Research report (Anno)

euromicron

Operating break-even was reached in 2017
-
Profitability measures were introduced
-
Considerable organic growth expected in 2018

Target price: €11.45 (previously: €10.50)

Rating: BUY

IMPORTANT INFORMATION:
Please note the disclaimer/risk notice as well as the disclosure of potential conflicts of interest according to Section 85 of the German Securities Trading Act (WpHG) and Art. 20 MAR from page 20

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". Further information about this is available in the disclosure under "I. Research under MiFID II"

English version
Date and time of completion of the report: 31/08/2018 (2:58 pm)
Date and time of the first distribution: 31/08/2018 (3:10 pm)
Validity of the price target: until max. 31/12/2019

German version
Date and time of completion of the report: 29/06/2018 (16:45)
Date and time of the first distribution: 02/07/2018 (11:20)
Validity of the price target: until max. 31/12/2019

GBC AG
Investment Research

euromicron AG*5a,5b,7,11

Rating: BUY
Target price: €11.45

Current price: 6.76
29/06/2018 / Xetra

Currency: EUR

Master data:

ISIN: DE000A1K0300
WKN: A1K030
Ticket number: EUCA

Number of shares³: 7.176

Marketcap³: 48.51
Enterprise Value³: 135.77
³ in m / in € m

Freefloat: 100.00%

Transparency level:
Prime Standard

Market segment:
Regulated market

Accounting:
IFRS

Financial year: 31/12

Designated sponsor:
EQUINET BANK AG

Analysts:

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Cosmin Filker
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* Catalogue of potential conflicts of interests on page 21

Corporate profile

Segment: Technology

Focus: Digitisation of infrastructures and networking of IT structures

Employees: 1,833

Founded: 1998

Registered office: Frankfurt am Main

Executive board: Bettina Meyer, Jörn Trierweiler

The euromicron Group unites medium-sized high-tech companies from the "Digital Buildings", "Industry 4.0" and "Critical Infrastructures" target markets. As a German specialist for digitised infrastructures, euromicron enables its customers to network business and production processes and successfully move towards a digital future. From design and implementation, operation, right up to intelligent services, the companies in the euromicron Group provide their customers with tailored solutions for technologies, system integration and smart services and create the IT, network and security infrastructures required for them. Euromicron also assists its customers with migrating existing infrastructures gradually to the digital age. The euromicron Group's expertise helps the company's customers increase their own flexibility and efficiency, as well as develop new business models that will lay the foundation for commercial success in the future.

P&L (in € m)	31/12/2016	31/12/2017	31/12/2018e	31/12/2019e
Revenue	325.31	332.91	353.77	364.52
EBITDA	7.39	9.50	13.92	16.81
EBIT	-2.26	1.10	5.17	8.06
Net profit	-12.66	-3.77	0.05	2.07
Key figures in €				
Profit per share	-1.76	-0.53	0.01	0.29
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/Revenue	0.42	0.41	0.38	0.37
EV/EBITDA	18.37	14.29	9.75	8.08
EV/EBIT	neg.	123.43	26.26	16.84
P/E	neg.	neg.	970.20	23.43
P/B		0.62		

Financial dates
09/05/2018: Publication of Q1 report
13/06/2018: General Meeting
09/08/2018: Publication of HY report
08/11/2018: Publication of 9M report
11/12/2018: 26 Munich Capital Market Conference

**Most recent research by GBC:
Date: Publication/target price in EUR/rating
14/11/2017: RS / 10.50 / BUY
01/09/2017: RS / 10.50 / BUY
09/05/2017: RS / 10.50 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg

EXECUTIVE SUMMARY

- Despite closures and divestments, euromicon AG generated revenues of €332.91 million in FY 2017, 2.3% more than in the previous year. On an adjusted basis, revenue from continuing operations increased by 5.9% to €328.2 million (PY: €309.8 million). The increase in consolidated revenues was driven in particular by the positive business performance of the second largest segment (Critical Infrastructures).

- Alongside the positive sales performance, the reported EBITDA also increased by 28.6% to €9.50 million (PY: €7.39 million). Adjusted for special effects from reorganisation measures, operating EBITDA of €13.50 million was achieved, an increase of €0.30 million compared to the previous year. Due to non-recurring effects of €2.80 million incurred in the previous year (income from process reimbursement and recourse claims against former shareholders and senior bodies), operating EBITDA adjusted for these effects increased by €3.10 million (29.8%) in 2017.

- It should be emphasised that the strategic reorientation carried out by the management, especially with regard to the “IoT” target market and the portfolio streamlining, is increasingly reflected positively in the key figures. Likewise, the reorganisation measures that have been introduced are becoming increasingly visible. The transformation phase initiated in financial year 2018 should once again increase profitability in the future.

- For FY 2018, we expect to continue on the growth path pursued to date. Specifically, we expect revenue of €353.77 million and a reported EBITDA of €13.92 million. This again includes exceptional costs, in particular in connection with legal and consulting fees, as well as Group financing costs of €2.0 million for euromicron AG. On an adjusted basis, operating EBITDA (adjusted for exceptional costs) of €15.92 million should therefore be recorded, equating to an operating EBITDA margin of 4.5%. Exceptional expenses will be lower for the following year 2019, and we expect EBITDA of €17.81 million with an EBITDA margin of 4.9%.

- **Based on the forecasts for FY 2018 and 2019, we have increased our target price for euromicron AG. The fair value based on our DCF model is now €11.45 (previously: €10.50). The target price increase results from the roll-over effect. Based on the current share price, this results in an unchanged BUY rating. Over the long term, we are convinced that euromicron will be able to achieve much higher EBITDA margins than before. The previous improvements to the key figures underpin our assessment. Furthermore, we are also convinced that the increased positioning in the “IoT” and “Industry 4.0” growth markets, together with the announced profitability measures, will have a significant positive impact on profitability in the future.**

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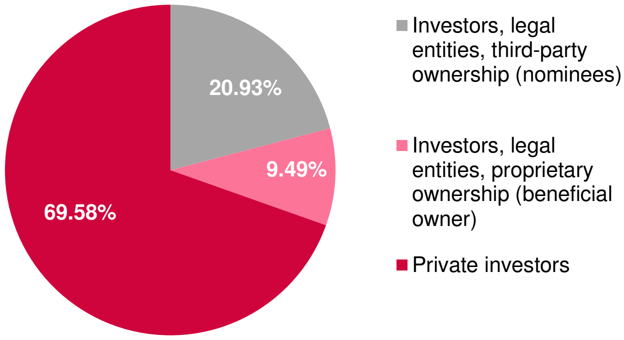
COMPANY

