Research Report (Anno)

Focussing on the digitisation of business processes should increase margins sustainably in the medium-term – share price with clear discount on book-value

Target Price: €15.50

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page 21

Date of Completion: 18/08/2015 **Date of first Publication: 18/08/2015**

GBC AG Investment Research

euromicron AG*5a,5b,11

Rating: BUY
Target Price: €15.50

Current Price: €8.77
18/08/2015 / ETR

Currency: EUR

Key Information:

ISIN: DE000A1K0300
WKN: A1K030
Ticker Symbol: EUCA

Number of Shares³: 7.176
Marketcap³: 62.93
Enterprise Value³: 112.09
³ in mEUR

Freefloat: 88.17 %

Transparency Level:
Prime Standard

Market Segment:
Regulated Market

Accounting Standard:
IFRS

Financial Year: 31/12

Designated Sponsor:
EQUINET AG

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* catalogue of potential conflicts of interests on page 22

Company Profile

Sector: Technology

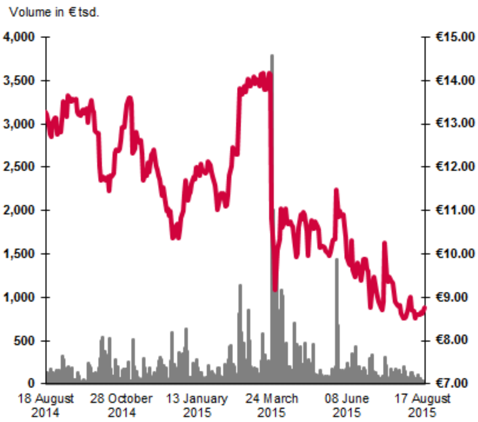
Focus: network and fibre optic cable technology

Employees: 1,840

Founded: 1998

Registered Office: Frankfurt am Main

Executive Board: Jürgen Hansjosten, Bettina Meyer



The euromicron group is a leading, national provider of systems technology for communications, security and data networks with production competence in fibre optic cable technology with a European focus. The company provides clients from all industries with customised network solutions which are independent of manufacturers from a single source. The range of services includes planning, implementation and maintenance of networks as well as the development, manufacture and distribution of network components based on copper, fibreglass and wireless technology. The product portfolio contains active network components, plug-in connectors and connection technology for fibre optic cable networks, fully assembled fibre optic cables and assembly and measurement devices. The components are used in WAN and LAN networks for data communication for computer centres and in medical and security technology.

P&L in m€	**31/12/2013**	**31/12/2014**	**31/12/2015e**	**31/12/2016e**
Sales	352.68	346.34	341.59	351.48
EBITDA	8.71	21.15	17.31	24.50
EBIT	-0.20	11.45	2.81	15.25
Net profit	-6.52	2.58	-2.78	7.25
Per Share Figures in €				
Earnings per share	-0.91	0.36	-0.39	1.01
Dividend per share	0.00	0.00	0.00	0.00
Key Figures				
EV/Sales	0.32	0.32	0.33	0.32
EV/EBITDA	12.88	5.30	6.48	4.58
EV/EBIT	-560.47	9.79	39.93	7.35
P/E	-9.65	24.39	-22.64	8.68
P/B		0.57		

Financial Dates
06/11/2015: Report Q3

****last research published by GBC:**
Date: publication/price target in €/Rating
02/02/2015: RG / 21.50 / BUY
08/12/2014: RG / 21.50 / BUY
14/08/2014: RS / 21.50 / BUY
29/07/2014: RS / 21.50 / BUY

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EXECUTIVE SUMMARY

- In the financial year 2014 euromicron AG showed significant growth of 6.3% to €346.34 million. The South segment, and thus the production companies, proved to be particularly dynamic showing an increase of 10.0%. The takeovers of ATECS AG and SIM GmbH had an influence on this and made an inorganic contribution.

- In contrast, in the HY1 2015 sales declined by 1.3 %, which was mainly due to the refraining of low margin revenue, in favor for profitability, as part of the strategic reorientation. The lower sales volume however temporarily put pressure on the earnings side. Also it must be considered that in the HY1 2015 one-off restructuring costs of €1.3 million were charged. Adjusted by the one-off effects the EBITDA in the HY1 2015 was €3.92 million, with a corresponding EBITDA-margin of 2.5 %.

- Following on the change on the executive board, euromicron AG streamlined its strategy. This involved an increased focus on digitisation and thus on strengthening and expanding the product and solutions business in the medium term. This is expected to increase successively the level of margins as a result of a greater value creation depth and the system critical position in the projects.

- For the financial year 2015 we forecast a flat development of sales, with the expectation that the lower end of the forecast range issued by the executive board of €340-360 million will be achieved at €341.59 million. We expect heterogeneous development of both the North and South segments, with a slight increase in the North segment and a middle single digit decline in the South segment. For the financial year 2016 we assume that growth will accelerate by 2.9% to €351.48 million, whereas the planned divesture of non-profitable subsidiaries is already considered.

- Because the earnings for the financial year 2015 will probably be charged with another €3.50 million as a result of reorganisation measures, we are not yet expecting an improvement in profitability in the operating activities. So, with adjustments for one-off expenses, the EBITDA is expected to be just below the 2014 level at €20.81 million (unadjusted: €17.31 million). We then expect a significant improvement in the EBITDA for 2016 at €24.50 million and an EBITDA margin of 7.0%.

- **With a market capitalisation of €61.9 million, the euromicron AG shares are currently trading with a discount of around 40% of the unadjusted equity. Regarding the strategic streamlining and the changes to the organisational structure that are already under way, the earnings situation in the next few years is expected to stabilise and improve further. At the current share price level we expect a price/earnings ratio of about 8.5 for the financial year 2016. Against this background, we do not consider a valuation below the book value as justified. As a result of our DCF model we have recorded a fair value for each share of €15.50 and thus issue the rating BUY.**

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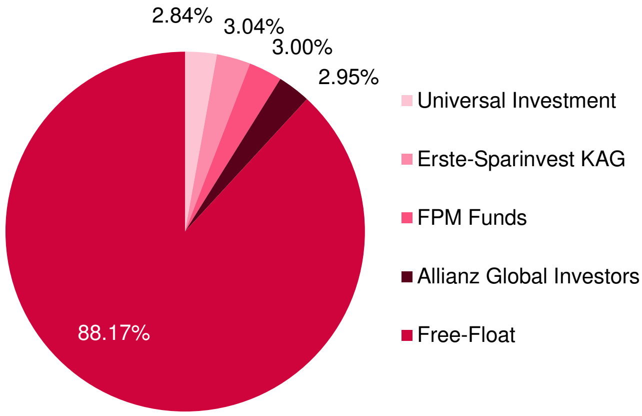
COMPANY OVERVIEW

