

m-u-t AG

BUY (BUY) | Target EUR 4.00 (EUR 6.00)

 Price (last closing price) : **EUR 3.36** | Upside : 19%

| | | |
|-------------|--------------|--------------|
| Est. change | 2015e | 2016e |
| EPS | -52.4% | -50.0% |

After a disappointing 4Q: We expect stabilization in 2015e – TP cut to 4.00

Thursday, 09 April 2015



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|--|--|--|
| | | |
|--|--|--|

| Capital | |
|-------------------------|-------------|
| m7u GY m7uG.DE | |
| Market Cap (EURm) | 15 |
| Enterprise value (EURm) | 17 |
| Extrema 12 months | 5.78 - 3.00 |
| Free Float (%) | 24.0 |

| Performance (%) | 1m | 3m | 12m |
|---------------------|------|-------|-------|
| Absolute | -2.9 | -7.1 | -17.1 |
| Perf. rel. "sector" | -5.1 | -16.8 | -19.3 |
| Perf. rel. CDax | -9.0 | -24.6 | -33.7 |

| P & L | 12/14e | 12/15e | 12/16e |
|-------------------------|--------|--------|--------|
| Sales (EURm) | 49.5 | 55.2 | 61.0 |
| EBITDA (EURm) | 4.0 | 4.7 | 5.3 |
| EBIT (EURm) | 3.0 | 3.5 | 4.0 |
| Attr. net profit (EURm) | 0.7 | 1.0 | 1.2 |
| EPS (EUR) | 0.15 | 0.20 | 0.25 |
| Dividend (EUR) | 0.00 | 0.00 | 0.00 |
| P/E (x) | 22.7 | 16.9 | 13.4 |
| P/B (x) | 2.7 | 2.3 | 1.9 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | -8.6 | 10.7 | 12.3 |
| EV/Sales (x) | 0.3 | 0.3 | 0.3 |
| EV/EBITDA (x) | 4.3 | 3.7 | 3.3 |
| EV/EBIT (x) | 5.7 | 4.9 | 4.3 |
| Gearing (%) | 44 | 38 | 32 |
| Net Debt/EBITDA(x) | 0.6 | 0.5 | 0.5 |

| Next Events | |
|--------------|-------------|
| 1Q15 figures | May 2015 |
| AGM | July 2015 |
| 1H15 figures | August 2015 |

4Q very disappointing

m-u-t AG (m7u) recently reported preliminary 4Q figures which overall were very disappointing – especially on the operating level with an EBIT of zero.

| (EURm) | 4Q14 | 3Q14 | 2Q14 | 1Q14 | FY14 | FY13 |
|-------------|------|------|------|-------|------|------|
| Sales | 11.2 | 13.2 | 11.6 | 13.5 | 49.5 | 41.0 |
| EBIT | 0.0 | 0.7 | 0.8 | 1.5 | 3.0 | 2.4 |
| EBIT margin | 0.0% | 5.3% | 6.9% | 11.0% | 6.1% | 5.9% |

Source: Company data, Oddo Seydler Bank AG

A dent in the turnaround story

m7u started 2014 strong, but finished rather weak. Coming from negative EPS of EUR -1.16 in 2012 and EUR -0.16 in 2013, the company posted positive 1H14 EPS of EUR 0.24/share. But in 2H14 EPS slipped to negative EUR -0.09 (full year: EUR 0.15). The main reason for the disappointment in 2H was higher than expected restructuring costs, which rose to EUR 1.5m for the full year 2014.

We expect stabilization in 2015e: Key topics

We are cautiously optimistic for m7u's performance in 2015. For 1Q15e we expect EPS to turn positive again. In our view, the following topics will be key for m7u in 2015:

