

Retail & Consumer Goods

CEWE

VAT increase for Photobooks?

Market Weight

Old: Overweight

Target price: €59.80

Old: €66.30

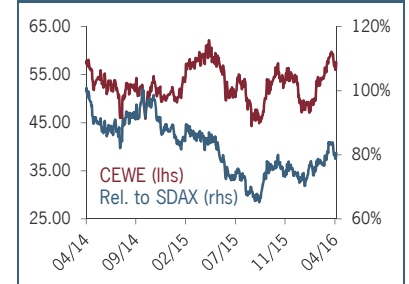
Current price: €57.60

(28 April 2016)

Next event:**1Q16: 12 May**

- VAT increase for photobooks:** German's Ministry of Finance (BMF) 20 April 2016 published a press release concerning the VAT issue for photobooks (III C 2 – S 7225/12/10001; DOK: 2016/03688010). For 2016 VAT will remain unchanged at 7% and from 2017 onwards VAT will be lifted to the "normal" rate of 19%. Based on this information CEWE has confirmed its financial targets 2016: Sales between €555-575m and EBIT between €38-44m. In case of the VAT increase CEWE expects for 2017F a negative impact on both sales and EBIT in the range of €9m.
- Valuation update - TP at €59.80:** In addition to our base case (TP of €68.24 per share) we have calculated an alternative "VAT"-case (TP of €56.19 per share). Using a 30%:70% probability for the two cases (see Fig.1), it leads to our new rounded TP of €59.80 (old: €66.30) per share.
- Change to Market Weight:** Since mid-January 2016 CEWE shares clearly have outperformed the SDAX. Given the overall market environment from today's point of view we believe the further upside potential is limited. Therefore we change our recommendation to Market Weight. Main positive triggers in our view are new products and innovations in Photofinishing, margin expansion in Online Print and an overall value creating business model (ROCE of >16% vs. our WACC of 7.8%). **Key risks:** 1) Changing customer behaviour could lead to slowing demand for value added photo products. 2) Online Print division will become sustainable profitable later than expected. 3) Q4 operational performance will be weaker than expected. 4) VAT increase for photobooks becoming effective from 2017 onwards will not be cancelled.

Share price performance



Share data

Free float (%)	70
Daily volume ('000, 3M avg.)	17.0
Shares outstanding ('000)	7,400
Reuters code	CWCG.DE
Bloomberg code	CWC GR
Index	SDAX

Key data

Market cap (€m)	418.7
EV (€m)	421.7
5y EPS CAGR	8.8%
5y Total Return/SDAX	28.4%

Performance (%)

	1 M	6 M	12 M
Absolute	2.1	6.1	-4.7
Relative	0.6	5.2	-7.2

Source: Datastream, BHF-BANK

Winfried Becker**Financial Analyst**

Phone: +49 69 718-2929

E-mail: winfried.becker@bhf-bank.com

Key ratios (€m)	2014	2015	2016F		2017F	2018F
	Actual	Actual	BHF-BANK	Consensus*	BHF-BANK	BHF-BANK
Sales	524	554	566	560	579	591
EBITDA	66	75	76	77	78	79
EPS (€)	3.08	3.23	3.83	3.81	4.06	4.22
Dividend per share (€)	1.55	1.60	1.65	1.69	1.70	1.70
EV/Sales	0.71	0.72	0.73	0.72	0.69	0.64
EV/EBITDA	5.6	5.3	5.5	5.2	5.1	4.8
EV/EBIT	11.5	10.8	10.3	10.0	9.4	8.6
PER	16.7	16.6	15.0	15.1	14.2	13.7
Dividend yield	3.0%	3.0%	2.9%	2.9%	3.0%	3.0%
FCF yield	8.3%	5.6%	9.3%	5.1%	10.2%	11.0%
Net fin. debt(-) / cash(+)	-2	-8	3	24	20	39

*Bloomberg Finance LP

Source: Company data, BHF-BANK estimates (Base case)

