GBC AG Investment Research

Research report (initial coverage)

SBF AG

Technology and market leader in ceiling systems for rolling stock in the rail industry growth sector
-
Strong growth momentum by widening the range of products and services offered, entering new markets and increasing vertical integration
-
Significant increase in profitability using economies of scale as part of the growth path pursued

Target price: € 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 35

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: 27/03/2019 (10:51 am)
Date and time of the first distribution: 27/03/2019 (11:30 am)
Validity of the price target: until max. 31/12/2019

German version
Date and time of completion of the report: 05/03/2019 (11:41 am)
Date and time of the first distribution: 06/03/2019 (10:00 am)
Validity of the price target: until max. 31/12/2019

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

Rating: Buy
Target price: € 3.62

Current price: € 1.90
04/03/2019 (Frankfurt, close price)
Currency: EUR

Key data:

ISIN: DE000A2AAE22
German securities identification number (WKN): A2AAE2
Ticket symbol: CY1k
Number of shares³: 7.84
Marketcap³: 14.90
Enterprise value³: 17.25
³ in m/in EUR m
Free float: 22.67%

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

Financial year: 31/12/

Lead Broker: Baader Bank AG

Analysts:

Marcel Goldmann
goldmann@gbc-ag.de

Cosmin Filker
filker@gbc-ag.de

Corporate profile

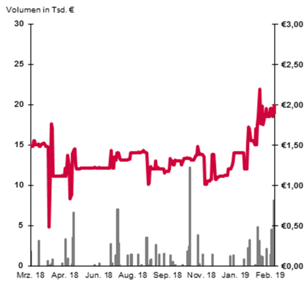
Segment: Operating holding company (holdings)

Core holding: SBF Spezialleuchten GmbH

Employees at SBF AG: 2 (as at: January 2019)
Employees at SBF Spezialleuchten GmbH: 120 (as at: January 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 mEUR\ FY-end	31/12/2017	31/12/2018e	31/12/2019e	31/12/2020e	31/12/2021e
Revenue	19.53	14.50	17.70	19.50	22.40
EBITDA	2.38	2.30	2.40	2.70	3.48
EBIT	1.67	1.62	1.65	1.85	2.48
Net result (EAT)	1.36	1.37	1.43	1.60	2.13
EPS	0.17	0.17	0.18	0.20	0.27

Valuation multiples					
EV/Revenue	0.88	1.19	0.97	0.88	0.77
EV/EBITDA	7.25	7.50	7.19	6.39	4.96
EV/EBIT	10.33	10.65	10.45	9.32	6.95
PE-Ratio	10.95	10.87	10.42	9.31	6.99
PB-Ratio	1.46				

Financial dates	
April/May:	Annual report 2018
03/06/2019:	Annual General Meeting Munich
July/August:	Half-year report 2019

** last research publishes by GBC:
Date: publication / price target in EUR / Rating
** 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

- Through its core holding SBF Spezialleuchten GmbH, SBF AG is a specialist in ceiling systems for rolling stock, particularly in the European railway technology sector. The rail industry is generally considered a sustainable growth area, and a study conducted by SCI Verkehr found that the current market volume is €183 billion for the global railway technology market. Researchers expect an average future market growth of 2.8% (CAGR) for this segment by 2022.

- SBF AG generated revenue in the amount of €19.53 million in financial year 2017, which was below the previous year's result of €21.46 million. This drop in revenue was the result of a limited amount of new contracts being awarded and a subsequent decline in order volume. However, there was a significant improvement in terms of earnings compared to the previous year. For example, net earnings took a positive turn with €1.36 million profit (previous year: EUR -0.04 million).

- SBF AG expects earnings for its core holding SBF Spezialleuchten GmbH to be at the same level in financial year 2018 as the previous year despite a continued decline in revenue caused by a period of consolidation. On this basis, we expect revenues in the amount of €14.5 million and a net profit of €1.37 million at Group level (SBF AG) for financial year 2018.

- Following the consolidation phase in the previous year, the company established a good starting position for itself to return to the growth path (strong market positioning, technology leader within the ceiling systems sector, close client relationships, etc.). SBF AG has now embarked on a profitable growth path and aims to achieve further expansion of its business model as a systems provider for the railway technology industry. Expanding the range of products and services offered and increasing vertical integration and internationalisation are key elements of the growth strategy in pursuit of this objective.

- As part of the intended growth path, it should be possible for the company to profit from the increased investments in particular, which are expected to be made in the global railway technology sector. In addition, the planned regional expansion into new railway technology markets should have a positive impact on future business development, and the planned expansion of vertical integration and potential orders resulting from it should also prompt an increase in business volume.

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

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

Table of Contents

COMPANY

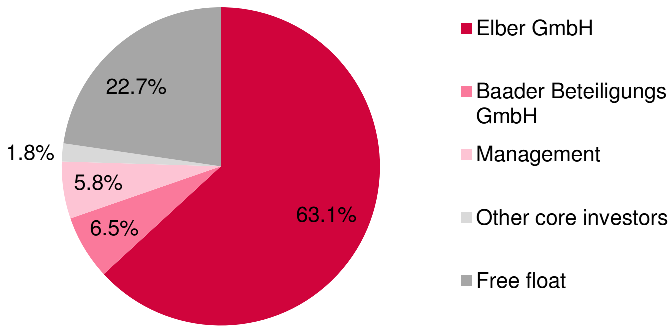
SBF Group’s production and administrative headquarters

Source: SBF AG

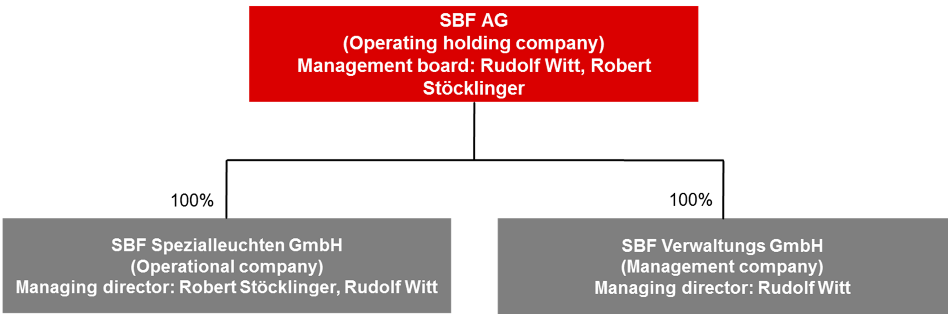
Shareholder structure

Shareholder in %*	As at: February 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

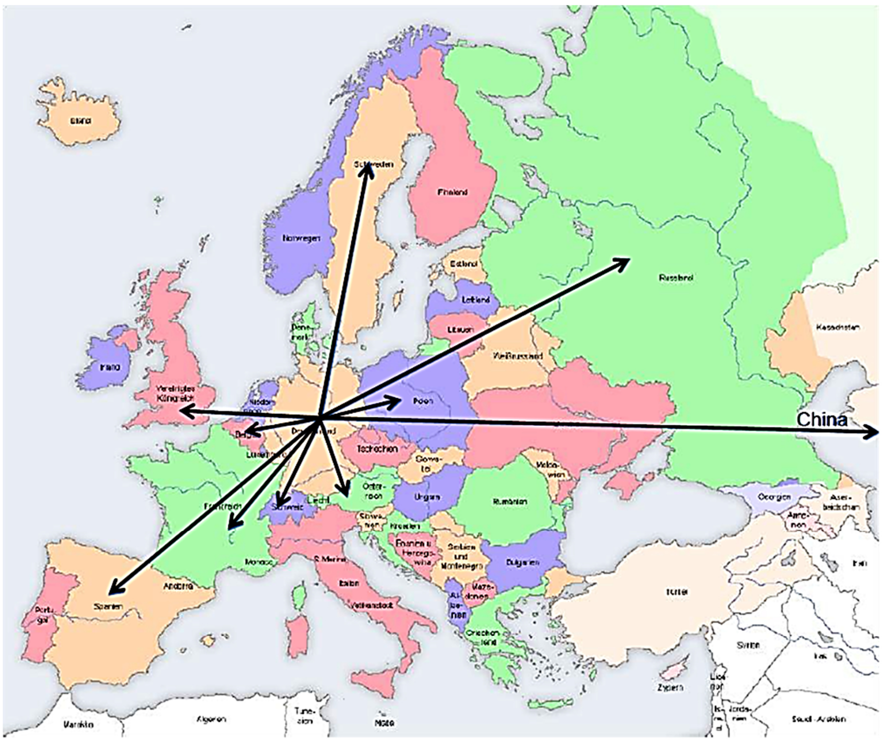
As an operating holding company, SBF AG owns the two subsidiaries SBF Spezialleuchten GmbH and SBF Verwaltungs GmbH. As it currently stands, SBF Spezialleuchten GmbH is the only subsidiary that is an operational business. This subsidiary was created from the transfer of business operations from the previous 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

Historical events

The more than 150-year history of SBF Spezialleuchten GmbH has been shaped by innovative developments and pioneering products in lighting technology. The company's beginnings stretch all the way back to 1862, when the master bronze craftsman K.A. Seyffert founded the Sächsische Bronzewarenfabrik (bronze goods manufacturer of Saxony). The arrival of gas lighting in 1870 and the production of the first electrical outdoor lighting in 1889 enabled the company to achieve its first business successes. Other milestones in the company's history include providing the lighting for the Semperoper opera house in Dresden, complete lighting installations for extravagant luxury yachts and the lighting system for the Transrapid maglev monorail.