- **Management reinforcement:** We expect a new board member will be hired following Thomas Wiedermann's departure at the end of March. We assume that the new board member will have a technological background and will form a dual-leadership together with the existing board member Fabian Peters.
- **Financial performance to stabilize:** Despite neg. EPS in 2H14, full-year 2014 EPS was positive at EUR 0.15 and we expect full-year 2015e EPS to continue the upward trend, rising to EUR 0.20 (+33.4% yoy).
- **More cautious investor communications:** With investor expectations already elevated due to the good results in 1H14, expectations were pushed higher still by very bullish comments by the former management. m7u ultimately proved unable to meet those expectations. The new management would do well to avoid past pitfalls by adopting a more measured approach in communicating with financial markets.
- **Operating restructuring measures:** While m7u made good progress in the restructuring process in 2014, the new management will still have a lot of work to do, including the following (as outlined in our previous updates): (1) increase synergies within the group (i.e. between the groups m7u in Wedel, tec5 and Avantex); (2) reorganise the group structure as the current ownership leads to significant profit participation by minority shareholders, (3) reduce costs further, esp. overheads; and (4) streamline production processes (focus on lean production), implementing the best practices of the three major group companies on a group-wide level.

BUY – Target price lowered to EUR 4.00

We cut our EPS estimates for 2015 and 2016 and consequently decrease our TP from EUR 6.00 to EUR 4.00 based on an updated DCF-model (see next page). However, we confirm our BUY rating. Our PT translates to a FY16E target P/E of 16.0x.

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DCF model valuation

Below we summarize our key assumptions for our DCF valuation approach:

WACC: On the basis of long-term yields of German federal bonds, we set the risk-free rate at 2.5%. We assume an equity risk premium of 6.0%, and a debt risk premium of 4.0%. We apply a beta of 2.00 to our DCF valuation which is above the company's historical beta. The rationale behind the high beta is based on 1) remaining risks in the restructuring process and 2) the company's small size. We furthermore assume a long-term target equity ratio of 60%. These premises result in a WACC of 10.96%.

Discounted Cash Flow Model

| EURm | PHASE 1 | | | PHASE 2 | | | | | | | PHASE 3 |
|--|-------------|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | ∞ |
| Sales | 55.2 | 61.0 | 66.5 | 72.5 | 77.9 | 81.8 | 85.1 | 87.6 | 89.8 | 91.6 | |
| YoY growth | 12.2% | 10.5% | 9.0% | 9.0% | 7.5% | 5.0% | 4.0% | 3.0% | 2.5% | 2.0% | |
| EBIT | 3.5 | 4.0 | 4.5 | 4.9 | 5.4 | 5.6 | 5.9 | 6.1 | 6.3 | 6.4 | |
| EBIT margin | 6.3% | 6.6% | 6.7% | 6.8% | 6.9% | 6.9% | 6.9% | 7.0% | 7.0% | 7.0% | |
| Income tax on EBIT (cash tax rate) | -1.1 | -1.2 | -1.3 | -1.5 | -1.6 | -1.7 | -1.8 | -1.8 | -1.9 | -1.9 | |
| Depreciation and amortisation | 1.0 | 1.2 | 1.3 | 2.5 | 2.6 | 2.8 | 2.9 | 3.0 | 3.1 | 3.1 | |
| Change in net working capital | -3.1 | -0.6 | -0.6 | -1.8 | -1.6 | -1.2 | -1.0 | -0.8 | -0.7 | -0.5 | |
| Net capital expenditure | -1.7 | -1.8 | -2.0 | -2.6 | -2.8 | -2.9 | -3.1 | -3.2 | -3.2 | -3.1 | |
| Free cash flow | -1.3 | 1.6 | 1.8 | 1.5 | 2.0 | 2.6 | 3.0 | 3.4 | 3.6 | 3.9 | |
| Present values | -1.3 | 1.5 | 1.5 | 1.1 | 1.3 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 17.3 |
| Present value Phase 1 | 1.7 | | | | | | | | | | |
| Present value Phase 2 | 10.2 | | | | | | | | | | |
| Present value Phase 3 | 17.3 | | | | | | | | | | |
| Total present value | 29.1 | | | | | | | | | | |
| Fair EV (including minorities) | 29.1 | | | | | | | | | | |
| Fair EV (excluding minorities) | 21.8 | 25% discount for minorities | | | | | | | | | |
| + Excess cash/Non-operating assets | 7.4 | | | | | | | | | | |
| - Financial debt | -9.9 | | | | | | | | | | |
| Fair value (excluding minorities) | 19.4 | | | | | | | | | | |
| Number of shares (m) | 4.8 | | | | | | | | | | |
| Fair value per share (EUR) | 4.05 | | | | | | | | | | |