Shareholder structure

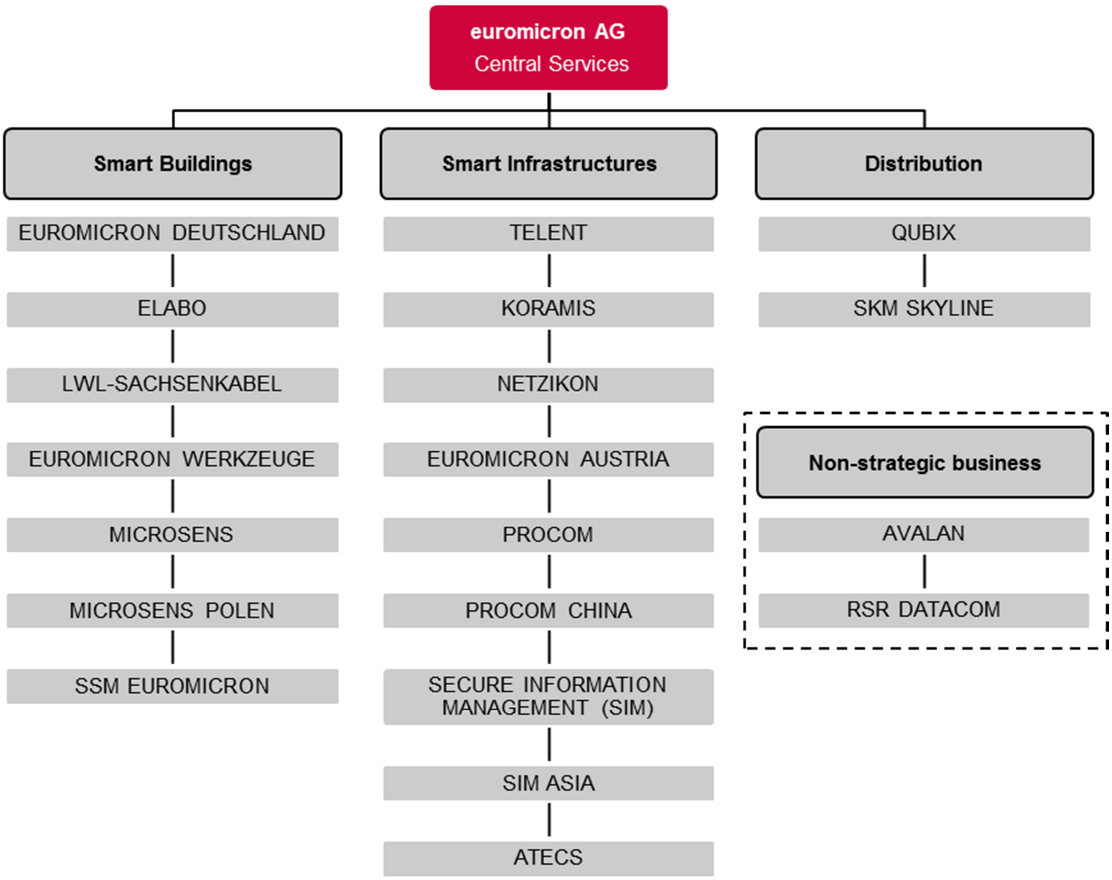
Shareholders in %	31/12/2017
Private investors	69.58%
Investors, legal entities, third-party ownership (nominees)	20.93%
Investors, legal entities, proprietary ownership (beneficial owner)	9.49%
Total	100.00%

Source: euromicron AG; GBC AG



Group overview

Together with its subsidiaries, the euromicron Group addresses the “Digital Buildings”, “Industry 4.0” and “Critical Infrastructures” target markets. To this end, the Group is subdivided into the three segments “Smart Buildings”, “Critical Infrastructures” and “Distribution”, through which the target markets are addressed. The two large systems houses, euromicron Deutschland in the “Smart Buildings” segment and telent in the “Critical Infrastructures” segment, are supplemented by various technology companies, enabling them to offer integral solutions. By combining system integration and technology expertise, the euromicron Group differentiates itself from the competition. Euromicron AG functions as a strategic management holding company and is therefore responsible for management and cross-departmental functions within the Group.

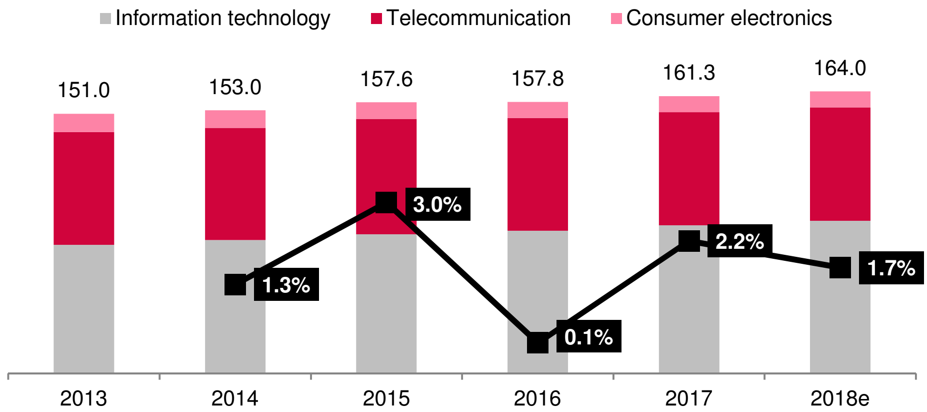


Source: euromicron AG; GBC AG

Market and Market Environment

The German market for information technology and telecommunications (ITC), including consumer electronics, developed very positively in 2017, increasing by 2.2% from €157.8 billion to €161.3 billion. This trend is expected to continue for 2018, with a further increase of 1.7% to €164.0 billion. With growth of 3.9% in 2017 and expected growth of 3.1% in 2018 from €86.2 billion to €88.8 billion, information technology is proving to be a decisive growth driver in the ITC market.

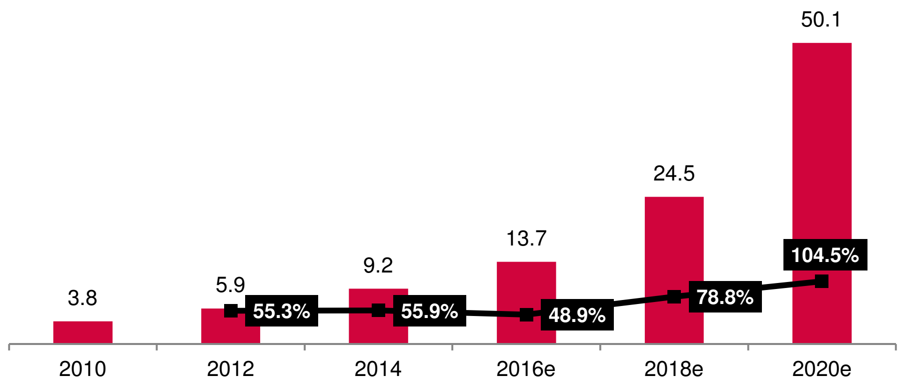
Development of the German ITC market incl. consumer electronics (in € billion)



Source: BITKOM; EITO; GBC AG

In addition to the IT services segment, the software segment was able to increase significantly in 2017, with growth of 6.3%. This strong development of sales with software and IT services expresses the progressive digitisation of the overall economy. Euromicron AG should be able to benefit increasingly from this trend in the future as the digitisation of companies, buildings and infrastructures will represent a key element of their business model.