Overview of important milestones in the history of SBF AG and SBF Spezialleuchten GmbH

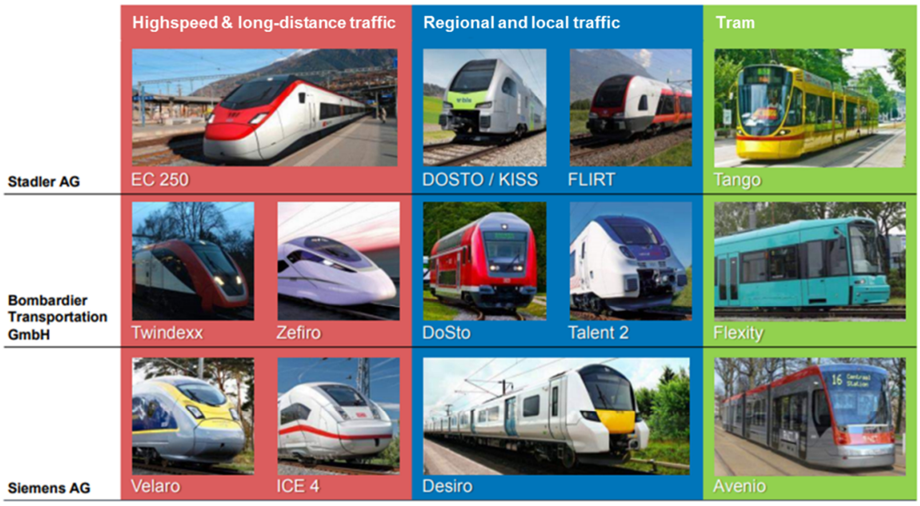
1862	Formation of Sächsische Bronzewarenfabrik by K.A. Seyffert
1934	Product portfolio expanded to include the maritime industry
1990	Reprivatisation and founding of SBF Spezialleuchten Wurzen GmbH
2002	Off-shoot business founded – LMW, manufacturers of decorative lighting
2005	Start of development and production of LED lighting
2007	World's first production of LED-based lighting systems for rolling stock
2008	World's first production of ceiling elements with LED lighting
2009	Internationalisation: start of business activities in China, India, USA, Japan and France
2010	World's first production of LED lighting systems for high-speed trains
2012	Completion of the new high-tech factory in Leipzig
2013	SBF wins Red Dot Design Award
2014	Acquisition of second factory (Leipzig) with the latest production technology
2015	New Management Board
2016	Restructuring, turnaround
2017	Focus on the rail industry as well as new and retrofitting projects

Sources: SBF AG; GBC AG

Range of products and services offered

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 trams 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.

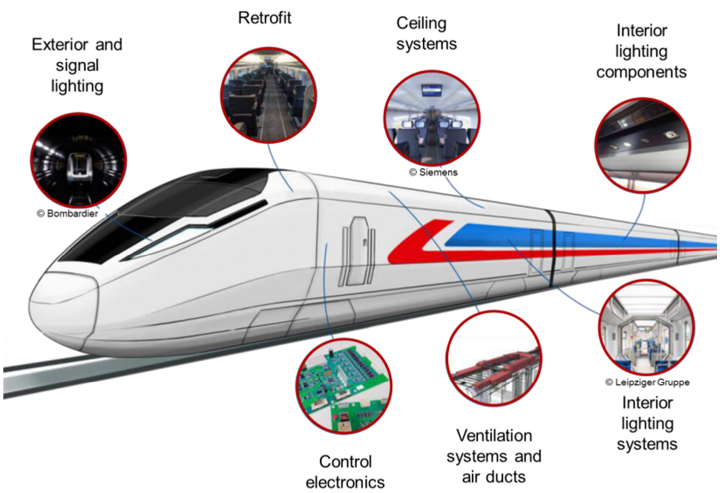
Selected references (series matrix)



Sources: SBF AG; Bombardier Transportation GmbH; Siemens AG

The range of products and services includes headlights and stairway lighting on the outside of vehicles, as well as strip lights in ceiling systems and reading lights inside the carriage.

SBF's range of products



Sources: SBF AG; GBC AG

In our opinion, SBF's core business and unique selling point (USP) is predominantly "lighting". The company has a particularly high level of expertise and a huge wealth of experience in this area, which in turn is reflected in its "high-end customer solutions".

In our view, the broad value chain combined with the high level of "lighting expertise" gives SBF a significant advantage over competitors. The comprehensive and high-quality products and services offered by SBF mean that almost all of the major companies in the rail industry, such as Deutsche Bahn, Siemens, Bombardier and Stadler, are part of SBF's client base.

Some examples of the products offered by SBF are detailed below to illustrate the breadth of its product range. However, it should be noted with these examples that SBF previously focused very strongly on ceiling systems, during which time it evolved from a supplier of lighting components to a ceiling system provider. As part of this development, there was increased vertical integration around ceiling systems to ensure that the products were of high quality in particular, which has led to the range of products becoming even more attractive to customers.

Ceiling systems

For example, in terms of ceiling systems – SBF's largest and most important area of business activity (share of total Group turnover 2018e: > 90.0%) – the company supplies ceiling systems or central modular ceiling systems with integrated lighting technology (e.g. LED or T5, strip lights) for trains. The ceiling systems, which commonly feature lighting components, are often made from lightweight materials such as aluminium or plastic. The company's product range also includes composite ceiling systems.


Aluminium ceiling system


LED plastic ceiling system


Composite ceiling system

Interior lighting systems

SBF's interior lighting systems are designed for illuminating the inside of the carriages of rolling stock. With direct or indirect LED or T5 general lighting, white or coloured spotlights over seating, passenger compartment accent lighting and illuminated luggage carrier flaps, SBF's interior lighting systems enable the vehicle's ceiling to be uniformly illuminated across the entire width of the carriage.


Ceiling-mounted lighting system


LED light panel with illuminated luggage racks

The company uses a dynamic technique for interior lighting, which aims to provide the right lighting for any time of day and to create a soothing atmosphere by artificially emulating the natural progression of daylight using LEDs. The company also uses lighting control technology – which it developed in-house – in pre-programmed software or light sensors, which enable the light to be adjusted according to daylight, weather, season and temperature, or if the train passes through a tunnel.

Ventilation systems and air ducts

With its expertise in complete ceiling systems, SBF also supplies ventilation systems with warm and cold air for rolling stock, either as a closed system or integrated into the ceiling system (forming an air supply and exhaust duct as part of the carriage shell). The air ducts and their connection to the carriage body are thermally separated and flow-optimised.

Air guidance system (delivery state)

Air guidance system (model)

Exterior and signal lighting

SBF's exterior lighting focuses on high-speed front lights, halogen-LED combination lights, logo and stairway lighting, among other functions.

LED headlight

LED logo lighting

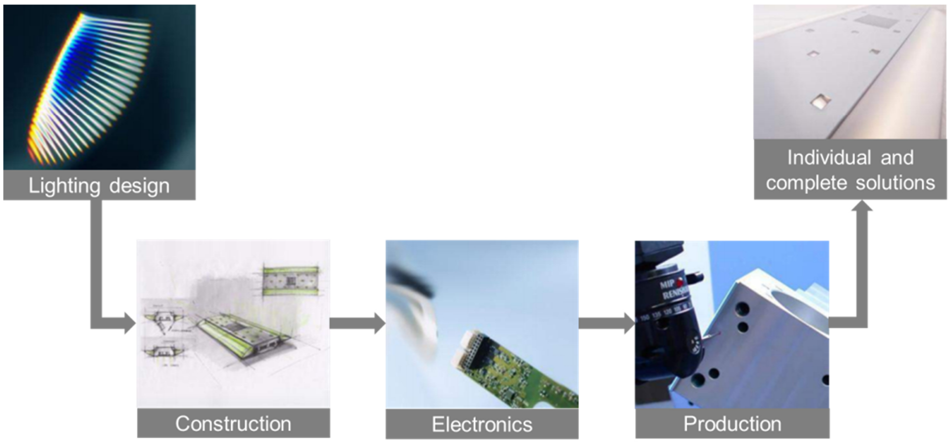
Full LED headlight

Vertical integration

With the Tier-one supplier's evolution from a pure lighting component supplier to development partner and system supplier, SBF can now provide its clients (manufacturers of rolling stock) with complete ceiling and lighting systems. SBF also covers the entire value chain from the planning and design stages through to production. Vertical integration has been steadily increasing during the company's development in recent years and is also expected to be further expanded in the future. This growth has also helped develop the company's expertise.

The following information is intended to outline SBF's individual value creation stages and thus give an overview of the company's entire range of products and services.

SBF value creation stages



Source: SBF AG

During the first stage – **drafting of the lighting concept** – state-of-the-art simulation methods are used to draw up scenarios for effective and energy-efficient lighting systems which are appropriate for the geometry and seating composition of the railway vehicle in question. This process also takes into account the characteristics of different light sources in addition to possible reflections from surfaces. This comprehensive virtual lighting concept then serves as a basis for design and development engineers (design stage).

As part of the **design** stage, customer solutions are developed and designed using design and data management software. This virtual environment (3D system/CAD) creates detailed individual lighting components and complete solutions for headlights, stairway and ceiling lights, luggage carriers illuminated by cove lighting and reading lights. The product designs are then transformed into functional template models on-site. Prototypes may also be manufactured as a preliminary stage in series production.

In addition to the mechanical components and systems, the development of **electronic products and systems (electronics)** is also a part of SBF's added value to ensure optimal compatibility across customer solutions. In this process, development engineers create the appropriate printed circuit boards and circuit topographies, which are based on a product range from a recognised manufacturer.

As SBF previously invested heavily in new machines and production facilities, the company now has an even more advanced **production** process at its disposal. According to the company, SBF has one of the most state-of-the-art factories for train LED lighting and ceiling system design in Europe. The company's flexible manufacturing system enables it to produce both small quantities of products and run large-scale production. State-of-the-art IT systems, smart logistics, an efficient kanban system and the latest quality management processes are intended to make production run smoothly and to a high quality.

SBF has mainly positioned itself on the market so as to have the capacity to produce **individual and complete solutions** in accordance with customer requests or specific requirements.

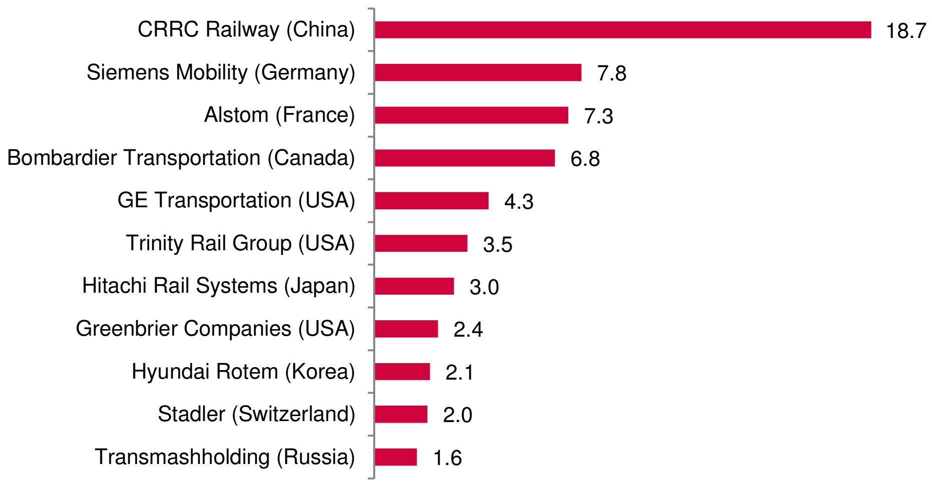
Key clients – almost all major European train manufacturers

Virtually all major train manufacturers in Europe are a part of SBF's client base, and according to our research, the leading European rail vehicle manufacturers achieved a global market share in the rolling stock sector of around 40% (as at: 2016). Among these manufacturers, SBF's "top clients" (Siemens, Bombardier, Stadler) achieved a global market share of around 30%.

