GBC AG
Investment Research

Research Report (Update)

GREIFFENBERGER AG
Zukunft ist machbar

June far below expectations, fluctuating first half of 2014 – expansion of new plant in Lublin proceeds as planed – Price target adjusted downwards

Target price: 7.10 €

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page 13

Completion: 26/8/2014 **First Publication: 27/8/2014**

Greiffenberger AG*5

BUY
Target price: € 7.10

current price: 4.73
26/8/2014 / ETR
currency: EUR

Key information:

ISIN: DE0005897300
WKN: 589730
Ticker symbol: GRF
Number of shares³: 5.323
Marketcap³: 25.18
EnterpriseValue³: 83.97
³ in m / in EUR m
Freefloat: 42.20 %

Transparency level:
General Standard
Market segment:
Regulated market
Accounting standard:
IFRS

Financial year-end: 12/31

Designated Sponsor:
Donner & Reuschel AG

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* catalogue of potential conflicts of interests on page 14

Company Profile

Sector: Industry

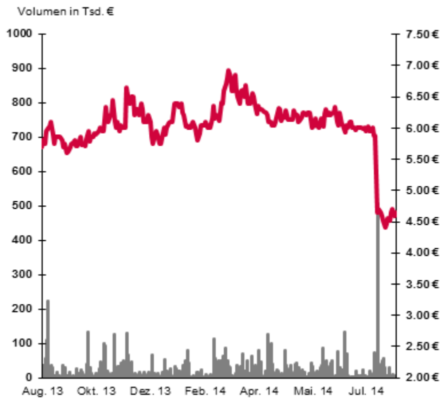
Speciality: Drive technology, Metal band saw blades & Precision strip steel, Pipeline renovation technology

Employees: 1,088 (30/6/2014)

Founded: 1986

Registered Office: Marktredwitz

Executive Board: Stefan Greiffenberger



Greiffenberger AG, with its registered office in Marktredwitz and its management in Augsburg, is a family-run holding company with shareholdings in various industries divided into three business areas. The Drive Technology business is represented by the largest subsidiary ABM Greiffenberger Antriebstechnik GmbH, based in Marktredwitz. In addition, ABM has foreign subsidiaries in China, France, Austria, Poland, Turkey and the USA. The Metal Band Saw Blades & Precision Strip Steel business unit comprises J. N. Eberle & Cie. GmbH, based in Augsburg. Eberle also has subsidiaries in France, Italy and the USA. BKP Berolina Polyester GmbH & Co. KG, based in Velten, operates in the fields of sewer renovation technology and pipe lagging. Greiffenberger AG has been listed since 1986.

P&L in EUR m	31/12/2012	31/12/2013	31/12/2014e	31/12/2015e
Sales	157.96	155.24	156.80	166.20
EBITDA	15.39	12.59	9.91	13.90
EBIT	8.80	6.03	3.11	7.15
Net profit	2.55	1.30	-0.95	2.36
Figures in EUR				
Earnings per share	0.53*	0.27*	-0.18	0.44
Dividend per share	0.00	0.00	0.00	0.00
**number of shares outstanding of 4.84m*				
Ratios				
EV/Sales	0.54	0.54	0.54	0.51
EV/EBITDA	5.57	6.67	8.48	6.04
EV/EBIT	9.74	13.93	27.04	11.74
P/E	9.86	19.43	-26.64	10.66
P/B		0.78		

Financial dates
10/11/2014: Report Q3
25/11/2014: Eigenkapitalforum

**** last research published by GBC:**
Date: publication/price target in €/Rating
29/7/2014: RG / 9.80 / BUY
30/4/2014: RS / 9.80 / BUY
27/8/2013: RS / 9.30 / BUY
17/7/2013: RG / 9.30 / 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

- The German economy has receded for the first time in one year, by 0.2% in the second quarter of 2014. At the same time, the German Engineering Association (VDMA) corrected its growth forecast for 2014 from 3% to 1%.

- The weak May and a month of June far below expectations led, after a positive first quarter of 2014, to decreasing sales for the Greiffenberger Group in the first half of 2014, by -1.6% to EUR 75.68m (PY: EUR 76.90m). While corporate international sales compared to the previous year period increased by 8.7%, sales within Germany decreased by approx. 17% because of a very hesitant order situation, particularly at the biggest subsidiary ABM.