| | | | |
|---------------------|-------|------------------------|---------------|
| Risk free rate | 2.50% | Target equity ratio | 60.0% |
| Equity risk premium | 6.00% | Beta (fundamental) | 2.0 |
| Debt risk premium | 4.00% | WACC | 10.96% |
| Tax shield | 30.0% | Terminal growth | 2.0% |

| Sensitivity analysis | | | | | | |
|----------------------|-------|---------------------------|------|------|------|------|
| | | Terminal growth (Phase 3) | | | | |
| | | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| WACC | 10.0% | 4.50 | 4.69 | 4.90 | 5.14 | 5.42 |
| | 10.5% | 4.18 | 4.34 | 4.52 | 4.72 | 4.96 |
| | 11.0% | 3.89 | 4.03 | 4.05 | 4.36 | 4.55 |
| | 11.5% | 3.62 | 3.75 | 3.88 | 4.03 | 4.20 |
| | 12.0% | 3.39 | 3.49 | 3.61 | 3.74 | 3.88 |

Source: Oddo Seydler Bank AG

Phase 1 (FY15E – FY17E): We estimate the free cash flows (FCF) of phase 1 according to our detailed financial forecasts.

Phase 2 (FY18E - FY24E): For Phase 2, we make more general assumptions. We think that revenue growth will decrease successively to 2.0%, resulting in a CAGR of 4.6% over Phase 2. Furthermore, we assume that EBIT margin will increase to 7.0% in this phase.

Phase 3: We apply a long-term FCF growth rate of 2.0% for the calculation of the terminal value which we believe is reasonable considering the growth prospects in company's underlying business and long term global economic outlook.

We calculate a fair value for the whole operating core business of EUR 21.8m. It is important to note that we subsequently apply a discount of 25% to take into account profit participation of minority shareholders. We furthermore add back the company's cash position of EUR 7.4m and deduct the company's debt of EUR 9.9m (as of 1H14). We derive a fair value (FV) of equity of EUR 19.4m, translating into a fair value of EUR 4.05/share. Our FV per share estimate is based on 4.8m shares outstanding.

Profit and loss account

| | EURm | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|--|------|-------------|--------------|--------------|-------------|-------------|-------------|
| Sales | | 40.2 | 37.7 | 41.0 | 49.5 | 55.2 | 61.0 |
| YoY growth | | 24.4% | -6.2% | 8.7% | 20.7% | 11.5% | 10.5% |
| Change in stocks of finished goods | | 1.3 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other activated own work | | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Total revenues | | 41.6 | 37.2 | 41.0 | 49.5 | 55.2 | 61.0 |
| Material costs | | -16.9 | -17.6 | -18.8 | -22.8 | -25.4 | -28.1 |
| in % of sales | | -41.9% | -46.8% | -45.8% | -46.0% | -46.0% | -46.0% |
| Gross income | | 24.8 | 19.6 | 22.2 | 26.7 | 29.8 | 32.9 |
| in % of sales | | 61.6% | 51.9% | 54.2% | 54.0% | 54.0% | 54.0% |
| Personnel expenses | | -11.1 | -13.1 | -13.2 | -10.8 | -10.8 | -11.9 |
| in % sales | | -27.6% | -34.7% | -32.1% | -21.8% | -19.6% | -19.6% |
| Other operating income | | 1.1 | 1.2 | 1.5 | 0.9 | 0.5 | 0.6 |
| Other operating expenses | | -8.9 | -8.9 | -7.2 | -12.8 | -14.9 | -16.3 |
| in % sales | | -22.0% | -23.5% | -17.4% | -25.8% | -27.0% | -26.7% |
| EBITDA | | 5.9 | -1.1 | 3.4 | 4.0 | 4.7 | 5.3 |
| in % of sales | | 14.7% | -3.0% | 8.3% | 8.2% | 8.4% | 8.7% |
| Depreciation and amortisation | | -1.4 | -2.0 | -1.0 | -1.0 | -1.2 | -1.3 |
| in % of sales | | -3.3% | -5.3% | -2.4% | -2.1% | -2.1% | -2.1% |
| EBIT | | 4.6 | -3.1 | 2.4 | 3.0 | 3.5 | 4.0 |
| in % of sales | | 11.3% | -8.3% | 5.9% | 6.1% | 6.3% | 6.6% |
| Financial result | | -0.3 | -0.4 | -1.4 | -0.6 | -0.7 | -0.7 |
| EBT | | 4.3 | -3.5 | 1.0 | 2.5 | 2.8 | 3.3 |
| in % of sales | | 10.6% | -9.4% | 2.5% | 4.9% | 5.1% | 5.4% |
| Extraordinary expenses | | 0.0 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| in % of sales | | 0.0% | -1.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Taxes | | -1.0 | -0.8 | -0.9 | -0.7 | -0.8 | -1.0 |
| as % of EBT | | -24.4% | 22.0% | -85.3% | -30.0% | -30.0% | -30.0% |
| Net income including minorities | | 3.2 | -4.7 | 0.2 | 1.7 | 2.0 | 2.3 |
| Minority interest | | -1.0 | -0.3 | -0.8 | -1.0 | -1.0 | -1.1 |
| Net income attributable to shareholders | | 2.2 | -5.1 | -0.7 | 0.7 | 1.0 | 1.2 |
| in % of sales | | 5.6% | -13.4% | -1.7% | 1.4% | 1.7% | 2.0% |
| Shares outstanding (m) | | 4.3 | 4.4 | 4.4 | 4.8 | 4.8 | 4.8 |
| Earnings per Share (EUR) | | 0.52 | -1.16 | -0.16 | 0.15 | 0.20 | 0.25 |

