

Retail & Consumer Goods

CEWE

Window of opportunity to invest

Overweight

Old: Overweight

Target price: €67.20

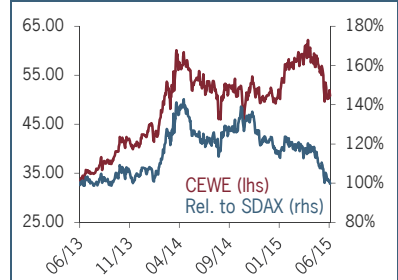
Old: €61.70

Current price: €50.85

(24 June 2015)

Next event:

1H15: Aug 11

Share price performance**Share data**

Free float (%)	70
Daily volume ('000, 3M avg.)	16
Shares outstanding ('000)	7,400
Reuters code	CWCG.DE
Bloomberg code	CWC GR
Index	SDAX

Key data

Market cap (€m)	366.8
EV (€m)	367.7
5y EPS CAGR	6.4%
5y Total Return/SDAX	-37.3%

Performance (%)

	1 M	6 M	12 M
Absolute	-10.1	-0.1	-3.6
Relative	-8.2	-21.1	-21.4

Source: Datastream, BHF-BANK

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- ◆ **New product launch „CEWE MYPHOTO“:** CEWE is launching in these days a new cross-platform service for storage and organization of photos. It has elements of a cloud service and will stimulate orders and sales for photo products. Ahead of the upcoming Christmas season we expect some new photo product innovations coming to the market and stimulating revenue generation.
- ◆ **Online Print division on track:** Following 1Q15 results the division is on track to reach the full-year sales guidance of ~€80m and we are estimating €82m. 2015F divisional EBIT losses are expected to be reduced down to €-1.7m vs. €-2.9m a year before and 2016F result should turn into positive; we forecast €+0.2m.
- ◆ **TP up to €67.20:** Based on reported 1Q15 results and updating our model the DCF-model leads to a new fair value of €60.55 (old: €60.76) per share. Thanks to a strong multiple expansion of our peer group our new target price has been fixed at €67.20 per share, 8.9% higher than our old TP. Upside potential for the share price: 32%. Upside to our DCF fair value: 19%.
- ◆ **OW recommendation confirmed:** Following the share price decline since April this year we see a good opportunity to invest. Main triggers are new products and innovations, an attractive valuation and the expected turnaround in Online Print. **Key risks:** 1) Changing customer behavior could lead to slowing demand for value added photo products. 2) Online Print division will become profitable later than expected. 3) 4Q operational performance will be weaker than expected.

Key ratios (€m)	2013	2014	2015F	2015F	2016F	2017F
	Actual	Actual	BHF-BANK	Consensus*	BHF-BANK	BHF-BANK
Sales	536	524	529	532	541	554
EBITDA	67	66	71	71	74	77
EPS (€)	3.39	3.07	3.33	3.43	3.64	4.02
Dividend per share (€)	1.50	1.55	1.60	1.64	1.65	1.70
EV/Sales	0.52	0.71	0.69	0.69	0.66	0.62
EV/EBITDA	4.1	5.6	5.2	5.1	4.8	4.4
EV/EBIT	9.6	11.4	10.2	10.3	9.2	8.1
PER	10.6	16.7	15.3	14.8	14.0	12.6
Dividend yield	4.2%	3.0%	3.1%	3.2%	3.2%	3.3%
FCF yield	12.3%	8.3%	8.9%	5.9%	10.4%	11.6%
Net fin. debt(-) / cash(+)	-41	-2	-1	20	8	24

*Bloomberg

Source: Company data, BHF-BANK estimates

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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 deals with mass customisation
- Growing mobile users: In the Photofinishing division CEWE is increasing the sales of value-added products like the e.g. CEWE Photobook, photo calendars, photo greeting cards, which should constantly increase the average revenue per print (2014: +6.2% to €0.1684). CEWE's newly launched Fotowelt Apps addresses new smartphone and tablet customers for photobooks and other products
- Currently we have identified three main points for the attractiveness of the CEWE shares:
 - The new solution "CEWE MYPHOTO" will stimulate demand for photo products and will strengthen customer loyalty. Market launch will take place in these days and results will be seen in the following quarters in the Photofinishing segment
 - The new division Online Print will be the main driver for further growth of the group and we expect the EBIT to turn into positive in FY2016F with €0.2m (2012: €-4.8m). Mid-term an EBIT-margin level of 5% seems to be reachable in our view
 - Attractive valuation: Following the share price decline since April this year (-18.2% since mid-April) in our view there is a good opportunity to invest. P/E 2015F stands at 15.3 while the average of our peer group stands at 20.6. Cimpress as a direct competitor currently is valued at a P/E 2015F of 20.9. Based on our new target price of €67.20 the implicit P/E 2015F is at 20.2
- **Key risks:** 1) Changing customer behaviour could lead to slowing demand for value added photo products. 2) Online Print division will become profitable later than expected. 3) Q4 operational performance will be weaker than expected.

SWOT profile

Strengths

- European market leader in photobooks
- Solid financial profile: Equity ratio at 51%; net cash position; ROCE at 16.9%
- “CEWE” is a strong family brand with awareness in Europe; convincing marketing strategy
- Sophisticated logistics and distribution system
- Systematic innovation process for new photo products

Weaknesses

- Close to 100% or even more of the profit will be realised in the fourth quarter
- Partly weak market position in some European markets

Opportunities

- Commercial online printing is a growth segment in an overall stagnating job-printing market
- New solution “CEWE MYPHOTO” will stimulate demand for photo products
- Potential for growth in new markets

Threats

- Changing customer behaviour could lead to slowing demand for photo products
 - Faster market changes will become more challenging
-

Source: BHF-BANK

Valuation

Valuation summary

- DCF fair value per share at €60.55
- Solid long-term performance of the CEWE shares
- Peer group multiples lead to higher values than our DCF-model
- Target price: Implicit P/E 2015F at 20.2; 2016F at 18.5

New target price calculated at €67.20 (old: €61.70) per share

Individual valuation figures are summarized in Fig.1. Equal weighted multiple valuation lead to an average share price of €74.00 (last update from 18 November 2014: €62.72) per share. In contrast to the multiple-expansion our DCF-based fair value is nearly stable at €60.55 (18 November 2014: €60.76). Our new rounded target price came out at €67.20 per share and compares to the old figure of €61.70 (+8.9%).

