April 15th, 2019
Research report

SMC Research
Small and Mid Cap Research

THOMSON REUTERS ANALYST AWARDS 2018 WINNER
THOMSON REUTERS ANALYST AWARDS 2017 WINNER

STS Group AG

Competitive strengths can now be exploited to the full

Rating: Speculative Buy(first valuation) | **Price:** 8.20 Euro | **Price target:** 15.10 Euro

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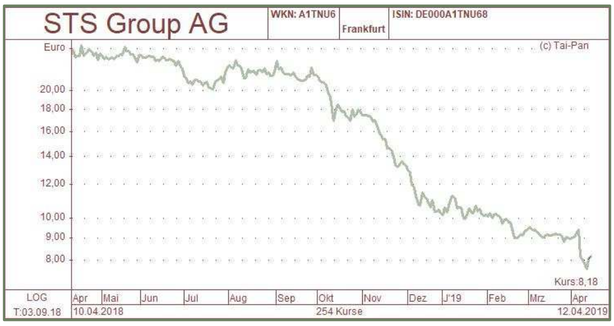
Snapshot



Basic data

Based in:	Hallbergmoos
Sector:	Automotive technology
Headcount:	2,564
Accounting:	IFRS
Bloomberg:	SF3:GR
ISIN:	DE000A1TNU68
Price:	8.20 Euro
Market segment:	Prime Standard
Number of shares:	6.0 m
Market Cap:	49.2 m Euro
Enterprise Value:	96.2 m Euro
Free Float:	<40 %
Price high/low (12 M):	24.79 / 8.00 Euro
Ø turnover (Xetra,12 M):	114,800 Euro

Short profile

The STS Group, listed on the stock exchange since 2018, has grown in recent years from a regional producer of acoustically effective plastic components (soft trim) into a global technology leader for plastic-relevant system components in the commercial vehicle sector. This development was due to three acquisitions in 2016 and 2017, roughly tripling sales. While management focus during 2018 was on integrating the acquired companies, the company now plans to achieve additional growth from abroad and to improve profitability, low by industry standards.

The largest division by far is the Plastics segment, which accounts for approximately 50 percent of sales, followed by the Acoustics segment with 31 percent of sales. The China segment (12 percent of sales) represents the STS Group's most significant growth driver and is therefore of particular importance. Going forward the future of the company hinges on the continuation of efficiency improvements already achieved in the Plastics segment in 2018 and the replication of these improvements in the other company segments.

FY ends: 31.12.	2016	2017	2018	2019e	2020e	2021e
Sales (m Euro)	136.2	310.0	401.2	391.8	400.3	409.5
EBIT (m Euro)	8.8*	46.9*	-1.3*	9.7	13.0	15.4
Net profit	7.5*	47.0*	-4.8*	4.0	6.3	8.1
EpS	1.50*	9.39*	-0.80*	0.66	1.06	1.35
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth		127.7%	29.4%	-2.4%	2.2%	2.3%
Profit growth		525.9%	-	-	60.3%	27.4%
PSR	0.36	0.16	0.12	0.13	0.12	0.12
PER	6.6	1.0	-	12.4	7.8	6.1
PCR	38.5	-	6.9	2.4	2.4	2.2
EV / EBIT	10.9	2.1	-	9.9	7.4	6.2
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**including one-off effects*

Executive Summary

- **Three product categories:** The STS Group is an automotive supplier, predominantly active in the commercial vehicle sector (share of sales approx. 70 percent). Their products are used on or inside the vehicle cabin, where they help reduce noise emissions (Acoustics segment, approx. 30 percent of sales) and help provide vehicles with a good external appearance, aerodynamics and stability at low weight (Plastics segment including China business, approx. 60 percent of sales). The company is vertically integrated and manufactures intermediate products for its internal use and the sale to third parties (Materials segment: approx. 10 percent of sales).
- **Dynamic Group development:** By taking over various production sites in 2016 and 2017, the company almost tripled its sales within a few years. The STS Group share was successfully listed on the stock exchange in 2018 and – still during the same year – management was able to announce the successful completion of its organisational integration.
- **A technology leader, geographically diversified:** Following the successful integration of the acquired production sites, the STS Group now ranks among the technologically leading supplier in its peer group. It features exceptional flexibility in terms of production methods, production materials and batch size, a broad spectrum of products and a broad geographical positioning.
- **Growth impulses from overseas:** The STS Group, which was previously active only in Europe, has become a global player, focusing on market share gains in China and – to an ever greater extent – also in North America. To this end, the Group is currently opening its third production facility in China. In the USA, a first order in the commercial vehicle business had been won last year. The STS Group benefits from the trend towards ever stricter emission standards and the potential of electric mobility. Based on these factors and the new competitive advantages resulting from the integration, the Company is forecasting revenue growth of EUR 100 m by 2023.
- **Figures in 2018 mixed:** On a pro forma basis, STS suffered a 5.7 percent decline in sales at Group level due to a downturn in the Acoustics and Plastics divisions, despite growing business in China (+2.4 percent). Due to seasonal effects, low call-off figures and expiring contracts, the second half of the year in particular was relatively weak.
- **Increase in margin expected:** Compared to the rest of the industry, the profitability of the automotive supplier is currently below average with an unadjusted 2018 EBITDA margin of 3.0 percent. Following the elimination of special costs, including those for the implementation of the IPO, management is forecasting an increase in EBITDA of at least 100 percent to EUR 23.7 m in 2019 (margin: approx. 6 percent) and a margin improvement to more than 10 percent in the medium term.
- **High price potential:** We expect sales growth of at least EUR 50 m by 2023, conservatively estimated. In conjunction with further efficiency improvements, we expect the EBITDA margin to improve to eight percent. For now, we are thus applying a haircut against the targets communicated by the company, waiting for confirmation of the growth outlook in the coming quarters before raising our estimates to a more generous level. We nevertheless see the fair value at EUR 15.10 per share, which is far above the current price, and our assessment is therefore "speculative buy".

SWOT Analysis

Strengths

- STS has established itself as a global tier-one truck supplier for plastic parts.
- The company has expertise and flexibility in the application of various manufacturing techniques (thermoforming, SMC and injection moulding), materials and batch sizes.
- Covering the entire product range in the plastics sector enables the development of integrated system solutions.
- Successful international expansion with the opening of a third plant in China and a first major commercial vehicle order from the USA.
- Proven competence in the acquisition and integration of acquisitions and in the implementation of efficiency enhancement measures.

Weaknesses

- Despite improvements in the Plastics segment, the overall return at Group level is still relatively low. The Acoustics division in particular has been weak in terms of sales and profitability for years.
- Weak second half of 2018 due to seasonal effects and the expiry of a major order.
- Despite a broad customer base, customer concentration is relatively high. The top 5 customers account for 65 to 70 percent of sales.
- Due to the long lead time from order placement to revenue generation, current sales initiatives will only have an impact on Group revenues in the medium term.
- Due to the short stock market history and major structural changes in 2017, there is no history of comparable financial data.

Opportunities

- Possibility to increase the utilization of plants in countries with low personnel costs. At the same time, material costs can be further reduced through the consistent use of centralized purchasing and higher material efficiency.
- Orders in the not yet much penetrated markets of China and North America can make a significant contribution to sales growth in the coming years.
- Electric mobility and new emission regulations (Europe, China) as growth drivers.
- The latest acquisitions have significantly expanded the customer base. For most customers, STS serves only one product segment (acoustics or plastics), resulting in cross-selling potential.