- The start of production in the new plant in Poland went as planned in the first half of 2014. As estimated, after initial start-up costs in the first half year, the new plant will not have any effect on the annual result of the subsidiary ABM on a full-year 2014 basis and a positive net contribution is expected from 2015.

- Because of the declining group sales, the start-up costs for the new plant in Poland in the first half year, and the significantly increased personnel costs, earnings before interest and taxes (EBIT) at EUR 0.68m were significantly below the value of the previous year and below our expectations.

- For the second half of 2014 we estimate a significant improvement of EBIT through a slight growth in sales. For one, this should be achievable through the harmonized production at the plant in Poland within the second half of 2014 and a resulting increase in productivity and through the optimization and efficiency measures which had already taken effect at the half-year mark of 2014. Since the 2014 business year, because of the newly opened plant and the fluctuating first half-year, must be seen as a sort of transitional year for the Greiffenberger Group, we adjusted our forecasts for the total year of 2014 accordingly.

- **After a fluctuating first half of 2014, very restrained ordering behaviour among customers in the second quarter, and a slightly overcast outlook for the world economy in 2014, we adjusted the target price for the share of the Greiffenberger AG from previously EUR 9.80 to EUR 7.10. Despite the adjustment, the price target remains above the price of the successful equity increase in April (EUR 6.00) and at the current price level of EUR 4.73 also contains further potential for upward movement.**

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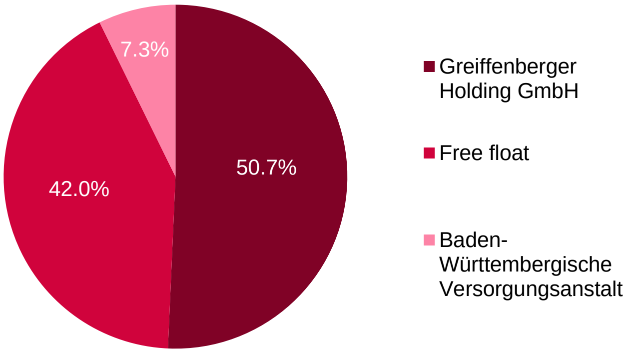
COMPANY

