May 4th, 2020
Research report

SMC Research
Small and Mid Cap Research

STS Group AG

In the eye of the storm

Rating: Speculative Buy (unchanged) | **Price:** 3.35 € | **Price target:** 7.00 € (prev.: 7.50 €)

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Snapshot

Basic data

Based in:	Hallbergmoos
Sector:	Automotive technology
Headcount:	2,509
Accounting:	IFRS
Bloomberg:	SF3:GR
ISIN:	DE000A1TNU68
Price:	3.35 Euro
Market segment:	Prime Standard
Number of shares:	6.0 m
Market Cap:	20.1 m Euro
Enterprise Value:	79.7 m Euro
Free Float:	<35 %
Price high/low (12 M):	11.40 / 2.05 Euro
Øturnover (Xetra,12 M):	69,100 Euro

Short profile

The STS Group, listed on the stock exchange since 2018, has grown through acquisitions in recent years from a regional producer of acoustically effective plastic components (soft trim) to a global technology leader for plastic-relevant system components in the commercial vehicle sector. After 2018 STS Group was primarily occupied with the integration of the acquired companies, last year's business development was marked by growth efforts in China and the USA as well as the declining commercial vehicle economy in Europe and China. STS's largest division by far is the Plastics segment, which accounts for approximately 50 percent of sales, followed by the Acoustics segment with 31 percent of sales. The China segment (14 percent of sales) represents the STS Group's most significant growth driver and is therefore of particular importance. A crucial question for the future of STS is to which extent the company will be able to cushion the sales losses expected as a result of the Corona crisis by means of short-time working, cost reductions and favourable government loans. A significant increase in profitability is also necessary in the medium term.

FY ends: 31.12.	2017	2018	2019	2020e	2021e	2022e
Sales (m Euro)	310.0	401.2	362.8	327.6	349.2	384.0
EBIT (m Euro)	46.9*	-1.3	-6.5	-11.6	-0.4	6.5
Net profit	47.0*	-4.8	-12.1	-15.4	-4.2	2.7
EpS	9.39*	-0.80	-2.02	-2.57	-0.71	0.44
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	-	29.4%	-9.6%	-9.7%	6.6%	10.0%
Profit growth	-	-110.2%	152.4%	27.1%	-72.5%	-162.9%
PSR	0.06	0.05	0.06	0.06	0.06	0.05
PER	-	-	-	-	-	7.5
PCR	-	2.8	0.5	1.9	1.1	0.9
EV / EBIT	1.7	-	-	-	-	12.2
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**including one-off effects*

Executive Summary

- **Three product categories:** The STS Group is an automotive supplier, predominantly active in the commercial vehicle sector (share of sales approx. 70 percent). Their products are used on or inside the vehicle cabin, where they help reduce noise emissions (Acoustics segment, approx. 30 percent of sales) and help provide vehicles with a good external appearance, aerodynamics and stability at low weight (Plastics segment including China business, approx. 60 percent of sales). The company is vertically integrated and manufactures intermediate products for its internal use and the sale to third parties (Materials segment, approx. 10 percent of sales).
- **A technology leader, geographically diversified:** Following the successful integration of the acquired production sites, the STS Group ranks among the technologically leading suppliers in its peer group. It features exceptional flexibility in terms of production methods, production materials and batch size, a broad spectrum of products and a broad geographical positioning.
- **Growth impulses from overseas:** The STS Group, which was previously active only in Europe, has become a global player, focusing on market share gains in China and – to an ever greater extent – also in North America. In December, management announced the signing of a major contract in the USA with a total volume of EUR 230 m, which is expected to run for ten years. Against this background, management believes the time has come to open a new plant in the USA in 2021.
- **Disappointing figures in 2019:** STS had to accept a 9.6 percent decline in sales at Group level in 2019 due to the weak economy in Europe. In China, business developed more satisfactorily with a sales increase of 3.7 percent. Operating profit (adj. EBITDA) decreased on balance across the Group from EUR 23.7 to 17.6 m.
- **Short-term drop in sales due to Covid-19 pandemic:** For 2020, a sharp decline in overall economic demand is expected. This will have an above-average impact on the production level in the commercial vehicle sector, with a global reduction in volume estimated at 22 percent. A decline in sales at STS Group appears inevitable as well. Accordingly, the main task of management for this year is to safeguard liquidity and reduce costs through short-time working and strict cost management.
- **Significant long-term increase in sales and margin expected:** The STS Group benefits from the trend towards ever stricter emission standards and the potential of electric mobility. Based on these factors and the new competitive advantages resulting from the broad positioning, the company forecasted additional sales of EUR 100 m by 2023 before the onset of the Covid-19 crisis. Compared to the rest of the industry, the profitability of the automotive supplier is currently below average with an unadjusted 2019 EBITDA margin of 4.0 percent. In the medium term, management is forecasting a margin improvement to more than 10 percent.
- **High price potential:** Taking into account all factors, such as the impact of the Covid-19 crisis in 2020 and 2021 on sales and profit, and the long-term potential from international growth and margin improvement, we assume a fair value for the company of EUR 7.00 per share. This figure is well above the current price, and our rating is therefore "speculative buy".