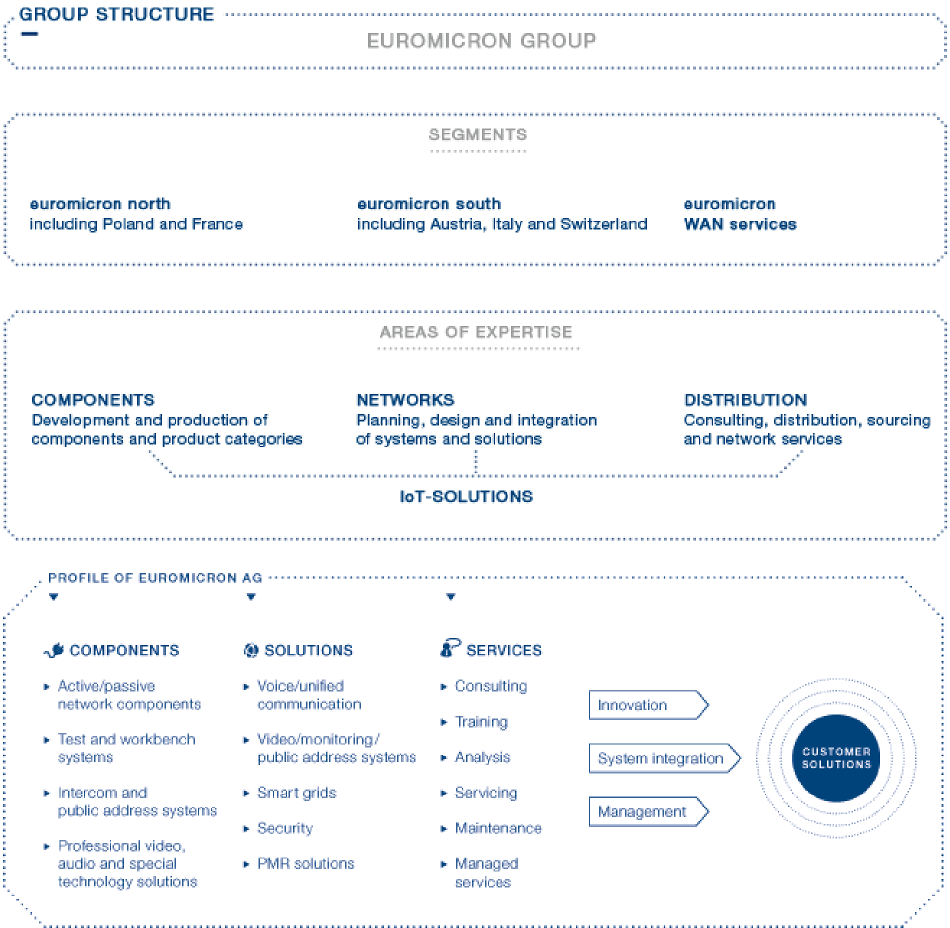
Shareholder structure

Shareholder in %	
Universal Investment	2.84%
Erste-Sparinvest KAG	3.04%
FPM Funds	3.00%
Allianz Global Investors	2.95%
Free-Float	88.17%

Source: comdirect, GBC



Group structure

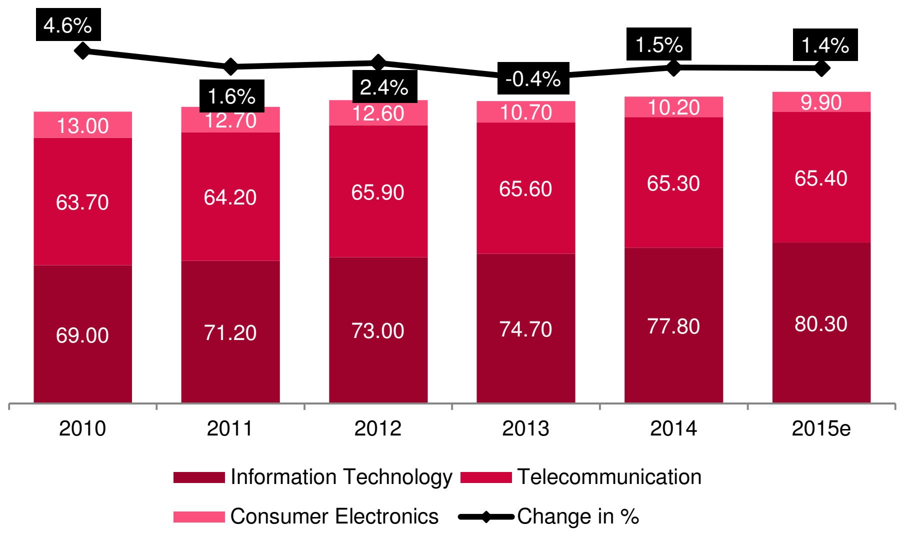


Souce: euromicron

MARKET AND MARKET ENVIRONMENT

According to the Federal Association for Information Technology, Telecommunications and New Media (BITKOM), the German Information and Telecommunications Market (ITC market) registered positive development in 2014 after a slight decline in 2013, reaching growth of 1.5%. The main contributory factor for this positive development was the strong growth of +4.2% in the area of Information Technology (IT). The industry association BITKOM is expecting the German IT market to see renewed growth in 2015 of about 3.2% to an estimated €80.3 billion.

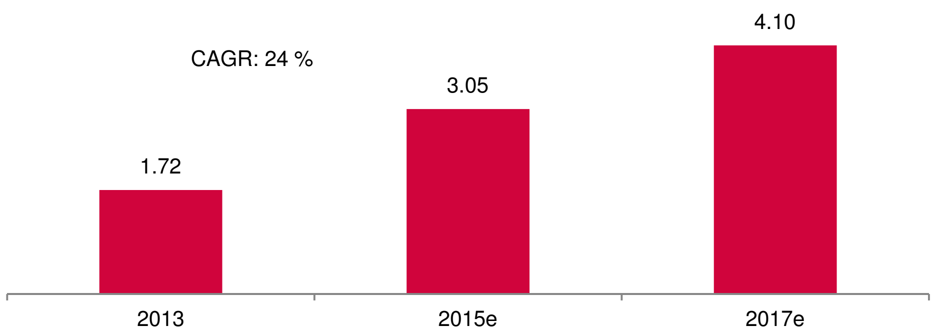
Development of the German ICT-market (in €bn)



Souce: BITKOM; EITO

The growth drivers for the development on the IT market are likely to be represented once again by the two areas of Big Data and Cloud Computing, according to BITKOM and the European Information Technology Observatory (EITO). In addition, these are key factors for the future projects of Industry 4.0 and Internet of Things (IOT). euromicron AG also wants to position itself more strongly in this area and make use of the corresponding growth opportunities in the sub-segments of smart building technology and critical infrastructures, areas where the company is already active. Development is still in its infancy in this field and is therefore expected to see a solid increase in significance in the coming years. These areas are therefore expected to see double-digit rates of growth in the next few years. Innovations in the application area are expected to be the main growth drivers in the future.

