

# SFC Energy AG

Germany / Energy  
 Primary exchange: Frankfurt  
 Bloomberg: F3C GR  
 ISIN: DE0007568578

Initiation of Coverage

**RATING**  
**BUY**

**PRICE TARGET**  
**€7.40**

Return Potential 52.9%  
 Risk Rating High

## PROFITABLE GROWTH AHEAD

In recent years SFC Energy AG has transitioned from a fuel cell developer to a provider of grid-independent hybrid power supply solutions for oil & gas, industrial and defence, and leisure sector clients. Due to its technological edge, successful forward integration, and internationalisation we believe that SFC will soon enter a phase of sustained profitable growth. We initiate coverage with a Buy rating and €7.40 price target.

**Strong sales growth due to Simark acquisition and organic growth** The main growth driver in 2014E will be the now fully consolidated Simark subsidiary (FBe sales contribution: €29m). We expect group sales of €58m (SFC guidance: €55-60m, 2013: €32.4m). The North American oil & gas industry's high demand for hybrid energy solutions should underpin SFC's organic growth.

**Continuous improvement in profitability** SFC is guiding towards positive adjusted EBITDA in 2014E. Following successful forward integration and internationalisation we expect continuous improvement in profitability, i.e. positive adjusted EBIT in 2015E (€0.8m) and positive EBIT in 2016E (€2.1m).

**SFC has transitioned from a fuel cell developer to a system supplier of hybrid power solutions** Due to the acquisitions of PBF (power management systems) and Simark (system integration) SFC has successfully transitioned from a fuel cell developer to a provider of integrated grid-independent hybrid power solutions and services with close contact to end customers.

**Patents and R&D expenditures defend SFC's competitive advantage** 33 granted patents as well as high R&D expenditures (2013: €7.6m) should defend SFC's competitive edge in hybrid energy solutions. Key patents include fuel cell operation and solutions for extremely cold temperatures.

**Attractive valuation** A DCF valuation yields a fair value of €7.40. Upside 53%. A peer group analysis indicates much higher upside potential.

### FINANCIAL HISTORY & PROJECTIONS

	2012A	2013A	2014E	2015E	2016E	2017E
Revenue (€m)	31.26	32.41	58.00	65.02	74.12	85.24
Y-o-y growth	n.a.	3.7%	78.9%	12.1%	14.0%	15.0%
EBIT (€m)	-0.52	-8.84	-3.36	-1.37	2.08	4.35
EBIT margin	-1.7%	-27.3%	-5.8%	-2.1%	2.8%	5.1%
Net income (€m)	-0.43	-8.91	-3.49	-1.48	1.80	3.80
EPS (diluted) (€)	-0.06	-1.16	-0.44	-0.19	0.22	0.47
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.38	-7.98	-1.79	-0.23	1.20	1.39
Net gearing	-61.9%	-10.3%	-4.4%	-3.7%	-8.1%	-11.7%
Liquid assets (€m)	22.91	7.43	5.10	5.91	6.38	5.47

### RISKS

The main risks are financing, internationalisation, unfavourable EUR/CAD exchange rate changes, technological innovations, and increasing competition.

### COMPANY PROFILE

SFC Energy AG is a leading provider of integrated power solutions for mobile and stationary off-grid applications. The company is a pioneer in developing and commercialising fuel cells which provide reliable, efficient, and clean power for its energy solutions. Main markets are oil & gas, industry, defence, and leisure. SFC is headquartered near Munich in Germany.

### MARKET DATA

As of 6/20/2014

Closing Price	€ 4.84
Shares outstanding	8.02m
Market Capitalisation	€ 38.82m
52-week Range	€ 3.33 / 5.42
Avg. Volume (12 Months)	6,565

Multiples	2013A	2014E	2015E
P/E	n.a.	n.a.	n.a.
EV/Sales	1.2	0.7	0.6
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2014

Liquid Assets	€ 5.65m
Current Assets	€ 23.72m
Intangible Assets	€ 18.21m
Total Assets	€ 44.41m
Current Liabilities	€ 11.53m
Shareholders' Equity	€ 27.39m

### SHAREHOLDERS

HPE	24.0%
Havensight	9.6%
Conduit Ventures	9.5%
Other	10.5%
Free Float	46.4%



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## INVESTMENT CASE

### **Leading supplier of integrated hybrid power solutions for mobile and stationary off-grid applications**

In recent years SFC Energy AG successfully transformed from a fuel cell developer into a provider of integrated turnkey power solutions for mobile and stationary off-grid applications for the oil & gas industry, industrial clients, the defence, and the leisure sector. Due to its forward-integration through the acquisitions of PBF (power management systems) and Simark (system integration) SFC now covers the complete value chain for integrated power solutions and has direct access to end customers in large and growing markets such as oil & gas and industry. SFC's hybrid power solutions (fuel cell, battery, solar system) compete with standalone systems such as solar and conventional and thermoelectric generators. SFC's hybrid solutions' main advantages are higher reliability, higher efficiency, a shorter amortisation time and a significantly lower total cost of ownership. Based on data from the oil & gas industry over a five year period the SFC hybrid solution's total cost of ownership is roughly half the cost of thermoelectric generators and ca. 1/8th of a solar system.

### **Leading and defensible technological position**

SFC combines a strong IP portfolio with excellent power electronics and systems integration know-how. The company owns 33 granted patents and further patents are pending. Key patents include fuel cell operation and solutions under extreme cold temperatures (-40°C). SFC's strong IP portfolio, the high R&D expenditures (2013: €7.6m), and a product range which has already proven its commercial success are the basis to defend and even expand its technologically leading position. R&D focuses on increasing output power, and increasing reliability and service lifetime, especially under very harsh weather conditions. In power electronics SFC has top tier development and production partners and offers state of the art design solutions. Its integration facility is approved by the Canadian Standards Association (CSA) and Underwriters Laboratories (UL), a leading safety and certification company in the United States.

### **Fuel cell pioneer in attractive niche with high growth potential**

SFC's fuel cells are a very reliable, efficient, long-lasting and lightweight. Their extremely high energy density makes them an attractive alternative to other common off-grid power generators such as diesel engines or solar modules. Based on its proprietary fuel cell technology SFC is the leading global fuel cell provider with more than 30,000 sold fuel cells. SFC employs the DMFC (Direct Methanol Fuel Cell) technology which transforms methanol directly into electrical current. As liquid methanol is easy to handle and to transport in fuel cartridges (re)fuelling of mobile and stationary SFC off-grid power systems does not cause any problems for operators whereas fuelling of hydrogen- or natural gas-based fuel cells is much more complicated. SFC's DMFC fuel cells are particularly suitable for applications in the lower capacity range (SFC currently: <200 W, maximum: < 1000 W), whereas other fuel cell technologies such as Solid Oxide Fuel Cells (SOFC), or Molten Carbonate Fuel Cells (MCFC) are used for applications with much higher electrical capacities. As most other fuel cell producers focus on fuel cells with higher electrical capacities SFC has established itself in an attractive niche which nevertheless offers significant growth potential especially in the Canadian, US, and Russian oil & gas industry.



## SWOT ANALYSIS

### STRENGTHS

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- **Provider of integrated hybrid power solutions** Thanks to its forward-integration SFC now offers integrated turnkey power supply solutions for mobile and stationary off-grid applications by combining the different know-how of SFC (fuel cells), PBF (power management systems), and Simark (system integration). SFC's products therefore directly solve the power supply problem of its customers. This is a huge step forward compared to just being a technology provider and offering fuel cells – SFC's initial business model.
- **Leading and defensible technological position** SFC's strong IP portfolio (33 granted patents) and high R&D expenditures (2013: €7.6m) are a very good basis to defend and even expand its leading technological position. SFC's power supply solutions are very reliable even under very harsh weather conditions and supply power for longer periods without any user intervention.
- **Pioneer in commercialising fuel cells** Based on its proprietary fuel cell technology SFC is the leading global fuel cell provider with more than 30,000 sold fuel cells. SFC employs the DMFC (Direct Methanol Fuel Cell) technology which transforms methanol directly into electrical current. As methanol is liquid and thus easy to handle and to transport in fuel cartridges, (re)fuelling of mobile and stationary SFC off-grid power systems does not cause any problems for operators. In addition, in the area of low electrical capacity DMFC fuel cells are superior to other fuel cell technologies, and SFC has already established itself in this niche which nevertheless offers significant growth potential especially in the Canadian, US, and Russian oil & gas industry.

### WEAKNESSES

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- **Not yet profitable** In recent years SFC was loss-making (2013 EBIT: €-8.8m, adjusted for one-offs: €-4.2m), and in 2013 the company had to lower its guidance due to lower sales in the high-margin defence business. However, the acquisition of Simark and thus the forward-integration into an integrated power system supplier with huge opportunities in the North American oil & gas market looks set to result in a positive adjusted EBITDA (adjusted for one-offs due to the Simark acquisition) in 2014E and sustained profitability in the near future (positive adjusted EBIT in 2015E, positive EBIT in 2016E).
- **Financing** Cash from the 2007 IPO (net proceeds of ca. €48m) has by and large been invested and spent, more than 50% for acquisitions. With a net cash position of €1.8m and a cash position of €5.7m at the end of Q1 2014 financing future growth – be it via equity or debt – could soon be back on the management's agenda.



