

ULTRASONIC AG

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Information Analysis

Analysts

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Evaluation Result

BUY

(prev.: BUY)

Fair Value

€22.44

(prev.: €22.23)



BankM Research on Bloomberg, Thomson/Reuters, Factset, CapitalIQ and www.BankM.de

Seeking for Growth Opportunities

The revenue growth of Ultrasonic AG has further come down in the second quarter. Particularly, the rather generic product segments shoe soles (-11.1%) and - to a lesser extent - sandals & slippers (-5.2%), which are facing strong competition, have lost significantly. The urban footwear segment has held its ground better (+16.7% in H1) whereby the branded products again were the growth driver (+31.1%). However, the Q2 growth of this segment has also slowed down (+1.3%). At the same time, the Company's gross profit margin was kept at the previous year's level. Due to the traditionally low operating costs, US5 earned a solid period net income of €15.0m in H1 and €7.9m in the second quarter, respectively.

At the end of the first half year, the Company has finally taken the new factory into operation. The production started in July and the first revenues of the children footwear segment will therefore be visible in the Q3 reporting. Management expects to produce ca. 700k children shoes which, according to our estimation, would result in ca. €3.0m revenues. In light of the sustained problems to employ additional workers at the new premises - partly caused by the lower labor supply and partly by the unfavorable location of the plant - we are more conservative regarding the amount of produced shoes and estimate revenues of ca. €2.4m from this segment.

In August, US5 has been granted a credit facility of about \$60m from Nomura. The loan shall support the Company's plan to acquire a suitable competitor in order to get better access to workers, machines and distributors. As there are no further details to this strategy, we currently do not incorporate the use of the credit line in our model.

Total cash flow in the period amounted to €22.3m, mainly due to the high operating cash flow. Other than previously expected by us, Capex was on a modest level indicating a rather hesitant investing approach. Ultrasonic has also scaled back its Capex projections for this year. Consequently, we have removed larger investments from our model.

We have adjusted our previous forecast and considered the 1H14 results. Our analysis returns a fair value of €22.44 p.s. We confirm our BUY rating.

Key data / Earnings

Year	Sales (€ m)	EBITDA (€ m)	EBIT (€ m)	EBT (€ m)	Net Profit (€ m)	EPS (€)	PDS* up to (€)	EBIT-Margin	Net-Margin
2013a	163.8	48.9	47.4	47.5	35.0	2.78	0.53	29.0%	21.4%
2014e	171.6	46.3	44.3	43.7	32.8	2.62	n.n.	25.8%	19.1%
2015e	181.3	48.8	46.5	44.3	33.2	2.65	n.n.	25.7%	18.3%
2016e	187.3	50.0	47.7	46.7	35.0	2.80	n.n.	25.5%	18.7%
2017e	193.2	51.1	48.8	49.2	36.9	2.95	n.n.	25.3%	19.1%

* Profit distribution / shr.

Source: Ultrasonic AG, BankM Research

Sector	Clothing and Footwear		
WKN	A1KREX		
ISIN	DE000A1KREX3		
Bloomberg/Reuters	US5 GY/US5G.DE		
Accounting standard	IFRS		
Financial year	Dec 31		
Financial reporting 3Q14	Nov. 28, 2014		
Market segment	Regulated Market		
Transparency standard	Prime Standard		
Financial ratios	2014e	2015e	2016e
EV/Sales	neg.	neg.	neg.
EV/EBITDA	neg.	neg.	neg.
EV/EBIT	neg.	neg.	neg.
P/E adj.	2.7	2.6	2.5
Price/Bookvalue	0.5	0.4	0.3
Price/FCF	2.5	2.6	2.4
ROE (in %)	18.6	15.9	14.4
Dividend yield (in %)	n.a.	n.a.	n.a.
Number of shares outs. (in '000)	12,596		
MarketCap / EV (in € m)	86.98 / neg.		
Free float (in %)	12.9		
Ø daily trading vol. (3M, in €)	12,874		
12M high/low (in €; XETRA-close)	10.71 / 6.70		
Price Sep. 4, 2014 (in €; XETRA-close)	6.85		
Performance	1M	6M	12M
absolute (in %)	-9.5	-14.6	-22.2
relative (in %)	-10.5	0.4	-11.5
Benchmark index	DAXSubsector Clothing and Footwear		



ULTRASONIC AG (red/grey), 1 year performance vs. DAXsubsector Clothing and Footwear (black)

Source: Bloomberg

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Outlook

As discussed in our previous update, management has realized that, due to the intense competition and labor supply restrains, organic growth becomes increasingly difficult. In addition, the extension of the distributor and store network proceeds at a slower pace than expected. Therefore, management has decided to also consider on external growth. We expect that the Company is going to cease those parts of the shoe sole production which concentrate more on the low quality products. US5 would not only get rid of a segment which is difficult to operate profitably, it would also allow the Company to shift the existing labor resources to more profitable segments.