These leading European rolling stock manufacturers develop their vehicles in Germany and Switzerland, which SBF says enables the company to enjoy a special "home advantage" due to the development sites' geographical, cultural and linguistic proximity.

It should be mentioned here, however, that these companies traditionally have a particularly strong market position in Europe, and as a result the market shares in this region are often significantly higher. This suits the SBF Group as a development partner, Tier-one supplier and system supplier because the company has primarily aligned its business with the European rail market. There is a particularly strong focus on Europe because the share of passenger trains is low in the USA, for example, while the market is very heavily dominated by freight, which means that there is generally less demand for SBF's components and product systems.

Rolling stock manufacturer with the highest turnover globally (turnover in 2016 in € billions)



Sources: APA, dpa, Statista, GBC AG

SBF has maintained a good relationship with the major clients listed above for many years, resulting in frequently recurring orders. Deutsche Bahn and local transport operators are also among the company's important clients for modernising or renovating (retrofitting) trains in terms of lighting, for example.

Selected reference projects

Due to its advantageous access to major European train manufacturers and an attractive range of products and services, SBF has previously completed countless projects from the Munich U-Bahn (underground) to Transrapid in Shanghai. The wide variety and large number of projects also illustrates SBF's strong position in relation to its clients and the competition, and selected reference projects are presented below as further examples of this.

Project Velaro D (Siemens)

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

Project SBB Twindexx (Bombardier)

SBF equips the trains with headlights divided into rows (LED signal light and halogen full beam) with fully heated glass pane.

Project Talent 2 (Bombardier)

SBF supplies steel ceiling systems and air-conditioning duct systems for the following series: STS, RME, MD2 and NGM.

Project RhB Albula (Stadler)

The dynamic lighting developed by SBF makes the constant change between bright daylight and darkness more comfortable for passengers.

Project Avenio The Hague (Siemens)

SBF integrated an energy-saving and low-maintenance interior lighting system into the vehicles with LED technology.

Project ICE 3 Redesign (Dt. Bahn)

SBF supplies new plastic shades, luggage carrier flaps and light carriers (SBF retrofit services).

The company's executive bodies

Executive Board

Rudolf Witt

Mr Witt successfully graduated from the University of Applied Sciences Regensburg with an degree in business administration, after which he began his professional career at Arab Banking Corporation-Daus & Co. GmbH. His last role there was as a business customer specialist, focussing on large and medium-sized international enterprises. Between 1990 and 1996, Mr Witt was an employee of SchmidtBank KGaA – with general authority to act (*Handlungsvollmacht*) from 1991 and full authority to sign (*Prokura*) from 1994. He ran the branch in Burglengenfeld from 1992 to 1996 before spending eight years as Deputy Head of the Corporate Customer Division and authorised signatory (*Prokurist*) at Volksbank Regensburg eG. Before joining SBF AG (formerly Corona Equity Partner AG), he was Chairman of G+R Technology Group Beteiligungs AG, as well as shareholder and managing director of GreenTech GmbH. Mr Witt has been on the Management Board of SBF AG since 2015.

Robert Stöcklinger

Mr Stöcklinger graduated with a degree in mechanical engineering from the Höhere Technische Bundeslehr- und Versuchsanstalt (Federal Higher Technical Institute for Education and Experimentation) in Vienna. After his studies, he occupied senior positions in various industrial companies, giving him over 30 years' extensive professional experience in various sectors (including the mechanical engineering and automotive industry). One highlight of his professional career was being awarded "Entrepreneur of the Year 2010" by the consulting and accounting firm Ernst & Young. Mr Stöcklinger joined the SBF Group in 2015 and became managing director of SBF Spezialleuchten GmbH. He has also been a member of the SBF AG Management Board since early 2018.

Supervisory Board

Dr Lothar Koniarski (Chairman of the Supervisory Board)

Dr Lothar Koniarski has been a member of the SBF AG Supervisory Board since 2016 and has been its Chairman since 2018. After graduating with a degree in business studies, he worked as a research assistant and academic advisor between 1980 and 1985 at the University of Regensburg. Dr Koniarski subsequently became a senior manager and managing director of various industrial companies (measurement and control technology, mechanical engineering). He has been managing director of DV Immobilien Management GmbH (formerly Dr Vielberth Verwaltungsgesellschaft mbH) in Regensburg since 1995, which develops sophisticated commercial real estate locations for the company's asset base. He is also managing director of Elber GmbH, an industrial holdings investment company. Dr Koniarski was a member of the DIHK (German Chamber of Commerce and Industry) financial and tax committee in Berlin from 2005 to 2013 and has been Chairman of the financial and tax committee of the Regensburg Chamber of Commerce and Industry since 2003.

Thies Eggers (Deputy Chairman)

Mr Eggers is an accountant and tax advisor with a degree in business. He began his professional career at the accounting and tax consultancy firm Arthur Anderson, where he was promoted to Partner in 1980, and also established the Munich office and the branch in Prague. Since 1997, he has had his own private practice where he focuses on restructuring and company acquisitions/sales, as well as advising on and executing IPOs and capital increases. Mr Eggers has been a member of the SBF AG Supervisory Board since 2016 and is currently its Deputy Chairman.

Dr Ulrich Hauck

Dr Hauck graduated from LMU Munich with a degree in business studies. He then went on to postgraduate studies at the University of Innsbruck, where he was awarded a doctorate. Dr Hauck also passed the exams for tax advising and accounting and began his professional career in 1990 at Deloitte, where he worked as a tax advisor and accountant for eight years. He then moved to Rheinmetall in 1998 and oversaw the company's accounting and finance. From 2003 to 2015, he was Head of Global Accounting and Controlling at Bayer AG and he was the CFO of Schaeffler AG between 2015 and 2017. He has been an independent management consultant since 2017 and is a member of the Supervisory Board at Mutares AG (since 2008) and SBF AG (since 2018).

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 its neighbouring country 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 environmental impacts, health risks and adverse 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.

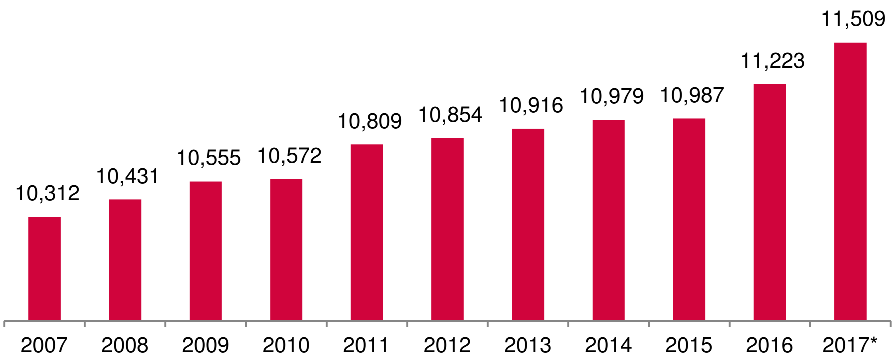
The railway sector is generally characterised by a modest number of train manufacturers, such as Siemens, Alstom and Bombardier, which rely on a vast number of suppliers for individual components or systems to produce rolling stock. SBF AG is among these suppliers of railway technology. The majority 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.

Local and long-distance transport market

Around 11.5 billion passengers used local German transport services, i.e. buses and trains, in 2017. Taking into account quite a steady German population figure of around 82 million, this means that every German citizen travelled by bus or train 140 times on average in 2017, which is the same as using local public transport every three days or so.

Number of people using local transport services in Germany since 2007 (m)

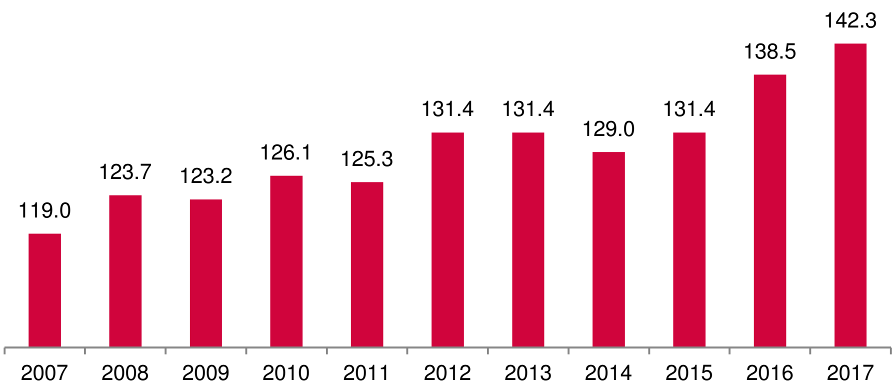


Source: Statistisches Bundesamt **provisional*

Compared with 2007, when 10.31 billion people used public transport, we can therefore calculate that with an almost constant population (population in 2007: 82.22 million), the number of people using local public transport in Germany increased by just under 12%.

A clear trend can also be observed in German long-distance public rail transport, which is the result of an increased public awareness of environmental issues and fuel price hikes in recent years. The latter factor also made rail more attractive as a mode of transport, which has consequently boosted the number of people travelling by rail by 19.6% since 2007, growing to 142.3 million in 2017, thereby making it a significantly stronger growth compared to local public transport.