Expected sales trend of smart home-appliances in Europe (in €bn)



Source: Deloitte

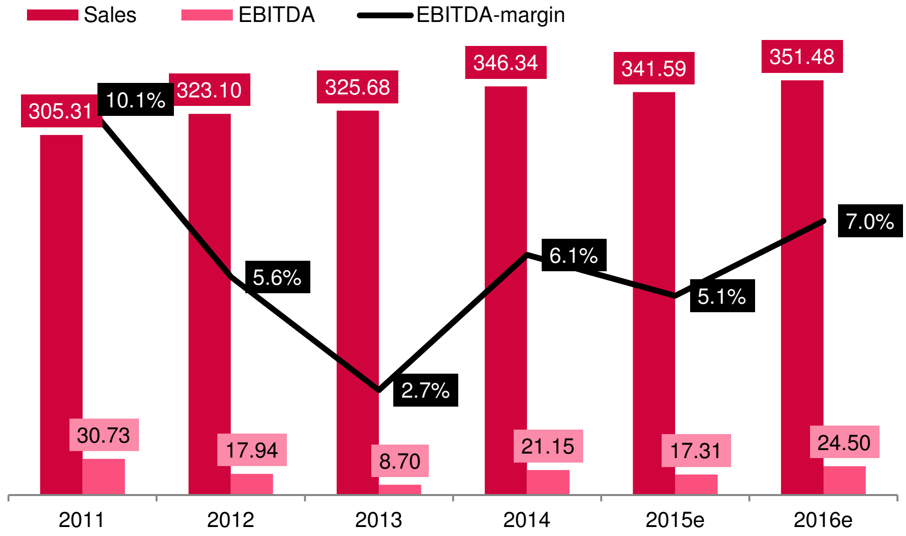
Business Development & Estimates

Key financial figures

P&L in m€	FY 2013		FY 2014		FY 2015e		FY 2016e	
Sales	**325.68**	**100.0%**	**346.34**	**100.0%**	**341.59**	**100.0%**	**351.48**	**100.0%**
Changes in inventory	-0.70	-0.2%	0.57	0.2%	0.00	0.0%	0.00	0.0%
Own work capitalised	3.13	1.0%	2.62	0.8%	2.50	0.7%	2.50	0.7%
Other operating income	1.90	0.6%	2.14	0.6%	2.00	0.6%	2.00	0.6%
Cost of Materials	-176.71	-54.3%	-182.47	-52.7%	-177.63	-52.0%	-179.25	-51.0%
Gross Profit	**153.31**	**47.1%**	**169.20**	**48.9%**	**168.46**	**49.3%**	**176.73**	**50.3%**
Personnel expenses	-99.03	-30.4%	-103.18	-29.8%	-106.50	-31.2%	-105.00	-29.9%
Depreciation and Amortization	-8.90	-2.7%	-9.70	-2.8%	-14.50	-4.2%	-9.25	-2.6%
Other operating expenses	-45.58	-14.0%	-44.88	-13.0%	-44.66	-13.1%	-47.23	-13.4%
EBIT	**-0.20**	**-0.1%**	**11.45**	**3.3%**	**2.81**	**0.8%**	**15.25**	**4.3%**
Financial result	-3.81	-1.2%	-3.68	-1.1%	-3.70	-1.1%	-4.30	-1.2%
EBT	**-4.00**	**-1.2%**	**7.77**	**2.2%**	**-0.89**	**-0.3%**	**10.95**	**3.1%**
Income taxes	-2.40	-0.7%	-4.92	-1.4%	-1.64	-0.5%	-3.40	-1.0%
Net profit before minority interest	**-6.40**	**-2.0%**	**2.84**	**0.8%**	**-2.53**	**-0.7%**	**7.55**	**2.1%**
Minority interest	-0.12	0.0%	-0.27	-0.1%	-0.25	-0.1%	-0.30	-0.1%
Net profit after minority interest	***-6.52***	***-2.0%***	***2.58***	***0.7%***	***-2.78***	***-0.8%***	***7.25***	***2.1%***

EBITDA	8.71	21.15	17.31	24.50
in % of sales	*2.7 %*	*6.1 %*	*5.1 %*	*7.0%*
EBIT	-0.20	11.45	2.81	15.25
in % of sales	*-0.1 %*	*3.3 %*	*0.8 %*	*4.3 %*
Earnings per share in €	-0.91	0.36	-0.39	1.01
Dividend per share in €	0.00	0.00	0.00	0.00
Ø number of shares outstanding	7.176	7.176	7.176	7.176

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



Source: euromicron, GBC

Business Development FY2014

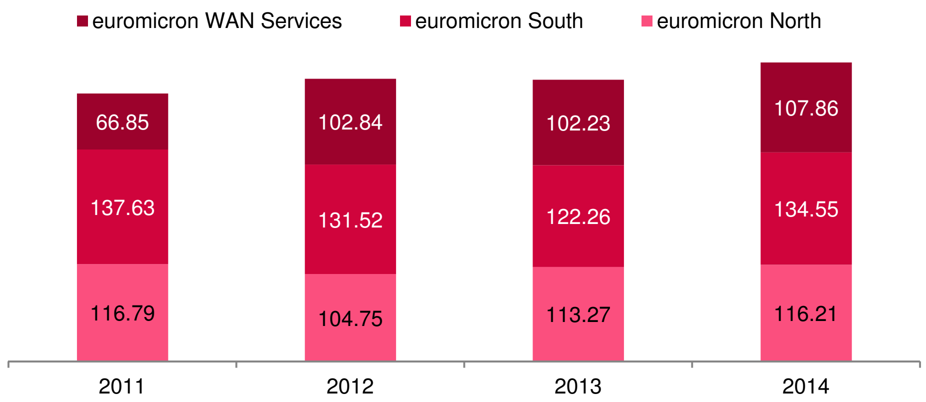
P&L (in m€)	FY 2013	Δ to FY 2013	FY 2014
Sales	325.68	+6.3 %	346.34
EBITDA	8.71	+143.0 %	21.15
EBITDA-margin	*2.7 %*	*+3.4 Pp.*	*6.1 %*
EBIT	-0.20	n.A.	11.45
EBIT-margin	*-0.1 %*	*+3.4 Pp.*	*3.3 %*
Net Profit	-6.52	n.A.	2.58
EPS in €	-0.91	n.A.	0.36

Source: euromicron, GBC

Development of Sales

In the financial year 2014 euromicron AG was able to benefit from the positive development in the ITC market and to increase its sales disproportionately by 6.3% compared to the growth of the market. All three segments included in the report contributed to this growth in sales. In particular, the segment *euromicron South* showed an especially dynamic development with a sales growth of 10.0% to €134.55 million. However, it should be noted that the two companies taken over at the end of 2013, ATECS AG and SIM GmbH contributed full sales earnings for the first time in the financial year 2014.

