Research report (Anno)

euromicron

Transformation phase was successfully completed in FY 2018
-
Revenue and earnings growth expected in 2019

Stock price target: 6.90 € (before: 6.90 €)

Rating: Buy

IMPORTANT INFORMATION:
Please note the disclaimer/risk notice as well as the disclosure of any possible conflicts of interest according to Section 85 of the German Securities Trading Act (WpHG) and Art. 20 MAR from page Seite 22

Note on research as a "minor non-monetary benefit" in accordance with the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

English version
Date and time of completion of the report: 26/06/2019 (10:36 am)
Date and time of the first distribution: 26/06/2019 (11:00 am)
Validity of the price target: until max. 31/12/2019

German version
Date and time of completion of the report: 12/06/2019 (09:51 am)
Date and time of the first distribution: 12/06/2019 (10:30 am)
Validity of the price target: until max. 31/12/2019

GBC AG Investment Research

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

Rating: Buy
Target price: 6.90 €

Current price: 3.01 €
11/06/2019 / Xetra
(Closing price)

Currency: EUR

Master data:

ISIN: DE000A1K0300
WKN: A1K030
Ticker symbol: EUCA

Number of shares³: 7.176

Marketcap³: 21.60
Enterprise Value³: 113.84
³ in m / in € m

Freefloat: 95.0%

Transparency level:
Prime Standard

Market segment:
Regulated market

Accounting:
IFRS

Financial year: 31.12.

Designated sponsor:
Pareto Securities AS

Analysts:

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* Catalogue of potential conflicts of interest on page 23

Corporate profile

Segment: Technology

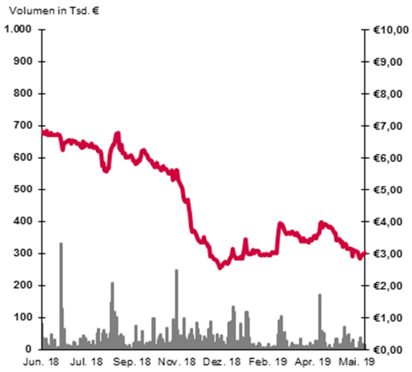
Focus: Digitisation of infrastructures and networking of IT structures

Employees: 1,875

Founded: 1998

Company head office: Frankfurt am Main

Executive Board: Bettina Meyer, Dr Frank Schmitt



euromicron AG (euromicron) unites medium-sized high-tech companies from the “Digital Buildings”, “Industry 4.0” and “Critical Infrastructures” sectors. euromicron has its roots in Germany, but is active at 40 locations around the world. With its expertise in sensors, end devices, infrastructures, platforms, software and services, euromicron can offer its customers integral solutions from a single source. In this way, euromicron supports medium-sized companies, large companies and public sector organisations in increasing flexibility and efficiency, preventing security risks, and developing new business models. As a German specialist in the Internet of Things (IoT), euromicron enables its customers to link up business and production processes and to successfully embark on the path of digitisation.

P&L (in € m) \ FY-end	31/12/2018	31/12/2019e*	31/12/2020e*	31/12/2021e*
Revenue	318.01	329.45	340.54	353.01
EBITDA	1.89	18.62	21.25	25.32
EBIT	-7.75	2.20	4.83	8.90
Net profit	-11.47	-3.81	-1.68	3.14
**including IFRS 16 effects*				
Key figures in €				
Profit per share	-1.60	-0.53	-0.23	0.44
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/Revenue	0.36	0.35	0.33	0.32
EV/EBITDA	60.23	6.11	5.36	4.50
EV/EBIT	neg.	51.75	23.57	12.79
P/E	neg.	neg.	neg.	6.88
P/B	0.33			

Financial dates
27/08/2019: AGM
08/08/2019: Publication of HY Report
07/11/2019: Publication of 9-Month Report

**Most recent research by GBC:
Date: Publication / price target in EUR / rating
08/01/2019: RS / 6.90 / Buy
20/08/2018: RS / 11.45 / Buy
02/07/2018: RS / 11.45 / Buy
14/11/2017: RS / 10.50 / Buy

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

EXECUTIVE SUMMARY

- In FY 2018, euromicron AG earned revenue of €318.01 million, 4.5% less than in the previous year. This decline was mainly attributable to one-off effects (construction-related business) and lower revenues in business divisions in the Smart Buildings segment. Adjusted for these one-off effects, the consolidated revenue decline only amounted to 1.7%.

- At operating result level, euromicron generated EBITDA of €6.50 million (adjusted for exceptional costs) in the past financial year 2018, achieving an adjusted EBITDA margin of 2.0%, which was also in the adjusted forecast corridor. EBITDA during this business period amounted to €1.89 million.

- It is important to note that the strategic realignment implemented by management ("IoT" Group strategy) and the measures to improve profitability are increasingly reflected in the key operating figures. The strategy pursued by the company management to market higher-quality services (innovation business), to expand the service business, and to distribute comprehensive euromicron portfolio solutions should further increase the Group's profitability in the future.

- For the current FY 2019, we expect a return to the growth path. Specifically, we expect revenue of €329.45 million and EBITDA of €18.62 million. The significant improvement in operating profit and the high reported order backlog at the end of the first quarter of 2019 in the amount of €159.81 million (31/03/2018: €145.64 million) underpin our forecasts for this business period.

- For the years 2019 and 2020, we expect the growth in revenues and earnings to continue. Accordingly, we estimate that revenues will further increase to €340.54 million (2020) and €353.01 million (2021). In this scenario, EBITDA should increase to €21.25 million (2020) and then €25.32 million (2021).