Number of people using long-distance rail transport in Germany since 2007 (m)

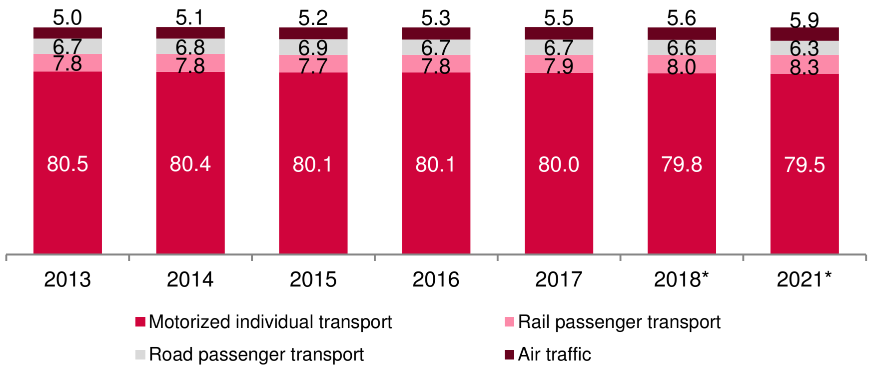


Source: Statistisches Bundesamt

Against the background of these trends, it is evident that passenger transport is playing an increasingly important role in both local and long-distance rail transport and should, therefore, have a positive effect on the development of the rail industry. This is also becoming clear from the analysis of the modal split, i.e. the share of various types of transport used relative to all passenger transport in Germany. The German Federal

Ministry for Transport and Digital Infrastructure (*Bundesministerium für Verkehr und digitale Infrastruktur* – BMVI) in cooperation with the German Federal Statistical Office, the German Institute for Economic Research (DIW Berlin) and SSP Consult have released forecasts that predict that there will be a further increase in rail passenger transport relative to all German public transport by 2021, rising from the latest figure of 7.9% in 2017 to 8.3% in 2021, showing a clear continuation of the trend that started in 2013.

Modal split in German passenger transport by 2021 (in %)

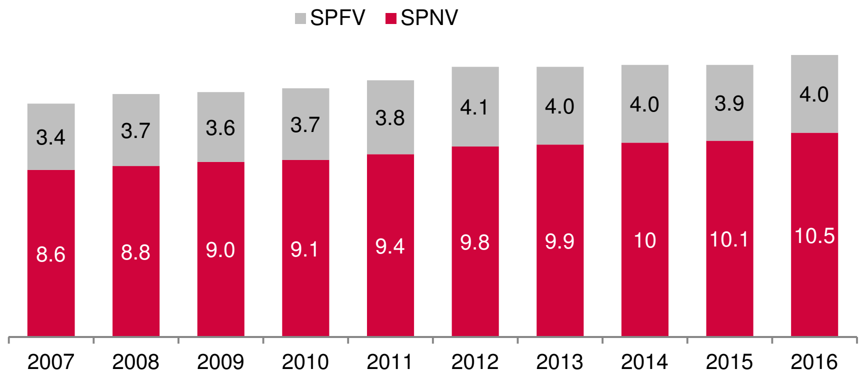


Sources: BMVI; BAG; Statistisches Bundesamt; DIW Berlin, SSP Consult **Forecast*

Rail transport market in Germany

The upward trend in passenger transport is also reflected in the revenue development of the German rail transport market, which increased by 20.8% from 2007 to €14.5 billion in 2016, representing an average annual growth rate (CAGR) of 2.1%. In this case, the turnover for local rail passenger transport (SPNV) achieved a considerably stronger annual growth with 22.1% compared to 2.2% for long-distance rail passenger transport (SPFV), which is an average annual increase of 1.8% and a cumulative growth of 17.6% since 2007.

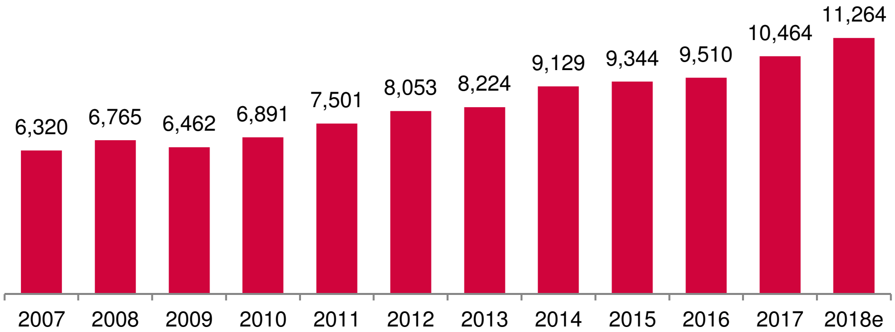
Turnover in the German rail transport market since 2007 (€ bn.)



Source: Bundesnetzagentur

If the number of rail passengers increases, then there also needs to be greater investment in the rail sector for example, to expand the rail network, manufacture new rolling stock or conduct vehicle maintenance. Investments in rolling stock are a particularly important factor in the development of SBF's operating business. As shown in the following graph, this has turned out to be exactly the case in recent years. Gross investments by Deutsche Bahn AG have risen by around 65% since 2007 to €10.46 billion, which consequently increased revenues in the German railway sector as well as the number of passengers.

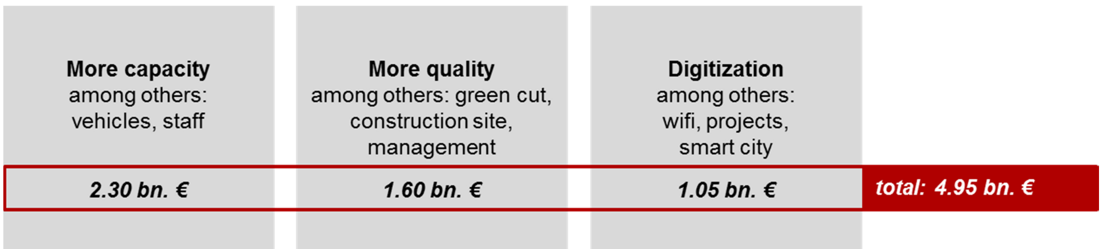
Gross investments by Deutsche Bahn in recent years (€ m)



Source: Deutsche Bahn AG

Deutsche Bahn AG announced an investment campaign for financial year 2018 and subsequent years. The company stated that it planned to invest a record amount – €9.3 billion – in rail infrastructure (rail network and train stations) in 2018, which is €0.8 billion more than the previous year. €5.5 billion of this is to be directed towards the replacement and maintenance of tracks, bridges and points. In addition, €2.6 billion is earmarked for around 40 new construction and expansion projects, and €1.2 billion is reserved for investments in 700 train stations.

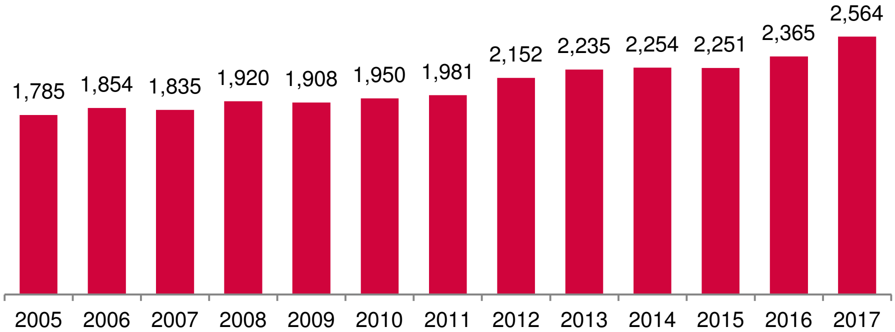
Which areas require Deutsche Bahn AG to have additional financial means (investment forecasts for 2019–2022 in € bn.)



Sources: Handelsblatt; GBC AG

According to the company, a “record level” of investment is even scheduled for the coming years. Deutsche Bahn intends to improve their performance and increase their capacity by spending more on trains, employees and the rail network. Against this backdrop, press reports state that €5 billion of additional investments are necessary in the next four years alone to improve punctuality and increase capacity. The rail company has also disclosed that its investment backlog currently totals €50 billion.

Historical growth of Deutsche Bahn AG rail passenger numbers (m)



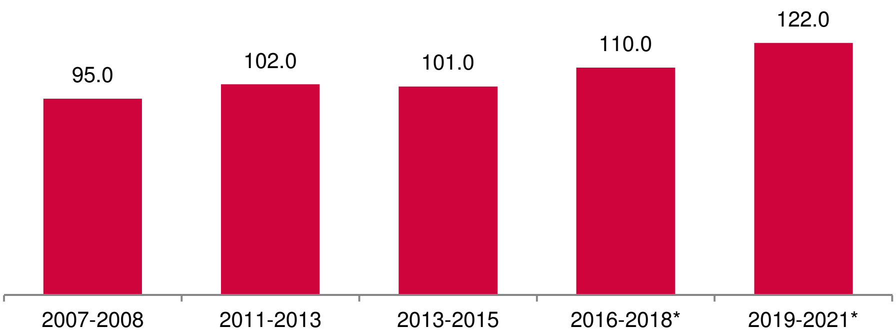
Source: Deutsche Bahn AG

Deutsche Bahn largely intends to overcome its current crisis with the aid of its planned increased spending on tracks, trains and personnel (keywords: operational delays, outdated rail network, shortage of traction vehicles). These increased investments are also expected to benefit train manufacturers, such as Siemens, Bombardier, Alstom and Stadler, and manufacturers of lighting systems such as SBF. Since Deutsche Bahn AG is the largest provider of passenger transport services in Germany, its investment policy is very important and sets the trend for these organisations.

Rail transport and the global rail industry

Even at a global level, we can see increasing investments in the railway technology sector and this upward trend appears to be continuing. 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)



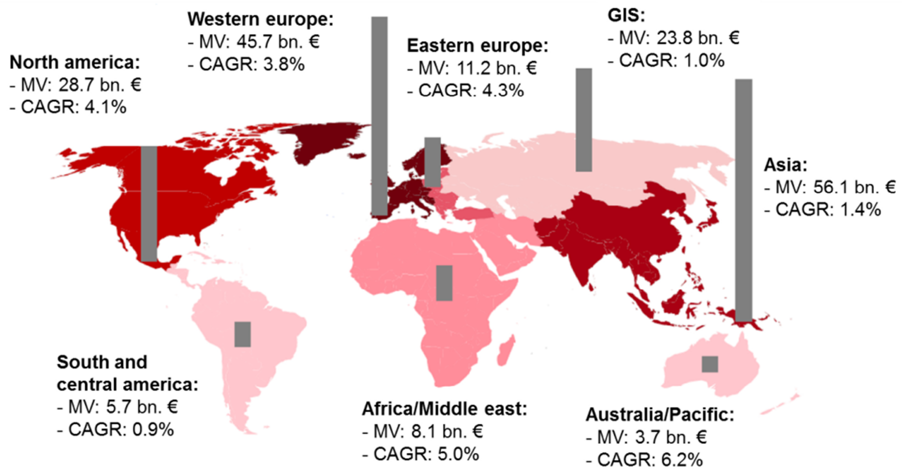
Sources: Alstom, UNIFE **Forecast*

One reason for this is increasing urbanisation. At the same time as the globe's population grows, the relation between rural and urban population 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 figure 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.

