Research Report (Anno)

Restructuring implemented successfully in 2015

-

High potential for increasing earnings again

Target Price: EUR 12.10

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 17

Date of Completion: 04/04/2016 **Date of first Publication: 04/04/2016**

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

Rating: BUY
Target Price: € 12.10

Current price: 6.16
1/4/2016 / ETR

Currency: EUR

Key Information:

ISIN: DE000A1K0300
WKN: A1K030
Ticker Symbol: EUCA

Number of shares³: 7.176

Marketcap³: 44.20
Enterprise Value³: 100.39
³ in mEUR

Freefloat: 100.00 %

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 18

Company Profile

Sector: Technology

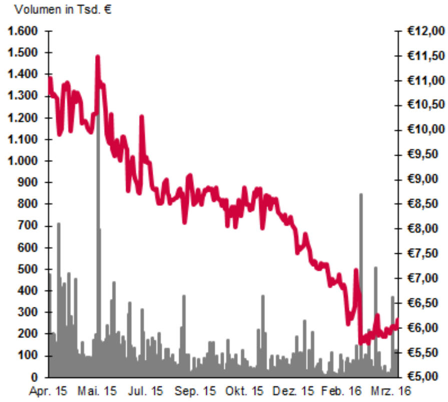
Focus: network and fibre optic cable technology

Employees: 1,825

Founded: 1998

Registered Office: Frankfurt am Main

Executive Board: Jürgen Hansjosten, Bettina Meyer



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

P&L in m€	**31/12/2014**	**31/12/2015**	**31/12/2016e**	**31/12/2017e**
Sales	346.34	344.89	359.36	376.72
EBITDA	21.15	6.92	15.02	21.25
EBIT	11.45	-8.65	6.02	12.25
Net profit	2.58	-13.25	1.76	6.30
Per Share Figures in €				
Earnings per share	0.36	-1.85	0.25	0.88
Dividend per share	0.00	0.00	0.00	0.00
Key Figures				
EV/Sales	0.29	0.29	0.28	0.27
EV/EBITDA	4.75	14.50	6.68	4.72
EV/EBIT	8.77	neg.	16.68	8.20
P/E	17.13	neg.	25.12	7.02
P/B		0.46		

Financial Dates
10/05/2016: Q1 report
07/06/2016: Annual General Meeting
09/08/2016: HY report
08/11/2016: Q3 report

****last research published by GBC:**
Date: publication/price target in €/Rating
19/10/2015: RG / 15.50 / BUY
18/08/2015: RS / 15.50 / BUY
02/02/2015: RG / 21.50 / BUY
08/12/2014: RG / 21.50 / BUY
14/08/2014: RS / 21.50 / BUY

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

EXECUTIVE SUMMARY

- For euromicron AG, 2015 was shaped by the Company's reorganisation. The Company not only undertook a restructuring and streamlining of the Group structures but also performed a strategic focusing. The Company is now positioned in the fields of digitalised buildings, critical infrastructure and industry 4.0, thereby focusing on its combined expertise in systems integration and its own supplementary technology solutions.

- In FY 2015, revenues were still slightly down by 0.4% at €344.89 million. On the one hand some projects were deliberately not accepted in order to concentrate fully on high-margin projects. On the other hand, developments for new products are not yet fully completed with the result that they will not contribute to growth until 2016.

- Earnings were burdened by various expenses. On the one hand, impacts were felt from various operating effects relating in particular to past orders with a loss-free valuation that no longer contributed to the profit margin as well as expenses for the development of new business areas. On the other hand, the reorganisation measures reduced the result and impacted EBITDA with a total of €6.83 million. In addition, there was extraordinary amortisation and depreciation of €6.31 which had an additional negative effect on EBIT.

- In total, reported EBITDA amounted to €6.92 million compared to €21.15 million in 2014. The EBITDA figure adjusted for extraordinary effects was significantly higher at €13.76 million.

- We expect a significant increase in revenues and earnings for FY 2016. Whilst we expect to see revenues of €359.86 million, primarily contributed by the *Smart Buildings* segment, we expect EBITDA of €15.02 million. This once again includes €2.5 million in extraordinary expenses to finalise the reorganisation. Adjusted for extraordinary expenses, operating EBITDA should thus be €17.52 million, which is equivalent to an adjusted EBITDA margin of 4.9%. For 2017, we do not expect any extraordinary expenses, which will be associated with a further improvement in the EBITDA to €21.25 million or an EBITDA margin of 5.6%.

- **We regard the management of euromicron AG as having been successful in effectively reorganising the Group. Even if the figures in 2015 were negatively impacted by the reorganisation, it is clear that the foundations for profitable growth have been laid for future years. The first signs of success are already evident and we are confident that the Company will return to its previous strong income position in the next few years.**

- **On the basis of the expected development and of our forecasts, the shares of euromicron AG are currently trading at a favourable P/B ratio of around 0.5 and a 2017 P/E ratio of around 7. This means a significant undervaluation can be assumed. Based on our DCF model we calculate a fair value of €12.10 per euromicron share. Given the high upside potential, we rate it a BUY.**

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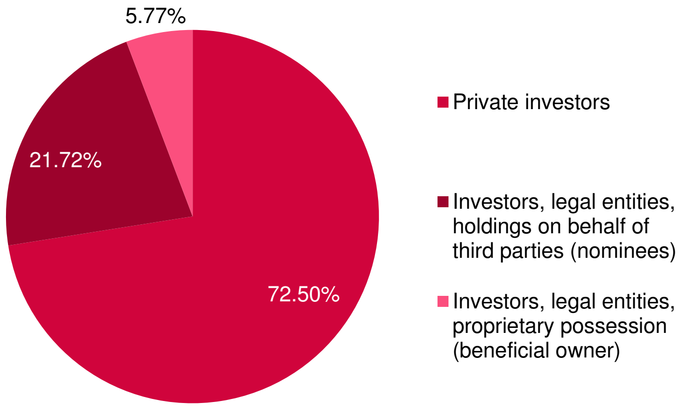
COMPANY