Investment case

- CEWE is a family-owned enterprise with a focus on long-term development and performance.
- Following the shift from analogue to digital business with the acquisition of Saxoprint in February 2012, CEWE has entered the new segment of online offset printing and focuses on individualised mass customisation; long-term the management is searching for new online business opportunities and therefore has taken a share in the German “High-Tech Gründerfonds (HTGF II)”.
- Growing mobile users: In the Photofinishing division CEWE is increasing the sales of value-added products like e.g. the CEWE PHOTOBOOK, CEWE CALENDAR, CEWE CARDS or CEWE WALL ART, which should constantly increase the revenue per print (2015: +10.3% to €0.1857 compared to 2014; BHF-BANK 2016F: Increase of 3% estimated). CEWE’s newly launched Fotowelt Apps addresses new smartphone and tablet customers for photobooks and other products.
- The new solution “CEWE MYPHOTO” will stimulate demand for photo products and will strengthen customer loyalty. A soft market launch was made since summer 2015 and in the meantime it is available for instance at the retail partner Budnikowski (Budni) in the Hamburg region. The rollout will continue.
- The new division Online Print will be the main driver for further growth of the group and we expect the EBIT to become more positive in FY2016F with €0.3m (2012: €-4.8m) including PPA-effects. According to the management the operating EBIT before PPA-effects 2015 came out at €1.2m (PPA-effect was €2.1m).
- **Valuation:** We change our recommendation from Overweight to Market Weight. Since our last publication from 22 January 2016 (closing price 21 January at €47.62) share price rose by 21.0% (closing price at 28 April 2016: €57.60). Given the overall market environment from today’s point of view we believe the further upside potential is limited. Q1 2016F results will be solid again but we expect the figures not to be a new upside trigger for the shares. Our new target price is fixed at €59.80 per share and includes a 70% probability for a possible VAT tax increase in Germany and Austria. In our “VAT”-case our DCF-model leads to a fair value of €50.42 per share. In this scenario e.g. EBIT-margins will be sustainable on a lower level in the 5.5% to 6.0% area (2015: EBIT-margin at 7.2%). In our DCF-based “Base Case” we calculate €62.30 per share.
- **Key risks:** 1) Changing customer behaviour could lead to slowing demand for value added photo products. 2) Online Print division will become more profitable later than expected by the financial community. 3) Q4 operational performance will be weaker than expected. 4) The value added tax increase 2017 for Germany coming from the EU’s Customs Code Committee in connection with the German Ministry of Finance (BMF) will not be cancelled as hoped by the company. A further VAT increase for photobooks will take place in Austria from 10% to 20%.

Photo books: VAT update

- Germany: BMF decision: 7% VAT on photo books for 2016; 19% from 2017 onwards
- “Photoindustrie-Verband” in continuous talks about a redemption of the VAT increase

Looking forward one of the uncertainties for CEWE’s core business in the Photofinishing division (2015 share of group sales: 74.9%) is a possible increase of the value added tax for photo books in Germany and Austria which may come into effect as of 25 December 2015. Background: The increase is based on a decision made by the EU’s Customs Code Commission, which allocated photo books to a new customs tariff. In Germany and Austria the value added tax is linked to these EU custom tariffs. For Germany the tax rate should go up from 7% to 19% and in Austria it should jump from 10% to 20%. CEWE together with its competitors supported by the “Photoindustrie-Verband” is fighting for redemption of this tax increase (more details in our Update from 31 March 2016). The German BMF now has stated in a press release as of 20 April 2016 that the value added tax for photo books will stay at 7% for calendar year 2016 and from 2017 onwards the general tax rate of 19% has to be used. According to CEWE the “Photoindustrie-Verband” is still in talks with German authorities; target is a continuing use of the reduced rate of 7%.

Based on this latest information CEWE has confirmed the financial guidance for FY 2016: Sales target between €555-575m and EBIT between €38-44m. Based on this latest information we have updated our financial forecasts and our peer-group valuation.

