



## **Research Report (Anno)**



**Sales and earnings at highest levels in company history  
Growth trend to continue in 2011**

**Price Target: €29.04**

**Rating: Buy**

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### **Important Information:**

**Please pay attention to disclaimer/risk information as well as potential conflicts of interests according to §34b WpHG from page II on**

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**Date of completion: May 9, 2011**

**Date of issue: May 10, 2011**

**Rating: Buy**

**Price target: € 29.04**

current price: € 20.30

2011-05-03 / ETR

currency: EUR

**Basic data:**

ISIN: DE0005660005

WKN: 566000

Stock symbol: EUC

Number of shares<sup>3</sup>: 5.126

Marketcap<sup>3</sup>: 104.03

Enterprise Value<sup>3</sup>: 155.56

<sup>3</sup> in m / in EUR m

Freefloat: 83.6 %

Transparency Level:  
Prime Standard

Market Segment:  
Regulierter Markt

Accounting Standard:  
IFRS

Financial Year: 12/31

Designated Sponsor:  
CBS

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\* catalogue of potential  
conflicts of interests on  
page IV

**euromicron AG** <sup>\*5, 7</sup>

**Company Profile**

Sector: Technology

Focus: Network and fiber optic cable

Employees: 1081 Due date: 2010/12/31

Foundation: 1998

Head Office: Frankfurt

Management Board: Dr. Willibald Späth,  
Thomas Hoffmann



euromicron AG offers complete solutions for communication, data and security networks. Network infrastructure of euromicron integrates voice, video and data transmission by copper cable and optical fiber and wireless systems. These network infrastructures are the basis for its market leading E-health, security, control or surveillance systems. The euromicron group consists of the parent company euromicron AG and further 13 companies which are included in the annual consolidated financial statements. Business activity is divided into the three areas of expertise projects & systems, components as well as distribution & services.

**Data & Estimates**

P&L in EURm / Due date	2009	2010	2011e	2012e
Sales	179.61	203.64	230.00	245.00
EBITDA	19.89	24.73	27.15	29.54
EBIT	16.37	20.13	22.35	24.64
Net profit	9.78	11.46	13.05	14.65

Figures in EUR				
Net Profit per share	2.17	2.38	2.54	2.86
Dividend per share	1.00	1.10	1.20	1.30

Ratios				
EV/Sales	0.90	0.76	0.68	0.63
EV/EBITDA	8.15	6.29	5.73	5.27
EV/EBIT	9.90	7.73	6.96	6.31
P/E	10.64	9.08	7.97	7.10
P/B		1.17		

**Financial Dates:**

**Date: Event**

2011/05/11: XI. MKK  
2011/05/13: Report Q1 11  
2011/06/09: Annual Shareholder's Meeting  
2011/08/12: Report HY 11  
2011/11/11: Report Q3 11

**\*\* last research published by GBC:**

**Date: publication/price target in €/Rating**

2010/12/07: RG / 28.93 / BUY  
2010/10/20: RS / 28.93 / BUY

RS = Research Report; RG = Research Guide;  
\*\* the research reports can be found on our website  
[www.gbc-ag.de](http://www.gbc-ag.de) or can be requested at GBC AG,  
Halderstr. 27, D-86150 Augsburg

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## Company

### Company Structure

The figure below represents the structure, segments and areas of expertise of euromicron group.

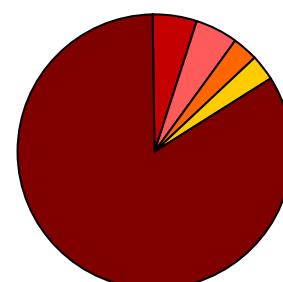
			
		Report Segments	
		Segment North	Segment South
<b>euromicron Distribution</b>	<ul style="list-style-type: none"> <li>Active and passive network components from a global range</li> <li>Top-performance cabling systems</li> <li>Consulting, training, network analysis and services</li> </ul>		 
<b>euromicron Solutions</b>	<ul style="list-style-type: none"> <li>Voice, data and video communication, convergent systems</li> <li>End-to-end solutions for networked working and living</li> <li>Optical, wireline and wireless networks</li> <li>Analysis, planning, implementation, maintenance and service</li> </ul>	 	 
<b>euromicron Components</b>	<ul style="list-style-type: none"> <li>Optical and hybrid connectors, assembly, switches and cable systems</li> <li>Networked workplace systems, examination and testing equipment</li> <li>Control and monitoring stations</li> <li>Customized solutions</li> </ul>	  	
<b>euromicron International Services</b>	Strategic and corporate tasks		