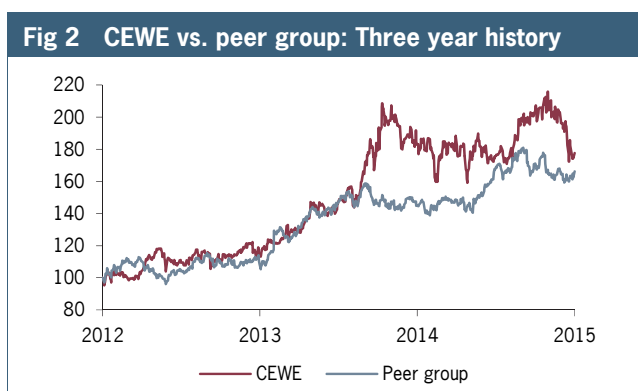
Fig 1 CEWE KGaA: Market value equity per share 2016F

	Minimum	Maximum	Average	Weight
EV/Sales	39.31	62.39	50.85	25%
EV/EBITDA	97.76	112.98	105.37	25%
EV/EBIT	65.36	77.91	71.64	25%
PER	65.60	70.68	68.14	25%
DCF-model: Fair value (€)	60.55			
Multiples average (equal weight)			74.00	50%
DCF-model: Fair value (€)			60.55	50%
CEWE: Target price per share (€)			67.28	

Share prices as of 24 June 2015

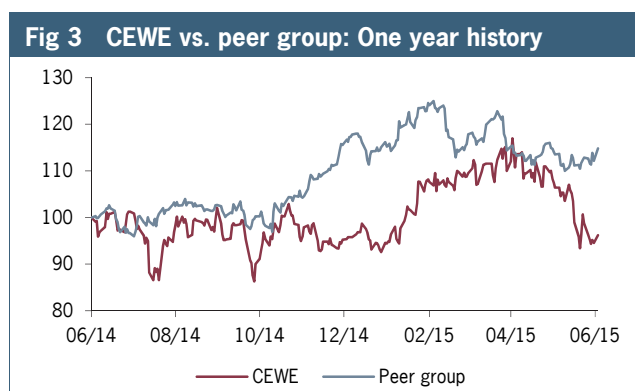
Source: FactSet, BHF-BANK estimates

The chart in Fig.2 shows the indexed share price performance of the CEWE share versus an index created with its peers cimpres, BIC Camera, Springer, Leifheit, Hawesko and Villeroy & Boch. Since end of January 2014 CEWE share could achieve a clear outperformance against its peers. The main reason in our view is the solid operational performance in 2014 and the outlook 2015F at that time.



Share prices as of 24 June 2015

Source: FactSet, BHF-BANK



Share prices as of 24 June 2015

Source: FactSet, BHF-BANK

At the current end, Fig.3 shows a one-year history of the share price performance, CEWE shares developed weaker than the comparable index. In particular its European rival Cimpress followed a more aggressive expansion strategy by acquiring several companies in some European markets (e.g. Italy, France, Austria) and may be the market rewarded that more positive than the pure organic growth strategy (except Saxoprint) of CEWE.

In particular in the last weeks volatility has increased and share price movements of more than 3% on both sides were recorded. At the current share price level of €51 we see a good opportunity for an investment in a long-term oriented solid family-owned company.

Discounted cash flow analysis

Continuation of CEWE's strategy expected

For the upcoming years in general we expect a continuation of CEWE's proven business model and strategy. We also believe that the current group structure will not change significantly, but some acquisition activity is possible. Based on these two main assumptions we believe a discounted cash flow model is a useful tool to calculate the equity value of CEWE. Our forecasts are made on the basis of the current structure and reflect purely organic growth.

To assess the equity value of the group we have primarily employed our three-stage DCF-model to determine future free cash flows. In the first stage we calculate a detailed P&L, Balance sheet and Cash Flow statements for the period up to 2017F based on information provided by the company and our own market assessment. In stage two we switch over to a trend analysis until 2024F for some key value drivers like e.g. sales growth, EBIT-margin or investments. In the third stage we analyse and calculate on the basis of a going-concern assumption the terminal value. Currently we use a terminal growth rate of 2%, a beta of 1.2 and a risk free rate of 4%. Compared to our last update from 18 November 2014 these factors have not changed.

Fig 4 CEWE KGaA: DCF-valuation

(€m)	Detailed forecast					Trend analysis					Term. value
	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	
Value driver											
Sales Growth	1.0%	2.2%	2.5%	2.9%	3.1%	3.2%	3.1%	3.1%	3.2%	3.1%	2.0%
EBIT-margin	6.8%	7.2%	7.6%	7.6%	7.7%	7.6%	7.6%	7.6%	7.6%	7.6%	6.0%
Depreciation / sales	6.5%	6.6%	6.3%	6.5%	6.5%	6.4%	6.4%	6.4%	6.4%	6.4%	5.0%
Capex / sales	8.5%	7.2%	6.6%	6.5%	5.8%	4.8%	4.7%	5.1%	4.8%	4.9%	5.0%
Working Capital /sales	2.5%	2.5%	2.2%	2.4%	2.4%	2.3%	2.4%	2.4%	2.3%	2.4%	1.7%
Net Sales	529.0	540.5	554.0	570.0	587.8	606.8	625.5	645.2	665.5	686.3	700.1
Operating costs	-492.8	-501.6	-511.9	-526.6	-542.7	-560.5	-577.7	-595.8	-614.7	-633.9	-658.1
EBIT	36.2	38.9	42.1	43.4	45.1	46.3	47.8	49.3	50.8	52.4	42.0
Operating cash-taxes	-10.8	-11.7	-12.6	-13.0	-13.5	-13.9	-14.3	-14.8	-15.2	-15.7	-12.6
NOPAT	25.3	27.3	29.5	30.4	31.6	32.4	33.4	34.5	35.6	36.7	29.4
Depreciation / Amortization	34.4	35.5	35.1	36.9	38.0	39.0	40.3	41.6	42.8	44.2	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	0.3
Operating Cash Flow	59.7	62.8	64.6	67.3	69.5	71.4	73.8	76.1	78.4	80.9	64.7
Capital expenditure	-45.1	-39.1	-36.6	-36.8	-33.9	-29.0	-29.2	-32.7	-32.2	-33.3	-35.0
Change in Working Capital	-1.7	-0.4	1.2	-1.4	-0.3	-0.2	-0.7	-0.4	-0.4	-0.5	4.3
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)	12.9	23.2	29.2	29.1	35.4	42.2	43.9	43.0	45.8	47.1	33.9
Cost of capital	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	7.8%
ROCE, net	11.5%	12.0%	12.2%	12.0%	12.4%	12.5%	12.8%	13.0%	13.2%	13.5%	10.9%
Present value of FCF	12.3	20.1	22.9	20.7	22.8	24.7	23.3	20.7	20.0	18.7	231.5
Non operating assets	0										
Enterprise value	437.7										
Net debt (-) / net cash (+)	21.4										
Pension provisions	-22.3										
Minorities	0										
Other	0										
Equity value	436.8										
Number of shares (m)	7.21										
Equity value per share (€)	60.55										
							Risk free rate	4.0%		Beta	1.2
							Risk premium	5.0%		Equity ratio	60.0%
									Terminal value in % of total		52.9%

Source: BHF-BANK estimates

Based on our forecasts outlined in the segments analysis our DCF-model calculates an Enterprise value of €437.7m (old: €477.1m). Thereof the terminal value accounts for 52.9% of the total. Including the net cash position and the pension provisions the equity value came out at €436.8m (old: 438.3m). The major change in the computation is a strong reduction in the net debt position. On a per share basis we arrive at €60.55 versus our old figure of €60.76. The DCF is the most accurate valuation method and we are in favour of it.

Fig 5 CEWE KGaA: DCF-model - sensitivity

Growth rate	Discount rate (WACC)				
	6.8%	7.3%	7.8%	8.3%	8.8%
3.0%	82.78	74.11	67.21	61.58	56.88
2.5%	76.64	69.44	63.57	58.68	54.54
2.0%	71.77	65.65	60.55	56.24	52.55
1.5%	67.82	62.51	58.02	54.16	50.82
1.0%	64.54	59.86	55.85	52.37	49.32

Source: BHF-BANK estimates

Peer group analysis

Compared to our last update from November 2014 we have increased the number of peer group companies from four to six. Axel Springer has been added because the company is active in general in the online business and so far there is a parallel line to CEWE. Leifheit has different products but deals with end-customers like CEWE does and has comparable financials (equity ratio, profit margins). The best comparable company is Cimpres who is a direct competitor in some areas of the business. Other direct competitors like the German flyeralarm could not be included because this company is not listed at the stock market.