Valuation update

Valuation summary

- New target price at €59.80 per share
- VAT increase for photo books included in our valuation

Our Base Case leads to a new fair value per share of €68.24 (details see Fig. 5 and 6). Alternatively we have calculated a “VAT Case” which leads to a target price of €56.19 per share. In a combined valuation approach of both cases, assuming a 70% probability for a VAT increase from 2017 onwards, we arrive at a new rounded target price of €59.80 per share (see Fig. 1).

Fig 1 CEWE Stiftung: Market value equity per share (€) - scenarios

	Fair value (€)	Weight (%)				
Base Case	68.24	100%	70%	50%	30%	0%
VAT case	56.19	0%	30%	50%	70%	100%
Fair value weighted (€)		68.24	64.63	62.22	59.81	56.19

Share prices as of 28 April 2016

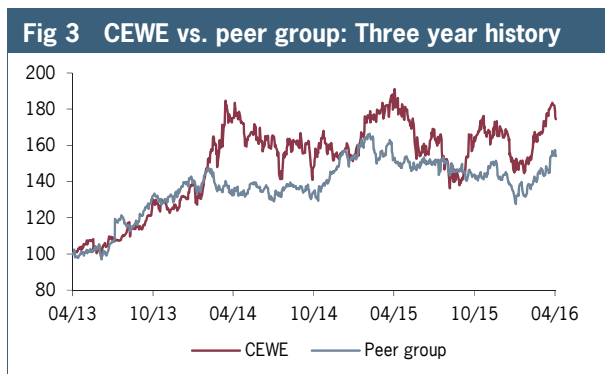
Source: FactSet, BHF-BANK estimates

Since our last publication from 22 January 2016 (closing price CEWE at €47.62) the share price rose by 21.0% (closing price at 28 April 2016 at €57.60) and with this strong upswing clearly outperformed the SDAX which increased by 10.1% respectively. The charts in Fig.3 and 4 shows the indexed share price performance of the CEWE shares versus an index created with its peers Cimpres, BIC Camera, Springer, Leifheit, Hawesko and Villeroy & Boch.

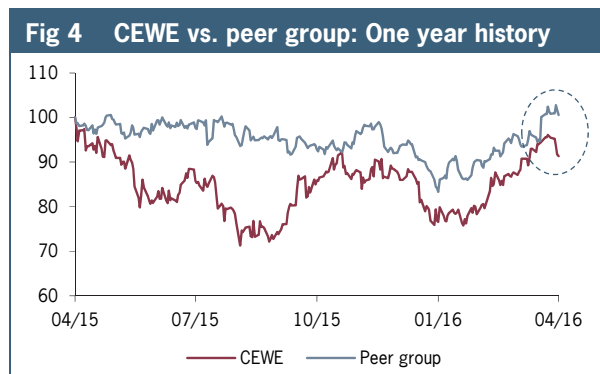
Fig 2 CEWE Stiftung: Share price and index performance

	21/01/2016	28/04/2016	% change
DAX	9,574.2	10,321.2	7.8%
SDAX	8,057.8	8,867.7	10.1%
CEWE	47.62	57.60	21.0%

Source: Datastream



Source: FactSet, BHF-BANK



Source: FactSet, BHF-BANK

Taken into account the last share price upswing and the overall market environment from today's point of view we believe the further upside potential likely is limited in the next months. So far we argue for taking profits. We have not changed our view that CEWE has a convincing long-term business model.

Valuation Base case

- Update of WACC-parameters: Risk free rate: 3.0% (old: 4.0%); risk premium unchanged at 5.0%
- No change of estimates
- DCF-model with lower fair value than multiple valuation

We have not changed our valuation approach and continue to use our DCF-model and a peer-group valuation. Concerning our WACC-parameters we have lowered the risk free rate from 4.0% to 3.0% while the risk premium stays unchanged at 5.0% (based on research made by Damodaran). Other items like e.g. the terminal growth rate or our beta have not changed. In our DCF-model we calculate a fair value per share of €62.30 (old: €55.97). Peer-group multiple valuation leads to a clearly higher fair value of €74.19 per share. The equal weighted, rounded new fair value came out at €68.20 per share. The implicit P/E 2016F stands at 17.8x and for 2017F at 16.8x.

