical technology
- E-mobility
- Textile machines

Metal Band Saw Blades & Precision Strip Steel

- Metal band saw blades for the metal processing industry.

Precision strip steel products for a variety of sectors like:

- Automotive industry

(e.g. shock absorbers and compressors)

- Paper and printing industry

(e.g. doctor blades and scrapers)

- Textile machine industry

(e.g. weaving reeds)

Pipeline Renovation Technology

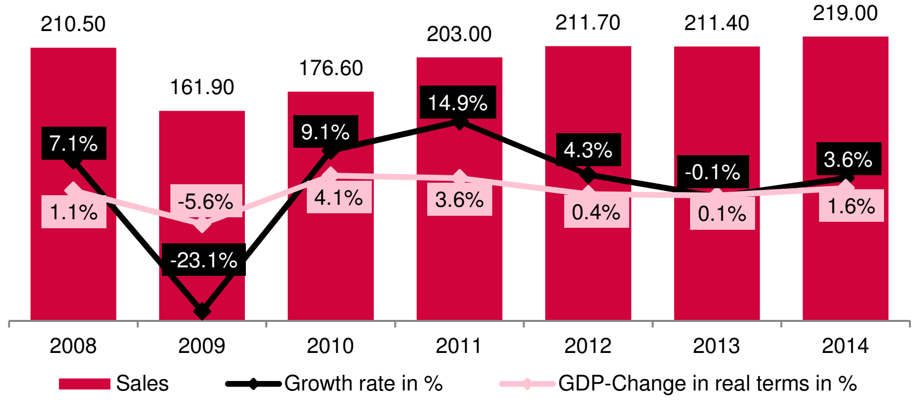
- Companies specialised on trenchless pipeline renovation
- Builders of large pipelines

Market and Market Environment

Market development for mechanical engineering

After the already disappointing year in 2013, the past year of 2014, according to the VDMA (Verband Deutscher Maschinen- und Anlagenbau [German Engineering Association]), was an equally challenging financial year for the industry. The many disruptive factors, such as the crisis and the political unrest in Eastern Europe, and the associated sanctions, were reasons for a patchy business year. At the same time, the negative economic outlook and the associated reduction of the base interest rate by the ECB to a historic low-point created uncertainty. After repeatedly revised forecasts, the growth expectations of the VDMA in July 2014 were finally set at 1.0%. Ultimately, according to the interim figures from the Federal Statistical Office in 2014, German mechanical engineering showed a growth in production output of only 0.7% and therefore remained behind the price adjusted development of the German GDP of 1.6%. However, in terms of sales, the German engineering and construction sector showed an increase in 2014 compared to 2013 of 3.6% (previous year: -0.1%) and recorded €219.00 billion (previous year: €211.40 billion).

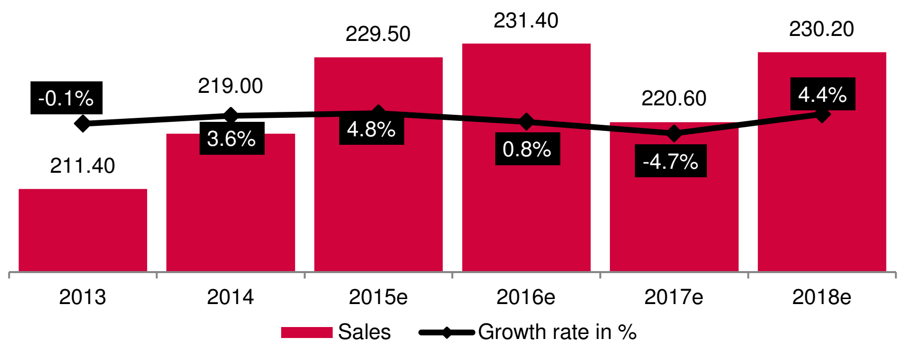
Sales growth within the German engineering industry (in bn EUR and %) and price adjusted development of the GDP (in %)



Source: Statistisches Bundesamt, GBC AG

In the current financial year 2015, the International Monetary Fund (IMF) as well as the Federal Statistical Office and the World Bank expect another increase in sales for the German engineering and construction sector, which is expected to be at about 4.8%. However, subsequent to the current year the forecast is somewhat more restrained. While a slight rise of 0.8% is expected in 2016, the forecast for 2017 predicts a fall in sales of 4.7%. Then, in 2018, a rise of 4.4% is expected.

Expected sales growth within the German engineering industry (in bn EUR and %)



Source: IMF, Statistisches Bundesamt, World Bank, GBC AG

According to the sector report "Mechanical engineering" produced by Commerzbank, the increase in production should reach approximately 3.0% in 2015 after the stagnation of 2014. In particular, the high demand from the emerging markets and from the USA should support growth. The BRICS countries, on the other hand, will not be able to contribute as strongly to growth as in the past, therefore two-digit export growth figures can no longer be expected in the future. However, this development will be significantly influenced by the demand from China and the future structural changes in the Chinese economy. Accordingly, exporters will focus on the USA and Europe.