Threats

- The start-up of the new plant in China could be delayed or turn out to be more difficult than expected.
- The negative trend in the Acoustics segment could continue and counteract the measures taken to increase efficiency.
- Raw material costs could rise and counteract the expected improvements in material purchasing and material efficiency.
- The German motor vehicle industry is under pressure due to the diesel scandal, new exhaust regulations, technological changes in the industry and protectionist measures. This could put a strain on margins.

Profile

The origins

STS Group AG, based in Hallbergmoos near Munich, has emerged in its current form as the result of a buy-and-build strategy systematically pursued by the holding company Mutares over the past six years. Originally created in 2013 as a carve-out from the Italian activities of the Swiss automotive supplier Autoneum, the STS Group has grown strongly over the years through acquisitions and is now one of the world's leading system suppliers of composite parts, supplying customers such as Volkswagen, Scania, Volvo and Iveco.

IPO in 2018

The company, which currently has 2,564 employees across the Group and has grown by 29 percent from 2017 to 2018 to now EUR 401 m, completed its IPO on the Frankfurt Stock Exchange on 1 June 2018 in conjunction with a capital increase and the sale of shares held by existing shareholders. It is listed in the Prime Standard segment. Mutares remains the majority shareholder even after the IPO and currently holds around 64 percent of all shares.

Products and business areas

The product portfolio is made up of three categories, which are organized into four business areas (segments).

Hard trim products (STS Plastics segment, 50 percent share of sales) are plastic parts manufactured by injection moulding or SMC (Sheet Moulding Compound, a moulding method for manufacturing fibre-reinforced plastic) and used for exterior trim and aerodynamic parts as well as storage systems in commercial vehicle cabins (e.g. front modules or battery covers). In order to optimally meet the safety and energy efficiency requirements of customers and legislators, hard trim products must be both lightweight and have a certain stiffness. Ever stricter emission standards are a trend driving the demand for high-quality and lightweight hard trim products.

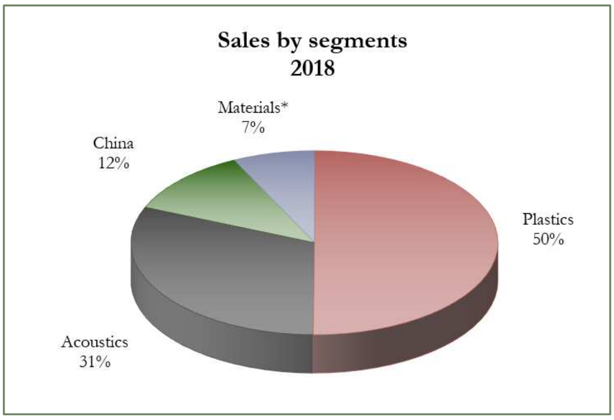
Product Portfolio of the STS Group

Source: Company

Soft trim products (**STS Acoustics segment, 31 percent sales share**) are plastic products with acoustic and thermal properties that reduce noise and protect against heat. Felt composites are made by means of the thermoforming process, in which a felt matrix is pressed into a mould and laminated with various textiles. The demand for soft-trim products stems from OEMs' efforts to improve driver comfort and to reduce outdoor noise emissions in line with increasingly stringent noise regulations.

Since mid-2018, all activities of the STS Group in the Chinese market have been reported in the **China segment** (**12 percent share of sales**). So far, the company has operated two plants there, manufacturing SMC and injection moulded products. A third plant has just opened.

With less than 10 percent of sales (after consolidation), the smallest **Materials segment** involves the production of intermediate products (including SMC and fibre moulding compounds (BMC and AMC)) for both sales and internal processing.



** including segment consolidation*
Source: Company

Established in 2013

The development of the STS Group's various business areas is the result of the acquisition and integration of several company locations over the past six years.

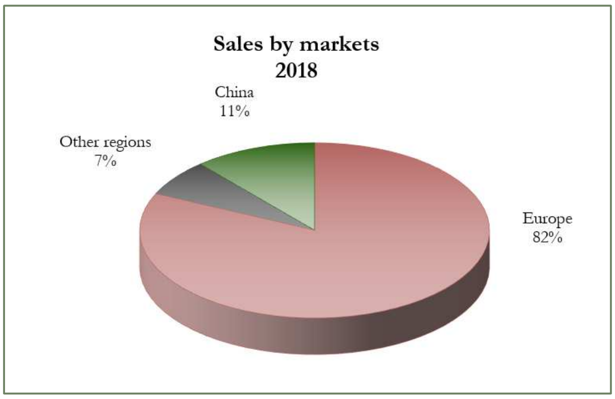
The establishment of the STS Group as an independent company and the creation of the soft-trim segment (STS Acoustics) resulted from Mutares' 2013 acquisition of the commercial vehicle business of the Swiss-based Autoneum Group. Subsequently, STS Acoustics in Italy was restructured, reducing the number of locations from five to three. In addition, the company ventured into Eastern Europe and established a plant in Poland, which commenced operations in 2017.

Setting up an integrated group ...

Three add-on acquisitions have been made since 2016:

- December 2016
  Commercial vehicle supplier business of the French Mecaplast Group (today: Novares)
- June 2017
  Commercial vehicle supply business of the Plastic Omnium Group (plastics for commercial vehicles)
- September 2017
  Acquisition of a Brazilian plant of the Autoneum Group

While the transaction in December 2016 marked the entry into the plastics business, the acquisitions in 2017 were decisive for the internationalisation of the STS Group into non-European markets (in particular Mexico and China). While the company had previously only been significantly active in Italy and France, it had now become a globally operating company.



Source: Company

... and thus high sales growth at favourable prices

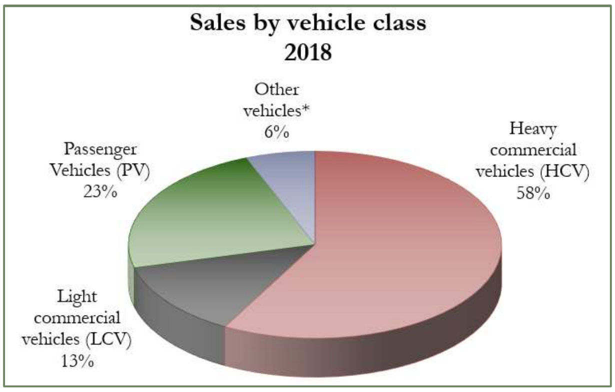
As set out in the IPO documents, each of the three transactions was carried out at bargain prices. Only 20 to 50 percent of the book value was paid in each case, thus generating a profit-relevant bad will of EUR 52 m at a total purchase price of EUR 19 m. At the same time, the transactions caused revenue to increase multiple times from EUR 134 m in 2015 to EUR 401 m last year, while adjusted EBITDA increased from EUR 6.9 to 23.7 m in the same period with an almost unchanged margin. After the extraordinary growth of recent years and the establishment of a global group, there is now considerable potential to generate synergies.

Global presence as an opportunity to grow through internationalisation

The Group currently operates 13 production sites (one of which has opened in April 2019) in seven countries on four continents, with major plants in the main regional markets of Europe, China and North and South America. These plants are strategically located close to or integrated into the production facilities of major OEM customers. As a result of the internationalisation of recent years, the geographical distribution of the company's sales has broadened, and the risk associated with a too narrow focus on countries in Southern Europe has been reduced accordingly. Nevertheless, Europe still accounts for the lion's share of STS Group sales. The acquisitions made in recent years have basically laid the foundation for global expansion. For this reason, international growth (especially in China and the USA) is also one of the strategic directions prioritized by management.

High customer concentration ...