- **On the basis of our forecasts for FY 2019 and the subsequent years 2020 and 2021, we have maintained our stock price target for euromicron AG. The fair value based on our DCF model is still €6.90 (previously: €6.90). Based on the current share price, this results in an unchanged BUY rating. In the long term, we are convinced that euromicron will be able to achieve significantly higher operating performance than before. The targeted selective optimisations of individual business divisions, the increased use of synergy effects between the subsidiaries and the continued consistent implementation of the IoT Group strategy should contribute to this.**

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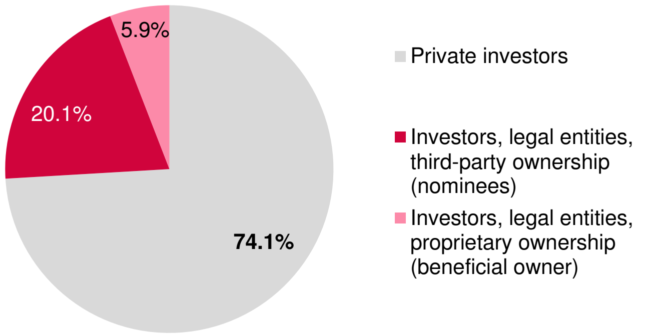
COMPANY

Shareholder structure

Shareholders in %	31/12/2018
Private investors	74.06%
Investors, legal entities, third-party ownership (nominees)	20.07%
Investors, legal entities, proprietary ownership (beneficial owner)	5.87%

Sources: euromicron AG; GBC AG

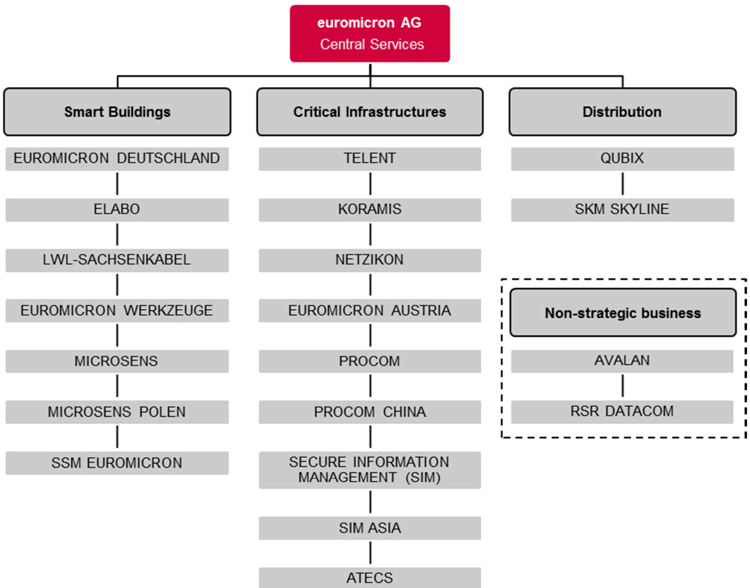


Shareholders with a shareholding of up to 5.00 %	31/12/2018
Carl Ernst Veit Pass	5.00%
LAZARD FRERES GESTION S.A.S	3.47%
Christian Bischoff	3.04%
Universal-Investment-GmbH	3.01%

Sources: 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.



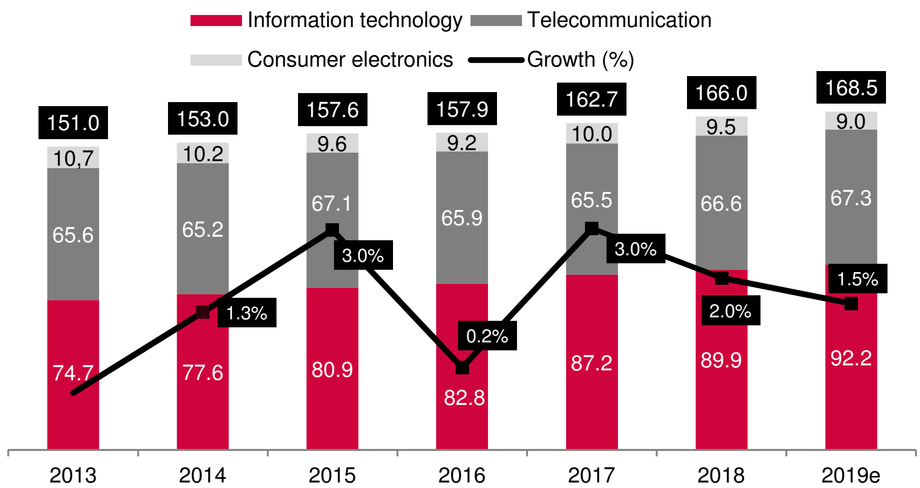
Sources: euromicron AG; GBC AG

MARKET AND MARKET ENVIRONMENT

As in the previous years, the German market for information technology and telecommunications (ITC), including consumer electronics, developed very positively in 2018 and, according to the industry association Bitkom, increased by 2.0% from €162.7 billion to €166.0 billion. For the current period 2019, industry experts are also expecting a continuation of this positive trend and anticipate a further increase of 1.5% to €168.5 billion.

With growth of 3.1% in 2018 and expected growth of 2.5% in 2019 from €89.9 billion to €92.2 billion, information technology is proving to be a decisive growth factor and driver in the ITC market.

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



Sources: Bitkom; EITO; GBC AG

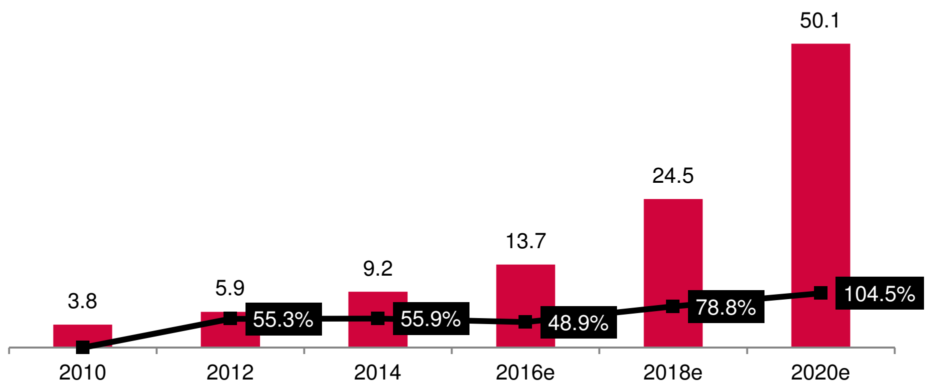
In 2018, in addition to IT services (an increase of 2.3%), the software segment in particular significantly increased by 6.3%. This positive market development in terms of revenues from software and IT services reflects the progressive digitisation of the overall German economy. euromicron AG should be able to benefit increasingly from this trend in the future as the digitisation of companies and public organisations will represent a key element of their business model.

In our opinion, the market also offers great potential for the euromicron Group, as many medium-sized companies have thus far only dealt with the digitisation of their business models and the investments required to a moderate extent.

As part of the digitisation of the economy, the Internet of Things (IoT) will play an important role in the coming years and euromicron is also involved in a wide range of related areas (e.g. Industry 4.0 or Smart City). Based on its technology business, the company continues to develop innovative solutions and business models for the Internet of Things, thereby supporting its customers with a high level of digitisation.