Fig 5 CEWE Stiftung: Market value equity per share 2017F – Base case

	Minimum	Maximum	Average	Weight
EV/Sales	51.51	75.57	63.54	25%
EV/EBITDA	92.66	104.73	98.69	25%
EV/EBIT	62.51	74.22	68.36	25%
PER	63.03	69.32	66.18	25%
DCF-model: Fair value	62.30			
Multiples average (equal weight)			74.19	50%
DCF-model: Fair value			62.30	50%
CEWE: Target price per share			68.24	

Share prices as of 27 April 2016

Source: FactSet, BHF-BANK estimates

Fig 6 CEWE Stiftung: DCF valuation - Base case

(€m)	Detailed forecast					Trend analysis					Term. value
	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	
Value driver											
Sales Growth	2.2%	2.3%	2.0%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.0%
EBIT-margin	7.2%	7.4%	7.5%	7.3%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	6.0%
Depreciation / sales	6.3%	6.1%	5.9%	6.1%	6.1%	6.0%	6.1%	6.1%	6.1%	6.1%	5.0%
Capex / sales	6.9%	6.3%	5.8%	6.3%	6.2%	6.1%	6.2%	6.2%	6.2%	6.2%	5.0%
Working Capital /sales	3.3%	3.0%	2.7%	3.0%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.5%
Net Sales	566.1	579.3	590.9	603.7	616.7	629.7	643.3	657.0	671.0	685.4	699.1
Operating costs	-525.6	-536.6	-546.8	-559.5	-571.2	-583.2	-595.9	-608.5	-621.5	-634.8	-657.1
EBIT	40.5	42.6	44.1	44.2	45.5	46.5	47.4	48.5	49.5	50.5	41.9
Operating cash-taxes	-12.2	-12.8	-13.2	-13.3	-13.7	-14.0	-14.2	-14.5	-14.9	-15.2	-12.6
NOPAT	28.4	29.8	30.9	31.0	31.9	32.6	33.2	33.9	34.7	35.4	29.4
Depreciation / Amortization	35.5	35.5	35.1	36.9	37.4	38.0	39.0	39.8	40.6	41.5	35.0
Chg. in oth. non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Operating Cash Flow	63.9	65.3	66.0	67.9	69.2	70.6	72.2	73.7	75.3	76.9	64.6
Capital expenditure	-39.1	-36.6	-34.3	-38.3	-38.0	-38.4	-39.9	-40.4	-41.3	-42.3	-35.0
Change in Working Capital	0.7	1.2	1.2	-2.0	0.2	-0.2	-0.7	-0.2	-0.4	-0.5	2.6
Other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (FCF)	25.4	29.9	32.9	27.6	31.5	32.0	31.6	33.1	33.6	34.2	32.2
Cost of capital	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	7.5%
ROCE, net	12.0%	12.2%	11.8%	11.4%	11.5%	11.6%	11.7%	11.8%	11.9%	12.0%	10.0%
Present value of FCF	23.9	25.8	25.9	19.9	20.8	19.4	17.5	16.8	15.6	14.5	250.0
Non operating assets	0										
Enterprise value	450.3										
Net debt (-) / net cash (+)	26.2										
Pension provisions	-23.3										
Minorities	-0.4										
Other	0										
Equity value	452.8										
Number of shares (m)	7.27										
Equity value per share (€)	62.30										

Source: BHF-BANK estimates

Valuation "VAT"-case

- Sustainable lower EBIT-margins
- DCF-based fair value at €50.42 per share
- Multiple valuation significant higher than DCF-based fair value