Source: GBC, euromicron

### Shareholder Structure

Shareholder	April 30, 2011
Allianz Global Investors	5.18
Universal Investment	4.96
Union Investment	3.21
LBBW Asset Management	3.05
Free Float	83.60

Shareholder Structure (in %)



 Allianz Global Investors
  Universal Investment  
 Union Investment
  LBBW Asset Management  
 Streubesitz

Source: GBC, euromicron

## Company Development & Forecast

### Figures

P&L (in m€)	FY 2009	in % of sales	FY 2010	in % of sales	FY 2011e	in % of sales	FY 2012e	in % of sales
Sales	179.605	100.00%	203.643	100.00%	230.000	99.57%	245.000	100.00%
Change in inventory	-6.882	-3.95%	1.211	0.59%	0.000	0.00%	0.000	0.00%
Own work capitalised	1.702	0.98%	1.521	0.74%	1.000	0.43%	0.000	0.00%
Other operating income	2.101	1.20%	4.476	2.17%	3.200	1.39%	3.200	1.31%
Cost of materials	-85.975	-49.29%	-107.317	-52.00%	-118.450	-51.28%	-126.665	-51.70%
<b>Gross profit</b>	<b>90.551</b>	<b>51.91%</b>	<b>103.534</b>	<b>50.17%</b>	<b>115.750</b>	<b>50.11%</b>	<b>121.535</b>	<b>49.61%</b>
Personnel expenses	-48.103	-27.58%	-54.247	-26.29%	-61.000	-26.41%	-63.000	-25.71%
Depreciation & amortization	-3.526	-2.02%	-4.601	-2.23%	-4.800	-2.08%	-4.900	-2.00%
Other operating expenses	-22.554	-12.93%	-24.561	-11.90%	-27.600	-11.95%	-29.000	-11.84%
<b>EBIT</b>	<b>16.368</b>	<b>9.38%</b>	<b>20.125</b>	<b>9.75%</b>	<b>22.350</b>	<b>9.68%</b>	<b>24.635</b>	<b>10.06%</b>
Net financial income	-2.953	-1.69%	-2.906	-1.41%	-3.000	-1.30%	-3.000	-1.22%
<b>EBT</b>	<b>13.415</b>	<b>7.69%</b>	<b>17.219</b>	<b>8.34%</b>	<b>19.350</b>	<b>8.38%</b>	<b>21.635</b>	<b>8.83%</b>
Taxes on income	-3.139	-1.80%	-5.088	-2.47%	-5.805	-2.51%	-6.490	-2.65%
<b>Earnings before minority interests</b>	<b>10.276</b>	<b>5.89%</b>	<b>12.131</b>	<b>5.88%</b>	<b>13.545</b>	<b>5.86%</b>	<b>15.145</b>	<b>6.18%</b>
Minority interests	-0.499	-0.29%	-0.669	-0.32%	-0.500	-0.22%	-0.500	-0.20%
<b>Net profit</b>	<b>9.777</b>	<b>5.61%</b>	<b>11.462</b>	<b>5.55%</b>	<b>13.045</b>	<b>5.65%</b>	<b>14.645</b>	<b>5.98%</b>

<b>EBITDA</b>	<b>19.89</b>	<b>24.73</b>	<b>27.15</b>	<b>29.54</b>
<b>in % of sales</b>	<b>11.4 %</b>	<b>12.0 %</b>	<b>11.8 %</b>	<b>12.1 %</b>
<b>EBIT</b>	<b>16.37</b>	<b>20.13</b>	<b>22.35</b>	<b>24.64</b>
<b>in % of sales</b>	<b>9.4 %</b>	<b>9.8 %</b>	<b>9.7 %</b>	<b>10.1 %</b>
<b>Earnings per share in €</b>	<b>2.17</b>	<b>2.38</b>	<b>2.54</b>	<b>2.86</b>
<b>Dividend per share in €</b>	<b>1.00</b>	<b>1.10</b>	<b>1.20</b>	<b>1.30</b>