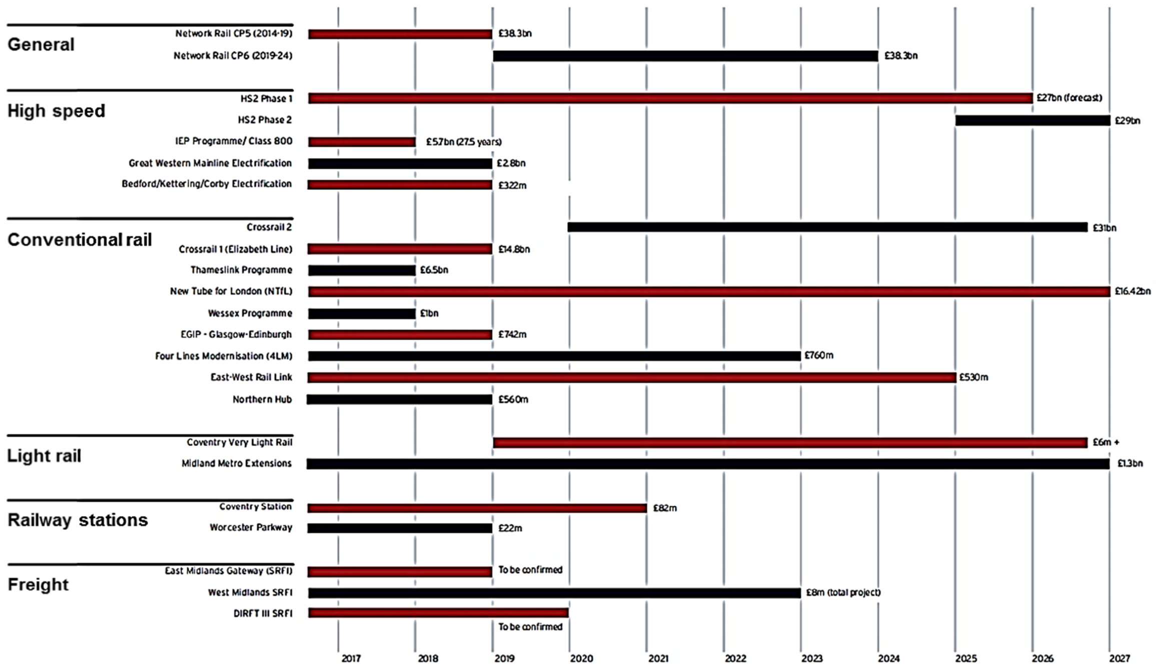
Current market volume of the global rail industry and market developments up to 2022 (CAGR in %)



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

From our perspective, there is high business potential for Europe-oriented railway technology companies in the future, particularly in the UK. Governments in this region have launched extensive rail projects for the construction and renovation/modernisation of rail networks, rolling stock and stations. The total volume of these major projects currently amounts to approximately £200 billion. The overall context for this investment campaign is the generally outdated rail network infrastructure in this region.

UK rail and infrastructure opportunities – project pipeline of over £200 bn.



Sources: Midlands Engine; GBC AG

According to estimations by SBF, the North American/US railway technology market will be an attractive and important sales market for European suppliers of railway technology in the future due to the region's current high market volume of €28.7 billion and expected market growth of 4.1% (SCI Verkehr), as well as being home to many production sites for major train manufacturers (e.g. Bombardier, Siemens and Stadler). In this case, the market could be developed in close cooperation with a major client on site.

Only recently the Canadian manufacturer Bombardier expressed a high degree of optimism at the potential of the US market (source: Bloomberg). While the global rail industry achieves annual growth of around 3%, Bombardier's CEO Alain Bellemare expects it to grow by around 20% per year in the next five years. An expansion of business in the USA would help achieve Alain Bellemare's objective of increasing the whole company's turnover to USD 20 billion by 2020.

The company's rail business accounted for around half of its sales last year. According to the media, significant projects for Bombardier include the planned high-speed rail link between San Francisco and Los Angeles, "people mover" transport at various airports and potential orders for rolling stock in cities like Washington and New York.

In our opinion, it should be possible for the train manufacturers Siemens and Stadler to profit from the expected growth in the US railway technology market. According to its own data, Siemens has manufactured rolling stock in the USA for over 35 years (Sacramento, California), during which time it has produced over 1,300 light rail vehicles for 17 cities in the USA and Canada. In the same period, the number of employees in US plants has expanded from 50 at the beginning to over 800 people currently due to the increasing demand for Siemens mobility solutions (source: Siemens). In the context of Siemens' major contracts that were recently awarded in North America, such as with the US railway company Amtrak (order for 75 locomotives with a value of €744 million, source: Handelsblatt) or the Canadian railway company VIA Rail (order of 32 trains with a value of €650 million, source: Siemens), and the current record order backlog (Q1 2019: €4.55 billion, source: Siemens) of its global railway division (Siemens Mobility Division), we expect that the Siemens' rail business in the USA will continue to grow in future. With the emergence of the high-speed rail link in California (major project: California High-Speed Rail), Siemens expects the size of production capacities in the USA to increase in line with the above growth.

At the end of 2017, Swiss train manufacturer Stadler started constructing its own factory in Salt Lake City (Utah) for the production of rolling stock for the North American market (source: Stadler). Up to 350 new jobs are expected to be created with the construction of the new factory, which is scheduled to open at the beginning of 2019 (source: tagblatt.ch). According to Stadler, its Caltrain mega-deal played an essential role in constructing these manufacturing sites in the USA because the contract necessitates more production areas in this region. The Caltrain Californian railway company awarded a major order for 16 double-decker trains to Stadler in August 2016 (source: Handelszeitung.ch). The contract volume of this order according to Stadler amounts to USD 551 million, where this contract includes an option for a further 96 double-decker trains (or carriages) (source: Lok-report.de). According to media reports, Caltrain also drew on a substantial part of the contract option at the end of 2018 with the order for a further 37 carriages (order value: approximately USD 175 million) (source: Tagblatt.ch). Based on the prestigious Caltrain order that has been won (railway line through Silicon Valley) and the increasing US orders (8 successful sales already since 2002 according to media reports and Stadler), Stadler should in our opinion have managed to break through on the US market and the growth path continued on the US market. The state of Utah anticipates that Stadler will have created up to 1000 jobs in its region in ten years and therefore a payroll of USD 576 million (source: tagesanzeiger.ch, October 2017).

Against the backdrop of the expected further rise in the volume of investment in the global railway sector and a manageable number of competitors, the future situation with orders and thus SBF AG's turnover and revenue should inevitably see positive development.

This therefore indicates that the rail technology market is a very stable market, since on the one hand more people in the cities and conurbations will be using buses and railways in the future, which will result in additional capital expenditure and on the other hand, the ecological aspect is becoming increasingly significant.

Altogether, it can therefore be said that SBF is active on a very recession-proof market, which should see further growth in the years ahead due to increasing urbanisation, greater environmental/climate protection, high population growth (particularly in emerging markets), catch-up effects on the emerging markets and increasing gridlock (especially in the metropolitan areas) to increase further growth.

The environmental aspects in particular should play an even more important role for the railway industry in the future against a background of greater environmental protection and the trend towards decarbonisation of the economy (reduction in carbon emissions) and be given additional support by the government. Rail transport systems can make a significant contribution to promoting environmental protection through their high performance and environmental friendliness (zero CO2 emissions).

In addition, the railway engineering sector can also help the general transport system that is increasingly reaching its limits, as for example in Germany, by triggering a shift in mobility to rail. According to a current study by the Automobile Club ADAC there were 745,000 traffic jams in which motorists were held up in 2018 in Germany, corresponding to a 3% growth compared to the previous year. In addition, the study's experts were also able to establish an increase in storage kilometres, which have grown by 5% to around 1,528,000 kilometres.

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. This includes the ability of the company to benefit in particular from its good customer access and high product performance and quality.

COMPANY PERFORMANCE AND FORECAST

Historical development of the company

Key (rounded) figures in € m	2016	2017
Revenues	21.46	19.53
EBITDA	1.55	2.38
EBITDA margin	7.22%	12.19%
EBIT	0.70	1.67
EBIT margin	3.26%	8.55%
Net income	-0.04	1.36

Source: SBF AG

Past sales development

Backround to the turnaround

Changes were made to the management at SBF AG (formerly Corona Equity Partners) in 2015 due to weak economic performance. The now newly appointed management (Rudolf Witt, SBF AG; Robert Stöcklinger, SBF Spezialleuchten GmbH) has carried out a strategic realignment following this and launched a comprehensive restructuring programme. This package of measures included in particular the improvement of the cost structure, productivity, product quality as well as of delivery performance.

SBF AG has positioned itself as an operational holding company as part of this strategic realignment, focusing on the rolling stock industry. In this sector, the medium-sized company will establish itself as a “genuine” system supplier and in doing so, will be focusing on orders with high profit margins.

The restructuring efforts introduced in 2015 have already had a massive effect in the 2016 financial year and in so doing, have resulted in an almost balanced net result. In addition, the changes initiated by management were a great help in stabilising the financial situation and improving relations with a major customer. This created a good starting position for positive growth in future business and a further improvement in earnings.

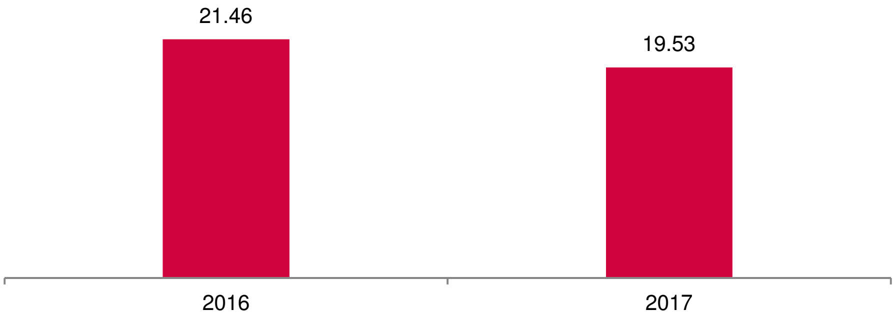
Revenue performance in the 2017 financial year

After the 2016 financial year was still being heavily influenced by restructuring measures, the 2017 financial year was marked by further development in all key sectors. In addition, proof that the path to consolidation taken in the previous year was sustainable was to be provided for stabilising and realigning SBF.

