Research report (Anno)

2018 financial year closed with a solid operating performance and further cost structure improvement

-

Strong market positioning in the rail industry growth sector and current record order backlog enabling long-term profitable growth

-

Significant increase in profitability using economies of scale as part of the growth path pursued

Target price: € 3.85 (previously: € 3.62)

Rating: Buy

IMPORTANT INFORMATION:
Please note the disclaimer/risk notice as well as the disclosure of potential conflicts of interest according to Section 85 of the German Securities Trading Act (WpHG) and Art. 20 MAR from page 22

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

English version
Date and time of completion of the report: 04/06/2019 (09:24 am)
Date and time of the first distribution: 04/06/2019 (10:30 am)
Validity of the price target: until max. 31/12/2019

German version
Date and time of completion of the report: 16/05/2019 (09:15 am)
Date and time of the first distribution: 16/05/2019 (10:00 am)
Validity of the price target: until max. 31/12/2019

GBC AG Investment Research

SBF AG*5a;5b;6a;7;11

Rating: Buy
Target price: € 3.85
(previously: € 3.62)

Current price: € 2.38
15/05/2019 (Frankfurt, closing price)
Currency: EUR

Master data:

ISIN: DE000A2AAE22
WKN (German Securities Code): A2AAE2
Ticker symbol: CY1k
Number of shares³: 7.84
Marketcap³: 18.66
EnterpriseValue³: 19.33
³ in m / € million
Freefloat: 22.67%

Transparency level: m:access
Market segment: Open market
Accounting: HGB (German Commercial Code)

Financial year: 31/12/

Lead brokers:
Baader Bank AG

Analysts:

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Cosmin Filker
filker@gbc-ag.de

* Catalogue of potential conflicts of interest on page 23

Corporate Profile

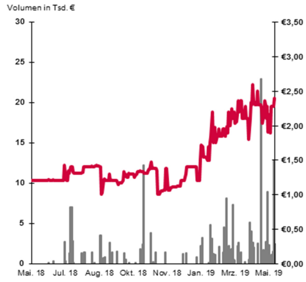
Segment: Operating holding company (holdings)

Core holding: SBF Spezialleuchten GmbH

Employees at SBF AG: 2 (as at: May 2019)
Employees at SBF Spezialleuchten GmbH: approx.125 (as at: May 2019)

Registered office: Leipzig; established: 2002

Management Board: Rudolf Witt, Robert Stöcklinger



SBF AG (SBF) is an operating holding company, which focuses on medium-sized companies in German-speaking countries. SBF and its holdings operate in the mobility sector, particularly in the rolling stock industry. SBF acts as a holding company, while its subsidiary SBF Spezialleuchten GmbH constitutes the operating side of the business and the material interest of the holding company.

SBF Spezialleuchten GmbH has a long history (first business activities around 1862) and a strong client base comprising well-known major clients. In recent years, the Group has received an eight-figure investment for development and the company has expanded to become the market leader in ceilings and lighting systems for rolling stock in Europe.

P&L in m EUR\ FY-end	31/12/2018	31/12/2019e	31/12/2020e	31/12/2021e
Revenue	14.70	17.70	19.50	22.40
EBITDA	2.21	2.42	2.78	3.55
EBIT	1.58	1.67	1.93	2.55
Net result (EAT)	1.39	1.43	1.60	2.13
EPS	0.18	0.18	0.20	0.27

Valuation multiples				
EV/Revenue	1.31	1.09	0.99	0.86
EV/EBITDA	8.75	7.99	6.95	5.44
EV/EBIT	12.23	11.57	10.02	7.58
PE-Ratio	13.42	13.05	11.66	8.76
PB-Ratio	1.61			

Financial dates
03/06/2019: General meeting in Munich
July/Aug. 2019: Half-yearly report 2019

** last research publishes by GBC:
Date: publication / price target in EUR / Rating
06/03/2019: RS / € 3.62 € / Buy

** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D86150 Augsburg

EXECUTIVE SUMMARY

- The SBF Group generated revenues of €14.7 million in the 2018 financial year, falling below the previous year's result of €19.53 million due to consolidation phases. According to the company, the lowest revenue results are expected to be achieved after this decline, and as such, the company expects revenue and earnings figures to increase starting in the 2019 financial year. At the operational level, the company achieved an operating result (EBIT) close to the previous year's level at €1.58 million (previous year: €1.67 million) despite an expected decline in revenue. Net profits also grew slightly to €1.39 million in the 2018 financial year due to an improved financial result (previous year: €1.36 million).

- In the course of publishing its consolidated financial statements (FY 2018), SBF announced that it had a high order backlog of around €31 million (as at: March 2019) and other proposals were also pending. We assume that these proposals are several times the size of the current order backlog and thus open up further significant business potential. For the current 2019 financial year, SBF AG expects its core holding SBF Spezialleuchten GmbH to achieve a revenue of €17 million and a profit before tax (EBT) of €2 million.

- After the consolidation phase of the last few years, the company is now in growth mode and is striving to expand its business model as a system provider for the railway technology industry. This is reflected, for example, in the high order backlog announced by the company and the planned investment initiative. Expanding the range of products and services offered, increasing vertical integration and increasing internationalisation are key elements of SBF's growth-orientated corporate strategy in pursuit of this objective.

- As part of the adopted growth trajectory, the company should be able to profit from the increased investments that are expected to be made in the global railway technology sector. A study conducted by SCI Verkehr found that the current market volume for the global railway technology market is €183 billion. Researchers expect an average future market growth of 2.8% (CAGR) for this segment by 2022. The planned regional expansion into new railway technology markets and the planned increase of vertical and horizontal integration should also have a positive impact on future business development.

- On this basis, we expect a profitable growth phase to begin in the current 2019 financial year which, according to our calculations, should amount to €17.7 million, €19.5 million and €22.4 million in revenue for the current 2019 financial year as well as 2020 and 2021 respectively. With strong revenue growth expected and developing economies of scale, net earnings should also rise significantly to €1.43 million, €1.6 million and €2.13 million respectively.

- **Given the Group's strong market positioning and growth path, as well as the increased investments that are expected to be made in the global railway technology sector, we have evaluated SBF AG using our DCF model, leading us to calculate a fair value of €3.85 per share (previously: € 3.62 per share). On the basis of the current share price level, we are expecting high price potential and have again awarded the shares a "Buy" rating.**

Note: In addition to the 2018 figures, which were slightly better than expected, we have increased our stock target price particularly based on the roll-over effect from systematically including the next estimate period in our valuation model.