Development of sales by segment (in m€), without central services and consolidation



Source: euromicron, GBC

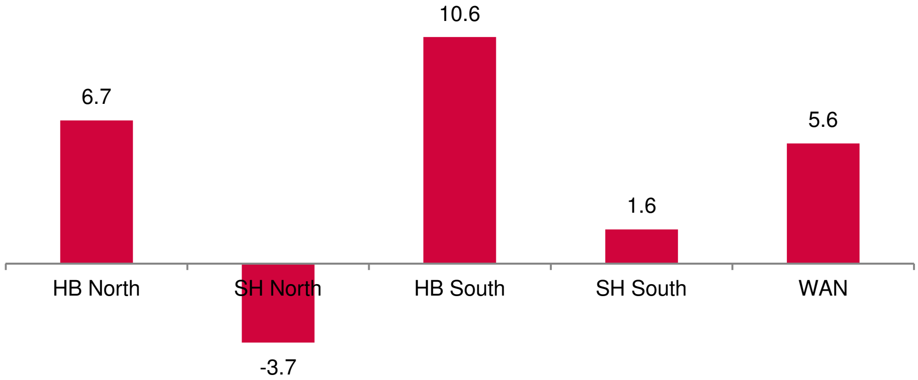
With regard to the difference in terms of products between the production business and the systems house business, the production operations showed a particularly pleasing growth in the financial year 2014. Considerable increases were achieved both in the segment *euromicron North* as well as in the segment *euromicron South* compared to 2013. The background to this was a strong demand in the North segment, and in contrast, the inorganic effects had an impact in the South segment.

The development in the system house business was inconsistent across the two segments. In the segment *euromicron North* a decline in sales of €3.7 million was registered, which was due to the fact that low-margin business was not accepted. In contrast, the system house business South achieved a small increase in sales of €1.6 million.

Overall, the system house business in 2014 was therefore slightly below the level of the previous year, however the sales quality moved towards improvement. This also had a positive effect on the earnings.

In the segment *WAN services*, into which the non-regional Wide Area Network services are bundled, there was an increase of 5.5% compared to the previous year with a profit of €5.6 million.

Deviation analysis of sales by segments and product categories (in m€), without central services and consolidation



Source: euromicron, GBC; HB: production companies, SH: system house business

Overall, euromicron´s increase in sales in the financial year 2014 was satisfactory. The company's own forecasts were met. Above all, the growth was in the production company´s businesses with strong margins, which in turn also had a positive influence on the profit situation. The increased concentration on high margin business, which has been a priority of the new management since the beginning of 2015, was already seen in part in 2014, even if it included inorganic effects.

Development of Earnings

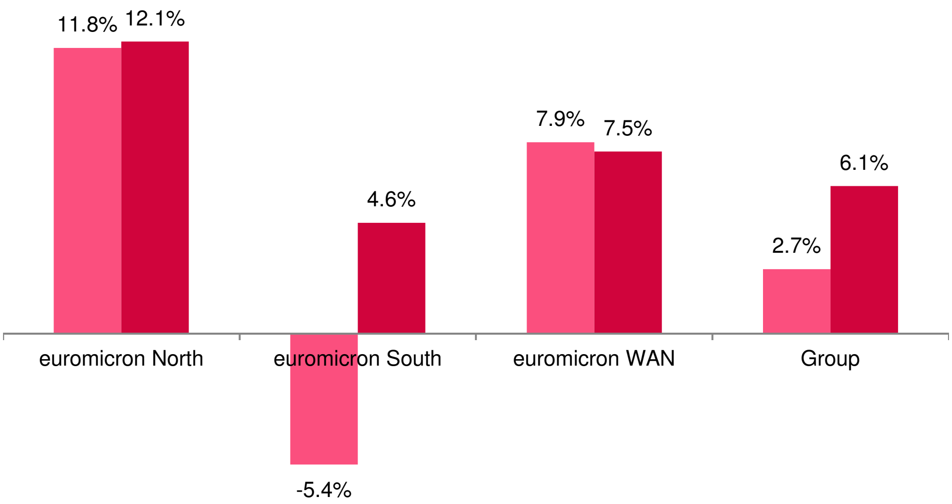
In terms of earnings, the good sales development in both product areas of production companies and systems house business had a very positive effect in the segment *euromicron South* in particular. Since the previous year saw another negative EBITDA, this was now back in the positive range with €6.17 million. The EBITDA margin showed a value of 4.6% and thus was at its highest level since the financial year 2011. In the segment *euromicron North* the EBITDA improved by €0.7% million to €14.04 million, with a slight increase in the margin to 12.1%. Here, the volume effects from the production business had a positive effect in the North segment and this compensated for the weaker system house business, which had lower earnings as a result of the increased use of subcontractors on top of the decline in revenues.

In the segment WAN services, despite the increase in revenues of €8.13 million, the EBITDA was at the same level as the previous year. Here, the large contracts were significant, delivering a volume effect but no additional profit contributions.

Overall, the EBITDA improved significantly at the Group level from €8.71 million to €21.15 million with an increase in the EBITDA margin of 2.7% to 6.1%. Above all, the positive profit effects of the segment *euromicron South* contributed to this significant improvement.

It must be emphasised, however, that the South segment is still distinctly behind the margin level of the North segment. Here the restructuring costs were noticeable, which reached about €4.0 million in the financial year 2014 and were mainly used to optimise structures and processes as well as controlling functions.

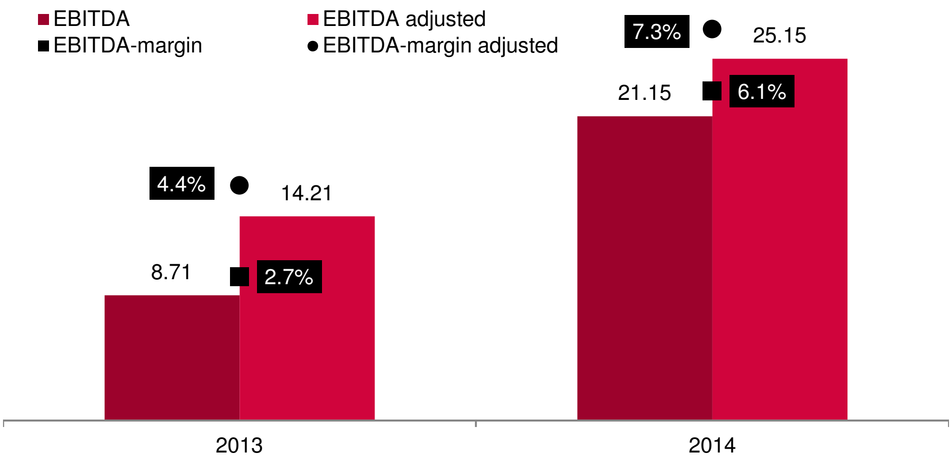
Development of EBITDA-margin by segments (in %)



Souce: euromicron, GBC

Corresponding restructuring expenses were also recorded in the previous year (€5.5 million). If adjusted for exceptional expenses the EBITDA in the financial year 2014 was €25.15 million. The adjusted EBITDA margin was 7.3% and thus slightly above the executive board's forecast issued for the financial year 2014 of 7.0%.

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



Source: euromicron, GBC

Also in terms of earnings, a slight improvement was seen in the financial result, however, the taxation expenses turned out to be very high with an effective taxation rate of 63.4%. The background to this is the loss situation in the segment *euromicron South* and an associated non-recognition of deferred taxes on losses carried forward of €2.86 million.