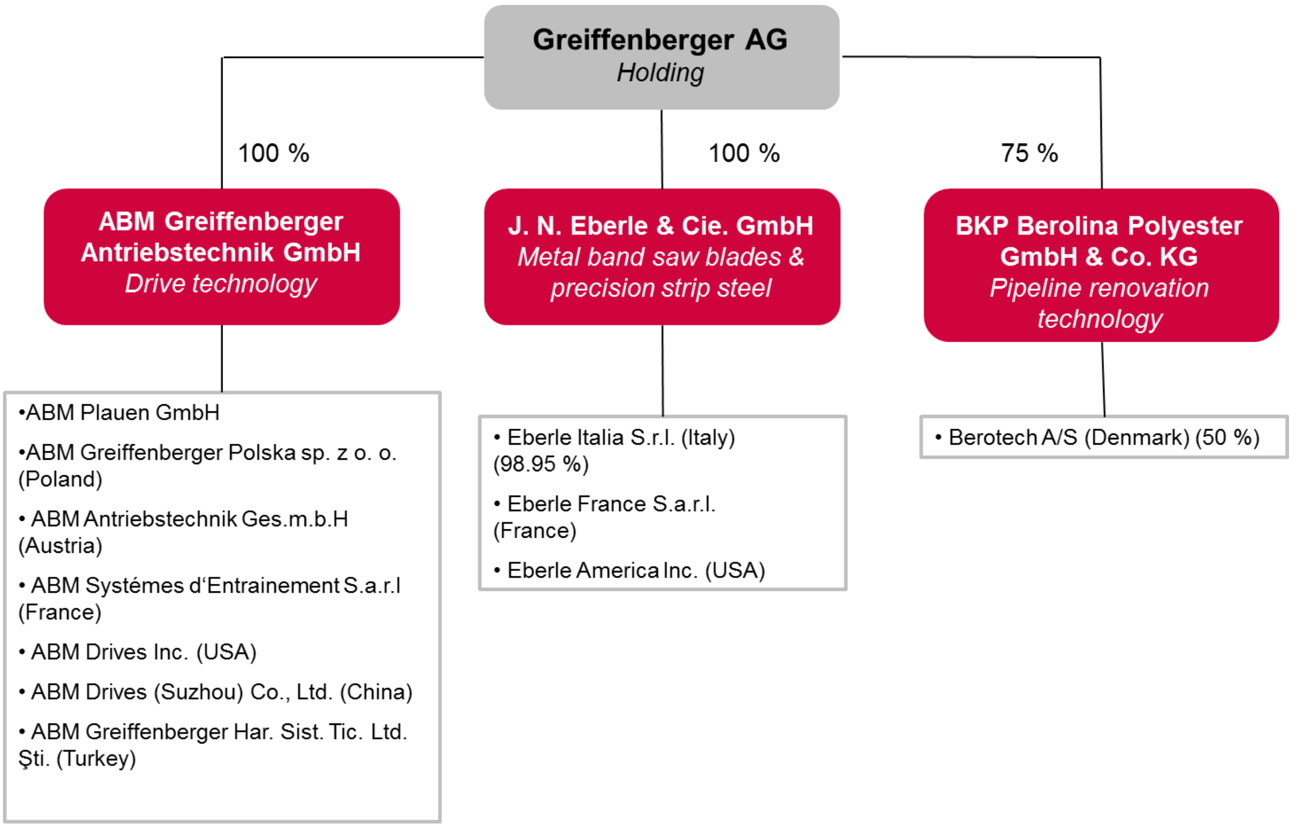
Shareholder structure

shareholder in %	30/6/2014
Greiffenberger Holding GmbH	50.70 %
Baden-Württembergische Versorgungsanstalt	7.28 %
Free float	42.02 %

Source: Greiffenberger AG, GBC AG



Organisational chart



Source: Greiffenberger AG, GBC AG

Source: Greiffenberger AG, GBC AG

Business development first half of 2014

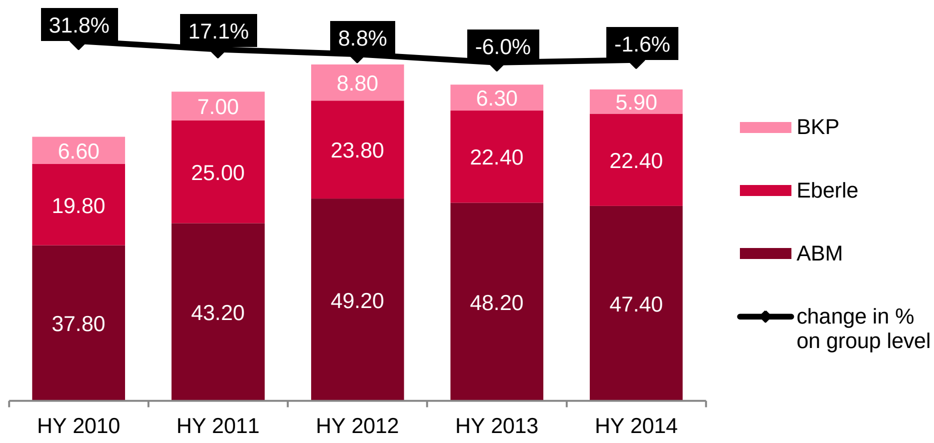
in m €	HY 2013	Δ to PY	HY 2014
Sales	76.90	-1.6 %	75.68
EBITDA	6.85	-41.0 %	4.04
EBITDA-Margin	8.9 %	-3.6 Pp.	5.3 %
EBIT	3.50	-80.6 %	0.68
EBIT- Margin	4.6 %	-3.7 Pp.	0.9 %
Net profit	1.27	ns.	-0.79
EPS in €	0.26		-0.16

Source: Greiffenberger AG, GBC AG

Development of sales

The first half of 2014 was characterized by a rather inconsistent development for Greiffenberger AG. While after a rather weak final quarter of 2013, the first quarter of 2014 gave hope for a positive business development throughout the remaining year, the business situation became increasingly dim in the second quarter of 2014. Especially the month of June and a restrained ordering behaviour by customers led to slightly recessive half-year sales of EUR 75.68m (PY: EUR 76.90m).

Sales development per segment at a half-year basis (in m €)



Source: Greiffenberger AG, GBC AG

Based on the individual business areas of Greiffenberger AG, the picture was also rather mixed. While the largest subsidiary ABM was able to clearly increase sales revenue internationally, an unexpected domestic demand freeze decreased sales in Germany from EUR 25.04m in 2013 by approx. 19% to EUR 20.32m at half-year 2014. Fortunately, the production start of the new plant in Lublin, Poland went as planned.