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Company

Core holding SBF-Spezialleuchten GmbH at a glance

Leading

Technology and market leader in the area of ceiling and lighting systems for rail vehicles in Europe, as Tier-1-supplier, system provider & development partner

Experienced

Reference projects:
Glacier Express, CH
Suburban railway Munich, DE
Desiro City Thameslink, UK
ICE 4, DE
Transrapid Shanghai, CN

International

Chinese Joint Venture „SBF Xian" secures International procurement resources and markets. UK and USA in preparation.

Headquarters

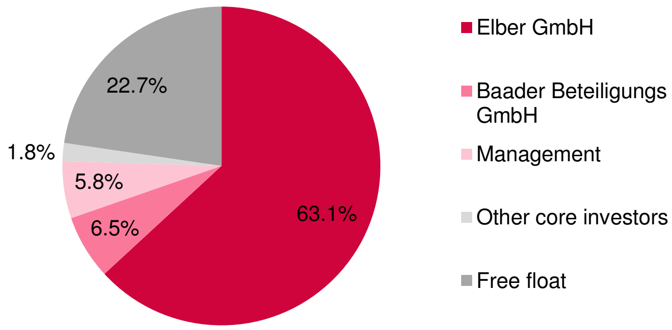
Leipzig with about 125 employees

Source: SBF AG

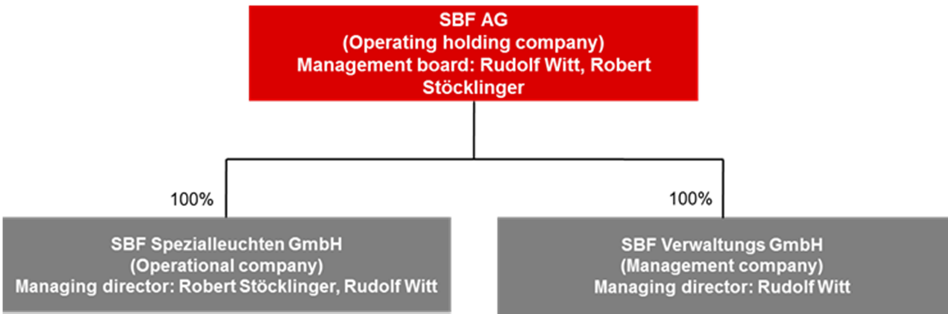
Shareholder structure

Shareholder in %*	As at: May 2019
Elber GmbH	63.15%
Baader Beteiligungs GmbH	6.55%
Management	5.80%
Other core investors	1.84%
Free float	22.67%

Source: Estimates by GBC AG *according to the 2018 AGM attendance list



Corporate structure as at 31/12/2018



Sources: SBF AG; GBC AG

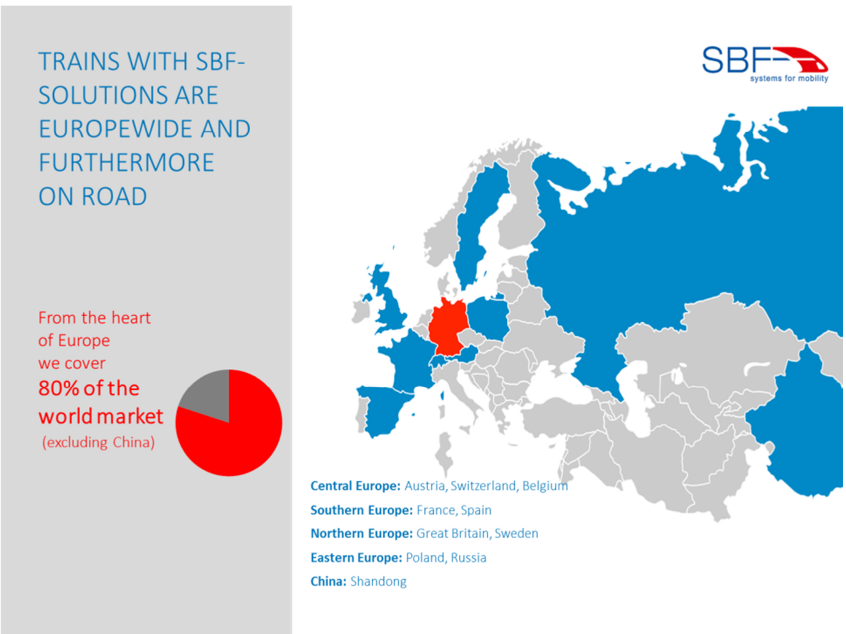
As an operating holding company, SBF AG owns the two subsidiaries SBF Spezialleuchten GmbH and SBF Verwaltungs GmbH. As it currently stands, SBF Spezialleuchten GmbH is the only subsidiary that is an operational business. This subsidiary was created from the transfer of business operations from the previous company SBF Spezialleuchten Wurzen GmbH. The company also has a Chinese joint venture called "SBF Xian" (5% shareholding) which secures international procurement resources and markets.

Business model

SBF AG is an operating holding company whose primary focus is SBF Spezialleuchten GmbH. The core holding's competitiveness in particular is expected to be deeply enhanced over the long term within the framework of investment management. There are currently no other operational subsidiaries besides SBF Spezialleuchten GmbH, so the following information is primarily related to this subsidiary.

Reference customers

Where do trains run with SBF solutions?



Source: SBF AG

Range of services and reference projects

According to the operating subsidiary's own data, SBF Spezialleuchten GmbH (SBF) is the technology and market leader in ceiling and lighting systems for rolling stock in Europe. The company is a full-service provider (system supplier) for ceiling, lighting and ventilation systems in the railway sector, becoming a specialist in LED-based lighting technology (LED systems) for the interior and exterior of rail vehicles of any type, from suburban railway to regional and high-speed trains. SBF is also a development partner of rolling stock manufacturers, an original equipment manufacturer (OEM) and Tier-one supplier for the rail industry.