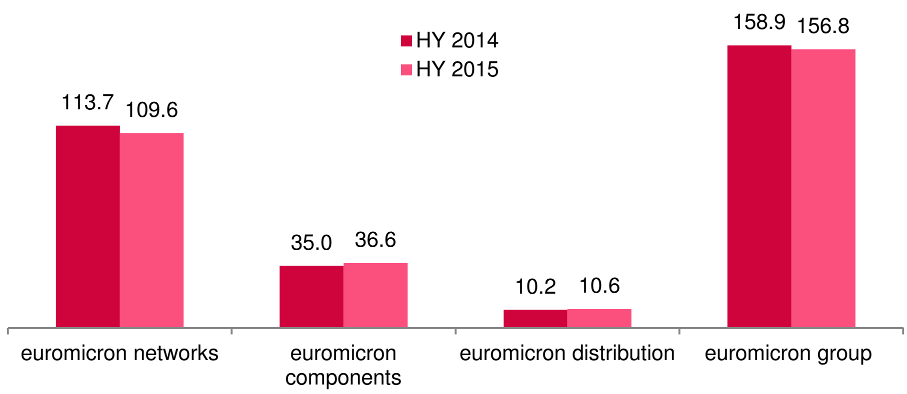
However, it was possible to significantly turn the annual profits of €-6.52 million of the previous year into a positive result of €2.58 million in the financial year 2014.

Business Development HY1 2015

In the first half-year 2015 the euromicron AG could almost repeat last year´s sales level and only had to record a slight decrease by 1.3% to €156.76 million. Overall the business development of the euromicron AG is characterised by seasonality over the course of the year, with a very high share of sales and earnings during the fourth quarter. Therefore the figures of the first half-year only have limited explanatory power. Moreover the reorganisation of the euromicron AG has to be considered, which includes refraining from low margin revenue, in favor for profitability.

This among other things becomes clear with a view on the sales break-up by competence divisions. This shows that only the division euromicron networks, namely the system house business, is accountable for the sales decline, as a result of the strategic order intake. Moreover, in the other two divisions, euromicron components and euromicron distribution, sales increases of 4.6% and 4.1%, respectively, could be reached.

Development of Sales by Competence Divisions (in m€)



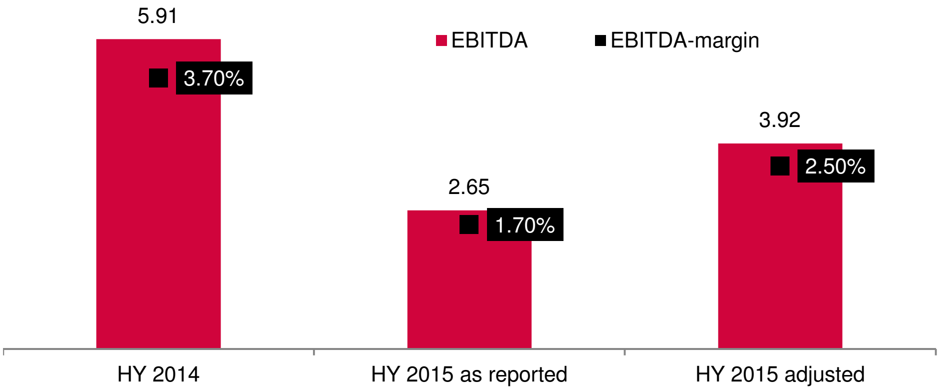
Source: euromicron, GBC

The improved sales-mix was reflected by an improved cost of material ratio, which decreased by 0.5 percentage points to 52.2%. Nevertheless the lower sales volume led to a lower gross profit in absolut terms. On the EBITDA-level a decrease against the first half-year of the previous financial year was more distinct. With €2.65 million the previous year´s value was failed by 55.2%. Besides the lower gross profit also higher personnel expenses due to an increased work force to meet the high demand in the production companies was responsible for the decline.

Not least it must be considered that the EBITDA is stressed by restructuring charges. During the HY1 2015 extraordinary costs of €1.3 million have been expended. €0.9 million had to be accounted for one-time personnel charges in respect with the reorganization of the corporate structure. Severance payments for the resigned management however have not been paid. Also the reorganization demanded for legal and consulting services, which made up further €0.4 million in HY1 2015.

Adjusted by these extraordinary charges the operating EBITDA with €3.92 million only was down by a third against last year´s figure. The operating EBITDA-margin was at 2.5% accordingly.

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



Source: euromicron, GBC

Against the background of the solid operating development during the HY1 2015 the management board confirmed the guidance for the full financial year 2015 and still expects sales in a range between €340-360 million as well as an operating EBITDA-margin before restructuring charges between 6% and 8%. After considering restructuring charges the EBITDA-margin is expected to be between 5% and 7%. However, given the fact that the half-year figures were below last year´s measures the management currently expects to reach the range at the lower end.

Balance Sheet and Financial Situation

in m€	FY 2013	FY 2014	HY1 2015
Equity	111.16	110.40	106.46
Equity-ratio (in %)	*35.1 %*	*38.4 %*	*35.5 %*
Interest bearing debt	65.37	64.78	106.60
Liquid assets	38.83	15.62	20.51
Net debt	26.54	49.16	86.09
Operating Assets (incl. Goodwill)	151.71	148.40	146.38
Net Working Capital	1.01	21.98	53.76

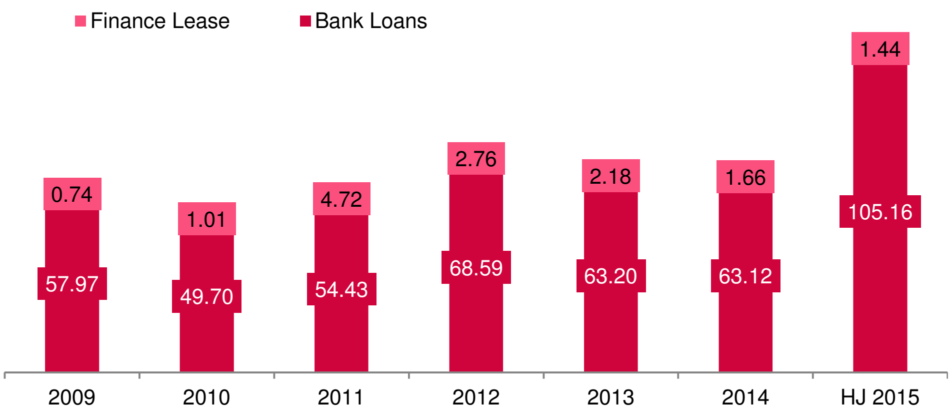
Source: euromicron, GBC

There have been no significant shifts in the balance sheet for euromicron AG in the past periods. Rather, the intangible assets are still dominant on the assets side at an amount of €132.74 million, which make up a 44.3% share of the total assets.