The second largest subsidiary of Greiffenberger AG, Eberle, could maintain the previous year's sales level and achieved EUR 22.4m, around 30% of the Greiffenberger Group's sales. Contrary to ABM, the business segment of metal band saws & precision strip steel increased its domestic sales by 18.1% to EUR 2.34m, while international sales were marginally less, decreasing by -1.4% to EUR 20.11m, due to a weakening economy in some European countries and Asia. The export ratio therefore swung down from 91.1% to 89.6% on 30 June 2014.

Within the first six months of 2014, the smallest subsidiary, BKP, was not able to reach the previous year period's sales level and posted a sales decrease by 7.3% to EUR 5.88m (PY: EUR 6.34m). The reason for this was the development in the project business gas pipe lagging, which received no orders at all in the first half of 2014. This segment fluctuates very strongly by nature. Sales for the core product of pipe liners for trenchless pipeline renovation, however, were significantly above the previous year's level. The successful start-up of the fourth production line for pipe liners in the first half of 2014 allows BKP to produce larger diameters than before and reduces setup times for individual machines.

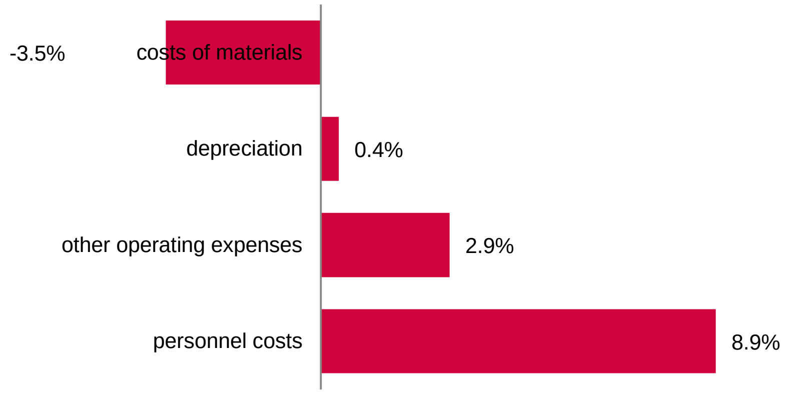
If the business picks up in the second half, demand would meet sufficient capacities and be completely fulfilled. The sales development in the second quarter gives reason for a positive outlook, since the first three months of 2014 still showed a sales revenue decrease of -15.6%.

Development of earnings

At EUR 0.68m, earnings before interest and taxes (EBIT) of the Greiffenberger Group were far below the previous year's value of EUR 3.50m. While personnel costs increased, the cost of materials ratio (material costs to sales) was below the previous year's level and reflects further progress in optimizing procurement and the first results of the increased internal value added by the new plant in Poland. The cost of materials ratio reduced from 49.0% at half-year 2013 to 48.0% at half-year 2014.

The reason for the clear decrease in earnings was primarily an increase in personnel costs by 8.9%, accompanied by decreasing sales. The increase can be traced to the establishment of the new plant in Poland and the connected costs for the increased staff of 130 employees. In addition, collective wage increases in Germany raised personnel costs.

Cost development

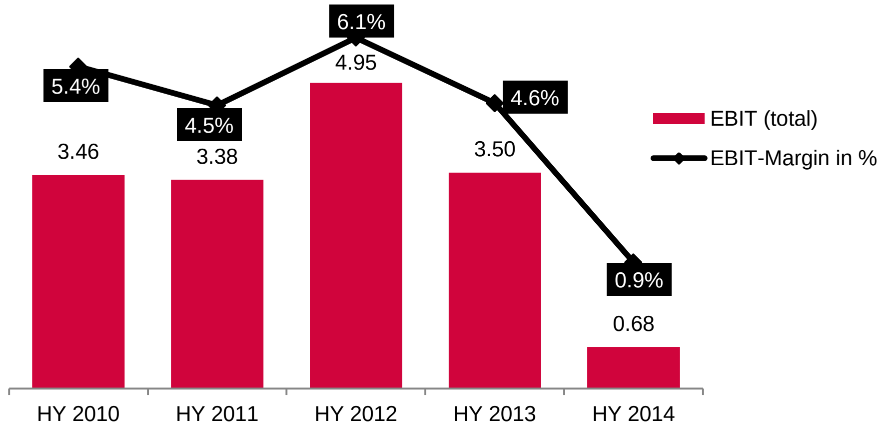


Source: Greiffenberger AG, GBC AG

Other operating expenses increased by only 2.9 %, which is just slightly above the previous year's level, and depreciation (EUR 3.36m) was almost the same as at half-year 2013 (EUR 3.35m).