According to market experts (TechNavio, Deloitte), the IoT market in Germany is expected to have reached a volume of €24.5 billion in 2018, and it is expected that the volume will have more than doubled to €50.1 billion by 2020. According to the authors of a study conducted by German IT magazines CIO, COMPUTERWOCHE and other study participants, the Internet of Things is becoming increasingly important to German companies. According to its current IoT study (IoT study 2019), the number of companies that have already implemented IoT projects has more than doubled compared to the previous year's study. As part of their survey, 44.0% (previous year: 21.0%) of the companies (from the DACH region) indicated that they had already implemented IoT projects.

Development of the German IoT market (in € billion)

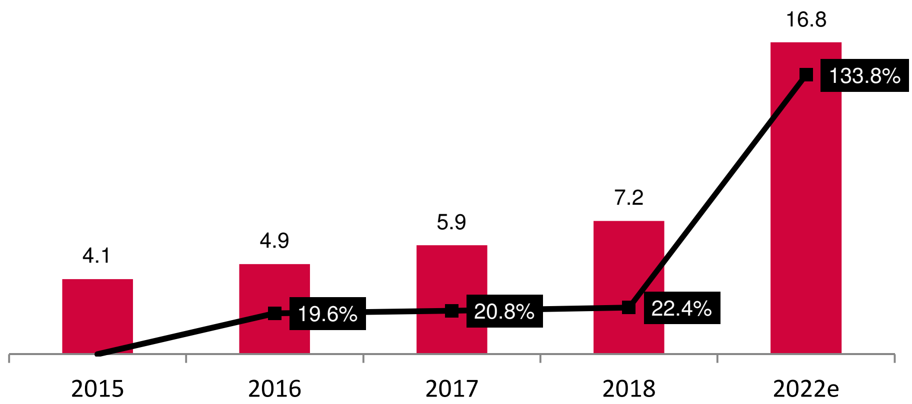


Sources: TechNavio; Deloitte AG; GBC AG

This reflects the significant growth potential of this market. euromicron is already increasingly benefiting from IoT orders in the Smart Buildings and Critical Infrastructures segments.

According to market experts, in the coming years, significant added value will be generated by the Internet of Things for industry in particular, e.g. in the form of higher productivity or lower costs (efficiency). 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 becoming increasingly important.

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



Sources: BITKOM; eco/Arthur D. Little; GBC AG

According to the industry association Bitkom, revenues from Industry 4.0 solutions developed very well in 2018. During this period, revenues were up 22.4% compared to the previous year, reaching €7.2 billion. According to market experts from eco and Arthur D. Little, revenues from Industry 4.0 solutions are expected to continue their rapid rise to €16.8 billion by 2022.

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 is increasingly focussing on these particularly high-growth market segments as part of the digitisation solutions it offers.

CORPORATE DEVELOPMENT AND FORECAST

2018 business performance

P&L (in € m)	FY 2017	Δ on PY	FY 2018
Revenue	332.91	-4.5%	318.01
EBITDA (*margin*)	9.50 (2.9%)	-80.1%	1,89 (*0.6%)*
EBIT (*margin*)	1.10 (0.3%.)	n.A.	-7.75 (*neg.)*
Net profit	-3.77	n.A.	-11.47
EPS in €	-0.53	n.A.	-1.60

Sources: euromicron AG; GBC AG

Revenue performance

In financial year 2017, euromicron AG initiated the transformation phase which was successfully completed in financial year 2018. As part of this phase, operational performance was significantly improved in the form of a positive operating cash flow of €3.30 million compared to the previous year (previous year: €-1.60 million). In addition, further investments were made in strategic business units, such as software solutions for “smart buildings” or maintenance optimisations with predictive maintenance, thus continuing to consistently pursue the IoT Group strategy.

Furthermore, the management identified structural deficits in individual business divisions of the Smart Buildings segment and carried out corresponding adjustment measures that were completed by the end of the 2018 financial year. As a result, management levels, sales management and personnel structures were specifically revised.

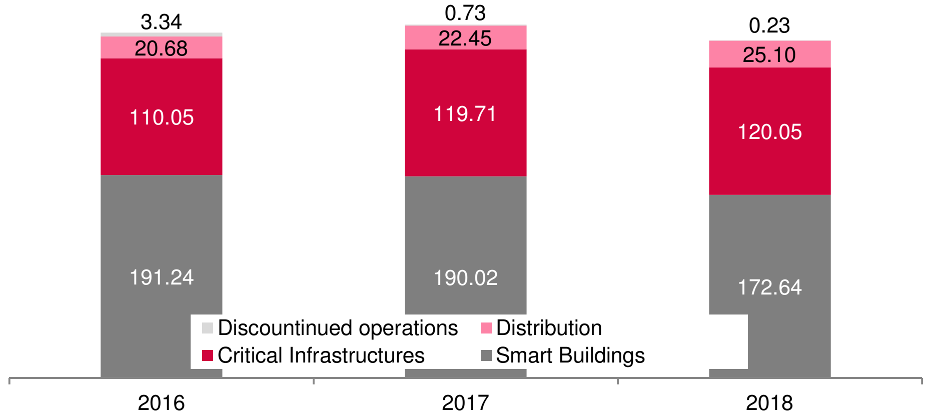
In addition, since February 2019, euromicron has specifically strengthened its Management Board team with the appointment of renowned expert in digitisation Dr Frank Schmitt (CTO). In the context of the dynamic development of digitisation, the newly composed Management Board is currently examining the Group’s strategic framework to see what can be fine-tuned. Upon completion of these strategic planning rounds, the technology company is planning to announce a newly refined medium-term strategy.

At an economic level, the euromicron Group ended financial year 2018 with revenues of €318.01 million (previous year: €332.91 million), which corresponds to a decline in revenues of 4.5% as compared to the previous year. Our revenue forecasts were therefore almost achieved. Adjusted for one-off effects from construction-related project business, the decline in revenue was only 1.7%. As a result, the revenues achieved in the past financial year were within the adjusted forecast range from the third quarter of 2018 of between €310.00 million and €330.00 million (initial forecast: €340.00 million to €360.00 million).

The Group’s decline in consolidated revenue was mainly driven by the revenues of the largest Group segment, the Smart Buildings segment, which fell by €18.20 million (segment revenue in 2018: €172.64 million). Totalling €-9.20 million, this was mainly due to unplanned one-off effects from settlements on receivables from legacy projects and the streamlining of the project portfolio that was completed by the end of 2018 as part of the realignment of the construction-related business. In addition, the segment’s decline in revenue of €-8.00 million is attributable to revenues from the Network Technology business division being lower than expected.

