mutares AG
Germany - Others

HAUCK & AUFHÄUSER
INSTITUTIONAL RESEARCH AG

Initiation

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Price:	EUR 81.00	**Next result:**	AGM 09.05.14
Bloomberg:	MUX GR	**Market cap:**	EUR 164.2 m
Reuters:	MUXG.BE	**Enterprise Value:**	EUR 140.2 m

mutares AG - Turning dimes into dollars

mutares is a hands-on turnaround investor with a dynamic BUY & opportunistic SELL strategy. As such mutares generates a return on investment through the cheap purchase of distressed companies, their operational turnaround and subsequent sale.

The company primarily focuses on corporate spin offs from large groups which enables it to buy distressed P&Ls but good balance sheets (good fixed assets, brand, customers, etc.) **at low and often negative purchase prices**. Its investment focus thus lies on companies with **sales of € 50-300m and a European footprint, preferably in engineering, retail or transportation**. Today mutares holds a well diversified portfolio of 10 companies with annualised sales of around € 750m.

The success of mutares' business model is underscored by the increase of net cash in the holding from € 0.3m in 2008 to € 25m in 2013E (holding has no debt), next to accumulated dividend payments of € 5m since mutares' inception in 2008.

Importantly, management is willing to pay out 40-80% of the net proceeds from successful exits to shareholders. On the back of mutares' recent exit from HIB in 2013 for around € 35m at a more than 5x EV/EBITDA multiple, **management intends to pay out a dividend of € 10 per share which currently implies a dividend yield of more than 10%.**

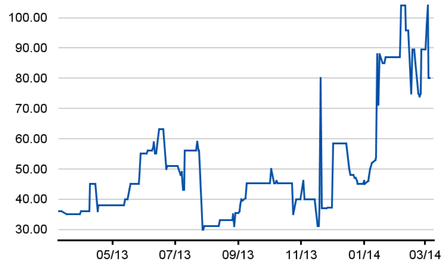
Looking at mutares today, **the company offers a highly attractive investment case** on the back of:

1. **Dynamic M&A activity: A well filled M&A pipeline and management's ambition to grow its portfolio to € 2bn in sales by 2018E** which should provide for dynamic sales growth of 42% p.a. on average (our model excl. M&A activity) and should thus **provide for positive newsflow**.
2. **Exits & dividends:** The exit from **2-4 successful turnaround companies in 2014/15E** which could come with significant cash proceeds (H&A: >50m) which management is willing to **share with shareholders through bonus dividends.**
3. **Capital markets:** Management which currently holds 85% of shares recently announced its intention to **significantly increase the shares' free float** (H&A: ~ 40% would be feasible) coupled with a **XETRA listing and an intensified capital market communication**.

Moreover, with a **fair market cap of € 380m, the stock looks significantly undervalued** and provides an attractive value opportunity for investors.

Y/E 31.12 (EUR m) *	2010	2011	2012	2013E	2014E	2015E	2016E
Sales	127.6	159.3	301.2	347.0	743.5	785.7	843.6
Sales growth	110 %	25 %	89 %	15 %	114 %	6 %	7 %
EBITDA	17.3	18.5	22.4	7.2	15.7	38.0	48.2
EBIT	10.9	12.6	14.1	-3.2	4.7	26.0	35.2
Net income	8.3	8.6	9.5	-6.0	3.5	21.4	27.7
Net debt	-14.3	-20.7	-39.5	-19.2	-65.9	-67.2	-82.0
Net gearing	-34.3 %	-39.7 %	-49.4 %	-33.1 %	-152.9 %	-220.1 %	-188.6 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS pro forma	4.09	4.25	4.69	-2.98	1.74	10.58	13.66
CPS	-1.96	-2.56	-6.12	-16.47	0.78	1.63	8.03
DPS	0.11	0.35	2.04	10.00	1.00	1.20	1.40
Dividend yield	0.1 %	0.4 %	2.5 %	12.3 %	1.2 %	1.5 %	1.7 %
Gross profit margin	50.2 %	55.0 %	54.0 %	41.9 %	50.0 %	53.0 %	53.5 %
EBITDA margin	13.6 %	11.6 %	7.4 %	2.1 %	2.1 %	4.8 %	5.7 %
EBIT margin	8.5 %	7.9 %	4.7 %	-0.9 %	0.6 %	3.3 %	4.2 %
ROCE	14.9 %	15.4 %	9.8 %	-1.8 %	2.6 %	14.4 %	18.8 %
EV/sales	1.3	1.0	0.5	0.4	0.1	0.1	0.1
EV/EBITDA	9.4	8.6	6.3	20.5	6.4	2.6	1.8
EV/EBIT	15.0	12.5	10.0	-45.4	21.4	3.8	2.4
PER	19.8	19.0	17.3	-27.2	46.5	7.7	5.9
Adjusted FCF yield	6.6 %	7.7 %	9.0 %	-2.3 %	3.6 %	16.1 %	23.0 %

Source: Company data, Hauck & Aufhäuser Close price as of: 24.03.2014 *planning excl. M&A
* until 2011/12: 1.4.-31.3.; 2012: 1.4.-31.12.; from 2013: calendar year



Source: Company data, Hauck & Aufhäuser

High/low 52 weeks:	104.00 / 30.00
Price/Book Ratio:	2.0
Relative performance (SDAX):	
3 months	32.4 %
6 months	66.1 %
12 months	102.4 %

Changes in estimates

		Sales	EBIT	EPS
2013	old:	347.0	-3.2	-2.98
	Δ	-	-	-
2014	old:	743.5	4.7	1.74
	Δ	-	-	-
2015	old:	785.7	26.0	10.58
	Δ	-	-	-

Key share data:

Number of shares: (in m pcs)	2.0
Authorised capital: (in € m)	0.3
Book value per share: (in €)	39.4
Ø trading volume: (12 months)	-

Major shareholders:

Founders	85.0 %
Free Float	15.0 %

Company description:
mutares AG is a turnaround investor focussed on generating a return on its investment through the purchase of underperforming corporate spin offs, their operational turnaround and subsequent sale.

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Executive Summary

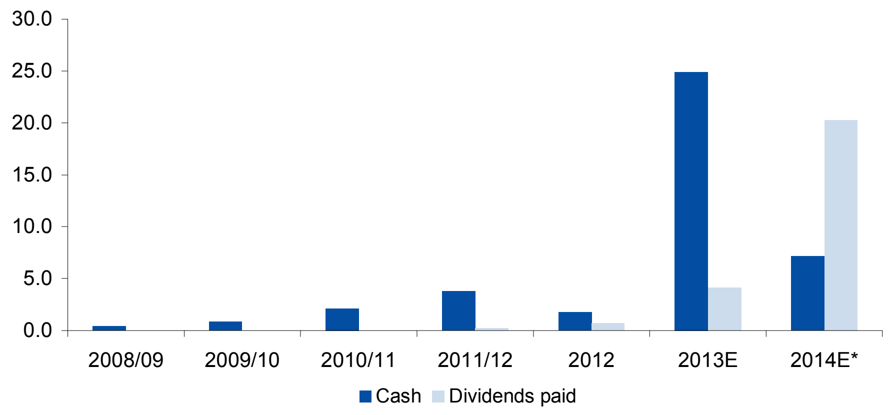
mutares is a hands-on private equity firm with a dedicated Buy & opportunistic Sell strategy combined with a strong operational turnaround ability, primarily focussed on generating a return on its investments through:

- The cheap purchase of distressed assets,
- Their operational turnaround, resulting in fees & dividends, and
- The subsequent sale at a multiple of the investment.

It therefore is closely comparable to more well known peers such as Aurelius and Melrose which operate a similar transaction based business model.

Founded and listed in 2008, the company today has a portfolio of 10 companies with annualised sales of around € 750m and boasts an impressive track record of over 20 transactions. This is reflected in the strong build-up of net cash in the holding from € 0.3m in 2008 to € 25m in 2013E as well as accumulated dividend payments of € 5m (holding is debt free).

Cash balance of the holding & dividend payments



*Source: Company data; Hauck & Aufhäuser * proposed dividend 2013: € 20m or € 10 per share*

Backbone of this successful development essentially is:

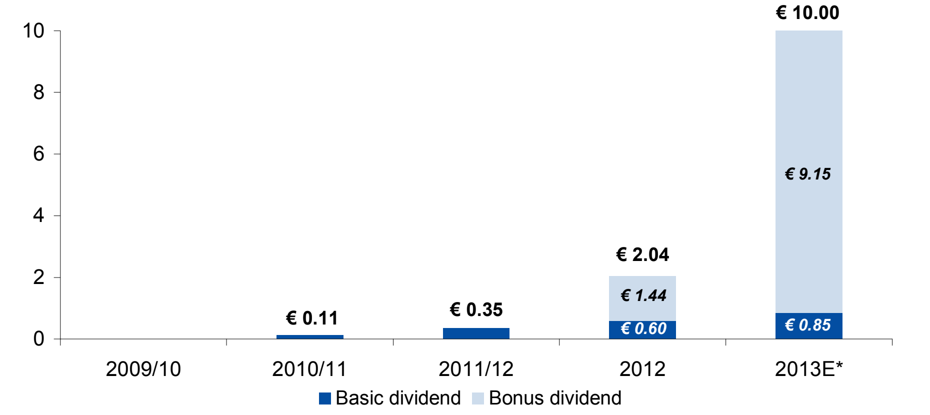
- Management's very strong operational background in multiple executive positions in engineering, retail & transportation as well as their extensive M&A experience.
- A sound reputation as a reliable and responsible partner with a solid track record of successful operational turnarounds.
- Ample financial flexibility of € 25m net cash in the holding which allows management to take advantage of buying opportunities but also serves as a reputational sign towards potential sellers.

Recent case study: One major example for the success of mutares' business model is its most recent exit from HIB Trim Part Solutions (HIB) which was bought only in 2010, posting a € 17m EBITDA loss (in FY 2009) and was sold as late as 2013 for estimated net proceeds of more than € 35m (H&A) at an EBITDA of € 10m.

Considering that mutares did not spend any money on the acquisition of HIB and received a significant negative purchase price in the low double digit range (H&A: ~€ 15m), the return on investment is impressive. This was possible on the back of a well negotiated purchase price, a highly experienced turnaround management as well as the sale to a strategic buyer at an EV/EBITDA multiple of more than 5x.

Dividend policy: Management traditionally pays a base dividend which it seeks to sustainably increase. Importantly however, it is willing to share the cash proceeds from successful exits with investors through bonus dividends of 40-80% of the net proceeds. On the back of the recent exit from HIB, we therefore expect a total dividend payout of more than € 20m or € 10 per share in 2014E.

Dividends per share



*Source: Company data; Hauck & Aufhäuser   *proposed dividend for 2013E, paid in 2014E*

Divestment cycle is in investors' favour

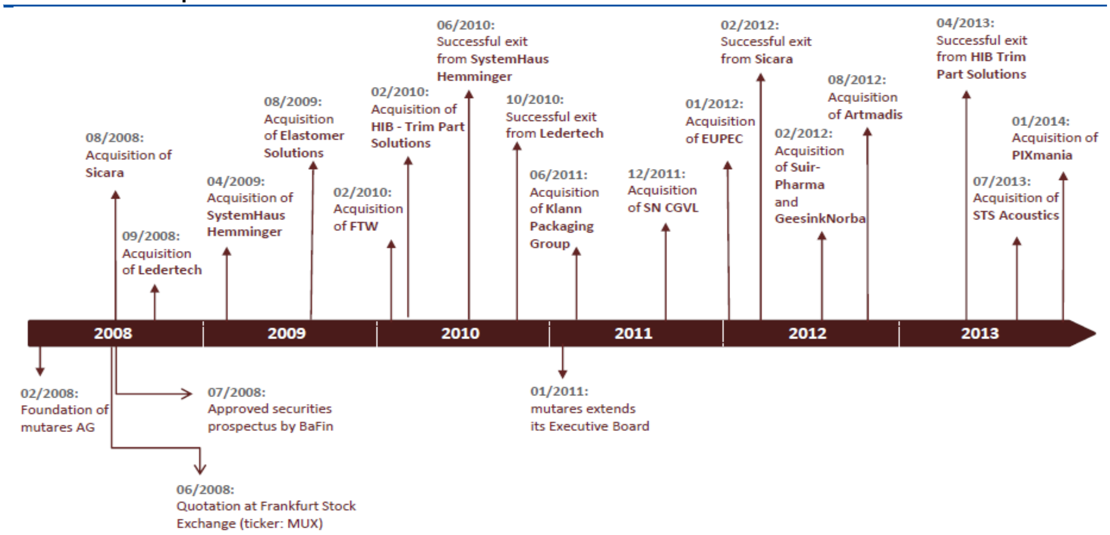
Considering mutares' attractive and relatively mature portfolio, we expect at least 2-4 value accretive divestments in 2014&15E. In our view this should provide positive sentiment as:

- Shareholders should benefit from bonus dividends, and
- Exit proceeds increase the buying power of the holding.