## OPPORTUNITIES

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- **Hybrid energy solution strategy** SFC's hybrid power systems combine the use of renewable power sources with batteries, fuel cells and a smart power management system. The hybrid systems are largely maintenance free, can be monitored remotely and ensure 100% 24/7 power availability in any season and weather, thus eliminating downtime and logistic costs. It is this combination of very high reliability, high efficiency, low maintenance and low fuel and operation costs which creates the USP of SFC's hybrid solutions and results in attractive total cost of ownership.
- **North American oil & gas market** The acquisition of the Canadian system integrator and distribution company Simark opens up the huge Canadian oil & gas market for SFC. With its hybrid power supply solutions for off-grid applications SFC is ideally positioned to serve the growing demand for off-grid power by the Canadian oil & gas industry. Next steps in the regional expansion (USA, Russia) offer further significant growth potential.
- **Trend towards clean and fluctuating distributed power** Three main trends play into the hands of SFC. The trend of rising global power consumption, the trend of increased clean power production including fluctuating sources such as wind and sun, and the trend towards distributed power production. These trends increase the demand for reliable hybrid power supply solutions based on fuel cells. SFC's integrated power supply solutions produce clean power, solve the problem of fluctuation, and support distributed power production and off-grid solutions, which reduces the expensive requirement to extend power grids.

## THREATS

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- **Loss of key personnel** SFC needs well-trained natural scientists and is active in regions with very competitive labour markets. This is valid especially for Munich and Calgary. The loss of key personnel may hamper the company's leading technological position.
- **Increasing competition and technological innovation** The fuel cell industry is a young industry which is highly innovative and has been attracting large investments in recent years. Therefore SFC's leading technological position may be attacked by technological innovations of other companies, be it incumbent players or newcomers.  
However, SFC has successfully positioned itself in the niche of smaller fuel cells (< 1,000 W) whereas most other players (e.g. Ballard Power Systems, Bloomenergy, Ceramic Fuel Cells, Fuel Cell Energy, Heliocentris) focus on larger solutions. Furthermore, SFC is one of the very few players using methanol as fuel with the aforementioned advantages in handling and transport, compared to natural gas- and hydrogen-based fuels.



## VALUATION

Our valuation of SFC Energy AG is based on a discounted cash flow model that discounts the free cash flows generated in the future back to present value. Our DCF model yields a fair shareholder value of ca. €59m or €7.40 per share. Furthermore, we perform a peer group analysis which even indicates much higher upside potential.

### DCF MODEL

In order to determine SFC Energy's cost of equity, we use our proprietary multi-factor risk model, which takes company-specific risk factors, such as management strength, balance sheet, financial risk, competitive position, and company size into account. We assume an interest rate of 12% for the cost of equity.

For the cost of debt we assume an interest rate of 7.0%. With a terminal effective tax rate of 30%, the financing costs after tax are 4.9%.

Our valuation of SFC Energy's WAAC (Weighted Average Capital Costs) of 10.9% is based on a risk-free rate of 2.0% and a market risk premium of 5.0%. As target capital structure we assumed a ratio of equity / debt of 85% / 15%.

In our DCF model we distinguish three planning periods:

- We carried out a detailed estimate for the planning period from 2014E-2016E (three years). We forecast the profit and loss account as well as the balance sheet and the cash flow statement in detail.
- For the planning period 2017E-2028E (12 years) parameters relevant to the valuation (profit and loss account, CAPEX, working capital, amongst others) are estimated.
- For the terminal period we assume a constant growth in sales, a constant EBIT margin and a constant tax rate.

Detailed estimates for the years 2014E-2016E are outlined in the chapter "Financial History & Outlook". For the planning period 2017E-2028E we assume:

- a sales growth rate reduction from 15% to 3%
- an increase in EBIT margin from 5.1% to 9.5%
- an effective tax rate of 30%
- a CAPEX / sales ratio of 1.1%
- a working capital ratio of 19%.

We forecast decreasing sales growth rates from 15% in 2017E to 3% in 2028E. We assume double digit growth rates until 2021E as the market for off-grid energy solutions remains a growth market which offers sufficient growth potential to a relatively small company such as SFC Energy.

We forecast an EBIT margin increase from 5.1% in 2017E to 9.5% in 2028E as SFC looks set to benefit from economies of scale and technological advances of its fuel cells.

For the terminal period we assume a sales growth rate of 3%, an EBIT margin of 9.5% and a tax rate of 30%. We modelled the terminal sales growth rate relatively high at 3% as the growth potential of the market for off-grid energy solutions is likely to be higher than in other markets owing to long term global trends (e.g. increasing power demand, improving economics of off-grid energy solutions, and increasing share of fluctuating renewable energies which need to be complemented by a stable and flexible energy supply source such as fuel cells to guarantee uninterrupted supply).



Figure 1: DCF model

DCF valuation model								
All figures in EUR '000	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	58,000	65,018	74,121	85,239	97,095	109,540	122,386	135,404
<b>NOPLAT</b>	<b>-3,364</b>	<b>-1,365</b>	<b>1,980</b>	<b>3,925</b>	<b>5,104</b>	<b>5,360</b>	<b>6,323</b>	<b>7,282</b>
+ depreciation & amortisation	2,911	2,655	1,453	759	557	628	705	789
Net operating cash flow	-453	1,290	3,433	4,684	5,661	5,988	7,028	8,071
- total investments (CAPEX and WC)	-1,214	-1,398	-2,058	-3,169	-3,425	-3,675	-3,892	-4,064
Capital expenditures	-696	-780	-889	-1,023	-1,156	-1,295	-1,435	-1,576
Working capital	-518	-618	-1,169	-2,146	-2,268	-2,381	-2,456	-2,488
Free cash flows (FCF)	-1,667	-108	1,375	1,516	2,237	2,313	3,136	4,007
<b>PV of FCF's</b>	<b>-1,577</b>	<b>-92</b>	<b>1,057</b>	<b>1,050</b>	<b>1,397</b>	<b>1,302</b>	<b>1,591</b>	<b>1,833</b>

All figures in thousands	
PV of FCFs in explicit period (2014E-2028E)	23,521
PV of FCFs in terminal period	33,761
Enterprise value (EV)	57,281
+ Net cash / - net debt	1,777
+ Investments / minority interests	0
Shareholder value	59,058

Fair value per share in EUR	7.40
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WACC	10.9%
Cost of equity	12.0%
Pre-tax cost of debt	7.0%
Tax rate	30.0%
After-tax cost of debt	4.9%
Share of equity capital	85.0%
Share of debt capital	15.0%
Fair value per share in EUR	7.40

		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	6.9%	15.71	16.59	17.66	19.00	20.73	23.05	26.33
	7.9%	12.38	12.88	13.48	14.20	15.09	16.19	17.62
	8.9%	10.01	10.32	10.68	11.09	11.59	12.18	12.91
	9.9%	8.27	8.46	8.68	8.94	9.23	9.57	9.98
	10.9%	6.94	7.06	7.20	7.36	7.55	7.75	7.99
	11.9%	5.90	5.98	6.07	6.18	6.29	6.42	6.57
	12.9%	5.07	5.13	5.19	5.26	5.33	5.42	5.51
	13.9%	4.40	4.44	4.48	4.53	4.58	4.63	4.70

Source: First Berlin Equity Research

For layout reasons figure 1 only displays the years 2014E-20121E.

## PEER GROUP ANALYSIS

Our peer group analysis is based on the following companies

- Ballard Power Systems Inc.
- Ceramic Fuel Cells Ltd.
- FuelCell Energy Inc.
- Heliocentris Energy Solutions AG
- Hydrogenics Corp. and
- Plug Power Inc.

**Ballard Power Systems** began developing fuel cells in 1983 and is a leading supplier of proton exchange membrane (PEM) fuel cell technology. The company's principal business is the design, development, manufacture, sale, and service of fuel cell products (both stacks and systems), focusing on applications such as telecom backup power, material handling equipment, buses, and distributed generation. Ballard also provides engineering services for a variety of fuel cell applications. Ballard has already shipped ca. 150 MW of hydrogen fuel cell technology. The company is headquartered in Burnaby, Canada, has a fuel cell manufacturing capacity of ca. 75 MW and generated sales of \$61.3m in FY 2013.



**Ceramic Fuel Cells Limited (CFCL)** was formed in 1992 by Australia's Commonwealth Science and Industry Research Organisation and a consortium of energy and industrial companies. CFCL is commercialising Solid Oxide Fuel Cell (SOFC) technology, which generates electricity from widely available natural gas and renewable fuels and has a very high electrical efficiency of up to 60%. The company develops, manufactures, and markets SOFC products for small-scale, micro-Combined Heat & Power (micro-CHP) and distributed generation applications that co-generate electricity and heat for homes and businesses. The company is headquartered in Australia, operates a ceramic manufacturing plant in the U.K., and a high-volume fuel cell assembly plant in Germany. In FY 2013 the company generated sales of A\$4.3m.