As shown in the following chart, components for heavy and medium-duty commercial vehicles are the focus of the STS Group's business. Typically, the company acts as a tier-one supplier, supplying the various OEMs directly. In the offering prospectus, management has estimated that the top 5 customers account for approximately 65 to 70 percent of Group sales in 2018. Thus, the STS Group's customer concentration is relatively high, just as in the truck sector as a whole. Main customers are renowned European OEMs (e.g. Volvo Truck with the brands Volvo and Renault, FiatChrysler, Iveco, Daimler Truck and Volkswagen with the brands MAN and Scania - see graphic on previous page). As a result of the acquisition policy, the company was able to expand its customer base by several Chinese OEMs (e.g. Sinotruck, see below) in 2017.



*Agricultural and construction vehicles
Source: Company

Clients of STS Group

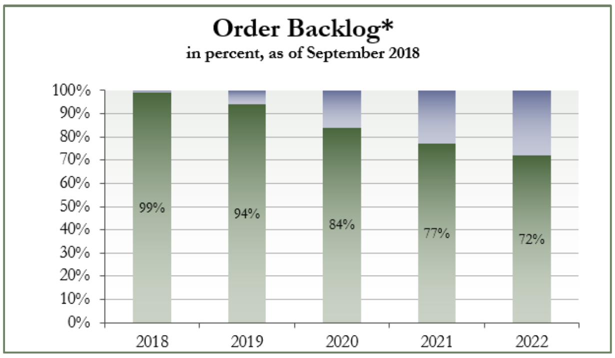
Source: Company

... but long-term contracts

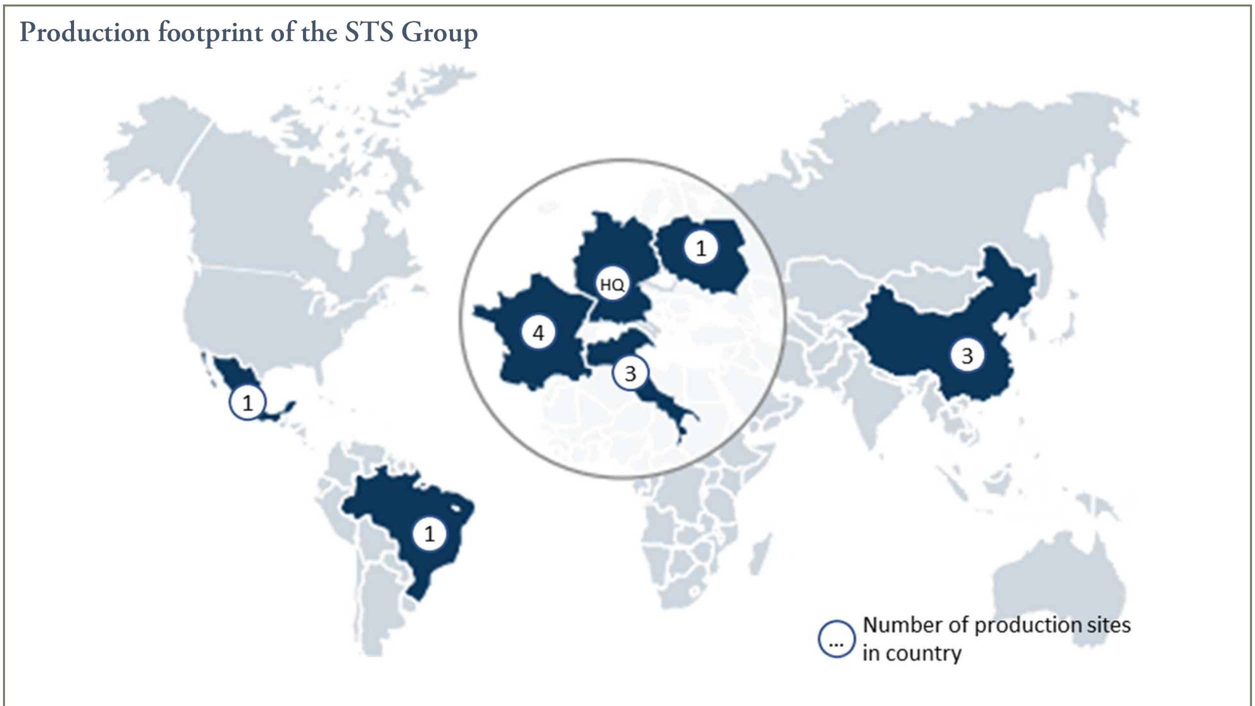
Due to long-term sales contracts with a term of often up to ten years, a considerable part of the future sales of the STS Group can be estimated with satisfactory reliability on the basis of factors such as the length of the agreed contract term, the service life of the various vehicle models or the expected market development. Management expects a current order backlog of EUR 1.9 billion (2018 to 2022) and new business of annually 5 to 10 percent. Revenues from the acquisition of new customers thus drive sales growth. Since contracts have a lead time of two to four years, depending on how much development work is required for a product, a current success in the acquisition of new projects is always only noticeable with a delay.

Technical expertise

In addition to the internationalization and diversification of the customer base, recent acquisitions have led to an expansion of the product range and technological expertise. According to management, STS Group is currently the only supplier on the market that can offer both acoustic and thermoplastic technologies and combine them into comprehensive system solutions.



** Proportion of sales remaining in subsequent years*
Source: Company

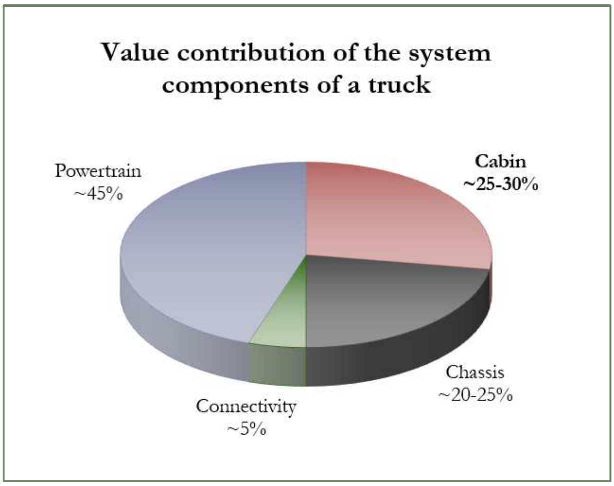


Source: Company

Market and Strategy

Cabin parts as part of total value added in commercial vehicle production

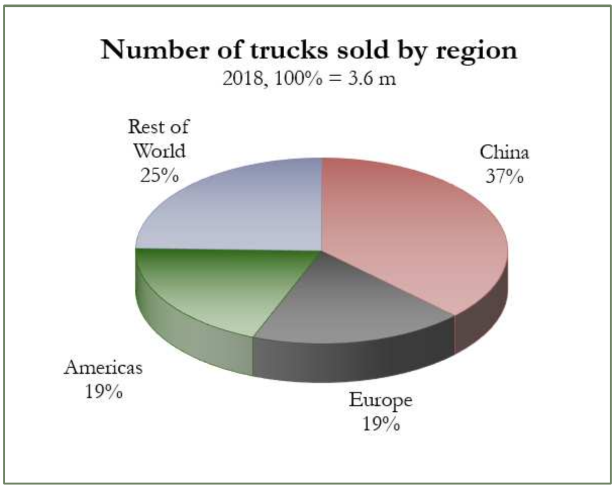
As a systems supplier of interior and exterior parts for motor vehicles, the business success of the STS Group is directly linked to the demand for passenger cars and trucks in general, and medium and heavy commercial vehicles in particular. Subdividing the components of a commercial vehicle into the categories powertrain, systems/connectivity, chassis and cab, it is clear that the STS Group's focus is on the cab category, which comprises the subcategories exterior, interior, electronics and comfort. According to Roland Berger estimates, this area represents a value contribution of approximately 25 to 30 percent to the production costs of a commercial vehicle, with the majority of the value-add being generated by the suppliers.