In this business division, the technology company restructured the organisation and distribution structure in the second half of 2018, which was also completed by the end of the financial year 2018.

Development of external revenues by segments (in € m)



Sources: euromicron AG; GBC AG

Further revenue declines of €4.00 million resulted from the sale of the Telecommunications business division on 30 April 2017, which means that the revenues included in the comparisons from 2017 are not applicable in financial year 2018. This was offset, in particular, by revenues from the high-voltage business division, which were €3.80 million above the previous year's level.

In the second largest segment, Critical Infrastructures, revenues of €120.05 million were almost the same as the previous year's level (previous year: €119.71 million). The various business divisions in this segment (system house business, technology business) have been offset by this.

The smallest segment, Distribution, was again able to increase revenues by 11.8% to €25.10 million (previous year: €22.45 million). The positive development of the foreign distribution business was particularly responsible for this increase.

In addition, in the past financial year 2018, euromicron increased its order backlog significantly by 17.3% compared to the previous year to €149.14 million.

Overall, it should be noted that Group revenue was almost stable on an adjusted revenue base and the business development of the Smart Buildings division counteracted a Group increase in revenues. In addition, the pleasing order situation at the end of FY 2018 was a good basis for future business development.

Earnings performance

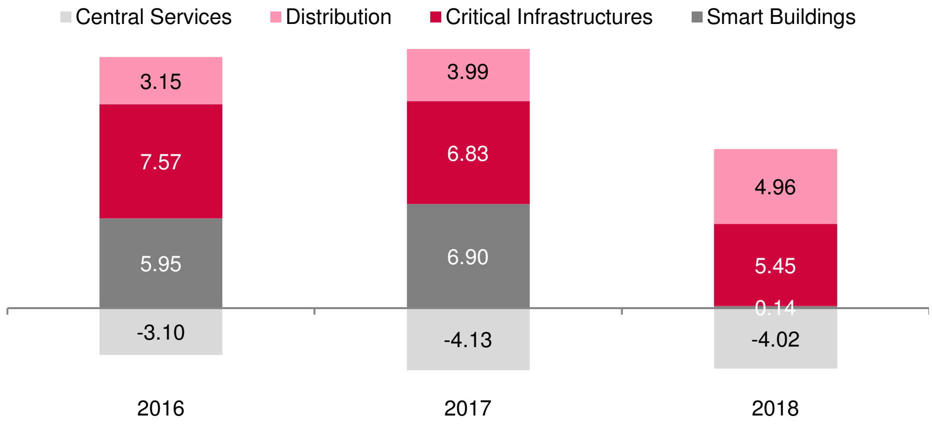
The completed transformation phase, the necessary reorganisation measures, and the increased focus on promising new market segments (IoT Group strategy) not only impacted revenue development, but also earnings performance.

Alongside the decline in revenues, operating EBITDA (EBITDA adjusted for exceptional costs) also decreased by €-6.99 million to €6.50 million compared to the previous year, which corresponds to an operating EBITDA margin of 2.0% (previous year: 4.1%). As a result, the operating margin was in the management's adjusted forecast corridor.

The gross profit and therefore also the operating EBITDA were impacted by one-off effects from settlements on receivables from legacy projects and the streamlining of the project portfolio in the Smart Buildings segment. Adjusted for this effect, gross profit was increased by €2.00 million. Despite the decline in revenues, this is attributable to the cost of materials ratio, which improved by 1.50%, mainly due to improved margins in the product and solution business and in the distribution business.

As a result, operating EBITDA adjusted for one-off effects from construction-related project business increased by 18.5% compared to the previous year to €16.00 million (previous year: €13.50 million). This is equivalent to an adjusted operating EBITDA margin (based on Group revenue adjusted for one-off effects) of 4.9%.

Development of operating EBITDA by segments (in € m)



Sources: euromicron AG; GBC AG

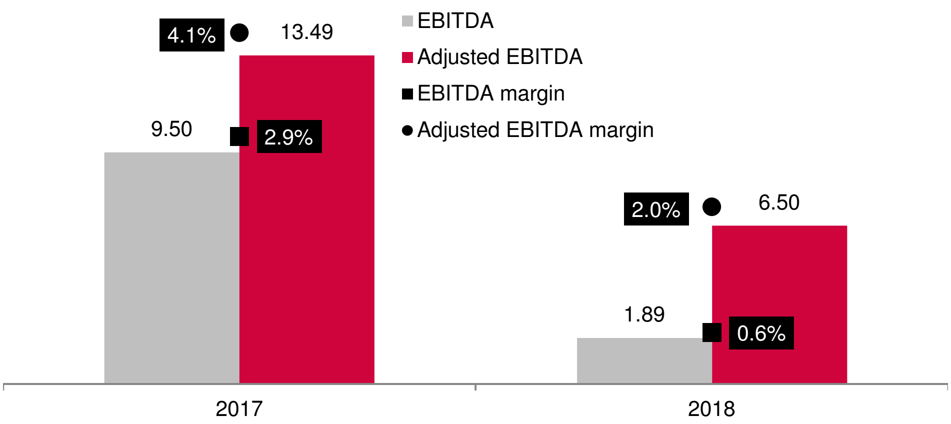
The operating result in the largest business segment, Smart Buildings, was significantly impacted by one-off effects (€-9.50 million) in the construction-related business. This was offset by an increase in earnings of €3.10 million in the smart switches business. The segment's operating EBITDA therefore decreased by €6.76 million compared to the previous year, totalling €0.14 million (previous year: €6.90 million).

In the second largest business segment, a decline in earnings also had to be accepted, which was largely due to the lack of contribution margins from the lower technology revenues. This was only partially offset by contributions from the higher revenues of the systems houses, as these revenues have a lower margin level. Overall, this led to a decline in operating EBITDA of 20.2% to €5.45 million (previous year: €6.83 million).

On the other hand, the Distribution business segment increased their earnings. As a result of the positive business development of the foreign distribution business in particular and a further improvement in the gross profit margin of the product mix offered, operating EBITDA increased by 24.3% to €4.96 million compared to the previous year (previous year: €3.99 million).

Earnings improvements were also recorded in the Central Services segment (Group management). The business unit's negative operating EBITDA was mainly due to lower personnel costs and savings in the property-and-equipment cost range, but increased by 2.7% to €-4.02 million compared to the previous year (previous year: €-4.13 million).