## Business Development 2010 – Revenue Growth in all Segments

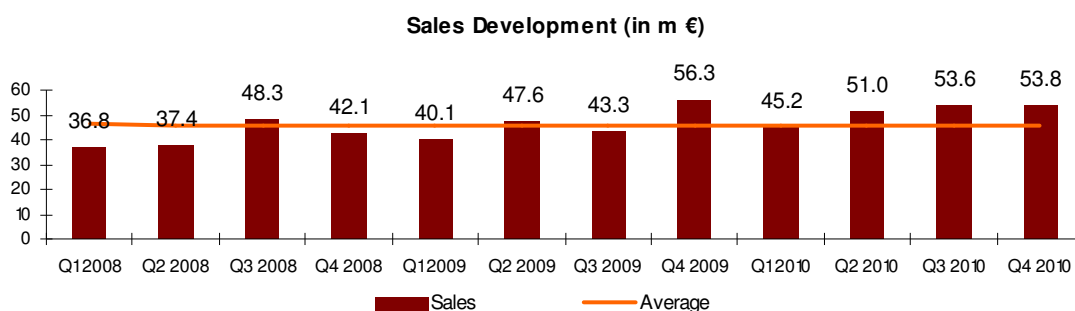
in €m	FY 2009	Δ 2009/2010	FY 2010
Sales	179.61	+13.4 %	203.64
EBITDA	19.89	+24.3 %	24.73
EBITDA margin	11.4 %	+ 0.6 Pp.	12.0 %
EBIT	16.37	+ 23.0 %	20.13
EBIT margin	9.4 %	+ 0.4 Pp.	9.8 %
Net profit	9.78	+ 17.2 %	11.46
EPS in €	2.17		2.38

Source: euromicron; GBC

### Sales Development – Impressive Sales Growth of 13.4 %

In 2010 euromicron managed to achieve the highest levels of sales and earnings for the whole company history. The sales increased by 13.4 % to €203.64 million thus exceeding the threshold of €200 million for the first time. Besides one could observe an increase in additional sales from the acquisitions of €9.68 million. Consequently, the organic growth amounted to 8% and thus was captured within the 5-10% targeted annual organic growth rate.

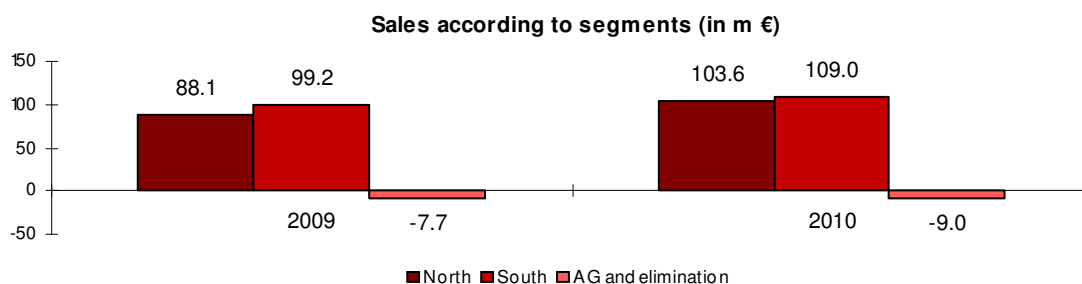
The quarterly sales of euromicron have been increasing consequently during 2010 up to €53.8 million in the last quarter. However, one should note that in 2010 the company failed to reach its so far highest level of sales (€56.3 million) in Q4 2009.



Source: euromicron; GBC

Considering the regional segmentation of sales those sales steaming out of the German market amounted to 85.4% (2009: 86.0%) and rose to €174 million from €154,5 million in the previous year. The remaining 14.0% of sales generated abroad were still coming mainly from Austria and Italy.