Source: Roland Berger: "Trends in the Truck and Trailer Market", August 2018

China largest market

According to estimates by the market research institute IHS, approximately 3.6 million medium and heavy trucks were produced worldwide in 2018, China being here the most important market with a production of approximately 1.3 million units or 37 percent. With a share of just under 20 percent, Europe represents a much smaller submarket.



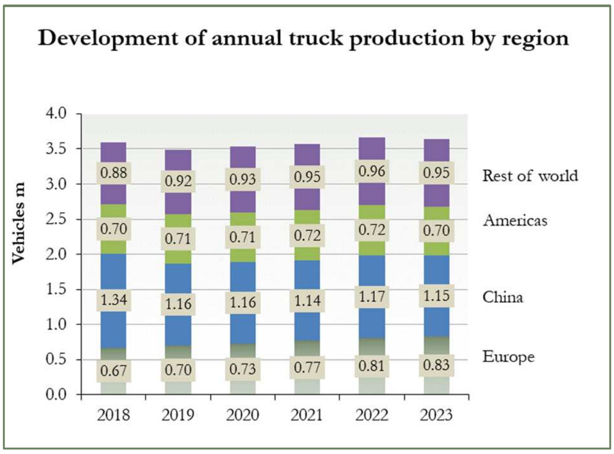
Source: IHS Markit

Further market penetration as an opportunity

Since STS currently generates only about 12 percent of its current sales in China, there is - in relation to the size of the local market - a considerable potential to be realized from further market penetration. Recently, however, the output development has not followed a steady expansion path. After production figures in China grew by 40 percent in 2017 due to pull-forward effects resulting from the introduction of stricter regulations, e.g. concerning overloading, last year saw a consolidation phase that could drag on for even longer.

Weak global growth

For the period up to 2023 (with a base year of 2018), IHS expects production figures for medium-sized and heavy trucks to shrink in China (-3.0 percent p.a.), but at the same time to grow more strongly in Europe (+4.3 percent p.a.), driven in particular by Eastern Europe. While total worldwide output increased by 0.9 percent p.a. between 2011 and 2017 according to a study by Landesbank Baden-Württemberg (source: LBBW: "Blickpunkt Automotive, Trucks fahren bald auf eigenen Wegen"), IHS now expects growth of only 0.2 percent p.a. until 2023. With regard to China, we believe that the sales potential for manufacturers of plastic components is generally more positive than the forecast development in commercial vehicle production would suggest. On the one hand, following a recent amendment to the law, more "part-intensive" long-nose trucks will be produced in the future, and on the other hand it is forecast that the new statutory emission targets coming into force in 2020 will lead to increased substitution of metal by plastic components.



Source: IHS Markit, January 2019

Slowdown in the course of the year

2018 was a good year for the commercial vehicle industry in Western Europe, the main sales market for the STS Group. According to the European Automobile Manufacturers Association (ACEA), 311,959 new medium and heavy trucks were registered in the EU in the course of the year, 3.4 percent more than in 2017. The development in the core markets of the STS Group, France (+9.1 percent), Italy (+5.0 percent) and Germany (+3.1 percent) was particularly satisfying. In recent months, however, the truck market has also experienced a slowdown in economic activity, so that STS management now expects zero growth in Europe for 2019.

Technological upheavals without negative repercussions on STS

Market development is not only influenced by macroeconomic factors, such as economic growth in general and transport volumes in particular, but also by technological trends which create additional uncertainty and make it difficult to forecast future market structure. These technological trends include automation, electromobility, digitization, and increasingly stringent regulations on fuel consumption and exhaust emissions. While manufacturers of internal combustion engines tend to be negatively affected by the trend towards electromobility and tighter emissions regulation, this is not the case with the STS Group. On the contrary, lightweight and innovative plastic materials are an essential factor in weight reduction and thus in avoiding exhaust emissions (combustion engines) and increasing range (electromobility). As the major order from a Chinese OEM in September 2018 for the supply of a battery cover for an electric vehicle model shows, there is additional growth potential for STS here.

Utilization of competitive advantages

After the organisational integration of the company was completed in 2018, the STS Group has now several competitive advantages (USPs) that will enable the company more often to be given precedence over competitors when contracts are being awarded, at least more frequently than in the past. These long-term corporate capabilities form the basis of the STS Group's strategy and positioning.

According to management, there is a very strong customer preference for **vertical integration** of the production process. The production of intermediate products in the Plastics (e.g. SMC) and Acoustics (e.g. felt mats) segments carried out by STS offers the advantage of complete control over the production processes and raw materials and, accordingly, more easily conducted quality control and swifter customization of products to customer requirements. According to management, only a few competitors possess this ability.

Flexibility regarding the size of produced batches is relevant in order to satisfy orders from customers of different sizes and to accept non-standard orders from existing customers. Given its flexibility in this respect, STS can address a wide range of customers and thus differentiate itself from larger automotive and truck parts suppliers who concentrate only on servicing customers with large series orders.

Proximity to customers and the associated global reach is beneficial to a company for at least two reasons. On the one hand, proximity during the development process is helpful in order to be able to collaborate effectively; on the other hand, price advantages can be realized through local production, especially in countries with favourable cost structures such as China, Eastern Europe, Brazil and Mexico. Many of the company's focused competitors such as Fritzmeier and Polytec (Plastics), in contrast, are active on a regional scale only.

Compared to its competitors, STS enjoys a **high flexibility regarding which technologies to use in the production process.** The possibility of offering both soft-trim and hard-trim components represents another critical USP of STS that makes it stand out from its competition.

In line with the **One-Stop-Shop approach**, since the integration of all acquisitions, customers in the commercial vehicle division have also the opportunity to procure all plastic-related preliminary products for the construction of a vehicle cabin from STS from a single source. This gives STS the opportunity to increase its **cross-selling** activities, especially as the acquisitions of recent years have significantly expanded the STS Group's customer portfolio. In September 2018, only four (less than one third) of STS's 15 largest customers had purchased both hard trim and soft trim components. To simplify cross-selling, management also centralized its sales departments in 2018.

With regard to further product development, management is also planning to use the opportunities offered by the combination of soft-trim and hard-trim products, so as to be able to tap further sales potential through **developing and marketing integrated product systems** such as the "Next Cabin".

The **order won in the summer of 2018 for the supply of front modules** for a major European commercial vehicle manufacturer with a total volume of EUR 150 m is indicative of the sales potential resulting from winning orders of a more technically complex nature. The front modules consist of almost one hundred individual components and are supplied to the customer completely from a single source.

Double-digit EBITDA margin targeted

Now that the integration has been successfully completed, STS Group is increasingly working on improving the efficiency of existing processes. Purchasing and sales have already been successfully centralised in Bavaria. Further automation and standardization within the manufacturing processes as well as consolidation and centralization, particularly in the areas of design, engineering and production, are currently being worked on. According to management, the goal of all efficiency enhancement measures is both to further improve the competitive position in the cost area and to achieve a low double-digit EBITDA margin in the long term.

Production growth in Poland

In the short to medium term, the Acoustics segment of the STS Group will benefit from the low wage costs (compared to the rest of Europe) of its Miedzyrzecz plant in western Poland, which went into operation in 2017. Last year, there were still problems in the start-up phase at this plant and correspondingly extraordinary costs in production. These will decrease in the current year. By 2021, the plant, which is currently only partially utilized, will be running at full capacity by processing orders that have already been acquired. Capacity can be further increased in the long term and additional orders that have either been newly won or previously processed in Italy - the location of the other Acoustics production facilities - can go into production at the plant.