SWOT Analysis

Strengths

- STS has established itself as a global tier-one truck supplier for plastic parts.
- The company has expertise and flexibility in the application of various manufacturing techniques (thermoforming, SMC and injection moulding), materials and batch sizes.
- Covering the entire product range in the plastics sector enables the development of integrated system solutions.
- Successful international expansion with the opening of a third plant in China and the signing of several major commercial vehicle orders from the USA.
- Proven competence in acquisition and integration of acquisitions and in the implementation of efficiency enhancement measures.

Weaknesses

- In 2019, market demand in the commercial vehicle sector fell sharply. The company was not able to keep sales stable.
- Except for the China segment, the divisions generate a relatively low return. The Acoustics division in particular has been structurally weak in terms of sales and profitability for years.
- Despite a broad customer base, customer concentration is relatively high. The top 5 customers account for 65 to 70 percent of sales.
- Due to the long lead time from order placement to revenue generation, current sales initiatives will only have an impact on Group revenues in the medium term.
- Due to the short stock market history and major structural changes in 2017, there is no history of comparable financial data.

Opportunities

- Possibility to increase the utilisation of plants in countries with low personnel costs. At the same time, material costs can be further reduced through the consistent use of centralised purchasing and higher material efficiency.
- High-margin orders in the not yet much penetrated markets of China and North America can make a significant contribution to sales and profit growth in the coming years.
- Electric mobility and new emission regulations (Europe, China) as growth drivers.
- The economic distortions associated with the Covid-19 pandemic will lead to lower raw material prices and thus lower material costs.

Threats

- The Covid-19 pandemic will result in a sharp drop in sales in 2020 and a presumably high loss.
- If the emergency loans applied for from the various European governments are not approved or if the interest burden is too high, the company could face liquidity problems.
- The negative trend in the Acoustics segment could continue and counteract the measures taken to increase efficiency.
- The global commercial vehicle industry is also under structural pressure. This could have a negative impact on the price level of STS products in the long term as well.

Profile

The origins

STS Group AG, based in Hallbergmoos near Munich, has emerged in its current form as the result of a buy-and-build strategy systematically pursued by the holding company Mutares between 2013 and 2017. The company originated as a carve-out from the Italian activities of the Swiss automotive supplier Autoneum. The acquisition process then led to strong growth and a much broader positioning. The STS Group is now one of the world's leading system suppliers of composite parts, supplying customers such as Volkswagen, Scania, Volvo and Iveco.

IPO in 2018

The company, which currently has 2,509 employees across the Group, completed its IPO on the Frankfurt Stock Exchange on 1 June 2018 in conjunction with a capital increase and the sale of shares held by existing shareholders. It is listed in the Prime Standard segment. Mutares remains the majority shareholder even after the IPO and, according to the last statement from 24 July, holds around 65 percent of all shares.

Products and business areas

The product portfolio is made up of three categories, which are organized into four business areas (segments).

Hard trim products (STS Plastics segment, 47 percent share of sales) are plastic parts manufactured by injection moulding or SMC (Sheet Moulding Compound, a moulding method for manufacturing fibre-reinforced plastic) and used for exterior trim and aerodynamic parts as well as storage systems in commercial vehicle cabins (e.g. front modules or battery covers). In order to optimally meet the safety and energy efficiency requirements of customers and legislators, hard trim products must be both lightweight and have a certain stiffness. Ever stricter emission standards are a trend driving the demand for high-quality and lightweight hard trim products.