In addition, management has the clear ambition to grow its business to 10-15 larger portfolio companies with sales between € 100-300m in order to better leverage its management capacity. This would imply a portfolio of at least € 2bn in sales by 2018E, in our view.

The recent acquisition of online retailer Pixmania with around € 300m in sales is a further milestone in achieving this goal. Additional investments in the areas of engineering and transportation are planned. Newsflow around mutares should hence remain positive as further acquisitions look set to secure the base for future value creation.

Historical development

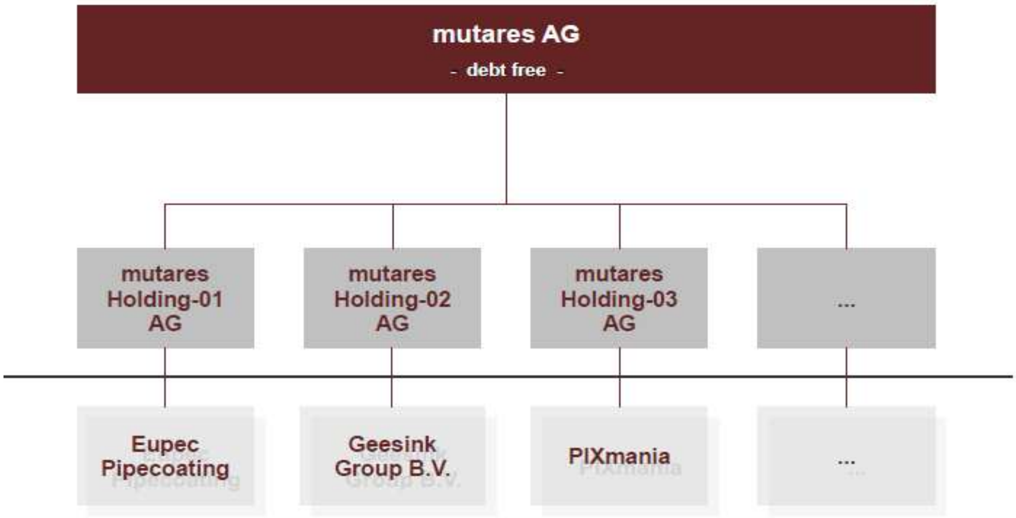


Source: Company data; Hauck & Aufhäuser

Most importantly, the risk related to existing and future transactions looks limited due to the fact that:

- The mutares holding is legally shielded from its portfolio companies as it buys them via intermediary limited liability companies, which limits the financial risk to the invested capital (purchase price & potential equity injections).
- Only limited guarantees or securities are granted by the holding vis-à-vis its portfolio companies.
- mutares usually pays very low and often negative purchase prices (receives positive cash balance) and collects dividends & fees from more mature portfolio firms.

Legal structure



Source: Company data; Hauck & Aufhäuser

In addition, interests between shareholders and management look well aligned also going forward, as management intends to remain the majority shareholder (currently holds 85% of shares) also after its recently announced intention to significantly increase mutares' free float.

Investment Strategy

mutares' investment strategy focuses on buying distressed assets with the potential for operational turnaround. Doing that, a low purchase price is one of the key success factors as it not only limits the financial risk to the holding but also allows for much higher returns on investment.

90% of mutares' transactions therefore are corporate spin offs from larger groups which seek to dispose unloved assets in a silent and professional manner. This essentially allows mutares to buy companies with:

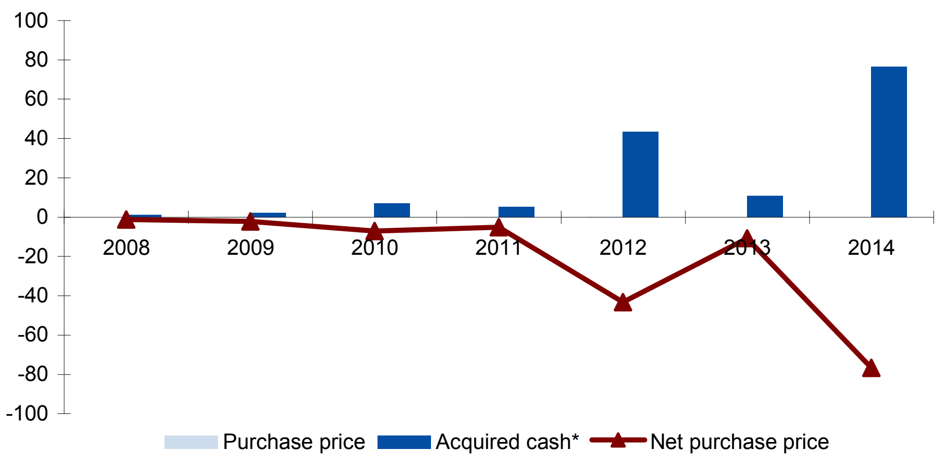
- Distressed P&Ls, but
- Good balance sheets with sound fixed assets & a high w/c,
- Bearing a significant operational improvement potential,
- At a low purchase price & often even a positive cash balance.

Investment criteria

Source: Company data; Hauck & Aufhäuser

In fact, mutares is usually able to achieve very low and often negative purchase prices. Since its inception, mutares even received accumulated cash of around € 140m for a portfolio of € 750m in annualised sales while already collecting more than € 35m through successful exits alone (not including dividends and fees from portfolio firms).

Historical acquisition prices (est.)*



*Source: Company data; Hauck & Aufhäuser   * Acquired cash = cash at closing*

In addition to the potential for operational turnaround, investment criteria for mutares are:

- Companies with revenues between € 50-300m and a European footprint.
- Good fixed assets & high working capital which leaves room for quick liquidity improvements.
- No specific industry focus but understandable business model (no biotech, etc.), preferably in the three clusters of engineering, retail & transportation.

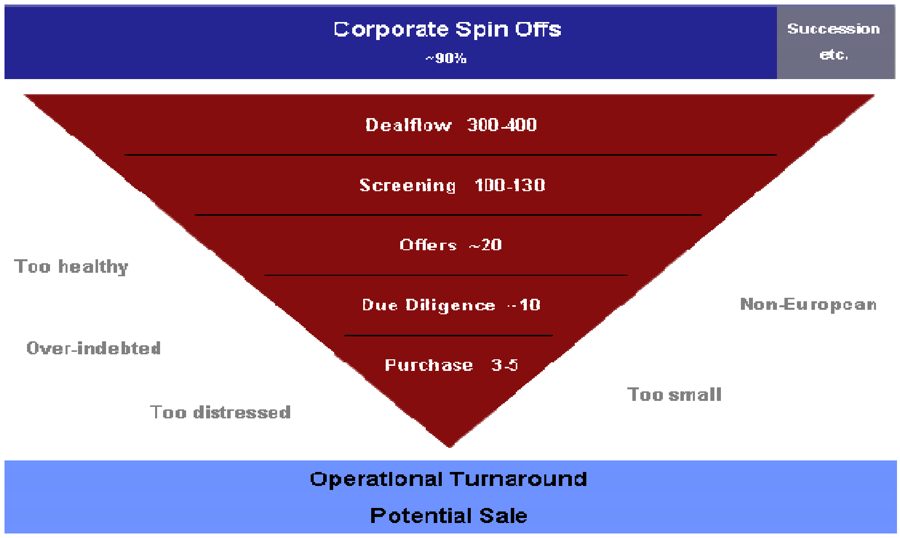
For mutares it is therefore important to buy companies which at some stage in the past have shown their ability to generate positive cash flows and which generally have a good brand, customer base and product.

mutares thus has not engaged in any acquisitions only for the sake of increasing their brand awareness but has exclusively focused on realistic turnaround cases along these investment criteria.

On the back of a maturing track record and organisation, growth looks set to be primarily driven by larger acquisition targets going forward. mutares thus moves from historic acquisitions in the range of € 20-100m in sales to targets with revenues of € 100-300m on average, in order to focus management attention more effectively on 10-15 larger portfolio firms. In our view therefore, we expect the company to grow to at least € 2bn in sales by 2018E.

In order to generate this deal flow, mutares has a committed M&A team of up to ten people which screen between 300-400 potential targets per year. After a closer examination of 100-130 potential targets, around 20 offers are made of which approximately 10 enter a deeper due diligence. Eventually, 3-5 acquisitions are executed per year.

M&A pipeline



Source: Company data; Hauck & Aufhäuser

In a similar vein, mutares follows an opportunistic exit strategy. After 2-4 years, successful turnaround companies usually become interesting takeover targets, preferably for a strategic buyer. The exit process is then coordinated by the holding and implemented by the portfolio firms themselves.

As mutares targets exit multiples of at least 4-10x EV/EBITDA, divestments always follow a structured process which invites several potential buyers in order to support price competition. mutares' advantage is that it has the flexibility to time the exit in order to achieve the best possible price in a divestment.

Restructuring Strategy

After a successful takeover, the acquired company immediately enters a comprehensive restructuring process which takes approximately 9-18 months. During this process, the company is repositioned on the levels of:

1. **Strategy** - to set up the foundations for sustained growth & profitability,
2. **Operational excellence -** to optimise the cost structure and operational setup, and
3. **Financing** - to restructure the balance sheet through an optimised financing structure

Portfolio companies however are usually kept for another 1-2 years to consolidate the newly implemented structures and to develop their full operational potential.

Pillars of the restructuring

Strategy	Operational Excellence	Financing
• *Growth strategy* • *Diversification & internationalisation* • *Innovation and R&D* • *Corporate structure, HR, etc.*	• *Sales & Marketing* • *Procurement & Supply Chain* • *Production & Product* • *Organisation (IT, etc.)* • *Finances, etc.*	• *Liquidity management* • *Negotiation with stakeholders (e.g. banks)* • *External financing* • *Equity investments*
12 - 24 months	*Up to 18 months*	*6 - 12 months*

Source: Company data; Hauck & Aufhäuser

1. Strategy: In order to ensure a successful turnaround, a strategic framework is formulated which is targeted at establishing and maintaining long term profitable growth.

Starting with a thorough analysis of the company's situation, the strategic realignment moves along the following axes:

- **Diversification:** Definition of new target customer groups and analysis of further growth and penetration potentials.
- **Internationalisation:** Internationalisation of operations in order to tap new geographic markets.
- **Innovation:** Realignment of the product portfolio through innovation targets & R&D efforts.

At that stage a portfolio manager is put in place who carries the primary responsibility for the strategic repositioning, the operational turnaround of the company and eventually the exit from it. Moreover, he serves as a bridgehead between the mutares holding and the portfolio firm.

To ensure converging interests, interim managers have a large share of variable compensation. Incentives usually are based on the operational performance of the firm through a participation in the dividends to the holding as well as the exit multiple through a share in the divestment proceeds.