**FuelCell Energy Inc.** is an integrated fuel cell company that designs, manufactures, installs, operates and services stationary fuel cell power plants which provide base-load distributed power for electric utilities, commercial and industrial companies, universities, municipalities, and government entities. The company's carbonate Direct FuelCell (DFC) technology is able to feed hydrocarbon fuels such as natural gas or biogas directly into the fuel cell, where the fuel is converted to hydrogen before reacting electrochemically to generate power. This means that DFC plants can use readily available fuels rather than being dependent on hydrogen infrastructure.

FuelCell Energy's first commercial power plant was installed in 2003 using a 250 kW fuel cell stack. Since then technology enhancements have increased the power output of the stacks by 40% to 350 kW. For MW-class power plants, four fuel cell stacks of 350 kW each are combined to build a 1.4 MW fuel cell module. The power plants are scalable so that multiple plants can be combined to create multi-megawatt fuel cell parks. The production facility in Torrington, Connecticut, USA, which was completed in 2001, reached an annual run-rate of 56 MW in 2012. The total annual capacity of the facility is ca. 90 MW. In FY 2013 FuelCell Energy generated sales of \$187.7m.

**Heliocentris Energy Solutions AG** specialises in autonomous energy supply and energy efficiency solutions for customers in industry and science. The company offers energy efficiency, monitoring and management solutions for autonomous energy supply systems to reduce diesel consumption and operation costs in applications such as mobile phone network base stations. Furthermore, Heliocentris offers electricity supply solutions for off-grid applications such as monitoring stations, telecommunications facilities or self-sufficient houses. The company's core competency is the efficient hybridisation of energy generators (solar, wind, diesel) with energy storage such as batteries and hydrogen fuel cell-based storage based on its scalable energy management solutions. Heliocentris also supplies a range of learning and research systems for fuel cell and solar hydrogen technology. In FY 2013 Heliocentris, which was founded in Berlin in 1995, generated sales of €4.9m.

**Hydrogenics Corp.** began its fuel cell technology development business in 1995. The company designs, develops, and manufactures fuel cell products based on proton exchange membrane (PEM) technology and hydrogen generation products based on water electrolysis technology. Hydrogenics' hydrogen fuel cell products are designed for electric vehicles (urban transit buses, commercial fleets, utility vehicles, and electric lift trucks), and for stationary electrical power plants and uninterruptible power supply (UPS) systems. Hydrogenics also offers hydrogen storage and power systems for the optimisation of solar and wind systems. Hydrogenics is headquartered in Mississauga, Canada, and generated sales of \$42.4m in FY 2013.

**Plug Power Inc.** is involved in the design, development, commercialisation, and manufacture of PEM fuel cell systems for the material handling equipment market. The company was incorporated in 1997 as a joint venture between Edison Development Corp. and Mechanical Technology Inc. Plug Power is focusing on its GenDrive product line, a hydrogen-fueled PEM fuel cell system designed for industrial vehicles, especially material





handling equipment and automated guided vehicles at high volume manufacturing and distribution facilities. In 2013 the company, which is headquartered in Latham, New York, USA, shipped 918 GenDrive units and generated sales of \$26.6m.

The peer group data show that market capitalisation and enterprise values of fuel cell companies are often in the triple-digit million USD range (see figure 2). However, consensus estimates assume that all peers will generate negative EBITDA in 2014E. SFC's market capitalisation is one of the lowest although consensus EBITDA is positive in 2014E.

**Figure 2: Data for peer group analysis**

Data peer group analysis													
Company	CUR	Price	MC	EV	EPS			Sales			EBITDA		
					14e	15e	16e	14e	15e	16e	14e	15e	16e
Plug Power Inc	USD	4.80	802.2	800.8	-0.11	0.02	0.14	72.3	119.2	215.0	-8.0	13.1	49.6
FuelCell Energy Inc	USD	2.43	631.9	687.0	-0.14	-0.06	0.04	194.0	238.5	366.3	-18.4	-1.1	23.3
Ballard Power Systems Inc	USD	4.27	562.3	531.1	-0.07	-0.01	-0.01	79.0	103.3	118.5	-2.1	6.1	5.1
Hydrogenics Corp	USD	18.55	187.1	178.9	-0.50	0.16	1.10	52.7	72.6	94.6	-3.1	3.3	13.0
Heliocentris	EUR	5.14	44.5	43.6	-0.88	-0.39	0.12	19.7	33.5	43.6	-6.9	-2.0	3.0
Ceramic Fuel Cells Ltd	AUD	0.01	32.2	31.0	-0.51	-0.20	0.30	5.7	21.9	108.0	-18.2	-12.7	13.7
<b>SFC Energy</b>	<b>EUR</b>	<b>4.84</b>	<b>38.8</b>	<b>36.7</b>	<b>-0.29</b>	<b>-0.04</b>	<b>-0.14</b>	<b>54.6</b>	<b>62.5</b>	<b>71.4</b>	<b>0.7</b>	<b>3.0</b>	<b>3.9</b>

Source: First Berlin Equity Research, Bloomberg

A look at consensus sales estimates reveals the share price driver: strong growth. For many companies analysts assume more or less a doubling of sales within two years. Compared to its peers consensus sales growth of SFC Energy is by far the lowest.

Valuations based on EV/Sales and EV/EBITDA for 2014E-2016E are widely scattered and hardly converge, which we interpret as a sign that financial markets' level of uncertainty regarding the development of the fuel cell sector is rather high (see figure 3).

For most companies both EV/Sales and EV/EBITDA multiples are high or very high in 2015E and only converge on more usual valuation levels in 2016E driven by expected strong sales and earnings growth.

The only exception is SFC Energy, whose EV/sales valuation is significantly below 1 and far below average EV/sales valuation. SFC's EV/EBITDA multiples for 2015E and 2016E are also significantly below average EV/EBITDA valuations.

We believe that current high average valuations are driven by expectations of very strong growth. Although market growth expectations may be slightly exaggerated we share the view that growth perspectives of the sector are excellent. SFC's growth may be below the

**Figure 3: Peer group valuations**

Peer-Group SFC Energy													
Company	CUR	Price	MC	EV	P / E			EV / Sales			EV / EBITDA		
					14e	15e	16e	14e	15e	16e	14e	15e	16e
Plug Power Inc	USD	4.80	802.2	800.8	neg.	240.00	34.29	11.08	6.72	3.72	neg.	61.37	16.15
FuelCell Energy Inc	USD	2.43	631.9	687.0	neg.	neg.	65.68	3.54	2.88	1.88	neg.	neg.	29.55
Ballard Power Systems Inc	USD	4.27	562.3	531.1	neg.	neg.	neg.	6.73	5.14	4.48	neg.	87.53	105.16
Hydrogenics Corp	USD	18.55	187.1	178.9	neg.	118.79	16.83	3.40	2.46	1.89	neg.	53.95	13.71
Heliocentris	EUR	5.14	44.5	43.6	neg.	neg.	42.86	2.21	1.30	1.00	neg.	neg.	14.52
Ceramic Fuel Cells Ltd	AUD	0.01	32.2	31.0	neg.	neg.	0.04	5.42	1.41	0.29	neg.	neg.	2.26
Average					n.a.	179.39	31.94	5.40	3.32	2.21	n.a.	67.62	30.22
Median					n.a.	179.39	34.29	4.48	2.67	1.88	n.a.	61.37	15.33
<b>SFC Energy</b>	<b>EUR</b>	<b>4.84</b>	<b>38.8</b>	<b>36.7</b>	<b>neg.</b>	<b>neg.</b>	<b>neg.</b>	<b>0.67</b>	<b>0.59</b>	<b>0.51</b>	<b>54.26</b>	<b>12.27</b>	<b>9.42</b>
Potential to average in %					n.a.	n.a.	n.a.	701%	465%	329%	n.a.	451%	221%
Fair Value per share based on average					n.a.	n.a.	n.a.	36.97	26.14	19.92	n.a.	25.49	14.96

Source: First Berlin Equity Research, Bloomberg



general market growth as the market segments SFC is active in do not offer the same scalability such as e.g. the vehicle market. Therefore, a certain valuation discount may be justified. However, SFC is valued at a huge discount. We believe that financial markets do not yet fully appreciate SFC's strengths such as proven technology and commercialised products and its long-term growth perspective.

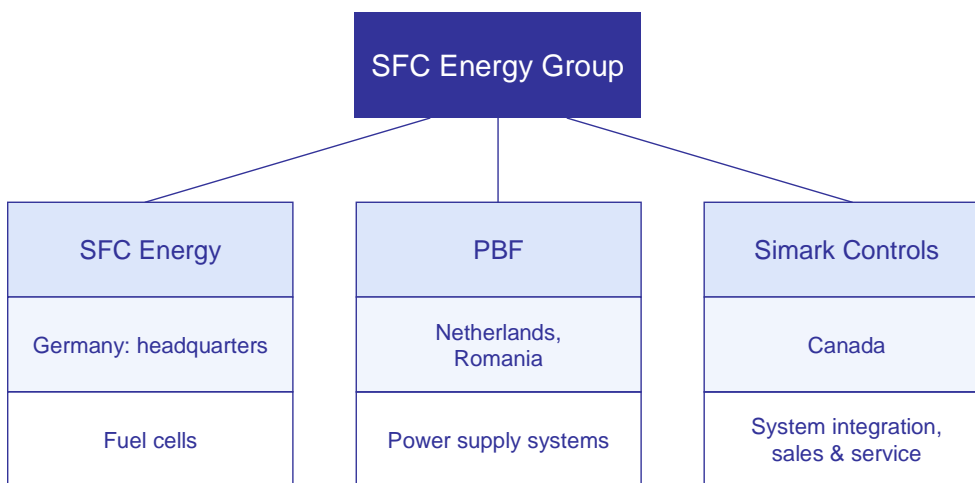
The gap between sector valuation and SFC's valuation therefore suggests a high upside potential for SFC's share and confirms the upside potential indicated by our DCF model.

