

Digitalization as a game changer

While consumer confidence in Europe and especially Germany continues to be supportive, margins and profits of retailers have come under pressure. In the course of 2018 the companies in our coverage clearly underperformed. Among the companies in a sector, which was classified as “defensive” by investors in the past, there have been profit warnings by Ceconomy (2x), Vapiano (2x), Metro and Südzucker, while the remaining companies in our coverage (BayWa, Fielmann, Hornbach, Takkt) are all behind previous year’s EBIT level since the start of their current financial year. The reasons are manifold. So retailers blame a long cold winter, a long hot summer and the soccer world cup for declining footfall. But we remain convinced, that retail managers continue to underestimate the impact of digitalization. Lower barriers for market entry, new competitors with more efficient processes and new possibilities for powerful brands to interact directly with consumers are serious threats for traditional retailers.

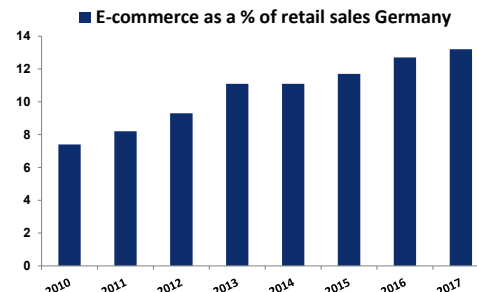
Our top picks are Hornbach Holding, Metro and Vapiano

Our sector top picks in Retail are Metro (Buy, TP: EUR 17) and Hornbach Holding (Buy, TP: EUR 89), while we favour Vapiano among the covered Food companies.

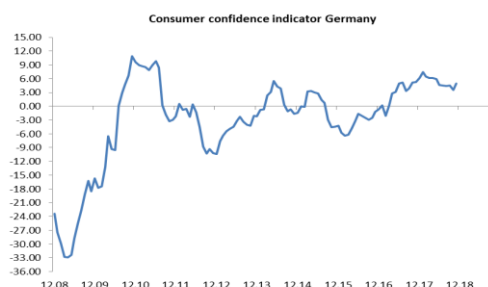
For Metro, the need for digitalization of the hospitality sector is an opportunity to become relevant for this attractive customer group. We expect a takeover offer by Daniel Kretínský and his vehicle EP Global Commerce (which own options to increase their stakes to 31.5%) is likely. Following massive investments in its digitalization, Hornbach Holding is well positioned with its ICR (Interconnected Retail) concept. In the DIY product category we expect, that this concept will remain superior to internet pure plays. The company trades at a significant discount to its book value (even when ignoring hidden reserves in real estate) and also at very moderate valuation multiples. We expect international expansion to drive HH earnings growth from FY 2019/20 onwards. Both companies also own significant part of their stores’ real estate. Among the Food companies we favour Vapiano (Buy, TP: EUR 11) at the currently depressed share price. Although the path to value creation will take years, we consider the brand of the pioneer in Fast casual Dining as still strong and there is massive potential for the new management team to improve operational efficiency.

Sector

Food and Retail



Source: Destatis (Statista data)



Source: Destatis (Statista data)

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An industry gets disrupted

In recent years, margins and profits of retailers came under pressure. An increasing level of e-commerce, high price transparency and strong competition brought retailer's margins down in nearly any category. Pure plays like amazon, Zalando, Notebooksbilliger.de and Zooplus have taken share, and market places emerged. While some categories (Books, Consumer electronics) are already far advanced, others (Food, DIY, opticians) are just in the starting phase. Some retailers have ignored the trend or were not be able to invest massively in their digitalization.

The recently emerged e-commerce pure plays have brought new emerging market participants with leaner cost structures than OTC retailers into the arena fighting with cheap offers for the consumer. But the game it is not only on prices, costs and transactions. The internet is also the main area to advertise, communicate and educate consumers. Players like amazon have brought a complete new thinking into the game. It is not any more about transactions, but about relations. Concepts like "Customer lifetime value" and "Net promoter Score" have become popular. Retailers must become relevant to their customers. Due to data management some digital players know their customers even better than traditional retailers, although they never have a direct face to face contact with customers. It seems obvious, that only players will be able to survive, which are a reliable partner for their customers and communicate and sell with their customers on all possible channels. Stores will more and more become showrooms.

Digitalization is also affecting Food production. So BayWa's segment "Innovation and Digitalization" shows strong growth for BayWa's digital farm management solutions. Nevertheless this will remain a loss making business for a while. For Vapiano we see the chance, that an improvement of the Vapiano app will enable targeted marketing, might improve footfall, reduce bottlenecks and should improve the customer journey.

Our three covered "Food" companies have not much in common and are clearly not comparable to each other. While BayWa is mainly a wholesaler of agricultural products (but also a producer and project developer for renewable energy and greenhouses), Südzucker builds the bridge between farmers and food producers by processing sugar beets, potatoes, fruits and other agricultural raw materials to soft commodities like sugar, starch and bioethanol (but is also the leading producer of privately labelled frozen pizza). Vapiano operates Fast Casual Dining restaurants in 33 countries globally. BayWa and Südzucker have a long history stemming from agricultural cooperatives. Südzucker is currently exposed to an adverse business environment caused largely by the end of the European sugar regime. Vapiano is a young company with an innovative brand targeting young urban consumer. It's difficulties are more related to strong expansion at the expense of operational efficiency.

Exhibit 1: Overview Food and Retail coverage

Name	Recommendation	Target Price	Last Price	Up/Downside	Market Cap (EURm)	Analyst
Food						
Vapiano	Buy	11.00	6.66	65%	160	Christian Bruns, CFA
Suedzucker	Hold	12.50	12.76	-2%	2,605	Christian Bruns, CFA
Baywa	Buy	32.00	23.45	36%	815	Christian Bruns, CFA
Retail						
Metro AG	Buy	17.00	13.25	28%	4,811	Christian Bruns, CFA
Ceconomy AG	Hold	4.50	3.98	13%	1,432	Christian Bruns, CFA
Fielmann	Hold	55.00	56.30	-2%	4,728	Christian Bruns, CFA
Takkt AG	Buy	20.00	14.16	41%	929	Christian Bruns, CFA
Hornbach Holding	Buy	89.00	49.30	81%	789	Christian Bruns, CFA

Source: Pareto Securities, FactSet

Exhibit 2: Valuation multiples Food and Retail coverage

Name	PE (adj) 2018e	PE (adj) 2019e	Div. Yield 2018e	Div. Yield 2019e	P/BV 2018e	P/BV 2019e
Food						
Vapiano	-	-	0.0%	0.0%	1.55	1.96
Suedzucker	-	-	0.8%	0.8%	0.78	0.79
Baywa	19.1	14.8	4.1%	4.7%	0.73	0.71
Retail						
Metro AG	13.5	12.5	5.2%	5.3%	1.50	1.41
Ceconomy AG	57.0	12.2	4.3%	6.5%	3.58	2.26
Fielmann	27.0	27.0	3.4%	3.3%	6.62	6.48
Takkt AG	11.3	10.8	3.9%	3.9%	1.51	1.40
Hornbach Holding	9.1	8.5	3.0%	3.4%	0.62	0.59

Source: Pareto Securities, FactSet

Record Q4 ahead

Coming from regional cooperative structures, BayWa today is a truly global player with annual revenues surpassing EUR 16bn. At a group EBIT margin of ~ 1% the company is however not able to cover its costs of capital. We are convinced that BayWa should allocate its resources in a much more efficient way and should concentrate on value creating businesses. We expect BayWa to reduce its scope of business as well as its working capital in Agricultural commodities trading (business unit BAST) to a level which is necessary to serve its clients. Next to fill its role as a cost-efficient full service provider for farmers in Bavaria and Austria also with digital solutions, BayWa should exploit the global value chains in Renewable Energy projects as well as in Greenhouses for Fresh Produce further. By that management should be able to improve its margins considerably. We rate BayWa a Buy with a EUR 32 target price.

Investment Case

BayWa's 9M EBIT is lagging 9M 2017 EBIT by EUR 62m due to a shortfall in the renewable energy divisions, which only sold 47 MW projects in the 9M period, but is going to sell renewable energy projects exceeding 450 MW in Q4 according to CEO Lutz. As Lutz also expects a strong Q4 from segment Agrar, BayWa seems to be on track meet its guidance of FY 2017 EBIT of EUR 165m – 175m, in line with FY 2017 EBIT of EUR 171m (which included a EUR 20m one-off from the sale of the BayWa headquarter building. A risk to the investment case is BayWa's high level of net financial debt.

EURm	2016	2017	2018e	2019e	2020e
Revenues	15,410	16,055	16,452	16,795	17,197
EBITDA	273	318	320	350	380
EBIT	167	211	187	214	238
EPS	0.90	1.13	1.22	1.58	2.09
EPS adj	0.90	1.13	1.22	1.58	2.09
DPS	0.85	0.90	0.95	1.10	1.45
EV/EBITDA	14.3	12.0	11.2	10.3	9.6
EV/EBIT	23.4	18.1	19.2	16.9	15.3
P/E adj	34.4	28.3	19.1	14.8	11.2
P/B	1.33	1.01	0.73	0.71	0.69
ROE (%)	3.9	4.1	3.8	4.9	6.3
Div yield (%)	2.8	2.8	4.1	4.7	6.2
Net debt	2,531	2,384	2,412	2,415	2,424

Source: Pareto



Target price (EUR)	32
Share price (EUR)	23

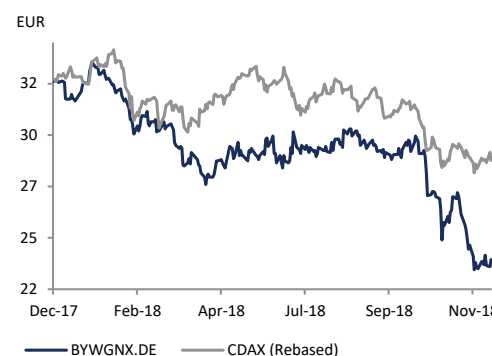
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	BYWGNX.DE, BYW6 GY
Sector	Food & Beverage
Shares fully diluted (m)	34.8
Market cap (EURm)	815
Net debt (EURm)	2,412
Minority interests (EURm)	355
Enterprise value 18e (EURm)	3,583
Free float (%)	38

Performance



Source: Factset

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BayWa is anchored in the agricultural value chain

Company profile

BayWa was founded in Munich in 1923, as the cooperative business with agricultural equipment, resources like crop seeds and fertilizers as well as commodities was separated from the cooperative banking Raiffeisen organization. The group today reports four different business segments, namely Agriculture, Energy, Building materials and Innovation & Digitalisation. The largest segment Agriculture is separated into four divisions, as there are the international "BAST" (BayWa Supply and Trade) unit, the domestic "Agri Trade & Service" servicing farmers mainly in Bavaria, "Agricultural Equipment" and "Global Produce" (Fruit and Vegetables). Energy is split into divisions "Conventional Energy" and "Renewable Energy". BayWa operates a successful BOOT (Build, Own, Operate, Transfer) strategy on Renewable energy projects.

Q4 will show record earnings in Renewable Energy

Upcoming Triggers and Drivers

BayWa is going to report a record Q4, driven a) by a strong Agriculture business (which benefits among other factors from higher commodity prices), but even more from b) a record quarter in Renewable Energy, as management plans to sell projects representing 450MW capacity. Given its extreme level of net debt and its wish to continue with high dividend payments, management has to find ways to make efficient use of BayWa's capital.

High level of financial debt

Risks to the Investment Case

BayWa debt level is extremely high (net financial debt/EBITDA2018 exceeding a multiple of 6). Should the company not be able to lift its profit margin and or reduce its capex, it might need an increase in equity or another hybrid bond, which is likely to weigh on the share price.