Fig 6 CEWE KGaA: Peer group valuation I

Company	EV / EBITDA		EV / EBIT		EV / Sales	
	2015F	2016F	2015F	2016F	2015F	2016F
Cimpres NV	14.0	11.5	28.4	20.7	2.2	1.9
Bic Camera, Inc.	13.7	12.5	17.8	16.2	0.5	0.4
Axel Springer SE	10.5	9.6	14.4	12.9	1.8	1.8
Leifheit AG	5.5	5.2	7.3	7.0	0.6	0.6
Hawesko Holding AG	13.5	10.6	18.9	13.2	0.8	0.8
Villeroy & Boch AG	5.2	5.0	8.1	8.1	0.5	0.5
Average	10.4	9.0	15.8	13.0	1.0	1.0
Median	12.0	10.1	16.1	13.1	0.7	0.7
Variance	17.1	10.4	61.2	26.0	0.6	0.5
Standard deviation (SD)	3.8	2.9	7.1	4.7	0.7	0.6
Median + 1/4 SD (Max.)	12.9	10.8	17.9	14.2	0.9	0.8
Median - 1/4 SD (Min.)	11.0	9.4	14.3	11.9	0.5	0.5
	Min. 15F	Min. 16F	Min. 15F	Min. 16F	Min. 15F	Min. 16F
Band width Peer group	11.0	9.4	14.3	11.9	0.5	0.5
CEWE: EBITDA, EBIT, sales, €m	70.6	74.4	36.2	38.9	529.0	540.5
CEWE: Enterprise value, €m	779.6	697.5	517.5	463.8	274.1	275.9
CEWE: Net debt (-) / Net cash (+); other (€m)	-0.9	7.7	-0.9	7.7	-0.9	7.7
CEWE: Equity value (€m)	778.7	705.2	516.7	471.5	273.2	283.6
CEWE: Number of shares, m	7.214	7.214	7.214	7.214	7.214	7.214
CEWE: Equity value per share (€)	107.95	97.76	71.62	65.36	37.88	39.31
	Max. 15F	Max. 16F	Max. 15F	Max. 16F	Max. 15F	Max. 16F
Band width Peer group	12.9	10.8	17.9	14.2	0.9	0.8
CEWE: EBITDA, EBIT, sales, €m	70.6	74.4	36.2	38.9	529.0	540.5
CEWE: Enterprise value, €m	912.8	807.3	646.7	554.3	453.8	442.3
CEWE: Net debt (-) / Net cash (+); other (€m)	-0.9	7.7	-0.9	7.7	-0.9	7.7
CEWE: Equity value (€m)	911.9	815.0	645.8	562.1	452.9	450.0
CEWE: Number of shares, m	7.214	7.214	7.214	7.214	7.214	7.214
CEWE: Equity value per share (€)	126.41	112.98	89.53	77.91	62.78	62.39

Share prices as of 24 June 2015

Source: FactSet, BHF-BANK estimates

In general the peer group multiples lead to clearly higher values per shares than our DCF model. Furthermore the valuation level has increased compared to the figures in our November update. Covering all multiples the increase for 2015F is between 25% and 30%. Parallel the SDAX-index increased by 27.6% from 17th November 2014 (6,829) to 8,714 at 24 June 2015. Individual multiples are shown in Fig. 6.

Fig 7 CEWE KGaA: Peer group valuation II

Company	P / E 2015F	P / E 2016F		
Cimpress NV	20.9			18.9
Bic Camera, Inc.	24.4			22.0
Axel Springer SE	21.1			18.5
Leifheit AG	17.6			16.6
Hawesko Holding AG	26.1			19.7
Villeroy & Boch AG	13.7			13.0
Average	20.6			18.1
Median	21.0			18.7
Variance	20.4			9.3
Standard deviation (SD)	4.1			2.8
Median + 1/4 SD (Max.)	22.0			19.4
Median - 1/4 SD (Min.)	20.0			18.0
	Min. 15F	Max. 15F	Min. 16F	Max. 16F
Band width P/E	20.0	22.0	18.0	19.4
CEWE KGaA, EPS (€)	3.33	3.33	3.64	3.64
CEWE KGaA, price (€)	66.41	73.28	65.60	70.68

Share prices as of 24 June 2015

Source: FactSet, BHF-BANK estimates

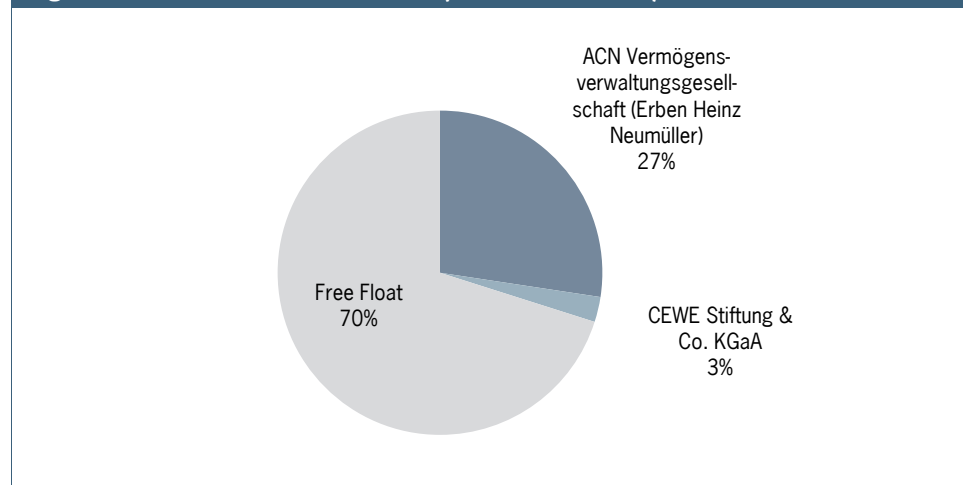
P/E multiples also has increased. P/E 2016F of Cimpress of 18.9 is close to our implicit P/E for CEWE of 18.5.

CEWE at a glance

- Family-owned company
- Europe’s market leader for digital photo products
- Strong seasonality in particular in the Photofinishing division

The CEWE company was founded 1961 by Senator h.c. Heinz Neumüller. Following several years of success and growth the company went public in March 1993 (issue price at that time: 335 DM) and since the IPO CEWE is member of the SDAX-index.

Fig 8 CEWE: Shareholder structure (as of March 2015)



Source: Company data

CEWE’s nominal capital currently stands at €19.24m and is divided into 7.4m shares. We qualify the community of heirs Heinz Neumüller as long-term, stable anchor investors. Free float today is 70% and in 2014 the average daily traded volume was up to 16,700 shares, according to the company.

Today the CEWE Stiftung & Co. KGaA operates eleven plants with 3,200 employees in 24 countries. CEWE is Europe’s market leader in the market for digital photoproducts and the best known product is the “**CEWE Photobook**” with 5.9m produced books last year. 2014 the group achieved sales of €523.8m and an EBIT of €32.6m. Group activities are separated into the three strategic business segments Photofinishing, Retail and Online Print (see details at “CEWE’s segments in detail”). It is important to know that there is a significant seasonal impact during the year. The last quarter of each business year (31.12.), with growing importance over the last years, is contributing the main portion of group sales total and with a higher share also the main portion of profits, e.g. measured by EBIT.