Development of the German IoT market (in € billion)



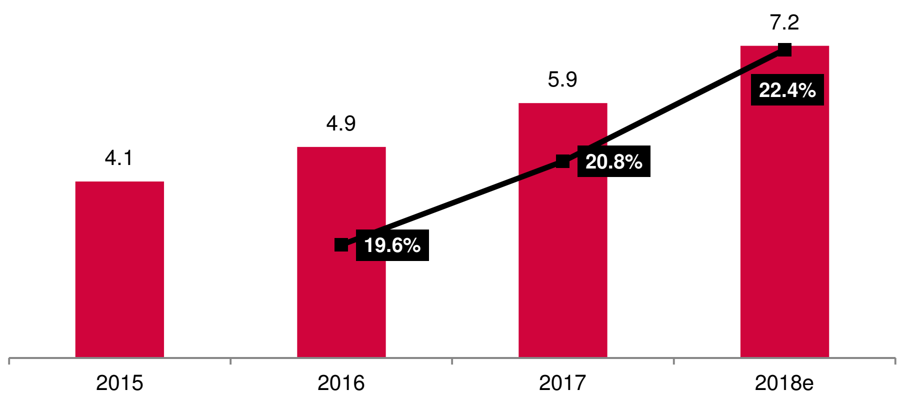
Source: TechNavio; Deloitte AG; GBC AG

The Internet of Things (IoT) will in particular play an important role in the years ahead, with euromicron AG also involved in a variety of areas here. Based on its core business, the company continues to develop innovative solutions and business models for the Internet of Things, thereby helping its customers with digitisation. While the IoT market in Germany is expected to have reached a volume of €13.7 billion in 2016, it is expected that by 2020, the volume will have increased by 265.7% to €50.1 billion. This reflects the significant growth potential of this market. Euromicron is already benefiting increasingly from IoT orders, especially in the Critical Infrastructures segment.

Industry in particular, according to researchers from Deloitte, is predicted to undergo a significant increase in value through the Internet of Things in the years ahead. With an estimated share of €10.09 billion in 2020 and the large number of potentially networkable devices, machines and control systems, the manufacturing sector represents the biggest growth driver in the B2B sector. Similar developments are expected for the transport and utilities sectors, with shares of €3.69 billion and €2.88 billion respectively, or the public sector with a share of €2.96 billion in 2020.

As a result of the digital transformation and the networking of companies' development, production and service processes, the German Industry 4.0 market is also increasingly important. Sales of Industry 4.0 solutions developed strongly in 2017, increasing by 20.8% from €4.9 billion to €5.9 billion. Even in the previous year, the German market recorded a rapid increase of 19.6% in this segment. This trend should be accelerated further, despite the high level achieved so far. For example, growth of 22.4% to €7.2 billion is expected for 2018.

Development of the German Industry 4.0 market (in € billion)



Source: BITKOM; Fraunhofer IAO; GBC AG

The German ITC market has developed very positively in recent years and has recorded almost continuous growth. The IoT and Industry 4.0 market, as parts of the ITC market, offer considerable growth potential despite their dynamic market development so far. Euromicron AG is focusing more on these particularly high-growth segments and should benefit from them increasingly.