Fig 7 CEWE Stiftung: Market value equity per share 2017F - "VAT"-case

	Minimum	Maximum	Average	Weight
EV/Sales	49.29	72.93	61.11	25%
EV/EBITDA	79.71	90.23	84.97	25%
EV/EBIT	47.11	56.07	51.59	25%
PER	47.81	52.58	50.20	25%
DCF-model: Fair value		50.42		
Multiples average (equal weight)			61.97	50%
DCF-model: Fair value			50.42	50%
CEWE: Target price per share (€)			56.19	

Share prices as of 27 April 2016

Source: FactSet, BHF-BANK estimates

Fig 8 CEWE Stiftung: DCF valuation "VAT"-case

(€m)	Detailed forecast					Trend analysis					Term. value
	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	
Value driver											
Sales Growth	2.2%	2.3%	2.0%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.0%
EBIT-margin	7.2%	5.7%	5.7%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Depreciation / sales	6.3%	6.2%	6.0%	6.2%	6.2%	6.1%	6.2%	6.1%	6.1%	6.1%	5.0%
Capex / sales	6.9%	6.3%	5.8%	6.3%	6.2%	6.1%	6.2%	6.2%	6.2%	6.2%	5.0%
Working Capital /sales	3.3%	3.0%	2.7%	3.0%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.5%
Net Sales	566.1	569.3	580.7	593.3	606.1	618.9	632.2	645.7	659.4	673.5	687.0
Operating costs	-525.6	-536.6	-547.6	-560.6	-572.7	-584.8	-597.4	-610.2	-623.2	-636.5	-652.7
EBIT	40.5	32.6	33.1	32.6	33.3	34.0	34.8	35.5	36.3	37.0	34.4
Operating cash-taxes	-12.2	-9.8	-9.9	-9.8	-10.0	-10.2	-10.4	-10.7	-10.9	-11.1	-10.3
NOPAT	28.4	22.8	23.2	22.8	23.3	23.8	24.3	24.9	25.4	25.9	24.0
Depreciation / Amortization	35.5	35.5	35.1	36.7	37.3	37.9	38.9	39.7	40.5	41.4	34.4
Chg. in oth. non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Operating Cash Flow	63.9	58.3	58.3	59.5	60.6	61.8	63.3	64.5	65.9	67.3	58.6
Capital expenditure	-39.1	-36.6	-34.3	-37.6	-37.3	-37.8	-39.2	-39.7	-40.6	-41.5	-34.4
Change in Working Capital	0.7	1.2	1.2	-2.0	0.2	-0.2	-0.7	-0.2	-0.4	-0.5	2.5
Other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (FCF)	25.4	22.9	25.2	19.9	23.5	23.8	23.4	24.6	24.9	25.3	26.8
Cost of capital	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	7.5%
ROCE, net	12.0%	9.3%	8.8%	8.4%	8.4%	8.5%	8.6%	8.7%	8.7%	8.8%	8.2%
Present value of FCF	23.9	19.8	19.9	14.4	15.5	14.4	12.9	12.5	11.6	10.8	208.3
Non-operating assets	0										
Enterprise value	364.0										
Net debt (-) / net cash (+)	26.2										
Pension provisions	-23.3										
Minorities	-0.4										
Other	0										
Equity value	366.5										
Number of shares (m)	7.27										
Equity value per share (€)	50.42										

Source: BHF-BANK estimates

In our "VAT"-case we use the same methodology. The operational scenario in the DCF-model is more conservative. In case that VAT for photo books will be lifted from 2017 onwards and stay at this level according to the company the negative effect on sales and EBIT will reach a level of €9m. We have reduced our sales forecast 2017F by €10m to €569.3m and in the same magnitude our EBIT came down to €32.6m. That will reduce our EBIT-margin down to 5.7%; for our trend analysis period we use 5.5% while in our terminal value calculation we use 5.0% instead of 6.0% in our base case.