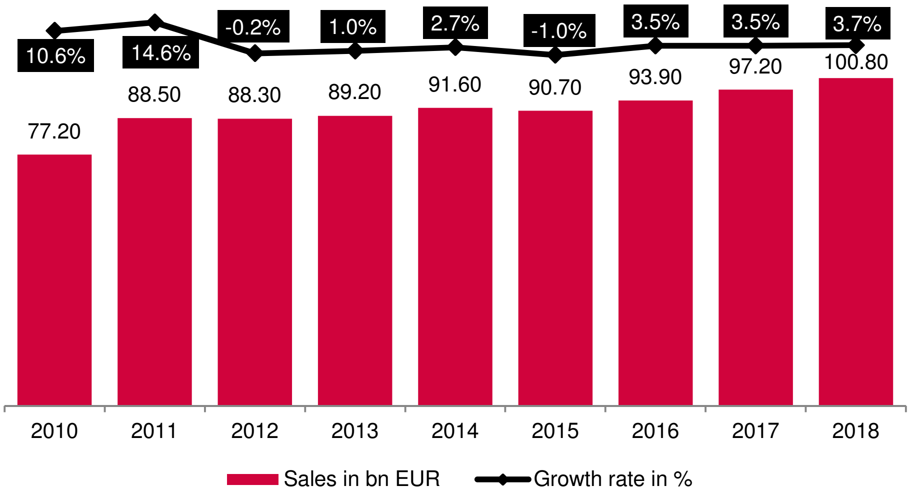
Market for drive technology

According to the VDMA, drive technology, which is an important area for Greiffenberger AG, was sought-after anew in 2014. While there still had been a fall in sales of approximately 5.6% to €15.10 billion in 2013 (previous year: €16.00 billion), the sales for the largest industry segment are expected to have reached €15.40 billion according to the industry association of the German engineering and construction sector. Compared with the €15.10 billion in 2013, this represents an increase of approximately two percent. The positive development is also expected to continue in 2015. According to VDMA, the atmosphere among the engineering and construction sector representatives at the leading trade fair "Motion, Drive & Automation" in Hanover at the start of 2015 was consistently positive and confident.

Market for steel and metal processing

In the past financial year, the production in the steel and metal processing market, which is important for the subsidiary Eberle, according to the associated trade association Wirtschaftsverband Stahl- und Metallverarbeitung e.V. (Steel and Metal Processing Trade Association, WSM) grew by 4.3% and was thus significantly above the growth rate of the previous year at 2.2%. The decisive factor for the sales growth (+2.8%) was the foreign orders as well as the increased order book (+5.1%). The industry association expects an increase in production for 2015 of approximately 3.0%. As a result of the high export ratio of Eberle, the company is likely to be able to benefit disproportionately in 2015 if there is a growth in the sector. After a growth of 2.7% in 2014, the Federal Statistical Office, the IMF and the World Bank are assuming stagnation in the current year, or perhaps a slight decline, however at the same time they are expecting a significant growth spurt of around 3.5% in the following year of 2016.

Sales growth within the metal processing industry in Germany (in bn EUR and %)



Source: Statistisches Bundesamt, IMF, World Bank, GBC AG

Business Development & Estimates

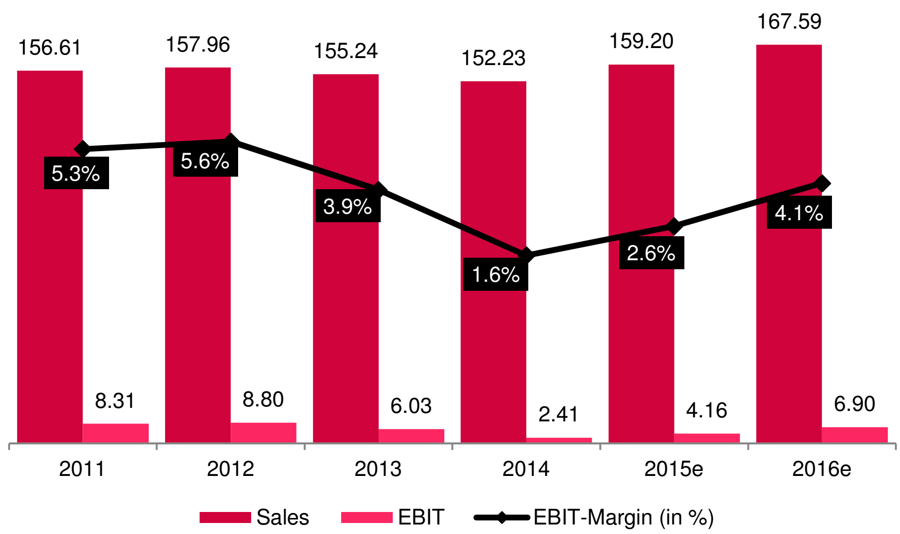
Key financial figures

P&L in m EUR	FY 2013		FY 2014		FY 2015e		FY 2016e	
Sales	**155.24**	**100.0%**	**152.23**	**100.0%**	**159.20**	**100.0%**	**167.59**	**100.0%**
Other operating income	2.82	1.8%	3.54	2.3%	2.91	1.8%	3.14	1.9%
Changes in inventory	1.41	0.9%	2.78	1.8%	-2.00	-1.3%	0.00	0.0%
Own work capitalised	1.04	0.7%	1.24	0.8%	0.90	0.6%	0.70	0.4%
Total output	**160.51**	**103.4%**	**159.78**	**105.0%**	**161.01**	**101.1%**	**171.43**	**102.3%**
Cost of materials	-74.39	-47.9%	-72.91	-47.9%	-72.50	-45.5%	-77.34	-46.1%
Personnel costs	-52.84	-34.0%	-55.75	-36.6%	-57.00	-35.8%	-58.66	-35.0%
Other operating expenses	-20.70	-13.3%	-21.71	-14.3%	-20.30	-12.8%	-21.73	-13.0%
EBITDA	**12.59**	**8.1%**	**9.41**	**6.2%**	**11.21**	**7.0%**	**13.70**	**8.2%**
Depreciation	-6.56	-4.2%	-6.99	-4.6%	-7.05	-4.4%	-6.80	-4.1%
EBIT	**6.03**	**3.9%**	**2.41**	**1.6%**	**4.16**	**2.6%**	**6.90**	**4.1%**
Interest income	0.36	0.2%	0.25	0.2%	0.30	0.2%	0.35	0.2%
Interest expenses	-4.01	-2.6%	-4.18	-2.7%	-3.99	-2.5%	-3.90	-2.3%
EBT	**2.38**	**1.5%**	**-1.52**	**-1.0%**	**0.47**	**0.3%**	**3.35**	**2.0%**
Income taxes	-1.08	-0.7%	1.08	0.7%	0.00	0.0%	-0.50	-0.3%
Other taxes	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Net profit/loss	**1.30**	**0.8%**	**-0.44**	**-0.3%**	**0.47**	**0.3%**	**2.85**	**1.7%**

EBITDA	12.59	9.41	11.21	13.70
in % of sales	*8.1 %*	*6.2 %*	*7.0 %*	*8.2 %*
EBIT	6.03	2.41	4.16	6.90
in % of sales	*3.9 %*	*1.6 %*	*2.6 %*	*4.1 %*
Earnings per share in €	0.27	-0.09	0.09	0.54
Dividend per share in €	0.00	0.00	0.00	0.00
Ø Number of shares in million	4.84	5.16	5.32	5.32