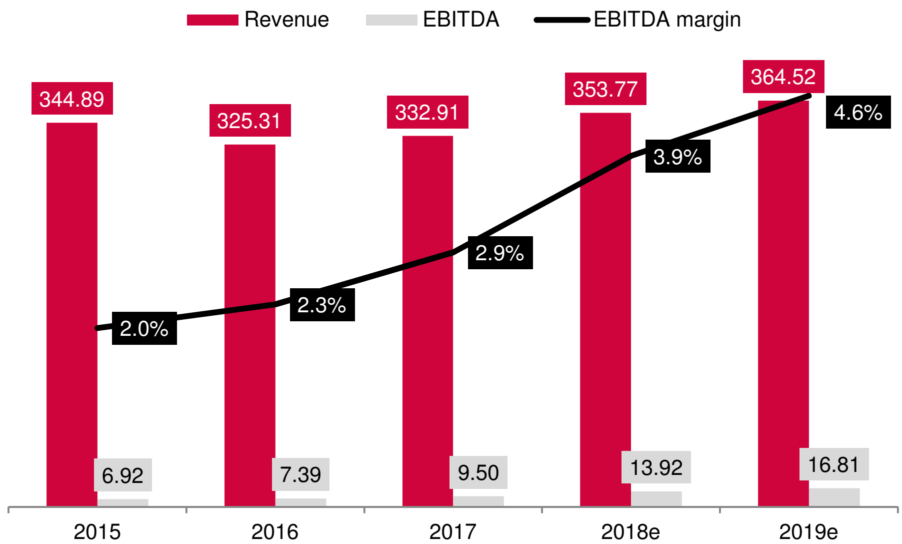
COMPANY PERFORMANCE & FORECAST

Overview of key figures

P&L (in € m)	FY 2016		FY 2017		FY 2018e		FY 2019e	
Revenues	**325.31**	**100.0%**	**332.91**	***100.0%***	**353.77**	***100.0%***	**364.52**	***100.0%***
Change in inventory	-0.86	-0.3%	-0.61	*-0.2%*	0.00	*0.0%*	0.00	*0.0%*
Own work capitalised	2.81	0.9%	3.39	*1.0%*	3.00	*0.8%*	3.00	*0.8%*
Other operating income	4.50	1.4%	2.19	*0.7%*	2.50	*0.7%*	2.50	*0.7%*
Cost of materials	-171.51	-52.7%	-172.43	*-51.8%*	-183.61	*-51.9%*	-187.73	*-51.5%*
Gross profit	**160,25**	**49.3%**	**165.44**	***49.7%***	**175.66**	***49.7%***	**182.29**	***50.0%***
Personnel expenses	-109.06	-33.5%	-112.55	*-33.9%*	-115.36	*-32.6%*	-117.09	*-32.1%*
Depreciation and amortization	-9.65	-3.0%	-8.41	*-2.5%*	-8.75	*-2.5%*	-8.75	*-2.4%*
Other operating income	-43.81	-13.5%	-43.39	*-13.0%*	-46.38	*-13.1%*	-48.39	*-13.3%*
EBIT	**-2.26**	**-0.7%**	**1.10**	***0.3%***	**5.17**	***1.5%***	**8.06**	***2.2%***
Financial result	-5.36	-1.6%	-4.65	*-1.4%*	-4.75	*-1.3%*	-4.75	*-1.3%*
EBT	**-7.62**	**-2.3%**	**-3.55**	***-1.1%***	**0.42**	***0.1%***	**3.31**	***0.9%***
Income taxes	-4.85	-1.5%	0.05	*0.0%*	-0.13	*0.0%*	-0.99	*-0.3%*
Net profit before minority interest	**-12.47**	**-3.8%**	**-3.51**	***-1.1%***	**0.30**	***0.1%***	**2.32**	***0.6%***
Minority interest	-0.19	-0.1%	-0.26	*-0.1%*	-0.25	*-0.1%*	-0.25	*-0.1%*
Net profit after minority interest	**-12.66**	**-3.9%**	***-3.77***	***-1.1%***	***0.05***	***0.0%***	***2.07***	***0.6%***

	FY 2016	FY 2017	FY 2018e	FY 2019e
EBITDA	7.39	9.50	13.92	16.81
in % of revenues	*2.3%*	*2.9%*	*3.9%*	*4.6%*
EBIT	-2.26	1.10	5.17	8.06
in % of revenues	*-0.7%*	*0.3%*	*1.5%*	*2.2%*
Earnings per share in €	-1.76	-0.53	0.01	0.29
Dividend per share in €	0.00	0.00	0.00	0.00
No. of shares outstanding	7.176	7.176	7.176	7.176

Development of revenue, EBITDA (€ m) and EBITDA margin (in %)



Source: euromicron AG; GBC AG

Business development FY 2017

P&L (in € m)	FY 2016	Delta Δ	FY 2017
Revenues	325.31	+2.3%	332.91
EBITDA (*margin*)	7.39 (*2.3%)*	+28.6%	9.50 (*2.9%)*
EBIT (*margin*)	-2.26 (*neg.)*	n.A.	1.10 (*0.3%.)*
Net profit	-12.66	n.A.	-3.77
EPS in €	-1.76	n.A.	-0.53

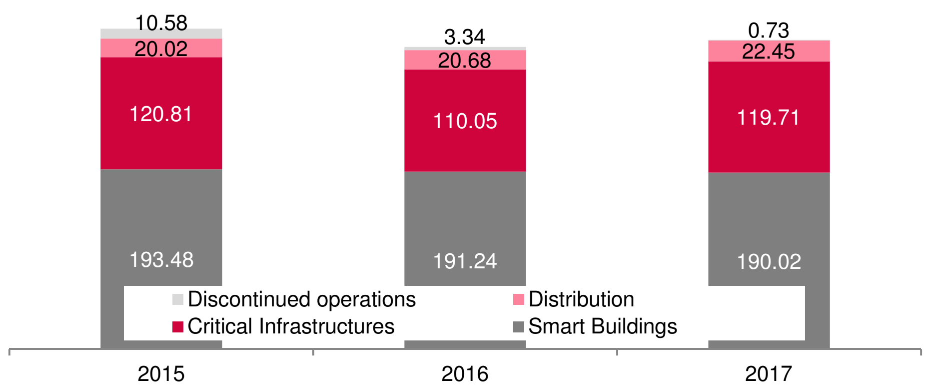
Source: euromicron AG; GBC AG

Revenue performance

In the 2017 financial year, euromicron AG initiated the transformation phase and has already achieved its first positive results. In this phase in particular, (operational) profitability should be increased and the IoT Group strategy should be implemented through investment (supplemented by M&A measures) in this area. The increased focus on the IoT market has already begun to bear fruit. Likewise, the technology companies were able to achieve initial successes with measures to increase their profitability. The operational restructuring was largely completed in 2017.

Overall, both the sales revenue and the operating result for the full year 2017 were thus increased and the company forecasts were met. Despite closures and divestments, sales revenue increased by 2.3% to €332.91 million (PY: €325.31 million) and the operating result (EBITDA) increased by 28.6% to €9.50 million (€325.31 million). The increase in consolidated revenue was largely driven by the positive sales performance of the Critical Infrastructures segment. Adjusted for the effects of the sale of the Telecommunications Division and the closure of RSR KG, revenues rose by 5.9% to €328.2 million (PY: €309.8 million) in the ongoing core business.

Development of external revenues by segments (in € m)



Source: euromicron AG; GBC AG

In the Smart Buildings segment, sales of €190.02 million were only €1.22 million or 0.6% below the previous year's level (€191.24 million). The main reason for this was the divested Telecommunications Division of euromicron Deutschland GmbH, the largest part of the segment. Adjusted for this effect, sales grew by 3.5%. In addition, project postponements at euromicron Deutschland GmbH and sales not yet invoiced in the Smart Building Solutions (MICROSENS) business segment had a negative impact on segment sales performance.

The second-largest segment (Critical Infrastructures) was able to increase its sales revenues significantly by 8.8% to €119.71 million compared to the previous year (PY: €110.05 million). This dynamic sales performance is due in particular to the positive sales performance of telent GmbH. In addition, the acquisition of KORAMIS GmbH also had a positive effect on segment sales (revenue contribution: €3.7 million).

The smallest segment (Distribution) also developed in a positive direction. It managed to increase sales revenues by 8.6% to €22.45 million compared to the previous year. The expansion of the product range in particular contributed to this positive sales performance. Here, management expectations were exceeded.

Overall, it can be concluded that the sales performance in FY 2017 was satisfactory. In addition, the strategic focus on IoT markets is increasingly reflected in the business figures. The rather subdued business performance of euromicron Deutschland GmbH counteracted an even more positive business performance.