Next scheduled reporting: Publication of FY 2018 annual report (March, 28th) and analyst conference (March, 29th)

Better revenue mix and cost cuts to drive profitability

Valuation and recommendation

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Exhibit 3: DCF valuation

	Phase I					Phase II					Phase III
EUR m	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Jahre	0.1	1.07	2.1	3.1	4.1	5.1	6.1	7.1	8.1	9.1	
Revenues	16,452	16,795	17,197	17,641	18,095	18,528	18,939	19,325	19,684	20,014	
growth rate	2.5%	2.1%	2.4%	2.6%	2.6%	2.4%	2.2%	2.0%	1.9%	1.7%	
EBIT	172	200	225	250	265	302	341	380	420	460	
EBIT margin	10%	12%	13%	14%	15%	16%	18%	2.0%	2.1%	2.3%	
Tax	-49.9	-58.0	-65.3	-72.5	-76.9	-87.7	-98.8	-110.2	-121.8	-133.5	
Tax rate	29%	29%	29%	29%	29%	29%	29%	29%	29%	29%	
Depr. & Amort.	148.0	150.0	155.0	155.0	155.0	158.8	162.3	165.6	168.7	171.5	
% of sales	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	
Capex	-164.5	-167.9	-172.0	-176.4	-181.0	-176.0	-175.2	-176.3	-178.4	-180.1	
% of sales	10%	10%	10%	10%	10%	10%	0.9%	0.9%	0.9%	0.9%	
Change in WC & P	-58.0	-36.3	-44.8	2.6	-67.6	-64.6	-61.2	-57.5	-53.5	-49.2	
% of sales	0.4%	0.2%	0.3%	0.0%	0.4%	0.3%	0.3%	0.3%	0.3%	0.2%	
Free Cash Flow	47.6	87.8	98.0	158.7	94.6	132.8	167.8	201.5	234.9	269.0	4,816.9
growth rate	nm	84.6%	11.7%	62.0%	-40.4%	40.5%	26.3%	20.1%	16.6%	14.5%	15%
Present Value FCF	47.3	81.5	84.9	128.3	71.3	93.5	110.2	123.5	134.3	143.5	2,570.4
PV Phase I	413					Risk free rate	3.50%	Targ. equity ratio			50%
PV Phase II	605					Premium Equity	5.00%	Beta			1.2
PV Phase III	2,570					Premium Debt	3.20%	WACC			7.17%
Enterprise value	3,589					Sensitivity Growth in phase III					
- Net Debt (Cash) adjusted	1632						0.5%	1.0%	1.5%	2.0%	2.5%
- Pension Provisions	665					6.45%	33.3	40.5	49.1	59.7	73.0
- Minorities & Peripherals	328					6.81%	26.4	32.6	40.0	48.9	59.8
+ MV of financial assets	180					WACC 7.17%	20.3	25.7	32.0	39.6	48.8
- Paid-out dividends for last FY	30					7.53%	14.9	19.6	25.1	31.5	39.3
+/- Other EV items						7.89%	10.0	14.1	18.9	24.5	31.1
Equity value	1,114										
Number of shares	34.8										
Value per share (€)	32.0										
Current Price (€)	23.4										
Upside	37%										

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	15,958	15,202	14,928	15,410	16,055	16,452	16,795	17,197
EBITDA	360	265	288	273	318	320	350	380
Depreciation & amortisation	(138)	(118)	(130)	(128)	(147)	(148)	(150)	(155)
EBIT	222	147	166	167	211	187	214	238
Net interest	(147)	(66)	(78)	(97)	(109)	(89)	(99)	(98)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	75	80	88	70	102	98	115	140
Taxes	46	10	(26)	(17)	(35)	(28)	(33)	(41)
Minority interest	(23)	(20)	(13)	(22)	(28)	(27)	(27)	(27)
Net profit	98	70	48	31	39	43	55	73
EPS reported	2.85	2.03	1.39	0.90	1.13	1.22	1.58	2.09
EPS adjusted	1.99	1.67	1.31	0.90	1.13	1.22	1.58	2.09
DPS	0.75	0.80	0.85	0.85	0.90	0.95	1.10	1.45
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	1,087	1,189	1,420	1,403	1,409	1,424	1,441	1,457
Other non-current assets	653	668	592	641	719	701	682	664
Other current assets	3,181	3,521	3,716	4,172	4,255	4,330	4,378	4,436
Cash & equivalents	94	108	309	260	106	77	74	65
Total assets	5,015	5,486	6,037	6,475	6,488	6,532	6,575	6,622
Total equity	1,182	1,127	1,076	1,098	1,436	1,474	1,523	1,584
Interest-bearing non-current debt	1,765	2,123	2,544	2,790	2,489	2,489	2,489	2,489
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	2,068	2,236	2,417	2,586	2,563	2,569	2,563	2,549
Total liabilities & equity	5,015	5,486	6,037	6,475	6,488	6,532	6,575	6,622
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	(243)	(258)	(201)	(179)	232	101	159	165
Change in working capital	467	155	205	374	(128)	58	36	45
Cash flow from investments	(109)	(151)	(153)	(128)	(68)	(145)	(149)	(153)
Cash flow from financing	196	332	393	210	(45)	(43)	(50)	(66)
Net cash flow	9	14	201	(49)	(9)	(29)	(3)	(9)
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	37.8	30.6	28.4	30.8	32.1	23.5	23.5	23.5
Number of shares end period	34	35	35	35	35	35	35	35
Net interest bearing debt	1,671	2,015	2,235	2,531	2,384	2,412	2,415	2,424
Enterprise value	3,239	3,337	3,485	3,895	3,826	3,583	3,612	3,648
EV/Sales	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
EV/EBITDA	9.0	12.6	12.1	14.3	12.0	11.2	10.3	9.6
EV/EBIT	14.6	22.7	21.0	23.4	18.1	19.2	16.9	15.3
P/E reported	13.2	15.1	20.4	34.4	28.3	19.1	14.8	11.2
P/E adjusted	19.0	18.3	21.7	34.4	28.3	19.1	14.8	11.2
P/B	1.4	1.2	1.2	1.3	1.0	0.7	0.7	0.7
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	6.0	5.0	4.1	2.9	3.1	2.9	3.7	4.7
Dividend yield (%)	2.0	2.6	3.0	2.8	2.8	4.1	4.7	6.2
EBITDA margin (%)	2.3	1.7	1.9	1.8	2.0	1.9	2.1	2.2
EBIT margin (%)	1.4	1.0	1.1	1.1	1.3	1.1	1.3	1.4
NIBD/EBITDA	4.64	7.61	7.75	9.28	7.49	7.54	6.90	6.38
EBITDA/Net interest	2.45	3.99	3.72	2.81	2.93	3.61	3.55	3.87

New management – new strategy?

Ceconomy is Europe's largest Consumer Electronics retail group. Its main brand Media Markt holds No. 1 market positions in 8 European countries. Ceconomy also holds stakes in FnacDarty (No. 1 in France) and M.video (No. 1 in Russia). Following two consecutive profit warnings, Ceconomy is looking for a new CEO and CFO. This might also mean a change in Ceconomy's strategy. In our view it is essential to solve the conflict with MediaSaturn minority shareholder Convergenta. Although valuation is moderate we prefer to stay at the sidelines for the time being. Neutral.

Investment Case

Ceconomy operates in a highly competitive market with an increasing share of online sales and heavy price competition. Management, which is going to leave following two consecutive profit warnings, was concentrating on markets, where the group is in a leading position or has chances to become the market leader. It also targeted a higher share of online sales (preferably "click and collect" to avoid shipment costs and allow cross-selling). Another priority was on pushing the share of service revenues. The outgoing management team was not successful in solving the ongoing dispute with MediaSaturn minority shareholder Convergenta.

We strongly believe, that Ceconomy should find a business model, where it does not only make consumers pay for additional services, but also suppliers, which should have a strong interest to maintain "showrooms" for Consumer Electronic products staffed with competent professionals. But currently such a transformation is not in sight.

EURm	2016	2017	2018e	2019e	2020e
Revenues	21,870	22,155	21,520	21,735	21,952
EBITDA	619	704	649	660	730
EBIT	312	471	424	440	515
EPS	0.14	0.18	0.11	0.33	0.58
EPS adj	0.47	0.47	0.11	0.33	0.58
DPS	-	0.26	0.26	0.26	0.26
EV/EBITDA	3.2	4.2	3.0	1.8	1.6
EV/EBIT	6.3	6.2	4.6	2.8	2.3
P/E adj	17.7	21.2	57.0	12.2	6.8
P/B	7.13	4.87	3.58	2.26	1.91
ROE (%)	14.7	11.0	5.6	18.8	30.3
Div yield (%)	-	2.6	4.3	6.5	6.5
Net debt	(751)	(317)	(220)	(184)	(233)

Source: Pareto



Target price (EUR)	4.5
Share price (EUR)	4.0

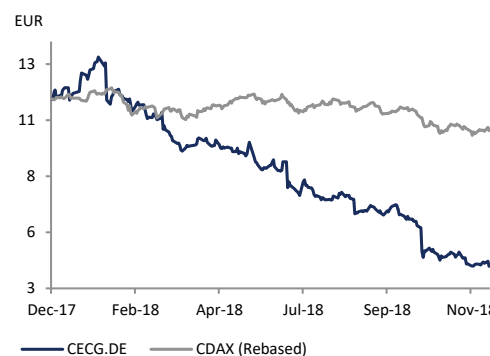
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	CECG.DE, CEC GY
Sector	Retailing
Shares fully diluted (m)	359.5
Market cap (EURm)	1,432
Net debt (EURm)	-220
Minority interests (EURm)	-30
Enterprise value 18e (EURm)	1,937
Free float (%)	47

Performance



Source: Factset

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*No 1 in Consumer Electronics
in continental Europe*

Company profile

Ceconomy is the leading Consumer Electronics retailer in continental Europe. It holds market leading positions in Germany, Austria, Hungary, Luxembourg, Poland, Netherlands, Italy and Spain. Its major brand "MediaMarkt" is complemented with the "Saturn" brand in Germany, Luxembourg and Austria. In the past, the company was very aggressive on advertising campaigns and entrepreneurial and highly incentivized store managers. With the emergency of the internet, a strong global competitor amazon and extremely high price transparency, Media Markt had to shift to a centralized and competitive pricing and a stronger harmonization of assortments and was not able to maintain its profit level of earlier days.

Ceconomy is the legal successor of Metro group. Following the demerger of the food businesses in FY 2016/17, it was renamed into Ceconomy. Since then Ceconomy acquired a 24% stake in Fnac Darty, the market leading Consumer Electronics retailer in France as well as a 15% stake in M.video, Russia's No.1. It raised equity capital recently by 10%. The whole capital increase was signed by German telco company freenet at EUR 8.50 per share in August 2018 at a significant premium to the share price. Recently Ceconomy formed the "European Retail Alliance", which was joined by Fnac Darty and M.video and is open to further partners.

Upcoming Triggers and Drivers

New management ante portas

A positive trigger for the share price could be the nomination of new management with a compelling strategy for the group. An economic viable solution for an exit of the loss-making Swedish business would also trigger a positive market reaction.

Risks to the Investment Case

*Additional capital increase
might become necessary*

A negative trigger for the share price would be an increase in equity capital. This might be necessary to buy out disputing minority shareholder Convergenta at MediaSaturn Holding or to increase Ceconomy's stakes in M.video or Fnac Darty. Ceconomy might also use additional equity to compensate for the potential loss from an exit out of Sweden, where its market position is extremely weak.

Next scheduled reporting: December, 19th, 2018: FY 2017/18 results

Valuation and recommendation

*Low multiples across the CE
sector*

Ceconomy trades at very low valuation levels, but this holds true also for its complete peer group. The group does not own its stores. When it will adapt IFRS 16 in 2019/20, its balance sheet will be highly leveraged although the group has only limited liabilities to banks. Although the leaving management went for 5% EBITDA margin, which would justify a target price of ~ 12 Euro per share based on DCF, we currently do not see this level of profitability as realistic with Ceconomy's current business model.