Source: Company data, Oddo Seydler Bank AG

Balance Sheet

| | EURm | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|---|------|-------------|-------------|-------------|-------------|-------------|-------------|
| Assets | | | | | | | |
| Noncurrent assets | | 5.9 | 5.8 | 6.0 | 6.7 | 7.9 | 9.1 |
| as % of total assets | | 20.8% | 24.8% | 24.6% | 28.6% | 31.8% | 34.4% |
| Intangible assets | | 2.4 | 2.6 | 3.8 | 3.8 | 4.3 | 4.8 |
| Fixed assets | | 3.5 | 2.5 | 2.1 | 2.8 | 3.4 | 4.1 |
| Deferred Tax | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | | 0.0 | 0.7 | 0.2 | 0.2 | 0.2 | 0.2 |
| Current assets | | 22.1 | 17.4 | 18.4 | 16.6 | 16.8 | 17.3 |
| as % of total assets | | 78.4% | 74.6% | 75.2% | 71.0% | 67.8% | 65.3% |
| Inventories | | 6.6 | 5.2 | 5.7 | 6.9 | 7.7 | 8.5 |
| Accounts Receivables | | 5.9 | 5.6 | 4.9 | 5.9 | 6.6 | 7.3 |
| Other assets | | 0.6 | 1.9 | 0.7 | 0.7 | 0.7 | 0.7 |
| Cash | | 9.0 | 4.7 | 7.1 | 3.1 | 1.8 | 0.7 |
| Income tax receivables | | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total Assets | | 28.2 | 23.3 | 24.5 | 23.4 | 24.8 | 26.5 |
| Shareholders' equity and liabilities | | | | | | | |
| Shareholders' equity | | 9.8 | 4.8 | 4.8 | 5.5 | 6.5 | 7.7 |
| as % of total equity and liabilities | | 34.7% | 20.8% | 19.6% | 23.6% | 26.1% | 29.0% |
| Capital stock | | 4.4 | 4.4 | 5.4 | 5.4 | 5.4 | 5.4 |
| Capital reserve | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Revenue reserves | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | | 3.2 | 3.3 | 2.9 | 2.9 | 2.9 | 2.9 |
| Retained earnings | | 2.3 | -2.8 | -3.5 | -2.8 | -1.8 | -0.6 |
| Other comprehensive income | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Noncurrent liabilities | | 0.0 | 14.4 | 14.7 | 12.1 | 11.9 | 11.7 |
| as % of total equity and liabilities | | 0.0% | 61.6% | 59.9% | 51.7% | 48.0% | 44.4% |
| Other Provisions | | 0.0 | 2.2 | 4.0 | 2.5 | 2.8 | 3.0 |
| Deferred taxes | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial liabilities | | 0.0 | 12.2 | 10.7 | 9.6 | 9.1 | 8.7 |
| Other liabilities | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current liabilities | | 18.4 | 4.1 | 5.0 | 5.8 | 6.4 | 7.0 |
| as % of total equity and liabilities | | 65.3% | 17.6% | 20.5% | 24.7% | 25.8% | 26.6% |
| Other provisions | | 8.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial liabilities | | 6.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts Payables | | 1.3 | 1.5 | 2.4 | 3.0 | 3.3 | 3.7 |
| Other liabilities | | 1.1 | 2.6 | 2.6 | 2.8 | 3.1 | 3.4 |
| Debt from assets to be disposed | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total equity and liabilities | | 28.2 | 23.3 | 24.5 | 23.4 | 24.8 | 26.5 |