Earnings performance

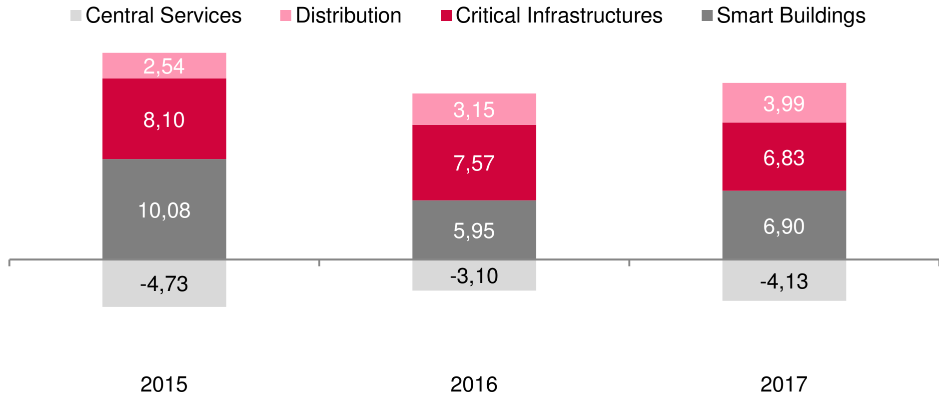
The successful process of transformation of euromicron AG and the increasing focus on the IoT growth market are also reflected in the development of earnings. Operating EBITDA (adjusted for reorganisation effects) increased slightly by €0.3 million to €13.50 million, whereupon it should be taken into account that in the previous year, the Company was affected by positive non-recurring effects (income from the reimbursement of legal costs and claims against former shareholders and senior bodies). Accordingly, operating EBITDA adjusted for one-off effects increased significantly by 29.8% to €13.50 million (PY: €10.40 million).

In the Smart Buildings segment, earnings were significantly impacted by euromicron Deutschland. In this subsegment, earnings improved compared to the previous year. There were also positive effects from the higher sales volume in the area of test systems and workplace solutions for the Industry 4.0 target market. Conversely, the lack of contribution margins resulted from lower sales of component shipments in international business. All in all, this led to a significant increase in the segment's operating EBITDA, which rose by 16.0% to €6.90 million (PY: €5.95 million).

The second largest segment, Critical Infrastructures, developed in the opposite direction. Despite the dynamic sales performance, the operating EBITDA did not increase due to one-off positive revenue (€1.10 million; recourse claims against former shareholders) in the previous year. The operating EBITDA therefore fell by 10.8% to €6.83 million (PY: €7.57 million). However, there was an increase by €0.30 million to €7.90 million on an adjusted basis.

The Distribution segment, on the other hand, performed well. Due to the positive sales performance in this business segment and the significantly improved gross profit margin of the product mix offered, compared to the previous year, operating EBITDA increased by 26.7% to €3.99 million (PY: €3.15 million).

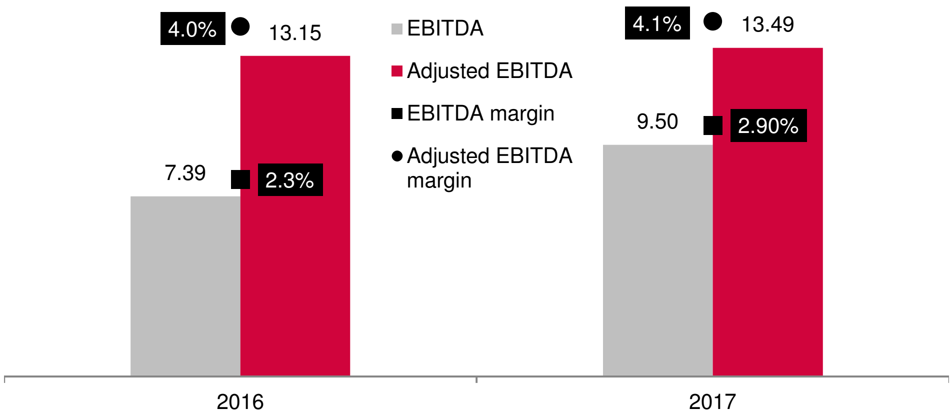
Development of operating EBITDA by segments (in € m)



Source: euromicron AG; GBC AG

The Central Services (Group management) segment developed in the opposite direction. The negative EBITDA subsequently increased by €1.03 million to €-4.13 million (PY: €-3.10 million). This was mainly due to the absence of one-off positive effects from the previous year (€1.7 million). In contrast, significant savings were achieved in the area of material and personnel costs.

Presentation of the adjusted EBITDA (in € m) and adjusted EBITDA margin (in %)



Source: euromicron AG; GBC AG

As in the previous year, the past financial year 2017 was also characterised by exceptional expenses in connection with the strategic realignment and the transformation that had been initiated. These were incurred in FY 2017, particularly for euromicron AG (Central Services) and euromicron Deutschland GmbH. The reorganisation costs resulted mainly from legal and financial consulting, court and process costs, costs for personnel measures and other consulting fees. In total, the exceptional expenses affecting EBITDA in the past financial year amounted to €4.1 million. Adjusted for these exceptional expenses, EBITDA in FY 2017 stood at €13.49 and was therefore 2.6% above the previous year's figure of €13.15 million.

Due to restructuring that was virtually complete, we anticipate there being a significantly lower impact on earnings amounting to €2.0 million for the current financial year.

Overall, the earnings performance of euromicron AG in the past financial year was satisfactory from the company's point of view, albeit below our earnings forecast. Significant revenue and earnings figures improved. In addition, an improvement in earnings was achieved for euromicron Deutschland GmbH and Group earnings were therefore credited. In addition, the longer lasting and far-reaching business development phase (reorganisation/transformation) had a negative impact on earnings; however, exceptional expenses for this decreased. It must be emphasised that, despite a moderate increase in sales, adjusted operating earnings (EBITDA) increased clearly disproportionately.

The measures enacted by management to increase profitability had an increasingly clearer impact on operating profit. Even though the reconstruction and further development of the Group and the associated impact on earnings are taking longer than originally expected, we consider the technology company to be on the "right track". The positive effects from the strategic repositioning are increasingly visible.

Balance sheet and financial situation

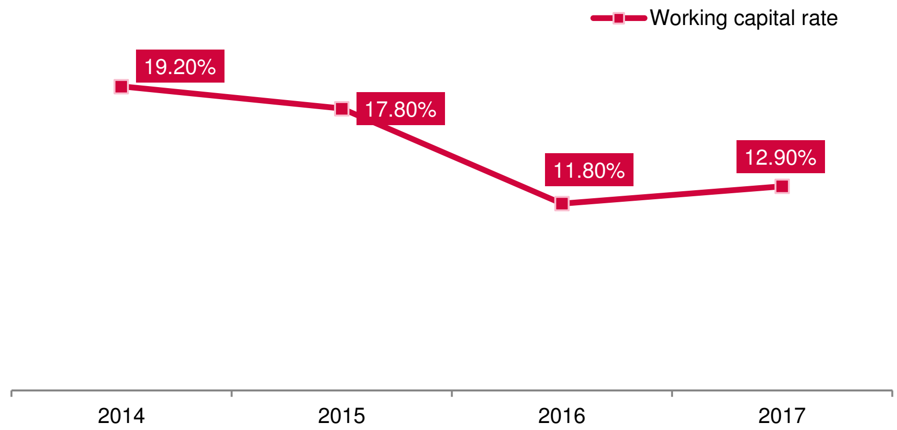
in € m	31/12/2015	31/12/2016	31/12/2017
Equity	97.04	82.36	78.54
Equity-ratio (in %)	*35.8%*	*33.7%*	*31.1%*
Interest bearing debt	66.50	77.81	92.21
Liquid assets	10.72	6.84	4.95
Net debt	55.78	70.97	87.26
Operating assets (incl. goodwill)	141.04	140.27	146.33
Net working capital	59.67	36.17	40.62