Exhibit 4: Ceconomy's peer group also trades at depressed multiples

Company	PE 2018e	PE 2019e	EV/EBIT 2018e	EV/EBIT 2019e	EV/EBITDA 2018e	EV/EBITDA 2019e
Best Buy Co., Inc.	12.0	11.3	8.8	8.7	6.4	6.3
Fnac Darty SA	8.6	7.3	4.5	3.6	3.4	2.7
Dixons Carphone PLC	7.9	7.7	6.6	6.4	4.3	4.2
M.video PJSC	10.4	9.6	7.5	6.6	4.5	3.9
Unieuro SpA	6.0	5.6	5.7	4.9	3.5	3.1
Median	8.6	7.7	6.6	6.4	4.3	3.9

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	20,983	21,738	21,870	22,155	21,520	21,735	21,952
EBITDA	520	573	619	704	649	660	730
Depreciation & amortisation	(294)	(260)	(307)	(233)	(225)	(220)	(215)
EBIT	226	313	312	471	424	440	515
Net interest	(2)	(49)	(21)	(26)	(232)	(45)	(50)
Other financial items	-	-	-	-	-	-	-
Profit before taxes	224	264	291	445	192	395	465
Taxes	(161)	(175)	(199)	(186)	(95)	(215)	(190)
Minority interest	(14)	(31)	(46)	(34)	(61)	(63)	(65)
Net profit	49	58	46	58	36	117	210
EPS reported	0.15	0.18	0.14	0.18	0.11	0.33	0.58
EPS adjusted	0.34	0.41	0.47	0.47	0.11	0.33	0.58
DPS	-	-	-	0.26	0.26	0.26	0.26
BALANCE SHEET (EURm)							
2014	2015	2016	2017	2018e	2019e	2020e	
Tangible non current assets	920	815	881	858	949	1,048	1,155
Other non-current assets	901	895	962	1,224	1,231	1,238	1,245
Other current assets	4,498	4,621	4,491	5,337	5,157	5,173	5,190
Cash & equivalents	877	979	769	861	770	734	783
Total assets	7,196	7,310	7,103	8,280	8,107	8,193	8,373
Total equity	182	205	360	666	580	599	710
Interest-bearing non-current debt	417	423	18	544	550	550	550
Interest-bearing current debt	-	-	-	-	-	-	-
Other Debt	5,786	5,964	5,956	6,430	6,337	6,404	6,472
Total liabilities & equity	7,196	7,310	7,103	8,280	8,107	8,193	8,373
CASH FLOW (EURm)							
2014	2015	2016	2017	2018e	2019e	2020e	
Cash earnings	349	542	558	426	387	378	468
Change in working capital	189	(209)	(165)	95	(70)	(4)	(4)
Cash flow from investments	(666)	(48)	(15)	(777)	(323)	(326)	(329)
CAPITALIZATION & VALUATION (EURm)							
2014	2015	2016	2017	2018e	2019e	2020e	
Share price (EUR end)	8.2	7.8	8.3	10.0	6.1	3.98	3.98
Number of shares end period	327	327	327	327	359	359	359
Net interest bearing debt	(460)	(556)	(751)	(317)	(220)	(184)	(233)
Enterprise value	2,196	1,943	1,951	2,937	1,937	1,214	1,159
EV/Sales	0.1	0.1	0.1	0.1	0.1	0.1	0.1
EV/EBITDA	4.2	3.4	3.2	4.2	3.0	1.8	1.6
EV/EBIT	9.7	6.2	6.3	6.2	4.6	2.8	2.3
P/E reported	54.7	43.8	59.2	56.1	57.0	12.2	6.8
P/E adjusted	23.8	19.1	17.7	21.2	57.0	12.2	6.8
P/B	12.9	10.4	7.1	4.9	3.6	2.3	1.9
FINANCIAL ANALYSIS & CREDIT METRICS							
2014	2015	2016	2017	2018e	2019e	2020e	
ROE adjusted (%)		68.7	54.4	30.0	5.7	19.8	32.1
Dividend yield (%)	-	-	-	2.6	4.3	6.5	6.5
EBITDA margin (%)	2.5	2.6	2.8	3.2	3.0	3.0	3.3
EBIT margin (%)	1.1	1.4	1.4	2.1	2.0	2.0	2.3
NIBD/EBITDA	(0.88)	(0.97)	(1.21)	(0.45)	(0.34)	(0.28)	(0.32)
EBITDA/Net interest	-	11.69	29.48	27.08	2.80	14.67	14.60

No longer a bond substitute

In September 2018 Fielmann (FIE) presented its new digitisation strategy, how they want to grow nationally and internationally, current challenges to attract suitable personnel as well as its outlook for the rest of the year. Our expectations of the new management generation at Fielmann were high, expecting a new spirit and a vision of Fielmann as the optician of the future. Some of these expectations have positively been met, but we believe there is still a lot of work to be done. Neutral, TP EUR 55.00

Investment Case

Fielmann expects top-line growth between ~4.0-4.5% in the medium term (equinet CAGR 2017-2022e 4.0%), consisting of 1.0-1.5% from store expansion and space increase and 3.0% from a better product mix (multifocal share from 25% now up to 35-38% in long-term) and positive demographics. Previously, the growth perspective was suggested at 4.0-6.0%. In terms of profitability the company expects that the better mix and upselling initiatives should compensate increasing OPEX and that EBT margins will be stable again (3% sales growth keeps margin stable). Economies of scale on a group and local branch level in combination with customer captivity allow for exceptional returns on capital. From our point of view there is room for price adjustments as the business is more or less stable and has low capital requirements and Fielmann prices are still below its competitors (we expect around 25-40%). For FY 2018 Fielmann expects a sales growth of around 3.6% while EBT should reach the previous year's level. Although the company's 9M EBT was 1.9% below previous year, guidance looks conservative in the light of a low comp base in Q4 (-10% EBT growth in Q4/17). Furthermore, the company speaks of a good start to the fourth quarter. Two additional selling days should also support Q4. We still expect EUR 253.3m (+1.9%) for FY18 EBT while consensus anticipates EUR 249.0m.

EURm	2016	2017	2018e	2019e	2020e
Revenues	1,336	1,386	1,435	1,489	1,549
EBITDA	282	291	296	298	307
EBIT	242	249	253	254	260
EPS	1.98	2.00	2.08	2.09	2.14
EPS adj	1.98	2.00	2.08	2.09	2.14
DPS	1.80	1.85	1.91	1.88	1.90
EV/EBITDA	17.7	20.2	15.0	14.9	14.6
EV/EBIT	20.7	23.6	17.6	17.6	17.2
P/E adj	31.7	36.8	27.0	27.0	26.3
P/B	7.68	8.89	6.62	6.48	6.29
ROE (%)	24.6	24.3	24.8	24.3	24.3
Div yield (%)	2.9	2.5	3.4	3.3	3.4
Net debt	(278)	(288)	(287)	(278)	(271)

Source: Pareto



Target price (EUR)	55
Share price (EUR)	56

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	FIEG.DE, FIE GY
Sector	Retailing
Shares fully diluted (m)	84.0
Market cap (EURm)	4,728
Net debt (EURm)	-287
Minority interests (EURm)	5
Enterprise value 18e (EURm)	4,445
Free float (%)	28

Performance



Source: Factset

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*Europe's No. 1 optician***Company profile**

With 730 stores and nearly 20k employees in 2018, Fielmann AG is the largest optometry company in Europe and is the market leader all in German-speaking countries like Austria, Germany and Switzerland. The family-run company is engaged in manufacturing and retailing of visual aids and other optical products, in particular spectacles, spectacle frames, sunglasses, contact lenses, hearing aids, related articles and accessories. FIE's domestic market is Germany with 79% of sales in 2017 (what stands for 53% market share in units sold) followed by Austria (21%/33%) and Switzerland (16%/46%).

*EU expansion starts to run***Upcoming Triggers and Drivers**

Store expansion Germany, Italy and others: Up to the 30th of June Fielmann operated 12 stores and intends to have 18 branches at the end of 2018 and 40 in the mid-terms. FIE therefore plans to sell 500k spectacles and will achieve sales amounting up to EURm 80. Additionally FIE now plans to operate >600 stores in Germany (-100), up to 45 in Switzerland and 40 in Austria. FIE was vague about its future M&A possibilities and an expansion (within the next 2-3 years) into another EU country (from old discussion we expect it is Spain). General digitisation: 1/Digital try on in-store+@home (Impact: Time reduction 3-5min and more footfall) 2/ Digital appointments for hearing aids and contact lenses (Waiting time reduction 3min) 3/ Customer accounts with data transfer across stores (Reduction 5-10min) 4/ Digital CRM with automated mailings and customer analysis (50% digital until 2020 by EUR 1m cost reduction) 5/ Point of sale with tablets and apps for order and video fitting (increase consulting quality and 3 min time reduction).

Next scheduled reporting: Q4 2018 Earnings Release 28.02.19 (Projected)

Risk to the investment case

What we are still missing: The company needs to know and trigger its Tier 1 customers (old/potential prescription glasses user) – that's where the high sales and margins are. We would have wished to see more efforts here with appointments and special mailings/reminders and events. RFID solutions to minimize working hours after closing time. Where is the vision how to deal with the demographical lack of staff, FIE's biggest problem? Has FIE a recruiting strategy and is the company using active sourcing like XING to hire people. Here the statements were quite vague and not convincing.

*Target price of EUR 55***Valuation and recommendation**

FIE's valuation and multiples have always been demanding. Due to concerns over earnings growth and FIE's margin development consensus has become negative on the stock. Actually a P/E 18/19e with ~26x and EV/EBIT 17.5x/17X (5y hist. avg. 19x) is still high compared to a competitor like GrandVision (GV) trading at a P/E of 20x/18x and EV/EBIT 15x/14x without a fundamental better sales growth perspective. However, in terms of profitability and pricing power (FY17) FIE is still ahead of GV with an ROE of 25 vs. 23, an ROA 18 vs. 8 and a ROIC of 24 vs. 17. Therefore we think that management has to quickly deliver growth and show that the above mentioned measures lead to success. Nevertheless 3.5% dividend yield is still attractive and has never been cut.

We base our valuation on a DCF model applying a long-term growth rate of 2.1%, a calculated NPV with a WACC of 6.1% to derive a target price of EUR 55. This implies a multiple 27x for P/E 19e, 18x EV/EBIT and EV/Sales of 3x. Our WACC is a result of a 3.5% risk free rate assumption and a 5% equity risk premium. The Beta of 0.7 is derived using a fundamental approach (i.e. competitive structure, management-quality, company size and financial risk).

Exhibit 5: DCF valuation

EUR m	Phase I					Phase II					Phase III
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	1,435	1,489	1,549	1,615	1,688	1,757	1,822	1,882	1,937	1,985	
growth rate	3.5%	3.8%	4.0%	4.3%	4.5%	4.1%	3.7%	3.3%	2.9%	2.5%	
EBIT	253	254	260	269	279	289	297	305	312	318	
EBIT margin	17.7%	17.0%	16.8%	16.7%	16.5%	16.4%	16.3%	16.2%	16.1%	16.0%	
Tax	-73.4	-73.6	-75.5	-78.0	-81.0	-83.7	-86.3	-88.5	-90.5	-92.1	
Tax rate	29%	29%	29%	29%	29%	29%	29%	29%	29%	29%	
Depr. & Amort.	43.0	44.7	46.5	48.5	50.6	76.6	91.8	101.2	107.4	113.4	
% of sales	3.0%	3.0%	3.0%	3.0%	3.0%	4.4%	5.0%	5.4%	5.5%	5.7%	
Capex	-76.0	-81.9	-88.3	-93.7	-101.3	-105.4	-109.3	-112.9	-116.2	-119.1	
% of sales	5.3%	5.5%	5.7%	5.8%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
Change in WC & P	-3.4	-3.8	-4.1	-4.6	-5.0	-4.8	-4.5	-4.2	-3.8	-3.4	
% of sales	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	
Free Cash Flow	143.4	139.2	138.8	141.1	142.6	171.3	189.1	200.8	208.9	216.5	5,515.1
growth rate	nm	-3.0%	-0.3%	17%	10%	20.2%	10.4%	6.2%	4.0%	3.6%	2.1%
Present Value FCF	142.9	130.6	122.8	117.6	112.0	126.9	132.0	132.0	129.5	126.5	3,221.3

PV Phase I	626	Risk free rate	3.50%	Targ. equity ratio	80%
PV Phase II	647	Premium Equity	5.00%	Beta	0.7
PV Phase III	3,221	Premium Debt	0.50%	WACC	6.1%

Enterprise value	4,494	Sensitivity Growth in phase III					
- Net Debt (Cash)	-288		1.1%	1.6%	2.1%	2.6%	3.1%
- Pension Provisions	8	5.50%	53.6	58.5	64.8	73.3	85.3
- Minorities & Peripherals	0	5.80%	50.1	54.3	59.5	66.4	75.9
+ MV of financial assets		WACC 6.11%	47.1	50.6	55.0	60.7	68.3
- Paid-out dividends for last FY	151	6.41%	44.4	47.5	51.2	56.0	62.1
+/- Other EV items		6.72%	42.0	44.7	47.9	51.9	57.0

Equity value	4,623
Number of shares	84.0
Value per share (€)	55.0
Current Price (€)	56.3
Upside	-2.2%