Source: Company data, Oddo Seydler Bank AG

Cash flow statement

| | EURm | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|---|------|-------------|-------------|-------------|-------------|-------------|-------------|
| Income (loss) after tax | | 4.3 | -4.7 | 0.2 | 1.7 | 2.0 | 2.3 |
| Depreciation and amortisation | | 1.4 | 2.4 | 1.8 | 1.0 | 1.2 | 1.3 |
| Expenses from disposal of long-term assets | | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes in provisions and others | | 7.2 | -0.6 | 0.1 | 0.0 | 0.0 | 0.0 |
| Changes in inventories and account receivables and others | | -1.4 | 0.5 | 1.7 | -2.3 | -1.5 | -1.5 |
| Changes in account payables and others | | 0.3 | 1.1 | 0.8 | -0.7 | 0.9 | 0.9 |
| Cash flow from operating activities | | 11.7 | -1.3 | 4.5 | -0.3 | 2.5 | 3.0 |
| Investment in intangible assets | | -1.2 | -0.9 | -0.5 | 0.0 | -0.5 | -0.5 |
| Investments in PP&E | | 0.0 | -0.8 | -0.5 | -1.7 | -1.8 | -2.0 |
| Investments in financial assets | | 0.0 | -0.7 | -0.1 | 0.0 | 0.0 | 0.0 |
| Investments for the purchase of consolidated subsidiaries | | 0.0 | -6.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Income from disposal of subsidiaries | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from investing activities | | -1.2 | -8.4 | -1.2 | -1.7 | -2.3 | -2.5 |
| Cash inflow from capital increases | | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 |
| Minority Interest | | 0.0 | 0.0 | -0.4 | -1.0 | -1.0 | -1.1 |
| Dividends paid | | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Issuance / retirement of financial debt | | 0.0 | 5.3 | -1.5 | -1.1 | -0.5 | -0.5 |
| Cash flow from financing activities | | 1.0 | 5.3 | -0.8 | -2.1 | -1.5 | -1.6 |
| Total change in cash and cash equivalents | | -4.3 | -4.3 | 2.5 | -4.1 | -1.3 | -1.0 |
| Currency effects | | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents at the start of the period | | 13.3 | 9.0 | 4.7 | 7.1 | 3.1 | 1.8 |
| Cash and cash equivalents at the end of the period | | 9.0 | 4.7 | 7.1 | 3.1 | 1.8 | 0.7 |

Source: Company data, Oddo Seydler Bank AG

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- BUY: The expected performance of the share price is above +10%.
 HOLD: The expected performance of the share price is between 0% and +10%.
 SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

Recommendation history over the last 12 months for the company analysed in this report:

| Date | Recommendation | Price at change date | Price target |
|------------------|----------------|----------------------|--------------|
| 09 April 2015 | BUY | EUR 3.36 | EUR 4.00 |
| 07 November 2014 | BUY | EUR 4.00 | EUR 6.00 |
| 29 August 2014 | BUY | EUR 4.66 | EUR 6.90 |
| 11 June 2014 | BUY | EUR 5.35 | EUR 6.90 |
| 15 May 2014 | BUY | EUR 4.74 | EUR 6.00 |
| 17 April 2014 | BUY | EUR 4.04 | EUR 6.00 |

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches,

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