In addition, management’s focus was on the long-term and sustainable strengthening of the company’s competitiveness. This could be achieved by significant changes at almost every level.

Following the satisfactory development of the company in 2016, this positive trend stabilised in 2017 and continued to expand. This therefore demonstrated the sustainability of the path to consolidation that had been introduced. All the measures introduced have generally resulted in stabilisation, and thus in a significant improvement to the company’s overall situation. In our opinion, the restructuring of the company has been completed with great success and we are looking firmly to the future.

Past sales performance (in € million)



Source: SBF AG

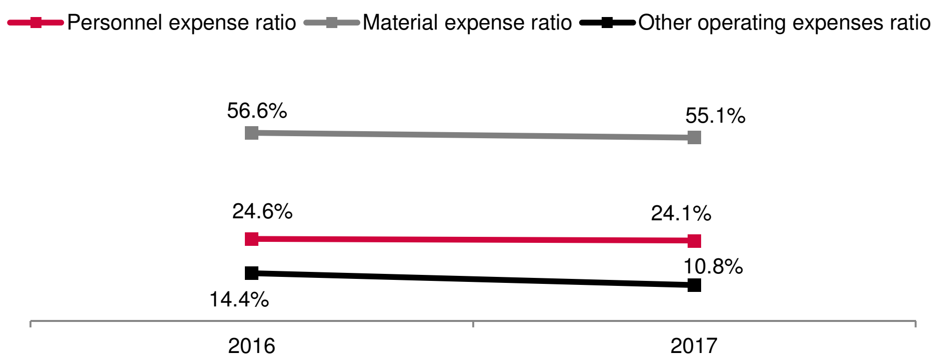
The SBF Group generated revenue of €19.53 million in the 2017 financial year (previous year: €21.46 million) and therefore a fall of 9.9% had to be recorded compared to the previous year. This drop in revenue was a result of exercising restraint in awarding new contracts and an associated decline in the volume of orders. We assume that more than 90% of revenue was generated with the ceiling systems core product group.

Earnings performance

After the SBF Group had achieved significant improvements to earnings in the 2016 financial year, this trend also continued in the following year of 2017. With the aid of extensive restructuring measures aimed at process optimisations, productivity increases and cost savings, the earnings situation improved significantly at all income levels.

The improvement in operational earnings is based primarily on the significant decrease in other operating expenses due to the ending of open lawsuits by about 32% to €2.11 million (previous year: EUR 3.09 million). Alongside this, the cost ratio of other operational expenses in relation to the revenue generated has fallen from 14.4% to 10.8%.

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

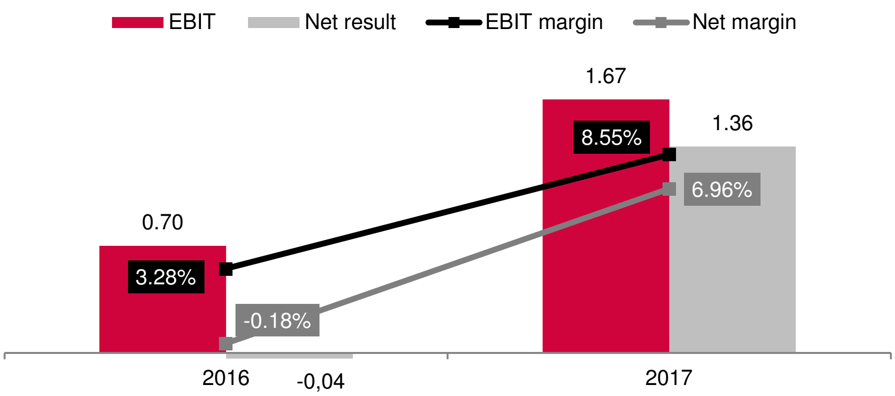


Sources: SBF AG; GBC AG

In addition, cost savings were achieved in the area of material expenditure. The cost of materials ratio thus fell slightly by 1.5% to 55.1% (previous year: 56.6%). As a consequence, in the 2017 financial year a slight increase in the gross profit ratio from 46.3% to 47.1% was recorded, despite a decline in turnover.

Expenses in the personnel department fell by 10.9% due to the reduction in employees. Due to the lower revenue, the ratio of personnel expenses remained virtually unchanged at 24.1% compared to the previous year (previous year: 24.6%).

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



Sources: SBF AG; GBC AG

In total, this resulted in a significant increase in the operating profit (EBIT) by around 139% to €1.67 million. Considerable improvements were also made at net level based on interest expenses that had fallen by €0.47 million compared with the previous year. Therefore the net profit rose to €1.36 million (previous year: -0.04 million €) and was thus turned into significant gains.

Overall, it can be stated that SBF AG has increased its competitiveness significantly in recent years. In addition, the new strategic “course” has in retrospect proved positive and accurate. In addition, the Company significantly improved their cost structure and productivity, which is reflected in a significant increase in earning power. Against this background, the company is currently acting from a strong competitive position and a good financial situation.

Balance sheet/financial situation of SBF AG

Selected positions of the consolidated balance sheet (in € million)	31/12/2016	31/12/2017
Equity	8.82	10.18
Equity ratio (in %)	50.8%	61.7%
Interest-bearing liabilities	4.23	3.37
Cash and cash equivalents	0.39	1.02
Net debt	3.84	2.35
Operating fixed assets	9.42	8.89
Net working capital	5.15	5.17

Source: SBF AG

The strategic realignment of the past few years is reflected positively in the consolidated balance sheet of SBF AG. Process optimisations, increases in productivity and cost savings massively improved SBF AG's profit situation in 2017 compared to the previous year. Liquid assets and the equity ratio rose due to the positive earnings performance. At the same time, net debt fell.

SBF AG as an operational holding company has a high capitalisation ratio (> 50%), whereby the fixed assets amounting to €8.89 million as at 31/12/2017 were financed mainly via equity.

With equity capital of €10.18 million at group level, the equity capital ratio was at an above-average level 10.18 Mio at 61.7% as at 31/12/2017. This value is set to increase further in the years ahead. The company therefore has a very sound balance situation.

The net credit balance was at a comparatively low level at €2.35 million as at 31/12/2017. There were loan liabilities amounting to €3.37 million at the end of 2017. In contrast, there were liquid funds amounting to €1.02 million as at the reporting date of 31/12/2017. In addition, the company in our opinion has free current account lines at banks amounting to €5 million, which have so far not been utilised.

The net working capital moved as at 31/12/2017 at around €5.2 million to around that of the previous year.

Overall, we currently rate SBF AG's financial situation as positive and sound (double-digit profit margins and sustainable order situation). 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. We similarly rate the liquidity situation against a background of available liquid funds and the existing credit lines as positive.

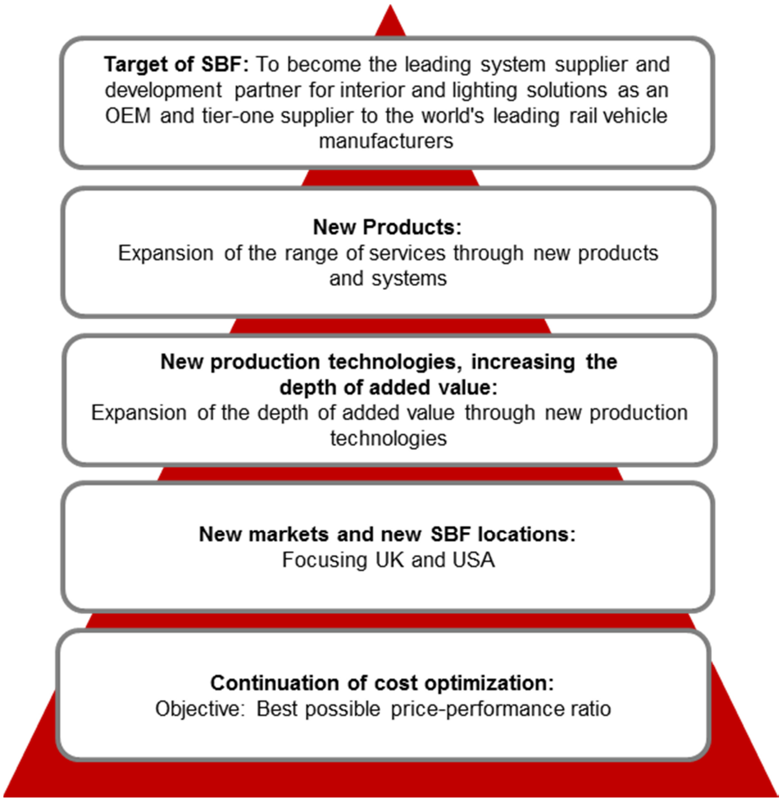
SWOT analysis

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.

Current corporate strategy – Now the focus is on growth again

SBF pursues a growth-oriented corporate strategy with the objective of becoming the leading system supplier in the train interior and lighting sector for the global railway industry. The company's strategy consists in our view of three key elements.

Strategic positioning



Sources: GBC AG; SBF AG

A significant part of this is the expansion of the company's supplier and product range, comprising individual components, product systems as well as various services.

The planned expansion of the range of services will be carried out through strategic acquisitions, partnerships or investments. SBF has recently had a very strong focus on lighting and ceiling systems for rolling stock and aims to achieve further expansion of the product range around the rolling stock's "interior" and "light" core theme. There is the possibility, for example, that the range may be extended to include flooring systems, handrails or side walls.

In addition, SBF is focusing on continuously increasing in its own vertical integration. The potential for optimising costs can be increased and quality control improved by increasing its own vertical integration. In so doing, additional orders in new business fields can be addressed. Expansion options are offered regarding the independent value chain, e.g. in the coating (painting) of products and systems or in 3D-laser welding.