After summing up reduced sales revenue and increased expense items, the group-wide EBIT margin relative to sales sank from 4.6% in the previous year to 0.9% at half-year 2014.

Development of EBIT and EBIT-Margin on a half-year basis (in m €)

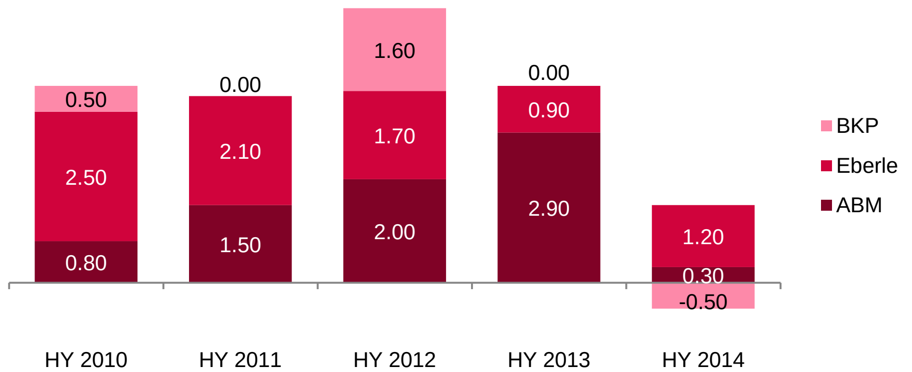


Source: Greiffenberger AG, GBC AG

Viewing all three corporate divisions individually, particularly the subsidiary Eberle developed favourably and showed a marked increase in EBIT. With sales at the previous year's level, EBIT could be increased by around 33% to EUR 1.2m (PY: EUR 0.9m). This corresponds to an EBIT margin of 5.4%, after 4.2% in the previous year period. Lower costs compared to the previous year due to an improved IT infrastructure, completed in the first half of 2014, probably contributed positively to total earnings, among others.

With slightly reduced sales, ABM showed an EBIT of EUR 0.30m, which is far below EUR 2.90m, the figure of 30 June 2013. The decrease results from the start of production in the new plant in Poland and the connected costs and from the increased staff of the subsidiary ABM, accompanied by a general increase of collective wages in Germany. The start-up costs for the new plant are planned to be compensated completely over the course of the year, which lets us expect no burden on overall earnings at year-end. Caused by the start-up costs for the new plant and a lower sales base, connected with incomplete utilization, the EBIT margin of the subsidiary ABM sank from 6.0% to 0.6% at half-year 2014.

EBIT based on the three different subsidiaries without holding costs in m €



Source: Greiffenberger AG, GBC AG

The pipeline renovation technology also showed a recessive development in the first half year, with EBIT of EUR -0.50m (PY: EUR 0.00m). This is due to the increased costs incurred by the start-up of the fourth production line for pipe liners in the first half of 2014 and the performed optimization and efficiency improvement measures. Furthermore, the low sales level accompanied by slightly increased expenses reduced earnings. However, the measures are also an investment in the future and expand the product portfolio.

After subtraction of a financial result of EUR -1.77m (PY: EUR -1.65m) and tax profit from activation of deferred taxes of EUR 0.31m, the period result for the first half of 2014 was EUR -0.79m (PY: EUR 1.27m).

Assets, liabilities and financial situation

in m €	FY 2012	FY 2013	HY 2014
Equity	31.25	32.28	34.17
Operating fixed Assets	58.10	61.76	62.50
Equity-Ratio in %	*25.3 %*	*24.9 %*	*25.6 %*
Net debt	60.59	58.79	62.43
Working Capital	36.29	31.52	36.17

Source: Greiffenberger AG; GBC AG

Regarding stockholder equity, the balance sheet situation of the Greiffenberger Group improved somewhat compared to 31 December 2013. The increase of equity performed in April 2014 led to an increased equity ratio of 25.6%, despite an increased balance sheet total. Based on the equity of EUR 34.17m at the end of June 2014, the book value per share was at ca. EUR 6.40.