Shareholder Structure

Shareholders in %	as of 11/03/2016
Private investors	72.50%
Investors, legal entities, holdings on behalf of third parties (nominees)	21.72%
Investors, legal entities, proprietary possession (beneficial owner)	5.77%
Total	100.00%

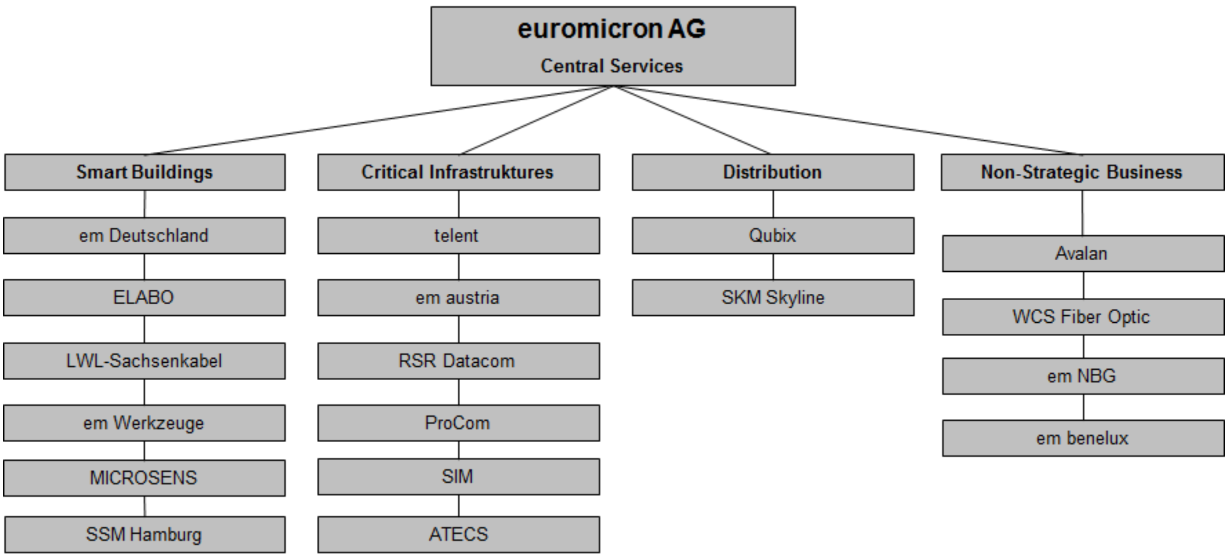
Source: euromicron, GBC



Group Structure

After the reorganisation, the euromicron Group now comprises the three core segments of *Smart Buildings*, *Critical Infrastructures* and *Distribution*. These segments are also the reporting segments of euromicron AG and each Group company is allocated to one of these segments. The two systems houses euromicron Deutschland in the *Smart Buildings* segment and telent in the *Critical Infrastructures* segment are supplemented by various technology companies in order to be able to provide holistic solutions. euromicron AG differentiates itself from the competition through the combination of systems integration and technology expertise.

In the *Non-Strategic Business* segment, the company has combined the companies identified in 2015 as not forming part of the core business, whose business operations were discontinued and which would therefore make no further contribution to revenue in the future. euromicron AG acts as a holding company and therefore takes responsibility for overarching functions and cross-departmental functions within the Group.

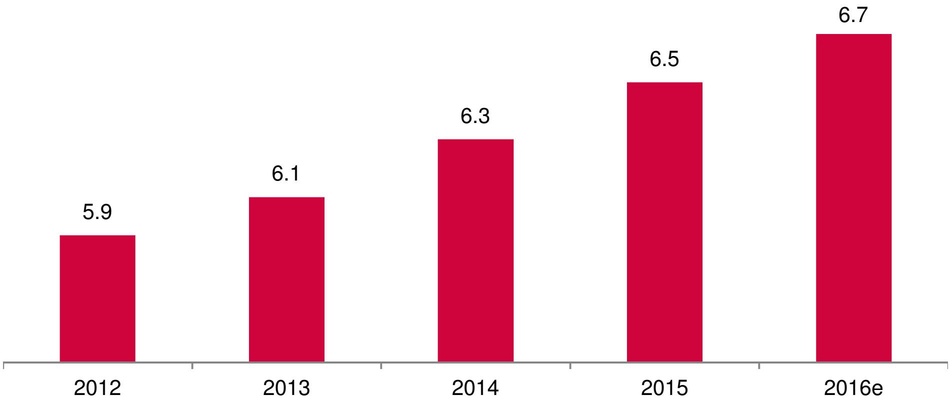


Source: euromicron

Market and Market Environment

The German ITC market again yielded excellent results in 2015 and grew by 2.9% to €157.6 billion. The market for telecommunications infrastructure was particularly strong with growth of 3.6% to €6.5 billion. For 2016 the industry association, BITKOM, also expects that the industry will continue to grow. Whilst growth of 1.7% is expected for the ITC market overall, the infrastructure systems sub-segment should once again see above-average growth of 2.9%. The overall market environment for euromicron AG should therefore also remain favourable in 2016.