At this year's AGM, the Company has decided to execute a share buyback program and to allocate up to €635k for this matter in a one year period. In light of the marginal trading volume of the stock, we conclude that the share buyback is going to be settled via a public offer.

Management will present itself and the Company at this year's German Equity Forum in Frankfurt scheduled November 24 to 26.

Valuation

We have updated both our DCF and peer group analysis. The DCF model returns a fair value of €22.88 per share which is ca. €1.77 per share lower than in our last update. The implicit value from the peer group comparison rose from €19.81 per share to €22.00 per share. The increase is mainly caused by significantly higher P/E multiples and the improved net debt position. By taking the arithmetic mean, our analysis returns a fair value of €22.44 per share.

ULTRASONIC's Stock

Since beginning of the year, the stock has come down by 16.97%. Based on daily stock price returns since beginning of the year, the annualized volatility is at 35.48% with a mean daily trading volume of ca. 2,200 pieces.

With total liquid assets of €131.1m and bank loans of ca. €2.64m, the Company's current market capitalization equals ca. 0.7 x net cash.

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Tables

Profit & Loss Account

Fiscal Year 31.12 (IFRS)	2012a	2013a	2014e	2015e	2016e	2017e	4y - CAGR 2013 - 2017
in € '000							
Total Sales	149,011	163,798	171,609	181,272	187,319	193,177	
<i>Growth Rate (in %)</i>	24.8	9.9	4.8	5.6	3.3	3.1	4.2
Cost of Sales	102,917	112,286	119,343	126,155	130,881	135,476	
Gross Profit	46,094	51,512	52,266	55,117	56,438	57,701	
<i>Growth Rate (in %)</i>	25.0	11.8	1.5	5.5	2.4	2.2	2.9
Selling and Distribution Expenses	1,552	2,605	4,571	5,076	5,245	5,409	
Administration Expenses	2,771	2,834	3,387	3,500	3,500	3,500	
Net Other Income	7	1,365	0	0	0	0	
EBIT	41,778	47,438	44,308	46,541	47,693	48,792	
<i>Growth Rate (in %)</i>	25.6	13.5	-6.6	5.0	2.5	2.3	0.7
Interest Income	360	330	434	730	858	914	
Interest Expense	307	227	1,007	3,007	1,882	507	
EBT	41,831	47,541	43,735	44,264	46,669	49,200	
<i>Growth Rate (in %)</i>	25.8	13.7	-8.0	1.2	5.4	5.4	0.9
Taxes on Income (Exp.+/Inc.-)	11,022	12,529	10,934	11,066	11,667	12,300	
Net profit	30,809	35,012	32,801	33,198	35,002	36,900	
<i>Growth Rate (in %)</i>	23.6	13.6	-6.3	1.2	5.4	5.4	1.3
<i>For information purposes</i>							
Depreciation and amortization	1,375	1,415	1,996	2,234	2,258	2,266	
<i>in % of total sales</i>	0.9	0.9	1.2	1.2	1.2	1.2	
EBITDA	43,153	48,853	46,304	48,776	49,950	51,058	
<i>Growth Rate (in %)</i>	24.9	13.2	-5.2	5.3	2.4	2.2	1.1
No. of shares (Ø outstanding)	11,475	12,596	12,513	12,513	12,513	12,513	
Net profit / share (EPS)	2.68	2.78	2.62	2.65	2.80	2.95	
Adj. net profit / share (adj. EPS)	2.48	2.78	2.62	2.65	2.80	2.95	

Source: Ultrasonic AG, BankM Research

P&L Margins

in %	2012a	2013a	2014e	2015e	2016e	2017e
Gross Profit Margin	30.9	31.4	30.5	30.4	30.1	29.9
EBITDA Margin	29.0	29.8	27.0	26.9	26.7	26.4
EBIT Margin	28.0	29.0	25.8	25.7	25.5	25.3
EBT Margin	28.1	29.0	25.5	24.4	24.9	25.5
Net Profit Margin	20.7	21.4	19.1	18.3	18.7	19.1