The holding company comprises of the operational subsidiaries in both segments euromicron Nord, which is also active on the Polish and French markets, and euromicron Süd, which incorporates the Austrian and Italian subsidiaries. In 2010 euromicron Nord increased its sales significantly by 17.6% to €103.6 million. As well as its northern peer euromicron Süd reported a considerable increase in sales by 9.9% to €109.0 million. The following figure demonstrates the sales generated by both segments as well as the difference emerging from the holding consolidation.



Source: euromicron; GBC

## Earnings Development – EBIT Margin Reaches New Highest Mark

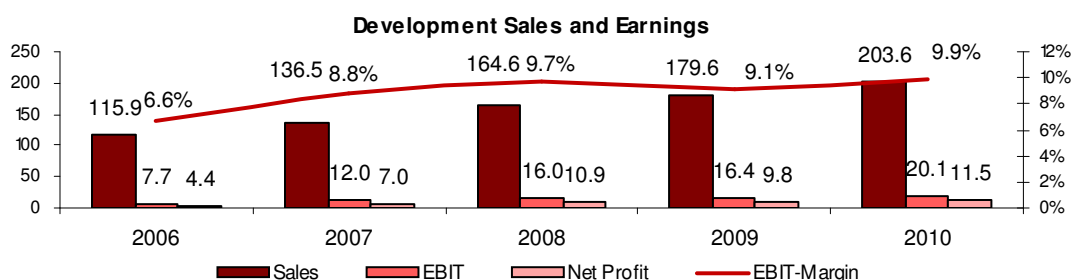
The gross profit margin amounted to 50.17% (PY: 51.91%) in fiscal year 2010. The slight decrease is mainly stipulated by outsourcing of assembling to sub-contractors. The personnel expenses increased by €6 million to €54.25 million (PY: € 48.10 million) that is largely caused by the extension in the course of consolidation. Notwithstanding, through the efficient cost management and process optimization the company managed to further cut the personnel expense ratio to 26.29% (PY: 27.58%). In fiscal year 2010 euromicron had 1,081 employees on average.

The cost item 'Other operating expenses' grew at a lower rate than sales also. The expenses ratio of 11.90% was under the previous year mark of 12.93%. In 2010 euromicron AG accomplished six in house consolidations that contributed to a significant reduction of costs.

In 2010 the company could considerably improve its EBITDA (earnings before taxes, depreciation and amortization) to €24.73 million from €19.89 million in the previous year. This corresponds to EBITDA margin of 11.98% (PY: 11.41%). According to our previous estimates we anticipated 2010 EBITDA of €25.60 million.

The depreciation and amortization costs increased to €-4.60 million compared to €-3.53 million in the previous year. Thereof the amortization amounts to €-2.44 million (PY: €-1.95 million) and depreciation to €-2.16 million (PY: €-1.58 million) correspondingly.

The following figure shows the development of sales and earnings from 2006 to 2010.



Source: euromicron; GBC

In 2010 euromicron AG was able to reach the highest EBIT margin (9.9%) for the whole company history. Thus, the previous years of the company's performance were characterised by stable margins and high profitability.

According to our estimates euromicron AG enjoys favourable conditions of bank refunding. In 2010 the net financial income increased only slightly to €-2.91 million (2009: €-2.95 million). Under consideration of net debt of more than € 50 million at the end of 2010 the average interest rate was below 5% (accounting for both short- and long-term interest rates).

The profit after imposing the group tax rate of 29.6% and deducting the minority interest of €-0.67 million amounted to €11.46 million in 2010 (PY: €9.78 million). Under the minority interest one should imply only MICROSENS with the stake of 80% and Quibix with the stake of 90%, since the stake in the former NetWays was raised to 100% at the beginning of the year. The earnings relative to the average number of shares outstanding (EPS) equalled to €2.38 in 2010 (PY: €2.17).

Adhering to its sustainable dividend policy the company proposed the dividend distribution of €1.10 per share. Estimated at the current share price this promises an appealing dividend yield of more than 5%.