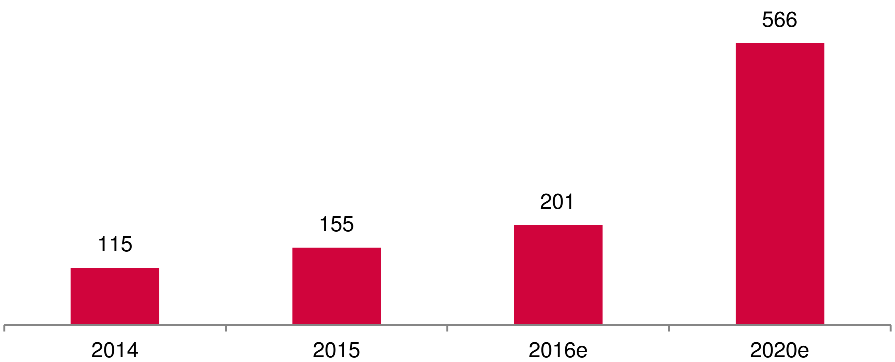
Development of the German market for infrastructure systems (in bn€)



Source: BITKOM

A trend favouring the development of infrastructure systems is the increasing development of the Internet of Things (IoT). Gartner expects global expenditure on IoT applications for cross-sector business applications alone, which includes for instance building systems, to gain significant momentum in the next few years. After the market achieved a volume of US$155 billion in 2015, it should increase to US$566 billion by 2020. This is equivalent to an average annual increase of around 30%.

Worldwide expenses by companies for intersectoral IoT-applications (in bn$)



Source: Gartner (November 2015)

The figures in the sector overall will be even higher. Total expenditure on IoT applications (consumer and business) should triple from US$1.18 trillion in 2015 to US$3.01 trillion. The majority of expenditure is expected to be attributable to services, i.e. the planning installation and operation of IoT systems. euromicron should also be able to benefit from this in the next few years.

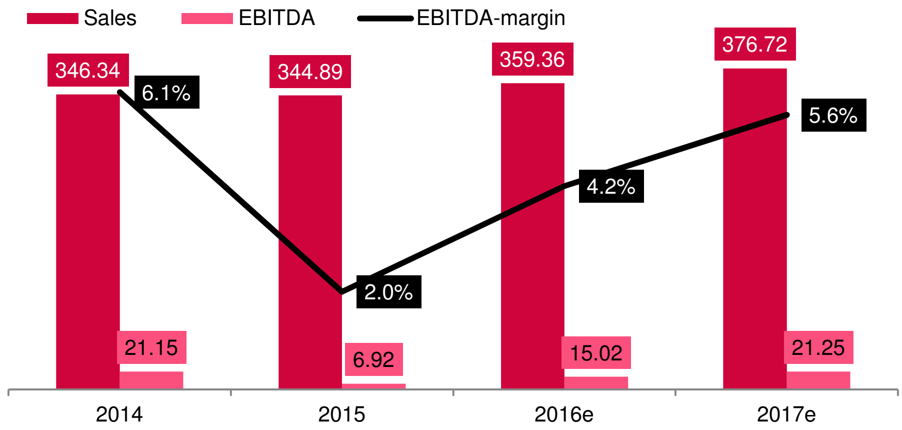
Business Development & Estimates

Key Financial Figures

P&L in m€	FY 2014		FY 2015		FY 2016e		FY 2017e	
Sales	**346.34**	***100.0%***	**344.89**	***100.0%***	**359.36**	***100.0%***	**376.72**	***100.0%***
Changes in inventory	0.57	*0.2%*	0.83	*0.2%*	0.00	*0.0%*	0.00	*0.0%*
Own work capitalised	2.62	*0.8%*	2.94	*0.9%*	2.50	*0.7%*	2.50	*0.7%*
Other operating income	2.14	*0.6%*	3.07	*0.9%*	2.00	*0.6%*	2.00	*0.5%*
Cost of materials	-182.47	*-52.7%*	-189.83	*-55.0%*	-191.96	*-53.4%*	-198.72	*-52.8%*
Gross Profit	**169.20**	***48.9%***	**161.90**	***46.9%***	**171.90**	***47.8%***	**182.50**	***48.4%***
Personnel expenses	-103.18	*-29.8%*	-107.88	*-31.3%*	-108.50	*-30.2%*	-111.00	*-29.5%*
Depreciation and amortization	-9.70	*-2.8%*	-15.57	*-4.5%*	-9.00	*-2.5%*	-9.00	*-2.4%*
Other operating expenses	-44.88	*-13.0%*	-47.10	*-13.7%*	-48.38	*-13.5%*	-50.25	*-13.3%*
EBIT	**11.45**	***3.3%***	**-8.65**	***-2.5%***	**6.02**	***1.7%***	**12.25**	***3.3%***
Financial result	-3.68	*-1.1%*	-4.06	*-1.2%*	-3.50	*-1.0%*	-3.25	*-0.9%*
EBT	**7.77**	***2.2%***	**-12.71**	***-3.7%***	**2.52**	***0.7%***	**9.00**	***2.4%***
Income taxes	-4.92	*-1.4%*	-0.42	*-0.1%*	-0.76	*-0.2%*	-2.70	*-0.7%*
Net profit before minority interest	**2.84**	***0.8%***	**-13.13**	***-3.8%***	**1.76**	***0.5%***	**6.30**	***1.7%***
Minority interest	-0.27	*-0.1%*	-0.12	*0.0%*	0.00	*0.0%*	0.00	*0.0%*
Net profit after minority interest	***2.58***	***0.7%***	***-13.25***	***-3.8%***	**1.76**	***0.5%***	***6.30***	***1.7%***

EBITDA	21.15	6.92	15.02	21.25
in % of sales	*6.1%*	*2.0%*	*4.2%*	*5.6%*
EBIT	11.45	-8.65	6.02	12.25
in % of sales	*3.3%*	*-2.5%*	*1.7%*	*3.3%*
Earnings per share in €	0.36	-1.85	0.25	0.88
Dividend per share in €	0.00	0.00	0.00	0.00
Ø number of shares outstanding	7,176	7,176	7,176	7,176

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



Source: euromicron, GBC

Business Development FY2015

P&L (in m€)	FY 2014	Delta Δ	FY 2015
Sales	346.34	-0.4%	344.89
EBITDA (*margin*)	21.15 (*6.1%)*	-67.3%	6.92 (*2.0%)*
EBIT (*margin*)	11.45 (*3.3%)*	n.M.	-8.65 (*-2.5%)*
Net profit	2.58	n.M.	-13.25
EPS in €	0.36	n.M.	-1.85

Source: euromicron AG, GBC

Strategic Reorientation

In 2015, euromicron AG streamlined its position significantly. In doing so the new management of the company, which has only been in post since March 2015, re-focused the company's strategic positioning and implemented the necessary structural measures within a period of just 12 months. This involved focusing euromicron AG on the key issues of digitalised buildings, critical infrastructure and Industry 4.0. Within these target sectors, the company will address niche segments and its main differentiation will be the combination of systems solution expertise and in-house technology solutions. This positioning should succeed in differentiating the company from the competition and generating corresponding market share.