In contrast, there is equity capital of €106.46 million. It should be noted here that the equity capital was reduced by a total of €11.4 million to make adjustments for the accounting errors in the years 2012 and 2013. However, the equity ratio at the end of HY1 2015 was about 35.5%, which represents a stable dimension.

A slight decrease was recorded in interest bearing liabilities during the last three full financial years. In the HY1 2015 the interest bearing liabilities were increased to €106.60 million by taking out short-term loans. This, however, is a seasonal effect in accordance with pre-financing of projects that will be finished during HY2 2015 and therewith will normalise in the second half of the year. Furthermore, in the further course of the FY 2015 a substantial restructuring of the financing structure of the euromicron-group is planned to be undertaken, especially concerning the maturity structure of interest bearing liabilities.

Development of interest bearing debt (in m€)

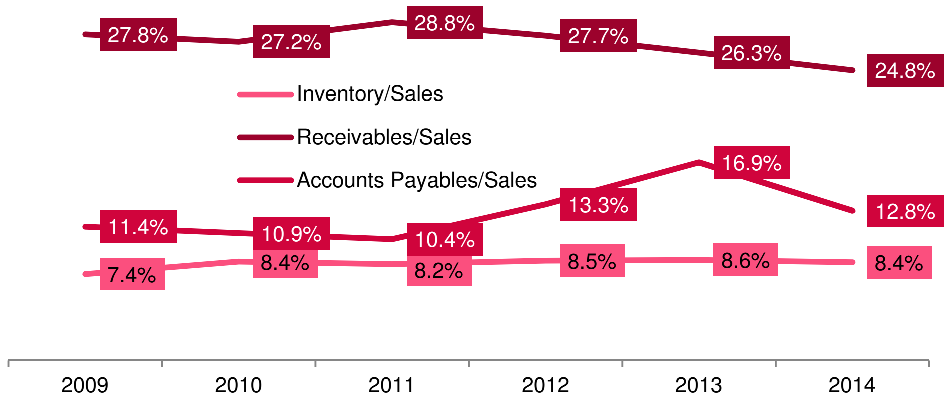


Source: euromicron, GBC

The increased working capital fund by the end of the HY1 2015 primarily is a result of higher receivables due to more projects in progress. At the same time accounts payables reduced. In that respect in the further course of the year a levelling-effect in the working capital funds can be expected, coming along with a cashflow-effect accordingly.

Overall, euromicron AG showed a constant level of stable working capital ratios over the past financial years. For example, there were hardly any fluctuations in the ratio of the inventories to the revenues. With regard to the ratio of trade receivables, in the end there were even significant improvements and thus the capital commitment could be reduced. This should also be seen in conjunction with the factoring started in 2013.

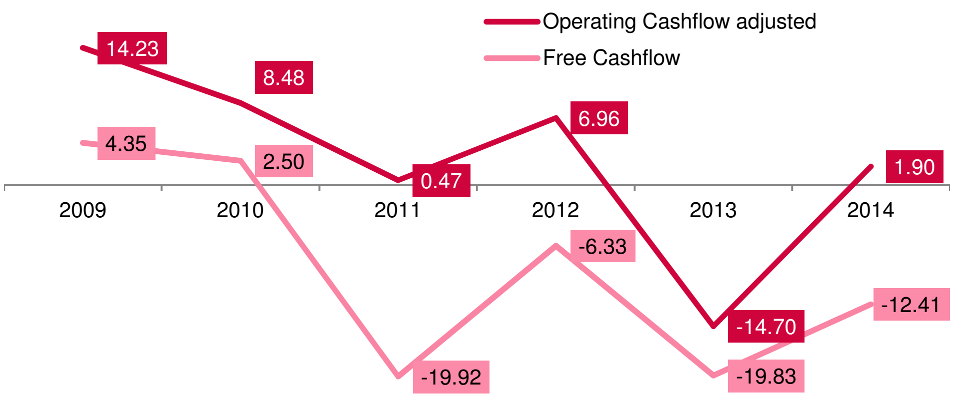
Development of working capital-positions in relation to sales (in %)



Source: euromicron, GBC

The high working capital efficiency is one of the significant factors for the good cash flow situation of euromicron AG. During the period under observation since 2009, the company has always shown a positive operating cash flow before factoring effects, with the exception of the financial year 2013. However, already in FY2014 a positive cashflow could be earned again. The adjustment of factoring effects is important to be able to assess the explanatory power of the operating cashflow. This is, because on the one handside the factoring-volume changes and on the other handside because money paid by customers from sold receivables that are not yet transferred to the factorer at the balance sheet date have to be shown as short-term liabilities on the balance sheet, lowering operating cashflow. This is an end of period effect, without explanatory power and therefore must be adjusted.

Development of operating cashflow and free cashflow (in m€)



Source: euromicron, GBC

In the coming periods, euromicron AG should be able to generate positive free cash flows again. The volume of investments (without takeovers) was very moderate in recent years and has been on average €7.15 million since the financial year 2009. Since we assume that the CAPEX requirement will not change significantly in the coming years, it should be possible to generate positive cash flows again in the current financial year 2015, but in particular also in the following years.

SWOT-Analysis

Strengths	Weaknesses
• Leading network specialist with a nationwide network of offices in Germany. • Wide product portfolio with the areas system technologies, production and distribution • Crisis-proof business model, thanks to broadly diversified customer base • Well positioned in the growing market for intelligent building technology and critical infrastructures • Comfortable level of order backlog of €121.5 million by to the end of 2014	• Comparatively high level of goodwill in the balance sheet, which made up around 40% of the total assets • A traditionally high earnings contribution in the fourth quarter causes seasonality in the business performance • Relatively high net indebtedness • Since the financial year 2012, significantly lower margin levels than in the previous years
Opportunities	**Threats**
• Stronger product and solution competence could positively influence the margin level • Better use of synergies between the subsidiaries could have a positive effect on the turnover and earnings situation • The market for smart buildings and critical infrastructures is predicted to grow by roughly 20% per year until 2024 • The key topic of the Internet of Things and Industry 4.0 is still in the initial stages of development and market penetration. This could provide enormous potential for growth • euromicron AG could achieve a better strategic position in projects through stronger product focus and thereby increase margin levels	• The rate of growth in the area of the Internet of Things could turn out to be slower than currently expected • The development in the area of the Internet of Things could take place in different core areas to those areas addressed by euromicron • euromicron AG could focus on products and solutions that the market does not accept as expected and therefore put pressure on the speed of growth • Leveraging synergies between the subsidiaries may not succeed to the extent planned and thus put the brakes on the speed of growth and the increase in margins

Estimates and Model Assumptions

P&L (in m€)	FY 2014	FY 2015e	FY 2016e
Sales	346.34	341.59	351.48
EBITDA	21.15	17.31	24.50
EBITDA-margin	*6.1 %*	*5.1 %*	*7.0 %*
EBIT	11.45	2.81	15.25
EBIT-margin	*3.3 %*	*0.8 %*	*4.3 %*
Net profit/loss	2.58	-2.78	7.25
EPS in €	0.36	-0.39	1.01

Source: GBC AG

Strategic Alignment

In order to also achieve disproportionate rates of growth in changing markets in the future, euromicron AG has recently streamlined its strategic alignment. The company is already implementing business-critical communications and infrastructure solutions focused on *intelligent building technology* and *critical infrastructures*. There is also already access to the customers. Now, this alignment should be focused more strongly on the increasing digitisation of the business processes. This will take into account the increasing importance and, above all, strong growth areas of the Internet of Things and Industry 4.0.

euromicron AG is already aligned in this direction. With the networked work space system “Primus 4.0” of the subsidiary ELABO or the “Smart Office Switch” of MICROSENS, the company already has products that represent this digitisation. The product portfolio will be further strengthened in the future and the customers will be given access to a wide portfolio of solutions. As opportunities arise, this expansion is also expected to be strengthened by acquisitions. In addition, the solutions will be further strengthened by offering them across all group subsidiaries, compared to the past when synergies were mainly generated in projects. In order to achieve this, a Competence Centre has been established which is responsible for taking care of the use of know-how across the Group.