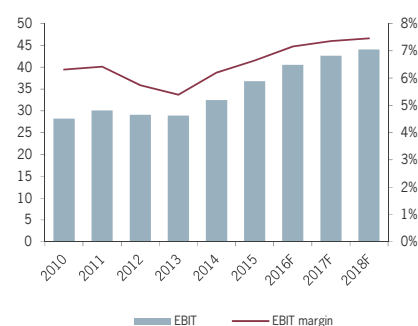
As a result our DCF-based fair value came out at €50.42 (see Fig. 9) which is clearly below the current share price level. The equal weighted, rounded fair value came out at €56.19, which is 17.7% lower than in our base case.

Sales and sales growth



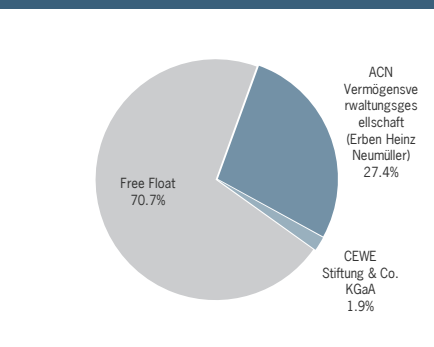
Source: Company data, BHF-BANK estimates

EBIT and EBIT margin



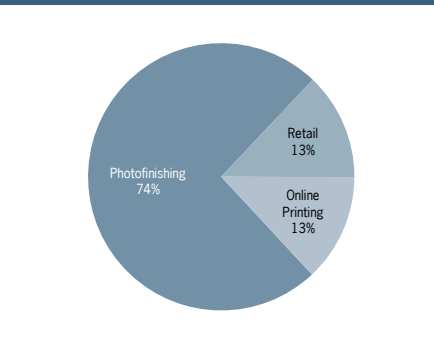
Source: Company data, BHF-BANK estimates

Shareholder structure



Source: Company data, BHF-BANK estimates

Sales split by segment (2014)



Source: Company data, BHF-BANK estimates

Profit & loss (€m)	2014	2015	2016F	2017F	2018F
Sales	524	554	566	579	591
YoY	-2.3%	5.8%	2.2%	2.3%	2.0%
EBITDA	66	75	76	78	79
EBITDA growth YoY	-1.2%	13.9%	1.1%	2.2%	1.1%
EBITDA margin	12.6%	13.6%	13.4%	13.4%	13.3%
EBIT	33	37	41	43	44
EBIT growth YoY	12.5%	13.2%	10.1%	5.2%	3.4%
EBIT margin	6.2%	6.6%	7.2%	7.4%	7.5%
Net income (rep.)	21	23	27	29	30
Net income (adj.)	21	23	27	29	30
EPS (€)	3.08	3.23	3.83	4.06	4.22
EPS growth YoY	-9.0%	4.9%	18.5%	6.0%	3.8%
Gross profit margin	68.9%	70.7%	69.2%	69.2%	69.2%
Net income margin (adj.)	4.1%	4.2%	4.8%	5.0%	5.1%

Balance sheet data (€m)	2014	2015	2016F	2017F	2018F
Intangibles / Goodwill	45	55	52	49	45
Total non-current assets	168	182	188	189	189
Cash & equivalents	28	22	33	50	69
Total current assets	172	173	184	200	218
Shareholder's equity	174	187	203	220	238
Net debt(-) / net cash(+)	-2	-8	3	20	39

Cash flow statement (€m)	2014	2015	2016F	2017F	2018F
Net income, as rep.	21	23	27	29	30
Depreciation & amortization	34	38	36	35	35
NWC changes	13	-8	1	1	1
Other non-cash items	3	6	1	2	2
Operating cash flow	71	60	65	68	68
Capex	-38	-41	-39	-37	-34
Free cash flow	30	21	38	42	45
Dividends	10.79	11.41	11.77	12.13	12.13
Change in net debt	-39.0	6.1	-11.3	-17.1	-19.1
Operating cash flow / sales	13.6%	10.8%	11.4%	11.7%	11.5%
Free cash flow / sales	5.6%	3.8%	6.8%	7.3%	7.7%