2. Operational Excellence: Establishing operational excellence within formerly unloved/peripheral corporate assets is a key success factor for the operational turnaround.

mutares' aim thus is to optimise short-term liquidity, to sustainably improve operational processes and to create independent hands-on structures within its portfolio firms.

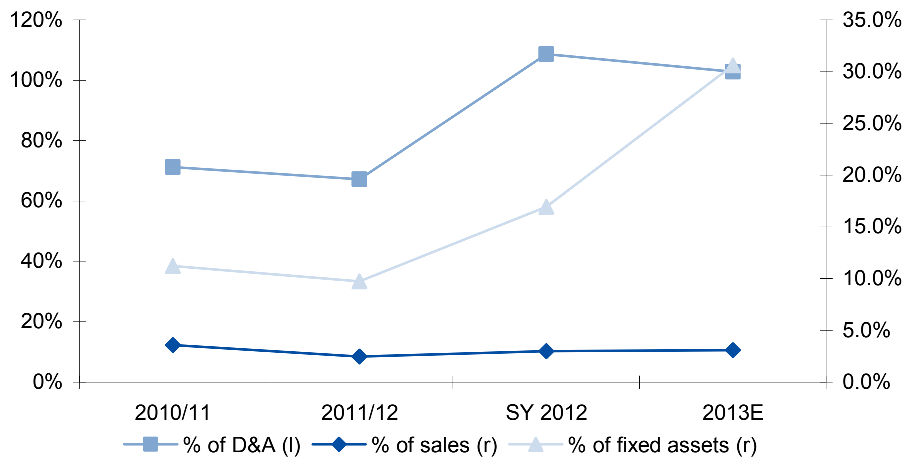
A functional task force of up to 35 specialists therefore is employed with know-how in all major fields of business assisting the responsible manager in devising and implementing concrete repositioning measures in their respective field of expertise.

Typical measures to reposition a new portfolio company on the operating level include:

- **Sales & Marketing:** Development and implementation of new sales & marketing strategies and channels.
- **Supply Chain:** Revision of the supply chain & build-up of new procurement channels.
- **Organisation:** Streamlining of corporate structure & improvement of internal processes (IT, etc.).
- **Product & Production:** Reorganisation of production processes & streamlining of product portfolio.
- **Finances & liquidity management:** Restructuring of the company's working capital structure as well as corporate financing.

Despite the extensive focus on cost structure optimisation, mutares is indeed willing to invest into its portfolio firms to support the operational turnaround. In most cases mutares is able to utilise the negative purchase prices it is able to achieve. This is evidenced by relatively high capex across the portfolio (€ 11m in 2013E) which fluctuated between 10-30% of fixed assets and between 60-100% of D&A.

Capex spent between 2010/11 - 2013E



Source: Company data; Hauck & Aufhäuser

3. Financing: In the turnaround process, restructuring the balance sheet is often crucial. mutares hence assists its portfolio companies in doing that through:

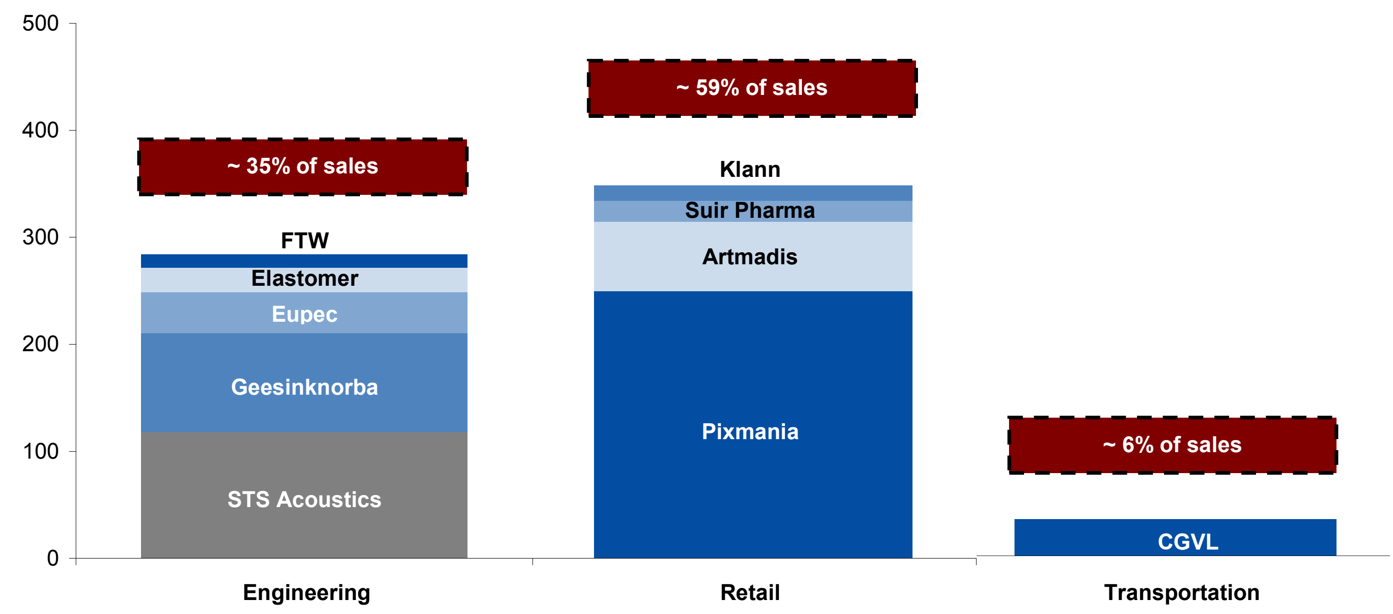
- **Stakeholder management:** Personally presenting/negotiating the turnaround plan with all stakeholders involved from banks, suppliers, customers (w/c), etc. to ensure common action/goal.
- **Access:** Its know-how and network in establishing optimal financing structures ranging from external financing to factoring agreements.
- **Know-how:** Implementing stringent liquidity control mechanisms/processes as well as reporting structures.

Growth

In line with management's strong operational background in engineering, retail and transportation, mutares today has a relatively mature portfolio of 10 companies with annualised sales of approximately € 750m which are grouped into the three clusters:

1. **Engineering** - currently with a focus on the oil & gas, waste and automotive industries, accounting for around 35% of annualised sales.
2. **Retail** - concentrating on e-commerce as well as kitchenware retail, making up 59% of annualised sales.
3. **Transportation** - currently hosting a truck rental company, accounting for approximately 6% of annualised sales.

Annualised sales split by company in € m (est.)



Source: Company data; Hauck & Aufhäuser

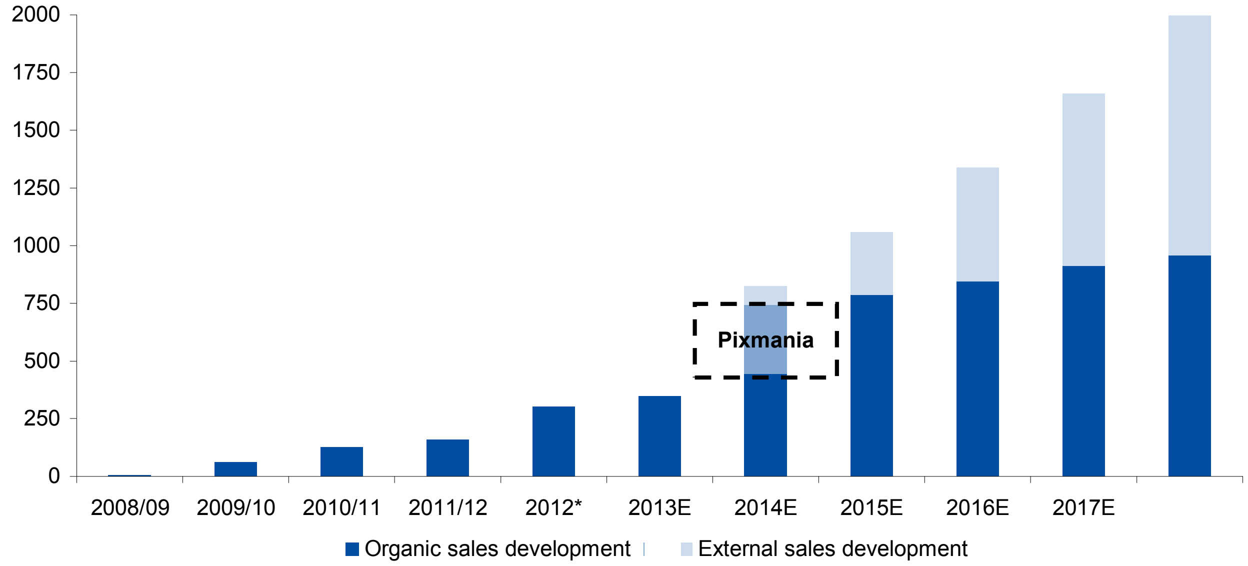
Top & bottom-line performance

Given management's aim to significantly grow its portfolio to 10-15 portfolio companies with average sales volumes of € 100-300m, we expect the company to grow its business to at least € 2bn in sales by 2018E. M&A activity hence looks set to continue dynamically and future investments will thus not strictly be limited to these clusters.

This suggests sales growth of 42% p.a. which looks set to be largely driven by external growth. Our model however reflects only the company's organic growth potential and does not factor in any M&A activity.

The recent acquisition of online retailer Pixmania in January 2014 with an estimated sales contribution of around € 300m has been a large step towards management's growth target.

Sales development 2008/09 - 2018E



*Source: Company data; Hauck & Aufhäuser   * stub year: 1.4.-31.12.*

In 2014E, we therefore expect sales growth of 114% yoy to € 744m which should be primarily driven by the FY consolidation of Pixmania as well as STS Acoustics (H&A: 5 months adding c. € 75m). Overall organic growth should thus amount to around 4% yoy. For 2015E, we expect organic growth of 6% yoy to € 786m while for 2016E sales look set to increase by 7% yoy to € 844m. As increasing sales growth is part of any restructuring plan, this should be primarily driven by:

- Scaling up sales at recently acquired online retailer Pixmania (c. 43% of sales, 72% of Retail) which looks set to benefit from strong e-commerce market growth rates of up to 15% p.a. and the optimisation of its sales structures.
- Sound sales growth at waste truck specialist GeesinkNorba (c. 12% of sales, 35% of Engineering) driven by its further internationalisation and a sound market recovery in Europe.
- The turnaround of automotive supplier STS Accoustics (17% of sales, 48% of Engineering) driven by the further penetration of existing customers, geographic diversification & a strong sales focus on acquiring new clients.