## COMPANY PROFILE

SFC Energy AG is a leading supplier of integrated power solutions for mobile and stationary off-grid applications. Its energy systems are powered by fuel cells which the company developed and commercialised. With more than 30,000 sold fuel cells SFC is the internationally leading fuel cell provider. Main markets are the oil & gas industry, the industrial sector, defence & security, and consumer applications.

The company is headquartered in Brunnthal (Munich), Germany. Its subsidiary PBF is situated in Almelo, Netherlands, and Cluj, Romania. The subsidiary Simark is headquartered in Calgary, Canada, and has offices in Edmonton, Vancouver, and Saskatoon. SFC is listed on the Prime Standard of the Frankfurt Stock Exchange. The company has 256 employees.

**Figure 4: Company structure**



Source: First Berlin Equity Research, SFC Energy AG

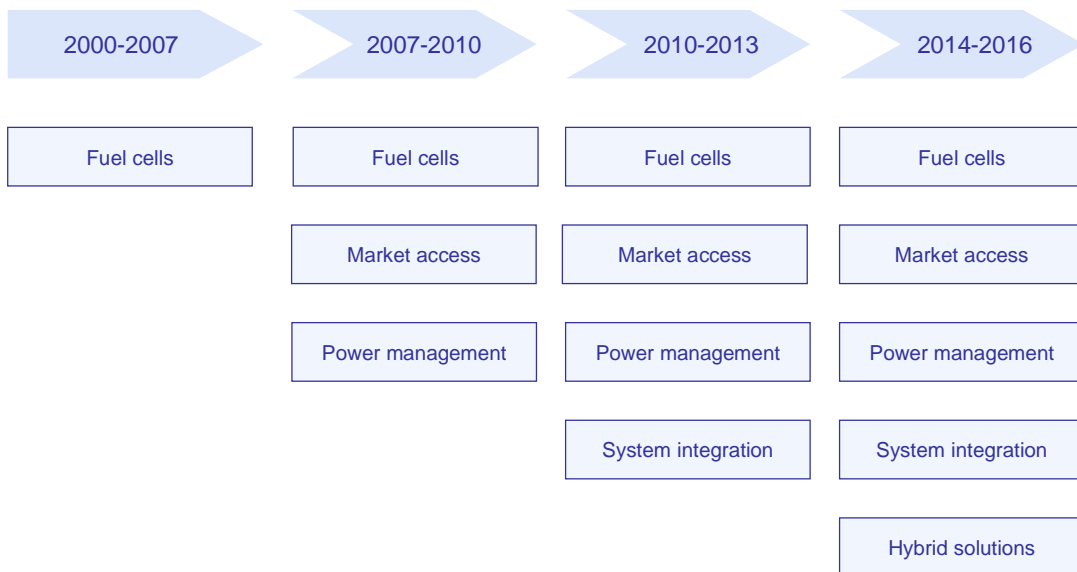
From 2000 - 2007 SFC developed its leading fuel cell technology. In the 2<sup>nd</sup> development phase (2007 - 2010), the company IPOed and commercialised its technology. Acquisitions of PBF (power management and supply systems) in 2011 and Simark (system integration) in 2013 were the main steps to transform the company into a turnkey power solutions and service provider. In the next strategic phase (2014 - 2016) SFC plans to strengthen its leading position in hybrid energy systems and deliver sector-focused solutions and services (see figure 5 overleaf). SFC's hybrid energy system strategy looks set to be the corner stone of its future growth.

Today, in places where the power grid is unavailable or unreliable, many applications use diesel generator sets for power supply. While generator sets satisfy the power need, they also operate at rather high costs mostly due to fuel (including fuel transportation), maintenance and operation costs.

SFC's hybrid power systems combine the use of renewable power sources with batteries, fuel cells and a smart power management system, which significantly decreases fuel, maintenance and operation costs. The fuel cell generator is maintenance free, can be monitored remotely and ensures 100 percent 24/7 power availability in any season and weather, thus eliminating downtime and logistic costs. It is this combination of very high reliability, high efficiency, low maintenance and low fuel and operation costs which creates the USP of SFC's hybrid solutions and results in attractive total cost of ownership.



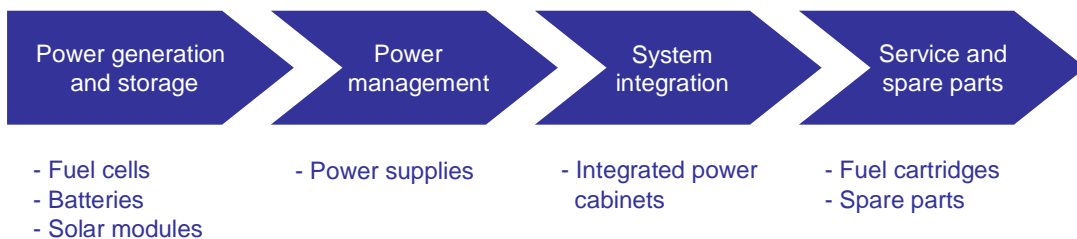
**Figure 5: Strategic development of SFC: Transition from product developer to turnkey solution and service provider**



Source: First Berlin Equity Research, SFC Energy AG

Due to its forward integration SFC now covers the complete value chain for integrated power solutions. It offers power generation and storage devices, power management systems, system integration and services (see figure 6).

**Figure 6: Value chain**



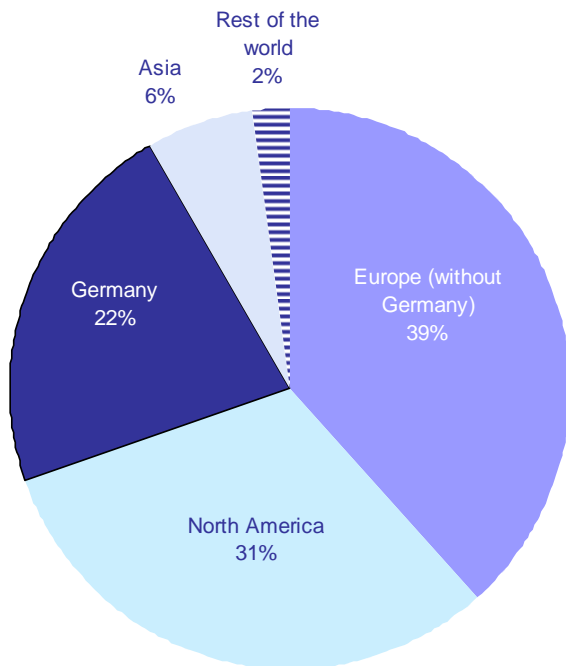
Source: First Berlin Equity Research, SFC Energy AG

SFC has a strong international sales network with distribution partners in Europe, North and South America, the Middle East, and Asia. Sales activities focus on Europe and North America. Among SFC’s blue-chip customer base are Bosch, the German Armed Forces, Hymer, Philips, Siemens, Statoil, Thales, and Vestas.

SFC’s geographical sales split reflects the focus on Europe and North America. Europe without Germany contributed 39% to sales and Germany 22%. North America’s sales contribution amounted to 31%. Asia (6%) and the rest of the world (2%) added only small shares (see figure 7 overleaf).



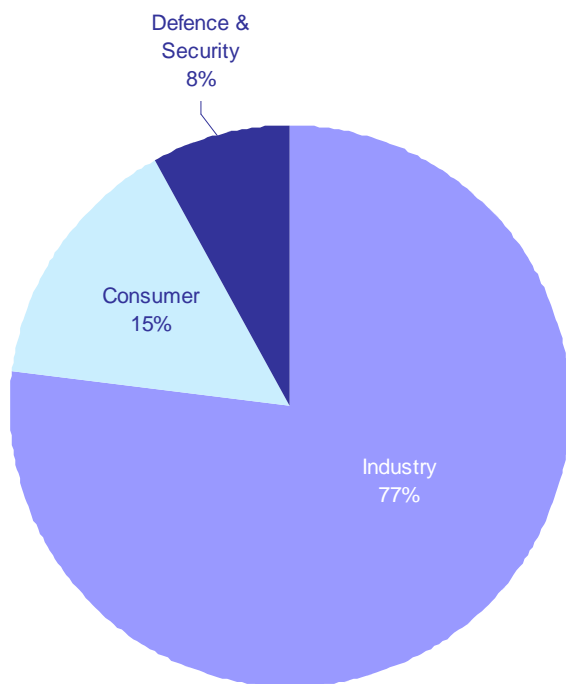
**Figure 7: Geographical sales split 2013**



Source: First Berlin Equity Research, SFC Energy AG

In 2013 revenues from the Industry segment dominated with a share of 77% (2012: 56%). While the sales share of the Consumer segment remained stable (15%), the revenue share of the Defence & Security segment fell to 8% from 29% in 2012 (see figure 8).

