Research Report (Anno)

Avemio AG

Transformation into a media technology group is being driven forward

Improvement in profit margins expected

Target price: EUR 23.00
Rating: BUY

IMPORTANT NOTE:
Please note the disclaimer/risk warning
and the disclosure of potential conflicts of interest in accordance with Section 85 WpHG and Art. 20 MAR from page 18

Note in accordance with MiFID II regulation for "minor non-monetary benefit" research: This research fulfils the requirements for classification as a "minor non-monetary benefit". Further information on this can be found in the disclosure under "I. Research under MiFID II"

Date and time of completion of the study: 15.07.2024 (08:39 am)
Date and time of publication of the study: 15.07.2024 (10:00 am)
Validity of the price target: 31 December 2025

Avemio AG*5a,11

Rating: BUY
Target price: € 23.00
(previously: € 32.00)

Current share price: 5.86
12.07.24 / XETRA / 5:36 pm
Currency: EUR

Master data:

ISIN: DE000A2LQ1P6
WKN: A2LQ1P
Number of shares³: 3.83
Market cap: 22.46
Entity value: 30.74
in million / in million EUR

Free float: 29.3 %

Market segment:
Regulated unofficial market Düsseldorf
Transparency level:
Primary market

Accounting:
HGB

Financial year: 31.12.

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* Catalogue of possible conflicts of interest on page 19

Company profile

Industry: trade, technology

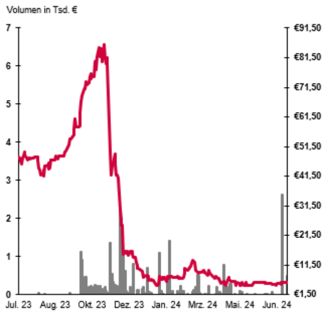
Focus: dealers of professional equipment for moving image production

Employees: approx. 200

Founded: 1993 (foundation of Teltec)

Company headquarters: Frankfurt am Main

Management Board: Ralf P. Pfeffer (CEO); Norbert Gunkler (CFO), Steffen Schenk (COO)



Avemio AG, with its wholly-owned subsidiary Teltec AG, is the trading group with the highest turnover for professional film and television technology in the German-speaking market. Avemio AG's share capital is divided into 3,83 million bearer shares, which are listed on the open market of the Düsseldorf Stock Exchange. The object of the group of companies is trading in professional film and television equipment, associated consumables and accessories. This also includes consulting and technical support for complete production, post-production and broadcasting systems. Teltec AG holds 100% of the shares in each of the following companies VCT Videocation Creative Tools GmbH, VDH Video Data Handels GmbH, VDT Video Data Technik GmbH, BPM Broadcast & Professional Media GmbH; in 2023, MoovIT GmbH and MoovIT Software Products GmbH as well as the Polish company P.V.P. Sp.z.o.o were each taken over in full.

P&L in EUR million \ FY-end	FY 2023	FY 2024e	FY 2025e	FY 2026e
Sales	99.15	101.14	108.22	115.79
EBITDA	-0.05	2.57	6.77	9.19
EBIT	-2.61	0.22	4.52	7.09
Net income for the year	-3.45	-0.39	2.55	4.44
Key figures in EUR				
Earnings per share	-0.90	-0.10	0.67	1.16
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/sales	0.31	0.30	0.28	0.27
EV/EBITDA	neg.	11.96	4.54	3.34
EV/EBIT	neg.	140.06	6.81	4.33
KGV	neg.	neg.	8.80	5.06
KBV	0.85			

Financial dates
29.08.2024: Annual General Meeting
30.09.2024: HY-Report 2024

**Latest research from GBC:
Date: Publication / Target price in EUR / Rating
29.01.2024: RS / 32.00 / BUY
17.08.2023: RS / 50.80 / BUY
** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

EXECUTIVE SUMMARY

- With the presentation of the consolidated figures for the first time, Avemio AG reported sales of € 99.15 million for the past financial year 2023. Although no comparative figures are available for the 2022 financial year, the pro forma figures we have calculated (revenue according to GBC calculation: € 108.70 million) indicate a downward business trend. The company had originally assumed sales of € 120 million for the past financial year.

- The lower-than-expected sales trend is due in particular to weaker demand in the second half of the year, reflecting the low propensity to invest as a result of the economic situation. Overall, demand was lower, particularly for higher-priced equipment and on the consumer side. This was exacerbated by a lack of innovation and therefore a lack of incentives to buy. Finally, the high level of investment during the coronavirus pandemic led to pull-forward effects.

- As expected, EBITDA was also below expectations at € -0.05 million (previous year according to GBC calculation: € 4.44 million) (Avemio guidance: € 5 million). While the gross profit margin remained stable, operating expenses rose disproportionately to gross profit. Among other things, this is due to the expansion of personnel capacities and increased product development costs for the Avemio companies focussing on digital services. Lower than expected sales from these start-ups were also accompanied by a lack of earnings contributions.

- According to the company's guidance, sales growth of between 1% and 4% is to be achieved in the current 2024 financial year. EBIT (2023: € -2.61 million) is expected to increase disproportionately to break-even level. While sales in the retail business are expected to decline by 2% due to the ongoing reluctance to invest, sales in the media technology segment are expected to increase. The expansion of the media technology segment is in any case an important pillar of the corporate strategy, which aims to improve customer loyalty on the one hand and increase the quality of earnings on the other. This strategic component is very well represented by the acquisition of MoovIT GmbH, with which the product range was expanded to include the areas of system integration and software development as well as consulting services for the optimisation and automation of video workflows. However, in-house developments driven by majority-owned start-ups will also contribute to the planned change.