Sales growth in China...

Concerning sales, growth within the Chinese market will be of primary importance over the next few years. Up to 50 percent of the annual additional Group-wide sales of EUR 100 m anticipated by management by 2023 are expected to result from market share gains in China. Here, the Group is strongly positioned in the production and sale of high-quality plastic parts (Plastics segment), particularly for higher-value commercial vehicles in the logistics sector; there is already a customer relationship with seven of the ten most important regional manufacturers in the commercial vehicle sector. In 2018, the opening of a new research and development centre in Wuxi near Shanghai and the acquisition of a new order for the supply of a battery cover for an electric vehicle model further underscored the company's technological leadership over regional manufacturers. With the construction of a new plant in the central Chinese province of Hubei and the recent start of production, the company is expanding its regional footprint and production capacity, setting the course for future growth. Since there is already a well-established organizational infrastructure in place and given that SMC products manufactured there are less complex, management expects a comparatively uncomplicated start-up phase.

...and North America

The STS Group has also got growth ambitions with regard to the USA. To date, there is no dedicated production facility in the country itself, so that orders will be processed in Mexico for the time being. However, the acquisition of one of the largest US commercial vehicle manufacturers as a new customer for the supply of driver cabin parts from 2020 on indicates high potential for the coming years, which could also lead to the construction of a new plant in the USA.

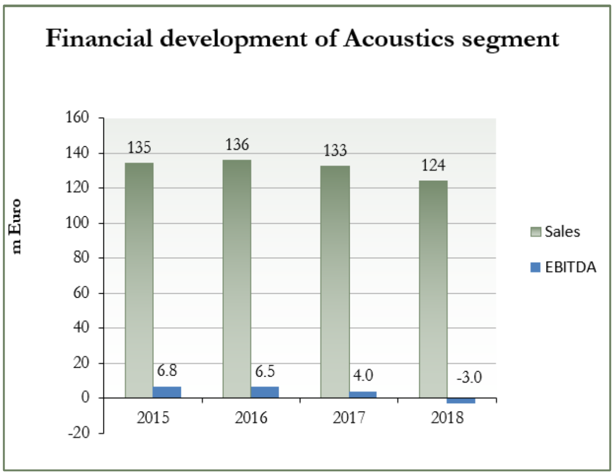
Figures

Strong inorganic growth

The STS Group has grown strongly over the last few years. While sales in 2015 amounted to EUR 134.5 m, in 2018 the Bavarians generated already EUR 401.2 m, which corresponds to an average annual growth rate of 44 percent. This growth was achieved predominantly through acquisitions and the development of new business areas, as is evident from the fact that the Acoustics division, the original core business of STS, has stagnated in recent years.

Acoustics as STS biggest headache

While sales in the Acoustics segment in 2015 amounted to EUR 134.5 m, the figure for the 2017 financial period was almost identical at EUR 132.6 m. In 2018, sales fell by 10 percent to EUR 124.4 m. This development was also reflected in the non-adjusted EBITDA margin, which was still at an acceptable level of 5.1 percent in 2015 but fell to -2.4 percent in 2018.



Source: Company

Important reasons for the worse development of the Acoustic segment are the higher exposure to the currently weaker passenger car business and the start-up costs at the new Polish plant. The latter will decrease in 2019 and provide relief. In the medium term, however, a further restructuring by relocating parts of the production from Italy to Poland is conceivable as well.

China as a growth driver

The other segments - for which pro-forma figures were published for comparison purposes due to the acquisition of new plants in 2017- developed more positively from 2017 to 2018. Sales in the China segment grew at a rate of 2.4 percent, while pro-forma sales in the Plastics and Materials segments declined moderately by -5.3 percent and -1.0 percent, respectively. Management explains the overall restrained sales momentum in 2018 by the expiry of individual orders due to the discontinuation of a model or because partners did not receive the order for a follow-up model.

Business figures (2017 pro forma)	2017	2018	*Change*
Sales	425.2	401.2	-5.7%
- Acoustics	*138.1*	*124.4*	*-9.9%*
- Plastics	*209.7*	*198.6*	*-5.3%*
China	*47.5*	*48.6*	*+2.4%*
- Material & Consoli.	*29.9*	*29.6*	*-1.0%*
Adj. EBITDA	23.73	23.68	-0.2%
- Acoustics	*3.21*	*-1.24*	*-*
- Plastics	*8.69*	*16.78*	*+91.9%*
China	*9.11*	*7.16*	*-21.4%*
- Material & Consoli.	*2.72*	*1.08*	*-60.3%*

In m Euro and percent; source: Company

In this context, it should be noted that large parts of the current Group were still managed by a different management in 2017 - particularly in the Plastics segment - and that due to the long lead times from sales activities to the start of production, which usually amount to two to four years due to the complex development processes in the industry, sales up to 2019/

2020 are still largely attributable to the performance of the predecessor management.

Plastics with improved margin

While the margin development in the Acoustics division was weak in the course of the year, as explained above, the Plastics segment in particular developed very positively with an increase in the margin of 4.3 percentage points and a near-doubling of EBITDA from 2017 to 2018. Synergies from the integration have already had a significant impact here. However, the China segment is particularly profitable, generating an adjusted EBITDA contribution of EUR 7.2 m and a margin of 14.7 percent in the same period.

Business figures (2017 pro forma)	2018 1. HY	2018 2. HY	*Change*
Sales	218.2	182.8	*-16.2%*
- Acoustics	*68.6*	*55.8*	*-18.6%*
- Plastics	*107.2*	*91.4*	*-14.8%*
China	*26.0*	*22.7*	*-12.6%*
- Material & Consoli.	*16.5*	*13.2*	*-20.2%*
Adj. EBITDA	16.50	7.18	*-56.5%*
- Acoustics	*1.03*	*-2.27*	*-*
- Plastics	*11.12*	*5.55*	*-50.1%*
China	*4.45*	*2.71*	*-39.2%*
- Material & Consoli.	*-0.11*	*1.19*	*-*

In m Euro and percent; source: Company

Seasonality partly responsible for weak H2 figures

The direct comparison between 2017 and 2018 shows that STS Group's revenues and profits showed a seasonality in both 2017 and 2018. Management explains this with the way the company's products are delivered to customers. The just-in-time philosophy in the automotive industry leads to lower sales due to the lower number of working days on the customer side during the third and fourth quarters (summer holidays in France and Italy, Christmas season in the fourth quarter). In 2018, sales in the second half of the year were 16 percent lower than in the first six months. This also resulted in a significantly lower H2 margin (adj. EBITDA 3.9 percent instead of 7.6 percent). However, the second half of 2018 was also weak in relative terms. For comparison; in the previous year 2017, sales in the second half of the year were 8 percent below those of the first half.

Source: Company

While the decline in sales in all segments was at a similar level between 13 percent (China) and 19 percent (Acoustics), margins declined by 4 to 5 percentage points across all major segments. In 2017, the seasonal decline in margins was only 2 percent. In addition to seasonal factors, the second half of 2018 also saw operating declines due to the expiry of a major order in the plastics segment and the poor automotive economy in Italy, which was reflected in lower call-off figures.

Development of costs in 2018

A look at the Group's cost structure for 2018 shows that variable costs are estimated to account for around two thirds of total operating expenses, with fixed costs accounting for the remainder. Variable costs include the cost of materials of 58 percent relative to sales as well as parts of other operating costs, including - among others - logistics costs. Personnel costs (28 percent), depreciation (3.3 percent) and other operating expenses, such as rental costs, can be regarded as fixed costs that can only be influenced in the medium to long term. A direct comparison of the cost types for 2017 and 2018 is not possible, as no pro-forma figures were reported at cost type level. However, a comparison of the non-adjusted figures shows an improvement in the cost of materials ratio from 61 percent to

58 percent, which should be attributable at least partly to an improvement in purchasing and efficiency increases.