Source: GBC AG

Development of sales and EBIT (in m EUR), and EBIT-margin (in %)



Source: GBC AG

Business Development FY2014

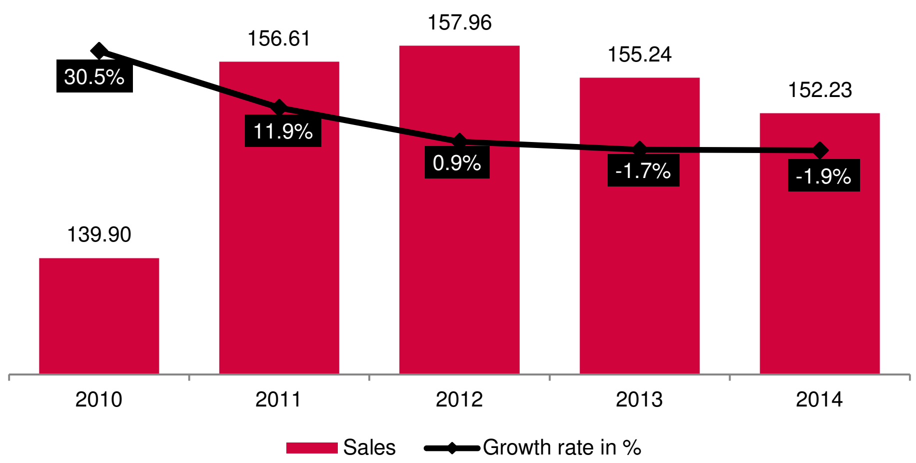
P&L (in m EUR)	FY 2013	Δ to FY 2013	FY 2014
Sales	155.24	-1.9 %	152.23
Gross profit	86.13	+0.9 %	86.87
*Gross profit margin**	*55.5 %*	*+1.6 Pp.*	*57.1 %*
EBITDA	12.59	-25.3 %	9.41
*EBITDA-margin**	*8.1 %*	*- 2.1 Pp.*	*6.2 %*
EBIT	6.03	-60.0 %	2.41
*EBIT-margin**	*3.9 %*	*- 2.3 Pp.*	*1.6 %*
Net profit/loss	1.30	-	-0.44
EPS in €	0.27	-	-0.09

*Source: Greiffenberger AG, GBC AG; *related to sales*

Development of Sales

In the past financial year 2014, Greiffenberger AG achieved sales of €152.23 million. This means that the company was 1.9% below the value in the previous year of €155.24 million, however within the forecast range, adjusted in August, of €152.00 to €157.00 million. The main reason for the decline in sales on the full year and group basis, after a good start in the first quarter of 2014, was the negative development caused by general economic conditions, in particular from July onwards, which also had an impact on the second half of the year.

Development of sales (in m EUR)

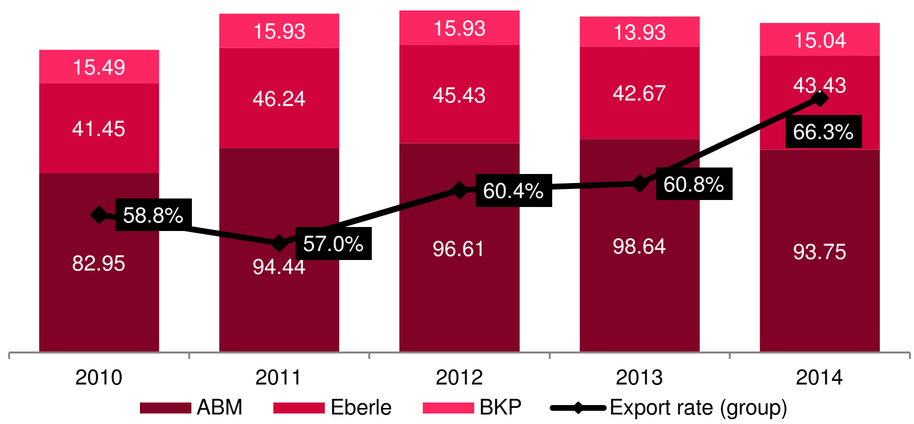


Source: Greiffenberger AG, GBC AG

Seen on the basis of segments, two of the three divisions of Greiffenberger AG managed to achieve growth in 2014. The largest segment, Drive Technology (ABM Greiffenberger Antriebstechnik GmbH), recorded a fall in sales of 5.0% to €93.75 million (previous year: €98.64 million) and therefore was responsible for the slowdown in group sales. The reason for the decline was, on the one hand, a heterogeneous ordering behaviour on the part of customers, and on the other hand a decrease in sales in the area of renewable energies and in product areas related to general mechanical engineering. While revenues in the domestic market declined, sales in foreign markets and correspondingly the export ratio increased once again. The sales outside Germany increased from €49.54 million in 2013 to €53.66 million in 2014, which corresponds to an export ratio of 57.2% (previous year: 50.2%).

In the second largest segment, metal band saw blades and precision strip steel (Eberle & Cie. GmbH) with a share of sales of 28.5%, there was a return to growth in 2014 after declines in sales in the previous two years, with revenues increasing by 1.8% to €43.43 million. While foreign sales of €38.85 million were roughly at the same level as the previous year of €38.93 million, the export rate fell slightly from 91.2% to 89.4%. At the same time, domestic sales increased by around 22.0% to €4.58 million (previous year: €3.75 million).

Development of sales based on segments (in m EUR) and export rate (in %)



Source: Greiffenberger AG, GBC AG

In the smallest division, pipeline renovation technology (BKP Berolina Polyester GmbH & Co. KG), 2014 saw the highest sales growth since 2009. Revenues were 8.0% above the level of the previous year at €15.04 million and thus comprised 9.9% of the group sales. Here, the strong business performance in the second half of 2014 and the associated growth in sales of 20.7% as compared to the same period in the previous year contributed to the positive performance.