Presentation of the EBITDA and the adjusted EBITDA (each in € million)



Sources: euromicron AG; GBC AG

As in previous financial years, the Group result for the past financial year was affected by exceptional costs incurred as part of the strategic realignment and the completed transformation phase. As in the previous year, these costs mainly relate to euromicron AG (Central Services) and euromicron Deutschland GmbH (Smart Buildings). The exceptional costs of these two companies were mainly attributable to costs for legal advice, costs for financial advice, other consulting costs, costs of personnel measures, as well as to court and legal fees, costs for interim managers and costs related to the structure of the financing.

The total exceptional costs in the past financial year were €4.61 million (previous year: €3.98 million), which represents an increase of 15.8% compared to the previous year. Adjusted for these exceptional costs, the EBITDA in FY 2018 was €6.50 million and therefore €6.99 million below the previous year's level, which was €13.49 million. However, it should be noted that this significant decline in earnings, as already mentioned, is based on one-off effects in the construction-related business. This should only be a temporary effect, which will not be repeated in the following business period.

Overall, the earnings performance of the euromicron Group was below our earnings forecasts due to the unexpectedly higher optimisation measures with regard to the Group structure and the exceptional costs associated with this. We assume that these necessary structural measures will lead to a significant improvement in earnings and an improved basis for further growth in the business periods to come. In addition, the previous measures to improve profitability are having an increasing impact, which is also reflected in the operating EBITDA adjusted for one-off effects. Furthermore, the high order backlog at the end of the FY 2018 shows that management has made the right "strategic decisions" for the company in the past and that the Group has good market positioning.

Balance sheet and financial situation

in € m	31/12/2016	31/12/2017	31/12/2018
Equity	82.36	78.54	66.21
Equity ratio (in %)	33.7%	31.1%	*27.2%*
Interest bearing debt	77.81	92.21	98.79
Liquid assets	6.84	4.95	6.55
Net debt	70.97	87.26	92.24
Operating assets (incl. goodwill)	140.27	146.33	145.44
Net working capital	36.17	40.62	26.42

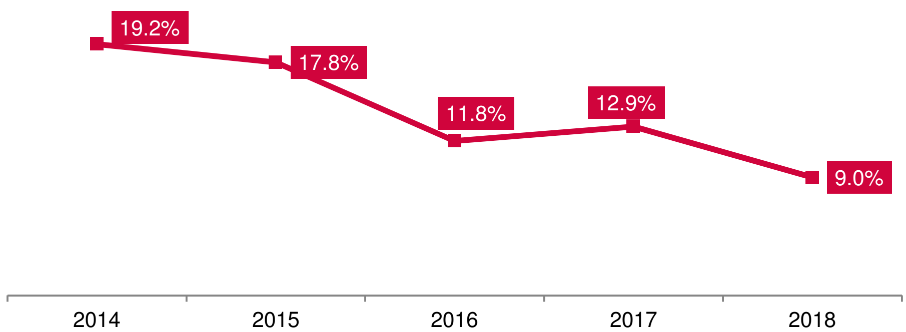
Sources: euromicron AG; GBC AG

The general business development, the previous optimisation measures with regard to the Group structure and the strategic measures (investments in future fields, etc.) were also reflected in the balance sheet.

Equity decreased accordingly to €66.21 million due to the accrued Group loss, which was caused in particular by adjustments to the Group structure and one-off effects in the construction-related business. The equity ratio therefore also decreased to 27.2%. Despite this decline in development, the equity ratio at this scale remains at a relatively high level.

Due to the high level of investments in the further development of the technology group (implementation of IoT Group strategy), interest-bearing liabilities, representing bank liabilities in particular, increased by €6.58 million to €98.79 million. As a result, net debt currently amounts to €92.24 million.

Development of the working capital ratio (in %)



Sources: euromicron; GBC AG

As part of the strategic reorientation of the euromicron Group, the focus over the last years has also been on optimising working capital (WC). The WC ratio has fallen almost continuously over recent years and is currently achieving a value of 9.0%. As a result, the company even exceeded its target value of 10.0%. In addition, the significantly declining WC ratio led to a marked improvement in operating cash flow (cash flow from ongoing business activities), which most recently reached a level of €3.35 million (as at 31/12/2018) (previous year: €-1.56 million).

Note: euromicron AG has had to implement the IFRS 16 (Leases) requirements for the first time from 01/01/2019. Since that date, all leasing and rental agreements have been capitalised as assets and a liability of the same amount has been recognised as an offsetting item. According to the company, as of 1 January 2019, assets of €27.84 million were capitalised for rights to use leased assets. With regard to liabilities, leasing liabili-

ties in the amount of €27.93 million were recognised. Overall, this resulted in an increase in total assets of €27.78 million. The equity ratio declined accordingly by 2.8% to 24.4% (as at 31/12/2018: equity ratio of 27.2%).

Business development Q1 2019

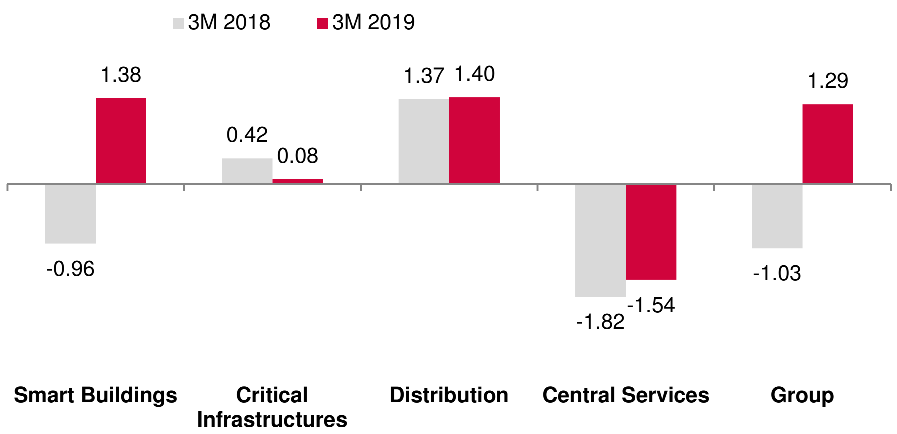
P&L (in € m)	Q1 2018	Delta	Q1 2019
Revenues	75.09	-6.4%	70.27
EBITDA before IFRS 16 (margin)	-1.03 (neg.)	n.A.	1.29 (1.8%)
EBITDA (margin)	-1.03 (neg.)	n.A.	3.14 (4.5%)
EBIT before IFRS 16 (margin)	-3.35 (neg.)	n.A.	-1.04 (neg.)
EBIT (margin)	-3.35 (neg.)	n.A.	-0.91 (neg.)
Consolidated net profit	-3.49	n.A.	-1.97
EPS in €	-0.50	n.A.	-0.27

Source: euromicron AG

In the quarterly financial statements for 2019, as announced in the annual report for 2018, euromicron is applying the new IFRS 16 Standard ("Leases") for the first time, which requires another form of accounting for leasing in companies. The technology company has decided to continue to manage the Group in accordance with the previous EBITDA (prior to IFRS 16) in the future, as the cash-oriented corporate management continues to exist. For this reason, the company presents the key earnings figures adjusted for leasing effects (IFRS 16) as well as additional comments (including a reconciliation to reported earnings figures).