Operating assets increased to EUR 62.50m, while depreciation was equal to the previous year period, due to increased own fixed assets capitalized and investments within the subsidiaries amounting to EUR 3.68m. For the total year, we expect an investment level equal to depreciation and clearly below the previous year value.

Net debt increased despite gross revenue of ca. EUR 2.9m from the capital increase in April from EUR 58.79m on 31 December 2013 to EUR 62.43m at half-year 2014.

Forecast and model assumptions

in m €	FY 2013	FY 2014e (old)	FY 2014e	FY 2015e (old)	FY 2015e
Sales	155.24	163.00	156.80	171.00	166.20
EBITDA	12.59	15.17	9.91	17.01	13.90
EBITDA-Margin	8.1 %	9.3 %	6.3 %	10.0 %	8.4 %
EBIT	6.03	8.17	3.11	10.01	7.15
EBIT-Margin	3.9 %	5.0 %	2.0 %	5.9 %	4.3 %
Net profit	1.30	3.46	-0.95	4.82	2.36
EPS in €	0.27	0.65	-0.18	0.91	0.44

Source: GBC AG

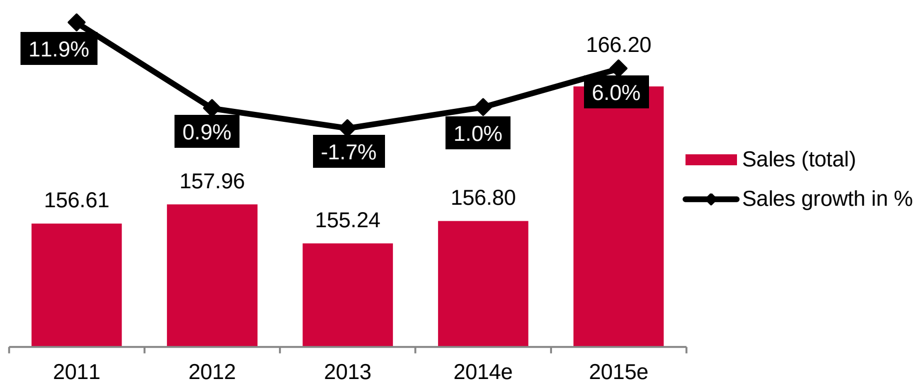
Sales forecasts

After a cautious first half of 2014 and the restrained order behaviour of several customers, especially at the subsidiary ABM, we expect a better development for the second half of 2014, both on a corporate scale and within the subsidiary ABM; however, we still adjust our previous sales forecast downwards. While we expect international sales to further develop positively, we also expect a significant improvement of the domestic order situation in the second half for the largest subsidiary of Greiffenberger AG. Although the different crises in Eastern Europe and the Middle East still pose certain risks, with further positive development expected for the German gross domestic product at 1.8% *(Source: German Federal Government),* the order situation in Germany should improve.

After a stable development of sales within the first six months at the second largest subsidiary Eberle, we still expect increasing sales revenue over the remainder of the year compared with the first half-year. Here the clear recovery of the US economy should have a positive effect on sales and the export ratio, while domestic sales should also continue to develop positively throughout the year.

For the area of pipe liners for trenchless sewer renovation of the subsidiary BKP, we also expect a further positive development over the remainder of the year, compared to the first half. The new production line in the area of pipe liners and the greater diameters added to the portfolio should allow BKP to generate additional orders and increase the sales level compared to the first half-year. It should also be pointed out that the business of BKP for seasonal reasons usually sees 60% of its sales in the second half of the year.