The common seasonality, with a usually stronger second half year, as well as the new production line brought into operation during the first half of 2014 and the associated expansion of the product portfolio to include larger diameters probably had a positive effect. While revenues in Germany fell to €6.56 million (previous year: €7.94 million), foreign sales increased significantly from €5.99 million to €8.48 million. This resulted in an export rate in 2014 of 56.4% (previous year: 43.0%).

As a result of the continued increase in revenues from outside Germany over recent years, the relative dependence on the domestic development has been successively reduced. As well, in 2014 the export rate increased further from 60.8% to 66.3%.

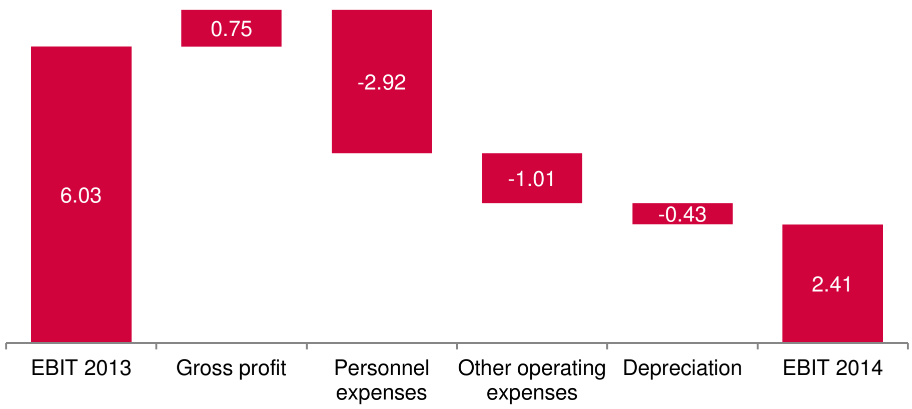
Development of Earnings

With reference to earnings, the financial year 2014 was characterised across all areas by the concentration on the further development of the products and improving their quality, optimising the production processes and the associated strengthening of the market position in the focused niche markets. In addition, the successful ramp-up of the new ABM production plant in Lublin, Poland, and the associated improvement in the supply chain was a key focus.

According to company data for the full year of 2014 ramping-up production in Lublin within the subgroup ABM was achieved on an earnings-neutral basis. As a result of the enhanced value creation, the second half of 2014 already showed positive effects in terms of gross profit margin, which, in our opinion, are likely to intensify further in 2015 and the following years. However, at the same time, the decline in sales around mid-year had a negative impact on earnings, which is why EBIT in 2014 at €2.41 million was significantly below that previous year's figure of €6.03 million.

With an increase in gross profit by €0.75 million to €86.87 million (previous year: €86.13 million) the gross profit margin increased from 55.5% in 2013 to 57.1% in 2014, which is largely due to the increased value creation brought about by the new plant in Lublin, Poland. On the other hand, the increase of personnel expenses to €55.75 million (previous year: €52.84 million) had a negative effect on earnings. This is partly a result of the tariff increases brought into effect in Germany, as well as the increase in the number of employees to 1,091 (previous year: 1,001). The rise in the number of employees is, in turn, a result of the new plant in Lublin, Poland, where 134 people were employed at the date of recording.

Development of EBIT (in m EUR)



Source: Greiffenberger AG, GBC AG

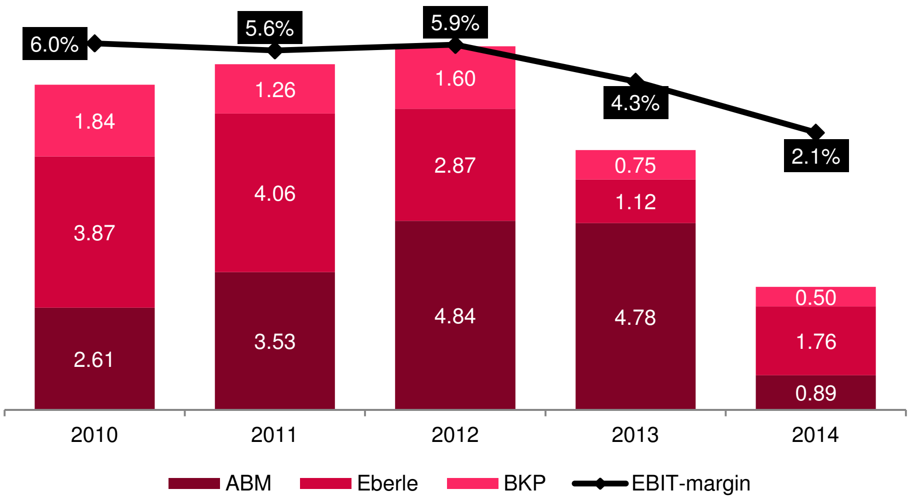
The other operating expenses increased in 2014 by €1.01 million to €21.71 million. The increase here is probably mainly related to the numerous improvement measures. Accordingly, EBITDA was €9.41 million (previous year: €12.59 million) and the EBITDA margin was 6.2% (previous year: 8.1%). Since investments were, on average, significantly above depreciations in the last few years, the figure for depreciations in 2014 also increased from €6.56 million in 2013 to €6.99 million in 2014.

However, after considerable investments in the area of drive technology, in new production equipment at Eberle & Cie. GmbH, and the fourth production line at BKP, there is likely to be an opposite trend in the coming years. In the future, the depreciations should be above investments, and thus fall successively in the future, increasing the internal financing capacity. Accordingly, as at 31/12/2014 the EBIT was €2.41 million (previous year: €6.03 million).

On the group level, the financial result in 2014 at €-3.94 million turned out to be slightly lower than in the previous year at €-3.65 million. On the other hand, the tax breaks for the new plant in Lublin, Poland, as well as tax income from activating deferred tax assets amounting to €1.63 million had a positive effect. Accordingly there was a group net loss for the year of €-0.44 million, after €1.30 million in the previous year.

If the earnings trend is viewed at the segment level, the decline on the group level is mainly due to the decline in EBIT in the drive technology division (ABM). The reason for the significantly negative trend was the diminished sales base coinciding with increased personnel costs related to the new production plant in Poland. Moreover, the company management had expected an increase in sales for 2014 and accordingly had maintained the necessary capacities for this, which led to additional costs.