**Figure 8: Sales split 2013 (old segmentation)**



Source: First Berlin Equity Research, SFC Energy AG

Following the Simark acquisition in 2013 SFC adjusted its segment reporting in Q1 2014. The three new segments are Oil & Gas, Security & Industry, and Consumer.

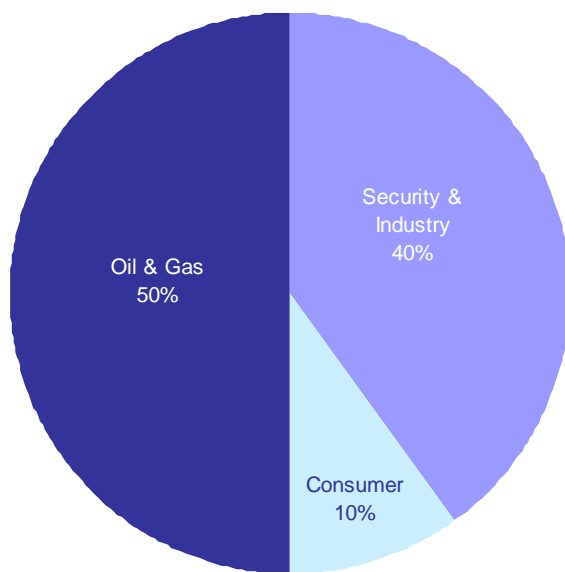
The new Oil & Gas segment contains SFC Energy's and Simark Controls' activities in the oil & gas market. SFC offers a highly specialised portfolio of off-grid and grid-connected power generation products as well as innovative measuring, instrumentation and security technology solutions.

The formerly separated segments Security & Defence and Industry are now combined in the segment Security & Industry. Main markets are commercial and governmental surveillance, security applications, defence, and power electronics. The segment also contains industrial off-grid applications.

The Consumer segment remains unchanged. It continues to serve the leisure market and delivers fuel cells for recreational vehicles and yachts.

Based on the new segmentation we expect a 2014E sales split of 50% Oil & Gas, 40% Security & Industry, and 10% Consumer (see figure 9).

**Figure 9: Segment sales split 2014E (new segmentation)**



Source: First Berlin Equity Research, SFC Energy AG



## FINANCIAL HISTORY AND OUTLOOK

### FINANCIAL HISTORY

#### 2013 figures influenced by Simark acquisition and SFC restructuring

In July 2013 SFC purchased the Canadian company Simark Controls Ltd. for ca. €18m (see figure 10). Since September 2013 Simark has been consolidated. SFC took out a loan of C\$4.125m to finance the transaction. Simark employs ca. 70 people and has a highly qualified, experienced, and diverse distribution and sales organisation in the oil and gas industry in western Canada. Simark has established itself as a systems integrator with advanced manufacturing expertise. In the future, Simark will offer system solutions containing SFC fuel cells.

**Figure 10: Simark purchase**

Simark-Purchase in 2013	in CADm	in €m
Cash component, due at closing	16.25	11.67
SFC stock component, due 2015	3.75	2.69
Earn-Out component, due in 2014	1.67	1.20
Cash component, due in 2015 and 2016	3.33	2.39
<b>Total</b>	<b>25.00</b>	<b>17.95</b>

Source: First Berlin Equity Research, SFC Energy AG

In 2013 sales increased 3.7% to €32.4m (see figure 11). However, this increase is due to the acquisition of Simark which contributed €8.1m to revenues. Weak demand mainly in the Defence segment led to an organic decrease of revenues to €24.3m. As a consequence, the fuel cell business was restructured and streamlined.

**Figure 11: Segment sales split**

in €m	2012	2013	delta
Industry	17.50	24.97	42.7%
Consumer	4.84	4.80	-0.8%
Defence & Security	8.92	2.65	-70.3%
<b>Group</b>	<b>31.26</b>	<b>32.42</b>	<b>3.7%</b>

Source: First Berlin Equity Research, SFC Energy AG

In 2013 the group's gross margin fell to 32.8% from 40.8% as SFC's gross margin fell substantially and Simark's (consolidated since September 2013) gross margin is markedly below the gross margin of the other parts of the group (see figure 12). Simark's lower gross margin is caused by the different nature of its business model (system integrator and distribution company). The group's gross profit fell to €10.6m from €12.8m in 2012.

**Figure 12: Gross margins of SFC subsidiaries in %**

Gross margin	2012	2013
SFC Energy	46.7%	40.0%
PBF	33.5%	32.2%
Simark	n.a.	22.4%
<b>Group</b>	<b>40.8%</b>	<b>32.8%</b>

Source: First Berlin Equity Research, SFC Energy AG



A segment split of the gross margin shows that gross margins fell in the Industry and Defence segment whereas the Consumer segment remained rather stable (see figure 13).

**Figure 13: Segment gross margins in %**

Segment gross margins	2012	2013
Industry	37.5%	31.2%
Consumer	37.0%	36.3%
Defence	49.3%	41.1%
<b>Group</b>	<b>40.8%</b>	<b>32.8%</b>

Source: First Berlin Equity Research, SFC Energy AG

EBITDA came in at €-4.5m (2012: €0.7m). However, adjusted for one-offs (mainly expenses for Simark acquisition and SFC restructuring), EBITDA amounted to €-2.2m.

EBIT was €-8.8m (2012: €-0.5m). Adjusted for one-offs (mainly impairment of PBF goodwill, and impairment of intangible assets identified in acquisitions) EBIT amounted to €-4.2m (see figure 14). Apart from the lower gross profit, higher sales and R&D costs caused the negative operating result.

The net result was €-8.9m (2012: €-0.43) and €-1.16(2012: €-0.06) per share.

**Figure 14: Income statement 2010 - 2013**

in €m	2010	2011	2012	2013
Sales	13.33	15.43	31.26	32.41
Growth	./.	15.8%	102.6%	3.7%
Gross profit	4.04	5.37	12.76	10.64
Margin	30.3%	34.8%	40.8%	32.8%
EBITDA	-3.49	-4.64	0.73	-4.47
Margin	-26.2%	-30.1%	2.3%	-13.8%
Adjusted EBITDA	-3.49	-2.69	0.82	-2.20
Margin	-26.2%	-17.4%	2.6%	-6.8%
EBIT	-4.51	-6.62	-0.52	-8.84
Margin	-33.8%	-42.9%	-1.7%	-27.3%
Adjusted EBIT	-4.51	-4.09	-0.96	-4.22
Margin	-33.8%	-26.5%	-3.1%	-13.0%
Net result	-4.12	-6.22	-0.43	-8.91
Margin	-30.9%	-40.3%	-1.4%	-27.5%
EPS (diluted, in €)	-0.58	-0.87	-0.06	-1.16

Source: First Berlin Equity Research, SFC Energy AG

#### Balance sheet: net cash position and high equity ratio in 2013

Due mainly to the acquisition of Simark the net cash position fell from €22.5m to €3.0m at the end of 2013. In addition, the acquisition increased goodwill to €11.8m (2012: €6.1m). The main reason for the lower equity position of €29.1m (2012: €36.4m) was the 2013 net loss of €-8.9m. The equity ratio fell to 61.0% from 76.4% (see figure 15 overleaf).



**Figure 15: Balance sheet 2012 - 2013 – selected items**

in €m	2012	2013
Property, plant & equipment	2.40	2.30
Goodwill	6.14	11.80
Other intangibles	4.86	7.26
Cash and cash equivalents	22.91	7.43
Equity	36.39	29.06
<i>Equity ratio</i>	<i>76.4%</i>	<i>61.0%</i>
Financial debt (long-term)	0.00	2.28
Financial debt (short-term)	0.37	2.14
Net cash	22.54	3.01
Balance sheet total	47.62	47.65

Source: First Berlin Equity Research, SFC Energy AG

### Cash flow in 2013 burdened by loss and acquisition

The operating cash flow came in at €-7.3m (2012: €1.3m). The main reason for the negative operating cash flow was the net loss of €-8.9m. Cash outflow from investing activities amounted to €-6.6m due mainly to the cash outflow for the Simark acquisition. Cash flow from financing activities was negative as loan repayments were higher than the raising of new debt. Net cash outflow amounted to €-15.5m (see figure 16).

**Figure 16: Cash flow statement 2012 - 2013 – selected items**

in €m	2012	2013
Operating cash flow	1.26	-7.31
CAPEX	-0.88	-0.67
Free cash flow	0.38	-7.98
Cash flow investing activities	-0.66	-6.59
Cash flow financing activities	-0.04	-1.57
Net cash flow	0.18	-15.48

Source: First Berlin Equity Research, SFC Energy AG

### Q1 2014 figures

In Q1 2014 SFC reported sales of €12.9m (Q1 2013: €7.3m, +76.1% y/y). The main reason for the strong increase in sales is the consolidation of Simark Controls. Sales in the newly formed oil & gas segment increased from €0.1m to €66m (Simark contribution: €6.6m). Due to an order cancellation and slower project start-ups the Security & Industry segment sales fell to €5.1m from €5.6m in Q1 2013 (-8.6% y/y). The consumer segment's sales amounted to €1.3m (Q1 2013: €1.7m, -25.3% y/y).