In addition to the expansion of the product portfolio and the increase in vertical integration, internationalisation is a key component of the strategy. Since SBF is primarily supplying large customers in Germany at present with components and product systems (e.g. Siemens, Bombardier) and Switzerland (Stadler), the Company is planning to extend its geographical reach. This growth potential will be used in individual promising regions.

We anticipate that the company will carry out specific market entries in the medium term within Europe, such as in Great Britain.

As part of this, the global rolling stock manufacturers will also give preference to those suppliers who manufacture locally together with the respective train manufacturer in the various regions. In addition, local production is increasingly becoming a prerequisite for an industrial company such as SBF for being able to fulfil customers' and end customers' local content requirements and even to gain orders in a specific country.

Overall, the utilisation of the available capacities should increase substantially as a result of a higher volume of business, and profitability should therefore also grow due to the effects of economies of scale.

Continuous optimisation is also, however, another key cornerstone of the strategy. A lean cost structure will thereby be achieved for offering SBF customers the best possible price-performance ratio. An optimum cost structure will mainly be achieved through a high degree of automation in the production process (as far as possible) and by a high level of vertical integration.

After successful restructuring over the past few years, the management is now introducing the profitable growth phase of the company. Internationalisation and expansion of the product range in particular will play an important role and enable growth in both turnover and earnings.

Forecasts and model assumptions

P&L (in € millions)	FY 2017	FY 2018e	FY 2019e	FY 2020e	FY 2021e
Revenues	19.53	14.50	17.70	19.50	22.40
EBITDA (margin)	2.38 (12.2)%	2.30 (15.9%)	2.40 (13.6%)	2.70 (13.8%)	3.48 (15.5%)
EBIT (margin)	1.67 (8.6%)	1.62 (11.2%)	1.65 (9.3%)	1.85 (9.5%)	2.48 (11.1%)
Net income (margin)	1.36 (7.0%)	1.37 (9.4%)	1.43 (8.1%)	1.60 (8.2%)	2.13 (9.5%)

Sources: SBF; GBC AG

Revenue forecasts

After SBF repositioned itself strategically over the past three years and was able to strengthen its competitive position in particular by a slimmer cost structure and higher product quality and delivery performance, the company is now focusing on pursuing profitable growth.

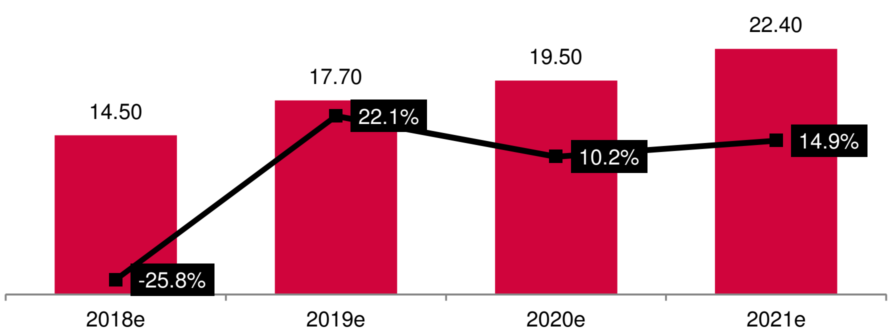
SBF, according to its own statements, was expecting a fall in revenue for 2018, although a result at the previous year's level for income. This financial year is therefore still a transitional year. We expect dynamic business development from next year onwards.

According to media reports, the company has an order backlog for 2019 amounting to around €16 million. Our forecast for 2019 therefore seems very likely and also underpins the introduction we expect of the growth phase.

For this dynamic growth in revenue, the increased capital expenditure that is expected across the world for this dynamic growth in revenue should, in our opinion in particular, go into the railway engineering sector. This is based, for example, on the discharge of accumulated capital expenditure in railway engineering (such as at Deutsche Bahn) or the modernisation requirements for existing rolling stock.

In addition, the planned development of market potential in new markets, which to date has not been addressed by SBF at all or only to a limited extent, such as the regions in the United Kingdom or Eastern Europe, should have a positive effect on the development of revenues. In addition, the desired expansion of vertical integration and the resulting job opportunities make an additional increase in future business volume possible.

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



Source: GBC AG

Overall, we therefore expect consolidated revenues for the past financial year amounting to €14.50 million. We expect dynamic growth in revenue for the subsequent years of

2019, 2020 and 2021 and anticipate revenues amounting to €17.7 million, €19.5 million and €22.4 million.

Not yet taken into account in our forecasts is a potential M & A transaction, investment or partnership, which the company could carry out to expand its product range according to the Annual Report. In addition, potential and particularly valuable large orders were not included in our forecasts. These might arise when collaborating in extensive major projects in the UK, for example, and would also represent a significant upside potential.

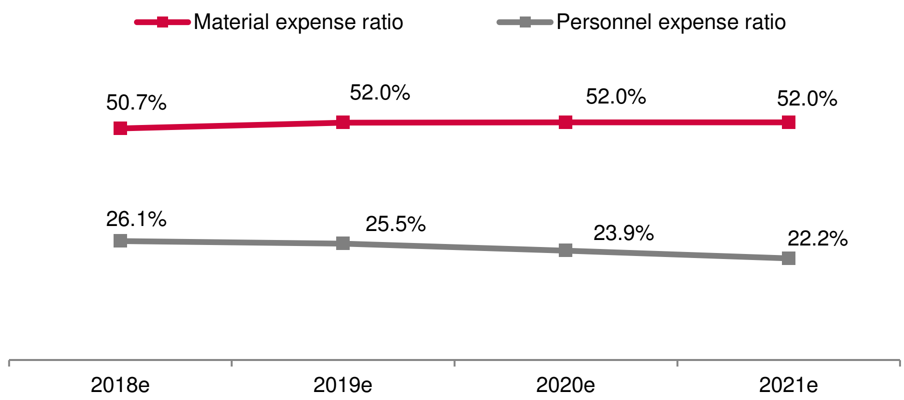
Overall, we consider SBF to be on a very good path towards sustainable dynamic growth. In particular, the very good customer relations with the leading global rolling stock manufacturers as well as technological leadership in the light-based ceiling systems sector should be of significance here and have a big payoff for the company.

Earnings forecasts

The dynamic revenue development that we expect is also reflected in our forecast results as of the current 2019 financial year. For the past financial year of 2018, we expect a net result close to the previous year despite lower turnover based on an improved cost structure and optimised productivity. Specifically, we expect a net profit for this period amounting to €1.37 million (previous year: €1.36 million).

Our assessment is supported here by the preliminary business figures most recently announced by the company for the 2018 financial year. As part of this, the company has admittedly forecast a fall in revenue for its core holding SBF Spezialleuchten GmbH, but has promised profit on a par with last year.

Expected development of important cost ratios



Source: GBC AG

For the subsequent years of 2019, 2020 and 2021, we definitely expect disproportionate growth in earnings based on expected economies of scale in conjunction with a rising volume of business. We expect economies of scale here, particularly in the personnel department (management) and production department (higher utilisation of capacity). The various fixed costs should be distributed over a higher volume of business based on the expected higher sales momentum and therefore result in an improvement in the fixed costs ratio (reduction in fixed costs).

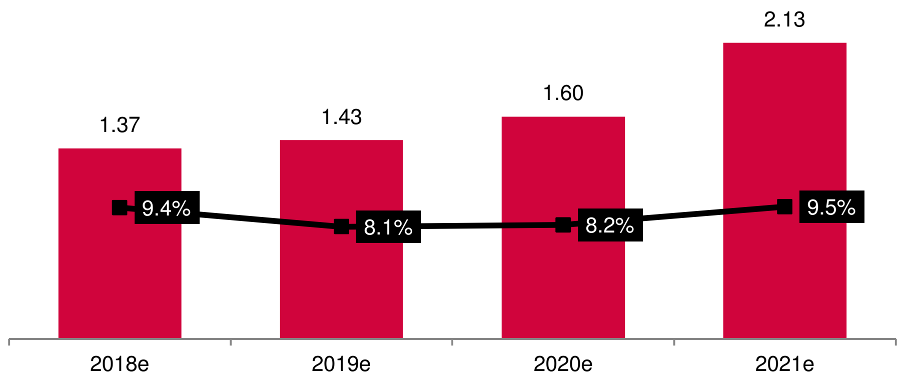
In addition, we expect that the ratio of expenditure on materials will also move in future to a somewhat lower level based on the optimised cost structure and the significantly improved production processes.

The company's business model is in principle moderately intensive in terms of personnel and capital. The company pursues maximum vertical integration, as well as maximum automation in the production department, where certain production processes can only be carried out manually based on individual and demanding customer requests. The focus of SBF is generally very much on the design, the engineering of the hardware and software development (control electronics) in conjunction with their product range.

The aforementioned effects in conjunction with high product quality (high customer benefits) and high service quality should mean that SBF can generate a high gross margin of 48% and also keep it at this level.

Against the backdrop of our forecast dynamic business development, net income should gradually rise from €1.43 million in 2019 to €1.6 million in 2020 and finally and significantly to €2.13 million in 2021. At the same time, the return on revenue (net margin) of 8.1% in 2019 should then rise significantly to 9.5% in 2021. The economies of scale already mentioned should contribute substantially to this development. In addition, we expect only minimum taxation in the years ahead based on the loss carryforwards we have estimated in double-digit millions.

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



Source: GBC AG

SBF AG has in the past created a solid basis for gaining significant benefits from the expected growth in the rail technology sector. With the introduction of the growth phase that has now started and good market positioning, it should be possible for the company to increase its net profits and margin levels sustainably in the years ahead.

VALUATION

Model assumptions

We rated SBF AG using a three-stage DCF model. We started with the specific estimates for the years 2018 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 5.6% to 12.5% (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 € 3.62.