- For the current financial year, we expect sales revenue of € 101.14 million (sales growth: 2.0%) and also assume constant sales growth of 7.0% p.a. for the coming financial years (2025 and 2026). The full-year inclusion of the media technology subsidiary MoovIT and the marketing of the digital products developed by Avemio AG should lead to an improvement in the profit margin. In addition, Avemio AG has implemented cost-cutting measures that should take full effect from 2025 in particular. We expect the EBIT margin to improve to 6.1% by 2026.

- We have determined a new price target of € 23.00, which corresponds to a reduction of the previous price target of € 32.00. The lower price target results from the reduced forecasts for the current financial year 2024, which have led to a reduction in the estimates for the coming financial years. We have also reduced our long-term target EBITDA margin expectation to 10.0% (previously: 11.6%). We continue to assign a BUY rating.

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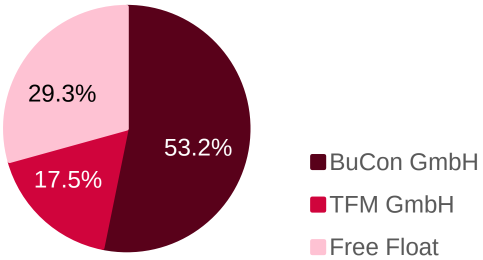
THE COMPANY

Shareholder structure

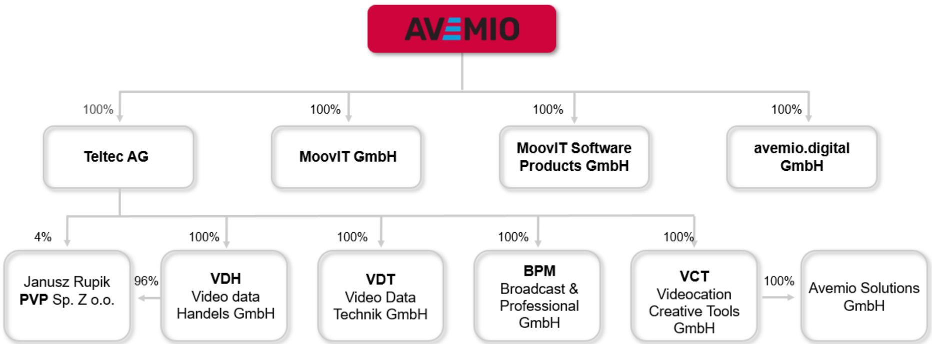
BuCon GmbH*	53.2%
TFM GmbH	17.5%
Free float	**17.5%**

Sources: Avemio AG; GBC AG;
**Ralf P. Pfeffer, CEO Avemio AG holds 50% of BuCon GmbH*



Corporate structure as at 31 December 2023

On 1 January 2023, Teltec AG took over Palgon AG (shell company), which is listed on the Düsseldorf stock exchange, and changed its name to Avemio AG. This is a so-called reverse IPO, in the course of which Teltec AG was brought into the listed shell company as part of a non-cash capital increase. Following the takeover of the two MoovIT companies, Avemio AG now has an IT-based media technology division in addition to the Teltec Group's trading business.



Sources: Avemio AG; GBC AG

The simplified corporate structure presented here illustrates an important cornerstone of Avemio AG's corporate strategy. As an operating company, Teltec AG has made a number of company acquisitions in recent financial years, thereby actively driving market consolidation in the area of professional video technology. Following the acquisition of Videocation GmbH, which has since merged with the subsidiary VCT, in the 2017 financial year, the Videodata Group, which includes VDH, VDT and Creative Tools, was acquired in the 2018 financial year. Hamburg-based BPM Broadcast & Professional Media GmbH was acquired in 2021 before M&A activities gained momentum again in the 2023 financial year. Two further acquisitions were reported here with MoovIT GmbH and the increase in P.V.P., which is now fully owned by the Teltec Group.

The Avemio Group currently consists of thirteen fully-consolidated operating companies and currently employs around 200 people.

Business model

Avemio AG is a leading provider of customised solutions for the professional production, post-production, archiving and distribution of film, TV and video content. The company supplies professional end customers from the media industry with high-quality technology and integrates technical components from various manufacturers into complex technical systems. With ten sales offices in the most important media locations in Germany and Austria, the Avemio Group is close to its customers. The highly qualified sales staff offer comprehensive advice, planning, delivery and technical integration of production, post-production, broadcast and archive systems for a wide range of industry applications.

As a value-added reseller (VAR), the Avemio Group operates independently of manufacturers and offers added value through the integration of sold components, customised planning and a distinctive technical service. The aim is to become a major media technology group for professional moving images.

Originating from a start-up called Teltec in 1993, the group of companies transformed itself around 15 years ago into today's business model of a manufacturer-independent full-range supplier. Since then, it has risen to become the market leader in German-speaking countries through active consolidation and company acquisitions. The Avemio Group has an extensive product portfolio of more than 40,000 items from over 2,000 suppliers, including recording and post-production technology as well as complete broadcast technology.