Source: euromicron AG; GBC AG

The general business performance, reorganisation measures and strategic measures were also reflected in the balance sheet. Equity decreased to €78.54 million due to the loss primarily caused by reorganisation measures as well as the strategic reconstruction of the Group. This also resulted in a decline in the equity ratio to 31.1%. Nevertheless, this is still a solid value.

Due to the current situation of the business which is still loss-making, as well as high investments to develop the Group further, bank liabilities rose by €14.4 million to €92.21 million. Net debt therefore currently amounts to €87.26 million.

Development of the working capital (in € m)



Source: Calculation GBC AG

As part of the strategic reorientation of euromicron AG, the focus over the last years has also been on optimising working capital (WC). The WC ratio (WC/sales) has fallen almost continuously over recent years and is currently achieving a value of 12.9%. The company is therefore already very close to its target of 10.0%.

Business development Q1 2018

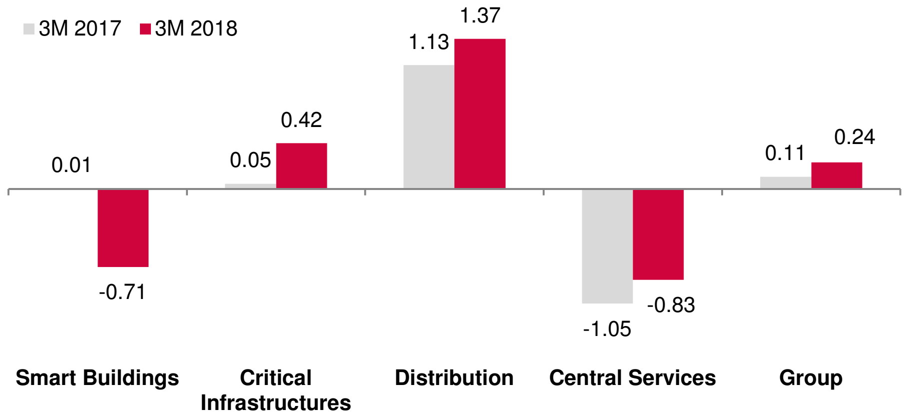
P&L (in € m)	Q1 2017	Delta	Q1 2018
Revenues	75.53	-0.6%	75.09
Operating EBITDA (margin)*	0.11 (0.1%)	118.2%	0.24 (0.3%)
Reported EBITDA (margin)	-0.80 (neg.)	k.A.	-1.03 (neg.)
EBIT (Marge)	-2.92 (neg.)	k.A.	-3.35 (neg.)
Net profit	-2.76	k.A.	-3.60
EPS in €	-0.39	k.A.	-0.50

*Source: euromicron AG; *adjusted for reorganization*

As expected, sales revenues in the first three months of 2018 declined slightly by €-0.44 million due to sold or discontinued business divisions (sales volume of €3.30 million). On an adjusted basis, however, an increase in sales of 3.8% was achieved in the ongoing core business. All segments achieved sales increases in this regard.

Operating earnings (operating EBITDA) also increased. Operating EBITDA increased from €0.11 million to €0.24 million. The earnings performance was supported in particular by the Critical Infrastructures and Distribution segments, which recorded significant profit growth. The largest business division, Smart Buildings, developed in the opposite direction with a decline in profit of €0.01 million to €-0.71 million. This was mainly caused by a lack of contribution margins resulting from revenue falling below the previous year's level, in particular in the high-margin business segment of plugs and made-to-measure plug connections.

Presentation of the operating EBITDA (in € m) by segment



Source: euromicron AG; GBC AG

With the publication of the Q1 2018 report, euromicron AG has left unchanged the company guidance published as part of the annual report 2017. The Executive Board looks to the current financial year with confidence and, as announced, plans to increase profitability in the future and continue to implement the IoT strategy consistently.

GBC AG Investment Research

SWOT analysis

Strengths	Weaknesses
• Leading IT company with a comprehensive network of branches in Germany • Distinguishing feature as a result of combining skills in system integration and technology solutions, as well as in the field of smart services • Crisis-resistant business model due to broad customer diversification • Strategic realignment and focus is already bearing fruit	• Comparatively high goodwill in the balance sheet, which accounts for around 40% of the total assets • A traditionally high contribution to profit in the fourth quarter led to high business seasonality • Relatively high net debt • Since FY 2012, significantly lower margin levels than in the previous years
Opportunities	**Risks**
• Strengthening of expertise in products and solutions could have a positive impact on the margin level • Better use of synergy effects between the subsidiaries could have a positive impact on the revenue and earnings situation • The market for smart buildings and critical infrastructures is expected to grow by around 20% each year until 2024 • The focus topic Internet of Things and Industry 4.0 are still at an early stage of development and market penetration. Enormous growth potential could arise from this • euromicron AG could obtain an improved strategic position in projects through a greater focus on products and therefore increase the margin level	• The pace of growth in the area of the Internet of Things could turn out to be slower than currently expected • Development in the field of the Internet of Things could take place in core areas other than those targeted by euromicron • euromicron AG could focus on products and solutions that will not be as accepted on the market as expected and therefore restrict the pace of growth • Leveraging synergies between the subsidiaries might not be as successful as planned and thus the pace of growth and the margin growth could slow down

Forecast and model assumptions

P&L (in € m)	FY 2017	FY 2018e	FY 2019e
Revenues	332.91	353.77	364.52
EBITDA (*margin*)	9.50 (*2.9%*)	13.92 (*3.9%*)	16.81 (*4.6%*)
EBIT (*margin*)	-1.10 (*0.3%*)	5.17 (*1.5%*)	8.06 (*2.2%*)
Net profit	-3.77	0.05	2.07
EPS in €	-0.53	0.01	0.29