Source: Ultrasonic AG, BankM Research

Cash Flow Statement

Fiscal Year 31.12 (IFRS)	2012a	2013a	2014e	2015e	2016e	2017e	4y - CAGR
in € '000							
EBT	41,831	47,541	43,735	44,264	46,669	49,200	
+ Depreciation and Amortization	1,375	1,415	1,996	2,234	2,258	2,266	
- Taxes paid	10,360	11,414	11,725	11,033	11,517	12,142	
= Cash Earnings	32,846	37,542	34,006	35,466	37,410	39,324	
<i>Growth Rate (in %)</i>	26.2	14.3	-9.4	4.3	5.5	5.1	1.2
+ Other non-cash Items and Interest	-7	-1,252	573	2,277	1,023	-407	
- Change in net Working Capital	14,211	-807	-5,871	3,067	1,573	1,532	
= Operating Cash Flow	18,628	37,097	40,449	34,676	36,860	37,384	
<i>Growth Rate (in %)</i>	-36.5	99.1	9.0	-14.3	6.3	1.4	0.2
- Capex (net)	19,702	3,935	5,500	1,038	238	238	
= Free Cash Flow	-1,074	33,162	34,949	33,638	36,622	37,146	
<i>Growth Rate (in %)</i>	-103.7	-3,187.7	5.4	-3.8	8.9	1.4	2.9
+ Net other Items	-6	-300	-323	-1,527	-273	907	
+ Increase in Share Capital	495	5,999	0	0	0	0	
- Outflow from Share Buyback	381	938	635	0	0	0	
+ Proceeds from Sale of Shares	187	283	0	0	0	0	
+/- Bank Loans	-713	-2,567	40,040	0	-22,500	-22,500	
= Incr. in Cash (+)/Decr. in Cash (-)	-1,492	35,639	74,032	32,111	13,849	15,553	

Source: Ultrasonic AG, BankM Research

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ULTRASONIC AG

September 05, 2014

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Balance Sheet

Fiscal Year 31.12 (IFRS)	2012a	2013a	2014e	2015e	2016e	2017e
in € '000						
Assets						
Tangible Assets	15,489	16,735	20,289	18,400	16,492	14,576
Intangible Assets incl. Land Use Rights	2,119	2,541	2,438	3,118	2,999	2,879
Other fixed Assets	316	216	2,226	1,489	747	255
Total Fixed Assets	17,924	19,493	24,953	23,007	20,238	17,710
Inventories	748	1,435	3,067	4,467	4,996	5,518
Accounts Receivable	49,406	47,525	49,791	52,595	54,349	56,049
Total liquid Funds	74,525	108,482	182,514	214,625	228,474	244,027
Other current (financial) assets	6,964	8,851	0	0	0	0
Total Current Assets	131,643	166,293	235,372	271,686	287,819	305,594
Balance Sheet Total	149,567	185,786	260,326	294,693	308,057	323,304
Shareholder's Equity / Liabilities						
Subscribed Capital	11,475	12,698	12,698	12,698	12,698	12,698
Treasury Stock	-27	-102	-184	-184	-184	-184
Share Premium	4,456	8,817	8,817	8,817	8,817	8,817
Retained Earnings & other Reserves	106,417	138,707	170,956	204,154	239,156	276,056
Shareholders Equity	122,321	160,120	192,286	225,485	260,487	297,387
Long term Liabilities	0	0	45,000	45,000	22,500	0
Short term Liabilities < 1 Year	27,246	25,666	23,039	24,209	25,070	25,917
<i>t/o Accounts Payable & pre-Payments</i>	18,762	19,264	20,183	21,319	22,030	22,719
<i>t/o Tax Payable</i>	2,948	3,525	2,733	2,767	2,917	3,075
<i>t/o Bank Loans</i>	5,410	2,833	123	123	123	123
<i>t/o Other current Liabilities</i>	126	44	0	0	0	0
Total Liabilities	27,246	25,666	68,039	69,209	47,570	25,917
Balance Sheet Total	149,567	185,786	260,326	294,693	308,057	323,304