As part of the strategic streamlining, the Group structure was consolidated and the segmentation basis on which euromicron AG will now be reporting was reorganised. The segments now comprise *Smart Buildings*, *Critical Infrastructures* and *Distribution*. In addition, the individual Group subsidiaries are now clearly allocated to the new reporting segments. These measures not only contribute to efficient processes within the Group but also ensure significant cost reductions which have already become apparent in 2015. Verifiability and transparency for external parties was also increased as a result.

Based on the new positioning, the new management is primarily focusing on the maxim "profitability and cash flow before sales", which in our view is the correct focus to return the company to its past profitability level in the next few years.

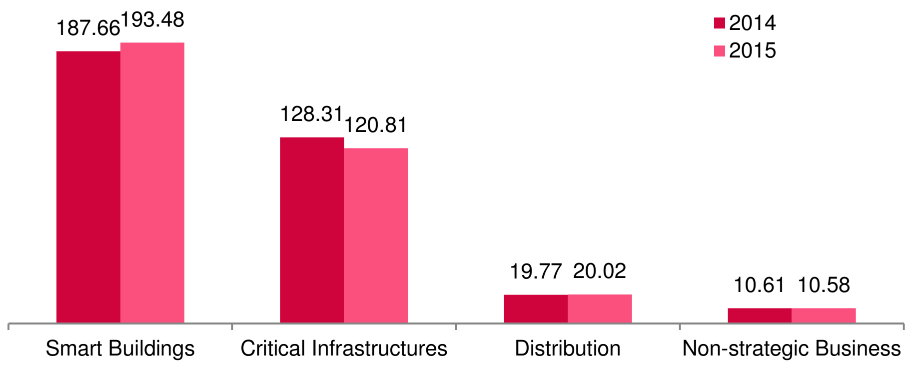
Development of Sales

The revenue performance of euromicron AG declined slightly by 0.4% to €344.89 million at the Group level in FY 2015. In the largest segment, *Smart Buildings* (SB), a revenue increase of 3.1% was recorded, whilst *the Critical Infrastructures* (CI) segment recorded a decline of 5.8%.

Despite the increase in the SB segment, the targets set by management were not reached in full. However, it must be taken into account that individual projects were deliberately not taken on in order to accommodate the new strategic positioning and the increased focus on profitability. In addition, past projects valued at no loss were also finalised in 2015, which tied up employee capacity. These past projects are expected to have been completed as from 2016. This will open up capacity for new projects which will mainly be value creating in respect of contributions to earnings.

In the CI segment, the negative development was mainly due to the cyclical business of individual segment companies. Some orders that were acquired and completed in 2014 could not be repeated in 2015. The reason for this is mainly the customary order structure in the CI segment which often has a strong project nature and revenues are therefore subject to cyclical fluctuations.

Development of sales by segment (in m€)



Source: euromicron, GBC

In the smallest segment, *Distribution*, revenue was achieved at the level of the previous year, which also applied to the non-strategic business fields. The non-strategic business fields are loss-making and do not correspond to euromicron's new strategic positioning. The business operations of the four companies in this segment will therefore be discontinued. We expect that all four companies will no longer contribute to revenues by the end of 2016, nor will they accumulate any more losses.

Development of Earnings

On the earnings side, the figures recognised in FY 2015 declined significantly compared to 2014 with the decline affecting all segments. At €6.92 million, EBITDA was significantly below the previous year's level of €21.15 million. However, several effects must be taken into account here that were noticeable on the operational side but also in the context of the strategic repositioning.

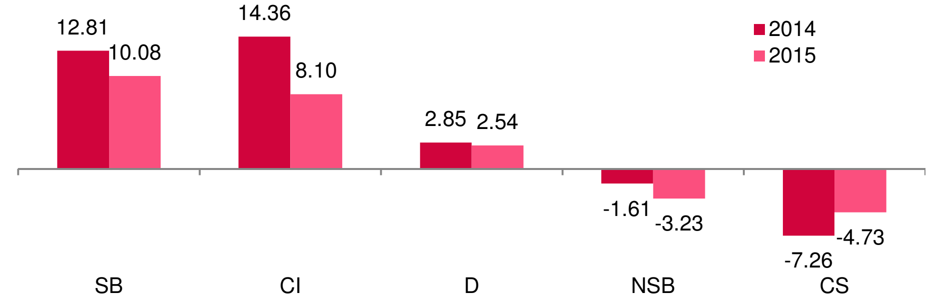
A significant factor for the decline in earnings was the lower level of gross profit in the two most important segments, SB and CI. Whilst the completion of orders valued at no loss from previous years which no longer contributed to profits had a significant impact, the CI segment was mainly characterised by investments in the development of new strategic business areas. Structures and concepts for the Internet of Things projects were developed in particular here. These should result in additional revenues in the next few years.

In the CI segment, new product developments, including those relating to the topic of smart lightning, initially resulted in an increase in costs with no equivalent revenues. In this respect, the revenue mix was not yet ideal, however, this should be offset in future periods. In the meantime, the new products have been launched on the market.