Business figures (reported)	**2017**	**2018**	***Change***
Adj. EBITDA	14.17	23.68	*+67.1%*
EBITDA	55.04*	11.88	*-78.4%*
EBIT	46.9*	-1.3	-
Net profit	47.0*	-4.8	-

** includes non-operating income, in particular bargain purchase in the amount of EUR 47 m*

In m Euro and percent, source: Company

Significant extraordinary items

Reported adjusted EBITDA increased by more than two thirds to EUR 23.7 m in 2018. The adjustments of EUR 11.9 m resulted primarily from the costs of the IPO, legal and consulting costs, and restructuring costs. Taking these into account, reported EBITDA fell by 78.4 percent to EUR 11.9 m. This development is mainly attributable to the recognition of a bargain purchase (income from the purchase of assets below market value) in the amount of EUR 47 m in the previous year. This effect was also reflected in EBIT (from EUR 46.9 m to EUR -1.3 m) and net profit (from EUR 47.0 m to EUR -4.8 m).

Cash flow development

The last two years were characterised by a high positive financial cash flow for the company. While a balance of EUR 39.2 million was drawn in this segment in 2017, primarily through factoring of trade receivables, the IPO in 2018 generated gross proceeds of EUR 24 m, thus enabling a further inflow of EUR 22.1 m. However, operating cash flow also improved from EUR -8.7 m to EUR 7.1 m within the space of a year, primarily due to a decline in trade receivables and other assets and receivables. By contrast, EUR 13.9 m (previous year: EUR -17.2 m) was used for investment purposes. With liquidity of around EUR 33 m at the reporting date, the company currently has a sufficiently comfortable liquidity buffer to finance its planned future investments of EUR 15 m p.a.

Equity ratio of 30 percent

Regarding the structure of the balance sheet, equity of EUR 82.4 m was offset by liabilities of EUR 191.4 m at the end of the last financial year. This results in a solid equity ratio of 30 percent.

Equity Story

Integration complete

Within just a few years, the STS Group has developed into a leading automotive supplier in the plastics sector. With the acquisitions in 2016 and 2017, management was able to significantly expand the product range and lay the foundation for global internationalization. The integration of these acquisitions was completed in 2018, allowing the company to work on generating further synergies and pushing customer acquisition in existing markets as well as new markets, such as China and the USA.

Playing out the Group's advantages

After the completion of the integration, STS Group has a performance profile that is superior to that of its competitors and that will enable the company to be more successful in awarding contracts from commercial vehicle OEMs in the future. The company operates globally, produces its own intermediate products, is flexible with regard to batch size and production technology and is the only automotive supplier capable of producing both hard-trim and soft-trim products and combining them in integrated systems. These competitive advantages offer the opportunity for a successful order acquisition and a further growth spurt from 2020.

Growth outside Europe

The acquisition of plants in Mexico, Brazil, and China enables STS to act as a one-stop shop for global customers throughout the world. At the same time, the Group plans to use the know-how developed in Europe to grow aggressively in these new regions. In the current year, STS Group will open a new plant in China, laying the foundation for the next stage of growth. The company benefits from its quality lead over its regional competitors and does not rule out opening further plants or expanding existing plants in the coming years. We have not yet fully taken this potential into account in the valuation, as we simply assume that sales will increase proportionately until 2023 following the opening of the new plant (sales in 2018 with two plants: EUR 50 m; sales in 2023 with three plants: EUR 80 m).

Low valuation

With the price correction of around two thirds since the IPO, the valuation of STS has fallen significantly, especially as there is no equivalent clouding of the outlook. Compared to peers active in the same industry the company appears to be inexpensively priced with an EV/EBITDA multiple of 4.0x for 2018. Polytec, an Austrian competitor that is active in the hard-trim sector and belonging to a similar sales category with 2018 sales of EUR 637 m, has a multiple of 4.6x; while larger automotive suppliers such as Leoni, ElringKlinger and SAF Holland exhibit a much higher average multiple of 6.2x.

Margin improvement

Most of the company's price potential results from the possibility of raising profitability to a level customary in the industry. With an EBITDA margin (adjusted) of 5.9 percent for 2018, the company is currently relatively unprofitable compared to peer companies, which have an average margin of around 10 percent. Last year, however, the company impressively demonstrated that it is capable to make massive improvements in efficiency. The Plastics division generated a margin of 8.4 percent in 2018, compared with 4.1 percent in the previous year. Polytec generated an EBITDA margin of 10.3 percent in 2018 (previous year 12.2 percent). The company has thus managed to significantly reduce the performance gap between the Plastics segment and its competitor within one year. Nevertheless, there is still room for improvement, especially in the other areas. For instance, the Acoustics division should benefit from the availability of the new plant in Poland, which will also allow parts of production to be relocated from Italy. In the coming years, not only the degree of capacity utilization, but also the cost efficiency of the plant should increase - this also applies to the other plant in China. In addition, the advantages of centralization should become even more noticeable, for example in purchasing. Overall, this provides a good basis for margin improvements in the coming years.

DCF Valuation

2018 in line with expectations

Total sales for 2018 of EUR 401 m were in line with management's expectations, which had forecast a 30 percent increase in revenues (based on EUR 310 m) in the middle of the year. In terms of earnings development, management expected a significant increase in reported adjusted EBITDA, which, as discussed in the previous chapter, was also achieved.

Revenue forecast 2019

It can therefore be assumed that the sales pipeline built up in the past was considered in management's forecasts and that the sales guidance of EUR 400 m issued for 2019 is thus well secured, with below-schedule call-off figures representing a normal industry risk. With regard to the development of the operating profit, management expects a result at the previous year's level of EUR 23.7 m. The special costs incurred in the previous year for the IPO, legal and consulting costs and severance costs should no longer be incurred this year. As no other extraordinary costs are forecast either, reported EBITDA is expected to be at the same level and thus double in relation to 2018.

Special adjustment due to first-time adoption of IFRS 16

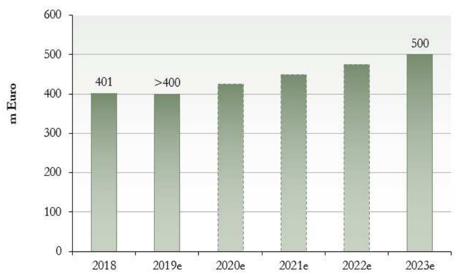
In 2019, the STS Group will implement the provisions of IFRS 16 on accounting for operating leased assets for the first time. These not only result in an increase in the balance sheet total, but also shift rental and leasing payments from the operating area to the financial result, which ceteris paribus leads to an improvement in EBITDA. We estimate that this will increase operating profit by around EUR 2 m. Adjusted for this special effect, management is therefore obviously conservative in its calculation of a slight reduction in the margin, which we estimate will decline from 5.9 to 5.4 per cent on a like-for-like basis.

EBTIDA forecast conservative

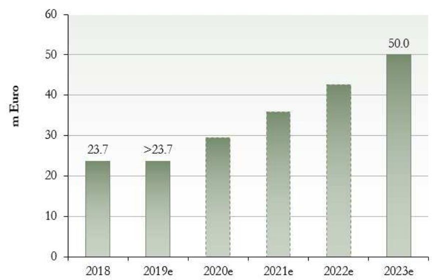
We interpret this EBITDA forecast of the management as conservative, especially against the background of the forecast sales development and the cost reduction potential. Since management's planning assumes - at a constant sales level - a continuous improvement of the processes and a largely smooth start-up of production in China, the price pressure in the industry should be more than compensable. Especially as further growth is expected in the high-margin Chinese business.