Corporate strategy

Organic growth in the trading sector	M&A with a focus on internationalisation	Expanding value creation

Sources: Avemio AG; GBC AG

Avemio AG's corporate strategy comprises three main cornerstones, which firstly describe their planned corporate growth and secondly envisage the company's further transformation into a media technology group.

Following consolidation in the German-speaking region, organic growth should benefit in particular from increasing demand for products for professional video production. This is to be supported by a continuation of M&A activities. In 2023, the company entered the Polish market with the acquisition of the Polish company PVP and expanded its value chain to include software with the acquisition of MoovIT. The fundamental aim is to complete the transformation from a pure trading company to a media technology group. In this context, the company is also driving forward its own developments to expand digital services, which are being developed to market maturity within majority-owned start-ups .The market readiness of ObviousFuture GmbH's AI product already represents a proof of concept and thus an expansion of value creation.

MARKET AND MARKET ENVIRONMENT

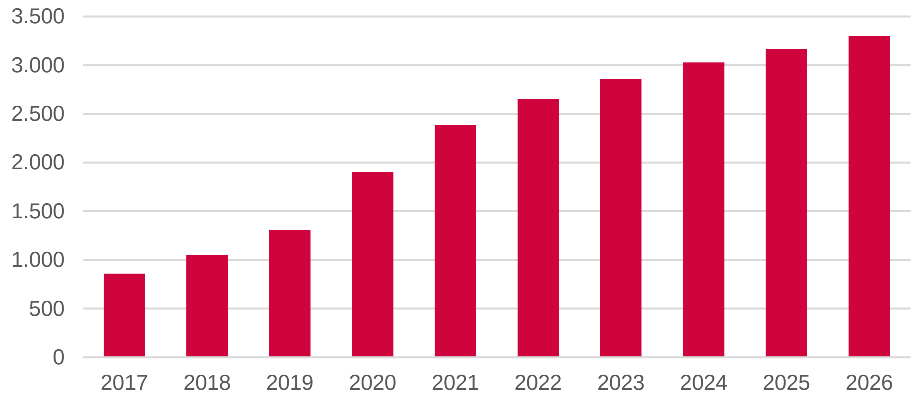
Although the customers of Avemio's products and services are predominantly commercial end customers specialising in the production of video content, they operate in different sectors, meaning that the company's customer group can be considered heterogeneous. The traditional broadcast market, i.e. TV and cinema, accounts for around 10 % to 15% of Avemio's revenue, meaning that the majority of revenue is generated in sectors outside this segment. Some of these are very fast-growing sectors that are also undergoing major change and are characterised by new business models. These include YouTube, Instagram, meta, gaming and virtual reality. However, demand outside of media production, e.g. from hospitals, security companies, etc., could also become an important driver for Avemio AG.

Classic television vs. new media

The medium of television is currently undergoing a structural change that is characterised by increasing competition from new business models. This can be seen, for example, in the declining use of the medium of "linear television", which is offset by an increasing proportion of digital media usage. In the current study "Video Trends 2023", this is particularly evident in the varying behaviour of the different generations. Only 68 per cent of the youngest generation (Generation Z) still use linear television, while 93 per cent of the baby boomer generation regularly watch traditional television. However, when it comes to the use of video streaming services (90% of Generation Z vs. 44% of baby boomers) or videos via social networks (79% of Generation Z vs. 22% of baby boomers), the younger generation is significantly more likely to use them. A look at Generation Z is significant in that it allows us to draw conclusions about future media developments.

It is therefore understandable that various studies (including German Entertainment & Media Outlook 2022) expect only slight growth in TV market revenues, while the VoD market (video on demand) is experiencing an upswing.

Revenue from video on demand (in € million)



Sources: PwC; GBC AG

The increasing use of digital streaming services is an important driver for VoD. The professional production of media content is shifting to the VoD sector. Avemio AG should benefit from both stable demand from the linear television sector and increasing demand from new media producers.

Social media, virtual reality and metaverse

The professional production of content that is distributed via new media such as social media is likely to characterise the future demand for professional equipment. The increasing use of videos via social media channels is a key criterion for the further professionalisation of content creators. Among Generation Z, i.e. those born between 1996 and 2009, the use of moving image content on YouTube (94%), Instagram (60%) and TikTok (46%) is particularly pronounced.

The increase in production volume is decisive in the demand for professional video production equipment. In a survey conducted by the BLM (Bavarian State Centre for New Media), German online video providers reported an increase in production volume. A total of 73% produced more videos last year, a significant increase on the previous year's figure of 59%. YouTube (71%), TikTok (70%), Instagram (61%) and Facebook (57%) are the channels most frequently used by providers to distribute videos. From the perspective of video providers, better infrastructure (46% of respondents), which also includes recording technology, plays an important role in the future development of the online video market.

Producing content for virtual reality (VR) and augmented reality (AR) also requires professional equipment. Both VR and AR have become firmly established in the multimedia landscape in recent years. The underlying technologies have evolved significantly and are now widely used thanks to technical progress and the miniaturisation of devices. The positive trend of these technologies has gained momentum and they are no longer only designed for professional use, but are also widely used in other application areas.

In the consumer area of VR, games dominate as the most important sales and technology driver. AR, on the other hand, is dominated by social media, with a particular focus on the metaverse. However, AR is also becoming increasingly interesting for education and training as well as for virtual collaboration, which ultimately also requires broadcasting technologies and consulting. The AR and VR market is expected to grow at an average annual rate of around 20% until 2026.