As a result of the strategic streamlining, the share of software and technology is expected to increase in the future. This is expected to help euromicron AG to reach a higher share in the value creation of the overall business and thus achieve a more system-critical position in the projects involved. This will help achieve the planned higher margins in the future.

At the same time, the management of euromicron AG has decided to concentrate more on the size of profitability and cash flow over the next few years, since the size of the turnover was more of a driver in the past.

We welcome the strategic streamlining, which does not constitute a new direction for the company but focuses on existing competences and strengths. In this way, the focus is directed towards solutions and technologies with strong margins and future growth. We are convinced that this focus is a right move that will contribute to leading the company back to the old income and cash flow strength. We therefore see the medium-term margin objective of 8-11% by 2018 on an EBITDA basis as, at least at the lower end of the range, a very realistic objective.

Sales estimates

In the course of the reorganisation among other measures three subsidiaries of the system house business get merged und will represent the division “intelligent building technology” as euromicron Deutschland GmbH on a nationwide basis in the future. Unchanged, the system house subsidiary telent GmbH, which is organised on a nationwide basis already, will represent the division “critical infrastructure”. As well the holding structures get optimised to put up the group more cost efficient. So far, the reporting segments are subdivides by regions, which could be changed to a subdivision by competence areas in the financial report 2015 for the first time.

For the financial year 2015, the management of euromicron AG is planning for revenues between €340 and €360 million, however expects to reach the lower end of the range. We are as well expecting that the revenues will be at the lower end of the forecast range at €341.59 million. We expect a slight growth for the segment North of 2%, while the segment South is assumed to show declining sales by 5.5%. We expect turnover for the segment WAN services for 2015 to be at the level of the previous year. The financial year 2014 was characterised by several large contracts, and we expect fewer, lower-margin contracts to be accepted for 2015.

However, the opening up of new business areas from 2016 will provide a marked increase in growth in all segments. We expect a growth rate for the segment North to be in the mid-single-digit percentage range in 2016 again, whereas the segment South should show a flatter growth because of the divesture of non-profitable subsidiaries. Overall, the rate of growth in 2016, however, will pick up speed and is expected to be at 2.9% at the group level. Accordingly, we expect sales in the financial year 2016 to reach €351.48 million.

Expected Development of sales by segment (in m€)

Segment	**2013**	**2014**	**2015e**	**2016e**
euromicron North	113.27	116.21	118.48	124.40
euromicron South	122.26	134.55	127.21	128.48
euromicron WAN Services	102.23	107.86	107.90	110.60
Central Services and consolidation	-12.08	-12.27	-12.00	-12.00
Group	**325.68**	**346.34**	**341.59**	**351.48**

Growth rate	**2013**	**2014**	**2015e**	**2016e**
euromicron North	8.1%	2.6%	2.0%	5.0%
euromicron South	-7.0%	10.0%	-5.5%	1.0%
euromicron WAN	-0.6%	5.5%	0.0%	2.5%
Growth total	**0.8%**	**6.3%**	**-1.4%**	**2.9%**

Source: GBC

Earnings Estimates

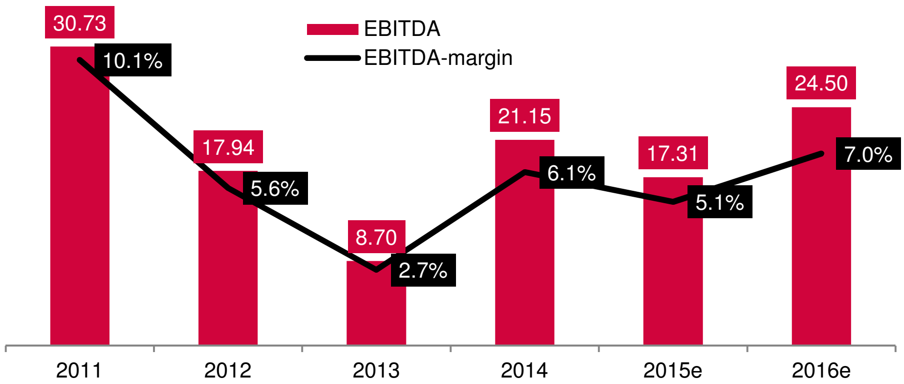
We also expect significant improvement on the earnings side in 2016. The reorganisation measures in the financial year 2015 to strengthen the future alignment of the company are still expected to have an impact on the earnings. According to company data, the impact is expected to make up around 1% of the EBITDA margin, so roughly €3.50 million.

The negative effects on earnings will mainly impact the segment South. The integration measures will be seen here. Therefore, we assume that the segment South will have a reduced EBITDA compared to 2014 (€3.12 million 2015 vs. €6.17 million 2014). On the other hand, we expect the EBITDA for the segment North to continue to increase. Our estimates show that the EBITDA margin remains stable at about 12.0%.

Overall, the EBITDA in the financial year 2015 should therefore be at €17.31 million, which would correspond to a slight reduction compared to 2014 of 18.2%. The expected EBITDA is at 5.1%. However, when adjusted for the one-off reorganisation expenses, the EBITDA expectation is €20.81 million and thus only slightly below the level in the previous year by 1.6%. The adjusted EBITDA margin is at 6.1%.

After expecting no further one-off expenses, economies of scale and the increasing synergy effects within the improved use of technologies and solutions across the group, as well as the divesture of non-profitable subsidiaries it should be possible to achieve a clear rise in the EBITDA to €24.50 million in 2016. We expect increasing EBITDA and margin contributions for 2016 across all three segments.