Sales development (€ m)	2011/12	2012*	2013E	2014E	2015E	2016E
Engineering	**117.4**	**201.3**	**186.1**	**283.8**	**301.4**	**320.7**
yoy	*-32.4%*	*71.4%*	*-7.5%*	*52.5%*	*6.2%*	*6.4%*
Retail	**30.0**	**70.9**	**119.2**	**418.4**	**442.6**	**480.8**
yoy	*-69%*	*135.9%*	*68.2%*	*251.1%*	*5.8%*	*8.6%*
Transportation	**10.7**	**29.2**	**41.7**	**41.3**	**41.7**	**42.2**
yoy	*-86%*	*172.0%*	*43.0%*	*-0.9%*	*1.0%*	*1.0%*
Total sales	**158.1**	**301.3**	**347.0**	**743.5**	**785.7**	**843.6**
yoy	*-54.7%*	*90.5%*	*15.2%*	*114.3%*	*5.7%*	*7.4%*

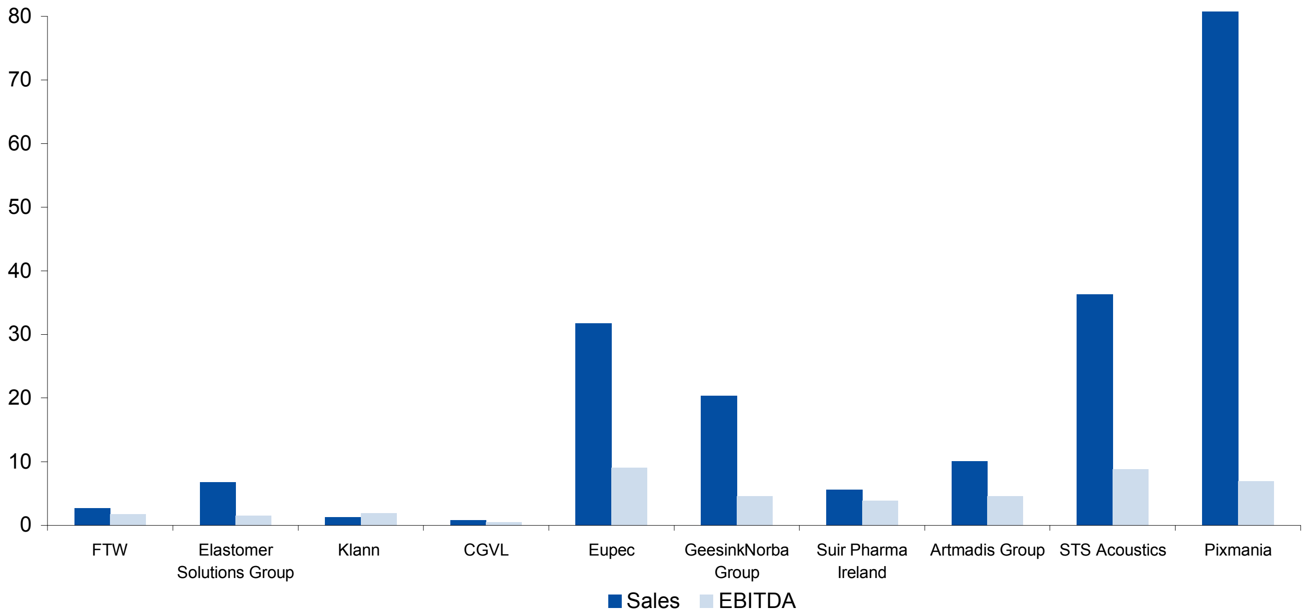
*Source: company data, Hauck & Aufhäuser   * stub year: 1.4. - 31.12.12*

Note: Historic figures are not directly comparable due to extensive M&A activity in the past as well as the stub year (only 9 months) in 2012.

In terms of profitability, we expect operating EBITDA to organically grow at a CAGR of 89% until 2016E, implying an EBITDA improvement of € 41m from € 7m in 2013E to € 48m in 2016E (assuming no M&A activity). This looks set to be driven by:

- The active restructuring of the newly acquired companies Pixmania & STS Accoustics, providing estimated profitability improvements of € 17m.
- The further fine-tuning and strategic realignment of GeesinkNorba and Eupec as well as several other companies, providing for around € 17m in cost savings.
- Operating leverage on the improved costs structures which should be supported by sound top-line growth and an improving macro-economic outlook.

Expected sales & EBITDA improvements between 2013-2016E



Source: Company data; Hauck & Aufhäuser

The major reasons for the temporarily lower EBITDA in 2013E were:

- The consolidation of STS Acoustics (still negative EBITDA),
- The sale of HIB which was very profitable (H&A: ~ € 7m EBITDA in 2012), and
- A € 6m negative POC effect at Eupec which will book the profits for several projects started in 2013 only upon completion in 2014E (this explains c. half of the expected profitability improvements at Eupec).

EBITDA development (€ m)*	2011/12	2012**	2013E	2014E	2015E	2016E
Engineering	**14.7**	**17.3**	**7.0**	**25.0**	**24.9**	**30.1**
margin	*12.5%*	*8.6%*	*3.8%*	*8.8%*	*8.3%*	*9.4%*
Retail	**3.6**	**3.9**	**-1.2**	**-10.7**	**11.4**	**16.2**
margin	*12.0%*	*5.5%*	*-1.0%*	*-2.6%*	*2.6%*	*3.4%*
Transportation	**0.2**	**1.2**	**1.4**	**1.4**	**1.7**	**1.9**
margin	*2.1%*	*4.1%*	*3.3%*	*3.5%*	*4.0%*	*4.5%*
Total EBITDA	**18.5**	**22.4**	**7.2**	**15.7**	**38.0**	**48.2**
margin	*11.7%*	*7.4%*	*2.1%*	*2.1%*	*4.8%*	*5.7%*

*Source: company data, Hauck & Aufhäuser * adj. for bargain purchase & restructuring ** stub year: 1.4.-31.12.*

Importantly, looking at mutares' attractive and relatively mature portfolio, several exits over the next two years are very likely in our view which should be highly beneficial for shareholders given management's willingness to cash-out 40-80% of the cash proceeds as bonus dividends.

The key value drivers of today's portfolio in our view are:

1. Waste collection truck producer GeesinkNorba,
2. Oil & gas pipeline company Eupec, as well as
3. Automotive supplier STS Accoustics.

In addition, the recent acquisition of online retailer Pixmania provides for a significant sales & EBITDA improvement potential going forward.

Value drivers provide for significant upside potential

1. GeesinkNorba is Europe's leading producer of waste collection trucks, generating sales of approximately € 86m and an estimated EBITDA of € 5m in 2013E (vs - € 7m EBITDA in 2011).

Located in the Netherlands, GeesinkNorba today has a 30% market share in a structurally growing niche market and is able to differentiate itself from peers through:

- A very strong technological platform with a clear focus on total cost of ownership, allowing for sound cost savings for customers,
- A ubiquitous sales & service footprint across Europe which is a unique selling proposition for large key accounts (e.g. Veolia), and
- Cost leadership through its international supply chain setup with concentrated component production in Eastern Europe.

Given its sound competitive positioning, the company is particularly strong in the UK, the Benelux, the Nordics, France and increasingly Eastern Europe while also increasing its sales focus on Germany. Key products are advanced refuse collection vehicle bodies, bin-lifting equipment as well as compactors.

Key success factors for the turnaround after the takeover from private equity firm Platinum in February 2012 (changed focus away from waste market) with a negative EBITDA of - € 6m in 2011 were:

- The streamlining of the production setup from formerly five to two locations while outsourcing labour intensive component production to Eastern Europe,
- The reorganisation of the procurement as well as the re-negotiation of purchasing conditions,
- Reengineering of the product to save material costs and reduce complexity.

On the back of the further fine-tuning of the measures taken in the past two years and a strong sales focus on internationalising the business, we expect GeesinkNorba to continue to grow its sales dynamically by 6-8% p.a. going forward. In addition, as restructuring measures are fading out and supported by sound economies of scale on a more efficient setup, EBITDA looks set to increase notably to € 9m by 2016E.

Considering GeesinkNorba's sound competitive position and attractive operational turnaround, we expect the company to be an ideal takeover target for a foreign investor seeking to acquire specific know-how in a structurally important industry or a competitor seeking to increase its geographic presence. Moreover, mutares already received several interest notices particularly from emerging markets which face an increasing need for waste infrastructure going forward.

We therefore consider an exit in 2014/15E a likely option which in our view could come at an exit multiple of 6-10x EV/EBITDA.

2. Eupec is the European market leader for coatings of oil, gas and water pipelines and hence operates in a very attractive niche market which is characterised by sound structural growth drivers such as an increasing need for energy & water.

The company was acquired in January 2012 from the Indonesian Korindo Group and is located in France. Today it generates sales of around € 55m with an estimated EBITDA of € 3m (adjusted for POC effects; 2011 around - € 11m EBITDA). Its competitive quality is essentially rooted in:

- Its specialty know-how in terms of surface treatment guaranteeing superior product quality & durability in a safety sensitive area of application,
- Its unique service availability through local service teams at project locations,
- A strong track record with major reference projects across the globe. Eupec for instance was the exclusive supplier of all concrete weight coatings for the pipelines of the Nord Stream project.

In the mid-term, we consider an EBITDA between € 5-7m a sustainable profitability level which is supported by the finalisation of turnaround measures which primarily focus on:

- Stabilising the rather volatile order intake by increasingly concentrating on medium-sized projects (€ 20-50m),
- Clearing up the remains of former legacy projects which involved the closure of operations at former project locations,
- Streamlining of organisational processes and concentrating production at key locations in France.

On the back of this and given a strong project pipeline going into 2014/15E, we expect a sound operational performance going forward. In addition, there were several projects which had been started already in 2013 but look set to be completed only 2014E which will cause € 23m of additional sales and € 6m of additional profits to be booked in 2014E.

Given Eupec's strong specialty know-how, excellent project track record as well as more balanced capacity utilisation, the company is equally becoming attractive for a strategic buyer such as other pipeline producers or customers but also overseas investors seeking to acquire Eupec's specialty know-how.

In our view therefore, mutares should be able to achieve attractive exit multiples between 6-10x EV/EBITDA in a divestment which we expect to occur in 2014/15E.

3. STS Acoustics is a leading producer of acoustics and thermal management solutions for the automotive industry. The company was taken over from the Autoneum Holding AG in July 2013 as the seller sought to focus increasingly on the passenger car market. Located in Italy, STS generates annual sales of around € 120m and a negative EBITDA of roughly - € 6m (vs. - € 8m in 2012).

The company is particularly well positioned as a supplier of interior floors and driver compartments to major Western truck OEMs (Iveco, MAN, Volvo, etc.) but equally caters to several luxury car producers (Ferrari, Maserati, etc.). On the back of a lack of investments, an inefficient production setup (4 plants & 1 HQ, all in Italy) as well as the unwillingness to internationalise, STS has lost some of its competitive edge in the past few years.

In order to regain cost leadership and to maintain STS's first tier supplier status, mutares is currently implementing a turnaround plan which focuses on:

- The streamlining and internationalisation of the production setup to improve utilisation rates, reduce logistic costs and optimise w/c,
- Efficiency increases through the optimisation/renewal of operational structures in IT, overhead, procurement and supply chain,
- The internationalisation of the business towards Eastern Europe, North America as well as Asia in order to geographically diversify by following customers' expansion into overseas market.

Going forward, we therefore expect the company to grow by 4-7% p.a. and the EBITDA to increase to € 11m by 2016E. While still being a very young portfolio firm, STS has a significant turnaround potential in our view and could become an attractive takeover target in the mid term.

Pixmania is one of Europe's leading online retailers for consumer electronics with a particularly strong footprint in France where it is among the five largest players in the market. Pixmania is mutares' most recent acquisition and was bought in January 2014 from Dixons Retail at a significant negative purchase price of > € 70m.

Dixon is a leading UK-based electronics retailer in Europe which in 2006 sought to expand into the French market by acquiring Pixmania. While in its core market the UK, Dixons operates a dense network of store outlets (e.g. Currys), complemented by online shops (comparable to Media-Saturn), it sought to address the French market only via the online retailer Pixmania. As such, the French operations structurally differed from Dixons' core business and as a large corporate group, it lacked the entrepreneurial vigour to successfully position the company in the rather competitive e-commerce market.

Pixmania's business model is essentially based on:

1. B2C business (c. 65% of sales) through its online shopping platform pixmania.com & its trading platform pixplace.com, targeting private customers,
2. B2B business (c. 30% of sales), selling larger badge sizes to dealers, retailers and larger corporate clients on pixmania-pro.com, and
3. E-merchant business (c. 5% of sales), where the company develops and manages all online retail operations, from website design and hosting to day-to-day operation for merchants (e.g. Carrefour, PC World, Currys, etc.).

In 2013E, Pixmania generated sales of around € 300m with an estimated EBITDA of € - 30m (H&A) on the back of inefficient inventory management, excessive overhead functions as well as insufficient scale effects.

mutares thus has presented a rigorous restructuring concept for Pixmania to be executed principally in 2014E which focuses on scaling up sales through:

- Repositioning the brand image through selected target customer marketing campaigns,
- Increasing conversion rates, customer retention & average basket sizes by improving the service quality, overhauling the online shop and refining the consumer electronics product portfolio,
- Expanding the e-merchant platform through extensive sales efforts and internationalising into Benelux, Germany and Eastern Europe.