Development of EBIT within each segment (in m EUR) and EBIT-margin (in %) without holding costs



Source: Greiffenberger AG, GBC AG

In the second largest division, the subgroup Eberle, despite the successful conclusion of several years of investment in the production process and the product quality as well as a future enlargement of the product range, there was an EBIT increase of 57% in 2014. Viewed as a whole, the operating earnings therefore rose from €1.12 million to €1.76 million. The EBIT margin improved accordingly from 2.6% in the previous year to 4.0% in 2014.

In the smallest division, BKP, the ramp-up of the fourth production line and the associated costs led to a negative EBIT of €-0.50 million in the first half of 2014 (previous year: €0.00 million). It was possible, however, to compensate for this fully in the second half of the year as a result of strong growth (€1.00 million), which meant that there was an EBIT of €0.50 million at the end of the financial year (previous year: €0.75 million). After the expansion investments that have been carried out, the strong increase in sales and earnings in the second half of the year mean that a positive development can be expected as well in the years to come.

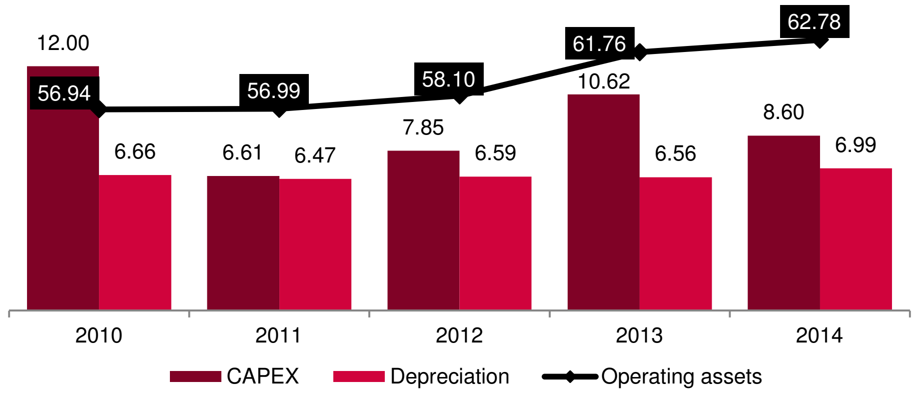
Balance Sheet and Financial Situation

In EUR m	FY 2012	FY 2013	FY 2014
Equity	31.25	32.28	32.76
Equity-ratio (in %)	*25.3 %*	*24.9 %*	*24.0 %*
Interest bearing debt*	68.11	69.48	76.91
Liquid assets	2.96	6.64	8.01
Net debt	65.16	62.84	68.90
Working Capital	36.30	31.52	34.87

*Source: Greiffenberger AG, GBC AG; *including pension provisions and finance lease*

Despite the net loss for the year of €-0.44 million and a valuation effect on the pension provisions caused by the low interest level of a net amount of €-1.59 million, the equity of Greiffenberger AG increased in the past financial year 2014 to €32.76 million as a result of the capital increase carried out in April 2014. As a result of the investments successfully concluded in 2014 and the associated increase in total assets, the equity ratio decreased slightly to 24.0%. The increase in total assets is a result of the increased operating fixed assets, deferred taxes and bank balances.

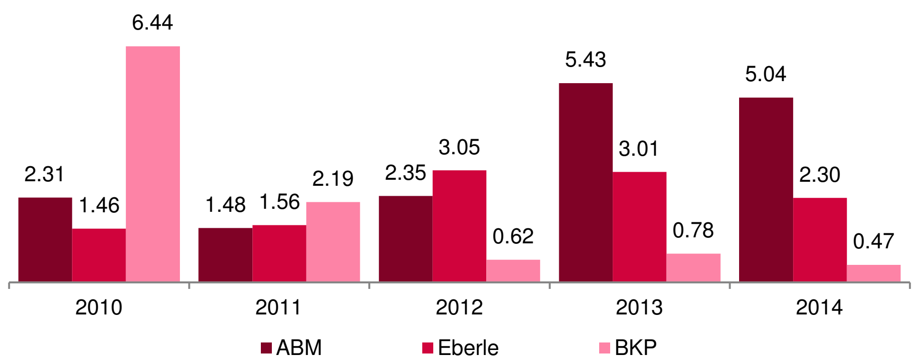
Development of CAPEX, depreciation and operating assets (in m EUR)



Source: Greiffenberger AG, GBC AG

The investment in the new plant in Lublin, Poland, and in the expansion of the production equipment led to the CAPEX being significantly higher than the depreciation in recent years, which accordingly led to an increase in the operating assets. These investments were concluded successfully in 2014, so a significantly lower CAPEX can be expected in the next few years. Looking at the amount of investment at the segment level, the focus of investments carried out in the past two years on the largest segment, ABM Greiffenberger and the new plant in Lublin, Poland, becomes even clearer.

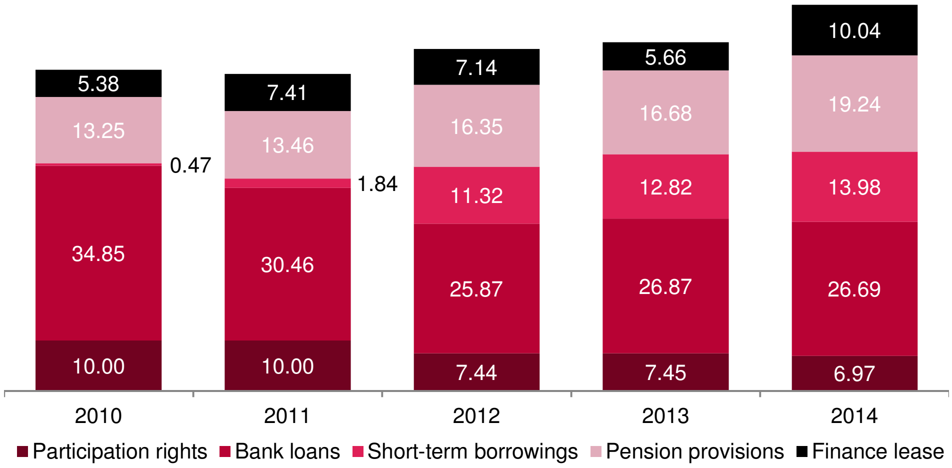
Investments on a yearly basis by segments (in m EUR)



Source: Greiffenberger AG, GBC AG

Moreover, in the past financial year 2014, the pension provisions increased as a result of the adjustment of the discounting factor from 3.4% to 2.1% to €19.24 million and were therefore largely responsible for the increase of the interest-bearing liabilities. An increase in the leasing liabilities was also recorded. However, on the other hand, the liquid assets on the balance sheet date of 31/12/2014 increased by €1.37 million to €8.01 million.