SBF-Spezialleuchten product range

Ceiling systems
- Plastic, aluminium and composite ceiling systems
- Lighting in LED or T5 technology, usually supplemented by spots on request

Interior lighting & equipment
- Direct/indirect LED or T5 general lighting
- White or colored spots
- Et al. camera modules, extinguishing nozzles, loudspeakers can be integrated
- Dynamic lighting
- Luggage racks and handrails

Air ducts
- Ventilation systems with hot and cold air
- Closed system or integrated in ceiling system
- Air ducts are thermally separated and flow optimized

Exterior lighting
- Halogen-LED combination lights, full LED headlights to LED module kit
- Depending on model: Warning and tail lights, Headlamp function full-surface window heating

Source: SBF AG

Selected reference projects

Stadler Rail

RhB Albula

7 new articulated trains on the Albula line in the canton of Graubünden (144 bridges & 42 tunnels)

The dynamic lighting developed by SBF makes it easy for passengers to switch between darkness and bright daylight

Bombardier

Talent 2

Electric trains with up to 160 km/h

Modular design concept for use as tram or regional train

SBF supplies steel ceiling systems and air ducts for the STS, RME, MD2 and NGM series

Siemens

Velaro D

High-speed trains based on the Velaro plattform

Significantly improved comfort and increased energy efficiency

SBF supplies illuminated luggage carrier flaps as well as the complete interior lighting system in T5 fluorescent and LED technology

Deutsche Bahn

ICE 3 Redesign

After 15 years of service, all 66 trains of the ICE 3 fleet receive a new interior design.

Modernization campaign until the end of 2020

SBF supplies new plastic covers, luggage carrier flaps and light carriers

Source: SBF AG

MARKET AND MARKET ENVIRONMENT

The rail industry in general

SBF AG operates its business in the mobility sector with a focus on the European rail industry in particular. The company's most important market is its home market of Germany, while neighbouring Switzerland is also a significant sales region for the company.

The global railway technology market is generally an area of growth and is supported by strong long-term influencing factors. Urbanisation in particular creates increasing demand for infrastructure, rolling stock and signalling technology, especially in emerging markets. In addition to urbanisation, developed markets, such as the German railway technology market, are primarily driven by growing environmental concerns, as well as projects that aim to renovate and modernise the existing infrastructure and rolling stock.

One example of this can be seen in the progress being made by the German Green Party (*Die Grünen*) and environment-oriented parties around the world, which will promote the industry as a result. In addition, a clear trend towards increased environmental protection can be identified in EU environmental policy which has far-reaching impacts. For example, this has affected the automotive industry through the tightening of EU exhaust emission limits and CO_2 emissions requirements (diesel scandal). The EU environmental policy measures are aimed at transitioning to a resource-efficient, environmentally friendly and competitive low carbon economy, as well as protecting European citizens from adverse environmental impacts, health risks and negative effects on their quality of life. It should be highlighted in this context that the rail industry has already reached these goals with its carbon-neutral mobility, whereas the automotive industry is still in the process of making the necessary changes.

The new rail policy of the German coalition parties CDU and SPD is also expected to give the German rail industry additional momentum. For example, as part of the parties' coalition agreement, the new German Federal Government is largely seeking to expand passenger and freight rail transport to meet the goals set out in the agreement to shift traffic from road to rail. To promote this transition, the Federal Government created the "Zukunftsbündnis Schiene" which is an alliance of political actors, operators and industry actors working together towards the rail of tomorrow.

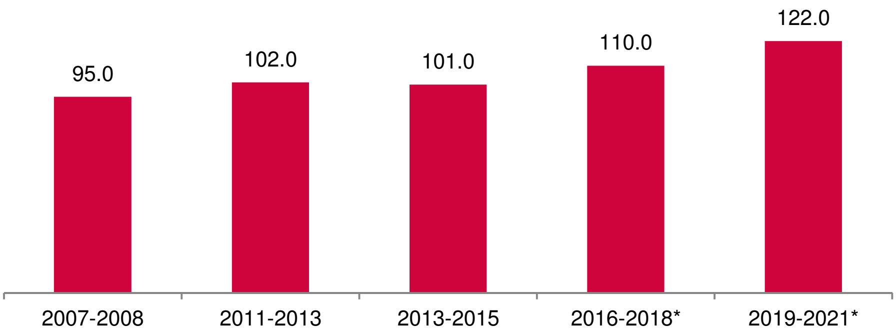
The railway sector is generally characterised by a modest number of train manufacturers, such as Siemens, Alstom and Bombardier, which rely on a vast number of suppliers for individual components or systems to produce rolling stock. SBF AG is among these suppliers of railway technology. The majority of train manufacturers operate internationally and primarily occupy a very dominant position in their home markets and those of their neighbouring regions.

In addition, train manufacturers generally receive very specific and sophisticated product and system solutions from their suppliers (high level of customer specification). As a general rule, they prefer to select system suppliers with high output. There is also a trend among train manufacturers towards reducing their own vertical production depth, which makes suppliers increasingly important.

Rail transport and the global rail industry

Increased investments in railway technology are being observed against a backdrop of strong growth in the global rail sector over the last few years, and this upward trend is appearing to continue. As a result, revenues in global rail transport are expected to increase by 28.4% by 2021 in comparison to 2007 according to forecasts by Alstom and UNIFE. For the period 2019-2021, industry experts expect a growth rate of around 11% in comparison to current figures (2016-2018), which is a significant increase in volume.

Average annual turnover in global rail transport (in € billions)

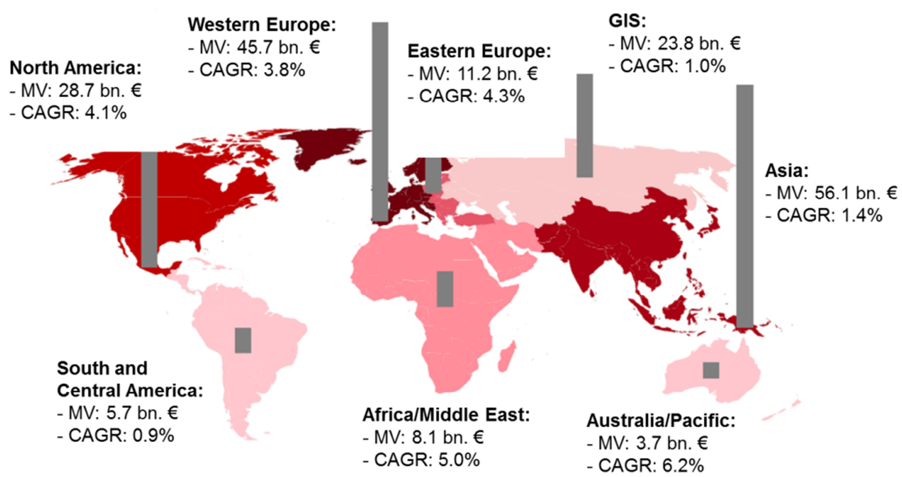


Sources: Alstom, UNIFE **Forecast*

One reason for this is increasing urbanisation. At the same time as the world's population grows, the relation between rural and urban populations is also changing. According to UN studies, less than a third (30%) of the population lived in cities in 1950, whereas this figure was more than half (55%) in 2018. According to researchers, this proportion is expected to rise to 68% by 2050.