This should be supported by e-commerce market growth rates of up to 15% p.a. in which Pixmania should increasingly participate. Against this backdrop, we expect the company to increase sales by at least 5-10% p.a. going forward. On the other hand, a major emphasis of the restructuring lies on increasing profitability through:

- Leveraging Pixmania's Czech footprint in terms of logistics but also with regard to overhead functions as well as software/internet know-how,
- Streamlining of organisational structures to adjust for excessive (corporate) overhead & modernisation of IT infrastructure,
- Reducing return rates by focussing exclusively on prepayment options and detailed customer scoring.

In addition, drastically optimising working capital by streamlining logistic & warehouse processes (e.g.: increase number of articles being sent directly from dealer to customer without passing Pixmania's warehouses), is a key focus of the restructuring.

With these measures being implemented in 2014/15E, the EBITDA margin should increase again to at least 2% by 2016E. This looks well within reach compared to peers such as Notebooksbilliger.de with a 4-5% EBITDA margin, Delticom with a 4% EBITDA margin and Ocado with EBITDA margins of 5%.

On the back of the notable turnaround potential of the company and considering the substantial negative purchase price, Pixmania could thus become an important value driver in the coming years.

All in all, looking at mutares, the value potential for investors looks attractive given the:

- **Cheap purchase:** mutares hardly spend any money on acquiring its € 750m in sales portfolio (historical purchase prices always < € 150k per acquisition) but even received accumulated cash proceeds of € 140m.
- **Exit potential:** mutares has an attractive portfolio with a number of likely exit candidates going forward.
- **Cash-out:** Management is willing to share its return on investment with shareholders through bonus dividends.

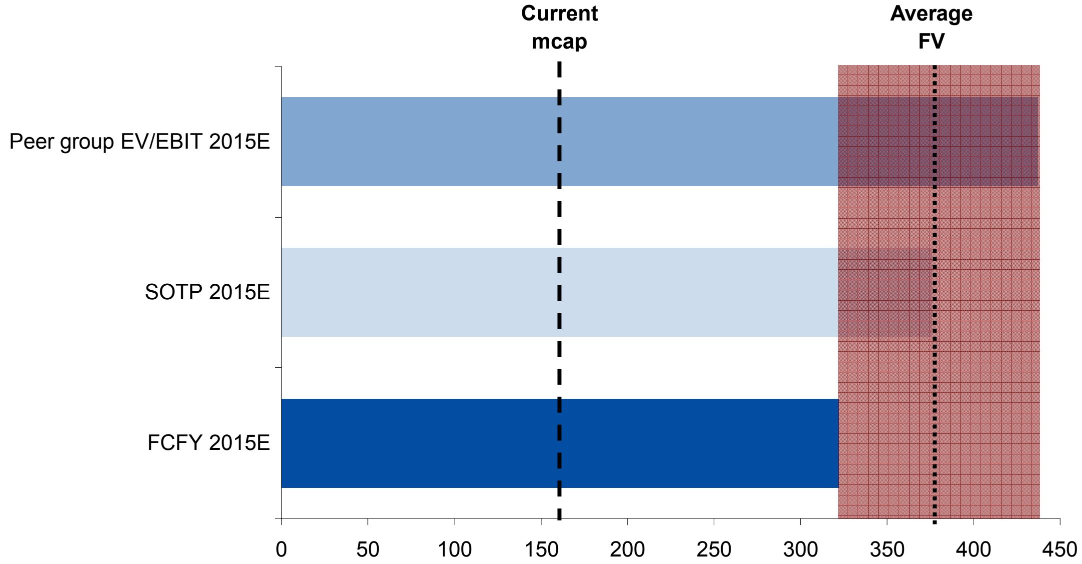
Valuation

In valuing mutares we employed a number of different valuation metrics in order to derive a fair value range for the company. In detail our valuation is based on a:

- FCFY analysis
- SOTP analysis
- Peer group analysis

All valuation methods point to an average fair market cap of € 380m based on 2015E estimates. This compares to mutares' current market cap of € 164m and implies an upside of 131%.

Implied fair value market cap (€ m)



Source: Company data; Hauck & Aufhäuser

Investors should however note that at this stage, the current share price/market cap does not provide any meaningful information given a monthly trading volume of below 1k shares.

This however looks set to change as management (currently holding 85% of shares) seeks to significantly increase the free float of the stock going forward and pursues an uplisting to the Entry Standard of the Frankfurt Stock Exchange. In our view, a free float of around 40% would be feasible to ensure an adequate liquidity of the stock.

On the back of mutares' business model of buying distressed assets and to generate value through their subsequent operational turnaround and sale, we excluded currently loss-making companies from our valuation, as new acquisitions usually contribute negative earnings in the first year.

In addition, the risk for the holding from non-performing assets is limited given mutares' protective holding structure. Please note that starting in 2015E, we expect all portfolio companies to be profitable or at least break-even on an operating level.

FCF yield 2015E implies a fair market cap of € 322m

The main driver of this model is the level of return available to a controlling investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price –the enterprise value of the company.

Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capital expenditures). Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after tax return equals the model's hurdle rate of 7.5%. Anything less suggests the stock is expensive; anything more suggests the stock is cheap.

Valued on FCFY 2015E which incorporates a partial turnaround of the recently enlarged portfolio (turnaround takes 12-18 months), we derive a fair market cap of € 322m.

FCFY 2016E which would reflect a more normalised profitability level (turnaround completed) points to a fair value of € 419m.

FCF yield, year end Dec. 31		2011/12*	2012*	2013E	2014E	2015E	2016E
EBITDA**		**18.6**	**23.3**	**14.1**	**30.7**	**38.0**	**48.2**
- Maintenance capex		5.9	8.3	10.7	11.0	12.0	13.0
- Minorities		0.0	0.0	0.0	0.0	0.0	0.0
- tax expenses		0.1	0.4	0.7	0.4	3.8	6.9
= Adjusted Free Cash Flow		**12.7**	**14.6**	**2.7**	**19.3**	**22.2**	**28.3**
Actual Market Cap		**164.2**	**164.2**	**164.2**	**164.2**	**164.2**	**164.2**
+ Net debt (cash)		-20.7	-39.5	-19.2	-65.9	-67.2	-82.0
+ Pension provisions		14.6	15.4	1.9	2.1	2.2	2.3
+ Off balance sheet financing		0.0	0.0	0.0	0.0	0.0	0.0
+ Adjustments prepayments		4.1	14.3	41.8	41.8	41.8	41.8
- Financial assets		-0.1	-2.0	-1.1	-1.1	-1.1	-1.1
- Dividend payment		-0.2	-0.7	-4.1	-20.3	-2.0	-2.4
EV Reconciliations		*-2.3*	*-12.4*	*19.3*	*-43.3*	*-26.3*	*-41.4*
= Actual EV'		**161.9**	**151.8**	**183.6**	**120.9**	**138.0**	**122.8**
Adjusted Free Cash Flow yield		**7.8%**	**9.6%**	**1.5%**	**16.0%**	**16.1%**	**23.0%**
Sales		**159.3**	**301.2**	**347.0**	**743.5**	**785.7**	**843.6**
Actual EV/sales		1.0x	0.5x	0.5x	0.2x	0.2x	0.1x
Hurdle rate		7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
FCF margin		7.9%	4.9%	0.8%	2.6%	2.8%	3.4%
Fair EV/sales		1.1x	0.6x	0.1x	0.3x	0.4x	0.4x
Fair EV		**168.8**	**195.0**	**36.2**	**257.3**	**296.0**	**377.3**
- EV Reconciliations		*-2.3*	*-12.4*	*19.3*	*-43.3*	*-26.3*	*-41.4*
Fair Market Cap		**171.1**	**207.4**	**16.9**	**300.6**	**322.3**	**418.7**
Premium (-) / discount (+) in %		**4.2%**	**26.3%**	**-89.7%**	**83.0%**	**96.2%**	**154.9%**
Sensitivity analysis fair value							
Hurdle rate	7.5%	84.4	102.3	8.3	148.3	158.9	206.5
	10.0%	63.6	78.3	3.9	116.5	122.4	160.0
	12.5%	51.1	63.8	1.2	97.5	100.5	132.1
	15.0%	42.8	54.2	-0.6	84.8	85.9	113.5

*Source: Company data; Hauck & Aufhäuser * 2011/12: 1.4. - 31.03.; 2012: 1.4. - 31.12. ** adj. for loss-making companies*

SOTP analysis 2015E suggests a fair value of € 380m

In computing a Sum of the Parts (SOTP) analysis, we compiled selected peer group multiples for mutares' three investment clusters: Engineering, Retail & Transportation.

By applying the respective average EV/EBITDA multiples of the peer groups on the operating EBITDA figures of the clusters, we derive a fair value of € 380m based on 2015E.

Based on 2016E and hence reflecting a more normalised profitability level, our SOTP model arrives at a fair value of € 453m.

mutares AG: Sum of the parts	Fair EV 2014E	Fair EV 2015E	Fair EV 2016E	EBITDA 2014E*	EBITDA 2015E	EBITDA 2016E	Peer group average	EV/EBITDA 2014E	EV/EBITDA 2015E	EV/EBITDA 2016E
Engineering	180.0	157.4	182.2	25.0	24.9	30.1		7.2	6.3	6.0
Retail	66.3	147.2	179.0	4.3	11.4	16.2		15.6	12.9	11.1
Transportation	10.1	10.5	11.5	1.4	1.7	1.9		7.0	6.3	6.1
Total fair EV	**256.5**	**315.1**	**372.8**	**30.7**	**38.0**	**48.2**				
- Net debt	-65.9	-67.2	-82.0							
- Pension provisions	2.1	2.2	2.3							
Fair market cap	**320.3**	**380.1**	**452.5**							
Current market cap	**164.2**	**164.2**	**164.2**							
Upside (+)/downside (-)	*95%*	*131%*	*175%*							

*Source: company data; Hauck & Aufhäuser   * adj. for loss-making companies*

Engineering	EV/Sales 14E (x)	EV/Sales 15E (x)	EV/Sales 16E (x)	EV/EBITDA 14E (x)	EV/EBITDA 15E (x)	EV/EBITDA 16E (x)
POLYTEC HOLDING AG	0.4	0.4	0.3	4.8	4.2	3.8
GRAMMER AG O.N.	0.4	0.4	0.3	5.6	4.9	4.5
Palfinger AG	1.2	1.1	1.1	9.6	8.5	7.6
Schoeller Bleckmann Oilfield Equi	2.6	2.2	2.0	8.4	7.2	6.6
Krones AG	0.7	0.7	0.6	7.6	6.7	7.8
Average (peer group)	**1.1**	**1.0**	**0.9**	**7.2**	**6.3**	**6.0**

Retail	EV/Sales 14E (x)	EV/Sales 15E (x)	EV/Sales 16E (x)	EV/EBITDA 14E (x)	EV/EBITDA 15E (x)	EV/EBITDA 16E (x)
WMF AG VZO O.N.	0.7	0.7	0.7	6.9	6.3	5.9
LEIFHEIT AG O.N.	0.8	0.8	0.7	8.7	7.9	7.3
TAKKT AG	1.3	1.3	1.2	9.6	8.9	8.4
OCADO GROUP PLC ORD 2P	2.7	2.3	2.0	35.3	27.6	21.2
Delticom AG	0.7	0.7	0.7	17.3	13.6	12.6
Average (peer group)	**1.3**	**1.2**	**1.0**	**15.6**	**12.9**	**11.1**

Transportation	EV/Sales 14E (x)	EV/Sales 15E (x)	EV/Sales 16E (x)	EV/EBITDA 14E (x)	EV/EBITDA 15E (x)	EV/EBITDA 16E (x)
SIXT SE ST O.N.	1.2	1.1	1.1	4.0	3.8	4.1
Hertz Global Holdings, Inc	1.7	1.5	1.5	7.9	6.8	6.2
DEUTSCHE POST AG NA O.	0.7	0.7	0.7	9.1	8.4	7.9
Average (peer group)	**1.2**	**1.1**	**1.1**	**7.0**	**6.3**	**6.1**

Source: H&A estimates, CapitalIQ, company filings

Peer group analysis points to a fair value of € 437m based on 2015E

Our peer group analysis shows that there is a major discrepancy between mutares' directly comparable peers Melrose and Aurelius which trade more than 300% above mutares' multiples.