In the first three months of the financial year 2019, the technology group generated revenues of €70.27 million in line with its own expectations and therefore had to accept a 6.4% decline in revenues. This revenue performance is mainly due to a change in the seasonal variations of revenues in the Critical Infrastructures segment compared to the previous year. In the two other business segments, Smart Buildings and Distribution, a stable or even moderate increase in revenue performance was achieved. euromicron expects that the previous decline in Group revenue will be offset again over the course of the year.

Presentation of the EBITDA (before IFRS 16, in € m) by segments



Sources: euromicron AG; GBC AG

The operating result (EBITDA prior to IFRS 16) developed in the opposite direction to the revenue performance. Compared to the previous year, the EBITDA significantly increased by €1.29 million, entering positive territory (previous year: €-1.03 million). The significant increase in earnings in the Smart Buildings segment was primarily responsible for the increase in earnings for the Group. This was achieved through the successful structural measures taken in the past financial year 2018. In addition, at the end of the first quarter of 2019, the company reported a high order backlog of €159.81 million, which was up 9.7% on the previous year.

With the publication of the Q1 2019 report, euromicron AG has maintained the company guidance published as part of the annual report 2018 (revenue: €325.0 million to €345.0 million, and EBITDA margin prior to IFRS 16: 4.0% to 5.5%). The Management Board therefore has a positive outlook for the current financial year and plans to increase profitability and continue to consistently implement the IoT Group strategy.

SWOT analysis

Strengths	Weaknessess
• Leading technology company with a comprehensive network of branches in Germany • A distinguishing feature as a result of combining skills in system integration and technology solutions, as well as in the field of smart services and IoT • Crisis-resistant business model due to broad customer diversification • Strategic realignment already bearing fruit • Fully integrated Group that can offer the entire IoT value chain to the market.	• Comparatively high goodwill in the balance sheet, which accounts for around 45.0% 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 topics of the Internet of Things and Industry 4.0 are becoming more and more important for companies. 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 2018	IFRS 16 Effect	FY 2019e*	FY 2020e*	FY 2021e*
Revenues	318.01		329.45	340.54	353.01
EBITDA (*margin*)	1.87 (*0.6%*)	+7.44	18.62 (*5.7%*)	21.25 (*6,2%*)	25.32 (7.2%)
EBIT (*margin*)	-7.75 (*neg.*)	+0.52	2.20 (*0.7%*)	4.83 (*1.4%*)	8.90 (2.5%)
Consolidated net profit	-11.47	-0.29	-3.81	-1.68	3.14
EPS in €	-1.60		-0.53	-0.23	0.44

*Source: GBC AG *incl. IFRS 16 - effects*

Revenue forecasts

According to its own statements, in the past financial year, the euromicron Group successfully completed the transformation phase it had initiated in 2017. The main areas of focus of this business development phase were the operational improvement of profitability and cash flow, as well as investments in future business units (e.g. Industry 4.0, smart buildings or smart services) to implement the IoT Group strategy.

As a result, the technology group is developing more and more from a provider of technical components to a provider of digital software-based solutions. We believe that the company's physical business and technical solutions will continue to be of high economic importance in the future, as the technology group's potential corporate customers are increasingly seeking integrated, integral solutions.

With the successful completion of the transformation phase, euromicron should now have established a better basis for further growth. In addition, we expect the measures introduced to improve profitability will have a positive impact on future earnings.

In light of this, euromicron AG anticipates an expansion of the previous volume of business for the current financial year. The company expects revenues to increase to between €325.00 million and €345.00 million (previous year: €318.01 million). As a result, the company anticipates a significant increase in revenues.

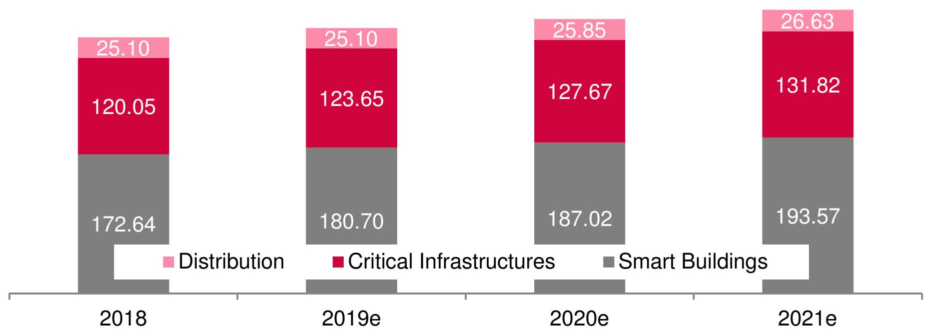
For the current financial year 2019, we expect an increase in revenues by 3.6% to €329.45 million, which is roughly in line with the lower range of the company's forecast. The high order backlog for the first three months of the 2019 business period reported in the publication of the quarterly report in the amount of €159.72 million (previous year: €145.23 million) underpins our forecast and gives us a positive outlook for the current business period.

In this context, we expect the largest business segment in particular, Smart Buildings Segment, to make a significant contribution to this development with moderate growth. Our growth forecast is based on the capitalisation of the expected positive market development and the exclusion of the exceptional effects from the previous year. Specifically, we calculate that for this segment, as compared to the previous year, there will be revenue growth of 4.7% to €180.70 million (previous year: €172.64 million).

We also anticipate moderate revenue growth for the second-largest segment, due to significant increases in revenues in the system house and technology businesses. In line with this, we expect revenue growth of 3.0% to €123.65 million for this segment (previous year: €120.05 million).

With regard to the smallest segment, Distribution, we forecast stable revenue development compared to the previous year. Since this segment has shown very strong development in the past, we now only have a conservative estimate, with steady revenue of €25.10 million compared to the previous year. However, the company's planned expansion of sales and sales organisation in this division should generate new revenue momentum in the future.