Expected sales growth until 2015 in m €



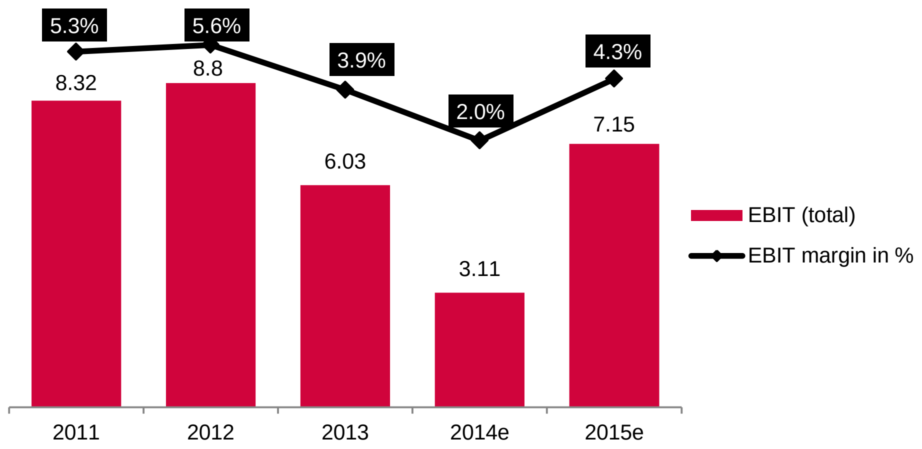
Source: GBC AG

Earnings forecasts

For total income we expect a significant improvement for the second half of 2014 on a corporate scale. While the annual cost of materials ratio should decrease further, due to the increased vertical integration at the subsidiary ABM and the efficiency improvement measures at the subsidiary Eberle, we also expect a moderate increase in personnel costs due to the greater number of employees. Similarly, we expect the optimization measures to slightly decrease other operating expenses compared to the previous year.

After depreciation was already slightly higher than in the previous year period at half-year 2014, we also expect increased depreciation for the total year of EUR 6.80m (PY: EUR 6.56m), due to slightly increased operating fixed assets. On this basis, we estimate EBIT of EUR 3.11m (PY: EUR 6.03m).

Expected development of EBIT and EBIT-Margin until 2015 in m €



Source: GBC AG

While the new plant in Poland should have a neutral effect on the income of the subsidiary ABM by year-end 2014 and production there should be completely in steady state then, we expect a moderate growth in sales and a strong growth in income for the second half compared to the first half of 2014. Furthermore, the construction of the plant in Poland incurred special expenses of EUR 2.0m in 2013, which will no longer be incurred this year and therefore give EBIT a potential to increase for the overall year. From 2015, the new plant in Poland is expected to generate positive income contributions.

In the division of metal band saws & precision strip steel, we expect the performed optimization measures and the disappearance of costs particularly for the improvement of the IT infrastructure to further improve the result. It should increase disproportionately with just a slight increase in sales. For BKP, however, we do expect a slight improvement over the course of the year, but still only expect a small negative net contribution approaching zero to the annual result.

Due to slightly increased net borrowing and an improvement of the result of BKP, which is recorded under Greiffenberger Group´s interest expenses, we expect a negative financial result of EUR -4.05m (PY: EUR -3.65m) and an annual deficit of EUR -0.95m (PY: EUR 1.15m). Since 2014 is a transitional year for the Greiffenberger Group, due to the commissioning of the new plant in Poland and the fluctuating first half of 2014, we expect a significant increase in 2015, which should be reflected both in sales and in income.

VALUATION

Model assumptions

We valued Greiffenberger AG using a three-phase DCF model. Starting from the specific estimates for the years 2014 to 2015 in phase 1, the second phase from 2016 to 2021 forecasts are performed under the assumptions of value drivers. In the process, we have assumed growth in sales of 3.0 % based on a conservative approach.

We took as our target an EBITDA margin of 9.55% (previous 10.50%). For the second and third phase, we applied a tax rate of 29.0%. Beyond the forecast horizon, a residual value was calculated using a perpetual annuity formula. For the final value we assume a growth rate of 2.0% as well as a tax rate of 29.0%.

Calculation of the cost of capital

The weighted average cost of capital (WACC) for Greiffenberger AG is calculated on the basis of equity costs and debt costs. In order to determine the equity cost of capital, the fair market premium, the company beta and the risk-free interest rate need to be established.

The interest rate for 10-year German federal bonds is taken as the risk-free interest rate. This currently stands at 2.00%.

We used the historic market premium of 5.50% as a suitable expectation of market premium. This is supported by historical analyses of stock market yields. The market premium reflects the percentage of the expected excess return of the stock market over the low-risk government bonds. Using the GBC estimation method there is currently a beta of 1.63.

Applying these assumptions we can calculate an equity cost of capital of 10.94% (beta multiplied by the risk premium, plus 10-year risk free interest rate). As we assume a long-term weighting of equity capital costs of 60%, the weighted average cost of capital (WACC) is 9.04% (previous 9.20%).

Valuation result

Discounting of future cash flows was carried out using the entity approach. We calculated the relevant costs of capital (WACC) at 9.04%. The resulting fair value per share at the end of the 2015 business year corresponds to a target price of EUR 7.10.