Expected development of EBITDA (in m€) and EBITDA-margin (in %)



Source: GBC

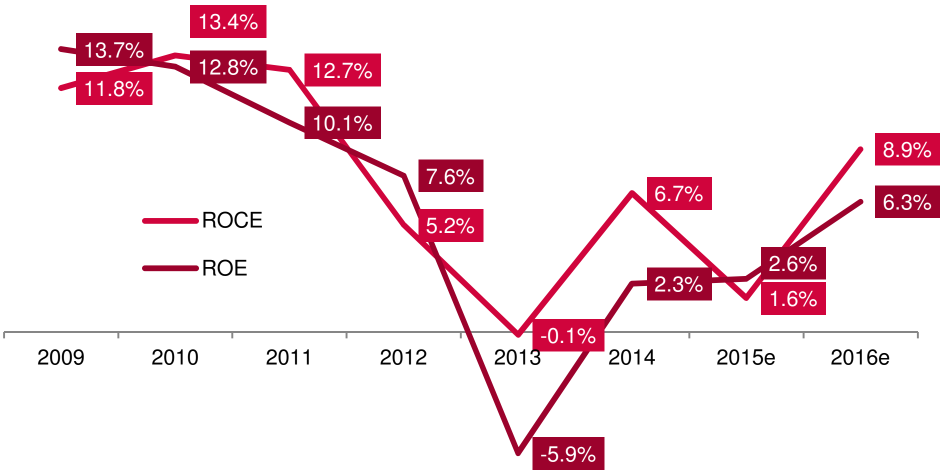
For the FY 2015 we have reflected a possible amortization of goodwill in relation to the planed divesture of unprofitable subsidiaries in our estimates. According to the statements of the management board on the annual shareholder meeting amortizations in a scale of a medium-sized single-digit million euro amount would be within the realms of possibility. Accordingly, we have included an €5.00 million goodwill amortization in our estimates for the FY 2015.

For that reason the net profit and the EPS should turn negative in 2015. Consequently, we expect a net loss of €-2.78 million in 2015. In contrast to that, for 2016 we expect a significant improve to €7.25 million, with higher sales, the operating strengthening as well as the non-recurring one-off items coming into effect.

In the medium-term we believe that the management's objective of achieving an EBITDA margin of 8-11% again to be completely realistic. We have not yet reflected this in our medium-term planning, where we have rated our expectations as well as the share price objective as conservative.

Following the improvement in earnings, we expect an increase in the return on investment. As soon as 2016 we are expecting to reach a return on equity (ROE) of 6.3% and a return on capital employed (ROCE) of 8.9%. Thus, it is realistic to expect the historic values in the double-digit range to be achieved again in the medium term.

Expected development of rates of return on capital (in %)



Source: GBC

VALUATION

Model assumptions

The euromicron 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 7.0 %. In phase 2 a tax rate of was 30 % is applied. Beyond the forecast horizon, a residual value was calculated using a perpetual annuity formula. For the final value we assume a growth rate of 2.0%.

Calculation of the Cost of Capital

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

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 1.25 %.**

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

Using the GBC estimation method there currently a beta of 1.79 (so far: 1.61) is applied.

Applying these assumptions we can calculate a cost of equity of 11.1% (so far: 10.8 %) (beta multiplied by the risk premium, plus risk-free interest rate). As we assume a long-term weight of equity of 75 %, the weighted average cost of capital (WACC) is 9.2% (so far: 9.4 %).

Valuation Result

Discounting of future cash flows was carried out using the entity approach. We calculated the relevant costs of capital (WACC) at 9.2%.

The resulting fair value per share by the end of the FY2016 corresponds to a target price of €15.50. Therefore we adjusted our previous target price downward from €21.50.

DCF-Valuation

euromicron - discounted cashflow (DCF) model

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

consistency - phase	
Sales growth	3.0%
EBITDA-margin	7.0%
Depreciation on fixed assets	6.5%
Working capital to sales	9.0%

final - phase	
Perpetual growth rate	2.0%
Perpetual EBITA - margin	4.5%
Effective tax rate in terminal value	30.0%

Three-phase DCF - model:

Phase	estimate		consistency						final
in mEUR	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	Terminal Value
Sales	341.59	351.48	361.95	372.74	383.85	395.29	407.07	419.20	
Sales change	-1.4%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Sales to fixed assets	2,35	2.46	2.59	2.72	2.85	2.98	3.12	3.26	
EBITDA	17.31	24.50	25.34	26.09	26.87	27.67	28.49	29.34	
EBITDA-margin	5.1%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
EBITA	7.81	15.25	16.06	17.00	17.95	18.90	19.88	20.86	
EBITA-margin	2.3%	4.3%	4.4%	4.6%	4.7%	4.8%	4.9%	5.0%	4.5%
Taxes on EBITA	14.34	-4.74	-4.82	-5.10	-5.38	-5.67	-5.96	-6.26	
Tax rate	-183.7%	31.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	22.15	10.51	11.25	11.90	12.56	13.23	13.91	14.60	
Return on capital	13.0%	6.2%	6.5%	6.9%	7.4%	7.8%	8.3%	8.7%	8.0%
Working Capital (WC)	25.44	29.57	32.58	33.55	34.55	35.58	36.64	37.73	
WC to sales	7.4%	8.4%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	
Investment in WC	-3.46	-4.13	-3.01	-0.97	-1.00	-1.03	-1.06	-1.09	
Operating fixed assets (OFA)	145,40	142.65	139.87	137.28	134.86	132.59	130.47	128.49	
Depreciation on OFA	-9.50	-9.25	-9.27	-9.09	-8.92	-8.77	-8.62	-8.48	
Depreciation to OFA	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	
CAPEX	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	
Capital employed	170.84	172.21	172.45	170.83	169.41	168.17	167.11	166.22	
EBITDA	17.31	24.50	25.34	26.09	26.87	27.67	28.49	29.34	
Taxes on EBITA	14.34	-4.74	-4.82	-5.10	-5.38	-5.67	-5.96	-6.26	
Total investment	-14.96	-10.63	-9.51	-7.47	-7.50	-7.53	-7.56	-7.59	
Investment in OFA	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	
Investment in WC	-3.46	-4.13	-3.01	-0.97	-1.00	-1.03	-1.06	-1.09	
Investment in Goodwill	-5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	16.69	9.13	11.01	13.52	13.99	14.47	14.97	15.49	138.91

Value operating business (due date)	139.38	143.07
Net present value explicit FCF	64.34	61.12
Net present value Terminal Value	75.04	81.94
Net debt	36.17	31.34
Value of equity	103.21	111.73
Minority interests	-0.45	-0.48
Value of share capital	102.76	111.24
Shares outstanding in million	7.18	7.18
Fair value per share in EUR	14.32	**15.50**

Cost of Capital:

Risk free rate	1.3%
Market risk premium	5.5%
Beta	1.79
Cost of equity	11.1%
Target weight	75.0%
Cost of debt	5.0%
Target weight	25.0%
Taxshield	28.7%
WACC	**9.2%**

Return on Capital		WACC				
		8.6%	**8.9%**	**9.2%**	**9.5%**	**9.8%**
	7.5%	15.89	15.19	14.55	13.97	13.43
	7.8%	16.42	15.69	15.03	14.42	13.86
	8.0%	16.96	16.20	**15.50**	14.87	14.28
	8.3%	17.49	16.70	15.98	15.31	14.71
	8.5%	18.03	17.20	16.45	15.76	15.13

ANNEX

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