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	1,160	1,229	1,301	1,336	1,386	1,435	1,489	1,549
EBITDA	233	264	279	282	291	296	298	307
Depreciation & amortisation	(35)	(38)	(39)	(40)	(42)	(43)	(45)	(46)
EBIT	198	226	240	242	249	253	254	260
Net interest	1	0	0	(0)	(0)	0	0	0
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	199	226	240	241	249	253	254	260
Taxes	(57)	(63)	(70)	(70)	(76)	(73)	(74)	(76)
Minority interest	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Net profit	138	157	166	166	168	175	175	180
EPS reported	1.64	1.87	1.97	1.98	2.00	2.08	2.09	2.14
EPS adjusted	1.64	1.87	1.97	1.98	2.00	2.08	2.09	2.14
DPS	1.45	1.60	1.75	1.80	1.85	1.91	1.88	1.90
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	211	210	223	224	240	270	304	343
Other non-current assets	71	71	75	82	90	80	72	63
Other current assets	217	270	296	328	307	312	319	326
Cash & equivalents	301	287	297	280	290	289	280	273
Total assets	799	837	891	914	926	952	975	1,005
Total equity	594	630	668	686	695	720	740	766
Interest-bearing non-current debt	2	2	2	2	2	2	2	2
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	203	206	222	218	221	223	226	228
Total liabilities & equity	799	837	891	914	926	952	975	1,005
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	19	145	149	221	291	223	225	231
Change in working capital	5	11	11	(2)	(4)	(3)	(4)	(4)
Cash flow from investments	(44)	(36)	(48)	(38)	(54)	(64)	(70)	(76)
Cash flow from financing	(112)	(122)	(135)	(147)	(151)	(155)	(160)	(158)
Net cash flow	16	(14)	11	(18)	10	(0)	(9)	(7)
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	42.5	56.6	68.2	62.8	73.5	56.3	56.3	56.3
Number of shares end period	84	84	84	84	84	84	84	84
Net interest bearing debt	(299)	(284)	(296)	(278)	(288)	(287)	(278)	(271)
Enterprise value	3,273	4,466	5,433	4,993	5,886	4,445	4,460	4,472
EV/Sales	2.8	3.6	4.2	3.7	4.2	3.1	3.0	2.9
EV/EBITDA	14.0	16.9	19.5	17.7	20.2	15.0	14.9	14.6
EV/EBIT	16.5	19.8	22.7	20.7	23.6	17.6	17.6	17.2
P/E reported	25.9	30.2	34.6	31.7	36.8	27.0	27.0	26.3
P/E adjusted	25.9	30.2	34.6	31.7	36.8	27.0	27.0	26.3
P/B	6.0	7.5	8.6	7.7	8.9	6.6	6.5	6.3
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	23.7	25.7	25.5	24.6	24.3	24.7	24.0	23.9
Dividend yield (%)	3.4	2.8	2.6	2.9	2.5	3.4	3.3	3.4
EBITDA margin (%)	20.1	21.5	21.4	21.1	21.0	20.7	20.0	19.8
EBIT margin (%)	17.1	18.4	18.4	18.1	18.0	17.7	17.0	16.8
NIBD/EBITDA	(1.28)	(1.08)	(1.06)	(0.99)	(0.99)	(0.97)	(0.93)	(0.88)
EBITDA/Net interest	-	-	-	-	-	-	-	-

Neglected bricks and clicks

Hornbach is a family-run DIY company with a highly valuable real estate ownership. In fact, the market value of HH's real estate exceeds the company's market capitalization. Hornbach has grown its big box store network mainly organically and since 2010 heavily invested in digitalization following an ICR (interconnected retail) strategy. Although stores are best-in-class in terms of revenues/m², the company's profitability in its home market Germany is poor. In contrast, its international store network generates very attractive returns. The expansion of Hornbach's highly profitable international business will contribute to attractive earnings growth in the years to come.

Investment Case

In H1, a late start into the spring season and extremely hot weather in summer contributed to an earnings decline as well as some pressure on its gross margin and record expenses for its ICR (Interconnected Retail) infrastructure. We expect Hornbach Holding to catch up in profitability in H2 of FY18/19 (ending February 19) and return to earnings growth in FY 19/20. With its EDLP and ICR approach Hornbach is attractively positioned for the targeted project customers. While the group has a 11% market share in Germany, its share of e-commerce compared to traditional DIY companies in Germany exceeds 30%. Nevertheless the stock trades not only at P/E ~ 10 and EV/EBITDA of 6, but also at ~70% of its book value and at ~30% of its book value, when hidden reserves are included adequately. A trigger for a stronger earnings momentum is a faster expansion of its international store network in the years to come. In our view further consolidation in the highly competitive German market is inevitable and should allow for profitable operations in the longer term also at Hornbach's home turf.

EURm	2016	2017	2018e	2019e	2020e
Revenues	3,941	4,141	4,297	4,530	4,757
EBITDA	254	264	268	285	305
EBIT	157	156	163	178	194
EPS	4.84	5.11	5.34	5.78	6.39
EPS adj	4.97	5.30	5.43	5.78	6.39
DPS	1.50	1.50	1.50	1.70	1.80
EV/EBITDA	7.1	6.9	5.6	5.3	5.0
EV/EBIT	11.5	11.8	9.2	8.5	7.9
P/E adj	13.3	13.3	9.1	8.5	7.7
P/B	0.91	0.92	0.62	0.59	0.56
ROE (%)	6.8	6.9	6.9	7.0	7.4
Div yield (%)	2.3	2.1	3.0	3.4	3.7
Net debt	506	460	452	448	438

Source: Pareto



Target price (EUR)	89
Share price (EUR)	49

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	HBH.DE, HBH3 GR
Sector	Retailing
Shares fully diluted (m)	16.0
Market cap (EURm)	789
Net debt (EURm)	452
Minority interests (EURm)	262
Enterprise value 18e (EURm)	1,503
Free float (%)	63

Performance



Source: Factset

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Company Profile

A family-led DIY company

Hornbach Holding KGaA is a family-run business in the 5th generation. The group's main business is operated at Hornbach Holding's listed subsidiary Hornbach Baumarkt AG (International DIY megastores). Other subsidiaries of Hornbach Holding are Hornbach Immobilien AG (real estate) and Hornbach Baustoff Union (construction materials for commercial customers).

Hornbach Baumarkt operates 157 DIY megastores (~ 11,700 sqm on average) in eight European countries (Germany, Netherlands, Luxemburg, Sweden, Switzerland, Czech Republic, Slovakia and Romania). It follows an ICR (Interconnected Retail) approach using all distribution and communication channels with customers. In terms of pricing Hornbach is following an EDLP (every day low price) strategy and targets customers with large DIY projects. These elements make Hornbach the best-in-class DIY company when it comes to productivity (sales per store, sales/m²) in Germany. Hornbach is also known for its awarded TV commercials, in which the company celebrates its customers and their dreams, skills and will to realize their projects.

Upcoming Triggers and Drivers

Earnings to catch up in H...

A return to earnings growth in the quarters to come should be driving the share price higher in the short-term.

A trigger for higher valuation multiples would be a merger of the two listed entities Hornbach Holding and Hornbach Baumarkt, as it would improve liquidity of the shares massively.

The most promising measure for a massive revaluation would be a realization of Hornbach's hidden reserves by a sale of its real estate. Alternatively Hornbach could also reach a higher valuation by splitting into two listed companies, a real estate as well as a retail company. Nevertheless, we do not expect such a move in the near future. We nevertheless could well imagine the divestment of single locations preferably in areas with underperforming operations to bring down the ownership quota from 57% in the direction of 50%.

Risks to the investment case

...but will it be enough to maintain the guidance?

Ambitious guidance: There is a risk of increasing competitive price pressure bringing the gross margin down. This might mean, that the company will not be able to catch up enough in H2 18/19 and be forced to reduce its guidance. But at the current share price level we doubt that a moderate guidance revision would put significant pressure on the share price.

IFRS 16: The implementation of IFRS 16 will increase assets as well as debt by ~ EUR 800m according to management and bring down the equity ratio of Hornbach Holding from 57% to 44%

Another structural problem is that in the mindset of the family-led management the level of the share price does not play a major role, which might prevent the execution of the measures described as triggers also in future. High digitalization expenses (FY 2018/19: EUR 70m-75m) show that management tends to sacrifice margins for a better competitive position in future.

Next scheduled reporting: Q3 (Aug-Nov 2018) report on December, 20th

Valuation and Recommendation

Hidden reserves in real estate exceed market capitalization

In our view Hornbach offers deep value not only to its customers, but also to investors. The company trades at a ~ 30% discount to its book value. The group owns real estate with a book value exceeding EUR 1bn, but with a market value exceeding EUR 2bn, so the hidden reserves are higher than Hornbach Holding's market capitalization. We derive our target price of EUR 89 from a DCF model. A peer group valuation would result in a lower target price (~EUR 70) and a valuation of net assets would result in a target price of ~ EUR 200 per share.

Exhibit 6: DCF valuation

EUR m	Phase I					Phase II					Phase III
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Jahre	0.1	1.07	2.1	3.1	4.1	5.1	6.1	7.1	8.1	9.1	
Revenues	4,297	4,530	4,757	4,994	5,244	5,476	5,686	5,870	6,027	6,152	
growth rate	3.8%	5.4%	5.0%	5.0%	5.0%	4.4%	3.8%	3.3%	2.7%	2.7%	
EBIT	164	178	194	212	224	233	241	248	254	258	
EBIT margin	3.8%	3.9%	4.1%	4.2%	4.3%	4.3%	4.2%	4.2%	4.2%	4.2%	
Tax	-45.0	-48.7	-53.6	-55.4	-55.0	-57.2	-59.2	-60.9	-62.3	-63.4	
Tax rate	27%	27%	28%	26%	25%	25%	25%	25%	25%	25%	
Depr. & Amort.	104.0	107.0	111.0	113.0	116.0	144.0	161.4	172.8	180.5	187.5	
% of sales	2.4%	2.4%	2.3%	2.3%	2.2%	2.6%	2.8%	2.9%	3.0%	3.0%	
Capex	-150.4	-158.6	-166.5	-174.8	-183.5	-183.4	-186.2	-190.1	-194.0	-196.9	
% of sales	3.5%	3.5%	3.5%	3.5%	3.5%	3.4%	3.3%	3.2%	3.2%	3.2%	
Change in WC & P	-17.4	-26.1	-25.3	-26.6	-27.9	-29.2	-30.3	-31.3	-32.1	-32.8	
% of sales	0.4%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Free Cash Flow	55.2	51.6	59.6	68.2	73.5	107.2	126.9	138.7	146.0	152.7	2,742.8
growth rate	nm	-6.5%	15.5%	14.4%	7.8%	45.9%	18.3%	9.3%	5.3%	4.6%	15%
Present Value FCF	54.9	47.9	51.7	55.2	55.5	75.6	83.4	85.1	83.6	81.6	1,465.9
PV Phase I	265					Risk free rate	3.50%	Targ. equity ratio		70%	
PV Phase II	409					Premium Equity	5.00%	Beta		1.00	
PV Phase III	1,466					Premium Debt	1.80%	WACC		7.15%	
Enterprise value	2,140					Sensitivity	Growth in phase III				
- Net Debt	460						0.5%	1.0%	1.5%	2.0%	2.5%
- Pension Provisions	11					6.43%	90.6	99.5	110.3	123.5	140.0
- Minorities & Peripherals	222					6.79%	82.0	89.7	98.9	110.0	123.6
- Paid-out dividends for last FY	24					WACC	7.15%	74.4	81.1	89.0	98.4
						7.51%	67.6	73.4	80.2	88.3	97.9
Equity value	1,423					7.86%	61.5	66.6	72.5	79.4	87.7
Number of shares	16.0										
Value per share (€)	89.0										
Current Price (€)	49.3										
Upside	80%										

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	3,369	3,572	3,755	3,941	4,141	4,297	4,530	4,757
EBITDA	225	238	227	254	264	268	285	305
Depreciation & amortisation	(65)	(73)	(90)	(98)	(103)	(104)	(107)	(111)
EBIT	160	165	138	157	156	163	178	194
Net interest	(32)	(25)	(24)	(27)	(24)	(25)	(25)	(25)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	128	140	113	130	132	138	153	169
Taxes	(42)	(33)	(15)	(40)	(36)	(38)	(42)	(47)
Minority interest	(13)	(16)	(17)	(12)	(14)	(15)	(19)	(21)
Net profit	73	90	81	77	82	85	92	102
EPS reported	4.55	5.64	5.04	4.84	5.11	5.34	5.78	6.39
EPS adjusted	4.55	5.71	5.64	4.97	5.30	5.43	5.78	6.39
DPS	0.80	0.80	1.50	1.50	1.50	1.50	1.70	1.80
BALANCE SHEET (EURm)								
Tangible non current assets	1,235	1,279	1,508	1,600	1,629	1,675	1,726	1,781
Other non-current assets	50	61	57	52	58	58	59	59
Other current assets	647	702	775	807	817	845	886	926
Cash & equivalents	429	401	350	190	164	172	176	186
Total assets	2,362	2,443	2,689	2,648	2,668	2,749	2,846	2,951
Total equity	1,164	1,261	1,334	1,398	1,463	1,539	1,627	1,722
Interest-bearing non-current debt	707	643	788	696	624	624	624	624
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	491	528	553	539	570	575	585	594
Total liabilities & equity	2,362	2,443	2,689	2,648	2,668	2,749	2,846	2,951
CASH FLOW (EURm)								
Cash earnings	195	174	174	205	250	204	218	234
Change in working capital	3	(18)	(22)	(63)	(31)	(17)	(26)	(25)
Cash flow from investments	(114)	(116)	(150)	(198)	(109)	(150)	(159)	(166)
Cash flow from financing	(20)	(77)	133	(29)	(101)	(29)	(29)	(32)
Net cash flow	72	(28)	(51)	(86)	9	8	5	10
CAPITALIZATION & VALUATION (EURm)								
Share price (EUR end)	60.9	76.3	56.9	65.9	70.3	49.3	49.3	49.3
Number of shares end period	16	16	16	16	16	16	16	16
Net interest bearing debt	278	242	439	506	460	452	448	438
Enterprise value	1,455	1,680	1,578	1,798	1,832	1,503	1,517	1,528
EV/Sales	0.4	0.5	0.4	0.5	0.4	0.3	0.3	0.3
EV/EBITDA	6.5	7.1	7.0	7.1	6.9	5.6	5.3	5.0
EV/EBIT	9.1	10.2	11.5	11.5	11.8	9.2	8.5	7.9
P/E reported	13.4	13.5	11.3	13.6	13.8	9.2	8.5	7.7
P/E adjusted	13.4	13.4	10.1	13.3	13.3	9.1	8.5	7.7
P/B	1.0	1.2	0.8	0.9	0.9	0.6	0.6	0.6
FINANCIAL ANALYSIS & CREDIT METRICS								
ROE adjusted (%)	6.4	7.5	7.0	5.8	5.9	5.8	5.8	6.1
Dividend yield (%)	1.3	1.0	2.6	2.3	2.1	3.0	3.4	3.7
EBITDA margin (%)	6.7	6.7	6.0	6.5	6.4	6.2	6.3	6.4
EBIT margin (%)	4.7	4.6	3.7	4.0	3.8	3.8	3.9	4.1
NIBD/EBITDA	1.24	1.02	1.93	1.99	1.74	1.69	1.57	1.44
EBITDA/Net interest	6.97	9.37	9.28	9.51	10.93	10.91	11.61	12.44