Interest bearing debt structure (in m EUR)

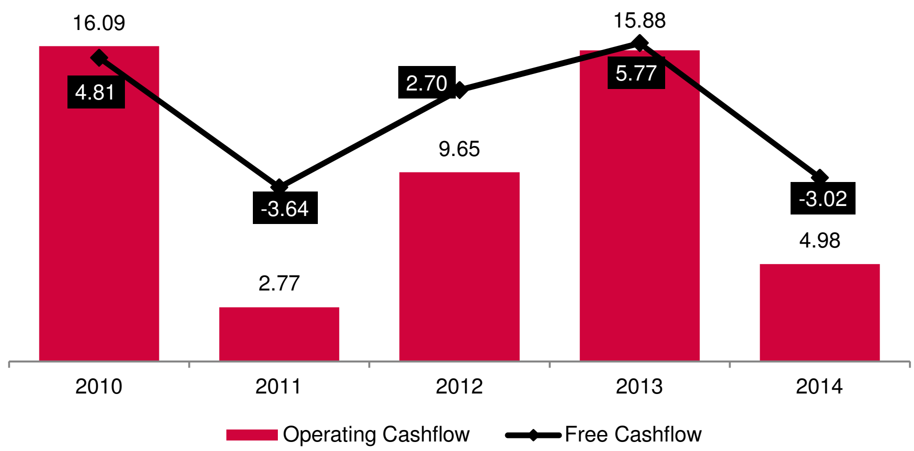


Source: Greiffenberger AG, GBC AG

As investments are expected to decrease significantly in subsequent years, given the expected positive operating performance, there should be sufficient funds available to reduce the financial liabilities and with that correspondingly achieve an increasing equity ratio.

The strength of the cash flow in Greiffenberger AG supports this. The company has continually generated positive operating cash flows in recent years and, despite the high level of investment activity, mainly positive free cash flows. The average operating cash flow over the last six years has been almost €10.00 million per year.

Development of Operating Cashflow and Free Cashflow (in m EUR)



Source: Greiffenberger AG, GBC AG

SWOT-Analysis

Strengths	Weaknesses
• Low dependence on regional sales markets as a result of wide diversification of sales countries • Strong market positions in high-margin niche markets with capital-intensive and technological entry barriers • High degree of technology as a result of past investments • Focus on improving the quality of products, e.g. with the new ABM plant in Lublin, secures the market position and competitive advantage • A broadly diversified and long-standing customer base	• Relatively high net indebtedness • High investment activity in recent years has not yet resulted in a significant increase in sales • Increased working capital at the same time as a decline in sales in 2014 • Comparatively low equity ratio of 24.0%
Opportunities	**Threats**
• If the domestic demand increases, Greiffenberger AG is likely to benefit disproportionately as a result of its technological expertise and will be able to meet the resulting orders fully as a result of the existing capacities • After completing the investment programme in the new plant in Lublin, Poland, as well as in new production equipment in 2014, higher earnings and profit margins can be expected in the future as a result of the enhanced value creation and the resulting economies of scale • Mostly in the drive technology division, the development of new industries and customers, such as in-warehousing logistics, offers additional sales potential in the future • Facing the future issues of environmental technology and energy efficiency, e.g. in e-mobility and renewable energies, offers opportunities for future growth	• A sudden downturn in the global economy would result in a marked reduction in sales as a result of Greiffenberger AG's international focus • Future tariff increases and increases in prices for key raw materials would also reduce earnings and impede margin improvement • Legislative changes in the field of renewable energies and environmental technology could result in lower sales

Estimates and Model Assumptions

P&L (in m EUR)	FY 2014	FY 2015e	FY 2016e
Sales	152.23	159.20	167.59
EBITDA	9.41	11.21	13.70
*EBITDA-margin**	*6.2 %*	*7.0 %*	*8.2 %*
EBIT	2.41	4.16	6.90
*EBIT-margin**	*1.6 %*	*2.6 %*	*4.1 %*
Net profit/loss	-0.44	0.47	2.85
EPS in €	-0.09	0.09	0.54

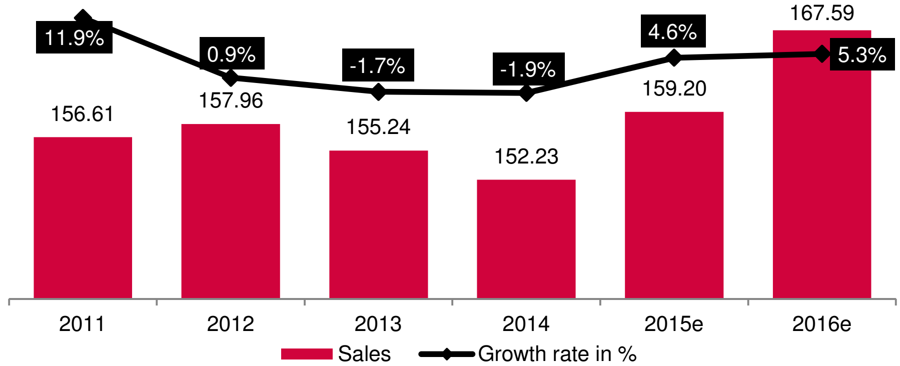
*Source: GBC AG; *related to sales*

Sales Estimates

After unsatisfactory sales results for the financial year 2014, mainly with reference to the largest subgroup ABM, our opinion is that all group divisions will see growth again in 2015. The company has already announced that Q1 2015 could initially turn out to be weaker, especially as a result of the good results in the previous year. Accordingly, a revival can be expected in the following quarters. The foundation for this was laid by developing the product portfolio, investing in new production equipment and the associated and targeted increase in product quality and the resulting enhanced market position of the whole group.