Metaverse is a term for a collective virtual space that realises a connection between physical and virtual reality. The technological developments of recent years (VR; AR, flexible forms of work; AR cloud, IoT, 5G, AI), which have made the metaverse an important trend topic, are a prerequisite for its growing importance. According to a survey conducted by the Bundesverband Digitale Wirtschaft (BVDW) e.V. among executives of digital service providers and companies, one in three companies is planning to invest in metaverse projects. The results also shed light on which sectors will benefit most from the metaverse. The fashion industry was named as the main beneficiary by 82% of respondents, followed by the media and entertainment industry with 74% in favour. The media/entertainment sector in particular, which will market professional moving images in the metaverse, is likely to offer corresponding potential for Avemio AG.

CORPORATE DEVELOPMENT

Figures at a glance

Income statement (in € million)	**FY 2022**	**FY 2023**	**FY 2024e**	**FY 2025e**	**FY 2026e**
Sales revenue	108.70	99.15	101.14	108.22	115.79
Other operating income	1.26	1.54	1.50	1.50	1.50
Cost of materials	-89.70	-81.73	-80.91	-84.95	-89.74
Gross profit	**20.26**	**18.96**	**21.73**	**24.77**	**27.55**
Personnel expenses	-10.20	-12.25	-12.19	-11.60	-11.84
Depreciation and amortisation	-1.14	-2.56	-2.35	-2.25	-2.10
Other operating expenses	-5.62	-6.75	-6.97	-6.40	-6.52
EBIT	**3.30**	**-2.61**	**0.22**	**4.52**	**7.09**
Income from investments	0.00	0.11	0.10	0.00	0.00
Interest income	0.05	0.07	0.05	0.00	0.00
Interest expense	-0.46	-0.72	-0.92	-0.87	-0.75
EBT	**2.89**	**-3.15**	**-0.55**	**3.65**	**6.34**
Taxes	-1.11	-0.30	0.17	-1.09	-1.90
EAT	**1.79**	**-3.45**	**-0.39**	**2.55**	**4.44**
EBITDA	4.44	-0.05	2.57	6.77	9.19
in % of sales revenue	*4.1%*	0.0%	2.5%	6.3%	7.9%
EBIT	3.30	-2.61	0.22	4.52	7.09
in % of sales revenue	*3.0%*	-2.6%	0.2%	4.2%	6.1%
Earnings per share in €	0.52	-0.90	-0.10	0.67	1.16

Sources: Avemio AG; GBC AG

Business development 2023

in € million	FY 2020*	FY 2021*	FY 2022*	FY 2023
Sales	66.65	111.15	108.70	99.15
EBITDA	2.11	6.54	4.44	-0.05
EBIT	1.30	5.48	3.30	-2.61
EAT	0.57	3.46	1.79	-3.45

*Sources: Avemio AG; GBC AG; *Pro-forma Group figures*

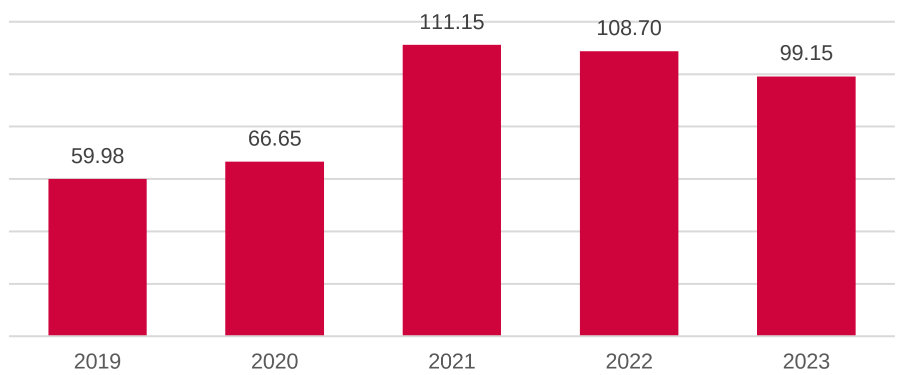
Sales development 2023

Avemio AG published its consolidated financial statements for the past financial year 2023 for the first time on 28 June 2024. On 1 January 2023, Teltec AG acquired Palgon AG (shell company), which is listed on the Düsseldorf stock exchange, as part of a reverse IPO and changed its name to Avemio AG. Avemio AG is the parent company of the Avemio Group, whose operating business takes place in the respective subsidiaries.

The majority of the operating business is bundled in Teltec AG, which was founded in 1993. We have individual financial statements for the past financial years. In addition, we also have individual financial statements for the acquired companies, meaning that we have calculated pro forma consolidated figures for the past financial years. As part of the first-time publication of the 2023 Annual Report, Avemio AG is not reporting any comparative figures for previous financial years.

In the past financial year, the company fell just short of the € 100 million mark with sales of € 99.15 million (previous year: € 108.70 million). The company had originally expected sales of € 120 million, which were reduced to € 103 million when the preliminary figures were presented in January 2024. The lower-than-expected sales performance is due in particular to weaker demand in the second half of the year, which reflects a low propensity to invest as a result of the economic situation. Overall, demand was therefore lower, particularly for higher-priced equipment and from consumers. This was exacerbated by a lack of innovation and therefore a lack of incentives to buy. Finally, the high level of investment during the coronavirus pandemic led to pull-forward effects.