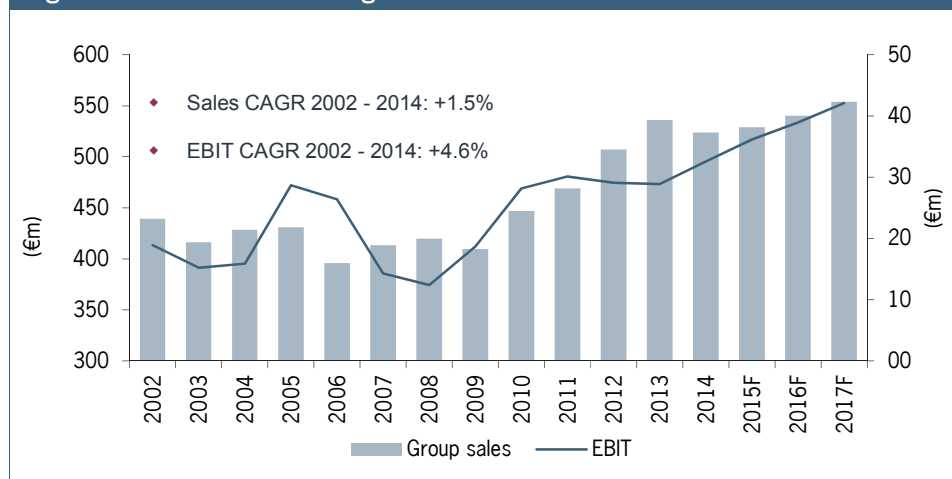
Strong seasonality in its business

Company strategy

- Successful transformation from analogue to digital
- Strategy of differentiation
- New growth from Commercial Online Print

In a rapidly changing market environment in Europe CEWE has successfully enhanced the group's strategy and could report a solid revenue growth for the group. 1990 the group reported sales of DM317m (€162m based on DM/Euro reference exchange rate of 1.95583). Until 2000/2001 the management focused on its regional expansion in the analogue market.

Fig 9 CEWE: Sales and EBIT growth



Source: Company data, BHF-BANK estimates

Since 2000 the digitalization of the photo world started and digital photofinishing reported a rapid growth while the analogue business clearly lost importance. 2014 96.1% of all photos produced by CEWE are from a digital source. This trend in our view will continue and so far IT and software tools for end-users have become more important for the success of the group. CEWE offers various Apps for Android and iOS. The **CEWE Photobook**, the most important brand name and most important single product for the group was launched first in 2005 and could celebrate its 10th anniversary this year.

CEWE today runs eleven production sites in Europe. All sites are connected to one production network, which helps to optimize capacity utilization. Production is highly automated and for Photofinishing products currently some 60 Indigo digital printing machines are in use. Sophisticated internal logistic systems should help to have quick cycle times for a fast delivery to end customers.

Distribution in the Photofinishing segment is organized via 30,000 retail partners, as there are e.g. drugstores like dm or Rossmann, electronic retailers or grocery & department stores. Today CEWE offers all possible ways to place an order (internet/online) or at the point of sale and has multi-channel distribution possibilities.

In general CEWE follows a strategy of differentiation. CEWE stands for e.g. innovative products, easy-to-use software, strong brands, high quality and fast delivery. As a consequence the company is not offering the lowest prices for photobooks, cards, calendars and gift articles. In summary the group has a clear positioning in the market. The strength of the group is the combination of the various details described above.

**Commercial online print
should generate further
growth**

In our view it seems that in some areas the photofinishing market moves into the direction of a mature market. In order to generate further mid-term growth for the group, CEWE acquired in February 2012 Saxoprint and added commercial online printing to its portfolio. With the help of the strong CEWE Photobook brand a “new” CEWE print brand has been installed and together with other measures the business has grown so far. This year we expect divisional sales to reach €82m (2014: €70.5m).

The overall strategy so far resulted in a solid set of financials. End of 2014 the equity ratio reached 51.1% and the company has a net cash position of €19.8m; including pension provisions it turned into net debt of €-2.3m. Since FY 2008 the dividend per share constantly increased from €1.00 to €1.55 per share last year. CEWE can be qualified as a value creating company. Last year the ROCE before taxes (Return on capital employed) reached 16.9% which is clearly above the cost of capital. We use in our DCF-model currently a WACC of 7.8%. Strong financials also give room for further external growth. According to the company CEWE could use some €50m for acquisitions both in Photofinishing and in Online Print. We would not expect any activity at this front in short term. As the company has stated several times, 3D-printing is no area of interest. This is in contrast to its rival flyeralarm who is active in this market segment with its subsidiary “my3D”.

CEWE's segments in detail

CEWE group today operates in three divisions. Based on last year's group sales of €523.8m the Photofinishing division contributes 73.7% to the total, followed by the Commercial Online Print division with 13.5% while Retail generates the remaining 12.8%. As of today Photofinishing is the main profit contributor of the group, but mid- to long-term Online Print also is expected to become profitable and so far the group will have a more balanced profit structure.

Photofinishing

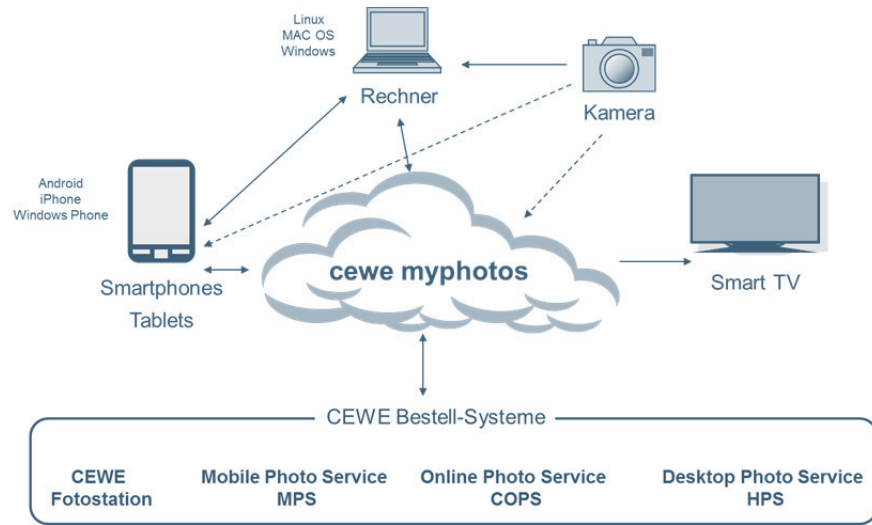
- Shift from analogue to digital
- Product innovations a key driver for further growth
- New service: CEWE MYPHOTO

The market change from analogue to digital started 2001/2002 and is more or less finalized today. CEWE has identified this change of the market environment and has repositioned the company. In this context the number of production sites was cut back from 23 (2004) to 11 end of 2014. In this context restructuring costs of €52.7m were booked. In the same period the company has invested €162.8m in order to ramp up the digital business. In our view some €25-30m of investments per year are necessary for maintenance capex, mainly for digital printing machines. The outcome of this strategy is that CEWE today is Europe's undisputed market leader in photofinishing. More than 95% of all photos produced are from a digital source. The CEWE family brand is well known. According to the company the unaided brand awareness for the CEWE PHOTOBOOK in Germany is 38% and the aided brand awareness is 60% measured by GfK.