Therefore we reduced our price target from previously EUR 9.80 to EUR 7.10, due to the recessive operative development in the first half of 2014 and the reduced forecasts for 2014 and 2015. The dilution effect of the successful increase in shareholder equity performed in April 2014 is already considered here.

DCF-Valuation

Greiffenberger AG - Discounted Cashflow (DCF) Valuation

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

consistency - Phase	
Sales growth	3.0%
EBITDA-Margin	9.6%
Depreciation to fixed assets	10.5%
Working Capital to revenue	18.3%

final - Phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	6.3%
Taxe rate final value	29.0%

dreistufiges DCF - Modell:

Phase	estimate		consistency						final
in €m	FY 14e	FY 15e	FY 16e	FY 17e	FY 18e	FY 19e	FY 20e	FY 21e	Final value
Sales	157.80	167.05	172.07	177.24	182.56	188.05	193.70	199.52	
Sales change	0.1%	5.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Sales to fixed assets	2.57	2.72	2.80	2.88	2.97	3.06	3.15	3.24	
EBITDA	9.91	13.90	16.44	16.93	17.44	17.97	18.51	19.06	
EBITDA-Margin	6.3%	8.3%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	
EBITA	3.11	7.15	9.98	10.48	10.99	11.51	12.05	12.61	
EBITA-Margin	2.0%	4.3%	5.8%	5.9%	6.0%	6.1%	6.2%	6.3%	6.3%
Taxes on EBITA	0.00	-2.07	-2.89	-3.04	-3.19	-3.34	-3.49	-3.66	
Taxes to EBITA	0.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
EBI (NOPLAT)	3.11	5.08	7.09	7.44	7.80	8.17	8.56	8.95	
Return on capital	3.3%	5.6%	7.7%	8.0%	8.3%	8.6%	8.9%	9.2%	9.4%
Working Capital (WC)	29.98	30.20	31.40	32.35	33.32	34.32	35.35	36.41	
WC to revenue	19.0%	18.1%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	
Investment in WC	1.53	-0.22	-1.20	-0.94	-0.97	-1.00	-1.03	-1.06	
Operating fixed assets (OAV)	61.50	61.50	61.50	61.50	61.50	61.50	61.50	61.50	
Depreciation on OAV	-6.80	-6.75	-6.46	-6.46	-6.46	-6.46	-6.46	-6.46	
Depreciation to OAV	11.1%	11.0%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	
Investment in OAV	-6.54	-6.75	-6.46	-6.46	-6.46	-6.46	-6.46	-6.45	
Capital employed	91.48	91.70	92.90	93.85	94.82	95.82	96.85	97.91	
EBITDA	9.91	13.90	16.44	16.93	17.44	17.97	18.51	19.06	
Taxes on EBITA	0.00	-2.07	-2.89	-3.04	-3.19	-3.34	-3.49	-3.66	
Total investment	-5.01	-6.97	-7.66	-7.40	-7.43	-7.46	-7.49	-7.52	
Investment in OAV	-6.54	-6.75	-6.46	-6.46	-6.46	-6.46	-6.46	-6.45	
Investment in WC	1.53	-0.22	-1.20	-0.94	-0.97	-1.00	-1.03	-1.06	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	4.89	4.86	5.89	6.49	6.83	7.17	7.52	7.89	102.53

Value operating business (due date)	88.64	91.79
Net present value explicit free CF	32.68	30.78
Net present value of terminal value	55.95	61.01
Net debt	55.04	54.01
Value of equity	33.59	37.78
Minority interests	0.00	0.00
Value of share capital	33.59	37.77
Outstanding shares in m	5.32	5.32
Fair value per share in €	6.31	**7.10**

Cost of capital:

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.63
Cost of equity	10.9%
Target weight	60.0%
Cost of debt	8.3%
Target weight	40.0%
Taxshield	25.0%
WACC	**9.0%**

Return on capital	WACC				
	8.4%	**8.7%**	**9.0%**	**9.3%**	**9.6%**
8.9%	7.71	6.98	6.32	5.71	5.16
9.1%	8.15	7.39	6.71	6.08	5.51
9.4%	8.59	7.81	**7.10**	6.45	5.85
9.6%	9.03	8.22	7.48	6.81	6.20
9.9%	9.46	8.63	7.87	7.18	6.55

ANNEX

Section 1 Disclaimer and exclusion of liability

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