Becoming a wholesale champion

Metro is a leading B2B food wholesaler targeting mainly HoReCa and Trader customers. We expect a takeover offer by Czech billionaire Daniel Kretínský's EP Global Commerce and a subsequent stronger focus on the digitalization of the HoReCa sector and the expansion of foodservice delivery. A sale of the activities geared towards Traders would also trigger the release of hidden reserves in real estate. Metro trades at a significant discount to its wholesale peer group. We derive our target price of EUR 17 from a DCF model and rate the company a Buy.

Investment Case

Following the divestment of retail activities in recent years and the planned divestment of the "Real" hypermarket chain, Metro will become a wholesale pure play.

In our view management will likely be pushed by its new Czech shareholders to divest its activities focusing on price sensitive "Trader" clients and to fully concentrate on the demanding "HoReCa" clients. The digitalization of this client group and the fast roll-out of foodservice delivery offers great potential for Metro. The divestment of these activities would also mean a divestment of large parts of Metro's real estate including significant hidden reserves, as the bulk of Metro's owned stores are in "Trader" countries in Eastern Europe and Asia.

We expect that Kretínský will exercise his options to take the 30% hurdle in early 2019 triggering a mandatory takeover offer to outstanding Metro shareholders. While it might not include a premium, it will definitely limit the downside for shareholders. Medium term, Metro will develop from a traditional Cash&Carry player to a modern B2B platform for the HoReCa sector benefitting from growing out-of-home consumption, from the trend to high quality food and the digitalization of the Hospitality sector.

EURm	2016	2017	2018e	2019e	2020e
Revenues	36,549	37,140	36,500	37,200	38,008
EBITDA	1,918	1,611	1,580	1,620	1,700
EBIT	1,222	852	860	905	990
EPS	1.39	0.89	1.00	1.06	1.14
EPS adj	1.39	0.89	1.00	1.06	1.14
DPS	-	0.70	0.70	0.70	0.70
EV/EBITDA		6.0	5.1	4.8	4.5
EV/EBIT		11.4	9.3	8.6	7.7
P/E adj		20.0	13.5	12.5	11.6
P/B		2.05	1.50	1.41	1.35
ROE (%)	18.4	10.7	11.3	11.5	11.9
Div yield (%)		3.9	5.2	5.3	5.3
Net debt	3,141	3,147	3,026	2,877	2,691

Source: Pareto



Target price (EUR)	17.0
Share price (EUR)	13.3

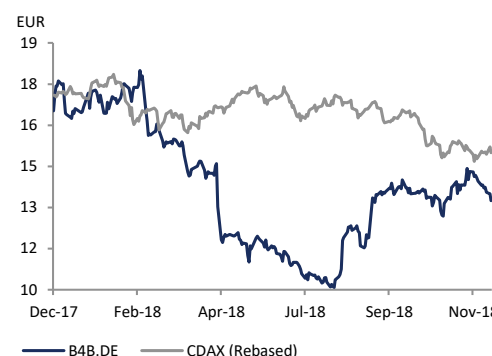
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	B4B.DE, B4B GY
Sector	Retailing
Shares fully diluted (m)	363.1
Market cap (EURm)	4,811
Net debt (EURm)	3,026
Minority interests (EURm)	56
Enterprise value 18e (EURm)	7,984
Free float (%)	45

Performance



Source: Factset

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A leading international food wholesaler

Company profile

METRO is one of the leading international food wholesalers. Its main customer groups are the HoReCa sector as well as Trader customers. The group is doing business in 30 European and Asian countries. In the past Metro had been a retail conglomerate group operating Consumer Electronic stores (Media Markt), Department stores (Galeria Kaufhof), DIY stores (Praktiker), Apparel (Adler Modemärkte), Shoes (Reno), Supermarkets (extra) and many other formats. The only retail activity left are Hypermarkets (Real), which are up for sale.

As there is a long-term trend that consumers eat more often out-of-home, Metro is operating in a continuously growing market. Although the group is by far the largest player in this market, its concept is outdated. While traditionally operating large Cash&Carry stores with a broad assortment also in non-food categories, the group only recently focussed on the needs of its HoReCa clients introducing delivery service as well as founding the HoReCa_digital club, which supports HoReCa clients in their digitalization efforts. In Russia, where Traders are the main customer group, Metro faced significant headwind from a very competitive market since years and reacted late by introducing a franchise system, replaced management and implementing a BMPL (Buy more pay less) pricing strategy.

Upcoming Triggers and Drivers

A takeover offer by Czech investor group is likely in our view.

While the group had three major shareholders (Haniel, Beisheim, Schmidt-Ruthenbeck) since the formation of Metro group in 1996, the exit of the largest shareholder Haniel and a deal with Ceconomy allowed Czech billionaire Daniel Kretinsky to enter as a shareholder (10.9%) with options allowing his group to increase his stake to 31.5%. which would trigger a mandatory takeover bid at a minimum price of a) the volume weighted 3 months average share price and b) the highest price paid within the six months paid by the acquiring party ahead of the offer. Although we do not expect an offer at a significant premium to the current share price, an offer is likely to support the share price even when just cushioning the downside.

While investors focussed recently more on the negative development in Russia instead of the promising development in other regions, we believe, they might start to speculate on changes to strategy once Mr. Kretinsky's EP gets Metro's dominant shareholder. Another trigger would be a successful disposal of the "Real" hypermarket business transforming Metro to a B2B pure play in food, "deserving" higher multiples than food retailers.

Risk to the investment case

Divestment of German hypermarkets a challenging task.

Should the Czech investors around Daniel Kretinsky abstain from exercising their options and from a takeover offer, this would be a significant risk to the investment case both short-term and also mid-term, as Metro's transformation might take significantly longer. A second risk is that Metro might not find a suitable new owner for the "Real" hypermarket business.

Next scheduled reporting: December, 13th, 2018: FY 2017/18 results

Valuation and recommendation

Huge discount to food wholesale peer group.

Metro trades at a huge discount to a wholesale peer group and more in line with international retailers. We derive our target price of EUR 17 from a DCF valuation assuming a sustainable EBIT margin of 2.5%. With an upside potential of 28% to our target price we rate METRO a Buy. Metro also owns a significant part of real estate in the stores it operates. While the book value of its real estate is ~ EUR 4.5bn, we estimate that the market value is ~ EUR 8 bn, which is the level of (undepreciated) costs of acquisition. Over a period of three years, Metro generated ~ EUR 150m p.a. EBITDA from real estate disposals.

Exhibit 7: DCF valuation

EUR m	Phase I					Phase II					Phase III
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	36,500	37,200	38,008	38,908	39,950	40,908	41,775	42,543	43,207	43,639	
growth rate	-17%	19%	2.2%	2.4%	2.7%	2.4%	2.1%	18%	16%	10%	
EBIT	860	905	990	1,100	1,230	1,212	1,189	1,162	1,130	1,091	
EBIT margin	2.4%	2.4%	2.6%	2.8%	3.1%	3.0%	2.8%	2.7%	2.6%	2.5%	
Tax	-395.6	-411.8	-467.3	-510.9	-527.1	-519.5	-509.8	-498.0	-484.4	-467.6	
Tax rate	46%	46%	47%	46%	43%	43%	43%	43%	43%	43%	
Depr. & Amort.	720.0	715.0	710.0	700.0	690.0	680.5	681.7	687.5	694.7	698.2	
% of sales	2.0%	19%	19%	18%	17%	17%	16%	16%	16%	16%	
Capex	-675.3	-651.0	-646.1	-642.0	-659.2	-664.8	-673.6	-683.3	-692.7	-715.7	
% of sales	19%	18%	17%	17%	17%	16%	16%	16%	16%	16%	
Change in WC & P	-20.0	21.9	25.3	28.1	32.6	33.4	34.1	34.7	35.2	35.6	
% of sales	0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	
Free Cash Flow	489.1	579.1	611.8	675.2	766.3	741.8	721.8	702.8	683.1	641.5	9,914.0
growth rate	nm	18.4%	5.6%	10.4%	13.5%	-3.2%	-2.7%	-2.6%	-2.8%	-6.1%	10%
Present Value FCF	486.7	535.8	526.4	540.3	570.1	513.2	464.4	420.5	380.1	331.9	5,129.6

PV Phase I	2,659	Risk free rate	3.50%	Targ. equity ratio	75%
PV Phase II	2,110	Premium Equity	5.00%	Beta	1.10
PV Phase III	5,130	Premium Debt	2.00%	WACC	7.5%

Enterprise value	9,899	Sensitivity Growth in phase III					
- Net Debt	3147		0.0%	0.5%	1.0%	1.5%	2.0%
- Pension Provisions	557	6.78%	17.6	18.9	20.3	22.0	24.0
- Minorities & Peripherals	46	7.16%	16.2	17.3	18.5	20.0	21.7
+ Financial Investments	275	WACC 7.54%	15.0	15.9	17.0	18.2	19.7
- paid dividends	254	7.91%	13.9	14.7	15.6	16.7	18.0
Equity value	6170	8.29%	12.8	13.6	14.4	15.3	16.4
Number of shares	363.1						
Value per share (€)	17.0						
Current Price (€)	13.3						
Upside	28%						

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	38,970	37,496	36,549	37,140	36,500	37,200	38,008
EBITDA	1,753	1,606	1,918	1,611	1,580	1,620	1,700
Depreciation & amortisation	(754)	(746)	(699)	(759)	(720)	(715)	(710)
EBIT	999	860	1,222	852	860	905	990
Net interest	(162)	(394)	(328)	(204)	(170)	(180)	(185)
Other financial items	-	-	-	-	-	-	-
Profit before taxes	837	466	894	648	690	725	805
Taxes	(435)	(201)	(375)	(304)	(317)	(330)	(380)
Minority interest	(17)	(11)	(13)	(20)	(10)	(10)	(10)
Net profit	385	254	506	324	363	385	415
EPS reported	1.06	0.70	1.39	0.89	1.00	1.06	1.14
EPS adjusted	1.59	0.70	1.39	0.89	1.00	1.06	1.14
DPS	-	-	-	0.70	0.70	0.70	0.70
BALANCE SHEET (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	7,499	7,051	7,142	6,948	6,953	6,930	6,898
Other non-current assets	1,103	1,402	1,544	1,623	1,623	1,622	1,620
Other current assets	6,989	6,836	5,707	5,650	5,553	5,659	5,782
Cash & equivalents	1,512	3,436	1,599	1,559	1,114	973	829
Total assets	17,103	18,725	15,992	15,780	15,243	15,184	15,129
Total equity	826	2,651	2,924	3,207	3,325	3,466	3,637
Interest-bearing non-current debt	7,588	7,675	4,740	4,706	4,140	3,850	3,520
Interest-bearing current debt	-	-	-	-	-	-	-
Other Debt	8,097	7,852	7,682	7,310	7,228	7,318	7,422
Total liabilities & equity	17,103	18,725	15,992	15,780	15,243	15,184	15,129
CASH FLOW (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	(2,044)	1,141	2,352	1,187	1,078	1,032	1,061
Change in working capital	1,592	(132)	(124)	(175)	(20)	22	25
Cash flow from investments	(391)	(827)	512	(850)	(754)	(651)	(646)
CAPITALIZATION & VALUATION (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)				17.9	13.5	13.3	13.3
Number of shares end period	363	363	363	363	363	363	363
Net interest bearing debt	6,076	4,239	3,141	3,147	3,026	2,877	2,691
Enterprise value				9,687	7,984	7,754	7,578
EV/Sales				0.3	0.2	0.2	0.2
EV/EBITDA				6.0	5.1	4.8	4.5
EV/EBIT				11.4	9.3	8.6	7.7
P/E reported				20.0	13.5	12.5	11.6
P/E adjusted				20.0	13.5	12.5	11.6
P/B				2.1	1.5	1.4	1.4
FINANCIAL ANALYSIS & CREDIT METRICS	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)		14.6	18.2	10.6	11.1	11.3	11.7
Dividend yield (%)				3.9	5.2	5.3	5.3
EBITDA margin (%)	4.5	4.3	5.2	4.3	4.3	4.4	4.5
EBIT margin (%)	2.6	2.3	3.3	2.3	2.4	2.4	2.6
NIBD/EBITDA	3.47	2.64	1.64	1.95	1.92	1.78	1.58
EBITDA/Net interest	10.82	4.08	5.85	7.90	9.29	9.00	9.19

Challenging sugar environment

Südzucker's sugar business is currently experiencing a challenging period with record low sugar prices following the abolishment of the EU sugar regime. The leading European sugar producer is not likely to turn the sugar business profitable until FY 2020/21. Given Südzucker's well positioned non-sugar activities and its long-term financing, the group will survive this sugar cycle and might even get chances to improve its market position. We would not like to bet against one of the most disliked stocks regarding analysts recommendations.