Expected development of revenue by segment (in € m)



Source: GBC AG

For the financial years 2020 and 2021, we expect the growth course pursued to continue and anticipate a further increase in Group revenue to €340.54 million and €353.01 million respectively. The technology company's even stronger positioning in the "IoT" and "Industry 4.0" growth markets and the further expansion of the innovation business (smart services, etc.) should contribute to achieving this objective.

Note: As a result of the first-time application of IFRS 16 Standard (Leases), the income statement and therefore the earnings position will be affected by this new accounting standard. According to our calculations, the EBITDA will be €7.44 million higher than previously, due to rental and leasing payments being excluded. However, this is offset by a significant increase in depreciation and amortisation (GBCe: €6.92 million) and in the financial result due to higher interest expenses (GBCe: €0.92 million), meaning the Group-wide result is forecast to be €0.29 million lower. We have taken this effect into account in our forecasts, but we have excluded non-cash-effective components from our DCF model.

Profit forecasts

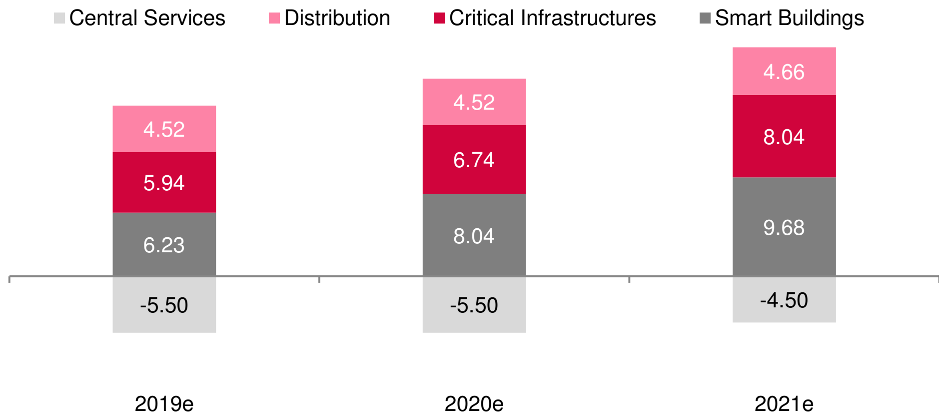
On the basis of the revenue forecast issued, euromicron AG is predicting an EBITDA margin of between 4.0% and 5.0% for the current financial year 2019 and therefore an EBITDA (prior to the effects of IFRS 16), in conjunction with the announced revenue guidance, in the range of €13.00 million to €17.25 million. Since we estimate the IFRS 16 effect on EBITDA to be up by approx. €7.50 million, we assume that euromicron anticipates EBITDA in the range of approx. €20.50 million to €24.75 million for the current business period – this would represent an EBITDA margin of between 6.3% and 7.2%. For the current financial year 2019, we have a conservative estimation that an EBITDA of €18.62 million will be achieved, which equates to an EBITDA margin of 5.7%. Adjusted for the expected effects of IFRS 16, an EBITDA (EBITDA prior to IFRS 16) of €11.18 million should be generated.

At segment level, the Smart Buildings segment in particular should contribute to a higher Group EBITDA (prior to IFRS 16). As a result of positive market development and the structural optimisation measures introduced in 2018 (at management level, in human resources, in sales) as well as the exclusion of one-off effects, we predict that the

EBITDA for this division will improve significantly compared to the previous year (prior to IFRS 16) to €6.23 million (previous year: €-1.89 million). As a result, the EBITDA margin of this segment should enter positive territory, at 3.4%, compared to the previous year.

We expect earnings to develop just as positively in the Critical Infrastructures segment, albeit not as strongly as in the largest segment. Alongside the expected moderate revenue growth, we anticipate an EBITDA increase in this business division (prior to IFRS 16) of around 9.0% to €5.94 million (previous year: €5.45 million). As a result, the EBITDA margin should increase slightly to 4.8% compared to the previous year (previous year: 4.5%).

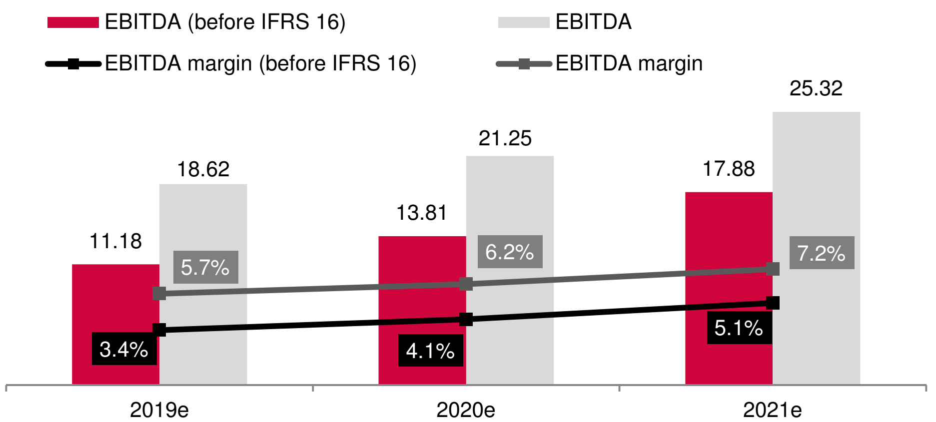
Expected development of EBITDA by segments (before IFRS 16, in € m)



Source: GBC AG

On the other hand, we expect a decline in earnings performance for the Distribution segment. In this business segment, we anticipate a decline in EBITDA (prior to IFRS 16) by 8.9% to €4.52 million due to the planned investments in the expansion of sales and sales organisation (previous year: €4.96 million). Despite an expected decline in the operating result, the EBITDA margin should remain at a high level, at a projected 18.0% (previous year: 19.8%). For the Central Services (Group management) segment, we expect a negative EBITDA (prior to IFRS 16) of €5.50 million.

Expected performance of EBITDA and EBITDA margin (in € m/ in %)



Source: GBC AG

In the financial years 2020 and 2021, we anticipate a further increase in earnings due to the expected further rise in revenues, developing economies of scale, greater synergy effects, as well as the planned expansion and improvement in the range of services. As a result, the Group EBITDA (prior to IFRS 16) should continue to increase to €13.81 million and then to €17.88 million.

Overall, euromicron should be able to benefit from the company's increased capital expenditures in the areas of "digitisation" and "IoT", as well as "Industry 4.0". In this regard, we foresee euromicron scoring particularly well with corporate customers with its broad range of customer-specific digitisation solutions, which also includes the IoT value chain.