However, when analysing the earnings, it is imperative to consider the extraordinary expenses that were incurred in the context of the restructuring and repositioning of the Group, as these reveal the core profitability of euromicron at this point in time and serve as a significant basis for the expectations of the next few years. Adjusted for extraordinary effects, EBITDA of €13.76 million was generated. In the previous year, EBITDA amounted to €21.15 million.

Broken down by the individual segments, the above-mentioned effects were noticeable even in the adjusted figure with the result that there was still a decline in EBITDA in each segment, with the exception of Central Services. The successful reorganisation of euromicron AG is particularly clear in 2015 in the holding company's costs. Earnings in the Central Services segment were reduced from €-7.26 million to €-4.73 million, which reflects the measures undertaken to reduce costs and increase efficiency.

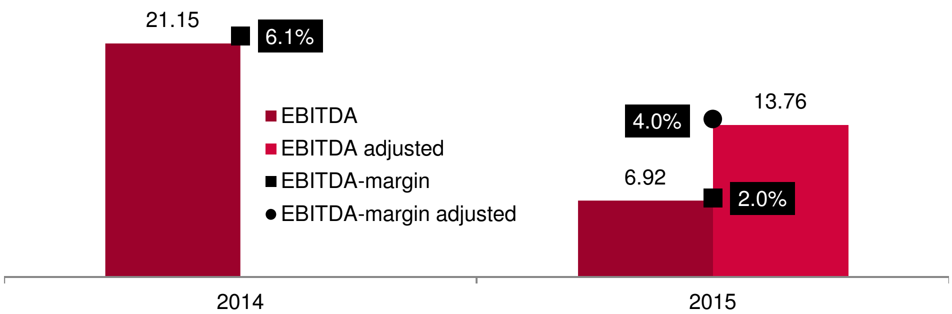
Development of operating EBITDA-margin by segments (in %)



Source: euromicron, GBC; SB=Smart Buildings, CI= Critical Infrastructures, D=Distribution, NSB=non-strategic business, CS=Central Services

In total, the extraordinary expenses amounted to €6.83 million, in particular for the structural changes and personnel measures. The graphic below illustrates the effects of the extraordinary expenses. At 4.0%, the adjusted EBITDA margin was twice as high as the as reported EBITDA margin. The adjusted figure, which is lower compared to the previous year, is nevertheless significant. It will, though, be quickly put into perspective in the next few periods. As described above, charges were recorded in 2015 due to the operational reorganisation and restructuring for which the results could not be adjusted.

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



Source: euromicron, GBC

In terms of amortisation and depreciation, the restructuring also resulted in write-offs of €6.31 million which primarily related to the four companies which are no longer part of the strategic business. In this respect, the recognised EBIT of -€8.65 million was significantly in the red. However, it must be emphasised that, from an operational point of view, 13 of the 14 operating companies achieved a positive EBIT in 2015. This indicates a good starting point for future profitable growth for the Company, which should be seen in 2016 after the restructuring.

Balance Sheet and Financial Situation

in m€	FY 2013	FY 2014	FY 2015
Equity	111.16	110.40	97.04
Equity-ratio (in %)	*35.1%*	*38.4%*	*35.8%*
Interest bearing debt	65.37	64.78	66.50
Liquid assets	38.83	15.62	10.72
Net debt	26.54	49.16	55.78
Operating Assets (incl. Goodwill)	151.71	148.40	141.04
Net Working Capital	52.85	64.74	59.67

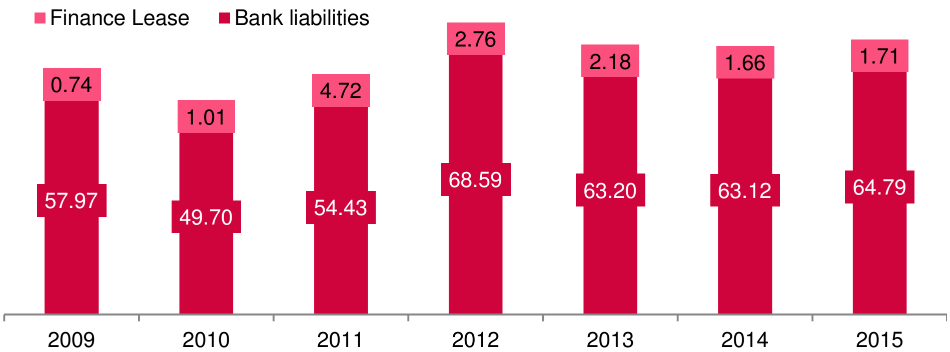
Source: euromicron, GBC

A significant factor in the strategic repositioning of euromicron AG is also the optimisation of working capital. In 2015, working capital was already reduced by around 8%, mainly in the area of trade receivables and receivables from production orders with a credit balance in respect of customers. Additional reductions in working capital are planned for 2016 which should contribute to a further improvement in the operating cash flow. Despite the negative effects on the operating business and the extraordinary expenses, operating cashflow was positive at €4.56 million in FY 2015 after a negative value in the previous year. Adjusted for the effects of factoring and customer deposits to be passed on, a positive operating cash flow of €6.1 million was generated compared to €3.0 million in the previous year.

Accordingly, extremely positive effects from the reorganisation were already seen in 2015. In addition, the positive operating cash flow confirms that the business model of euromicron AG is essentially profitable.

To date, the liability structure has not yet been refinanced. The interest-bearing liabilities amounted to €66.50 million as of 31 December 2015 and were thus once again slightly above the previous year's figure. Management's original objective was to restructure the bank liabilities in autumn 2015. With the progress achieved in 2015 and the positive expectations for future years, the Company is now likely to be able to obtain refinancing on significantly better terms than would have been possible even six months ago.