Sales revenue (in € million)



Sources: Avemio AG; Teltec AG; GBC AG

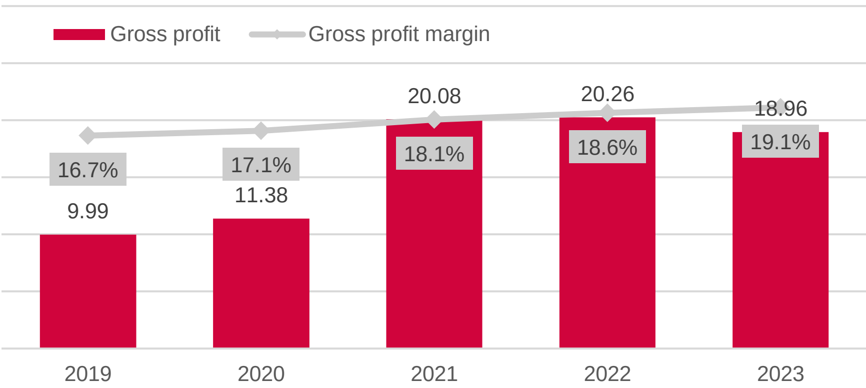
Despite this lower-than-expected business performance, Avemio AG continued to drive inorganic growth as a key pillar of its corporate strategy in the past financial year with the acquisition of the Polish company Janusz Rupik Professionelle Videotechnik Polska Sp. z o.o. ("PVP") and the software providers MoovIT GmbH and MoovIT Software Products GmbH. The inorganic effects were thus able to partially compensate for the decline in business development, but were lower than expected. Contrary to previous expectations, MoovIT, which was acquired in June 2023, was not consolidated from 1 January 2023, but only from 1 September 2023 and therefore only generated pro rata sales of € 1.8 million (annual sales: € 5.4 million).

Even though the sales trend was significantly below our expectations (original GBC forecast: € 127.49 million), it should be noted that the company was at least able to confirm the higher level of sales achieved during the coronavirus pandemic. Compared to sales before the outbreak of the pandemic, the level achieved in the past financial year 2023 is around 65% higher. This is a result of both organic growth and the inorganic growth strategy implemented in recent financial years.

Earnings development 2023

As the trading segment accounts for the majority of sales (96.9% of sales), gross profit is to be considered a key earnings indicator. The decline in gross profit to € 18.96 million (previous year: € 20.26 million) was disproportionately low compared to the decline in sales, which was reflected in an increase in the gross profit margin to 19.1% (previous year: 18.6%). With a constant cost of materials ratio in relation to sales of 82.4% (previous year: 82.5%), gross profit benefited from own work capitalised (€ 0.75 million) and other operating income (€ 0.80 million). However, the constant development of the cost of materials ratio shows that there has been no price erosion in the industry. A fundamental improvement in the gross profit margin can be recognised over the past financial years.

Gross profit (in € million) and gross profit margin (in %)

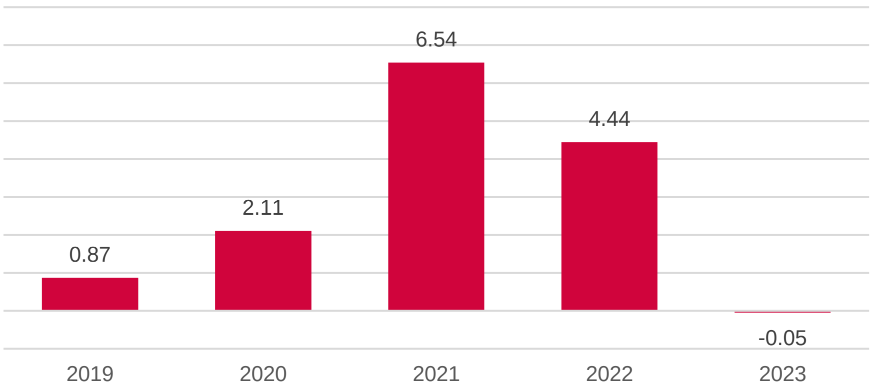


Sources: Avemio AG; Teltec AG; GBC AG

By contrast, operating costs below gross profit rose disproportionately, with the result that Group EBITDA was only just below the break-even point at € -0.05 million (previous year: € 4.44 million). The significant increase in personnel expenses to € 12.25 million (previous year: € 10.21 million) should be emphasised, which is partly due to the newly acquired companies. On the other hand, Avemio AG has deliberately increased its workforce in recent years, as a large proportion of sales is associated with consultancy services that tie up personnel capacity. In addition, the increase in expenses below gross profit is related to higher product development costs for digital products. Avemio AG is developing new digital business models and holds majority interests in various companies that are still in the start-up phase. One of these companies, ObviousFuture GmbH, is expected to generate its first sales in the current financial year.

In line with sales, EBITDA was also below the company's expectations (Avemio forecast: € 5 million) and below our original estimates (GBC forecast: € 5.60 million).