At the same time, the sales efforts were intensified in 2014 and new sales opportunities were opened up. In addition, the current forecasts from the International Monetary Fund (IMF) and the relevant trade associations for the global economy and for the most important sales markets for Greiffenberger AG in 2015 and 2016 predict growth.

Expected sales growth (in m EUR)



Source: Greiffenberger AG, GBC AG

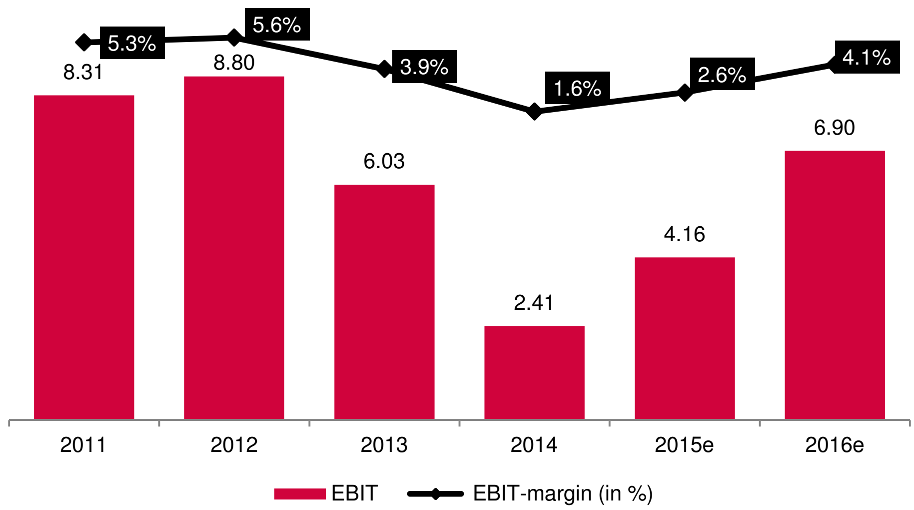
During 2014 ABM Greiffenberger was able to make additions to the target markets for hoisting technology and material handling equipment, the company had to accept a decline in the area of renewable energies as a result of customers' uncertainty regarding the change to the Renewable Energies Act (EEG) on 01/08/2014 as well as the significant fall in the price of oil. Given that the EEG has now come into effect in its revised form and that since the start of the year the oil price has stabilised again and made a slight recovery, this sales market should achieve growth again. The German Pellet Institute is also forecasting a growth of around 10.0% in 2015 for the important market for ABM of pellet heating. In addition, the more intensive sales efforts should pay off and corresponding new business should be obtained, in the area of warehousing logistics, for example.

After the positive development in 2014, for the two smaller segments of Eberle and BKP as a result of the investments in the production equipment, the resulting expanded product portfolio and the achieved increase in quality, a corresponding sales growth is also to be expected in 2015. At BKP, in particular as a result of the new production line and the associated manufacture of larger diameters, a boost in sales of pipe liners can be expected. At Eberle, in both product areas metal band saw blades and precision strip steel, the increased product quality, the expansion of customer-specific products, further product innovations and the continued focus on obtaining new customers should contribute to growth. The increase in car sales of around 3.0% for 2015, expected by the CAR University in Duisburg-Essen, should also have a positive impact.

Earnings Estimates

While the financial year 2014 was particularly characterised by negative effects on earnings as a result of the considerable decline in sales in the middle of the year and the numerous improvement and optimisation measures, we are expecting this financial year 2015 and the next year 2016 to show significant improvements in margins. In addition to the expected sales impact, this is expected firstly to be a result of the improved and optimised processes in all company divisions and also, at ABM, from positive cost contributions from the new plant in Lublin.

Development of EBIT (in m EUR) and EBIT-margin (in %)



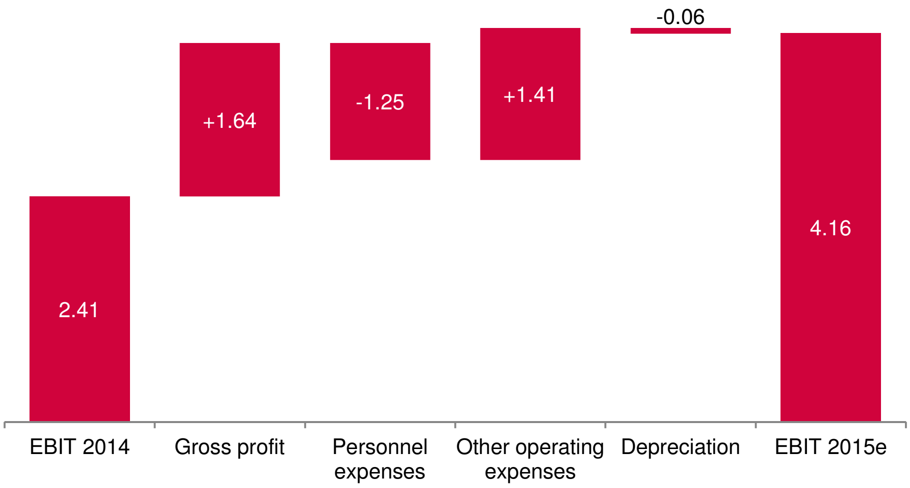
Source: GBC AG

With our assumed increase in sales in 2015 of 4.6% and a significantly lower material costs ratio, reduced from 47.9% to 45.5%, this will result in a gross profit of €88.51 million (previous year: €86.87 million). The reduced cost ratio is mainly a result of the fact that services previously purchased will now be provided internally in the new ABM plant in Lublin.

At the same time, after the increase in personnel in the past year, the expectation is that the number of employees will remain the same and there will only be a small increase in staff costs. Moreover, as a result of the optimisations carried out and the removal of expenses for the improvement measures carried out, we expect a slight decrease in other operating expenses.

Depreciation in 2015 will remain at a higher level than in previous years as a result of the recently high level of investment. At the same time, based on our estimates, there are likely to be significantly lower investments in the current financial year with a CAPEX of about €6.0 million. Accordingly, decreases in depreciations are likely from 2016 on, which will have an additional positive impact on the EBIT development and the related margin. On a long-term basis the aim to have a group-wide EBIT margin of 8.0% remains in place and offers corresponding upward potential.