## Financial Situation – Reduction of Net Debt in 2011

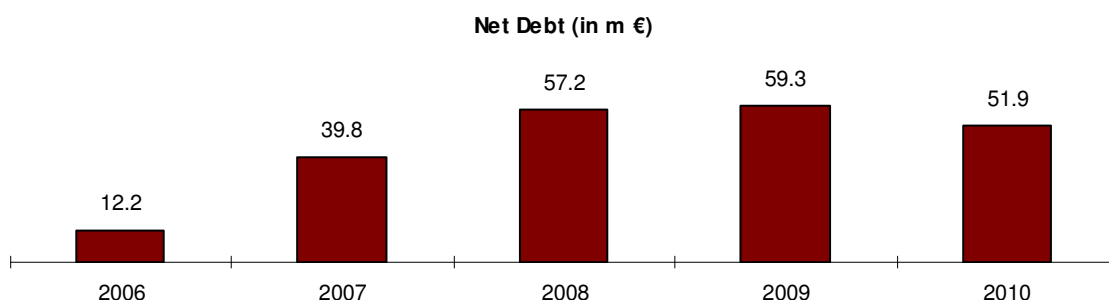
in €m	FY2009	FY2010
Equity	71.42	89.26
<i>Equity Ratio</i>	<i>39.4 %</i>	<i>45.5 %</i>
Net debt	59.34	51.89
Operating assets	24.38	26.36
Net working capital	33.74	39.67

Source: euromicron; GBC

According to our estimates euromicron significantly improved the quality of its balance sheet in the previous fiscal year. The equity ratio was raised by more than 6 percentage points to 45.5% by the end of 2010. Such an increase was mainly caused by the growing net profit, successfully raised capital as well as the sale of treasury shares. The cash inflow from the capital increased amounted to about €7.5 million, whereas the sale of treasury shares provided euromicron with the additional liquidity of €3.3 million.

In 2010 the company accrued its goodwill to €80.95 million (PY: €76.62 million) through the acquisitions of NBG Fiber Optics GmbH and the Avalan GmbH. The operating assets consisting of tangible and intangible fixed assets increased by about €2 million to €26.36 million.

For the first time since 2006 euromicron managed to cut its net debt. The positive operating cash flow, the capital increase and the sale of treasury shares is more than enough to cover the cash outflows from the investments, acquisitions and dividend distribution. The figure below shows the development of net debt since 2006.



Source: euromicron; GBC

With regards to the sales the net working capital increased at a higher rate in the previous year and reached €39.67 million (December 31, 2009: €33.74 million). Here one should note that the acquisitions concluded in December 2010 contributed only marginally to the sales growth, however, the net working capital increased by €3 million. Additionally the increase in inventory was caused by a large order to be delivered in 2011.



Source: euromicron; GBC



## SWOT - ANALYSIS

### Strengths

- Sustainably high margins and profitability in the previous financial years
- Successful acquisition track record following an active buy-and-build-strategy
- Low risk business model due to the strongly diversified customer base
- High dividend yield
- Countrywide service network in Germany
- Order backlog of more than €115 million by the end of March 2011

### Weaknesses

- High portion of goodwill on the balance sheet as a consequence of active buy-and-build-strategy
- Yearly revolving high earnings contribution in Q4 causes high seasonality of business trend

### Chances

- Transformation to a build-and-integrate-strategy favours the consolidation of the balance sheet
- In case of large acquisitions sales development might become more dynamic

### Threats

- Due to a relatively high portion of goodwill impairments might affect profitability
- Increasing pressure on prices and margins in the project business in case of economic downturn

## Forecast and Model Assumptions

in €m	FY 2010	FY 2011e (alt)	FY 2011e (neu)	FY 2012e
Sales	203.64	230.00	230.00	245.00
EBITDA ( <i>margin</i> )	24.73 (12.0 %)	28.40	27.15 (11.8 %)	29.54 (12.1 %)
EBIT ( <i>margin</i> )	20.13 (9.4 %)	24.40	22.35 (9.7 %)	24.64 (10.1 %)
Net profit	11.46	14.28	13.05	14.65
EPS in €	2.38	2.87	2.54	2.86