VALUATION

Model assumptions

We rated euromicron AG using a three-stage DCF model. Beginning with the specific estimates for 2019-2021 during the first phase, the forecast for the value drivers will be made in the second phase from 2022-2026. We expect increases in revenue of 3.00%. We have set 8.00% as the target EBITDA margin. We have included the tax rate in phase 2 at 30.00%. Additionally, a residual value is determined in the third phase by using the perpetual annuity by the end of the forecast horizon. As the final value, we assume a growth rate of 2.00%.

Calculation of the cost of capital

The weighted average cost of capital (WACC) of euromicron AG is calculated from the equity costs and the borrowing costs. The market premium, the company-specific beta and the risk-free interest rate have to be determined in order to determine the equity cost.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations of the German Special Committee for Business Valuation and Business Management (Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft, FAUB) of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V.). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, average returns for the previous three months are used and earnings are rounded up to the nearest 0.25 basis points. **The value currently used for the risk-free interest rate is 1.00% (previously: 1.25%).**

We set the historical market premium of 5.50% as a reasonable expectation of the market premium. This is supported by historical analyses of stock market returns. The market premium reflects as a percentage the improved return expected from stock markets relative to low-risk government bonds.

According to GBC estimation methods, a beta of 1.79 is currently determined.

The cost of equity of 10.82% (beta multiplied by the risk premium plus risk-free interest rate) was calculated using the assumptions made. As we assume a sustainable weighting of the equity cost of 35.00%, the result is a weighted average cost of capital (WACC) of 7.52% (previously: 7.11%). The increase in the weighted average cost of capital is due in particular to higher borrowing costs, but the lower risk-free interest rate has a counteracting effect.

Valuation result

Discounting of future cash flows is based on the entity approach. We have calculated the corresponding weighted average cost of capital (WACC) to be 7.52%. The resulting fair value per share at the end of the 2019 financial year corresponds to the stock price target of €6.90 (previously: €6.90).

Note: We retain our price target despite the higher cost of capital due to the next estimate period being regularly included in our valuation model and due to a higher operating performance being expected in the long term.

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	8.0%
Depreciation on fixed assets	11.0%
Working capital to revenue	10.0%

final - phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	4.4%
Effective tax rate in terminal value (TV)	30.0%

Three-phase DCF - model:

phase	estimate			consistency					final
in mEUR	GJ 19e	GJ 20e	GJ 21e	GJ 22e	GJ 23e	GJ 24e	GJ 25e	GJ 26e	TV
Revenue	329.45	340.54	353.01	363.60	374.51	385.74	397.32	409.24	
Revenue change	3.6%	3.4%	3.7%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Revenue to fixed assets	2.08	2.26	2.48	2.70	2.93	3.17	3.42	3.67	
EBITDA	18.62	21.25	25.32	29.09	29.96	30.86	31.79	32.74	
EBITDA margin	5.7%	6.2%	7.2%	8.0%	8.0%	8.0%	8.0%	8.0%	
EBITA	2.20	4.83	8.90	13.45	15.16	16.81	18.40	19.95	
EBITA margin	0.7%	1.4%	2.5%	3.7%	4.0%	4.4%	4.6%	4.9%	4.4%
Taxes on EBITA	-0.66	-1.45	-2.67	-4.03	-4.55	-5.04	-5.52	-5.98	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	1.54	3.38	6.23	9.41	10.61	11.77	12.88	13.96	
Return on capital	0.9%	1.7%	3.3%	5.3%	6.2%	7.1%	8.0%	8.9%	8.5%
Working Capital (WC)	36.24	35.76	37.07	36.36	37.45	38.57	39.73	40.92	
WC to Revenue	11.0%	10.5%	10.5%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investment in WC	-9.82	0.48	-1.31	0.71	-1.09	-1.12	-1.16	-1.19	
Operating fixed assets (OFA)	158.52	150.60	142.18	134.54	127.74	121.69	116.30	111.51	
Depreciation on OFA	-16.42	-16.42	-16.42	-15.64	-14.80	-14.05	-13.39	-12.79	
Depreciation to OFA	10.4%	10.9%	11.5%	11.0%	11.0%	11.0%	11.0%	11.0%	
CAPEX	-29.50	-8.50	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Capital Employed	194.76	186.36	179.25	170.90	165.19	160.26	156.04	152.43	
EBITDA	18.62	21.25	25.32	29.09	29.96	30.86	31.79	32.74	
Taxes on EBITA	-0.66	-1.45	-2.67	-4.03	-4.55	-5.04	-5.52	-5.98	
Total investment	-18.92	-15.46	-16.75	-14.73	-16.53	-16.56	-16.60	-16.63	
Investment in OFA	-29.50	-8.50	-8.00	-8.00	-8.00	-8.00	-8.00	-8.00	
Investment in WC	-9.82	0.48	-1.31	0.71	-1.09	-1.12	-1.16	-1.19	
Adjustment IFRS 16	20.40	-7.44	-7.44	-7.44	-7.44	-7.44	-7.44	-7.44	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows (FCF)	-0.96	4.34	5.90	10.32	8.88	9.25	9.67	10.12	179.41

Value operating business (due date)	150.88	157.88
Net present value explicit FCFs	42.88	41.76
Net present value Terminal Value	108.00	116.12
Net debt	100.49	103.02
Value of equity	50.39	54.86
Minority interests	-0.85	-0.92
Value of share capital	49.54	53.94
Shares outstanding in million	7.18	7.18
Fair value per share in €	**6.90**	**7.52**

Cost of capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.79
Cost of equity	10.8%
Target weight	35.0%
Cost of debt	6.7%
Target weight	65.0%
Taxshield	14.3%
WACC	**7.5%**

Return on Capital	WACC				
	6.9%	**7.2%**	**7.5%**	**7.8%**	**8.1%**
8.0%	8.06	6.83	5.75	4.78	3.91
8.2%	8.74	7.46	6.32	5.31	4.41
8.5%	9.41	8.08	**6.90**	5.85	4.91
8.7%	10.09	8.71	7.48	6.39	5.41
9.0%	10.76	9.33	8.06	6.93	5.91

ANNEX

I.
Research under MiFID II

1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

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A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

Section 2 (II) Recommendation/ Classifications/ Rating

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The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10 %.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the rel 10 % and < + 10 %.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the <= - 10 %.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

<u>Section 2 (III) Past recommendations</u>
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<u>Section 2 (IV) Information basis</u>
For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc.) which GBC believes to be reliable. In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends.

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In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (5a;5b;7;11)

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