Key financials matrix	2014	2015	2016F	2017F	2018F
BVPS (€)	24.95	26.24	28.45	30.83	33.32
PBR (x)	2.06	2.04	2.02	1.87	1.73
ROE	12.3%	12.1%	13.3%	13.0%	12.5%
ROCE	17.9%	17.4%	18.9%	20.0%	21.0%
Net working capital / sales	6.5%	8.7%	8.3%	7.7%	7.1%
Current ratio (x)	1.06	1.25	1.30	1.41	1.54
Gearing (net)	1.2%	4.4%	-1.5%	-9.2%	-16.5%
Equity ratio	51.1%	52.6%	54.5%	56.6%	58.4%
Net debt / EBITDA (x)	0.0	-0.1	0.0	0.3	0.5
OCFPS (€)	10.2	8.4	9.0	9.5	9.5
P / OCF (x)	5.2	6.5	6.5	6.2	6.2
FCFPS (€)	4.24	2.98	5.37	5.89	6.34
FCF Yield	8.0%	5.5%	9.1%	10.0%	10.8%
Capex / sales	-7.2%	-7.3%	-6.9%	-6.3%	-5.8%
Payout ratio	49.5%	48.1%	42.5%	41.4%	41.1%

Source: Company data, BHF-BANK estimates (Base case)

Head of Equities	Schönleber, Jan	+49 69 718-2120	jan.schoenleber@bhf-bank.com
Head of Equity Sales & Sales Trading	Hahn, Marcus	+49 69 718-2871	marcus.hahn@bhf-bank.com

Equity rating key

We have changed our stock recommendations with effect from 26 October 2010. Our ratings are now:

Overweight: We rate the share as significantly undervalued.

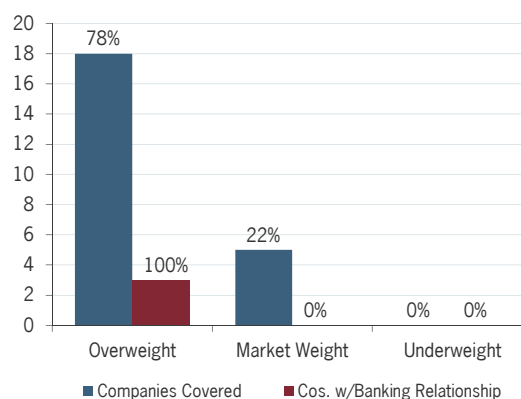
Market Weight: We rate the share valued in line with the market.

Underweight: We rate the share as significantly overvalued.

These ratings relate to our expected performance for each stock relative to their respective sector within the German market over the next twelve months. Our ratings are arrived at by comparing DCF valuations, peer group multiples and asset based valuations across analogue stocks within the sector and market.

Stocks previously rated Strong Buy are now rated Overweight. Stocks previously rated Buy or Reduce are now rated Overweight, Market Weight or Underweight, depending on the balance of expected relative performance. Stocks previously rated Sell are now rated Underweight. We will update our ratings on each stock with each new publication.

Equity rating dispersion and banking relationships



Company	ISIN	Price	Disclosure
CEWE	DE0005403901	€57.60 (28/04/2016)	2,4,5



P R I V A T S E I T 1 8 5 4

**Bockenheimer Landstraße 10
60323 Frankfurt am Main
Germany**

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CEWE^[2,4,5]

	Date of statement	Recommendation		Date of statement	Recommendation
First Take	20/04/2016	Overweight	First Take	18/09/2015	Overweight
Update	31/03/2016	Overweight	First Take	11/08/2015	Overweight
First Take	25/02/2016	Overweight	Report	25/06/2015	Overweight
First Take	22/01/2016	Overweight	First Take	12/05/2015	Overweight
Update	14/12/2015	Overweight			

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