Development of interest bearing debt (in m€)



Source: euromicron, GBC

According to statements made by the Executive Board, new Group financing should be available by the end of May 2016. As part of this, the loan liabilities due in the short-term will initially be refinanced by around €15 million. In this respect, it can be assumed that this does not present any risk to the Company as a going concern. Instead, against the background of the recent positive development, it should be possible to negotiate favourable terms.

SWOT-Analysis

Strenghts	Weaknesses
• Leading network specialist with a comprehensive branch network in Germany • Differentiating feature due to combination of expertise in systems integration and technology solutions • Crisis-resistant business model due to broad customer diversification • Well-positioned in the growing market for Smart Buildings, critical infrastructures and Industry 4.0 • Strategic repositioning and focusing is already bearing first fruits	• Comparatively high level of goodwill in the balance sheet, which makes up around 40% of total assets • Traditionally high earnings contribution in the fourth quarter results in highly seasonal business development • Relatively high net debt • Since FY 2012, significantly lower margins than in previous years; however, improvement expected due to restructuring
Opportunities	**Threats**
• Strengthening of the product and solutions capability could positively influence margins • Better use of synergy effects between the subsidiaries could have a positive effect on the revenue and earnings situation. • The market for smart buildings and critical infrastructure is expected to grow at around 20% per year until 2024 • The special topic of the Internet of Things and Industry 4.0 is still at the start of its development and market penetration This could result in huge growth potential • euromicron AG could achieve an improved strategic position for projects due to an increased focus on products and thus increase its margins	• The pace of growth in the Internet of Things segment could be slower than currently expected • Developments in the Internet of Things segment could take place in core areas other than those addressed by euromicron • euromicron AG could focus on products and solutions that are not accepted on the market to the extent expected and thus slow the pace of growth • The synergy leverage between the subsidiaries may not succeed to the extent planned and thus reduce the pace of growth and margin increase

Estimates and Model Assumptions

P&L (in m€)	FY 2015	FY 2016e	FY 2017e
Sales	344.89	359.36	376.72
EBITDA (*margin*)	6.92 (*2.0%*)	15.02 (*4.2%*)	21.25 (*5.6%*)
EBIT (*margin*)	-8.65 (*-2.5%*)	6.02 (*1.7%*)	12.25 (*3.3%*)
Net profit	-13.25	1.76	6.30
EPS in €	-1.85	0.25	0.88

Source: GBC

Sales estimates

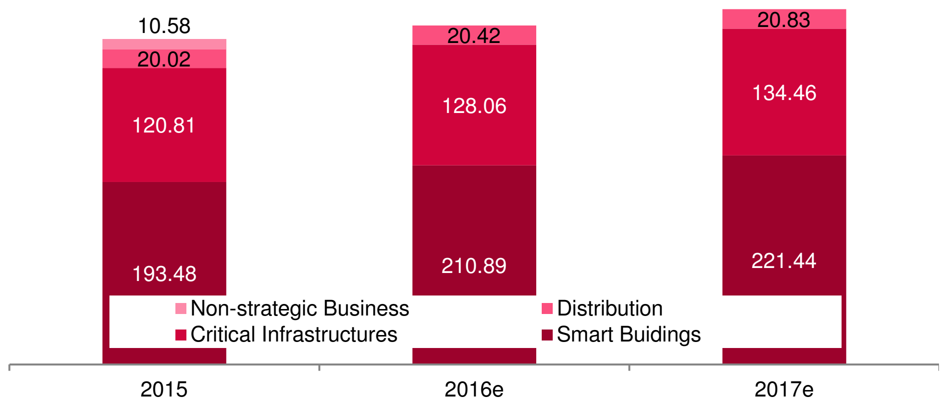
After the successful implementation and already broad completion of the strategic repositioning of the Group, euromicron AG has, in our view, created a solid foundation on which it should be possible to generate and drive forward profitable growth in future years. A key component is likely to be its positioning as a system integrator combined with its extensive technology capability.

In the medium term, the company plans to again achieve revenues of €400 million. A possible growth element here is also tactical acquisitions. This vehicle should mainly be used initially to further strengthen the Company's technology capability. The maxim "earnings before sales" is also valid for future years.

The start of the new FY 2016 was extremely promising for euromicron AG. Incoming orders in January 2016 amounted to €41.5 million, 30% above the level of the previous year. We assume that the successful reorganisation is already playing a role in this.

Sales are likely to reduce by around €10 million in 2016 due to the discontinuation of the business activities of the companies not forming part of the strategic core. However, this will simultaneously strengthen earnings. Nevertheless, a revenue level of between €350 million and €370 million should be achieved in 2016. The SB segment in particular is expected to contribute a high single-digit increase. The new product developments completed in 2015 should make a positive impact here and the CI segment is expected to generate an increase in the mid-single-digit range. We therefore expect that revenue of €359.36 million will be achieved in FY 2016 which is therefore in the middle range of the guidance issued by the Executive Board.

Expected development of sales by segment (in m€)



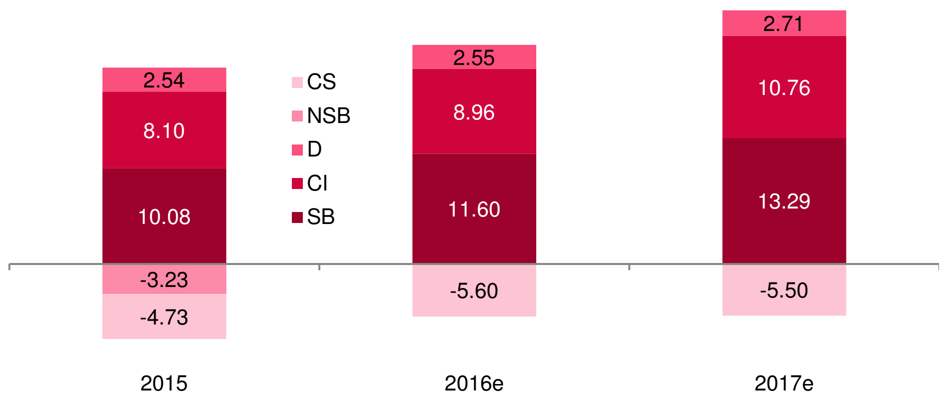
Source: GBC

Earnings Estimates

The positive consequences of the reorganisation should be even clearer in terms of profitability. In addition to new, high-margin products, which will impact revenue for the first time in 2016, structural costs have been also significantly reduced. In addition, gross profits can be expected to significantly improve in the SB segment as the orders valued at no loss in 2015 have been completed and no further orders without a contribution to profit have to be completed in 2016. Last but not least, the negative earnings performance of the non-strategic business should no longer be reflected in 2016.