Expected change in EBIT between 2014 and 2015e (in m EUR)



Source: GBC AG

The financial result should also see a positive development in 2015 as a result of the increased internal financing capacity, the improved earnings situation as well as simultaneously significantly reduced investments. In addition, up until 2017, the participation rights capital with higher interest will be gradually reduced by €1.0 million per year and then fully repaid on 15/03/2017. Accordingly, an improved financial result should be expected after 2015.

On the basis of our assumptions regarding the growth in earnings and as a result of the tax holiday in Lublin, Poland, and the existing losses carried forward of €5.0 million there should be a significantly reduced tax burden in the coming years. We therefore expect a net profit of €0.47 million in 2015.

VALUATION

Model assumptions

The Greiffenberger AG has been valued using a three-phase DCF model. Starting from the specific estimates for the financial years 2015 to 2016 in phase 1, in the second phase from 2017 to 2022 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 8.8 %. Due to the fact that Greiffenberger AG can make use of losses carried forward, as well as a tax abatement (tax holiday) in Poland, we applied a rising tax rate starting at 10.0 %. 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 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.

Please note: Since 28/01/2015, we haven´t used the interest rate for 10-year German government bonds to determine the riskless interest rate. Instead, we use a new method.

Henceforth, 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 1.00 %.**

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 currently a beta of 1.67 is applied.

Applying these assumptions we can calculate an cost of equity of 10.2 % (beta multiplied by the risk premium, plus risk-free interest rate). As we assume a long-term weight of equity of 35 %, the weighted average cost of capital (WACC) is 7.2 %.

Valuation Result

Discounting of future cash flows was carried out using the entity approach. We calculated the relevant costs of capital (WACC) at 7.2 %. The resulting fair value per share by the end of the FY2016 corresponds to a target price of € 7.10. Therefore we confirm our previous target price of € 7.10. Based on the actual stock price, there is an upward potential for the stock of about 65 %. **Hence, our actual rating for the Greiffenberger share is BUY.**

DCF-Valuation

Greiffenberger AG - Discounted Cashflow (DCF) Valuation

Value driver of DCF-model after the estimate phase:

consistency - Phase	
Sales growth	3.0%
EBITDA-margin	8.8%
Depreciation on fixed assets	11.0%
Working Capital to sales	21.0%

final - Phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	5.4%
Taxe rate terminal value	29.0%

Three phases DCF - Model:

Phase	Estimate		consistency						final
In m EUR	FY 15e	FY 16e	FY 17e	FY 18e	FY 19e	FY 20e	FY 21e	FY 22e	Terminal value
Sales (US)	159.20	167.59	172.61	177.78	183.10	188.59	194.24	200.05	
Sales change	4.6%	5.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Sales to fixed assets	2.58	2.73	2.82	2.92	3.01	3.11	3.22	3.32	
EBITDA	11.21	13.70	15.10	15.56	16.02	16.50	17.00	17.50	
EBITDA-margin	7.0%	8.2%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	
EBITA	4.16	6.90	8.35	8.83	9.32	9.82	10.33	10.86	
EBITA-margin	2.6%	4.1%	4.8%	5.0%	5.1%	5.2%	5.3%	5.4%	5.4%
Taxes on EBITA	0.00	-1.04	-1.25	-1.77	-2.33	-2.85	-3.00	-3.15	
Taxes to EBITA	0.0%	15.0%	15.0%	20.0%	25.0%	29.0%	29.0%	29.0%	29.0%
EBI (NOPLAT)	4.16	5.87	7.09	7.06	6.99	6.97	7.34	7.71	
Return on capital	4.3%	6.2%	7.3%	7.2%	7.1%	7.0%	7.3%	7.6%	7.7%
Working Capital (WC)	33.43	35.19	36.25	37.33	38.45	39.60	40.79	42.01	
WC to sales	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
Investment in WC	1.44	-1.76	-1.05	-1.09	-1.12	-1.15	-1.19	-1.22	
Operating fixed assets (OFA)	61.73	61.43	61.18	60.95	60.74	60.56	60.40	60.26	
Depreciation on OFA	-7.05	-6.80	-6.76	-6.73	-6.70	-6.68	-6.66	-6.64	
Depreciation to OFA	11.4%	11.1%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	
Investment in OFA	-6.00	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	
Capital employed	95.17	96.63	97.42	98.28	99.19	100.16	101.19	102.27	
EBITDA	11.21	13.70	15.10	15.56	16.02	16.50	17.00	17.50	
Taxes on EBITA	0.00	-1.04	-1.25	-1.77	-2.33	-2.85	-3.00	-3.15	
Total investment	-4.56	-8.26	-7.55	-7.59	-7.62	-7.65	-7.69	-7.72	
Investment in OFA	-6.00	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	
Investment in WC	1.44	-1.76	-1.05	-1.09	-1.12	-1.15	-1.19	-1.22	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	6.65	4.40	6.30	6.20	6.07	6.00	6.31	6.63	112.27

Value operating business (due date)	100.80	103.64
Net present value explicit free CF	31.72	29.59
Net present value of terminal value	69.08	74.04
Net debt	65.95	65.09
Value of equity	34.85	38.55
Minority interests	-0.68	-0.75
Value of share capital	34.18	37.80
Outstanding shares in m	5.32	5.32
Fair value per share in €	6.42	**7.10**

Cost of capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.67
Cost of equity	10.2%
Target weight	35.0%
Cost of debt	7.0%
Target weight	65.0%
Taxshield	20.5%
WACC	**7.2%**

Return on capital	WACC				
	6.6%	**6.9%**	**7.2%**	**7.5%**	**7.8%**
7.2%	8.03	6.89	5.88	4.98	4.19
7.4%	8.74	7.55	6.49	5.55	4.72
7.7%	9.46	8.20	**7.10**	6.12	5.25
7.9%	10.17	8.86	7.71	6.69	5.78
8.2%	10.89	9.52	8.32	7.26	6.31

ANNEX

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BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10 %.
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