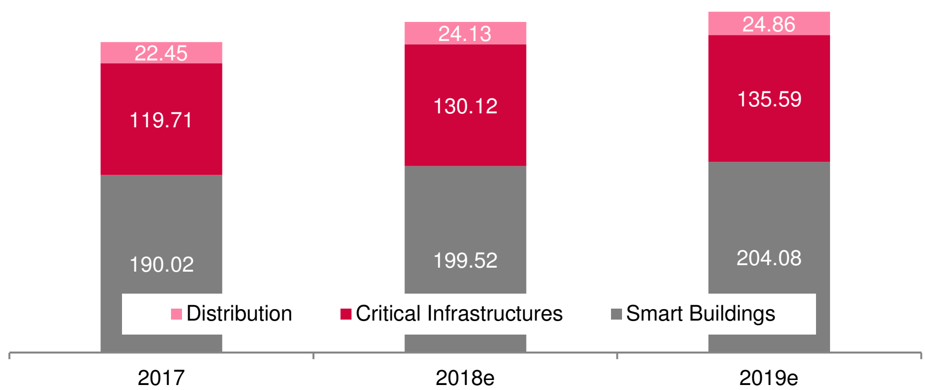
Source: GBC AG

Revenue forecasts

euromicron AG initiated the transformation phase in 2017. This includes, among other things, promoting profitable growth in revenue. We also assume that a solid foundation has been created as a result of the strategic measures implemented and the strengthened positioning on the “IoT”, “Industry 4.0” and “smart services” market trends to make it possible for the company to develop in a positive direction in the future. Against this backdrop, euromicron AG also anticipates an expansion of the previous volume of business for the current financial year. The company accordingly expects Group revenue for 2018 to be within the range of €340.0 to €360.0 million (PY: €332.91 million). The company thus expects a moderate increase in revenue.

For the financial year 2018, we expect sales amounting to €353.77 million, which would be approximately in the middle of the range forecast by the company. We assume that in FY 2018, the Critical Infrastructures business division in particular will grow very dynamically due to increasing product sales, market launches of proprietary products as well as higher sales revenues in foreign system house business. Specifically, we expect this segment to grow in revenue by 8.7% compared to the previous year to €130.12 million.

Expected development of revenue by segment (in € m)



Source: GBC AG

For the largest segment, Smart Buildings, we expect moderate growth in revenue of 5.0% to €199.52 million. This should be achieved as part of the general market development and the further expansion of the innovation business. We also calculated equally significant growth for the Distribution segment. For this area, we expect an increase in revenue of 7.5% to €24.13 million due to the improved product range.

For the following year 2019, we assume that the initiated course of growth will continue and expect a rise in revenue of 3.0% to €364.52 million. The technology company’s even stronger positioning in the “IoT” and “Industry 4.0” growth markets and the further expansion of the innovation business should contribute to achieving this objective.

Profit forecasts

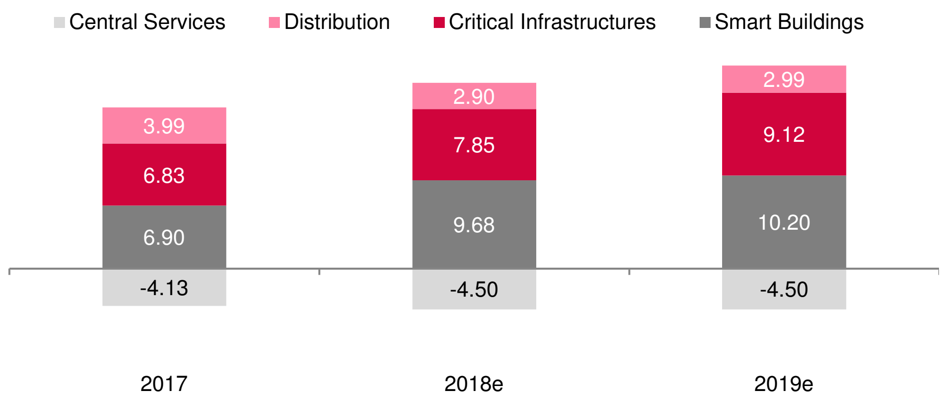
In light of the revenue forecast issued, for the current FY 2018, as in the previous year, euromicron AG expects an operating EBITDA margin within a range of 4.0% to 5.0%. In addition, exceptional costs, particularly in connection with legal and consulting fees as well as Group financing costs for euromicron AG, should amount to around €2.0 million. The technology company therefore expects a reported EBITDA margin between 3.4% and 4.4%.

We assume that the middle of the forecast range will be reached and that in FY 2018, an EBITDA of €13.92 million will be achieved, which equates to an EBITDA margin of 3.9%. On the basis of the expected reorganisation costs, an operating EBITDA of €15.92 million should be achieved, which corresponds to an adjusted EBITDA margin of 4.5%.

On a segment level, the Smart Buildings business area in particular should significantly contribute to a higher operating EBITDA. For this segment, we expect a significant increase in profit by 40.3% to €9.68 million. As already shown in the revenue forecast, this should be achieved as part of the general market development and further expansion of the innovation business. In this regard, we assume that in 2018, the impact on earnings due to reorganisation costs will amount to around €0.50 million. We accordingly calculate a reported EBITDA of €9.18 million in this segment.

In the Critical Infrastructures business area, we also expect a dynamic earnings performance, although not as marked as in the largest segment. Alongside the expected significant growth in revenue in this business segment due to a stronger product business, market launches of proprietary products as well as higher sales revenues in foreign system house business, we assume there will be an increase in profit by 14.9% to €7.85 million. For this area, we no longer expect reorganisation measures and therefore calculate a reported EBITDA at the same level.

Expected development of operating EBITDA by segment (in € m)



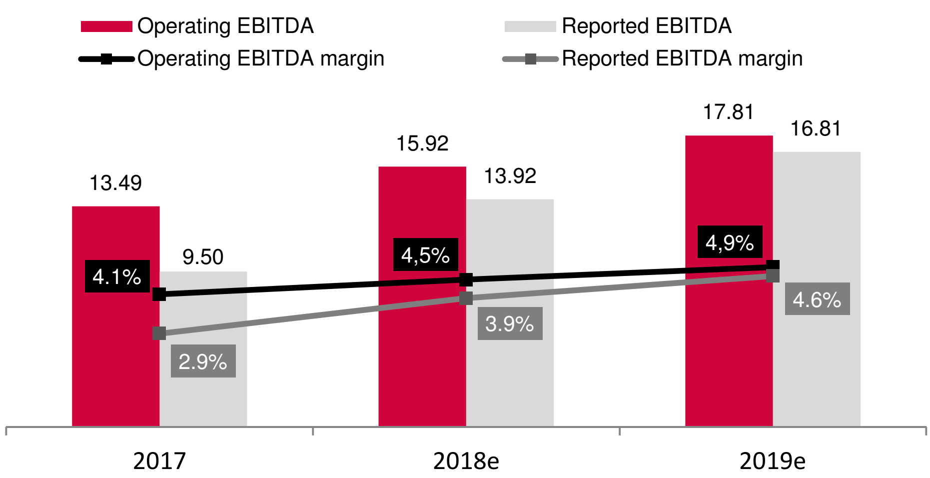
Source: GBC AG

We expect the opposite for the earnings performance for the Distribution segment, as we assume there will be a slight decline in the gross profit margin as well as additional costs for the further expansion of sales. As a result, we expect a decrease in EBITDA of around 27.0% to €2.90 million.