Product innovations

But also in the digital world the photo market is changing with even more speed than in former years. CEWE today can offer their customers a multi-channel strategy for orders and distribution. In this context product innovations are an important marketing tool in order to secure further growth and to defend the leading market position against its rivals like e.g. Photobox, Schmidkonz, Albumprinter or other players. CEWE has implemented a product innovation day once a year. The product development department presented a selection of totally new or innovative products to a selected number of internal people and customers. Out of these ideas a short-list will be selected and finally some new products will be launched in the market. This normally happens before the Christmas season starts. This process in our view gives CEWE a competitive advantage and a strong USP and is a solid foundation for further growth.

Fig 10 CEWE MYPHOTOS

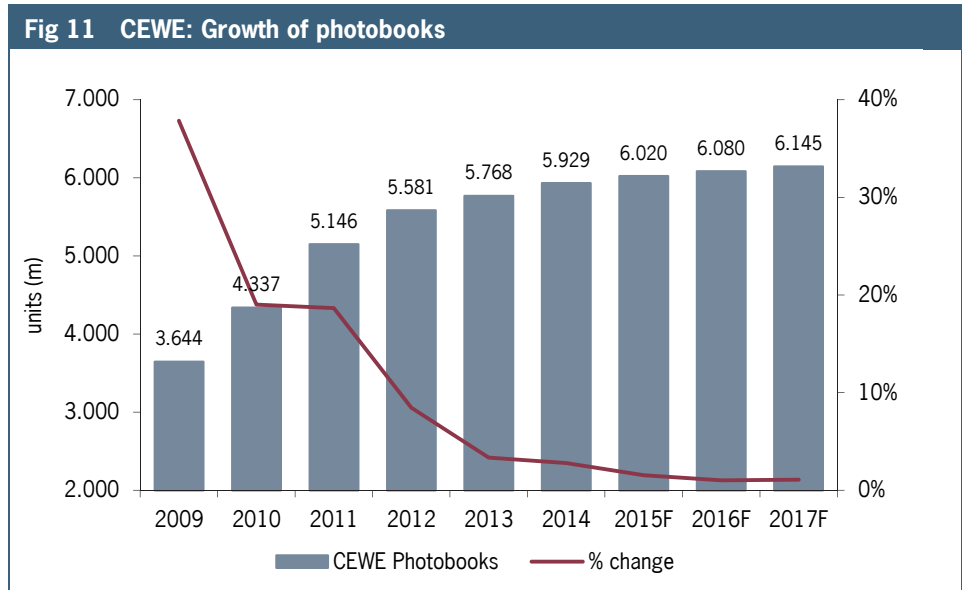


Source: CEWE, BHF-BANK

A new innovation: CEWE MYPHOTOS.

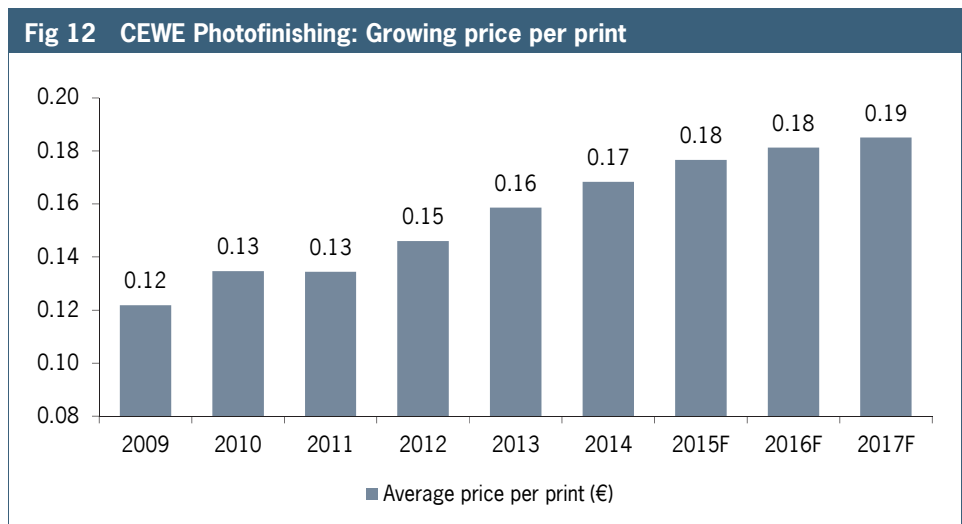
A brand new innovation is CEWE MYPHOTO (<https://www.cewe-myphotos.com>). The service is comparable to a cloud solution for photos and will help to strengthen customer loyalty. It is a service for the storage and organization of photos from various media like e.g. cameras, smartphones, PCs. It is planned to have the service available on all common operating systems (Windows, Linux/Android, iOS etc.). According to CEWE customers will not receive any kind of advertising in connection with the service. Furthermore CEWE will not make any kind of data analysis for third parties, which separates it from all the “googles” in this market.

The CEWE PHOTOBOOK today is the most important single product in the Photofinishing segment. 2014 the company sold 5.929m books representing nearly 50% of divisional sales. Based on volume CEWE holds a market share of ~24% in Western Europe while based on value according to CEWE the market share is in the area of 30%.



Source: Company data, BHF-BANK estimates

This year the product celebrates its 10th anniversary. Management has set the target to sell 6.0-6.1m photobooks this year and this compares to our estimate of 6.02m books. In 1Q 2015 the company has sold 1.16m books but referring to the seasonal impact of the strong fourth quarter we have no doubt that our forecast will be reached. In the last years CEWE was able to steadily increase the price per photo. Helped by the innovations the price per photo increased from €0.1219 (2009) to €0.1684 in 2014. This trend will continue and we expect a further increase from 2% to 4% until 2017 (see Fig.12).



Source: Company data, BHF-BANK estimates

In 1Q 2015 the division could increase sales by 7.5% to €75.5m compared to 1Q 2014. EBIT improved from €-2.3m (1Q 2014) to €-1.1m and reflect the higher share of added-value products. The value per photo was up from €0.1497 to €0.1625.

Fig 13 CEWE Photofinishing: Key figures

(€m)	2011	2012	2013	2014	2015F	2016F	2017F
Divisional sales	357.3	364.1	378.4	387.9	390.5	392.5	395.0
YoY (%)		1.9%	3.9%	2.5%	0.7%	0.5%	0.6%
Share of total* (%)	75.8%	70.8%	70.0%	73.7%	73.2%	72.0%	71.1%
EBIT	30.5	32.2	35.8	38.4	39.4	39.3	40.3
EBIT-margin (%)	8.5%	8.8%	9.5%	9.9%	10.1%	10.0%	10.2%

* based on external sales

Source: Company data, BHF-BANK estimates

For the full year 2015F we are looking for divisional sales of €387m, reflecting on one hand a decline of the number of photos produced and on the other hand a further increase of the value per photo. As outlined before we see good chances for CEWE to achieve further growth on the basis of their innovations in this division.

Retail

- Low-margin business
- Distribution channel for photofinishing products

With 12.8% of group sales Retail is the smallest of all three divisions. CEWE is active in Norway and Sweden as well as in Poland, the Czech Republic and in Slovakia. CEWE operates currently 160 retail stores and uses various brands like Japan photo, FOTO-JOKER or FOTOLAB. The divisional sales figure represents hardware sales only while sales of photofinishing products are shown in the Photofinishing segment. Last year's negative EBIT of €2.9m was mainly influenced by the closure of the wholesale business in Poland. This was also the reason for the squeeze in divisional sales.