Investment Case

Following the termination of the EU sugar regime in 2017, European sugar companies increased sugar output significantly, leading to deteriorating sugar prices, as no producer reduced capacities yet hoping for the competition to do the first move (Prisoner's dilemma). Current sugar pricing is so depressed, that Südzucker expects a ~ EUR 200m operating loss in H2 18/19 for this segment. As the bulk of current sugar contracts runs up to October 2019, Südzucker will also have a difficult start into FY 2019/20 beginning March 2019. Nevertheless we believe, that the global sugar imbalance will diminish and prices will start to recover from October 2019. Recently, F.O.Licht cut its outlook for the global sugar production surplus significantly. As Südzucker is a cyclical and disliked stock (6 negative recommendation against two "old" positive recommendations) we expect a massive positive share price reaction in case of a turning business environment and do not want to bet against the company at current depressed share price levels. According to our SOTP model, the company is fairly valued.

EURm	2016	2017	2018e	2019e	2020e
Revenues	6 476	6 983	6 820	7 100	7 380
EBITDA	709	758	415	525	680
EBIT	426	445	87	190	340
EPS	1,05	0,96	(0,21)	0,16	0,64
EPS adj	1,10	1,01	(0,15)	0,23	0,72
DPS	0,45	0,45	0,10	0,10	0,45
EV/EBITDA	9,7	7,3	12,4	9,9	7,6
EV/EBIT	16,2	12,5	-	27,5	15,2
P/E adj	22,0	14,6	-	54,6	17,1
P/B	1,47	0,87	0,76	0,76	0,73
ROE (%)	6,6	5,8	-	1,0	3,8
Div yield (%)	1,9	3,0	0,8	0,8	3,6
Net debt	1 085	1 641	1 664	1 641	1 500

Source: Pareto



Target price (EUR)	11,7
Share price (EUR)	12,4

Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	SZUG.DE, SZU GR
Sector	Food & Beverage
Shares fully diluted (m)	204,2
Market cap (EURm)	2 525
Net debt (EURm)	1 664
Minority interests (EURm)	975
Enterprise value 18e (EURm)	5 164
Free float (%)	33

Performance



Source: Factset

Analysts

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,

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,

*Margin note***Company profile**

Südzucker is by far the leading European sugar producer with a market share of ~ 24%. The group is controlled by SZVG, a cooperative of sugar farmers in Southern Germany. The company is also active in Bioethanol (Cropenergies), Frozen Pizza (Freiberger), Functional Food (Beneo), Fruit and Starch (Agrana) and solutions for the hospitality industry (Portion Pack). Next to this the group is also marketing byproducts from its sugar and Bioethanol production as animal feed (Protigrain). It also holds a 35% stake in commodity trader ED&F Man. Südzucker's financial year ends in February. Typically sugar is contracted with customers for a period of one year with new contracts starting early October. Südzucker's contracts with sugar farmers contain a pricing clause linking the price paid for sugar beets to the average sugar selling prices, which reduces Südzucker's break-even point in difficult times.

Although Südzucker has a diversified business portfolio, it is still highly dependent on the sugar market, which will be in the doldrums for at least another year. So Südzucker will not return to an adequate profitability level before FY 2020/21. On the other hand the group is financed at very attractive conditions with no major maturity before 2023 and will clearly survive the down cycle. At current prices no competitor in Europe is able to run the business profitably.

Valuation and recommendation

As we expect Südzucker to report an operating loss both in FY 2018/19 as well as FY 2019/20, earnings multiples are not meaningful to derive a target price. We therefore have a look at shareholder's equity. Südzucker's book value stands at EUR 16.51 per share. This value would nearly half to EUR 8.80 in case of a complete impairment of goodwill and intangibles. When we just deduct the goodwill on segment Sugar (EUR 3.82 per share), which is our preferred method, we arrive at EUR 13.10 per share. Our SOTP calculation arrives at EUR 12.50 and thus confirms this level.

Upcoming Drivers and Triggers and Risks

Südzucker's share price is extremely depending on the development of the European sugar market, which is increasingly dependent on the global sugar market balance. As global sugar demand is quite constant (rises 1% per year), sugar production is much more volatile and therefore the key element for price fluctuations. The prospect of a weak sugar harvest in Brazil, India or Thailand would immediately lift the sugar price and improve Südzucker's earnings level. Another positive trigger could derive from capacity reductions, especially within the EU. The disastrous sugar price could also lead to acquisition opportunities for Südzucker outside the EU, which would allow Südzucker to become a truly global player.

Long-term an increase of isoglucose production or an increasing usage of sugar substitutes could be a major risk for Südzucker. The same holds true for potential taxes on sugar or political measures to reduce sugar consumption due to health concerns.

Next scheduled reporting: Q3 2018/19 report due on January 10th

Exhibit 8: SOTP

Asset	Value
Agrana (Fruit, Starch, Sugar, Hungrana)	466
Cropenergies	229
Specialties w/o Agrana (Freiberger, Beneo)	2047
ED&F Man	143
Sugar (without Agrana)	1650
A SOTP entity	4534
Net financial debt (ex hybrid ex agrana)	653
Hybrid	611
Pensions	712
B Net fin. debt incl. Hybrid and Pensions	1976
C= A-B SOTP equity	2558
SOTP value per share	12.5

Source: Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	7 533	6 778	6 387	6 476	6 983	6 820	7 100	7 380
EBITDA	889	453	518	709	758	415	525	680
Depreciation & amortisation	(335)	(294)	(277)	(283)	(313)	(328)	(335)	(340)
EBIT	554	159	241	426	445	87	190	340
Net interest	(63)	(32)	(14)	(19)	(25)	(24)	(22)	(19)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	491	127	227	407	420	63	168	321
Taxes	(104)	(54)	(46)	(95)	(110)	(45)	(54)	(96)
Minority interest	(107)	(54)	(72)	(99)	(113)	(60)	(82)	(95)
Net profit	280	20	109	214	197	(42)	32	130
EPS reported	1,37	0,10	0,53	1,05	0,96	(0,21)	0,16	0,64
EPS adjusted	1,73	0,10	0,66	1,10	1,01	(0,15)	0,23	0,72
DPS	0,50	0,25	0,30	0,45	0,45	0,10	0,10	0,45
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	2 729	2 790	2 825	2 922	2 991	2 990	2 975	2 954
Other non-current assets	1 548	1 562	1 563	1 716	2 197	2 197	2 196	2 194
Other current assets	3 908	3 587	3 161	3 391	3 562	3 490	3 614	3 738
Cash & equivalents	543	536	585	707	585	562	585	726
Total assets	8 728	8 474	8 133	8 736	9 334	9 238	9 370	9 612
Total equity	3 979	3 777	3 820	4 235	4 370	4 296	4 390	4 594
Interest-bearing non-current debt	1 902	1 958	1 812	1 792	2 226	2 226	2 226	2 226
Interest-bearing current debt	-	-	-	-	-	-	-	-
Pen liabilities	658	826	798	823	781	781	781	781
Other Debt	2 190	1 913	1 704	1 887	1 957	1 935	1 973	2 011
Total liabilities & equity	8 728	8 474	8 133	8 736	9 334	9 238	9 370	9 612
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	593	386	430	685	664	346	449	565
Change in working capital	119	116	162	(138)	(129)	50	(86)	(86)
Cash flow from investments	(369)	(376)	(357)	(329)	(361)	(327)	(320)	(317)
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	20,2	13,6	13,9	24,1	14,8	12,4	12,4	12,4
Number of shares end period	204	204	204	204	204	204	204	204
Net interest bearing debt	1 359	1 422	1 226	1 085	1 641	1 664	1 641	1 500
Enterprise value	6 147	4 857	4 722	6 894	5 569	5 164	5 222	5 176
EV/Sales	0,8	0,7	0,7	1,1	0,8	0,8	0,7	0,7
EV/EBITDA	6,9	10,7	9,1	9,7	7,3	12,4	9,9	7,6
EV/EBIT	11,1	30,5	19,6	16,2	12,5	-	27,5	15,2
P/E reported	14,7	-	26,0	23,0	15,3	-	-	19,5
P/E adjusted	11,7	-	21,1	22,0	14,6	-	54,6	17,1
P/B	1,2	0,9	0,9	1,5	0,9	0,8	0,8	0,7
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	8,8	0,5	3,5	5,6	4,8	-	1,1	3,3
Dividend yield (%)	2,5	1,8	2,2	1,9	3,0	0,8	0,8	3,6
EBITDA margin (%)	11,8	6,7	8,1	10,9	10,9	6,1	7,4	9,2
EBIT margin (%)	7,4	2,3	3,8	6,6	6,4	1,3	2,7	4,6
NIBD/EBITDA	1,53	3,14	2,37	1,53	2,17	4,01	3,13	2,21
EBITDA/Net interest	14,02	14,20	36,22	37,51	29,96	17,29	23,86	35,79

Equipping the industrialized world

The Takkt group comprises international B2B vendors of durable business equipment. Management has a remarkable track record in acquiring and expanding its highly cash generating and value creating asset light businesses. The company's revenues are evenly split between Europe and the US. Takkt's digitization agenda addresses the challenges from online market places and will increase its speed in improving both processes as well as the customer journey.

Investment Case

Takkt's business momentum improved considerably in Q3. Organic growth in Q3 came in at 5.0% (9M: +2.9%). Margins in Q3 stabilized at 13.3% in Q3 (9M: -160 bps to 12.6%), as operating leverage compensated for the pressure on gross margin and higher digitization expenses. As Takkt increased prices in late Q3 without negative customer responses we expect margins to stabilize further in Q4. At a P/E 2019 ~ 11 and DY>3.5% we consider valuation as moderate (also compared to the company's own historic valuation). We expect Takkt's digital agenda to spur growth in the years to come.

EURm	2016	2017	2018e	2019e	2020e
Revenues	1,125	1,116	1,168	1,220	1,260
EBITDA	171	150	147	153	158
EBIT	142	123	120	125	130
EPS	1.39	1.47	1.26	1.31	1.36
EPS adj	1.30	1.47	1.26	1.31	1.36
DPS	0.55	0.55	0.55	0.55	0.55
EV/EBITDA	9.3	9.1	7.4	6.7	6.2
EV/EBIT	11.2	11.1	9.1	8.2	7.5
P/E adj	16.5	12.8	11.3	10.8	10.4
P/B	2.62	2.18	1.51	1.40	1.29
ROE (%)	18.1	17.4	14.0	13.5	12.9
Div yield (%)	2.6	2.9	3.9	3.9	3.9
Net debt	184	135	164	100	46

Source: Pareto



Target price (EUR)	20.0
Share price (EUR)	14.2

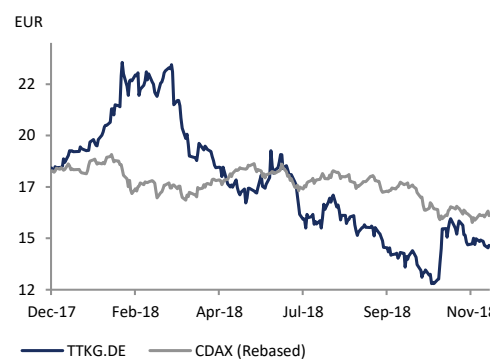
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	TTKG.DE, TTK GY
Sector	Retailing
Shares fully diluted (m)	65.6
Market cap (EURm)	929
Net debt (EURm)	164
Minority interests (EURm)	0
Enterprise value 18e (EURm)	1,093
Free float (%)	50

Performance



Source: Factset

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Company profile

2 segments, 7 divisions

Takkt's segment reporting divides just between Takkt Europe with 3 business divisions and Takkt America with four business divisions.