This positive trend was also confirmed by a study conducted by SCI Verkehr which stated that the market volume of the global rail industry is expected to increase by 2.8% (CAGR) annually from 2018 to 2022. The study gave the regions of Western/Eastern Europe, North America, Africa/Middle East and Australia/Pacific a particularly high growth potential which is significantly above the average growth forecast.

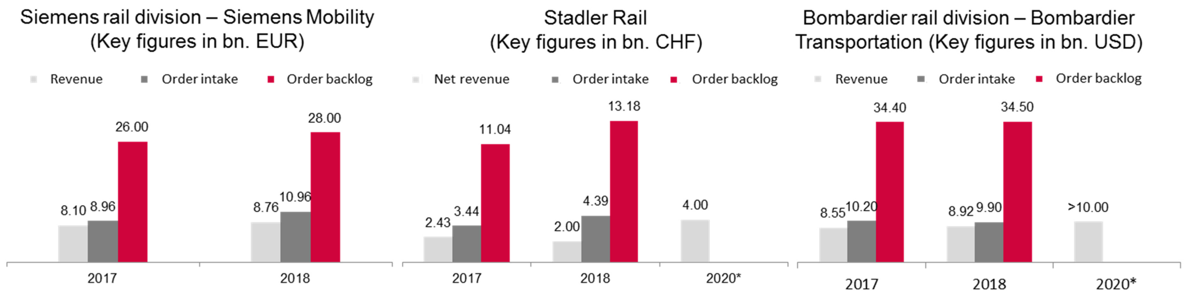
Current market volume of the global rail industry and market development up to 2022 (CAGR in %)



Sources: SCI Verkehr; GBC AG MV = Average market volume 2016-2018

Economic development of significant SBF customers

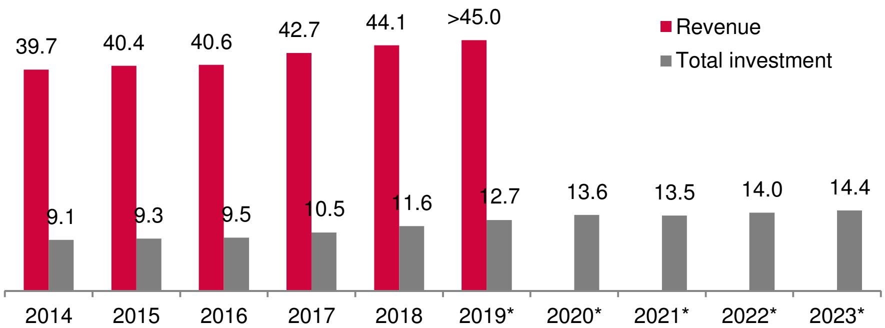
SBF's top three customers include Europe's leading railway manufacturers Siemens (Siemens Mobility), Bombardier (Bombardier Transportation) and Stadler (Stadler Rail). These industrial companies traditionally account for over 50% of the SBF Group's revenues. As the largest passenger carrier in German-speaking countries, Deutsche Bahn is also a major SBF customer for modernisation projects ("retrofit projects"). The economic development of these companies is discussed below including their development's potential impact on SBF.



Source Siemens AG | *Source: Stadler Rail AG* | **company forecast* | *Source: BOMBARDIER INC.* | **company forecast*

In the last few years, the Siemens and Bombardier train divisions and train manufacturer Stadler have recorded long-term growth. Siemens Mobility and Bombardier Transportation increased their revenues significantly in the 2018 financial year compared to the previous year. Stadler Rail merely suffered a decline in revenues in the same period compared to the previous year. The Swiss train manufacturer nevertheless expects revenues to double by 2020 due to its extensive order backlog at the end of the 2018 financial year. Siemens Mobility and Bombardier Transportation also recorded a high volume of orders in the last financial year, and their order books are "completely full".

Development of consolidated revenues and investments by Deutschen Bahn (in € billions)



Sources: Deutsche Bahn AG; Handelsblatt **Forecasts*

Deutsche Bahn AG also enjoyed long-term growth in the past. At the same time as increasing business volume, the railway company's overall capital expenditures also increased noticeably. Deutsche Bahn expects a record revenue of more than € 45 billion for the current financial year. According to Handelsblatt, the railway company's overall investments will continue to increase significantly in the coming years. In our opinion, this is also due to Deutsche Bahn's planned investment initiative in trains, rail networks and employees to improve their performance (punctuality, etc.) and capacities, thereby overcoming the unsatisfactory situation that the company currently finds itself in (keyword: Deutsche Bahn crisis). These increased capital expenditures should spur on the future business development of train manufacturers such as Siemens, Bombardier, Alstom and

Stadler, and in turn those of ceiling systems manufacturers such as SBF. It should also be possible for rail technology suppliers to benefit from the increased investments in modernisation that we expect from Deutsche Bahn.

The future order situation, and consequently SBF AG's revenue and net income, should inevitably grow given that there is a manageable number of competitors and investment is expected to increase further in the global railway sector in addition to the already large order backlog among SBF's major customers.

Overall, we see SBF with its strong market position in the ceiling systems and lighting sector very well positioned to be able to benefit from the increased capital expenditure expected all over the world in the railway sector. In this case, the company should be able to benefit from its good customer access and high product quality and delivery performance.

Company performance and forecast

Historical development of the company

Key figures in € m (rounded)	2017	2018
Revenues	19.53	14.70
EBITDA	2.38	2.21
EBITDA margin	12.19%	15.05%
EBIT	1.67	1.58
EBIT margin	8.55%	10.73%
Net result	1.36	1.39

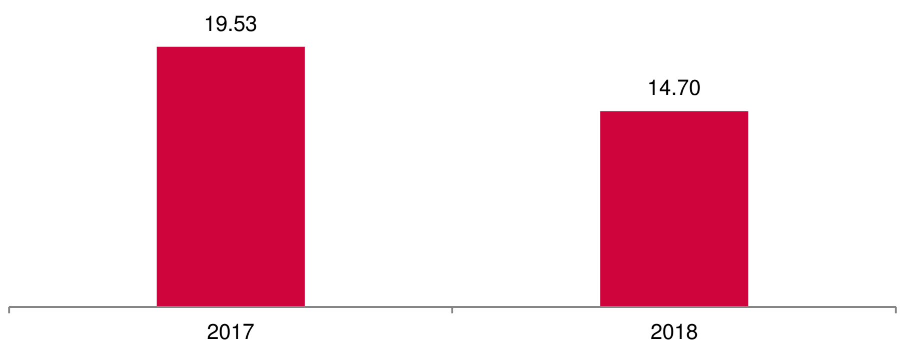
Source: SBF AG

Past sales development

Revenue performance in the 2018 financial year

SBF's management recently executed a successful strategic realignment and restructuring of the SBF Group. This effective consolidation path was reflected in a sustained (satisfactory) improvement in earnings and a very good reputation among major customers which the company says was due to excellent delivery performance. This latter development led to SBF growing as a widely recognized and preferred supplier of ceiling systems for the rolling stock industry.