Gross profit increased to €3.9m from €2.9m in Q1 2013. However, gross margin fell from 39.2% to 30.4%. The main reason for the lower gross margin is the consolidation of Simark which has a lower gross margin due to the nature of its business model.

EBIT fell to €-1.2m from €-0.2m. However, underlying EBIT excluding one-off effects amounted to €-0.6m (Q1 2013: €-0.4m). The net result amounted to €-1.3m (Q1 2013: €-0.2m). EPS were €-0.17 versus €-0.03 in Q1 2013 (see figure 17 overleaf).



Figure 17: SFC Q1 2014 figures

in €m	Q1 2013	Q1 2014	Delta
Sales	7.35	12.94	76.1%
Gross profit	2.88	3.93	36.6%
Margin	39.2%	30.4%	./.
EBIT	-0.18	-1.20	n.a.
Margin	-2.5%	-9.3%	./.
Adjusted EBIT	-0.36	-0.65	n.a.
Margin	-4.9%	-5.0%	./.
Net profit/loss	-0.21	-1.32	n.a.
Margin	-2.9%	-10.2%	./.
EPS (diluted, in €)	-0.03	-0.17	n.a.

Source: First Berlin Equity Research, SFC Energy AG

The order backlog at the end of Q1 amounted to €16.3m (Q1 2013: €7.9m, +106% y/y). This strong order backlog and the swift integration of Simark hint at much stronger revenues in H2, especially as SFC's extreme temperature fuel cell EFOY Pro Cabinet was brought to market for the oil & gas industry in Q1 and should generate significant revenues in H2. Furthermore, both the oil & gas and security segment are seasonally stronger at the end of the year.

Due mainly to the Q1 net loss equity fell to €27.4m from €29.1m at the end of 2013. However, due to a reduced balance sheet total the equity share rose to 61.7% (end 2013: 61.0%). The cash position including cash with limitation of disposal of €0.3m amounted to €5.9m (end 2013: €7.4m).

Despite the net loss of €-1.3m operating cash flow was positive at €0.1m (Q1 2013: €-3.4m) due mainly to a lower working capital requirement. Cash flow from investment activity was €-1.1m and cash flow from financing activity was €0.5m resulting in a net cash flow of €-1.4m.

Management reiterated its guidance of €55-60m sales, and a positive underlying EBITDA (assuming an exchange rate of EUR/CAD 1.40 for Simark's revenues).

## FINANCIAL OUTLOOK

### Rising sales and improved earnings in coming years

We expect 2014E sales of €58.0m. The main sales contribution comes from the newly formed Oil & Gas segment (FBe: €29.2m, 50.3% of sales). Industry & Security should contribute €23.3m (sales share: 40.2%) and Consumer €5.5m (sales share: 9.5%).

For 2015E we expect **strong organic sales growth** of 12.1% to €65.0m which is mainly driven by the rapidly expanding Oil & Gas segment (+15.5% y/y).

We expect the gross margin to reach 30.5% in 2014E. Compared to 2013 this is a reduction by 2.3 PP which is mainly attributable to the Simark acquisition. As stated above, Simark's gross margin is lower than in other parts of the SFC group.



At the product level, however, an improved product mix should increase the gross margin. Main reasons are the increased sale of

- products of higher performance classes,
- integrated product solutions,
- and SCADA systems.

In 2015E the continued product mix improvement looks set to continue and should **increase the gross margin to 31.5%**.

In addition to reported EBIT and EBITDA, SFC presents EBIT and EBITDA adjusted for acquisition-related one-off effects to show the underlying operating development. According to our forecasts SFC will generate **positive 2014E EBITDA and 2015E EBIT at the underlying operating level**.

We forecast EBITDA of €-0.5m in 2014E. **Adjusted** for Simark-related acquisition expenses **2014E EBITDA should be positive at €0.7m**. SFC looks set to more than halve its operating loss to €-3.4m in 2014E. Adjusted for write-offs following the Simark acquisition (purchase price allocation) EBIT is expected to come in at €-1.2m.

**In 2015E we expect positive EBITDA of €1.3m** and adjusted EBITDA of €2.4m. EBIT looks set to be €-1.4m and adjusted EBIT €0.8m. At the underlying operating level SFC will thus be profitable in 2015E.

For **2016E we expect positive EBIT of €2.1m** and for 2017E we assume no further Simark acquisition-related one-offs (see figure 18).

**Figure 18: EBITDA and EBIT including adjusted figures 2013 -2017E**

in €m	2013	2014E	2015E	2016E	2017E
EBITDA	-4.47	-0.45	1.29	3.53	5.11
one-off expenses	2.27	1.10	1.10	0.50	0.00
adjusted EBITDA	-2.20	0.65	2.39	4.03	5.11
depreciation & amortisation	4.36	2.91	2.66	1.45	0.76
EBIT	-8.84	-3.36	-1.37	2.08	4.35
one-off expenses incl. D&A	4.62	2.21	2.20	1.00	0.00
adjusted EBIT	-4.22	-1.16	0.83	3.08	4.35
one-off D&A	2.35	1.11	1.10	0.50	0.00

Source: First Berlin Equity Research, SFC Energy AG

We forecast that SFC will more than halve its net loss in 2014E to €-3.5m and again in 2015E to €-1.5m. In 2016E the company looks set to generate a net profit of €1.8m. Main drivers for this positive development are increasing gross profits and strict cost control (see figure 19 overleaf).

**Figure 19: Income statement 2013 - 2016E – selected items**

in €m	2013	2014E	2015E	2016E
Sales	32.41	58.00	65.02	74.12
<i>Growth</i>	-50.2%	79.0%	12.1%	14.0%
Gross profit	10.64	17.69	20.48	24.09
<i>Margin</i>	32.8%	30.5%	31.5%	32.5%
EBITDA	-4.47	-0.45	1.29	3.53
<i>Margin</i>	-13.8%	-0.8%	2.0%	4.8%
Adjusted EBITDA	-2.20	0.65	2.39	4.03
<i>Margin</i>	-6.8%	1.1%	3.7%	5.4%
EBIT	-8.84	-3.36	-1.37	2.08
<i>Margin</i>	-27.3%	-5.8%	-2.1%	2.8%
Adjusted EBIT	-4.22	-1.16	0.83	3.08
<i>Margin</i>	-13.0%	-2.0%	1.3%	4.1%
Net result	-8.91	-3.49	-1.48	1.80
<i>Margin</i>	-27.5%	-6.0%	-2.3%	2.4%
EPS (diluted, in €)	-1.16	-0.44	-0.19	0.22

Source: First Berlin Equity Research, SFC Energy AG

We do not expect major changes in the balance sheet (see figure 20). Equity looks set to decrease due to the net losses in coming years. The net cash position falls to below €1m by 2015E.

**Figure 20: Balance sheet 2013 - 2015E – selected items**

in €m	2013	2014E	2015E
Property, plant & equipment	2.30	1.97	1.75
Goodwill	11.80	11.80	11.80
Other intangibles	7.26	5.37	3.71
Cash and cash equivalents	7.43	5.10	5.91
Equity	29.06	25.57	24.09
<i>Equity ratio</i>	61.0%	53.3%	49.6%
Financial debt (long-term)	2.28	2.28	2.00
Financial debt (short-term)	2.14	1.70	3.03
Net cash	3.01	1.11	0.89
Balance sheet total	47.65	48.02	48.56

Source: First Berlin Equity Research, SFC Energy AG



### Improving operating cash flow

We forecast continually improving operating cash flows due mainly to reduced operating losses. In 2015E we expect a **positive operating cash flow of €0.6m**. For 2016E we forecast a **positive free cash flow of €1.2m** (see figure 21).

**Figure 21: Cash flow statement 2013 - 2016E – selected items**

in €m	2013	2014E	2015E	2016E
Operating cash flow	-7.31	-1.10	0.55	2.09
CAPEX	-0.67	-0.70	-0.78	-0.89
Free cash flow	-7.98	-1.79	-0.23	1.20
Cash flow investing activities	-6.59	-0.70	-0.78	-0.89
Cash flow financing activities	-1.57	-0.54	1.04	-0.73
Net cash flow	-15.48	-2.33	0.82	0.47

Source: First Berlin Equity Research, SFC Energy AG



## MARKET ENVIRONMENT

We see various growth drivers for the different market segments SFC is active in.

### OIL AND GAS MARKET

The oil and gas market is characterised by enormous capital expenditures and the requirement for dependable and secure off-grid power solutions. According to the EY US 2013 study regarding the US oil and gas reserves and a study by the Canadian Association of Petroleum Producers from 2013 annual capital expenditures of the industry in North America amounted to \$285bn.

Especially Canada is a very attractive market for SFC as it holds the third largest oil reserves in the world and is the third largest gas producer globally. The Canadian Association of Petroleum Producers assumes annual capital expenditures > \$100 bn for the foreseeable future.