The largest growth driver to EBITDA is expected to be the SB segment with growth of €1.52 million in operating EBITDA. In addition to the expected significant growth in revenue, the new products with good margins and the positive effects of the reorganisation should contribute to a significant earnings improvement in 2016. It must be taken into account that extraordinary expenses of €1.10 million can again be expected in 2016 in the SB segment with the result that we expect an as reported EBITDA of €10.50 million which is equivalent to a significant increase compared to €7.50 million in 2015. In the CI segment we also expect a slight increase in EBITDA although not to the extent as in the SB segment due to the flatter sales performance.

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



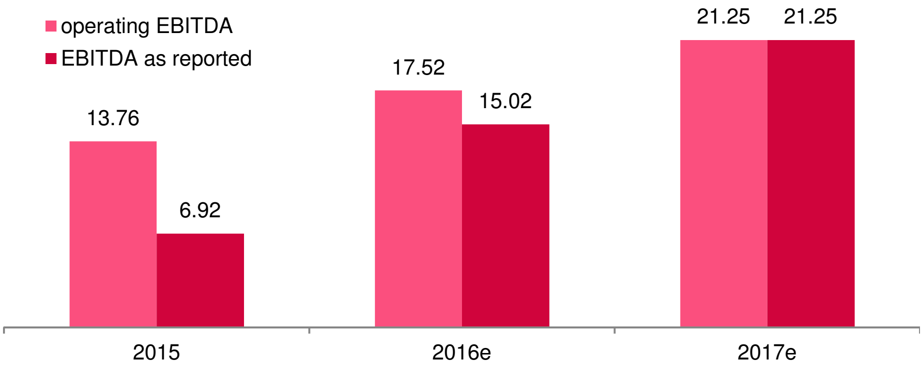
Source: GBC; SB=Smart Buildings, CI= Critical Infrastructures, D=Distribution, NSB=Non-strategic Business, CS=Central Services

At the level of the holding company, extraordinary expenses of €1.10 million are again expected. These are to be regarded in connection with the finalisation of the reorganisation. For the non-strategic business, an expense of a low six-digit amount will again be incurred in 2016 for the final closure of the companies. The extraordinary costs in 2016 will again total between €2.0 million and €3.0 million, significantly below the level of 2015.

On the whole, we therefore expect that EBITDA as reported will amount to €15.02 million whilst operating EBITDA will be higher at €17.52 million. However, according to our expectations, EBITDA as reported will also be more than 100% above that of the previous year's level in 2016. Accordingly, the EBITDA as reported margin should double from 2.0% in 2015 to 4.2%.

For FY 2017, we expect no further extraordinary expenses with the result that the as reported and operating EBITDA will be the same. We then expect a figure of €21.25 million, which is equivalent to an EBITDA margin of 5.6%.

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

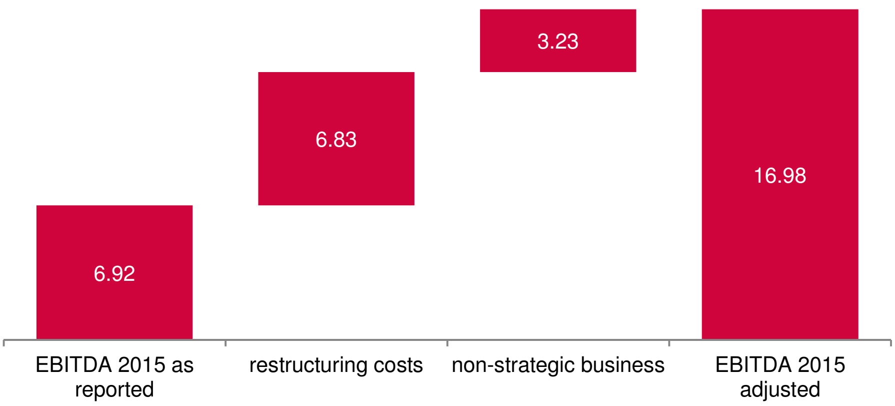


Source: GBC

We do not assume that the medium term target of an EBITDA margin of between 8% and 11% will yet be reached in 2017. However, we rate our expectations, as well as the guidance of the management, as conservative. This becomes clear when looking at the potential EBITDA, i.e. an adjustment to the adjusted EBITDA for extraordinary costs as well as the still negative earnings contribution from the four subsidiaries whose business was discontinued.

Seen from this fully-adjusted view, EBITDA would have already been €16.98 million in 2015, which would correspond to an EBITDA margin of 4.9%. Our forecast that the figures for EBITDA and the EBITDA margin only applies from FY 2017 onwards.

Derivation of the potential-EBITDA (in m€)



Source: euromicron, GBC

In the next few years we expect no further extraordinary expenses, in particular relating to goodwill. In this respect, the amount of depreciation and amortisation in 2016 and 2017 should be significantly reduced and ensure a disproportional increase in EBIT.

At the same time, we assume that a slightly positive net profit can be generated in 2016, which should then increase to €6.30 million in 2017. Based on the current market capitalisation, euromicron AG would therefore be currently trading at a P/E ratio for 2017 of just under 7. Given the promising perspectives for the next few years, we regard this assessment as not overly ambitious. Put differently, the successful reorganisation is not likely to have been sufficiently reflected in the price development.