Past sales performance (in € million)



Sources: SBF AG; GBC AG

SBF suffered a decline in revenues in the 2018 financial year as a result of the consolidation phase, which was expected by the Group's management. In comparison to the previous year, revenue fell by 24.7% to €14.7 million (previous year: €19.53 million). As we expected a business volume of €14.5 million, this result slightly exceeded our revenue forecast for this business period.

According to the company, the decline in revenue in the last financial year should mark the end of this downward trend. We assume that over 90% of revenue was generated through the sale of the core product group, ceiling systems, as in the previous year.

In the course of publishing the business figures for the 2018 financial year in April 2019, SBF's management also released information on the order backlog for the first time. According to this information, the company had a very large order backlog of around €31 million as at the reporting date in March 2019. We assume that approx. 50% of this order volume is attributable to the current 2019 financial year and would therefore exceed the previous year's business volume in absolute terms.

The company also announced that more proposals are pending. We believe that the proposals sent should be several times the size of the current order backlog and therefore present further significant business potential. With this in mind, we remain positive overall about how the business will develop over the current financial year.

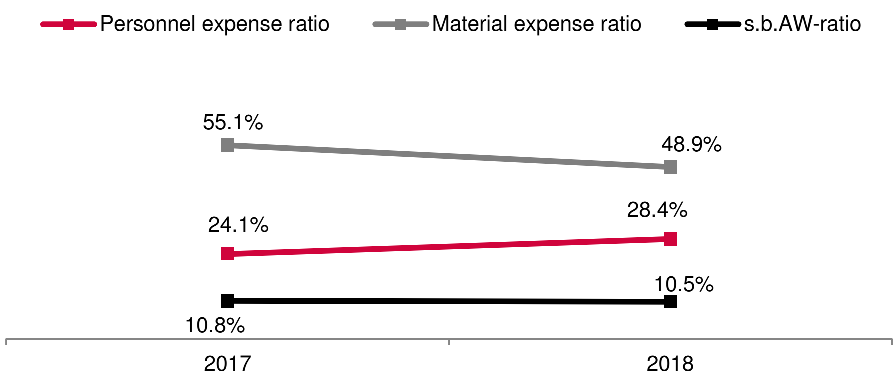
Past earnings performance

The company has responded to this business situation with cost-specific measures based on the decline in revenues expected by SBF's management for the 2018 financial year. These cost optimisation measures included making general cost adjustments to the expected business development, as well as making use of more potential cost-cutting measures identified.

On the whole, the SBF Group once again increased its profit margins at each result level thanks to successful cost management (stringent cost discipline and cost efficiency) and further increases in productivity despite a decline in revenue.

The increase in profit margins is mainly a result of a disproportionate decline in material expenses. For example, the cost of materials (based on revenues) fell significantly by 6.2% to 48.9% (previous year: 55.1%). As a result, the gross profit margin increased once more to 53.9% (previous year: 47.1%).

Development of significant cost positions (in % based on revenue)

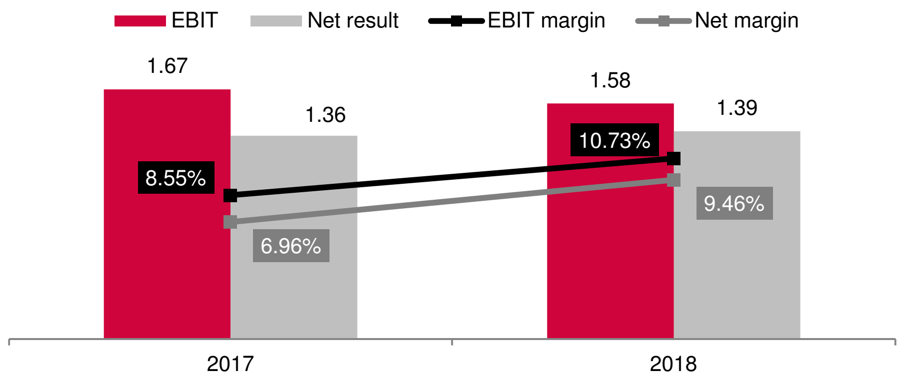


Sources: SBF AG; GBC AG

Cost savings were also achieved in other operating expenses, costs falling significantly by 27.1% to €1.54 million compared to the previous year (previous year: €2.11 million). At the same time, the cost ratio of other operational expenses to revenue (s.b.AW-ratio) generated fell slightly to 10.5% (previous year: 10.8%).

The company also achieved savings of 11.5% in personnel expenses due to (further) staff cutbacks, falling to €4.17 million compared to the previous year (previous year: €4.71 million). Due to a disproportionate decline in revenue, the personnel expenses ratio increased by 4.3% to 28.4% compared to the previous year (previous year: 24.1%).

Development of the operating profit and net result (in € million)



Sources: SBF AG; GBC AG

In total, this resulted in generating an EBIT of €1.58 million, thereby resulting in an operating income at almost the same level as the previous year (previous year: €1.67 million). Due to significantly lower loan liabilities compared to the previous year, interest expenses fell significantly by 52.6% to €0.12 million (previous year: €0.26 million). This resulted in a slight increase in net profit to €1.39 million compared to the previous year (previous year: €1.36 million).

On the whole, the SBF group achieved a satisfactory performance in the 2018 financial year. Despite a decline in revenues as a result of the consolidation phase, a solid result was still achieved through successful cost management and further increases in productivity. The company also benefitted from its strong market positioning in terms of its large order backlog which should also make future profitable growth possible. In addition, the company's previous performance and current order situation show that SBF's management made the right strategic decisions in the past to ensure the Group's long-term success.

Balance sheet/financial situation of SBF AG

Selected position of the consolidated balance sheet (in € million)	31/12/2017	31/12/2018
Equity	10.18	11.57
Equity ratio (in %)	61.7%	73.0%
Interest-bearing liability	3.37	1.73
Cash and cash equivalents	1.02	1.06
Net debt	2.35	0.67
Operating fixed assets	8.89	8.07
Net working capital	5.17	5.62

Source: SBF AG

Recent business development and restructuring efforts have also been reflected on SBF's consolidated balance sheet. Due in particular to successful cost management and a renewed increase in productivity, net profit for the 2018 financial year rose again from the previous year to €1.39 million.