The biggest business division of Takkt Europe is the "Kaiser+Kraft group", which offers plant, warehouse and office equipment. The "Ratioform group" offer packaging solutions, while the "Newport group" consists of web-only distributors and start-ups.

Takkt America comprises the "Hubert group" offering merchandising and food equipment mainly for food retailers and caterers, "Central group" focusses on restaurant equipment, "D2G group" on display products, while "NBF group" offers office equipment.

The group does not operate own stores but sells directly via multiple channels like online, print (catalogues) or telephone. To large customers Takkt offers a field service as well as e-procurement.

Upcoming Triggers and Drivers

Improving momentum

Following 6 quarters with weak organic growth, Takkt returned to attractive underlying growth in Q3. We believe top line momentum will continue to improve. For Q4 we expect also operating profit growth to return, which should drive the share price. We also expect support from currencies (mainly USD) in Q4, while the currency impact was negative (-4.2%) for the 9M period.

Risks to the Investment Case

*Escalation in Trade conflict
US/China is a risk*

Following 6 quarters with weak organic growth, Takkt returned to attractive underlying growth in Q3. We believe top line momentum will continue to improve. For Q4 we expect also operating profit growth to return, which should drive the share price. We also expect support from currencies (mainly USD) in Q4, while the currency impact was negative (-4.2%) for the 9M period.

Next scheduled reporting: preliminary FY 2018 figures presumably mid of February 2019.

Valuation and recommendation

Moderate valuation

Our target price of EUR 20 is based on a DCF model. Our DCF assumes an EBITDA margin of 12.6% for the terminal period at the lower end of Takkt's long-term margin range (12%-15%). Looking at peers Takkt trades at a small premium to French peer Manutan, but at a discount to US based WW Grainger. Takkt trades at a significant discount compared to its own average historic valuation multiples.

Exhibit 9: DCF valuation

	Phase I					Phase II					Phase III
EUR m	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
Revenues	1,168	1,220	1,260	1,300	1,340	1,377	1,409	1,438	1,462	1,482	
growth rate	4.7%	4.5%	3.3%	3.2%	3.1%	2.7%	2.4%	2.0%	1.7%	1.3%	
EBIT	120	125	130	134	138	144	149	155	160	165	
EBIT margin	10.2%	10.2%	10.3%	10.3%	10.3%	10.4%	10.6%	10.8%	10.9%	11.1%	
Tax	-32.3	-33.8	-35.0	-36.2	-37.1	-38.8	-40.3	-41.8	-43.2	-44.4	
Tax rate	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%	
Depr. & Amort.	27.5	28.0	28.5	29.0	29.5	25.0	22.9	21.9	21.6	21.2	
% of sales	2.4%	2.3%	2.3%	2.2%	2.2%	1.8%	1.6%	1.5%	1.5%	1.4%	
Capex	-21.0	-22.0	-21.4	-20.8	-21.4	-21.3	-21.5	-21.8	-22.0	-22.2	
% of sales	1.8%	1.8%	1.7%	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%	
Change in WC & P	-23.8	7.0	-6.3	-6.3	-6.3	-6.5	-6.6	-6.7	-6.9	-6.9	
% of sales	2.0%	-0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Free Cash Flow	69.9	104.3	95.3	99.7	102.2	102.0	103.8	106.5	109.4	112.1	1,628.3
growth rate	nm	49.2%	-8.6%	4.6%	2.4%	-0.2%	1.8%	2.6%	2.8%	2.4%	10%
Present Value FCF	69.5	96.1	81.4	78.8	74.8	69.2	65.2	62.0	59.0	56.0	813.2
PV Phase I	401		Risk free rate			3.50%		Targ. equity ratio		79%	
PV Phase II	311		Premium Equity			5.00%		Beta		1.1	
PV Phase III	813		Premium Debt			2.00%		WACC		8.0%	
Enterprise value	1,525		Sensitivity Growth in phase III								
- Net Debt incl. p.p liabilities	135					0.0%	0.5%	1.0%	1.5%	2.0%	
- Pension Provisions	59		7.16%			20.7	21.8	23.0	24.4	26.0	
+ PV of non cash taxes	20		7.56%			19.5	20.4	21.4	22.6	24.0	
paid dividends	36		WACC			7.95%	18.4	19.2	20.0	21.1	22.3
						8.35%	17.4	18.0	18.8	19.7	20.7
Equity value	1,315		8.75%			16.4	17.0	17.7	18.5	19.4	
Number of shares	65.6										
Value per share (€)	20.0										
Current Price (€)	14.0										
Upside	43%										

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	953	980	1,064	1,125	1,116	1,168	1,220	1,260
EBITDA	123	137	157	171	150	147	153	158
Depreciation & amortisation	(27)	(27)	(28)	(29)	(27)	(28)	(28)	(29)
EBIT	96	111	129	142	123	120	125	130
Net interest	(15)	(12)	(9)	(9)	(8)	(6)	(7)	(7)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	81	99	120	133	115	113	118	123
Taxes	(29)	(34)	(39)	(41)	(19)	(31)	(32)	(33)
Minority interest	-	-	-	-	-	-	-	-
Net profit	52	66	81	91	96	83	86	89
EPS reported	0.80	1.00	1.24	1.39	1.47	1.26	1.31	1.36
EPS adjusted	0.87	1.00	1.24	1.30	1.47	1.26	1.31	1.36
DPS	0.32	0.32	0.50	0.55	0.55	0.55	0.55	0.55
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	115	112	109	106	101	108	109	110
Other non-current assets	530	549	627	624	592	636	629	621
Other current assets	200	217	225	242	233	261	252	260
Cash & equivalents	6	4	3	2	3	(50)	(17)	37
Total assets	852	882	964	974	928	954	973	1,027
Total equity	332	387	473	538	568	614	664	718
Interest-bearing non-current debt	331	222	247	186	138	113	83	83
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	152	221	192	195	164	168	166	168
Total liabilities & equity	852	882	964	974	928	954	973	1,027
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	87	97	118	115	98	110	114	118
Change in working capital	(9)	4	(31)	(8)	3	(24)	7	(6)
Cash flow from investments	(10)	(14)	(90)	(18)	(34)	(79)	(22)	(21)
Cash flow from financing	(21)	(131)	2	(102)	(101)	(61)	(66)	(36)
Net cash flow	(0)	(2)	(1)	(13)	(34)	(53)	33	54
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	13.5	13.6	18.4	21.5	18.9	14.2	14.2	14.2
Number of shares end period	66	66	66	66	66	66	66	66
Net interest bearing debt	325	217	244	184	135	164	100	46
Enterprise value	1,210	1,110	1,454	1,595	1,373	1,093	1,030	975
EV/Sales	1.3	1.1	1.4	1.4	1.2	0.9	0.8	0.8
EV/EBITDA	9.9	8.1	9.2	9.3	9.1	7.4	6.7	6.2
EV/EBIT	12.6	10.0	11.2	11.2	11.1	9.1	8.2	7.5
P/E reported	16.9	13.6	14.9	15.4	12.8	11.3	10.8	10.4
P/E adjusted	15.6	13.6	14.9	16.5	12.8	11.3	10.8	10.4
P/B	2.7	2.3	2.6	2.6	2.2	1.5	1.4	1.3
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	17.6	18.3	18.8	16.9	17.4	14.0	13.5	12.9
Dividend yield (%)	2.4	2.4	2.7	2.6	2.9	3.9	3.9	3.9
EBITDA margin (%)	12.9	14.0	14.8	15.2	13.5	12.6	12.5	12.5
EBIT margin (%)	10.1	11.3	12.2	12.6	11.0	10.2	10.2	10.3
NIBD/EBITDA	2.65	1.58	1.55	1.07	0.90	1.11	0.66	0.29
EBITDA/Net interest	8.35	11.88	16.58	18.04	18.36	22.67	21.86	22.57

An admirable brand should enable profitable operations

Since its IPO in 2017 Vapiano's share price has plummeted, although management delivered on its (admittedly high capex) expansion plans. But management failed behind its targets on l-f-l growth as well as operating profits, as a consequence of external (adverse weather, world cup) but also internal (mismanagement in Sweden, slow roll-out of order terminals and the Vapiano app, operational inefficiencies). As we still believe in the attractiveness of the Fast Casual Dining concept and Vapiano as a unique brand, we expect the restaurant chain to fix its topics and show attractive growth in operating profits driven by an increase in l-f-l growth supported by higher average tickets, but also concept optimization and a higher share of take-away/home delivery. Buy, Target Price EUR 11.

Investment Case

With its focus on ultra-freshness and customization in a self-service environment Vapiano has hit a nerve of consumers. The company also proved that the concept can be rolled out internationally. The remaining task for management is to show investors, that the model can be run highly profitable. Although we expect significant operating improvements in FY 2019, investors need patience, as Vapiano is likely to report a net profit not before FY 2020. Next to the structural effect of a maturing restaurant portfolio and improvements by Vapiano's operating excellence program, including the introduction of terminals for ordering and payment, we see margin increases by new elements of the Vapiano operating model: Takeaway counters, Mini Vapianos, private brands and increasing usage of the Vapiano app.

EURm	2016	2017	2018e	2019e	2020e
Revenues	249	325	377	428	482
EBITDA	28	16	23	30	65
EBIT	3	(26)	(21)	(21)	12
EPS	(0.03)	(1.25)	(0.78)	(0.91)	(0.11)
EPS adj	(0.03)	(0.52)	(0.43)	(0.72)	0.05
DPS	-	-	-	-	-
EV/EBITDA		45.4	13.8	12.1	5.6
EV/EBIT		-	-	-	31.8
P/E adj		-	-	-	-
P/B		5.24	1.55	1.96	2.03
ROE (%)	-	-	-	-	-
Div yield (%)		-	-	-	-
Net debt	128	114	129	168	170

Source: Pareto



Target price (EUR)	11.0
Share price (EUR)	6.7

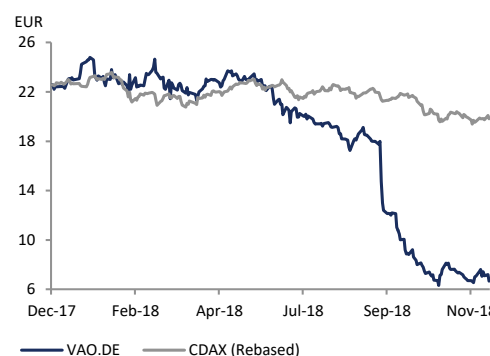
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	VAO.DE, VAO GY
Sector	Food & Beverage
Shares fully diluted (m)	24.0
Market cap (EURm)	160
Net debt (EURm)	129
Minority interests (EURm)	18
Enterprise value 18e (EURm)	321
Free float (%)	29

Performance



Source: Factset

Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.

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A pioneer of Fast Casual Dining (FCD)

Company profile

Founded in 2002, Vapiano today is the leading European Fast Casual Dining (FCD) restaurant chain being present in 33 countries with more than 200 restaurants. The company uses a flexible operating model running restaurants as corporate restaurants, consolidated joint ventures and non-consolidated franchise. The company is testing new models like the Vapiano “freestander” as well as “Mini-Vapianos”. Management is currently implementing new terminals for ordering as well as payment and pushes the Vapiano app to offer its loyal customers additional services. More than 50% offer take-away/home-delivery in a separate area.

Vapiano is unique, as it is the only listed continental European player in the attractive Fast Casual Dining sector. The company is owned and controlled by active and professional owners (Herz, Gerlach, Sander), which are strongly convinced and committed, as the signing of the capital increase in October 2018 at a significant premium to the share price showed.

Main shareholders could take the company private

Upcoming Triggers and Drivers

We do not see a strong turn-around in Vapiano’s financial performance in the short term. But medium-term it is clear, that following the recent profit warnings and subsequent collapse in the share price management is under pressure to deliver in Q4/2018 and FY 2019. With the replacement of former CEO Jochen Halfmann by Cornelius Everke (formerly COO) and the appointment of Nicholas Schapira (formerly responsible for the international business of “Jamie’s Italian”) the supervisory board recently promoted top managers with a deep understanding and experience of the business. A higher share of franchise restaurant openings should limit an increase in net financial debt and increase ROCE. A strong, but short-lived trigger would be an offer to take the company private by one or all of Vapiano’s main shareholders (e.g. Herz family vehicle Mayfair), as German weekly Manager Magazin speculated recently.