Melrose: Melrose is a UK based private equity firm specialised in operational turnaround investments. It primarily focuses on larger companies in the capital goods sector and has a portfolio of € 1.7bn in sales.

Aurelius: Aurelius is a German private equity firm focussing on investments into small & medium sized companies with the potential for operational turnaround. It has no industry focus and a diversified portfolio of € 1.6bn in sales.

Given the diverging portfolio composition of the three companies in terms of industry exposure and hence different capital intensities of their portfolio (e.g. capital goods or chemical companies are more capital intensive than retail companies), we consider a comparison on an EBIT basis as most appropriate (peers' EBIT(DA) is operating).

Applying the peer group's average EV/EBIT 2015E multiple on the 2015E EBIT of mutares, we derive a fair market cap value of € 437m.

mutares AG	EV/Sales 14E (x)	EV/Sales 15E (x)	EV/Sales 16E (x)	EV/EBITDA 14E (x)	EV/EBITDA 15E (x)	EV/EBITDA 16E (x)	EV/EBIT 14E (x)	EV/EBIT 15E (x)	EV/EBIT 16E (x)
Aurelius AG	0.5	0.5	0.5	8.0	6.7	6.2	21.4	14.7	12.8
Melrose Industries plc	2.5	2.4	2.3	13.5	12.3	11.4	15.5	14.0	13.0
mutares AG	**0.1**	**0.1**	**0.1**	**6.4**	**2.6**	**1.8**	**21.4**	**3.8**	**2.4**
Average (peer group)	**1.5**	**1.4**	**1.4**	**10.7**	**9.5**	**8.8**	**18.4**	**14.3**	**12.9**
Premium+/discount- in (%)	**-91%**	**-91%**	**-93%**	**-40%**	**-73%**	**-80%**	**16%**	**-73%**	**-81%**

Source: H&A estimates, CapitalIQ, company filings

Implied FV	EV/EBITDA 14E (x)	EV/EBITDA 15E (x)	EV/EBITDA 16E (x)	EV/EBIT 14E (x)	EV/EBIT 15E (x)	EV/EBIT 16E (x)
Fair EV	329.4	361.5	425.0	362.9	372.3	454.1
- Net debt	*-65.9*	*-67.2*	*-82.0*	*-65.9*	*-67.2*	*-82.0*
- Pensions provisions	*2.1*	*2.2*	*2.3*	*2.1*	*2.2*	*2.3*
Fair market cap	**393.2**	**426.5**	**504.7**	**426.7**	**437.3**	**533.9**
Current market cap	**164.2**	**164.2**	**164.2**	**164.2**	**164.2**	**164.2**
Upside (+)/downside (-)	*139%*	*160%*	*207%*	*160%*	*166%*	*225%*

Source: H&A estimates, CapitalIQ, company filings

Benchmarking Melrose & Aurelius

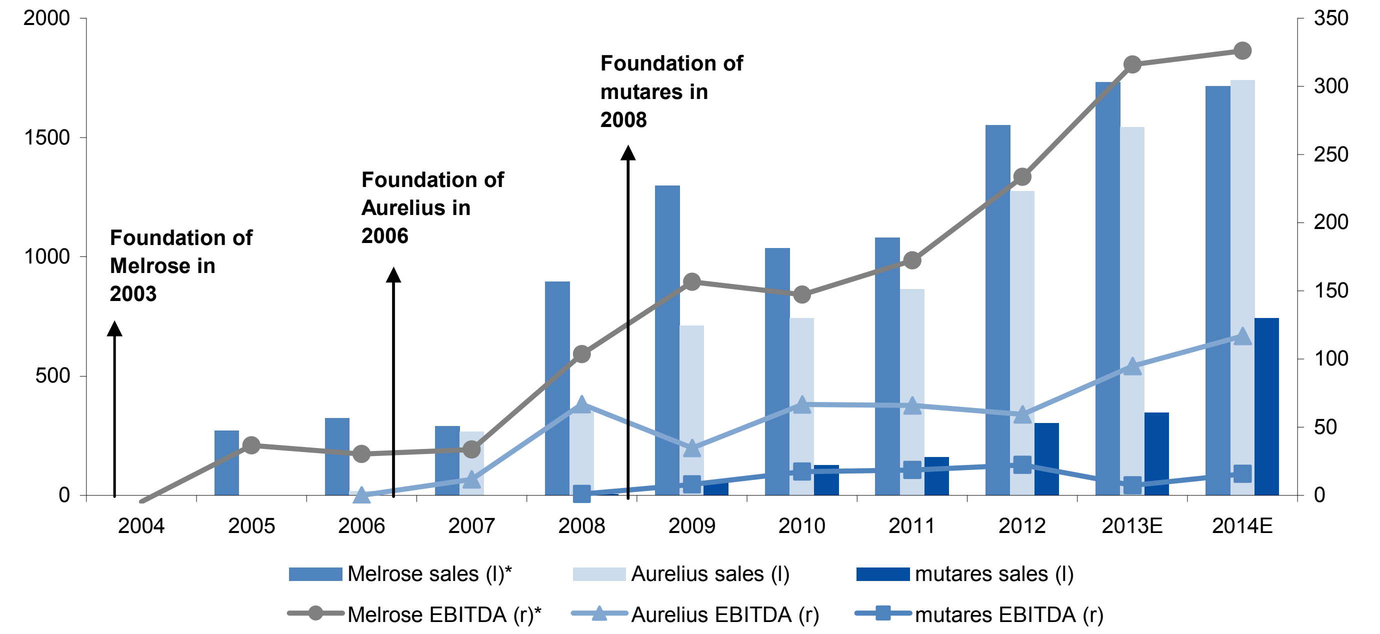
To illustrate the value potential inherent in mutares' business model, it is helpful to compare the company with its two larger and more mature peers Aurelius & Melrose.

Both companies basically operate the same transaction based business model focussed on generating a return on investment through the cheap purchase of corporate assets, their operational turnaround and subsequent sale.

Melrose as the oldest & most mature of the three was already founded in 2003 and today posts an annualised sales volume of around € 1.7bn split between two companies. Founded in 2006, Aurelius follows closely with an annualised sales volume of € 1.6bn and a portfolio of 17 companies.

Starting out in 2008, mutares clearly still is the youngest of the three and today has a portfolio of 10 companies with annualised sales of approximately € 750m.

Peer group comparison: Sales & operating EBITDA development (€ m)



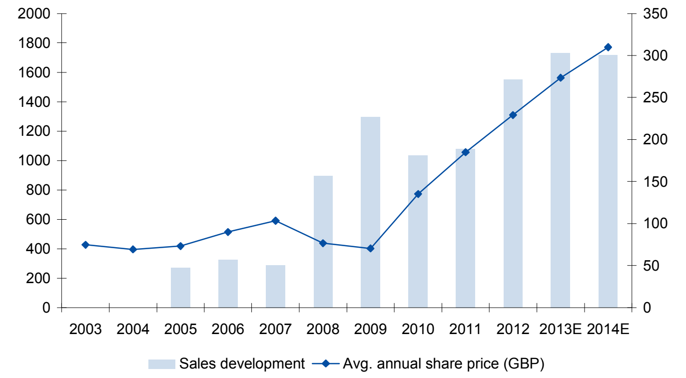
*Source: Company data; Hauck & Aufhäuser *converted based on historic GBP/EUR exchange rates*

The profitability profile of all three companies largely depends on the industry exposure of their portfolios and provides only limited insight given that it is distorted by the sale of profitable assets as well as the acquisition of distressed companies. More importantly, all three companies show a successful track record of value accretive transactions.

The key point for investors to consider however is that mutares, compared to its two peers, is just entering into the active divestment phase of its portfolio firms and aims to grow its business through new and larger acquisitions going forward.

Looking at the historic share price developments of Melrose and Aurelius it is conceivable that successful exits and sales growth through a dynamic M&A approach have been the major drivers behind their rampant increase in market capitalisation.

Melrose sales & share price development



Source: Company data; Hauck & Aufhäuser, factset

Aurelius sales & share price development

Source: Company data; Hauck & Aufhäuser, factset

Favourable timing

Looking at mutares, the company is at an interesting stage of its development which offers an attractive investment opportunity, in our view, on the back of:

- **Sales growth:** A well filled M&A pipeline and management's ambition to grow its business to € 2bn in sales by 2018E (H&A) which should provide for positive newsflow and thus support the sentiment for the stock going forward.
- **Exits:** The exit from several mature and successfully restructured companies which should come with a substantial return on investment and bonus dividends for shareholders.
- **Capital markets:** An increased focus on the capital markets through an increased free float (H&A: ~ 40%), a XETRA listing, regular roadshow activity and intensified capital markets communication.

Company Background

Management

mutares' executive board consists of the two founders, Dr. Axel Geuer and Robin Laik, as well as Dr. Kristian Schleede and Dr. Wolf Cornelius.

Dr. Axel Geuer, CEO & founder

Dr. Axel Geuer studied Mechanical Engineering at the Technical University of Munich (TU Munich), Germany where he also obtained his Ph.D. in Production Technology at the Institute for Machine Tools and Industrial Management.

As a consultant with Bain & Company starting in 1996, he worked on numerous international projects, especially in the private equity and venture capital field. Subsequently he became CEO & shareholder of German equipment manufacturer Hamba Filltec GmbH & Co. KG in 2004 where he expanded his operational management experience.

In 2008, together with Robin Laik, he founded mutares AG and has been involved in more than 20 transactions.

Robin Laik, CEO & founder

Robin Laik studied Business Administration at the University of Augsburg, Germany. Starting in 1998, he held several positions at L'Oreal as well as within the ESCADA AG, including head of M&A of the ESCADA Group.

In 2004, he joined Bavaria Industriekapital AG where amongst others he became CEO & shareholder of an automotive supplier for plastic components. In 2006, he advanced to become the CFO of publicly listed private equity firm Bavaria Industries Group AG.

In 2008, together with Dr. Axel Geuer, he founded mutares AG.

Dr. Kristian Schleede, CFO

Dr. Kristian Schleede studied Mechanical Engineering at RWTH Aachen University, Germany where he obtained a Ph.D. at the Institute for Plastic Processing.

In 1990, he joined McKinsey & Company where he was involved in several international projects in the automotive, aerospace and other industries. From 1996 onwards, he held several top line management functions in industrial and service companies mainly as commercial managing director including Danzas Germany.

In 2003, he became CFO of stock listed Swisslog Management AG while at the same time obtaining the Diploma as IFRS/IAS Accountant at the Controller Academy/Ernst & Young. From 2006 to 2009, he moreover was CEO of Kienle + Spiess Group.

He joined mutares AG in 2010 as the CFO.

Dr. Wolf Cornelius, COO

Dr. Wolf Cornelius studied Mechanical Engineering at the RWTH Aachen University, Germany. He subsequently obtained a Ph.D. in Process Engineering at Technical University Clausthal while working at Schering AG.

Starting in 1976, he held multiple technical positions in manufacturing and chemical companies including KHS. In 1993, he became CEO of Piepenbrock Verpackungstechnik and subsequently held several management positions at Kettner / O+H and Hamba Filltec.

In 2008, he joined mutares AG as head of operations.