As a result of this positive earnings performance, the equity ratio was further increased compared to the previous year and net debt was reduced. At the same time, the Group continued to hold its cash and cash equivalents at a high level of €1.06 million (previous year: €1.02 million).

As an operational holding company, SBF AG has a high capitalisation ratio (> 50%) whereby fixed assets amounting to €8.07 million as at 31/12/2018 were financed mainly via equity.

With equity capital of €11.57 million at Group level, its equity ratio of 73.0% as at 31 December 2018 was well above average. This value is expected to remain at a high level over the coming years. The company therefore has a very sound balance sheet position.

The net credit balance was at a comparatively low level at €0.67 million as at 31/12/2018. There were loan liabilities to banks amounting to €1.73 million at the end of 2018. On the other hand, cash and cash equivalents amounted to €1.06 million as at the reporting date of 31 December 2018, resulting in net debt of only €0.67 million. In addition, we believe that SBF has access to open current account credit lines with banks totalling €5.00 million which have not yet been utilised.

At €5.62 million, net working capital as at 31 December 2018 was slightly above the previous year's level (previous year: €5.17 million).

Overall, we currently regard the SBF AG financial position as positive and solid due to its strong market positioning, healthy order backlog and the defensive nature of its business model. In the years ahead, this situation should, in our opinion, continue to improve even further due to the increase in profitability being pursued as a result of an expansion in business volume in conjunction with incipient economies of scale. In view of the relatively high levels of liquid assets and the extensive existing credit lines, we also consider the liquidity situation to be positive.

SWOT analysis

Strengths	Weaknesses
• Experienced management team with very good contacts in the rail industry • SBF is the technology leader in lighting and ceiling systems • Economic independence of the SBF Spezialleuchten GmbH business model • Long-term SBF Spezialleuchten GmbH customer relationships for well-known rolling stock manufacturers worldwide (e.g. with Siemens, Alstom and Bombardier) • Good balance sheet situation (high equity capital ratio, low loan liabilities) • Financially strong majority shareholder	• Dependent on individual key people • Low risk diversification due to the low number of holdings (currently strong focus on the rail industry) • Dependent on individual customers within the SBF Spezialleuchten GmbH core holding (share of turnover of the top 3 major customers: approx. 75%) • Low free float in the stock
Opportunities	**Risks**
• SBF Spezialleuchten GmbH operates within the railway engineering growth market sector, which opens up good opportunities for growth. Industry experts expect average global growth of the railway engineering industry of 2.8% p.a. by 2022. For some regions, such as Western Europe or Eastern Europe (CAGR: 3.8% or 4.3%), significantly higher growth rates are expected for this period. • With an expanding product range and increase in vertical integration of Spezialleuchten GmbH, there may be additional potential for growth. • The effects of scale can be used and profitability thereby increased significantly with a substantially higher business volume within Spezialleuchten GmbH.	• Increased competition in the niche market of ceilings and lighting systems could result in a fall-off in margins in the area of core holdings. • Consolidation or cooperation within the rolling stock industry might have a negative impact on the profitability of SBF Spezialleuchten GmbH. • The products and systems offered by SBF Spezialleuchten GmbH require constant R & D expenditure. Without adequate investment in this area, there is the danger that SBF's customer solutions will not remain "state of the art" and might not therefore meet high and specific customer demands.

Forecasts and model assumptions

P & L (in € millions)	FY 2018	FY 2019e (New)	FY 2019e (Old)	FY 2020e (New)	FY 2020e (Old)	FY 2021e (New)	FY 2021e (Old)
Revenues	14.70	17.70	17.70	19.50	19.50	22.40	22.40
EBITDA (margin)	2.21 (15.0%)	2.42 (13.7%)	2.40 (13.6%)	2.78 (14.2%)	2.70 (13.8%)	3.55 (15.8%)	3.48 (15.5%)
EBIT (margin)	1.58 (10.7%)	1.67 (9.4%)	1.65 (9.3%)	1.93 (9.9%)	1.85 (9.5%)	2.55 (11.4%)	2.48 (11.1%)
Net results (margin)	1.39 (9.5%)	1.43 (8.1%)	1.43 (8.1%)	1.60 (8.2%)	1.60 (8.2%)	2.13 (9.5%)	2.13 (9.5%)

Sources: SBF; GBC AG

Revenue forecasts

The SBF Group has successfully completed the consolidation phase it recently initiated, and has in particular significantly improved its cost structure, productivity and delivery performance. The Company is emerging from this phase stronger than before and is now planning to steadily expand its business volume using its strong market position.

Against this background, the SBF management expects to see increasing revenue and earnings figures from the 2019 financial year onwards. At the time of publication of the consolidated financial statements in April 2019, the Group announced that it had a healthy order backlog of €31.00 million (as at March 2019), which is expected to enable sustained growth in the coming years. In addition, SBF announced that the Company is expecting revenue and EBIT targets of €17.00 million and €2.00 million respectively for the 2019 financial year from its core holding SBF Spezialleuchten GmbH.

In addition, the Group has also announced that further offers are pending. We expect these pending offers to represent a large part of the current order backlog and therefore provide considerable potential for further orders.

As at the current 2019 financial year, we also expect to see the start of sustained dynamic revenue growth. Our assumption is also based on the already existing high order volume and the large number of pending proposals from the SBF Group.

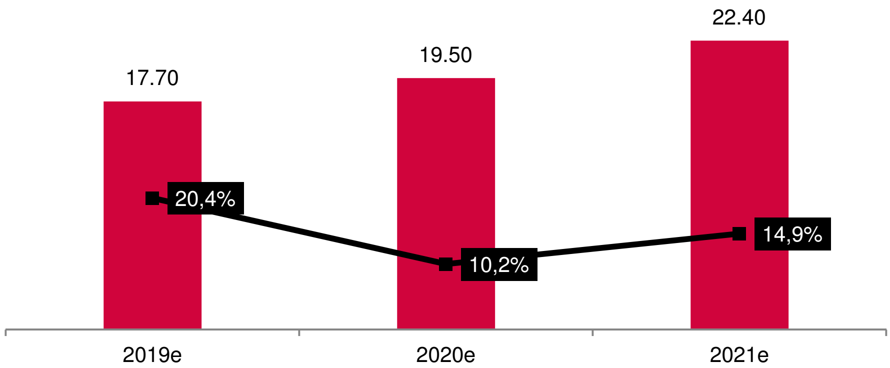
In our opinion, this dynamic revenue growth is likely to be driven in particular by the increased investments in the railway technology sector expected by market experts worldwide. This is based, for example, on the growth investments of railway companies, the offloading of pent-up investments in railway technology and the modernisation requirements of existing rail vehicles.