Valuation

Model assumptions

The euromicron AG has been valued using a three-phase DCF model. Starting from the specific estimates for the financial years 2016 to 2017 in phase 1, in the second phase from 2018 to 2023 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 5.75%. In phase 2 a tax rate of was 30% is applied. Beyond the forecast horizon, a residual value was calculated using a perpetual annuity formula. For the final value we assume a growth rate of 2.0%.

Calculation of the Cost of Capital

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

The riskless interest rate is calculated based on the recommendations of the "Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW, and is derived from the yield curve of riskless bonds. The interest rates for zero bonds are based on the Svensson-method, published by the "Deutsche Bundesbank", and provide the basis for the calculation. Due to market fluctuations, we use smoothed average returns on a three-month basis, rounded to 0.25 basis points. **The current riskless interest rate in use amounts to 1.50%.**

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: 1.79) is applied.

Applying these assumptions we can calculate a cost of equity of 11.3% (so far: 11.1%) (beta multiplied by the risk premium, plus risk-free interest rate). As we assume a long-term weight of equity of 60%, the weighted average cost of capital (WACC) is 8.4% (so far: 9.2%).

Valuation Result

Discounting of future cash flows was carried out using the entity approach. We calculated the relevant costs of capital (WACC) at 8.4%. The lowered WACC compared to our last research report reflects the successful implementation of the reorganization und therewith the establishment of a foundation for future profitable growth over the coming periods.

The resulting fair value per share by the end of the FY2016 corresponds to a target price of €12.10. The previous fair value per share of €15.50 therewith was slightly reduced. Despite a lower WACC the reason for is a more conservative assumption of the target EBITDA-margin of 5.75%. Should it become visible that euromicron AG will be able to reach the target EBITDA-margins of 8-11% significantly higher fair values per share would be warranted.

DCF-Model

euromicron AG - Discounted Cashflow (DCF) model

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

consistency - phase	
Sales growth	3.0%
EBITDA-margin	5.8%
Depreciation on fixed assets	6.5%
Working capital to sales	15.0%

final - phase	
Perpetual growth rate	2.0%
Perpetual EBITA - margin	3.9%
Effective tax rate in terminal value	30.0%

Three-phase DCF - model:

phase	estimate		consistency						final
in mEUR	FY 16e	FY 17e	FY 18e	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	TV
Sales	359.36	376.72	388.02	399.66	411.65	424.00	436.72	449.82	
Sales change	4.2%	4.8%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Sales to fixed assets	2.57	2.75	2.88	3.02	3.16	3.30	3.45	3.61	
EBITDA	15.02	21.25	22.31	22.98	23.67	24.38	25.11	25.86	
EBITDA-margin	4.2%	5.6%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	
EBITA	6.02	11.75	13.40	14.23	15.07	15.91	16.77	17.64	
EBITA-margin	1.7%	3.1%	3.5%	3.6%	3.7%	3.8%	3.8%	3.9%	3.9%
Taxes on EBITA	-1.81	-3.52	-4.02	-4.27	-4.52	-4.77	-5.03	-5.29	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	4.21	8.22	9.38	9.96	10.55	11.14	11.74	12.35	
Return on Capital	2.1%	4.1%	4.8%	5.2%	5.5%	5.8%	6.1%	6.4%	6.6%
Working Capital (WC)	59.39	56.78	58.20	59.95	61.75	63.60	65.51	67.47	
WC to sales	16.5%	15.1%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Investment in WC	0.29	2.61	-1.43	-1.75	-1.80	-1.85	-1.91	-1.97	
Operating fixed assets (OFA)	140.04	137.04	134.63	132.38	130.27	128.31	126.47	124.75	
Depreciation on OFA	-9.00	-9.50	-8.91	-8.75	-8.60	-8.47	-8.34	-8.22	
Depreciation to OFA	6.4%	6.9%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	
CAPEX	-7.99	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	
Capital Employed	199.43	193.81	192.83	192.33	192.02	191.91	191.97	192.22	
EBITDA	15.02	21.25	22.31	22.98	23.67	24.38	25.11	25.86	
Taxes on EBITA	-1.81	-3.52	-4.02	-4.27	-4.52	-4.77	-5.03	-5.29	
Total Investment	-12.71	-3.89	-7.93	-8.25	-8.30	-8.35	-8.41	-8.47	
Investment in OFA	-7.99	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	-6.50	
Investment in WC	0.29	2.61	-1.43	-1.75	-1.80	-1.85	-1.91	-1.97	
Investment in Goodwill	-5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	0.50	13.83	10.36	10.47	10.85	11.25	11.67	12.11	137.87

Value operating business (due date)	137.83	135.53
Net present value explicit FCF	59.31	50.44
Net present value Terminal Value	78.52	85.10
Net debt	58.77	48.19
Value of equity	79.05	87.35
Minority interests	-0.44	-0.49
Value of share capital	78.61	86.85
Shares outstanding in million	7.18	7.18
Fair value per share in EUR	10.95	**12.10**

Cost of Capital:

Risk free rate	1.5%
Market risk premium	5.5%
Beta	1.79
Cost of equity	11.3%
Target weight	60.0%
Cost of debt	5.0%
Target weight	40.0%
Taxshield	21.0%
WACC	**8.4%**

Return on Capital	WACC				
	7.8%	**8.1%**	**8.4%**	**8.7%**	**9.0%**
6.1%	12.30	11.51	10.81	10.17	9.58
6.3%	13.04	12.21	11.45	10.77	10.16
6.6%	13.78	12.90	**12.10**	11.38	10.73
6.8%	14.52	13.59	12.75	11.99	11.30
7.1%	15.26	14.28	13.40	12.60	11.88

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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