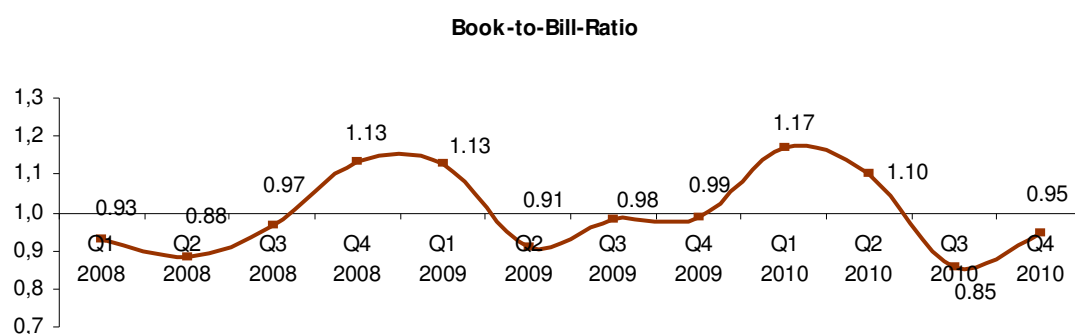
Source: GBC

### Sales Forecast - Growth Trend is to Continue in 2011

For the current fiscal year 2011 we expect sales of €230.0 million. That corresponds to an increase of 12.9% compared to 2010. The acquisitions of NBG Fiber Optics and Avalan should contribute to estimated sales of about €10 million in 2011. Our forecast is made without considering the impact of future possible acquisitions in 2011. According to the board statement the company is currently in the phase of advanced discussions with potential targets. The company's sales target of €300 million for the year 2012 was set with the account for the inorganic growth.

Additionally we base our forecasts on a considerable order backlog. After the order backlog amounted to €91,1 million by the end of 2010, it was increased to more than €115 million by the end of March 2011. According to the information provided by the CEO the increase of more than €23,9 million comes from new large projects in the first quarter of the current year. Thus, euromicron disposes of good perspectives for the following quarters. Already for the first quarter we anticipate a solid growth.

The following figure shows the development of the book-to-bill ratio on a quarterly basis. In the first quarter 2011 the book-to-bill ratio is expected to exceed 1 again.



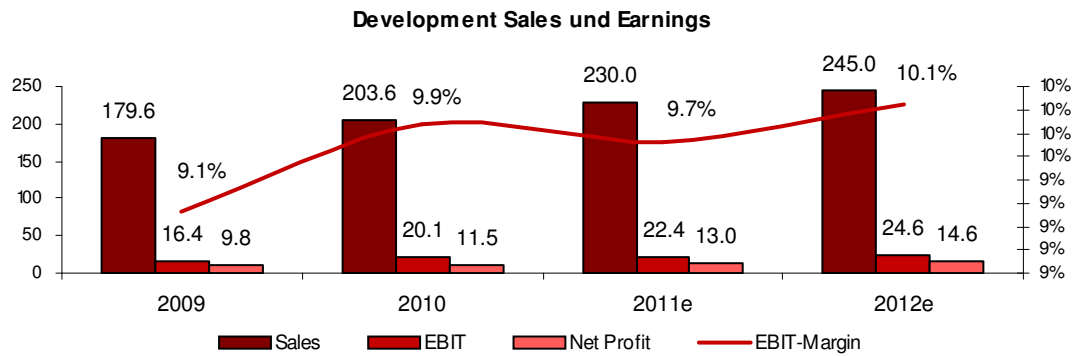
Source: euromicron, GBC

### Income Forecast – Expected P/E Ratio of about 8

For the current fiscal year 2011 we expect EBIT of €22.35 million that corresponds to EBIT margin of 9.73%. Yet, we assume that a higher income will be generated during the second half-year, which is used to stand out by stronger earnings contribution. The net financial income should stay approximately at its previous year level of €-3.00 million.

After imposing the expected group tax rate of 30% and deducting the minority interest of €0.50 million the net profit for 2011 should equal €12.60 million. After the capital increase and the sale of treasury shares the total number of shares outstanding has increased to 5.126 million. Thus, the expected EPS for 2011 are estimated at €2.54. Consequently P/E ratio of about 8 is considered as appealing.

The following figure demonstrates our estimates of sales, EBIT and net profit for both fiscal years 2011 and 2012.