In addition, plans to open up new markets which SBF has so far not been involved in to a great extent or at all, such as the regions in the UK or the US, should have a positive effect on future revenue development.

A further growth driver should be the expansion of the vertical integration that the Group intends to achieve and the potential for orders that this will create. This will enable SBF to offer additional services to its major customers, for example, and thereby further increase the Group's future business volume. Expansion opportunities with regard to our own vertical range of manufacture are available, for example, in the areas of coating products/systems and 3D laser welding.

All in all, we therefore expect dynamic revenue growth from the 2019 financial year as well as for the following years of 2020 and 2021 and reckon on revenue of €17.70 million, €19.50 million and €22.40 million respectively.

Expected development of revenue and growth rates (in € million / in %)



Sources: GBC AG

It should be noted here that our forecasts do not take into account any potential M&A transaction, participation or cooperation that the Group itself claims to be planning in order to expand its range of services. In addition, potential major orders of particularly high value have also not been included in our forecasts. These could result, for example, from involvement in large-scale projects and would represent significant upside potential.

Overall, the SBF Group is now on a dynamic growth trajectory, reflected in a very healthy order backlog. In this context, the Group should be able to benefit in particular from its excellent customer relationships with the world's leading rail vehicle manufacturers, its technologically leading market position and its high level of delivery performance.

Earnings forecasts

The dynamic revenue development that we expect is also reflected in our earnings forecast going forwards from the current 2019 financial year.

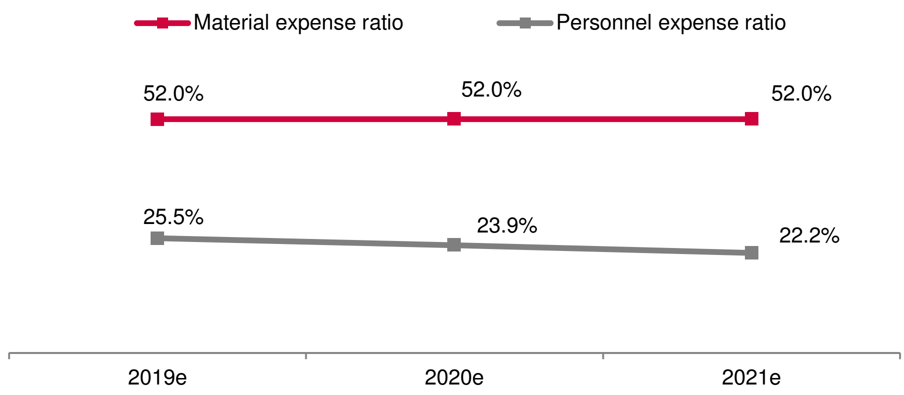
In order to be able to implement its targeted growth trajectory, SBF has indicated that it plans to increase its investments in the area of fixed assets. In addition, such investments in machinery and equipment should allow it to operate more independently and further stabilise earnings.

The Group also expects this to have a positive effect in terms of its major customers. By broadening vertical integration, the Group aims to meet the requirements of large customers seeking a broad range of products and services. When selecting suppliers, they generally prefer suppliers from whom they can obtain "everything from a single source". The planned increased capital expenditure on fixed assets is also reflected in the high depreciation and amortisation and higher interest expenses that we expect.

For the current 2019 financial year and the subsequent years of 2020 and 2021, we expect a disproportionate growth in earnings due to expected economies of scale in conjunction with an increase in business volume. We expect economies of scale here, particularly in the personnel department (management) and production department (higher utilisation of capacity).

As a result of the expected high revenue growth, the various fixed costs (such as personnel expenses and depreciation) should be distributed over a higher volume of business and thereby lead to an improvement in the fixed cost ratio (fixed cost degression).

Expected development of important cost ratios



Source: GBC AG

Furthermore, we expect the cost structure (lean production, optimised material procurement), which has been optimised over the past few years, and high level of cost discipline to keep the cost of materials ratio at a relatively low level in the future.

The company's business model is in principle moderately intensive in terms of personnel and capital. SBF aims to achieve maximum vertical integration as well as the highest possible level of automation in the area of production, whereby certain production processes can only be carried out manually due to the individual and demanding nature of customer requirements. The Company's focus at product level is generally very much on design, hardware engineering and software development (control electronics) in conjunction with its product range.

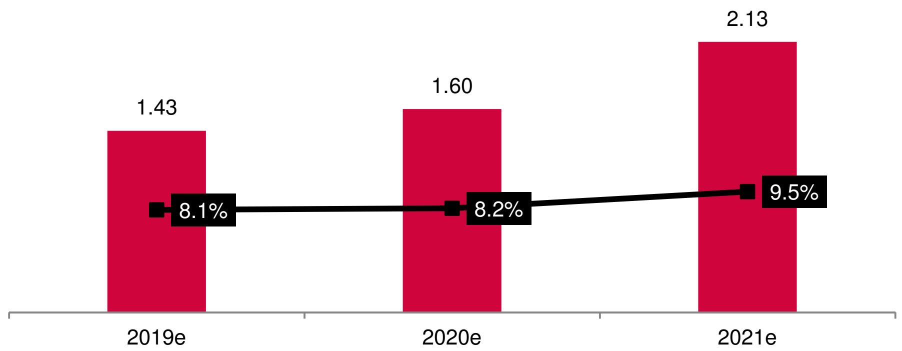
The aforementioned effects in conjunction with high product quality (substantial customer benefits), high levels of service quality and delivery performance should mean that SBF will be able to generate high gross margins of around 48.0% in the coming years and also maintain them at this level.

Against the background of our projected dynamic business development, both the net profit and the operating profit should increase over the long term. Due to successful cost optimisation in recent years, strict cost control and overall positive operating performance, we are slightly increasing our previous operating profit forecasts (EBIT and EBITDA). We expect EBIT of €1.67 million for the current 2019 financial year (previously: €1.65 million) and, for the subsequent years of 2020 and 2021 respectively, €1.93 million (previously: €1.85 million) and €2.55 million (previously: €2.48 million).

Due to increased capital expenditure on machinery and equipment, we expect higher interest expenses for the current financial year and subsequent years which will have a negative impact on earnings. In view of this, we have retained our previous earnings forecasts despite an expected increase in operating earnings. We therefore continue to expect a dynamic increase in earnings to €1.43 million, €1.60 million and €2.13 million respectively for the 2019 financial year and the subsequent financial years of 2020 and 2021.