EBITDA (in € million)



Sources: Avemio AG; Teltec AG; GBC AG

Avemio AG applies HGB accounting, i.e. goodwill is amortised over a period of ten years. Due to the high level of M&A activity in recent financial years, Avemio AG reported goodwill of € 18.03 million as at 31 December 2023. With a business model that is not actually asset-intensive, depreciation and amortisation is nevertheless comparatively high at € 2.56 million (of which € 1.87 million is goodwill amortisation). At € -2.61 million (previous year: € 3.30 million), EBIT is therefore well below the break-even point.

After deducting financial expenses of € 0.72 million (previous year: € 0.46 million) and tax expenses of € 0.30 million (previous year: € 1.11 million), Avemio AG therefore also reported a negative after-tax result of € -3.45 million (previous year: € 1.78 million). As shown, this negative figure is a consequence of the decline in business development, which is offset by increased personnel and development costs as well as a high level of depreciation and amortisation.

Net assets as at 31 December 2023

Assets (in € millions)		Liabilities (in € millions)	
Fixed assets	22.00	Equity capital	26.35
thereof goodwill	18.03	Provisions	0.79
Financial assets	0.28	Liabilities to banks	13.99
Inventories	15.13	Liabilities from trade payables	6.22
Receivables/other assets	7.46	Other liabilities	1.77
Cash and cash equivalents	5.43		

Sources: Avemio AG; GBC AG

The Teltec Group was contributed to Palgon AG at a value of € 23.4 million as a contribution in kind; this transaction resulted in goodwill totalling € 11.3 million. At the same time, the company acquisitions made in previous financial years also led to the capitalisation of goodwill, with the result that goodwill totalling € 18.03 million dominates the fixed assets of Avemio AG.

As is usual for trading companies, inventories are significant at € 15.13 million. This mainly relates to inventories (technical components), which account for 15.2% of the sales revenue generated in the 2023 financial year. According to the company, a high level of inventories was deliberately built up in order to maintain the ability to deliver, even against the backdrop of supply chain problems. The reciprocal value of 6.6 corresponds to the inventory turnover rate, which means that one euro invested generated sales of € 6.60.

With an equity ratio of 52.1%, equity totalling € 26.35 million is the dominant liability item. As shown, equity essentially reflects the value of the contribution in kind totalling € 23.4 million and is divided between share capital, capital reserves and profit carried forward.

In addition, Avemio AG has loan liabilities totalling € 13.99 million. These are mainly long-term loans, which we believe still have very favourable interest rates. The majority of the loans were taken out in 2022 in order to broaden the financial basis for the planned inorganic growth. Some of the loan funds were already used for company acquisitions in 2023.

According to the cash flow statement, the cash outflow for the two transactions carried out in 2023 (PVP; MoovIT) totalled € 3.05 million and was therefore primarily responsible for the cash flow from investing activities of € -4.37 million. Together with the negative cash flow from operating activities (negative result, increase in working capital, income tax payments for profits from previous years) totalling € -3.62 million, Avemio AG reported a free cash flow of € -7.99 million for the past financial year. This was partially offset by the net increase in liabilities to banks totalling € 1.43 million. Nevertheless, with cash and cash equivalents totalling € 5.43 million, the company has sufficient liquidity, especially as we do not assume any new M&A investments for the current financial year 2024 and only expect a disproportionately low increase in working capital.

FORECASTS AND EVALUATION

in € million	FY 2023	FY 2024e	FY 2025e	FY 2026e
Sales	99.15	101.14	108.22	115.79
EBITDA	-0.05	2.57	6.77	9.19
EBIT	-2.61	0.22	4.52	7.09
EAT	-3.45	-0.39	2.55	4.44

Source: GBC AG

Corporate strategy

According to the company's guidance, sales growth of between 1% and 4% is expected for the current financial year. Avemio AG's management is rather cautious in its assessment of organic growth opportunities for 2024. This is due to the current economic challenges resulting from the rise in interest rates, which could lead to lower demand overall. A further decline in sales of up to 2% is expected for the trading business, which accounts for the majority of Group sales. In contrast, sales in the media technology segment are expected to increase, resulting in slight overall growth in Group sales. Despite the expected slight growth in sales, EBIT (FY 2023: € -2.61 million) is expected to increase disproportionately to break-even level. In addition to increasing the importance of high-margin media technology sales, Avemio AG has taken a number of measures to reduce operating costs. These include the accelerated integration of the acquired companies, which should lead to an improvement in cost efficiency (purchasing, logistics, etc.).

However, the strategic cornerstones of Avemio AG remain unchanged. Organic growth is still to be generated in the retail segment, although a cyclical interruption to the growth trajectory is expected in the 2023 and 2024 financial years. In general, however, demand for professional video technology is expected to increase. Upcoming innovations, the development of new markets and overcoming the restrictive investment behaviour of major customers should lead to organic sales growth again from 2025.