Source: GBC

## Valuation

### DCF-Valuation

#### Modell Assumptions

We valued euromicron AG according to our three-phased DCF model. In phase 1 capturing 2 years we made estimates of income statements for the years 2011 to 2012. In phase 2 spanning from 2013 to 2017 the forecast is based on the value drivers. From the conservative point of view we expect average annual sales increase of 2%. We assume targeted EBITDA margin to constitute 12.1%. We estimate the tax rate at 32%. Finally, in phase 3 at the end of the forecast horizon we calculate the terminal value as perpetuity. In the terminal phase we assume sales growth rate of 2%.

#### Determination of Cost of Capital

The weighted averaged cost of capital (WACC) of euromicron AG is calculated as the sum of weighted equity and debt costs. To calculate the cost of equity one needs to determine the risk-free rate as well as the risk premium and the company-specific beta.

As a risk-free rate, we take the interest rate on the German 10-year Government Bonds that currently yields 3.25% (previously: 3.00%).

For the market premium we consider the historical market premium of 5,5% that is based on the historical analysis of share returns as a reasonable estimate. The market premium reflects the excess return of the stock market over the risk-free government bonds.

GBC estimates the current the beta at 1.52.

Under the assumptions implied the equity cost (10-year risk-free interest rate plus beta multiplied by the risk premium) is calculated at 11,6% (previously: 11.4%). As we assume sustainable weighting of equity costs at 75%, WACC is estimated at 10.0% (previously: 9.8%).

#### Valuation Results

**Discounting of future cash flows is based on the entity approach. We have calculated the corresponding weighted average cost of capital (WACC) at 10.0 %. As a result the fair value of the share corresponds to the share price target of €29,04 at the end of 2011.**

**Thus we have slightly increased our share price target of €28,93.**

## euromicron AG - Discounted Cashflow (DCF) Valuation

### Value Driver of the DCF model according to the estimate Phase:

consistency - Phase		final - Phase	
Sales growth	2.0%	Perpetual sales growth	2.0%
EBITDA margin	12.1%	Perpetual EBITA margin	10.1%
Depreciation to operating assets	18.5%	Effective tax rate in terminal value	32.0%
Working Capital to sales	18.0%		

### Three-step DCF - model:

Phase	estimate		consistency						final
in EUR m	FY 2011e	FY 2012e	FY 2013e	FY 2014e	FY 2015e	FY 2016e	FY 2017e	FY 2018e	terminal value
Sales	230.00	245.00	249.90	254.90	260.00	265.20	270.50	275.91	
Change	11.4%	6.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Sales to operating assets	8.85	9.25	9.26	9.30	9.35	9.39	9.44	9.49	
EBITDA	27.15	29.54	30.14	30.74	31.36	31.98	32.62	33.27	
EBITDA margin	11.8%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	
EBITA	22.35	24.64	25.24	25.75	26.29	26.84	27.40	27.97	
EBITA margin	9.7%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Taxes on EBITA	-6.70	-7.39	-7.57	-7.72	-7.89	-8.05	-8.22	-8.39	
To EBITA	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	32.0%
EBI (NOPLAT)	15.65	17.24	17.66	18.02	18.40	18.79	19.18	19.58	
Return on Capital	23.7%	25.4%	25.1%	25.1%	25.1%	25.2%	25.3%	25.4%	24.7%
Working Capital (WC)	42.00	44.00	44.88	45.78	46.70	47.63	48.58	49.55	
WC to Sales	18.3%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	
Investment in WC	-2.33	-2.00	-0.88	-0.90	-0.92	-0.93	-0.95	-0.97	
Operating Assets (OA)	26.00	26.50	27.00	27.41	27.82	28.23	28.66	29.09	
Depreciation on OAV	-4.80	-4.90	-4.90	-5.00	-5.07	-5.15	-5.22	-5.30	
Depreciation OAV	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	
Investment in OA	-4.44	-5.40	-5.40	-5.40	-5.48	-5.56	-5.65	-5.73	
Capital employed	68.00	70.50	71.88	73.18	74.51	75.86	77.24	78.64	
EBITDA	27.15	29.54	30.14	30.74	31.36	31.98	32.62	33.27	
Taxes on EBITA	-6.70	-7.39	-7.57	-7.72	-7.89	-8.05	-8.22	-8.39	
Total investment	-6.77	-7.40	-6.28	-6.30	-6.40	-6.50	-6.60	-6.70	
Investment in OA	-4.44	-5.40	-5.40	-5.40	-5.48	-5.56	-5.65	-5.73	
Investment in WC	-2.33	-2.00	-0.88	-0.90	-0.92	-0.93	-0.95	-0.97	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	13.68	14.74	16.28	16.72	17.07	17.43	17.80	18.18	222.59
Value of operating business (due date)	195.40	200.21							
Cash value of explicit FCFs	81.26	74.65							
Cash value of Continuing Value	114.14	125.57							
Net debt	46.06	40.47							
Cash value of all options	0.00	0.00							
Equity	149.33	159.75							
Minority interest	-0.46	-0.49							
Value of share capital	148.87	159.25							
Number of shares outstanding in m	5.126	5.126							
Fair value per share in EUR	29.04	31.07							