Medium-term planning STS Group (2018-2023)

Sales development



Development of Adj. EBITDA



Source: Company

Moderate decline in sales in 2019...

We assume that Group revenues will decline slightly in the current year. While business in China is currently growing moderately due to gains in market share and new orders have already been announced, revenues in the other segments have recently been declining, as shown by the analysis of intra-year results above. In addition, orders have a long lead time. Since large parts of the Plastics segment were only acquired in 2017 and integrated in 2018, the strategic advantages of the new integrated global structure are only now likely to really take effect in the sales process. For this reason, we do not expect any additional sales due to strategic advantages to be generated before 2020. For the current year, we anticipate Group revenues of EUR 391.8 m.

... but strong EBIT improvement

We expect the continuous improvements in efficiency to lead to a significant increase in the operating margin in the medium term but are – for the time being – still cautious with regard to 2019. This is due to a number of conflicting factors. On the one hand, we assume sales to decrease and additional start-up cost to be incurred due to the opening of a new factory in China this year. On the other hand, there are no longer any major special costs to be incurred in Poland, and the higher capacity utilization of the plant should result in rising margins. At Group level, we expect personnel expenses to decline slightly as a result of efficiency improvements. The cost of materials ratio, which has already fallen considerably from 2017 to 2018, is likely to continue to fall. Overall, we expect a constant EBITDA margin (adjusted) of 5.9 percent for the current year, including the positive effect from the application of IFRS 16. On this basis, excluding further exceptional charges, we see a strong improvement in reported EBIT from EUR -1.3 m to EUR 9.7 m.

Optimistic medium-term planning

In the medium term, the company is aiming for a strong increase in both revenues and the EBITDA margin. Management has set itself the target of growing by 4.5 percent p.a. until 2023, increasing sales by EUR 100 m from EUR 400 to 500 m. At the same time, the EBITDA margin is expected to rise to over 10 percent, which corresponds to a EBITDA of EUR 50 m and thus almost doubles the current operating profit. About half of this growth is expected to come from new orders from China. Fur-

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales	**391.8**	**400.3**	**409.5**	**427.6**	**447.1**	**468.1**	**490.7**	**515.0**
Sales growth	-2.4%	2.2%	2.3%	4.4%	4.6%	**4.7%**	**4.8%**	**5.0%**
EBIT margin	2.5%	3.2%	3.8%	4.3%	4.9%	**5.0%**	**5.0%**	**5.1%**
EBIT	**9.7**	**13.0**	**15.4**	**18.5**	**21.8**	**23.2**	**24.6**	**26.1**
Tax rate	29.0%	29.0%	29.0%	29.0%	29.0%	**29.0%**	**29.0%**	**29.0%**
Adjusted tax payments	2.8	3.8	4.5	5.4	6.3	**6.7**	**7.1**	**7.6**
NOPAT	6.9	9.2	10.9	13.1	15.5	**16.5**	**17.5**	**18.5**
+ Depreciation & Amortisation	13.3	13.4	13.5	13.7	14.0	**14.3**	**14.7**	**15.2**
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
+ Others	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Gross operating cash flows	**20.2**	**22.6**	**24.5**	**26.9**	**29.5**	**30.8**	**32.2**	**33.7**
- Increase Net Working Capital	1.2	-1.1	-1.2	-2.3	-2.5	**-2.7**	**-2.9**	**-3.1**
- Investments in fixed assets	-15.0	-15.3	-15.7	-16.4	-17.1	**-17.9**	**-18.8**	**-19.7**
Free cash flow	**6.4**	**6.2**	**7.6**	**8.2**	**9.9**	**10.2**	**10.5**	**10.9**

SMC valuation model

thermore, the management expects additional orders in the Plastics/SMC area from North America.

More conservative valuation scenario

Our valuation is based on a more conservative scenario. This is due to the lack of market growth, the recent negative trend in the Acoustics division and the lack of vigour in the Plastics division during the past year. The growth expected by the company appears to be possible, especially in view of the competitive advantages gained through the acquisitions of recent years and additional initiatives such as increased cross-selling. For a more aggressive forecast of sales development, however, it would be important for us to first see a trend reversal in the development of the quarterly figures.

China: growth of 10 percent p.a.

Following the opening of the third production facility in the current year, we expect sales in the China segment to grow to EUR 80 m by 2023, which means continuous growth of 10 percent p.a. For the Plastics and Materials segment, we are cautiously optimistic and expect conservatively estimated growth of 2 percent p.a. until 2021, while for the Acoustics segment, against the background of developments in recent years, we estimate an annual decline by 1 percent p.a. until 2023, which is a very cautious approach given the potential in Poland.

From 2021 growth from cross-selling

From 2021 on, we expect an additional growth spurt of 2 percentage points per year in all segments in order to better reflect the additional sales potential resulting from newly developed products and cross-selling. In total, we expect consolidated sales in 2023 to be around EUR 450 m, which is slightly more than 10 percent below corporate planning.

Significant margin improvement

With regard to margin development, we expect an improvement of around 2.2 percentage points to 8.0 percent by 2023. The strong margin improvement in the Plastics business during 2018 showed that management can successfully implement operational improvement programs. In the area of purchasing (material costs), we see a further savings potential of 0.6 percentage points for the future. The more important driver, however, is personnel costs with an estimated improvement potential of 1.6 percentage points. Growth in China alone will improve the personnel cost ratio by about one percentage point due to the changed regional mix and lower personnel costs in China. A further improvement of 0.6 percentage points over the entire period appears realistic, particularly in view of the opportunities arising from the improved capacity utilisation of the site in Poland. The development of the key cash flow indicators up to 2025 resulting from this model can be seen in the table on the previous page; further details on the balance sheet, income statement and cash flow statement can be found in the Annex.

Safety discount for terminal value

At the end of the detailed forecast period, we apply a safety discount of 25 percent (to 3.8 percent) on the EBIT margin to calculate the terminal value and calculate subsequently with a perpetual cash flow growth of 1.0 percent.

Discount rate 8.1 percent

We discount the free cash flows resulting from these assumptions with WACC (Weighted Average Cost of Capital) at an interest rate on borrowed capital of 6.0 percent. The cost of equity is determined using the Capital Asset Pricing Model (CAPM). Our risk-free interest rate is – at 2.5 percent – the average value of German current yield, the market risk premium of 5.4 percent is set to an average value adequate for Germany (source: Pablo Fernandez, Javier Aguirreamalloa and Luis Corres: Market risk premium used in 82 countries in 2012: a survey with 7,192 answers). Combined with a beta of 1.5 and a target debt ratio of 40 percent, this results in a WACC rate of 8.1 percent.

Target price: EUR 15.10 per share

In our favourite scenario (perpetual growth 1.0 percent, WACC 8.1 percent), these assumptions add up to a market value of equity of EUR 90.7 m. This corresponds to EUR 15.11 per share, from which we derive a price target of EUR 15.10. On this basis, we see currently a price potential of more than 80 percent.

High estimation risk

In addition to the fundamental fair value calculation, we assess the estimation risk on a scale from 1 point (very low) to 6 points (very high). The valuation of the company is heavily dependent on management's ability to reduce the material and personnel cost ratio and, in particular, to make the Acoustics segment so profitable that the company's overall profitability approaches the industry average. While in the recent past great progress has been made in improving profitability, the last quarterly figures have been disappointing. Overall, the company only has a comparably short history, which increases the estimation uncertainty. On balance, we therefore rate the forecast risk at 5 points as above average at the moment, although the high order backlog offers a fairly good planning basis.