Fig 14 CEWE Retail: Key figures

(€m)	2011	2012	2013	2014	2015F	2016F	2017F
Divisional sales	112.9	105.2	101.2	67.5	59.0	53.5	54.0
YoY (%)		-6.8%	-3.8%	-33.3%	-12.6%	-9.3%	0.9%
Share of total* (%)	23.9%	20.7%	18.8%	12.8%	11.7%	10.5%	9.6%
EBIT	2.4	1.7	0.1	-2.9	-1.5	-0.6	0.2
EBIT-margin (%)	2.1%	1.6%	0.1%	-4.3%	-2.5%	-1.1%	0.4%

* based on external sales

Source: Company data, BHF-BANK estimates

A new price strategy in Poland was the main driver for the sales decline in 1Q 2015. The segment reached €13.4m which is 18.4% lower than in 1Q 2014. The operating EBIT came out at €-1.1m (1Q 2014: €-0.7m); this figure includes €0.6m for restructuring, so that the operating EBIT slightly improved.

We expect for the full year 2015F again a decline in sales but an improvement in EBIT mainly due to a shortfall of restructuring costs coming from activities in Poland. Following a change of the local management there are good chances that the Retail division will return into a positive EBIT area again.

Online Print

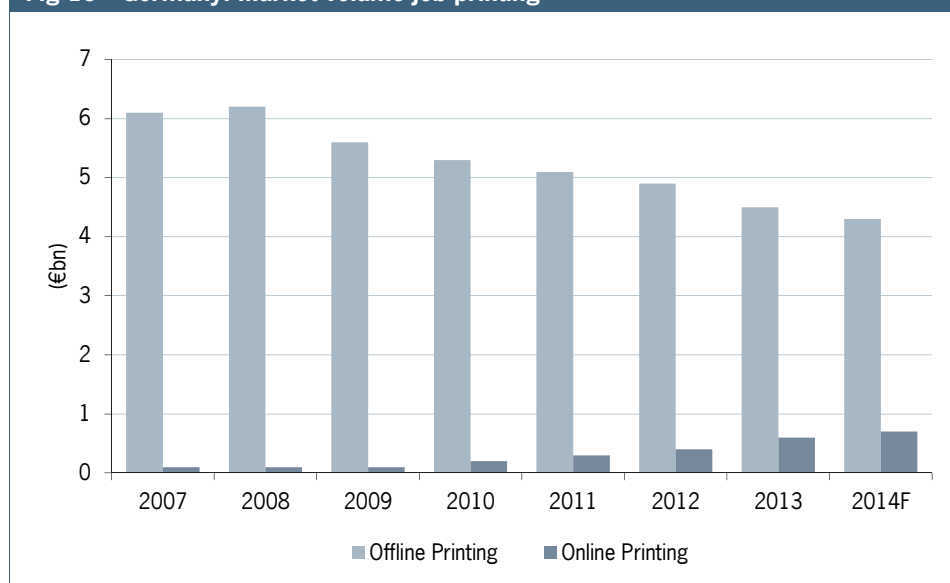
- The new growth area
- Turnaround in FY 2016F expected
- Scenario: Mid-term EBIT-margin of 5%

In February 2012 CEWE acquired Saxoprint GmbH in Dresden. Saxoprint should help CEWE group to grow the commercial online printing business. The job-printing market in Germany currently is stagnating, but the segment of online printing is growing. Under the brand name "CEWE print" the company is addressing business clients to use online printing for commercial use. Due to the fact that the photofinishing business is moving into the direction of a mature market, CEWE's management has identified the need to find another attractive area for further growth. Online printing is a cognate market to the photofinishing business.

Online Print is a growth market in our view

Given the expansion of the internet and the growing number of mobile devices the market volume for job printing is declining. Fig.15 shows the development for Germany. The last peak was 2008 with a volume of €6.3bn of which offline printing account for €6.2bn. Within an overall declining market for print jobs the segment of online print steadily has grown and reached 2014F a volume of €0.7bn or 14%.

Fig 15 Germany: Market volume job printing



Source: Company data

In our view the market volume from online print will grow further. The whole process from ordering online to product delivery is faster, cheaper and easy to handle. This is not only valid for Germany but also for other European markets. More and more companies (e.g. Cimpress, flyeralarm, onlineprinters, laserline) are focussing on that type of business.

CEWE currently is in the phase to reach the critical volume to become one of the leading players in this segment. Investments in machinery during the last years give them a

technical capacity of nearly €100m of revenues per years. Having reached this size the company can use economies of scale for offering competitive selling prices for their product portfolio. Marketing expenses of €10m per year are spent in order to make the “CEWE-print” brand more popular. In our view one of the key success factors is to collect enough small print jobs and organize them in a most efficient way internally. So far the optimisation of thousands of print jobs is important so that changeover times and costs for the offset printing machines can be minimised.

Following the expansion in Germany growth in other European markets outside Germany will come into the center of interest. In this respect the Dutch cimpress N.V., the world’s largest online printer so far, currently has an aggressive growth strategy. The company has acquired in the last years other printers in Italy, Austria, Netherlands and lastly bought a majority stake in the French Exagroup SAS. They paid €91.5m for a 70% stake and Exagroup 2014 generated sales of €76m. That leads to an EV/sales multiple of 1.7 which is not cheap in our view.

In 1Q 2015 divisional sales were up 9.5% to €17.9m. EBIT came out at €-1.3m which was nearly the same level than in 1Q 2014 with €-1.2m. Also in this segment 4Q is of higher importance than the other quarters.

Fig 16 CEWE Online Print: Key figures

(€m)	2011	2012	2013	2014	2015F	2016F	2017F
Divisional sales	1.4	43.4	59.8	70.5	82.0	97.0	107.0
YoY (%)		-	37.8%	17.9%	16.3%	18.3%	10.3%
Share of total* (%)	0.3%	8.5%	11.2%	13.5%	15.2%	17.6%	19.3%
EBIT	-2.8	-4.8	-7.0	-2.9	-1.7	0.2	1.6
EBIT-margin (%)	neg.	neg.	neg.	neg.	neg.	0.2%	1.5%

* based on external sales

Source: Company data, BHF-BANK estimates

This year’s sales target is to reach €80m and we are estimating €82m. CEWE will continue to have high marketing expenses and has to cope with higher wages and therefore again we estimate a negative but compared to last year an improved EBIT. 2016 we expect the division to manage the turnaround and reach an EBIT of €0.2m.

As of today it seems realistic to us that CEWE will surpass the level of €100m for sales. Taking into account growth in other European markets (organic growth or by acquisitions) mid- to long-term a sales level of €200m can be reached. In case of organic growth further investments in machinery and marketing are needed. Assuming further an EBIT-margin of 5% (cimpress 9M 2014/15: 7.3%) an absolute EBIT of €10m is the outcome. We would not rule out that CEWE internally might have a higher EBIT-margin target than 5%.

The acquisition of Saxoprint has created a substantial goodwill. Out of a total of €25.4m a figure of €19.5m is allocated in the Online Print division. No impairment has been made in the course of 2014. The remaining figure is allocated at Photofinishing (€5.5m) and at Retail (€0.4m).