SFC is thus uniquely positioned to capture the growing need for off-grid power in Western Canada's oil & gas market. The Western Canadian off-grid well site market potential is expected to amount to \$1.1bn, the total well site market potential (~250,000 wells) could amount to \$2.5bn, if \$10,000 per well is assumed as average CAPEX for secure energy supply.

The **drivers for SFC's power supply solutions** are:

- High costs and risks of well site systems downtime from unreliable power systems, particularly in harsh weather conditions including operation below -30°C.
- Avoidance of financial penalties from increasing enforcement of Directive 17 legislation (regulatory requirement for continuous data acquisition and reporting of various aspects of well site operation requires continuous power).
- Increased power requirements at existing well sites (growing need to charge portable devices).

In the medium term SFC plans to penetrate further oil producing countries such as the US. We therefore anticipate a substantial growth potential in coming years. The oil & gas market looks set to be SFC's most important growth market in the foreseeable future.

### INDUSTRY MARKET

The markets for industrial off-grid power supply solutions are diverse. We see a trend toward applications that are used far from any power outlets. Furthermore, there is growing demand for integrated power solutions which supply these applications with reliable power under any weather conditions.

Application examples are backup power supply for critical telecommunication systems and sensitive steerings, the powering of warning systems at temporary construction sites, sensors for traffic monitoring and environmental data, surveillance cameras, and repeater stations.

### DEFENCE & SECURITY MARKET

The increasing off-grid use of communication equipment, data transmission devices, portable radar systems, and sensors by troops leads to rising demand for power supply solutions. These solutions should be very reliable regardless of the weather conditions,



lightweight, quiet, non-detectable, and deliver power for longer periods without refuelling. These requirements are fulfilled by SFC's fuel cell-based integrated power supply solutions. In 2013 the international defence and security market suffered from ongoing reforms and spending cuts in several European countries and international defence organisations. In Germany the restructuring of the procurement process caused delays in overall procurement. In the US budget disputes resulted in a standstill of most new projects. All in all, only a few new projects were carried out to develop or use fuel cell-based power supplies.

## LEISURE MARKET

The leisure or consumer segment comprises caravanning (caravans & recreational vehicles, RV) and the marine market (boats/yachts). Growth drivers for SFC's power supply systems are the increased freedom, independence, and comfort enjoyed by system users. Furthermore, increasing environmental sensitivity and regulations support demand for SFC's clean power systems.

### Caravanning market

For 2013 the German caravanning industry (Caravanning Industrie Verband CIVD) reported a decline in sales of 4.3% y/y to €6.0bn due mainly to weak exports. The German caravan production slumped by 22.4% y/y to 31,000 vehicles. The number of newly registered caravans in Germany declined by 5.5% y/y to 16,665 vehicles. However, the number of newly registered RVs increased by 3.1% y/y to 24,809. Due to weak foreign demand the number of produced RVs fell by 4.7% y/y to 40,200.

For 2014 the German caravanning industry expects total demand to be stable. In the sub-segment RVs demand looks set to grow both in Germany and in export markets. However, demand for caravans is expected to fall.

### Marine market

In 2013 production figures of European boat manufacturers were at previous year's level. In Germany, demand for new boats fell by 2.2% y/y to €164m. The marine equipment and accessories market reported a market volume of €195m (-2.3% y/y). For 2014 the industry anticipates an increase of 3% in total sales. According to a survey of the German Marine Industry Association (BVWW) 32% of the companies expect a business development in 2014 which is similar to 2013 and 47% expect it to be better than in the previous year.



## PRODUCTS AND SERVICES

SFC's products address four different markets: the oil & gas industry, industry, defence, and leisure. Furthermore, the company offers a portfolio of power electronic products.

### OIL & GAS INDUSTRY

SFC offers integrated, winter-proof hybrid power supply solutions using SFC fuel cells and solar modules. A system contains the fuel cell, batteries, fuel cartridges, electronics, cabling, and power control safely protected in a sturdy box. The system supplies power reliably over several months without user intervention and often has an amortisation time of less than 18 months. SFC's specialised fuel cells generate power for off-grid power applications, electrical machine power products, instrumentation and measurement solutions, gas and flame detection safety systems and SCADA (supervisory control and data acquisition) solutions.

**SCADA system:** SFC's SCADA systems are computer-controlled systems for measuring, monitoring, and controlling many of the processes involved in oil and gas extraction, such as the operation of extraction systems and pipelines. In combination with SFC's off-grid power solutions these systems work safely and reliably without human intervention for long periods of time even under harsh weather and environmental conditions.

**Power products for oil & gas equipment:** SFC's variable frequency drive (VFD) systems control speed and torque of motors that operate expensive drilling equipment such as electrical submersible pumps, fans, compressors, and other specialty rotating equipment. VFD systems reliably protect drive systems by automatically adjusting output to ambient conditions.

### INDUSTRY

SFC offers various product types for the industrial sector.

**EFOY Pro fuel cell:** A lightweight robust power generating device for grid-independent industrial applications. Power solutions based on this fuel cell allow grid-independent equipment to run for months without intervention by users. The maximum nominal power ranges from 45 – 110 W. The fuel cell dimensions are 433 \* 188 \* 278 mm. The weight is between 8.0 and 9.3 kg.

**EFOY ProCube:** A maintenance-free, weather-resistant power box for outdoor mobile and stationary applications. The box contains the fuel cell, fuel cartridge and power management device. Applications examples are the powering of warning systems at temporary construction sites, or of volcano sensors. Box dimensions are 800 \* 600 \* 410 mm and it weighs 15 kg (empty).

**EFOY ProEnergyBox:** This box has been developed for use in all climate scenarios at an extended temperature range from -40 °C to +50 °C. The box is suitable for long autonomy as two M28 fuel cartridges can be integrated. Thanks to effective temperature regulation, the heat given off by the fuel cell generator can be used in sub-zero temperatures to keep the energy solution warm and also prevent the battery and the electronics inside from freezing. An effective heat conduction system has been implemented for high ambient temperature environments in order to protect the components inside the box from heat.

**EFOY ProCabinet:** It consists of a Rittal cabinet equipped with EFOY Pro fuel cells, batteries, cabling and power distribution for 24 V. EFOY fuel cartridges equip an additional cabinet right next to the power cabinet, and deliver up to 62 kWh of electrical energy. Box dimensions are 600 \* 600 \* 1,200 mm. The available output power (const.) is 90 W, available peak power is 800 Wp.





Application examples are:

- sensors for traffic monitoring and environmental data
- measurement equipment in order to monitor water levels or environmental impacts
- surveillance cameras and repeater stations
- backup power supply for critical telecommunication systems and sensitive steering.

EFOY ProCabinet can be used in island mode or as backup power supply. For example, for powering sensors which have an average power demand of 25 W EFOY ProCabinet supplies sufficient energy for up to 2,500 operating hours without user intervention. As backup power supply for critical infrastructure, EFOY ProCabinet even supplies sufficient energy for several years.

## DEFENCE & SECURITY

SFC's product portfolio for defence & security ensures that communication equipment, data transmission devices, portable radar systems, and sensors used by troops permanently have a reliable power supply regardless of the weather conditions. SFC's systems produce almost no heat or noise emissions and are thus suitable for covert operations.

**JENNY 600S:** A lightweight, portable hybrid system to charge batteries or supply power directly to devices of soldiers. It comprises the JENNY fuel cell, fuel cartridges, and smart power management. The system has a nominal output of 25 W and weighs 1.6 kg.

**EMILY 3000:** A portable charging station for flexible applications which charges conventional batteries, modern lithium-ion and lithium-polymer batteries. Furthermore, EMILY 3000 works in hybrid operation with the SFC 3G Power Manager and can charge up to four batteries at once. Maximum nominal output amounts to 125 W. With a 10 l fuel cartridge it has a runtime of 100 h at full power. EMILY 3000's weight is 12.5 kg.

**EMILYCube 2500:** It combines a high-power SFC fuel cell, a lithium-ion battery, and a fuel cartridge in a lightweight, compact box to provide a convenient and complete energy solution. The portable power charging station is reliably supplying power to electrical devices over long periods of time. The system has a nominal power of 100 W and weighs 13.3 kg (21.7 kg including 10 l cartridge). At a continuous power requirement of 100 W the system delivers power for 100 h without user intervention.

## LEISURE

In the leisure sector, the recreational vehicle (RV) and sailing yacht markets are served. The **EFOY COMFORT fuel cells** are lightweight and quiet power generation devices which are connected to batteries that they automatically charge on need and offer RV and yacht users autonomy, comfort, and convenience. The maximum power ranges from 40 – 120 W. The charge capacity ranges from 80 – 210 Ah. The weight is between 7.1 and 8.5 kg.

## POWER ELECTRONICS

SFC's product portfolio for the power electronics market includes a broad range of specialised high-power electronic components, external and internal converters, switch mode power supplies, and special coils.

The products guarantee that expensive and highly sensitive instruments such as electron microscopes, semiconductor equipment, laser and hifi equipment, testing and metering devices, security systems, and medical devices always have the right voltage to deliver optimal performance and have a long lifetime.