At the same time, the return on sales (net margin) should gradually increase significantly from the expected 8.1% in 2019 to 9.5% in 2021. A significant contribution to this development can be expected from the incipient economies of scale. In addition, we assume that due to the losses carried forward, which we estimate to be in the double-digit million range, the Company will only be subject to the minimum rate of taxation in the coming years.

Expected development of the net result and net margin (in € million / in %)



Source: GBC AG

The SBF Group is now experiencing steady growth and can rely on its healthy backlog of orders. By focusing on sustained profitable growth in conjunction with its excellent market positioning, the Group is expected to increase its net profit and margin levels on a sustained basis in the coming financial years.

VALUATION

Model assumptions

We rated SBF AG using a three-stage DCF model. We started with the specific estimates for the years 2019 to 2021 in phase 1 and for the years 2022 to 2025 in phase 2. We have looked at the tax rate based on the existing loss carry forwards at 6.2% to 12.9% (minimum taxation) in phase 1 and phase 2. Additionally, after the end of the forecast horizon, a residual value is determined in the third phase by means of a perpetual annuity along with a long-term tax rate of 30.0%. As the final value, we assume a growth rate of 2.0%.

Determining capital costs

The weighted average cost of capital (WACC) of SBF AG is calculated from the equity costs and the borrowing costs. The market premium, the company-specific beta and the risk-free interest rate have to be determined in order to determine the equity cost.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the Fachausschuss für Unternehmensbewertung und Betriebswirtschaft (FAUB, Special Committee for Business Valuation and Business Management) of the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, average returns for the previous three months are used and earnings are rounded up to the nearest 0.25 basis points. **The value currently used for the risk-free interest rate is 1.00%.**

We set the historical market premium of 5.50% as a reasonable expectation of the market premium. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

According to GBC estimates, a beta of 1.29 is currently determined.

The cost of equity of 8.07% (beta multiplied by the risk premium plus risk-free interest rate) was calculated using the assumptions made. Since we assume a sustainable weighting of the equity costs of 100.0%, the resulting weighted average cost of capital (WACC) amounts to 8.07%.

Valuation result

Discounting of future cash flows is based on the entity approach. We have calculated the corresponding weighted average cost of capital (WACC) to be 8.07%. The resulting fair value per share at the end of the 2019 financial year corresponds to the stock price target of € 3.85 (before: € 3.62).

Note: In addition to the 2018 figures, which were slightly better than expected, we have increased our stock target price particularly based on the roll-over effect from systematically including the next estimate period in our valuation model.

DCF model

SBF AG - Discounted Cashflow (DCF) model scenario

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

consistency - phase	
Revenue growth	5.0%
EBITDA margin	15.5%
Depreciation to fixed assets	8.5%
Working Capital to revenue	24.0%

final - phase	
Eternal growth rate	2.0%
Eternal EBITA margin	12.0%
Effective tax rate in final phase	30.0%

Three phase DCF-model:

phase	estimate			consistency					final
in mEUR	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	final value
Revenue	17.70	19.50	22.40	23.52	24.70	25.93	27.23	28.59	
Revenue change	20.4%	10.2%	14.9%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Revenue to fixed assets	1.79	1.77	2.13	2.21	2.30	2.40	2.50	2.61	
EBITDA	2.42	2.78	3.55	3.65	3.83	4.02	4.22	4.43	
EBITDA margin	13.7%	14.2%	15.8%	15.5%	15.5%	15.5%	15.5%	15.5%	
EBITA	1.67	1.93	2.55	2.75	2.92	3.11	3.30	3.50	
EBITA margin	9.4%	9.9%	11.4%	11.7%	11.8%	12.0%	12.1%	12.3%	12.0%
Taxes on EBITA	-0.10	-0.15	-0.28	-0.32	-0.35	-0.38	-0.41	-0.45	
Taxes to EBITA	6.2%	7.6%	10.9%	11.5%	11.8%	12.2%	12.5%	12.9%	30.0%
EBI (NOPLAT)	1.57	1.78	2.27	2.44	2.58	2.73	2.89	3.05	
Return on capital	11.4%	12.4%	14.3%	15.3%	15.8%	16.4%	16.9%	17.5%	13.7%
Working Capital (WC)	4.51	4.88	5.38	5.64	5.93	6.22	6.53	6.86	
WC to revenue	25.5%	25.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	
Investment in WC	1.10	-0.36	-0.50	-0.27	-0.28	-0.30	-0.31	-0.33	
Operating fixed assets (OAV)	9.88	11.03	10.53	10.64	10.73	10.82	10.90	10.97	
Depreciation on OAV	-0.75	-0.85	-1.00	-0.90	-0.90	-0.91	-0.92	-0.93	
Depreciation to OAV	7.6%	7.7%	9.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
Investment in OAV	-2.50	-2.00	-0.50	-1.00	-1.00	-1.00	-1.00	-1.00	
Capital employment	14.40	15.91	15.91	16.28	16.66	17.04	17.44	17.84	
EBITDA	2.42	2.78	3.55	3.65	3.83	4.02	4.22	4.43	
Taxes on EBITA	-0.10	-0.15	-0.28	-0.32	-0.35	-0.38	-0.41	-0.45	
Total investment	-1.40	-2.36	-1.00	-1.27	-1.28	-1.30	-1.31	-1.33	
Investment in OAV	-2.50	-2.00	-0.50	-1.00	-1.00	-1.00	-1.00	-1.00	
Investment in WC	1.10	-0.36	-0.50	-0.27	-0.28	-0.30	-0.31	-0.33	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	0.92	0.27	2.27	2.06	2.20	2.34	2.49	2.65	34.30

Value operating business (due date)	30.05	32.21
Net present value explicit free cashflows	10.13	10.68
Net present value of terminal value	19.92	21.53
Net debt	-0.10	-0.18
Value of equity	30.15	32.39
Minority interests	0.00	0.00
Value of share capital	30.15	32.39
Outstanding shares in m	7.84	7.84
Fair value per share in €	**3.85**	**4.13**

Cost of capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.29
Cost of equity	8.1%
Target weight	100.0%
Cost of debt	6.9%
Target weight	0.0%
Taxshield	28.7%
WACC	**8.1%**

GBC AG Investment Research

ANNEX

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2. The research report is simultaneously made available to all interested investment services companies.

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BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is >= + 10%.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is > - 10% and < + 10%.
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