Source: Ultrasonic AG, BankM Research

Balance Sheet Ratios

in % of Total Assets	2012a	2013a	2014e	2015e	2016e	2017e
Total Fixed Assets	12.0	10.5	9.6	7.8	6.6	5.5
Total Current Assets	88.0	89.5	90.4	92.2	93.4	94.5
Inventories	0.5	0.8	1.2	1.5	1.6	1.7
Trade receivables	33.0	25.6	19.1	17.8	17.6	17.3
Total liquid funds	49.8	58.4	70.1	72.8	74.2	75.5
Shareholders Equity	81.8	86.2	73.9	76.5	84.6	92.0
Long Term Liabilities	0.0	0.0	17.3	15.3	7.3	0.0
Short Term Liabilities	18.2	13.8	8.9	8.2	8.1	8.0
Total Liabilities	18.2	13.8	26.1	23.5	15.4	8.0

Source: Ultrasonic AG, BankM Research

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Key Ratios

	2012a	2013a	2014e	2015e	2016e	2017e
Return on Assets (in %)	23.0	20.9	14.7	12.0	11.6	11.7
Return on Equity (in %)	28.5	24.8	18.6	15.9	14.4	13.2
Gross Profit Margin (in %)	30.9	31.4	30.5	30.4	30.1	29.9
EBIT Margin (in %)	28.0	29.0	25.8	25.7	25.5	25.3
Net Profit Margin (in %)	20.7	21.4	19.1	18.3	18.7	19.1
Current Ratio	4.83	6.48	10.22	11.22	11.48	11.79
Quick Ratio	4.55	6.08	10.08	11.04	11.28	11.58
Leverage	0.18	0.14	0.26	0.23	0.15	0.08
Gearing	0.22	0.16	0.35	0.31	0.18	0.09
Interest Coverage Ratio	136.08	208.98	n.a.	n.a.	n.a.	n.a.
Earnings per Share	2.68	2.78	2.62	2.65	2.80	2.95
Dividends per Share	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend Payout Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FCF per Share	-0.09	2.63	2.79	2.69	2.93	2.97
Book Value per Share	10.66	12.71	15.37	18.02	20.82	23.77
Days Sales Outstanding	101.03	108.00	103.49	103.08	104.19	104.30
Days in Inventory	2.42	3.55	6.89	10.90	13.20	14.16
Days in Payables	63.86	61.80	60.32	60.04	60.45	60.28
Cash Conversion Cycle	39.59	49.74	50.06	53.94	56.94	58.18
Total Asset Turnover	1.11	0.98	0.77	0.65	0.62	0.61
Working Capital to Sales	0.38	0.35	0.31	0.31	0.32	0.32
CAPEX to Sales	0.13	0.02	0.03	0.01	0.00	0.00
Depreciation/Sales	0.01	0.01	0.01	0.01	0.01	0.01
Tax Rate (in %)	26.3	26.4	25.0	25.0	25.0	25.0
Number of Employees	1,432	1,415	1,500	1,550	1,625	1,700
Sales/Employee in € '000	104.06	115.76	114.41	116.95	115.27	113.63
Net Profit/Employee in € '000	21.51	24.74	21.87	21.42	21.54	21.71

Source: Ultrasonic AG, BankM Research

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Authors: David Szabadvari, CIAA, and Dr. Roger Becker, CEFA Analysts

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Issuer of the analysed instruments is ULTRASONIC AG.

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Analysts	Date	Evaluation result	Fair value
Dr. Roger Becker, David Szabadvari	September 5, 2013	Buy	€20.84
Dr. Roger Becker, David Szabadvari	December 11, 2013	Buy	€20.20
Dr. Roger Becker, David Szabadvari	May 16, 2014	Buy	€21.53
Dr. Roger Becker, David Szabadvari	June 23, 2014	Buy	€22.23

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Main sources of information for the compilation of this document are publications in national and international media and information services (e.g. Reuters, VWD, Bloomberg, dpa-AFX and others), financial newspapers and magazines (e.g. Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times and others), specialist media, published statistics, rating agencies as well as publications by peer group companies and the company itself. Furthermore talks with the management of the issuer have been held. This document was made available to the issuer before publication to ensure the accuracy of the information provided. This resulted in no textual changes.

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3. Date of first publication of this document:

September 5, 2014

4. Date and time of prices of the instruments quoted in this document:

Closing prices of September 4, 2014

5. Updates:

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