## MANAGEMENT

### CEO

Dr. Peter Podesser has been CEO since 2006. Before he was managing director of the semiconductor segment of Swiss high-tech group Oerlikon (Unaxis) in the US and Switzerland. Between 2000 and 2005 Dr. Podesser was CEO of EV Group which during that time developed from a start-up to a globally active industrial company. Before, he was responsible for developing the China and Asia business of RHI AG.

### CSO

Hans Pol has been Chief Sales Officer since 1 January 2014. Mr Pol joined the SFC group in October 2011 when SFC Energy acquired the Dutch PBF Group B.V. As managing director the co-founder of PBF has played a key role in the development of SFC's off-grid energy solutions business in the industry and defence markets. Mr Pol brings many years of expertise in the development and distribution of highly specific electronic solutions for demanding technological industry and defence applications.

### Supervisory Board

Tim van Delden, Chairman, Graduate Mechanical Engineer, Duesseldorf, Germany

David Morgan, Assistant Chairman, Businessman, Rolvenden, Kent, UK

Hubertus Krossa, Member, Independent Consultant, Wiesbaden, Germany



## SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	DE0007568578
WKN	756857
Bloomberg ticker	F3C
No. of issued shares	8,020,045
Transparency Standard	Prime Standard
Country	Germany
Sector	Industrial Goods
Subsector	Renewable Energies

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
HPE	24.0%
Havensight	9.6%
Conduit Ventures	9.5%
Other	10.5%
Free Float	46.4%

Source: SFC Energy AG



## INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
<b>Revenues</b>	<b>31,260</b>	<b>32,413</b>	<b>58,000</b>	<b>65,018</b>	<b>74,121</b>
Cost of goods sold	18,497	21,773	40,310	44,537	50,031
<b>Gross profit</b>	<b>12,763</b>	<b>10,640</b>	<b>17,690</b>	<b>20,481</b>	<b>24,089</b>
S&M	5,862	8,233	10,092	10,598	10,229
G&A	3,555	3,860	5,162	5,266	5,707
R&D	4,257	6,149	6,090	6,307	6,448
Other operating income	749	1,041	1,160	1,300	1,482
Other operating expenses	362	2,275	870	975	1,112
<b>Operating income (EBIT)</b>	<b>-524</b>	<b>-8,836</b>	<b>-3,364</b>	<b>-1,365</b>	<b>2,075</b>
Net financial result	80	-128	-163	-134	-177
Non-operating expenses	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-445</b>	<b>-8,964</b>	<b>-3,527</b>	<b>-1,499</b>	<b>1,898</b>
Income taxes	-19	-52	-35	-15	95
Minority interests	0	0	0	0	0
<b>Net income / loss</b>	<b>-426</b>	<b>-8,912</b>	<b>-3,492</b>	<b>-1,484</b>	<b>1,803</b>
<b>Diluted EPS (in €)</b>	<b>-0.06</b>	<b>-1.16</b>	<b>-0.44</b>	<b>-0.19</b>	<b>0.22</b>
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-453</b>	<b>1,290</b>	<b>3,528</b>
<b>Ratios</b>					
Gross margin	40.8%	32.8%	30.5%	31.5%	32.5%
EBIT margin on revenues	-1.7%	-27.3%	-5.8%	-2.1%	2.8%
EBITDA margin on revenues	2.3%	-13.8%	-0.8%	2.0%	4.8%
Net margin on revenues	-1.4%	-27.5%	-6.0%	-2.3%	2.4%
Tax rate	4.3%	0.6%	1.0%	1.0%	5.0%
<b>Expenses as % of revenues</b>					
S&M	18.8%	25.4%	17.4%	16.3%	13.8%
G&A	11.4%	11.9%	8.9%	8.1%	7.7%
R&D	13.6%	19.0%	10.5%	9.7%	8.7%
Other operating expenses	1.2%	7.0%	1.5%	1.5%	1.5%
<b>Y-Y Growth</b>					
Revenues	n.a.	3.7%	78.9%	12.1%	14.0%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.a.	n.m.	n.m.	n.m.	n.m.



## BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
<b>Assets</b>					
<b>Current assets, total</b>	<b>33,598</b>	<b>25,934</b>	<b>28,421</b>	<b>30,841</b>	<b>33,761</b>
Cash and cash equivalents	22,911	7,428	5,096	5,913	6,384
Short-term investments	0	0	0	0	0
Receivables	3,696	9,258	13,507	14,607	16,246
Inventories	5,815	7,713	8,283	8,785	9,595
Other current assets	1,118	1,426	1,426	1,426	1,426
<b>Non-current assets, total</b>	<b>14,020</b>	<b>21,715</b>	<b>19,598</b>	<b>17,723</b>	<b>17,159</b>
Property, plant & equipment	2,400	2,296	1,967	1,754	1,746
Goodwill & other intangibles	11,000	19,054	17,167	15,506	14,950
Other assets	619	365	463	463	463
<b>Total assets</b>	<b>47,617</b>	<b>47,650</b>	<b>48,019</b>	<b>48,563</b>	<b>50,920</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>7,662</b>	<b>12,669</b>	<b>16,530</b>	<b>18,841</b>	<b>19,394</b>
Short-term debt	372	2,139	1,700	3,026	2,300
Accounts payable	3,033	5,087	9,387	10,372	11,651
Current provisions	999	802	802	802	802
Other current liabilities	3,258	4,641	4,641	4,641	4,641
<b>Long-term liabilities, total</b>	<b>3,562</b>	<b>5,918</b>	<b>5,918</b>	<b>5,636</b>	<b>5,636</b>
Long-term debt	0	2,282	2,282	2,000	2,000
Deferred revenue	0	0	0	0	0
Other liabilities	3,562	3,636	3,636	3,636	3,636
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>36,394</b>	<b>29,063</b>	<b>25,571</b>	<b>24,086</b>	<b>25,890</b>
Share Capital	7,503	8,020	8,020	8,020	8,020
Capital Reserve	67,879	69,570	69,570	69,570	69,570
Other Reserves	0	0	0	0	0
Treasury Stock	0	0	0	0	0
Loss carryforward / retained earnings	-38,951	-47,863	-51,354	-52,839	-51,036
<b>Total consolidated equity and debt</b>	<b>47,617</b>	<b>47,650</b>	<b>48,019</b>	<b>48,563</b>	<b>50,920</b>
<b>Ratios</b>					
Current ratio	4.39	2.05	1.72	1.64	1.74
Quick ratio	3.63	1.44	1.22	1.17	1.25
Financial leverage	1.31	1.64	1.88	2.02	1.97
Book value per share	4.85	3.79	3.19	3.00	3.23
Net cash	22,539	3,007	1,114	887	2,084
Return on equity (ROE)	-1.2%	-30.7%	-13.7%	-6.2%	7.0%
Days of sales outstanding (DSO)	43.2	104.3	85.0	82.0	80.0
Days of inventory turnover	114.7	129.3	75.0	72.0	70.0
Days in payables (DIP)	59.9	85.3	85.0	85.0	85.0



## CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E
<b>EBIT</b>	-524	-8,836	-3,364	-1,365	2,075
Depreciation and amortisation	1,255	4,362	2,911	2,655	1,453
<b>EBITDA</b>	<b>730</b>	<b>-4,474</b>	<b>-453</b>	<b>1,290</b>	<b>3,528</b>
Changes in working capital	85	-2,188	-518	-618	-1,169
Other adjustments	443	-649	-128	-119	-272
<b>Operating cash flow</b>	<b>1,258</b>	<b>-7,311</b>	<b>-1,098</b>	<b>553</b>	<b>2,087</b>
CAPEX	-561	-345	-406	-455	-519
Investments in intangibles	-318	-327	-290	-325	-371
<b>Free cash flow</b>	<b>380</b>	<b>-7,984</b>	<b>-1,794</b>	<b>-227</b>	<b>1,198</b>
<b>Debt financing, net</b>	<b>-388</b>	<b>-1,469</b>	<b>-439</b>	<b>1,045</b>	<b>-726</b>
<b>Equity financing, net</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other changes in cash	191	-6,029	-98	0	0
<b>Net cash flows</b>	<b>183</b>	<b>-15,482</b>	<b>-2,332</b>	<b>817</b>	<b>472</b>
Cash, start of the year	0	22,911	7,428	5,096	5,913
<b>Cash, end of the year</b>	<b>183</b>	<b>7,428</b>	<b>5,096</b>	<b>5,913</b>	<b>6,384</b>
<b>EBITDA/share (in €)</b>	<b>0.10</b>	<b>-0.58</b>	<b>-0.06</b>	<b>0.16</b>	<b>0.44</b>
<b>Y-Y Growth</b>					
Operating cash flow	n.a.	n.m.	n.m.	n.m.	277.6%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	173.5%

### FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 June 2014	€4.84	Buy	€7.40

Dr. Karsten von Blumenthal

First Berlin  
Equity Research GmbH

Mohrenstraße 34  
10117 Berlin

Tel. +49 (0)30 - 80 93 96 93

Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

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**BUY:** Expected return greater than 25%

**ADD:** Expected return between 0% and 25%

**REDUCE:** Expected negative return between 0% and -15%

**SELL:** Expected negative return greater than -15%

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