Significant financial leverage

Risks to the investment case

While we expect a better operational development in Q4, as a lot of factors, which burdened Q2 and Q3 should not prevail. The main downside risk is a weak start into FY 2019, as the group faces burdens from a rise of the minimum wage in Germany. Another risk from a low profitability is that the group’s net financial debt/EBITDA remains above the critical level of 4. We would not worry too much about Vapiano’s future, as its main shareholders remain committed to the company, as demonstrated in the subscription to the recent increase in equity capital.

Next scheduled reporting: Trading statement January 2019.

DCF valuation results in EUR 11 target price

Valuation and recommendation

Due to its massive expansion, Vapiano will show a net loss for FY 2018 as well as FY 2019. There are also no listed European peers. To US peers (which are by far more profitable, but not growing at Vapiano’s pace) Vapiano trades at a high discount on EV/EBITDA multiples. We prefer a DCF model as the most appropriate valuation tool. We value Vapiano based on a DCF model. We expect the group to reach a 9% EBIT margin once its restaurants become mature. Our target price of EUR 11 offers attractive upside potential of x% to our target price. Vapiano’s access to the capital market could become a valuable asset in a fragmented but dynamic market. We rate Vapiano with a Buy rating.

Exhibit 10: DCF valuation

EUR m	Phase I					Phase II					Phase III	
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e		
Revenues	377	428	482	530	579	624	665	699	725	743		
growth rate	16.2%	13.5%	12.5%	10.0%	9.2%	7.9%	6.5%	5.2%	3.8%	2.5%		
EBIT	-21	-22	10	18	31	38	46	53	60	67		
EBIT margin	-5.6%	-5.1%	2.1%	3.5%	5.4%	6.1%	6.9%	7.6%	8.3%	9.0%		
Tax	6.4	6.5	-3.0	-5.5	-9.4	-11.5	-13.7	-15.9	-18.0	-20.1		
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%		
Depr. & Amort.	44.5	51.6	54.6	56.6	58.6	52.4	50.1	49.6	49.9	49.5		
% of sales	118%	12.1%	11.3%	10.7%	10.1%	8.4%	7.5%	7.1%	6.9%	6.7%		
Capex	-54.8	-64.3	-52.8	-52.8	-80.0	-65.0	-57.9	-54.9	-53.9	-52.0		
% of sales	14.5%	15.0%	11.0%	10.0%	13.8%	10.4%	8.7%	7.9%	7.4%	7.0%		
Change in WC & P	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Free Cash Flow	-25.1	-27.8	8.9	16.8	0.7	14.3	24.2	31.9	38.2	44.5	670.3	
growth rate	nm	10.9%	nm	88.4%	-96.0%	nm	68.6%	317%	20.0%	16.3%	1.1%	
Present Value FCF	-25.0	-25.7	7.6	13.3	0.5	9.8	15.3	18.7	20.8	22.5	339.0	
PV Phase I	-29					Risk free rate	3.50%	Targ. equity ratio			70%	
PV Phase II	87					Premium Equity	5.00%	Beta			1.20	
PV Phase III	339					Premium Debt	2.00%	WACC			7.8%	
Enterprise value	397					Sensitivity Growth in phase III						
- Net Debt (Cash)	94						0.1%	0.6%	1.1%	1.6%	2.1%	
- Pension Provisions	0					7.02%	11.5	12.6	13.9	15.4	17.3	
- Minorities & Peripherals	20					7.41%	10.3	11.2	12.4	13.7	15.2	
+ MV of financial assets	4					WACC	7.81%	9.2	10.0	11.0	12.1	
						8.20%	8.2	9.0	9.8	10.8	11.9	
						8.59%	7.3	8.0	8.7	9.6	10.5	
Equity value	287											
Number of shares	26.1											
Value per share (€)	11.0											
Current Price (€)	6.7											
Upside	64%											

Source: Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	152	203	249	325	377	428	482
EBITDA	24	24	28	16	23	30	65
Depreciation & amortisation	(12)	(17)	(25)	(41)	(45)	(52)	(55)
EBIT	12	7	3	(26)	(21)	(21)	12
Net interest	(3)	(2)	(3)	(6)	(9)	(11)	(13)
Other financial items	-	-	-	-	-	-	-
Profit before taxes	9	4	(0)	(32)	(30)	(32)	(1)
Taxes	(2)	(3)	0	2	9	9	0
Minority interest	(0)	(0)	(1)	2	2	(2)	(2)
Net profit	7	1	(1)	(28)	(19)	(24)	(3)
EPS reported	0.32	0.03	(0.03)	(1.25)	(0.78)	(0.91)	(0.11)
EPS adjusted	0.32	0.03	(0.03)	(0.52)	(0.43)	(0.72)	0.05
DPS	-	-	-	-	-	-	-
BALANCE SHEET (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	63	90	125	164	172	181	180
Other non-current assets	26	43	117	116	123	132	136
Other current assets	30	41	42	56	73	78	82
Cash & equivalents	6	6	13	15	40	21	39
Total assets	124	180	298	350	408	412	438
Total equity	44	50	81	131	130	108	107
Interest-bearing non-current debt	56	87	141	129	169	189	209
Interest-bearing current debt	-	-	-	-	-	-	-
Other Debt	25	43	75	90	109	115	121
Total liabilities & equity	124	180	298	350	408	412	438
CASH FLOW (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings		8	19	0	24	30	54
Change in working capital		3	(4)	(0)	(0)	(0)	(0)
Cash flow from investments	(17)	(28)	(31)	(79)	(60)	(69)	(58)
Cash flow from financing	0	31	55	71	61	21	22
Net cash flow	-	0	8	(8)	25	(18)	18
CAPITALIZATION & VALUATION (EURm)	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)				24.3	6.7	6.7	6.7
Number of shares end period	20	20	20	24	26	26	26
Net interest bearing debt	50	81	128	114	129	168	170
Enterprise value				717	321	361	365
EV/Sales				2.2	0.9	0.8	0.8
EV/EBITDA				45.4	13.8	12.1	5.6
EV/EBIT				-	-	-	31.8
P/E reported				-	-	-	-
P/E adjusted				-	-	-	-
P/B				5.2	1.5	2.0	2.0
FINANCIAL ANALYSIS & CREDIT METRICS	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)		1.4	-	-	-	-	1.1
Dividend yield (%)				-	-	-	-
EBITDA margin (%)	16.0	11.9	11.4	4.9	6.2	7.0	13.5
EBIT margin (%)	7.8	3.3	1.3	-	-	-	2.4
NIBD/EBITDA	2.05	3.37	4.52	7.24	5.57	5.62	2.62
EBITDA/Net interest	9.71	9.94	8.19	2.57	2.60	2.76	5.04

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The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5 % of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Vest	4,506,060	7.63%

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Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
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NHST Media Group AS	21,475	1.85%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,179,147	2.32%	Sparebanken Sør	460,589	2.94%
SpareBank 1BV	1,549,440	2.46%	Sparebanken Vest	4,506,060	7.63%
SpareBank 1Nord-Norge	1,129,459	1.12%			

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Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Golden Ocean Group	0	1,824	Prosafe	0	5,984
Aker	0	514	Grieg Seafood	0	770	Protector Forsikring	0	14,285
Aker BP	0	860	Helgeland Sparebank	0	1,700	REC Silicon	0	159,908
Aker Solutions	0	2,085	Høegh LNG	0	8,703	SailMar	0	130
AKVA Group	0	1,500	Ice Group AS	0	55,500	Sandnes Sparebank	0	18,032
Archer	0	73,520	Jæren Sparebank	0	500	Scatec Solar	0	35,635
Atea	0	450	Komplett Bank	0	99,357	Seadrill	0	6,615
Austevoll Seafood	0	5,780	Kongsberg Gruppen	0	4,010	Selvaag Bolig	0	10,000
Avance Gas	0	34,201	Lerøy Seafood	0	33,795	SpareBank 1BV	0	10,000
Axactor	0	21,647	Marine Harvest	0	1,864	SpareBank 1Nord-Norge	0	30,000
Bonheur	0	44,509	Monobank	0	1,355,000	SpareBank 1SMN	0	16,590
Borr Drilling	0	4,415	NEXT Biometrics	0	1,730	SpareBank 1SR-Bank	0	39,187
BWLPG	0	5,569	Nordic Semiconductor	0	6,000	SpareBank 1Østlandet	0	2,891
DNB	0	35,822	Norsk Hydro	0	112,501	Sparebanken Møre	0	6,550
DNO	0	24,392	Northern Drilling	0	2,099	Sparebanken Sør	0	43,280
DOF	0	138,498	Norwegian Air Shuttle	0	3,172	Sparebanken Øst	0	3,000
Entra	0	14,362	Norwegian Property	0	150,000	Storebrand	0	5,005
Equinor	0	10,266	Ocean Yield	0	31,967	Subsea 7	0	7,351
Europpris	0	14,510	Odjell Drilling	0	8,731	Telenor	0	2,272
Faroe Petroleum	9,600	9,600	Orkla	0	23,746	TGS-NOPEC	0	2,000
Flex LNG	0	13,352	Panoro Energy	0	5,670	XXL	0	7,270
Frontline	0	13,943	Pareto Bank	0	963,509	Yara International	0	19,079
Gjensidige Forsikring	0	8,547	Petroleum Geo-Services	0	57,884	Zenterio	0	78,865

This overview is updated monthly (last updated 21.11.2018).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

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Akva Group	Fortum	Pandion Energy
Arnarlix	Genel Energy	Pareto Bank
Atlantic Sapphire AS	Gfinity Plc	Petro Matad Limited
Avida Holding AB	Gulf Keystone Petroleum	Petrolat LLC
Bank Norwegian	Hertha BSC GmbH	Pioneer Public Properties Finland Oy
Borealis Finance	Hunter Group	Point Resources AS
Borr Drilling Limited	Idavang A/S	Quant AB
Brado AB	Instabank	Sakthi Global Auto Holdings
Camanchaca	Komplett Bank	Sand Hill Petroleum
DNO ASA	McDermott International	SAS
DOF ASA	MMA Offshore	Scatec Solar
Echo Energy	Monobank ASA	Scorpio Tankers
Eco Atlantic Oil and Gas	Nemaska Lithium	Shamran
Eidesvik Offshore	Northern Drilling	Siccar Point Energy
Eland Oil & Gas	Northmill Group AB	SL Bidco
Embarcadero Maritime II LLC	Norwegian Air Shuttle	SpareBank 1 Buskerud-Vestfold
Faroe Petroleum	Ocean Yield	Sparebanken Vest
FFS Bidco	Odfjell	Union Maritime Limited
Filo Mining Corp	Odfjell Drilling	Zwipe AS
Flex LNG		

This overview is updated monthly (this overview is for the period 31.10.2017 – 31.10.2018).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	76%
Hold	20%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	100%
Hold	0%
Sell	0%

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This overview is updated monthly (last updated 21.11.2018).

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The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Aspire	Green Landscaping Holding	Powercell	Sedana Medical
Cibus Nordic Real Estate	Lehto Group	Magnolia Bostad	Shamara Petroleum
Climeon	Organoclick	Scibase	Vostok New Ventures

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Oil	Cavotec	Isofol Medical	Shamara Petroleum
BlackPearl Resources Inc	Cibus Nordic Real Estate	Saltängen Property Invest	Tethys Oil
Byggmästare Anders J Ahlström	Delarka Holding	SciBase Holding	Vostok Emerging Finance
Byggbpartner i Dalarna	International Petroleum Corporation	Sedana Medical	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 14.09.2018).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Freenet	MLP *	Siemens Healthineers AG
Aixtron *	Gesco *	MOBOTIX AG	SMT Scharf AG *
Baywa	GFT Technologies *	MTU Aero Engines	Surteco Group *
Biotest *	Gigaset *	OVH Holding AG	Szyggy AG *
Brenntag	Heidelberg Pharma *	Procredit Holding *	TAKKT AG
CORESTATE Capital Holding S.A.	Hypoport AG	PSI SOFTWARE AG *	Vapiano
Daldrup & Soehne *	Intershop Communications AG	PWO *	va-Q-tec *
Demire	Logwin *	RIB Software *	Viscom *
Epigenomics AG *	Manz AG *	S&T AG *	windeln.de
Euromicron AG *	MAX Automation SE *	Schaltbau Holding AG	
Eyemaxx Real Estate	Merkur Bank	SCOUT24	

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	Hypoport AG	OHB SE	Vapiano
Baywa	Intershop Communications AG	OVH Holding AG	
BB Biotech	Merkur Bank	Schaltbau Holding AG	
Eyemaxx Real Estate	MOBOTIX AG	Siegfried Holding AG	

This overview is updated monthly (last updated 05.12.2018).