In the Central Services segment, exceptional expenses are once again expected as part of reorganisation measures amounting to €1.50 million. We therefore expect an overall operating EBITDA of €-4.50 million for this area in FY 2018.

In the subsequent financial year 2019, we expect significant earnings growth due to declining exceptional costs, measures introduced to increase profitability as well as the expanded and improved product and service programme.

Expected performance of reported and operating EBITDA (in € m)



Source: GBC AG

Overall, the financial indicators also reflect euromicron AG's successful reorientation. Based on the restructuring success so far and the still to be realised potential for efficiency increases and synergies between subsidiaries, we should be able to achieve significantly higher margins than before. Moreover, the company has already shown in the past that double-digit EBITDA margins are possible.

VALUATION

Model assumptions

The euromicron AG has been valued using a three-phase DCF model. Starting from the specific estimates for the financial years 2018 to 2019 in phase 1, in the second phase from 2020 to 2025 forecasts are performed under the assumptions of value drivers. In the process, we have assumed constant sales growth rates of 3.0%. As a target EBITDA-margin, we assumed a level of 6.0%. In phase 2 a tax rate of was 30.0% is applied. 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%.

Calculation of the cost of capital

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

The riskless interest rate is calculated based on the recommendations of the "Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW, and is derived from the yield curve of riskless bonds. The interest rates for zero bonds are based on the Svensson-method, published by the "Deutsche Bundesbank", and provide the basis for the calculation. Due to market fluctuations, we use smoothed average returns on a three-month basis, rounded to 0.25 basis points. **The current riskless interest rate in use amounts to 1.25%.**

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 currently a beta of 1.79 is applied.

Applying these assumptions we can calculate a cost of equity of 11.07% (beta multiplied by the risk premium, plus risk-free interest rate). As we assume a long-term weight of equity of 45.00%, the weighted average cost of capital (WACC) is 7.11%.

Valuation result

The discounting of future cash flows is based on the entity approach. In our calculation, the result for the corresponding weighted average cost of capital (WACC) is 7.11%. The resulting fair value per share at the end of the financial year 2019 corresponds to the stock price target of €11.45 (previously: €10.50). We have calculated the updated stock target price to the end of the financial year 2019 (previously 2018), which typically results in a technical target price increase (roll-over effect).

DCF model

euromicron AG - Discounted Cashflow (DCF) model

Value driver used in the DCF model´s estimate phase:

consistency - phase	
Revenue growth	3.0%
EBITDA margin	6.0%
Depreciation on fixed assets	6.0%
Working capital to revenue	10.0%

final - phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	4.1%
Effective tax rate in terminal value	30.0%

Three-phase DCF model:

phase	estimate		consistency						final
in € m	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e	TV
Revenue	353.77	364.52	375.60	387.02	398.79	410.91	423.40	436.27	
Revenue change	6.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Revenue to fixed assets	2.40	2.50	2.59	2.68	2.77	2.87	2.97	3.07	
EBITDA	13.92	16.81	22.58	23.27	23.97	24.70	25.45	26.23	
EBITDA margin	3.9%	4.6%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
EBITA	5.17	8.06	13.82	14.56	15.31	16.08	16.86	17.67	
EBITA margin	1.5%	2.2%	3.7%	3.8%	3.8%	3.9%	4.0%	4.1%	4.1%
Taxes on EBITA	-1.55	-2.42	-4.15	-4.37	-4.59	-4.82	-5.06	-5.30	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	3.62	5.64	9.68	10.19	10.71	11.25	11.80	12.37	
Return on Capital	1.9%	3.0%	5.3%	5.6%	5.8%	6.1%	6.4%	6.7%	6.9%
Working Capital (WC)	39.22	37.42	37.56	38.70	39.88	41.09	42.34	43.63	
WC to Revenue	11.1%	10.3%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investment in WC	1.40	1.80	-0.14	-1.14	-1.18	-1.21	-1.25	-1.29	
Operating fixed assets (OFA)	147.20	145.95	145.19	144.48	143.81	143.18	142.59	142.04	
Depreciation on OFA	-8.75	-8.75	-8.76	-8.71	-8.67	-8.63	-8.59	-8.56	
Depreciation to OFA	5.9%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
CAPEX	-9.62	-7.50	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Capital Employed	186.42	183.37	182.75	183.18	183.69	184.27	184.93	185.66	
EBITDA	13.92	16.81	22.58	23.27	23.97	24.70	25.45	26.23	
Taxes on EBITA	-1.55	-2.42	-4.15	-4.37	-4.59	-4.82	-5.06	-5.30	
Total Investment	-8.23	-5.70	-8.14	-9.14	-9.18	-9.21	-9.25	-9.29	
Investment in OFA	-9.62	-7.50	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Investment in WC	1.40	1.80	-0.14	-1.14	-1.18	-1.21	-1.25	-1.29	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	4.15	8.69	10.29	9.76	10.21	10.67	11.15	11.64	176.22

Value operating business (due date)	163.87	166.83
Net present value explicit FCF	54.93	50.14
Net present value Terminal Value	108.94	116.69
Net debt	87.86	83.92
Value of equity	76.01	82.91
Minority interests	-0.65	-0.71
Value of share capital	75.35	82.20
Shares outstanding in million	7.18	7.18
Fair value per share in EUR	10.50	11.45

Cost of Capital:

Risk free rate	1.3%
Market risk premium	5.5%
Beta	1.79
Cost of equity	11.1%
Target weight	45.0%
Cost of debt	5.0%
Target weight	55.0%
Taxshield	22.6%
WACC	**7.1%**

Return on Capital	WACC				
	6.5%	**6.8%**	**7.1%**	**7.4%**	**7.7%**
6.4%	12.28	10.95	9.78	8.74	7.82
6.6%	13.27	11.86	10.62	9.52	8.54
6.9%	14.25	12.76	11.45	10.30	9.27
7.1%	15.23	13.67	12.29	11.08	9.99
7.4%	16.21	14.57	13.13	11.85	10.72

ANNEX

I.
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2. The research report is simultaneously made available to all interested investment services companies.

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The analysts responsible for this analysis are:
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