Financial analysis and outlook

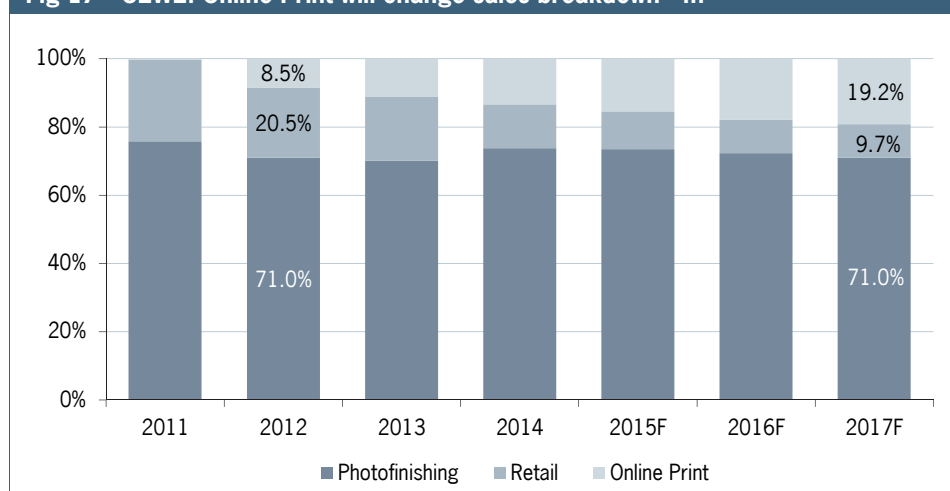
CEWE offers the investor a solid set of financial figures and is a value creating company. Since 2008 the dividend per share has been constantly increased while the yield has been 3% or more.

Earnings outlook

- Sales and earnings breakdown will change
- Growth in profitability expected

The entrance into the business of commercial online print will change the group's divisional sales breakdown over time. Saxoprint was acquired in February 2012 and contributed in the first year 8.5% to the group sales. Photofinishing could increase its sales in absolute terms but relatively declined down to 71%.

Fig 17 CEWE: Online Print will change sales breakdown* ...

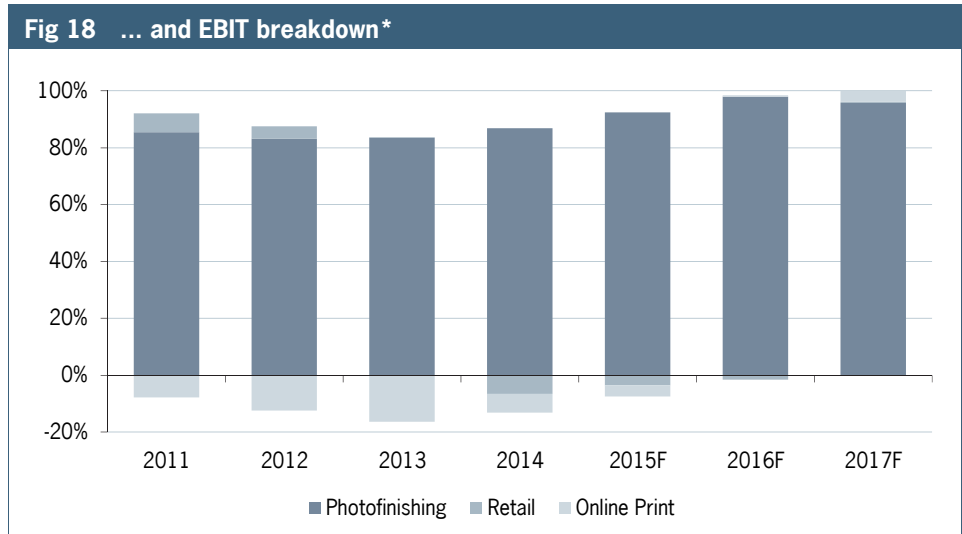


* Sales: Gross sales per division

Source: Company data, BHF-BANK estimates

While online print for the next years will grow its business further its sales share will grow too. In the current year we forecast divisional sales of €82m which is in line with the company's forecast of some €80m. According to our scenario 2017F we are looking for sales of €107m and this will represent 19.2% of the group's total (see Fig.17). Revenues in this division are generated more steadily during the year compared to the photofinishing business which has the peak in 4Q of every business year.

Mid-term the earnings breakdown of the group in our view will change too thanks to the fact that Online Print once will become profitable.



* divisional EBIT
 Source: Company data, BHF-BANK estimates

Up to now CEWE has invested in the market position and the growth of the Online Print division. Since 2013 the negative EBIT was constantly reduced and we expect the break-even for FY2016F with an EBIT of €0.5m. 2017F Online Print will contribute 3.8% of the group’s EBIT and long-term has more upside potential. For the foreseeable future we believe that Photofinishing will stay to be the dominating profit contributor for the CEWE group.

Based on CEWE’s innovative capacity and the expected volume growth we are forecasting a further increase in earnings. We expect sales 2015F to slightly increase by 1% to €529m which compares to CEWE’s own target to reach a corridor between €515-535m. In 1Q2015 sales were up by 3.7% to €106.8m. A strong decline in Retail of 18.4% (shutdown of wholesale business in Poland) was more than offset by the growth both in Photofinishing (+7.5%) and Online Print (+9.5%).

Our EBIT estimate 2015F currently stands at €36.2m and compares to CEWE’s own target of €32-38m. In 1Q2015 the company could reduce the negative EBIT from €-4.2m (1Q14) to €-3.5m including €1m for restructuring. In order to meet our forecast 4Q 2015 has to deliver €38m. Details are outlined in the segments analysis.

Finance and cash flow

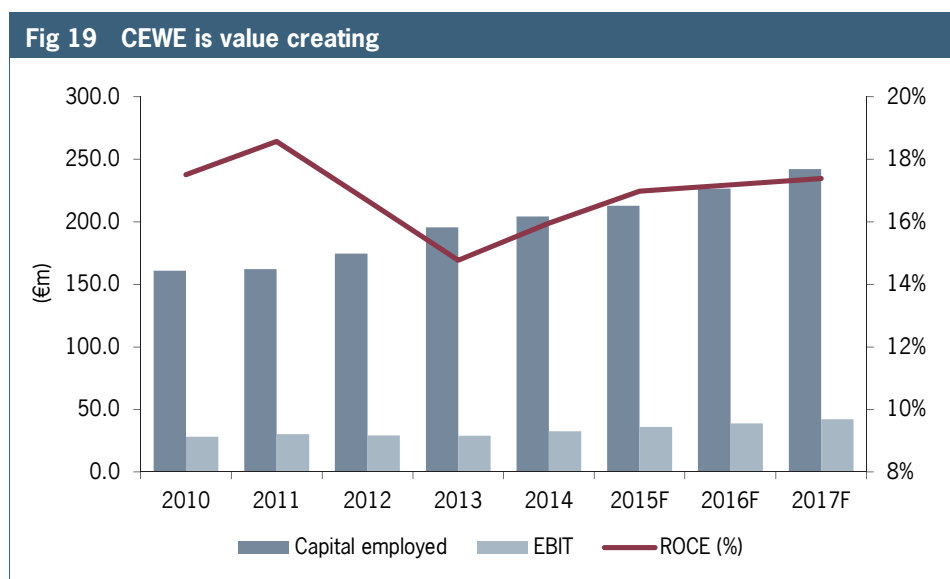
- 2014 with net cash position
- ROCE > WACC

In the course of 2014 CEWE’s liquidity was up and the management used cash for the repayment of debt in an amount of €26.1m on a gross basis. According to CEWE at the end of 2014 the company holds a net-cash-position of €23.5m after a net-debt-position of €16.3m end of 2013. This calculation does not include pension provisions. If we include pensions for 2014 we arrive at a net debt figure of €2.3m compared to €41.5m a year earlier. Pensions at the end of 2014 increased from €17.9m (2013) to €21.9m, mainly due to a significant reduction of the discount rate from 3.1% to 2.1%. We have

assumed in our modelling a further moderate increase in pension provisions and expect a net debt figure of €0.9m so that CEWE will keep its solid financials in this respect.