### Capital Cost Calculation:

Risk free rate of return	3.3%
Market risk premium	5.5%
Beta	1.52
Cost of Equity	11.6%
Weighting	75.0%
Cost of Debt	7.0%
Weighting	25.0%
Taxshield	25.0%
WACC	10.0%

### Sensitivity Analysis - Fair Value per share in EUR

	WACC									
Return on Capital	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%	
16.7%	28.61	26.30	24.33	22.64	21.19	19.92	18.80	17.82	16.94	
18.7%	31.59	28.96	26.72	24.81	23.15	21.71	20.44	19.32	18.33	
20.7%	34.57	31.62	29.11	26.97	25.12	23.50	22.08	20.83	19.71	
22.7%	37.54	34.28	31.51	29.13	27.08	25.29	23.72	22.33	21.10	
24.7%	40.52	36.94	33.90	31.29	29.04	27.08	25.36	23.84	22.48	
26.7%	43.49	39.60	36.29	33.46	31.01	28.87	27.00	25.34	23.87	
28.7%	46.47	42.26	38.68	35.62	32.97	30.66	28.63	26.84	25.25	
30.7%	49.45	44.92	41.07	37.78	34.93	32.45	30.27	28.35	26.64	
32.7%	52.42	47.58	43.47	39.94	36.90	34.24	31.91	29.85	28.03	

## Conclusion

### Sales and earnings peak to all-time high - positive trend to continue in 2011

The fiscal year 2010 was marked by the all-time highest levels of sales and operating income for the whole euromicron history. For the first time the sales and operating income exceeded the mark of €200 million and €20 million, respectively. These items have also demonstrated a significant annual growth in comparison to the previous year. Earnings per share amounted to €2.38 in 2010. Thus, P/E ratio calculated as the relation of the current share price to EPS was below 9. This we consider as attractive. Following its consistent dividend policy euromicron has proposed a dividend distribution of €1.10 per share.

The company continued to improve its balance sheet quality in the previous fiscal year 2010. On the one hand, the equity ratio increased by 6 percentage points to almost 46%. On the other hand, for the first time in six consecutive years the company managed to cut its net debt compared to the previous year. Thus, the net debt was reduced by more than €7 million to almost €52 million in 2010. Besides the strong operating development this result was achieved through the successful capital increase and the sale of treasury shares.

We are confident that euromicron's growth trend is likely to continue during the current fiscal year 2011. By the end of March 2011 the order backlog amounted to more than €115 million that insures good visibility of the coming quarterly sales. Therefore we expect strong sales growth for the first quarter 2011. However, our estimates do not take into consideration further acquisitions. We estimate EBIT and earnings per share for 2011 to amount to €22.35 million and €2.54 correspondingly.

**Based on DCF-valuation we have calculated a new price target of €29.04 (previously: €28.93) and therefore confirm our BUY rating. The expected P/E ratio of about 8 in 2011 as well as the attractive dividend yield of more than 5% indicate an undervaluation of the share. Based on the current share price we anticipate a significant upside potential of more than 40%.**

## **Annex**

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