In order to control the operations across its portfolio, management employs a stringent control system for its portfolio companies. This involves weekly and/or monthly reportings of company specific KPIs which include order intake & sales volume, profitability, cash balance, cash flow, and other company specific metrics.

In addition, frequent management meetings with the respective portfolio managers ensure a close monitoring and discussion of operational and strategic developments.

In addition, mutares has a supervisory board consisting of three individuals with long-standing business experience, to actively supervise and support the executive board.

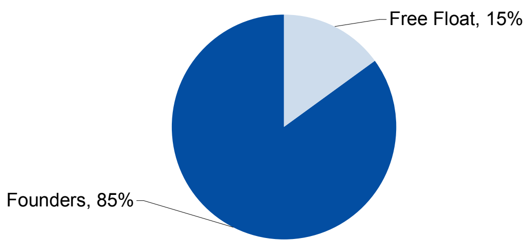
Shareholder structure

mutares AG currently has 2.03m shares outstanding of which 85% are directly held be the two founders Dr. Axel Geuer (44%) and Robin Laik (41%). The remaining 15% of shares are free float.

Management's recently announced ambition to significantly increase the free float (in our view a 40% free float would be feasible) and to pursue an up-listing to the Entry Standard of the Frankfurt Stock Exchange, however looks set to significantly increase the liquidity of the stock.

In our view, management nonetheless would still remain the majority shareholder. Management's and investors' interests thus should remain well aligned.

Shareholder Structure



Source: Company data; Hauck & Aufhäuser

Portfolio overview

mutares has a portfolio of 10 companies with annualised sales of around € 750m, grouped into the three clusters: Engineering, Retail and Transportation.

Portfolio overview

Engineering			Retail		Transportation
ElastomerSolutions	FTW	EUPEC	KLANN	Suir Pharma Ireland	CGW
Acquired in 2009 from Diehl Group	**Acquired in 2010 from Röhmheld Group**	**Acquired in 2012 from Kurindu Group**	**Acquired in 2011 from Huber Packaging Group**	**Acquired in 2012 from STADA Arzneimittel AG**	**Acquired in 2011 from Star Services**
Automotive supplier for grommets & wiring harnesses	Engineering firm for rotary tables to major machine tool manufacturers	Europe's leading provider for coatings for oil & gas pipelines	Producer of metal packaging solutions for retail customers	Contract manufacturer for pharmaceutical products	Supplier of logistics services including personnel
GEESINKNORBA	acoustics		artmadis	PIXmania.com	
Acquired in 2012 from Platinum Equity	**Acquired in 2013 from Autoneum Holding**		**Acquired in 2012 from Arc International Group**	**Acquired in Jan. 2014 from Dixons Retail**	
Leading European provider of efficient waste management solutions	Global technology leader in acoustics and thermal management solutions		Specialty distributor for table/cookingware to all major retail chains in France	Leading European e-commerce retailer targeting B2C, B2E & merchants	

Source: Company data; Hauck & Aufhäuser

SWOT analysis

Our SWOT analysis below briefly summarises the strengths, weaknesses, opportunities and risks of the investment case, in our view.

SWOT analysis

Strengths
- Extensive industry experience & know-how
- Strong operational track record
- Extensive financial power of the holding
- Well diversified portfolio in line with management's background
- Responsibilities are balanced across entire management board

Weaknesses
- Need for constant & active management attention
- Limited transparency given large diversified portfolio
- Limited usefulness of group figures

Opportunities
- Attractive exit and hence dividend potential
- Dynamic M&A activity driving sales growth
- Future value creation through turnaround
- Increasing free float & liquidity
- XETRA listing & intensified capital markets communication

Threats
- Underperforming assets
- Potential insolvencies of portfolio companies

Source: Company data; Hauck & Aufhäuser

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Financials

Profit and loss (EUR m)	2010	2011	2012	2013E	2014E	2015E	2016E
Net sales	**127.6**	**159.3**	**301.2**	**347.0**	**743.5**	**785.7**	**843.6**
Sales growth	*110.2 %*	*24.8 %*	*89.1 %*	*15.2 %*	*114.3 %*	*5.7 %*	*7.4 %*
Increase/decrease in finished goods and work-in-process	6.4	-4.6	0.1	15.2	0.0	0.0	0.0
Total sales	**134.0**	**154.7**	**301.3**	**362.2**	**743.5**	**785.7**	**843.6**
Other operating income	29.7	20.9	52.8	40.6	74.4	55.0	59.1
Material expenses	66.7	69.6	138.7	210.3	371.8	369.3	392.3
Personnel expenses	47.8	50.9	90.1	105.4	245.4	235.7	248.9
Other operating expenses	31.9	36.6	103.0	79.8	185.1	197.7	213.3
Total operating expenses	116.7	136.2	279.0	355.0	727.8	747.7	795.4
EBITDA	**17.3**	**18.5**	**22.4**	**7.2**	**15.7**	**38.0**	**48.2**
Depreciation	6.4	5.9	8.3	10.4	11.0	12.0	13.0
EBITA	**10.9**	**12.6**	**14.1**	**-3.2**	**4.7**	**26.0**	**35.2**
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**10.9**	**12.6**	**14.1**	**-3.2**	**4.7**	**26.0**	**35.2**
Interest income	0.4	0.1	0.2	1.1	0.9	1.0	1.1
Interest expenses	1.6	1.0	1.1	1.7	1.7	1.7	1.7
Other financial result	0.8	0.0	0.0	0.4	0.0	0.0	0.0
Financial result	-2.0	-0.9	-0.9	-1.0	-0.8	-0.8	-0.6
Recurring pretax income from continuing operations	**8.9**	**11.7**	**13.2**	**-4.3**	**3.9**	**25.2**	**34.6**
Extraordinary income/loss	-1.0	-2.5	-2.7	0.0	0.0	0.0	0.0
Earnings before taxes	**7.9**	**9.2**	**10.5**	**-4.3**	**3.9**	**25.2**	**34.6**
Taxes	-0.4	0.6	1.0	1.8	0.4	3.8	6.9
Net income from continuing operations	**8.3**	**8.6**	**9.5**	**-6.0**	**3.5**	**21.4**	**27.7**
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**8.3**	**8.6**	**9.5**	**-6.0**	**3.5**	**21.4**	**27.7**
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (net of minority interest)	**8.3**	**8.6**	**9.5**	**-6.0**	**3.5**	**21.4**	**27.7**
Average number of shares	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EPS reported	**4.09**	**4.25**	**4.69**	**-2.98**	**1.74**	**10.58**	**13.66**

Profit and loss (common size)	2010	2011	2012	2013E	2014E	2015E	2016E
Net sales	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Increase/decrease in finished goods and work-in-process	5.0 %	-2.9 %	0.0 %	4.4 %	0.0 %	0.0 %	0.0 %
Total sales	**105.0 %**	**97.1 %**	**100.0 %**	**104.4 %**	**100.0 %**	**100.0 %**	**100.0 %**
Other operating income	23.3 %	13.1 %	17.5 %	11.7 %	10.0 %	7.0 %	7.0 %
Material expenses	52.3 %	43.7 %	46.0 %	60.6 %	50.0 %	47.0 %	46.5 %
Personnel expenses	37.5 %	32.0 %	29.9 %	30.4 %	33.0 %	30.0 %	29.5 %
Other operating expenses	25.0 %	23.0 %	34.2 %	23.0 %	24.9 %	25.2 %	25.3 %
Total operating expenses	91.5 %	85.5 %	92.6 %	102.3 %	97.9 %	95.2 %	94.3 %
EBITDA	**13.6 %**	**11.6 %**	**7.4 %**	**2.1 %**	**2.1 %**	**4.8 %**	**5.7 %**
Depreciation	5.0 %	3.7 %	2.7 %	3.0 %	1.5 %	1.5 %	1.5 %
EBITA	**8.5 %**	**7.9 %**	**4.7 %**	**-0.9 %**	**0.6 %**	**3.3 %**	**4.2 %**
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBIT	**8.5 %**	**7.9 %**	**4.7 %**	**-0.9 %**	**0.6 %**	**3.3 %**	**4.2 %**
Interest income	0.3 %	0.1 %	0.1 %	0.3 %	0.1 %	0.1 %	0.1 %
Interest expenses	1.2 %	0.6 %	0.4 %	0.5 %	0.2 %	0.2 %	0.2 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	-1.6 %	-0.5 %	-0.3 %	-0.3 %	-0.1 %	-0.1 %	-0.1 %
Recurring pretax income from continuing operations	**7.0 %**	**7.4 %**	**4.4 %**	**-1.2 %**	**0.5 %**	**3.2 %**	**4.1 %**
Extraordinary income/loss	-0.8 %	-1.6 %	-0.9 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings before taxes	**6.2 %**	**5.8 %**	**3.5 %**	**-1.2 %**	**0.5 %**	**3.2 %**	**4.1 %**
Tax rate	-4.9 %	6.6 %	9.3 %	-41.8 %	10.0 %	15.0 %	20.0 %
Net income from continuing operations	**6.5 %**	**5.4 %**	**3.2 %**	**-1.7 %**	**0.5 %**	**2.7 %**	**3.3 %**
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income	**6.5 %**	**5.4 %**	**3.2 %**	**-1.7 %**	**0.5 %**	**2.7 %**	**3.3 %**
Minority interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income (net of minority interest)	**6.5 %**	**5.4 %**	**3.2 %**	**-1.7 %**	**0.5 %**	**2.7 %**	**3.3 %**

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2010	2011	2012	2013E	2014E	2015E	2016E
Intangible assets	**4.1**	**4.7**	**4.0**	**2.3**	**2.3**	**2.3**	**2.3**
Property, plant and equipment	36.6	35.7	47.1	31.6	42.6	42.6	41.6
Financial assets	0.0	0.1	2.0	1.1	1.1	1.1	1.1
FIXED ASSETS	**40.7**	**40.5**	**53.1**	**35.0**	**46.0**	**46.0**	**45.0**
Inventories	25.6	34.8	75.7	82.5	106.2	104.8	112.5
Accounts receivable	16.6	41.2	102.5	133.9	142.6	144.2	152.5
Other current assets	2.0	9.0	15.0	32.8	32.8	32.8	32.8
Liquid assets	14.8	21.7	52.4	47.7	94.4	95.7	110.5
Deferred taxes	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Deferred charges and prepaid expenses	0.5	1.1	2.6	2.1	2.2	2.3	2.4
CURRENT ASSETS	59.5	107.9	248.2	299.0	378.3	379.8	410.7
TOTAL ASSETS	**100.3**	**148.4**	**301.3**	**334.0**	**424.3**	**425.8**	**455.7**
SHAREHOLDERS EQUITY	41.6	52.1	79.9	58.0	43.1	30.5	43.5
MINORITY INTEREST	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt	0.6	1.0	12.9	28.5	28.5	28.5	28.5
Provisions for pensions and similar obligations	13.4	14.6	15.4	1.9	2.1	2.2	2.3
Other provisions	14.7	25.8	84.6	85.7	110.7	116.3	122.0
Non-current liabilities	**28.6**	**41.4**	**113.0**	**116.1**	**141.3**	**146.9**	**152.8**
short-term liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	13.7	23.5	54.8	66.9	122.2	129.2	138.7
Advance payments received on orders	4.5	4.1	14.3	41.8	41.8	41.8	41.8
Other liabilities (incl. from lease and rental contracts)	9.9	25.9	36.8	49.2	73.7	75.2	76.7
Deferred taxes	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Deferred income	1.9	1.4	2.6	1.5	1.6	1.6	1.7
Current liabilities	**30.0**	**54.9**	**108.5**	**159.8**	**239.8**	**248.3**	**259.4**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**100.3**	**148.4**	**301.3**	**334.0**	**424.3**	**425.8**	**455.7**