CEWE is value creating

For several years now CEWE group is a value creating company. As shown in Fig.19 2014 CEWE achieved a ROCE (Return On Capital Employed) of 16% based on our definition. This compares to cost of capital between 6.53% (lowest level in Online Print) and 12% (highest level in Photofinishing). CEWE itself has published a figure of 16.9%; CEWE calculated the capital employed on the basis of the last four quarters while our calculation is based on the average of 2014 and the year before. But the message is the same.



Source: Company data, BHF-BANK estimates

Online Print in our view is more capital intensive than the other activities of the group and therefore we assume a further increase in the capital employed. Furthermore approaching a “normal” EBIT level, ROCE could go up further. This is also supported by the expected shortfall of the restructuring costs for the Polish wholesale business.

1Q2015 operating cash flow declined from €9.0m to €-0.9m. While capex increased the free cash flow declined too from €5.3m to €-12.5m. For the full year 2015F we estimate an operative cash flow of €58.4m followed €71.2m in 2014 and see some increase in the operating working capital. In line with the higher profitability for 2016F and 2017F again we expect higher operating cash flows.

Sales and sales growth



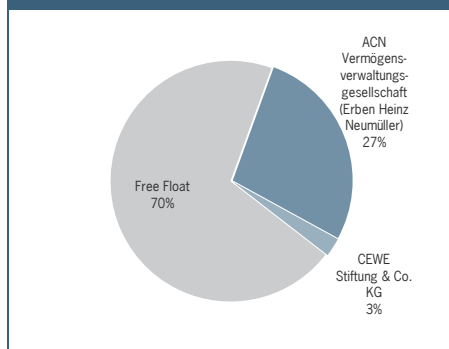
Source: Company data, BHF-BANK estimates

EBIT and EBIT margin



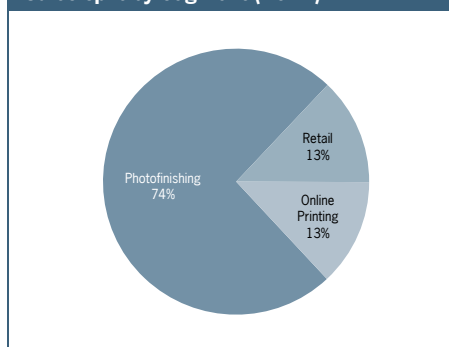
Source: Company data, BHF-BANK estimates

Shareholder structure



Source: Company data, BHF-BANK estimates

Sales split by segment (2014)



Source: Company data, BHF-BANK estimates

Profit & loss (€m)	2013	2014	2015F	2016F	2017F
Sales	536	524	529	541	554
YoY	5.7%	-2.3%	1.0%	2.2%	2.5%
EBITDA	67	66	71	74	77
EBITDA growth YoY	1.1%	-1.0%	6.7%	5.5%	3.7%
EBITDA margin	12.5%	12.6%	13.3%	13.8%	13.9%
EBIT	29	33	36	39	42
EBIT growth YoY	-0.7%	12.8%	10.9%	7.7%	8.2%
EBIT margin	5.4%	6.2%	6.8%	7.2%	7.6%
Net income (rep.)	22	21	24	26	29
Net income (adj.)	22	21	24	26	29
EPS (€)	3.39	3.07	3.33	3.64	4.02
EPS growth YoY	17.6%	-9.3%	8.2%	9.5%	10.4%
Gross profit margin	64.6%	68.9%	69.1%	69.2%	69.3%
Net income margin (adj.)	4.1%	4.1%	4.5%	4.8%	5.2%

Balance sheet data (€m)	2013	2014	2015F	2016F	2017F
Intangibles / Goodwill	45	45	43	41	38
Total non-current assets	162	168	178	183	185
Cash & equivalents	14	28	29	38	54
Total current assets	172	172	172	181	196
Shareholder's equity	143	174	186	201	217
Net debt(-) / net cash(+)	-41	-2	-1	8	24

Cash flow statement (€m)	2013	2014	2015F	2016F	2017F
Net income, as rep.	22	21	24	26	29
Depreciation & amortization	38	34	35	36	35
NWC changes	-13	13	-2	0	1
Other non-cash items	1	3	2	1	2
Operating cash flow	48	71	58	62	67
Capex	-36	-38	-45	-39	-37
Free cash flow	29	30	32	38	42
Dividends	9.87	10.79	11.39	11.75	12.10
Change in net debt	0.3	-39.0	-1.4	-8.6	-16.4
Operating cash flow / sales	9.0%	13.6%	11.0%	11.5%	12.1%
Free cash flow / sales	5.4%	5.6%	6.1%	7.0%	7.6%

Key financials matrix	2013	2014	2015F	2016F	2017F
BVPS (€)	21.71	24.95	26.16	28.18	30.53
PBR (x)	1.65	2.06	1.94	1.80	1.67
ROE	15.6%	12.3%	12.7%	12.9%	13.2%
ROCE	15.4%	18.0%	18.7%	19.8%	21.6%
Net working capital / sales	8.1%	6.5%	6.8%	6.5%	5.9%
Current ratio (x)	1.20	1.06	1.24	1.33	1.45
Gearing (net)	28.8%	1.2%	0.4%	-3.9%	-11.2%
Equity ratio	42.8%	51.1%	53.2%	55.1%	57.0%
Net debt / EBITDA (x)	-0.6	0.0	0.0	0.1	0.3
OCFPS (€)	7.3	10.2	8.2	8.8	9.4
P / OCF (x)	4.9	5.2	6.3	5.9	5.5
FCFPS (€)	4.40	4.24	4.54	5.30	5.89
FCF Yield	12.3%	8.0%	8.8%	10.3%	11.4%
Capex / sales	-6.7%	-7.2%	-8.5%	-7.2%	-6.6%
Payout ratio	42.6%	49.5%	47.2%	44.5%	41.6%

Source: Company data, BHF-BANK estimates

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

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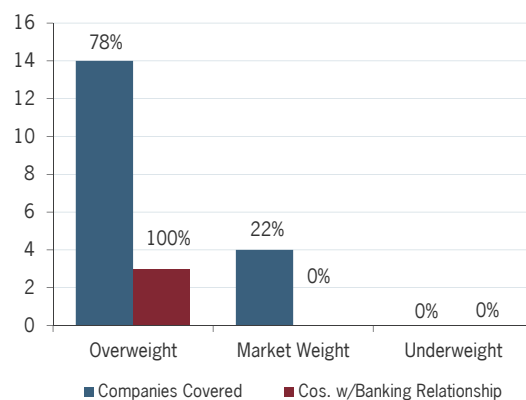
Market Weight: We rate the share valued in line with the market.

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	€50.85 (24/06/2015)	2,4



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CEWE^[2,4]

	Date of statement	Recommendation		Date of statement	Recommendation
First Take	12/05/2015	Overweight	Update	18/11/2014	Overweight
First Take	26/03/2015	Overweight	Update	14/08/2014	Overweight
First Take	25/02/2015	Overweight			

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