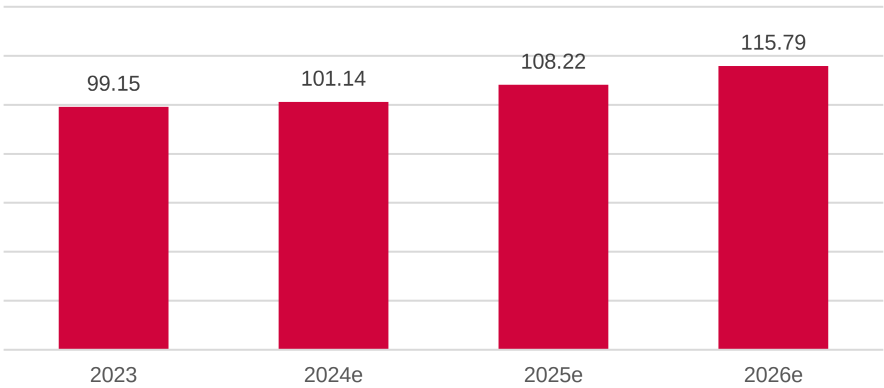
Another strategic component is the continuation of the buy-and-build strategy, which has already been actively implemented in recent financial years. As we understand it, the focus here is particularly on companies outside the German-speaking region or companies that would lead to a vertical expansion of the product portfolio. According to the company, although new acquisition targets are currently being identified, we are not including inorganic growth in our plans due to the lack of concrete details.

Finally, the expansion of value creation is to be driven forward in order to support the company’s transformation into a media technology company. This transformation is to be supported both inorganically and through the company's own product developments. This strategic component is very well represented by the acquisition of MoovIT GmbH, which has expanded the product range to include system integration and software development as well as consulting services for the optimisation and automation of video workflows. However, in-house digital developments, which are being driven forward within start-ups, should also contribute to the planned change. ObviousFuture GmbH, a provider of an AI-supported search engine that specialises in searching for media content, is particularly noteworthy here. This subsidiary is expected to contribute significant revenue for the first time in the current financial year.

Sales and earnings forecasts

In our opinion, the sales growth of 1% to 4% forecast by the company is based on conservative expectations. According to the company, there are signs of an upturn in demand in the retail segment, but it is currently uncertain whether there will be any noticeable sales momentum in the second half of 2024. The expected decline in sales in the retail segment is therefore understandable. In contrast, the media technology segment alone should benefit from the first-time full-year consolidation of MoovIT, which was only included for four months in the past 2024 financial year. In addition, MoovIT is expected to receive additional orders in the context of the current European Football Championship and the upcoming Summer Olympics. Sales in the media technology segment should also benefit from the marketing of digital products developed in-house.

Sales forecasts (in € million)

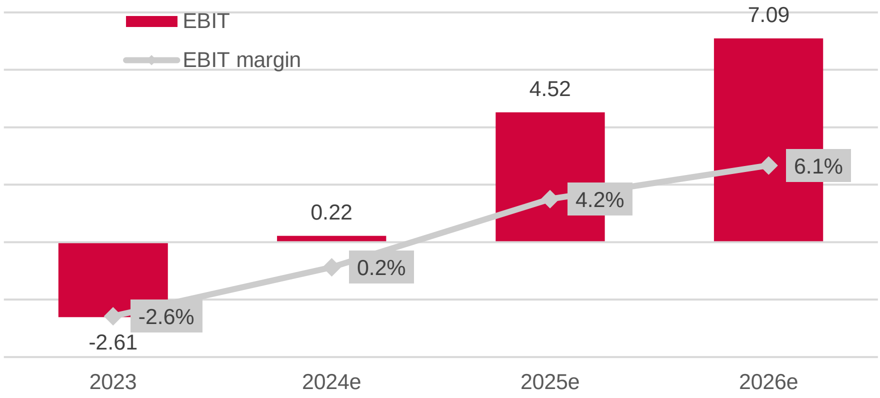


Source: GBC AG

Our sales forecast for the current 2024 financial year corresponds to expected sales growth of 2.0% and is therefore within the guidance. For the two subsequent financial years, we are assuming a constant growth rate of 7.0% p.a. in each case. This should be characterised on the one hand by an upturn in their trading business and, on the other hand, by continued above-average growth in their media technology business. Naturally, however, their retail business will continue to account for the lion's share of Group sales.

According to our estimates, the gross profit margin in the media technology segment will be around 75%, while it will be just under 20% in the retail segment. The expected strong increase in high-margin media technology sales should be reflected in an increase in the Group-wide gross profit margin to 21.5% in the current 2024 financial year (previous year: 19.1%). For the following financial years, we expect a further improvement to 22.9% (2025e) and 23.8% (2026e). In addition, the company should benefit from the cost-cutting measures that have been introduced, although these should only take full effect from the coming financial year 2025. The savings potential from merging the central functions should be slightly above € 1.0 million. According to our estimates, EBIT should increase disproportionately from 2024, but even more so from 2025. We expect the EBIT margin to improve to 6.1% by 2026.

EBIT (in € million) and EBIT margin (in %)



Source: GBC AG

In the current financial year 2024, taking out new loans at standard market conditions and therefore at higher prices is expected to lead to an increase in financial expenses. In the course of the scheduled repayment of the loans, this should decrease again in the following financial years. We assume that the company will not take out any new loans. This is in light of the fact that we are not currently assuming any company acquisitions. The resulting lower cash outflow from investing activities should be supported by a positive operating cash flow. We assume no significant increase in inventories and the elimination of the extraordinary outflow of liquidity in connection with income tax payments on profits from previous years.