Balance sheet (common size)	2010	2011	2012	2013E	2014E	2015E	2016E
Intangible assets	**4.1 %**	**3.2 %**	**1.3 %**	**0.7 %**	**0.5 %**	**0.5 %**	**0.5 %**
Property, plant and equipment	36.5 %	24.0 %	15.6 %	9.5 %	10.0 %	10.0 %	9.1 %
Financial assets	0.0 %	0.1 %	0.6 %	0.3 %	0.2 %	0.2 %	0.2 %
FIXED ASSETS	**40.6 %**	**27.3 %**	**17.6 %**	**10.5 %**	**10.8 %**	**10.8 %**	**9.9 %**
Inventories	25.5 %	23.4 %	25.1 %	24.7 %	25.0 %	24.6 %	24.7 %
Accounts receivable	16.6 %	27.8 %	34.0 %	40.1 %	33.6 %	33.9 %	33.5 %
Other current assets	2.0 %	6.0 %	5.0 %	9.8 %	7.7 %	7.7 %	7.2 %
Liquid assets	14.8 %	14.6 %	17.4 %	14.3 %	22.2 %	22.5 %	24.3 %
Deferred taxes	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Deferred charges and prepaid expenses	0.5 %	0.7 %	0.9 %	0.6 %	0.5 %	0.5 %	0.5 %
CURRENT ASSETS	59.4 %	72.7 %	82.4 %	89.5 %	89.2 %	89.2 %	90.1 %
TOTAL ASSETS	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
SHAREHOLDERS EQUITY	41.5 %	35.1 %	26.5 %	17.4 %	10.2 %	7.2 %	9.5 %
MINORITY INTEREST	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Long-term debt	0.6 %	0.7 %	4.3 %	8.5 %	6.7 %	6.7 %	6.2 %
Provisions for pensions and similar obligations	13.3 %	9.8 %	5.1 %	0.6 %	0.5 %	0.5 %	0.5 %
Other provisions	14.6 %	17.4 %	28.1 %	25.7 %	26.1 %	27.3 %	26.8 %
Non-current liabilities	**28.5 %**	**27.9 %**	**37.5 %**	**34.8 %**	**33.3 %**	**34.5 %**	**33.5 %**
short-term liabilities to banks	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts payable	13.6 %	15.8 %	18.2 %	20.0 %	28.8 %	30.3 %	30.4 %
Advance payments received on orders	4.5 %	2.8 %	4.7 %	12.5 %	9.9 %	9.8 %	9.2 %
Other liabilities (incl. from lease and rental contracts)	9.8 %	17.4 %	12.2 %	14.7 %	17.4 %	17.7 %	16.8 %
Deferred taxes	0.0 %	0.0 %	0.0 %	0.2 %	0.1 %	0.1 %	0.1 %
Deferred income	1.9 %	0.9 %	0.9 %	0.4 %	0.4 %	0.4 %	0.4 %
Current liabilities	**29.9 %**	**37.0 %**	**36.0 %**	**47.9 %**	**56.5 %**	**58.3 %**	**56.9 %**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2010	2011	2012	2013E	2014E	2015E	2016E
Net profit/loss	8.3	8.6	9.5	-6.0	3.5	21.4	27.7
Depreciation of fixed assets (incl. leases)	6.4	5.9	8.3	10.4	11.0	12.0	13.0
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.8	0.0	3.8	0.3	0.0	0.0	0.0
Others	-16.7	-9.8	-11.5	-32.9	-29.8	-24.9	-4.9
Cash flow from operations before changes in w/c	-1.2	4.7	10.0	-28.2	-15.3	8.6	35.8
Increase/decrease in inventory	-4.3	-0.8	66.1	-14.6	6.2	1.5	-7.7
Increase/decrease in accounts receivable	0.0	0.0	0.0	0.0	16.3	-1.6	-8.3
Increase/decrease in accounts payable	8.7	-3.2	-80.3	20.1	5.4	6.9	9.5
Increase/decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	4.4	-4.0	-14.2	5.5	27.9	6.8	-6.5
Cash flow from operating activities	**3.2**	**0.7**	**-4.1**	**-22.7**	**12.6**	**15.3**	**29.3**
CAPEX	4.6	3.9	9.0	10.7	12.0	12.0	12.0
Payments for acquisitions	0.0	0.0	0.0	0.0	-69.0	0.0	0.0
Financial investments	0.2	0.0	0.3	0.5	0.0	0.0	0.0
Income from asset disposals	1.5	9.5	33.3	23.9	0.0	0.0	0.0
Cash flow from investing activities	**-3.3**	**5.6**	**24.0**	**12.7**	**57.0**	**-12.0**	**-12.0**
Cash flow before financing	-0.1	6.2	19.9	-10.0	69.6	3.3	17.3
Increase/decrease in debt position	0.0	0.4	11.0	8.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.2	0.7	4.1	20.3	2.0	2.4
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Effects of exchange rate changes on cash	1.6	0.0	-0.2	0.0	0.0	0.0	0.0
Cash flow from financing activities	**0.0**	**0.9**	**10.3**	**3.9**	**-20.3**	**-2.0**	**-2.4**
Increase/decrease in liquid assets	1.5	7.2	30.0	-6.1	49.3	1.3	14.9
Liquid assets at end of period	**14.1**	**21.2**	**51.2**	**45.1**	**94.4**	**95.7**	**110.5**

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2010	2011	2012	2013E	2014E	2015E	2016E
P&L growth analysis							
Sales growth	110.2 %	24.8 %	89.1 %	15.2 %	114.3 %	5.7 %	7.4 %
EBITDA growth	115.5 %	6.8 %	21.0 %	-67.9 %	118.5 %	142.1 %	26.9 %
EBIT growth	79.1 %	16.0 %	11.6 %	-123.0 %	-244.9 %	454.1 %	35.5 %
EPS growth	104.2 %	4.0 %	10.1 %	-163.6 %	-158.5 %	507.2 %	29.1 %
Efficiency							
Total operating costs / sales	91.5 %	85.5 %	92.6 %	102.3 %	97.9 %	95.2 %	94.3 %
Sales per employee	88.3	95.1	102.0	133.7	276.1	n/a	n/a
EBITDA per employee	12.0	11.0	7.6	2.8	5.8	n/a	n/a
Balance sheet analysis							
Avg. working capital / sales	18.1 %	22.8 %	26.2 %	31.2 %	12.9 %	10.4 %	9.6 %
Inventory turnover (sales/inventory)	5.0	4.6	4.0	4.2	7.0	7.5	7.5
Trade debtors in days of sales	47.5	94.4	124.2	140.8	70.0	67.0	66.0
A/P turnover [(A/P*365)/sales]	39.1	53.9	66.4	70.3	60.0	60.0	60.0
Cash conversion cycle (days)	112.7	153.6	179.3	167.9	54.3	42.9	41.6
Cash flow analysis							
Free cash flow	-1.4	-3.3	-13.1	-33.4	0.6	3.3	17.3
Free cash flow/sales	-1.1 %	-2.0 %	-4.4 %	-9.6 %	0.1 %	0.4 %	2.0 %
FCF / net profit	-16.3 %	-37.8 %	-138.2 %	553.4 %	16.7 %	15.4 %	62.4 %
Capex / depn	66.6 %	67.2 %	76.9 %	104.8 %	109.1 %	100.0 %	92.3 %
Capex / maintenance capex	0.0 %	0.0 %	0.0 %	103.0 %	109.1 %	100.0 %	92.3 %
Capex / sales	3.8 %	2.5 %	n/a	n/a	n/a	n/a	n/a
Security							
Net debt	-14.3	-20.7	-39.5	-19.2	-65.9	-67.2	-82.0
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / equity	-0.3	-0.4	-0.5	-0.3	-1.5	-2.2	-1.9
Interest cover	7.0	12.4	12.9	0.0	2.7	15.2	20.6
Dividend payout ratio	2.7 %	8.2 %	43.5 %	100.0 %	57.4 %	11.3 %	10.3 %
Asset utilisation							
Capital employed turnover	1.8	1.7	1.6	2.0	4.0	4.4	4.3
Operating assets turnover	2.1	1.9	1.9	2.5	5.8	6.5	6.7
Plant turnover	3.5	4.5	6.4	11.0	17.4	18.4	20.3
Inventory turnover (sales/inventory)	5.0	4.6	4.0	4.2	7.0	7.5	7.5
Returns							
ROCE	14.9 %	15.4 %	9.8 %	-1.8 %	2.6 %	14.4 %	18.8 %
ROE	19.9 %	16.6 %	11.9 %	-10.4 %	8.2 %	70.2 %	63.7 %
Other							
Interest paid / avg. debt	167.0 %	130.3 %	15.7 %	8.2 %	6.0 %	6.0 %	6.0 %
No. employees (average)	1445	1674	2953	2595	2693	0	0
Number of shares	2.0	2.0	2.0	2.0	2.0	2.0	2.0
DPS	0.1	0.4	2.0	10.0	1.0	1.2	1.4
EPS reported	4.09	4.25	4.69	-2.98	1.74	10.58	13.66
Valuation ratios							
P/BV	3.9	3.2	2.1	2.8	3.8	5.4	3.8
EV/sales	1.3	1.0	0.5	0.4	0.1	0.1	0.1
EV/EBITDA	9.4	8.6	6.3	20.5	6.4	2.6	1.8
EV/EBITA	15.0	12.5	10.0	-45.4	21.4	3.8	2.4
EV/EBIT	15.0	12.5	10.0	-45.4	21.4	3.8	2.4
EV/FCF	-120.8	-48.4	-10.7	-4.4	169.9	30.0	4.9
Adjusted FCF yield	6.6 %	7.7 %	9.0 %	-2.3 %	3.6 %	16.1 %	23.0 %
Dividend yield	0.1 %	0.4 %	2.5 %	12.3 %	1.2 %	1.5 %	1.7 %

Source: Company data, Hauck & Aufhäuser

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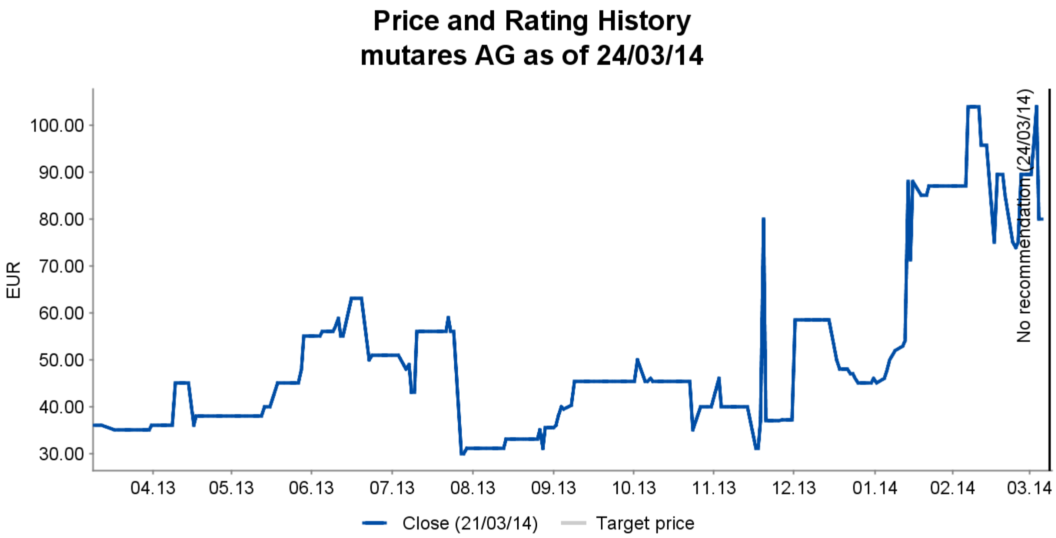
Company	Disclosure
mutares AG	5, 7, 8

Historical target price and rating changes for mutares AG in the last 12 months



Initiation coverage
24-March-14

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Buy	60.91 %	100.00 %
Sell	13.64 %	0.00 %
Hold	25.45 %	0.00 %

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