DCF-Modell

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 18e	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	final value
Revenue	14.50	17.70	19.50	22.40	23.52	24.70	25.93	27.23	
Revenue change	-25.8%	22.1%	10.2%	14.9%	5.0%	5.0%	5.0%	5.0%	2.0%
Revenue to fixed assets	1.51	1.72	1.79	2.00	2.09	2.19	2.29	2.40	
EBITDA	2.30	2.40	2.70	3.48	3.65	3.83	4.02	4.22	
EBITDA margin	15.9%	13.6%	13.8%	15.5%	15.5%	15.5%	15.5%	15.5%	
EBITA	1.62	1.65	1.85	2.48	2.70	2.87	3.06	3.26	
EBITA margin	11.2%	9.3%	9.5%	11.1%	11.5%	11.6%	11.8%	12.0%	12.0%
Taxes on EBITA	-0.09	-0.10	-0.15	-0.27	-0.31	-0.34	-0.37	-0.41	
Taxes to EBITA	5.6%	6.2%	8.2%	10.7%	11.3%	11.7%	12.1%	12.5%	30.0%
EBI (NOPLAT)	1.53	1.55	1.69	2.21	2.39	2.54	2.69	2.85	
Return on capital	10.8%	11.6%	11.5%	14.2%	14.4%	15.0%	15.6%	16.3%	13.0%
Working Capital (WC)	3.70	4.43	4.68	5.38	5.64	5.93	6.22	6.53	
WC to revenue	25.5%	25.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	
Investment in WC	1.47	-0.73	-0.26	-0.70	-0.27	-0.28	-0.30	-0.31	
Operating fixed assets (OAV)	9.63	10.28	10.88	11.18	11.23	11.28	11.32	11.36	
Depreciation on OAV	-0.68	-0.75	-0.85	-1.00	-0.95	-0.95	-0.96	-0.96	
Depreciation to OAV	7.1%	7.3%	7.8%	8.9%	8.5%	8.5%	8.5%	8.5%	
Investment in OAV	-1.35	-1.40	-1.45	-1.30	-1.00	-1.00	-1.00	-1.00	
Capital employment	13.33	14.71	15.56	16.56	16.88	17.20	17.54	17.89	
EBITDA	2.30	2.40	2.70	3.48	3.65	3.83	4.02	4.22	
Taxes on EBITA	-0.09	-0.10	-0.15	-0.27	-0.31	-0.34	-0.37	-0.41	
Total investment	0.12	-2.13	-1.71	-2.00	-1.27	-1.28	-1.30	-1.31	
Investment in OAV	-1.35	-1.40	-1.45	-1.30	-1.00	-1.00	-1.00	-1.00	
Investment in WC	1.47	-0.73	-0.26	-0.70	-0.27	-0.28	-0.30	-0.31	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	2.33	0.17	0.84	1.22	2.07	2.21	2.35	2.50	32.37

Value operating business (due date)	26.59	28.56
Net present value explicit free cashflows	7.79	8.24
Net present value of terminal value	18.80	20.32
Net debt	0.19	0.15
Value of equity	26.40	28.41
Minority interests	0.00	0.00
Value of share capital	26.40	28.41
Outstanding shares in m	7.84	7.84
Fair value per share in €	3.37	**3.62**

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	7.8%
Target weight	0.0%
Taxshield	28.7%
WACC	**8.1%**

ANNEX

I.
Research under MiFID II
1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

II.
Section 1 Disclaimer and exclusion of liability
This document is intended solely for information purposes. All data and information in this study come from sources that GBC regards as reliable. In addition, the authors have taken every care to ensure that the facts and opinions presented here are appropriate and accurate. Nevertheless, no guarantee or liability can be accepted for their correctness – whether explicitly or implicitly, In addition, all information may be incomplete or summarised. Neither GBC nor the individual authors accept liability for any damage which may arise as the result of using this document or its contents, or in any other way in this connection.

We would also point out that this document does not constitute an invitation to subscribe to nor to purchase any securities and must not be interpreted in this way. Nor may it nor any part of it be used as the basis for a binding contract of any kind whatsoever. or be cited as a reliable source in this context. Any decision relating to the probable offer for sale of securities for the company or companies discussed in this publication should be taken solely on the basis of information in the prospectuses or offer documents which are issued in relation to any such offer.

GBC does not provide any guarantee that the indicated returns or stated target prices will be achieved. Changes to the relevant assumptions on which this document is based can have a material impact on the targeted returns. Income from investments is subject to fluctuations. Investment decisions should always be made with the assistance of an investment advisor. This document cannot replace the role of an advisor.

Sale outside the Federal Republic of Germany:
This publication, if sold in the UK, may only be made available to those persons who, in the meaning of the Financial Services Act 1986 are authorised and exempt, or persons as defined in section 9 (3) of the Financial Services Act 1986 (Investment Advertisement) (Exemptions) Decree 1988 (amended version) and must not be transmitted directly or indirectly to other persons or groups of persons.

Neither this document nor any copy of it may be taken into, transferred to or distributed within the United States of America or its territories and possessions. The distribution of this document in Canada, Japan or other jurisdictions may be restricted by law, and persons who come into possession of this publication should find out about any such restrictions and respect them. Any failure to respect these restrictions may represent a breach of the US, Canadian or Japanese securities laws or laws governing another jurisdiction.

By accepting this document you accept all disclaimers of liability and the restrictions cited above.

You can find the details of this disclaimer/exclusion of liability at:
http://www.gbc-ag.de/de/Disclaimer.htm

Legal information and disclosures as required by section 85 of Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)

This information can also be found on the internet at the following address:
http://www.gbc-ag.de/de/Offenlegung.htm

Section 2 (I) Updates
A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

Section 2 (II) Recommendation/ Classifications/ Rating
Since 1/7/2006 GBC AG has used a 3-level absolute share rating system. Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months. Previously the ratings related to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are defined based on the categories described below, including reference to the expected returns. Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification, but can result in a revision of the original recommendation.
The recommendations/ classifications/ ratings are linked to the following expectations:

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%.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is <= - 10%.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

Section 2 (III) Past recommendations

Past recommendations by GBC on the current analysis/analyses can be found on the internet at the following address:
http://www.gbc-ag.de/de/Offenlegung.htm

Section 2 (IV) Information basis

For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc.) which GBC believes to be reliable. In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends.

Section 2 (V) 1, Conflicts of interest as defined in section 85 of the Securities Trading Act (WpHG) and in section 20 of Market Abuse Regulation (MAR)

GBC AG and the analysts concerned hereby declare that the following potential conflicts of interest exist for the company/companies described, at the time of this publication, and in so doing meet the requirements of section 85 of the Securities Trading Act (WpHG) and Section 20 of Market Abuse Regulation (MAR). A detailed explanation of potential conflicts of interest is also listed in the catalogue of potential conflicts of interest under section 2 (V) 2.

In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (5a, 5b, 6a,7 ,11)

section 2 (V) 2, Catalogue of potential conflicts of interest

(1) At the time of publication, GBC AG or a legal entity affiliated with it holds shares or other financial instruments in the company analysed or the financial instrument or financial product analysed. (2) This company holds over 3% of the shares in GBC AG or a legal person connected to them.
(3) GBC AG or a legal person connected to them is a market maker or designated sponsor for the financial instruments of this company.
(4) GBC AG or a legal person connected to them has, over the previous 12 months, organised or played a leading role in the public issue of financial instruments for this company.
(5) a) GBC AG or a legal entity affiliated with it has concluded an agreement with this company or issuer of the analysed financial instrument in the previous 12 months on the preparation of research reports for a fee. Under this agreement, the draft financial analysis (excluding the valuation section) was made available to the issuer prior to publication.
(5) b) After receiving valid amendments by the analysed company or issuer, the draft of this analysis was changed.
(6) a) GBC AG or a legal entity affiliated with it has concluded an agreement with a third party in the previous 12 months on the preparation of research reports on this company or financial instrument for a fee. Under this agreement, the third party and/or company and/or issuer of the financial instrument has been given access to the draft analysis (excluding the valuation section) prior to publication.
(6) b) After receiving valid amendments by the third party or issuer, the draft of this analysis was changed.
(7) The analyst responsible for this report holds shares or other financial instruments of this company at the time of publication.
(8) The analyst responsible for this company is a member of the company's Executive Board or Supervisory Board.
(9) The analyst responsible for this report received or purchased shares in the company analysed by said analyst, prior to the time of publication.
(10) GBC or a related legal party has closed an agreement with the underlying company regarding consulting services during the previous 12 months.
(11) GBC or a related legal party has a significant financial interest in the analysed company, for example to get mandated by the analysed company or to provide any kind of services (such as the organization of fairs, roundtables, road shows, etc.).

(12) At the time of the financial analysis, the analysed company is in a financial instrument or financial product (e.g. certificate, fund, etc.) managed or advised by GBC AG or its affiliated legal entity.
(10) GBC AG oder eine mit ihr verbundene juristische Person hat in den vorangegangenen 12 Monaten eine Vereinbarung über die Erbringung von Beratungsleistungen mit dem analysierten Unternehmen geschlossen.
(11) GBC AG oder eine mit ihr verbundene juristische Person hat bedeutende finanzielle Interessen an dem analysierten Unternehmen, wie z.B. die Gewinnung und/oder Ausübung von Mandaten beim analysierten Unternehmen bzw. die Gewinnung und/oder Erbringung von Dienstleistungen für das analysierte Unternehmen (z.B. Präsentation auf Konferenzen, Roundtables, Roadshows etc.)
(12) Das analysierte Unternehmen befindet sich zum Zeitpunkt der Finanzanalyse in einem, von der GBC AG oder mit ihr verbundenen juristischen Person, betreuten oder beratenen Finanzinstrument oder Finanzprodukt (wie z.B. Zertifikat, Fonds etc.)

Section 2 (V) 3, Compliance

GBC has defined internal regulatory measures in order to prevent potential conflicts of interest arising or, where they do exist, to declare them publicly. Responsibility for the enforcement of these regulations rests with the current Compliance Officer, Kristina Bauer, Email: bauer@gbc-ag.de

Section 2 (VI) Responsibility for report

The company responsible for the creation of this/these analysis/analyses is GBC AG, with registered office in Augsburg, which is registered as a research institute with the responsible supervisory authority (Federal Financial Supervisory Authority or BaFin Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany).

GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:
Marcel Goldmann, M.Sc., Financial Analyst
Cosmin Filker, Dipl. Betriebswirt (FH), Deputy Senior Analyst

Other persons involved in the study:
Manuel Hölzle, Dipl. Kaufmann, Senior Analyst

Section 3 Copyright

GBC AG
Halderstraße 27
D 86150 Augsburg
Tel.: 0821/24 11 33-0
Fax.: 0821/24 11 33-30
Internet: http://www.gbc-ag.de

E-Mail: compliance@gbc-ag.de

GBC AG®

- R E S E A R C H & I N V E S T M E N T A N A L Y S E N -

GBC AG
Halderstraße 27
86150 Augsburg
Internet: http://www.gbc-ag.de
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de