Sensitivity analysis

For our sensitivity analysis, we have varied the input parameters WACC and perpetual growth. The calculated fair value lies between EUR 11.70 per share in the most restrictive case (WACC of 9.1 percent and perpetual growth of 0 percent) and EUR 20.70 in the most optimistic case.

Sensitivity analysis	perpetual cash flows growth				
WACC	2.0%	1.5%	**1.0%**	0.5%	0.0%
7.1%	20.70	20.00	19.50	19.00	18.60
7.6%	17.90	17.50	17.10	16.80	16.50
8.1%	15.60	15.40	**15.10**	14.90	14.70
8.6%	13.70	13.50	13.40	13.20	13.10
9.1%	12.00	11.90	11.80	11.80	11.70

Conclusion

Last year, the STS Group successfully managed to make the leap to the stock exchange. With the organisational integration of the parts of the company taken over in the past concluded, the foundations for the realisation of numerous sales and cost synergy opportunities are now laid.

With an unadjusted EBITDA margin of 3 percent in 2018, Group-wide profitability was below average. However, the Plastics segment showed first improvements with an increase in the margin of 4.2 percentage points compared to the previous year.

In addition, the exceptional charges of EUR 11.8 m that were incurred last year will be eliminated this year, which will have a correspondingly positive impact on the (unadjusted) EBITDA margin and cash flow.

In our opinion, the opening of a third production facility in China and the foreseeably higher capacity utilization of the Polish plant that went into operation in 2017 indicate a promising development for the future.

In the medium term, the company should benefit from the synergies resulting from the integration of the competences located in the company divisions. Cross-selling, the development of integrated products, the improved geographical footprint and the use of economies of scale in corporate functions are all expected to have a positive effect on sales and margins, albeit one that is currently difficult to quantify.

We take a somewhat more critical view on the latest development in the Acoustics segment, for which no turnaround is yet in sight. Group sales in the second half of 2018 were also a minor disappointment overall, despite seasonal effects. Furthermore, there is a strong dependence on the willingness to invest and the development of the motor vehicle industry as a whole. By contrast, the long-term nature and predictability of orders and the high order backlog (EUR 1.9 billion) are risk-reducing factors.

In conclusion, the company is currently still at the beginning of a long-term efficiency improvement and growth process that is still subject to considerable uncertainty. Following the IPO in June last year, the company's share price fell sharply, which in our opinion is partly due to the fact that 2018 was still dominated by the organisational integration of the company and that short-term successes in organic sales development were therefore not yet to be reported.

However, the recent successes in order acquisition, together with additional successes we assume to be achieved in the near future, will be reflected in a stronger revenue development in the medium term. We expect this development to go along with higher margins. We have represented this in our model and determined a fair value of EUR 15.10 per share despite a conservative approach. Based on a price potential of more than 80 percent, we rate the share as a "speculative buy", with the speculative character resulting primarily from the fact that the value of the company depends to a large extent on margin improvements in the future.

Annex I: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
ASSETS									
I. Total non-current	115.6	117.4	119.3	121.4	124.1	127.2	130.8	134.8	139.4
1. Intangible assets	25.6	21.8	18.7	16.0	13.6	11.7	10.0	8.5	7.3
2. Tangible assets	78.8	84.2	89.3	94.2	99.1	104.2	109.5	115.0	120.8
II. Total current assets	158.2	157.1	161.3	166.5	174.7	184.4	194.8	205.8	217.7
LIABILITIES									
I. Equity	82.4	86.4	92.7	100.8	111.3	124.4	138.7	154.1	170.8
II. Accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
III. Liabilities									
1. Long-term liabilities	39.2	38.3	37.5	36.3	34.9	33.0	31.0	28.9	26.6
2. Short-term liabilities	152.3	149.8	150.4	150.8	152.6	154.2	155.9	157.7	159.7
TOTAL	**273.8**	**274.4**	**280.6**	**287.9**	**298.8**	**311.6**	**325.5**	**340.7**	**357.1**

P&L estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales	401.2	391.8	400.3	409.5	427.6	447.1	468.1	490.7	515.0
Total operating revenues	407.0	391.8	400.3	409.5	427.6	447.1	468.1	490.7	515.0
Gross profit	173.2	167.2	171.4	175.8	184.1	193.1	202.1	211.9	222.4
EBITDA	11.9	23.0	26.4	28.9	32.3	35.8	37.5	39.3	41.3
EBIT	-1.3	9.7	13.0	15.4	18.5	21.8	23.2	24.6	26.1
EBT	-3.3	5.6	8.9	11.4	14.8	18.4	20.2	21.8	23.5
EAT (before minorities)	-4.8	4.0	6.3	8.1	10.5	13.1	14.3	15.5	16.7
EAT	-4.8	4.0	6.3	8.1	10.5	13.1	14.3	15.5	16.7
EPS	-0.80	0.66	1.06	1.35	1.75	2.18	2.38	2.58	2.78

Annex II: Cash flows estimation and key figures

Cash flows estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
CF operating	7.1	20.7	20.9	22.6	24.0	26.6	27.9	29.1	30.4
CF from investments	-13.9	-15.0	-15.3	-15.7	-16.4	-17.1	-17.9	-18.8	-19.7
CF financing	22.1	-4.0	-3.9	-4.6	-4.9	-5.8	-5.9	-6.0	-6.2
Liquidity beginning of year	15.8	31.2	32.9	34.5	36.9	39.7	43.4	47.4	51.7
Liquidity end of year	31.2	32.9	34.5	36.9	39.7	43.4	47.4	51.7	56.2

Key figures

percent	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales growth	29.4%	-2.4%	2.2%	2.3%	4.4%	4.6%	4.7%	4.8%	5.0%
EBITDA margin	3.0%	5.9%	6.6%	7.1%	7.5%	8.0%	8.0%	8.0%	8.0%
EBIT margin	-0.3%	2.5%	3.2%	3.8%	4.3%	4.9%	5.0%	5.0%	5.1%
EBT margin	-0.8%	1.4%	2.2%	2.8%	3.5%	4.1%	4.3%	4.4%	4.6%
Net margin (after minorities)	-1.2%	1.0%	1.6%	2.0%	2.5%	2.9%	3.1%	3.1%	3.2%

Disclaimer

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10) sc-consult GmbH has included the company's shares in a virtual portfolio managed by sc-consult GmbH

Following conflicts of interests occurred in this report: 1), 3), 4)

Within the framework of compliance regulations, sc-consult GmbH has established structures and processes for the identification and disclosure of conflicts of interests. The responsible compliance representative is currently managing director Dipl.-Kfm. Holger Steffen (e-mail: holger.steffen@sc-consult.com).

II) Preparation and updating

The present financial analysis was prepared by: Dr. Bastian Brand

Participants in the preparation of the present financial analysis: Dipl.-Kfm. Holger Steffen

The present analysis was finished on 15.04.2019 at 7:40 am and published on 15.04.2019 at 7:50 am.

For the preparation of its financial analyses, the sc-consult GmbH uses a five-tier rating scheme with regard to price expectation in the next twelve months. Additionally, estimation risk is quantified on a scale from 1 (low) to 6 (high). The ratings are as follows:

Strong Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).
Hold	We expect that the price of the analyzed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating "hold" is also used in cases where we perceive a price potential of more

	than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analyzed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:
http://www.smc-research.com/impressum/modellerlaeuterungen

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: http://www.smc-research.com/publikationsuebersicht

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Rating	Target price	Conflict of interests

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: two updates and up to three comments

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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