DCF model

Modelling assumptions

We valued Avemio AG using a three-stage DCF model. Starting with the specific estimates for the years 2024 to 2026 in phase 1, the forecast from 2026 to 2030 in the second phase is based on value drivers. We expect an annual increase in sales of 5.0%. We have taken the tax rate into account in phase 2 at 30.0%. We are assuming a target EBITDA margin of 10% (previously: 11.6%). In the third phase, a residual value is also determined after the end of the forecast horizon using perpetuity. In the terminal value, we conservatively assume a growth rate of 3.0%.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Avemio AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be calculated.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Technical Committee for Business Valuations and Business Administration (FAUB). This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. To smooth out short-term market fluctuations, the average yields of the previous three months are used and the result is rounded to 0.25 basis points. **The risk-free interest rate currently used is 2.50 % (previously: 2.50 %).**

We use the historical market premium of 5.50 % as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to outperform low-risk government bonds.

According to the GBC estimation method, a beta of 1.61 is currently determined.

Using the assumptions made, the cost of equity is calculated at 11.34% (beta multiplied by the risk premium plus the risk-free interest rate). As we assume a sustainable weighting of the cost of equity of 80 %, the weighted average cost of capital (WACC) is 9.46 % (previously: 9.46%).

Valuation result

We have determined a new price target of € 23.00, which corresponds to a reduction of the previously determined price target of € 32.00. The reduction is a result of the lowered forecasts for the current financial year 2024, which, as a basis, have led to a reduction in the estimates for the coming financial years. We have also reduced our long-term target EBITDA margin expectation to 10.0% (previously: 11.6%).

GBC AG Investment Research

DCF model

Avemio AG - Discounted Cashflow (DCF) model

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

consistency - phase	
Revenue growth	5.0%
EBITDA-margin	10.0%
Depreciation on fixed assets	12.5%
Working capital to sales	13.7%

final - phase	
Perpetual growth rate	3.0%
Perpetual EBITA margin	8.6%
Effective tax rate in terminal value	30.0%

Three-phase DCF - model:

Phase	**estimate**			**consistency**					**final**
in mEUR	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	FY 31e	TV
Revenue (RE)	101.14	108.22	115.79	121.58	127.66	134.04	140.75	147.78	
Revenue change	2.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
Revenue to fixed assets	5.02	5.88	6.89	6.89	6.89	6.89	6.89	6.89	
EBITDA	2.57	6.77	9.19	12.16	12.77	13.40	14.07	14.78	
EBITDA-margin	2.5%	6.3%	7.9%	10.0%	10.0%	10.0%	10.0%	10.0%	
EBITA	0.22	4.52	7.09	10.06	10.56	11.09	11.64	12.23	
EBITA-margin	0.2%	4.2%	6.1%	8.3%	8.3%	8.3%	8.3%	8.3%	8.6%
Taxes on EBITA	-0.07	-1.35	-2.13	-3.02	-3.17	-3.33	-3.49	-3.67	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	0.15	3.16	4.97	7.04	7.39	7.76	8.15	8.56	
Return on Capital	0.4%	9.3%	14.9%	21.5%	21.5%	21.5%	21.5%	21.5%	21.9%
Working Capital (WC)	13.90	14.90	15.90	16.69	17.53	18.40	19.32	20.29	
WC to sales	13.7%	13.8%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	
Investment in WC	-1.00	-1.00	-1.00	-0.79	-0.83	-0.88	-0.92	-0.97	
Operating fixed assets (OFA)	20.15	18.40	16.80	17.64	18.53	19.45	20.42	21.45	
Depreciation on OFA	-2.35	-2.25	-2.10	-2.10	-2.21	-2.32	-2.43	-2.55	
Depreciation to OFA	11.7%	12.2%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	
CAPEX	-0.50	-0.50	-0.50	-2.94	-3.09	-3.24	-3.40	-3.57	
Capital Employed	34.05	33.30	32.70	34.33	36.05	37.85	39.75	41.73	
EBITDA	2.57	6.77	9.19	12.16	12.77	13.40	14.07	14.78	
Taxes on EBITA	-0.07	-1.35	-2.13	-3.02	-3.17	-3.33	-3.49	-3.67	
Total Investment	-1.50	-1.50	-1.50	-3.73	-3.92	-4.12	-4.32	-4.54	
Investment in OFA	-0.50	-0.50	-0.50	-2.94	-3.09	-3.24	-3.40	-3.57	
Investment in WC	-1.00	-1.00	-1.00	-0.79	-0.83	-0.88	-0.92	-0.97	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	1.00	3.91	5.57	5.41	5.68	5.96	6.26	6.57	121.94

Value operating business (due date)	92.00	96.79
Net present value explicit free Cashflows	27.22	25.88
Net present value of terminal value	64.78	70.91
Net debt	8.05	5.01
Value of equity	83.95	91.78
Minority interests	-3.32	-3.63
Value of share capital	80.63	88.15
Outstanding shares in m	3.83	3.83
Fair value per share in €	21.04	**23.00**

Cost of Capital:

Risk free rate	2.5%
Market risk premium	5.5%
Beta	1.61
Cost of equity	11.3%
Target weight	80.0%
Cost of debt	2.7%
Target weight	20.0%
Taxshield	28.7%
WACC	**9.5%**

Return on Capital	**WACC**				
	8.9%	**9.2%**	**9.5%**	**9.8%**	**10.1%**
21.4%	25.02	23.70	22.51	21.43	20.45
21.6%	25.30	23.97	22.76	21.66	20.67
21.9%	25.58	24.23	**23.00**	21.89	20.88
22.1%	25.86	24.49	23.25	22.12	21.10
22.4%	26.14	24.75	23.49	22.35	21.32

APPENDIX

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

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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%.

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