Product portfolio of the STS Group


Front module


Rear cabin separation


Interior fittings


Thermo-acoustic cover


Roof cover

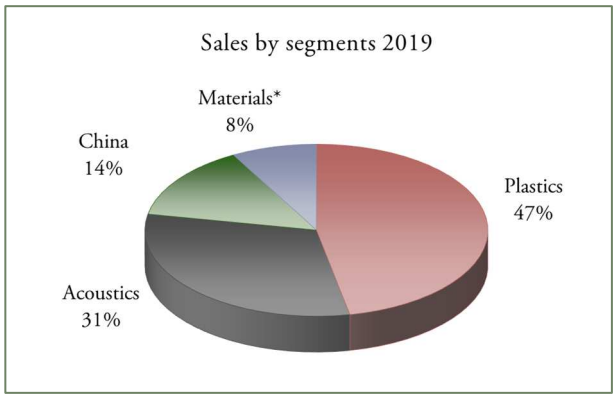

Door component

Source: Company

Soft trim products (STS Acoustics segment, 31 percent sales share) are plastic products with acoustic and thermal properties that reduce noise and protect against heat. Felt composites are made by means of the thermoforming process, in which a felt matrix is pressed into a mould and laminated with various textiles. The demand for soft-trim products stems from OEMs' efforts to improve driver comfort and to reduce outdoor noise emissions in line with increasingly stringent noise regulations.

Since mid-2018, all activities of the STS Group in the Chinese market have been reported in the **China segment (14 percent share of sales)**. From a headquarters in Wuxi, the company operates three production facilities which are manufacturing SMC and, more recently, also injection moulded products.

With less than 10 percent of sales (after consolidation), the smallest **Materials segment** involves the production of intermediate products (including SMC and fibre moulding compounds (BMC and AMC)) for both sales and internal processing.



** including segment consolidation*
Source: Company

Established in 2013

The development of the STS Group's various business areas is the result of the acquisition and integration of several company locations over the past seven years.

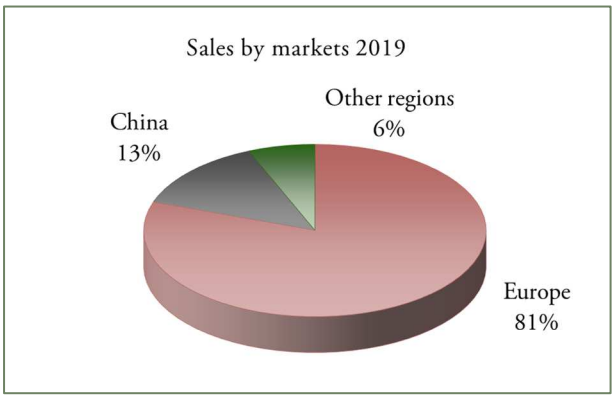
The establishment of the STS Group as an independent company and the creation of the soft-trim segment (STS Acoustics) resulted from Mutares' 2013 acquisition of the commercial vehicle business of the Swiss-based Autoneum Group. Subsequently, STS Acoustics in Italy was restructured, reducing the number of locations from five to three. In addition, the company ventured into Eastern Europe and established a plant in Poland, which commenced operations in 2017.

Setting up an integrated group

Three add-on acquisitions have been made since 2016:

- December 2016
  Commercial vehicle supplier business of the French Mecaplast Group (today: Novares)
- June 2017
  Commercial vehicle supplier business of the Plastic Omnium Group (plastics for commercial vehicles)
- September 2017
  Acquisition of a Brazilian plant of the Autoneum Group

While the transaction in December 2016 marked the entry into the plastics business, the acquisitions in 2017 were decisive for the internationalisation of the STS Group into non-European markets (in particular Mexico and China). While the company had previously only been significantly active in Italy and France, it had now become a globally operating company.



Source: Company

Global footprint as an opportunity to grow through internationalisation

The Group currently operates 13 production sites (one of which has opened in April 2019) in seven countries on four continents, with major plants in the main regional markets of Europe, China and North and South America (see figure below). These plants are strategically located close to or integrated into the production facilities of major OEM customers. However, Europe still accounts for the lion's share of STS Group sales.

High customer concentration ...

Components for heavy and medium-duty commercial vehicles are the focus of the STS Group's business. Typically, the company acts as a tier-one supplier, supplying the various OEMs directly. In the offering prospectus, management has estimated that the top 5 customers account for approximately 65 to 70 percent of Group sales in 2018. Thus, the STS Group's customer concentration is relatively high, just as in the truck sector as a whole. Main customers are renowned European OEMs (e.g. Volvo Truck with the brands Volvo and Renault, FiatChrysler, Iveco, Daimler Truck and Volkswagen with the brands MAN and Scania (see graphic at the top of next page).

... but long-term contracts

Due to long-term sales contracts with a term of often up to ten years, a considerable part of the future sales of the STS Group can be estimated in "normal" times with satisfactory reliability on the basis of factors such as the length of the agreed contract term, the service life of the various vehicle models or the expected market development. Revenues from the acquisition of new customers thus drive sales growth. Since contracts have a lead time of one to three years from the time of the tender, depending on how much development work is required for a product, a current success in the acquisition of new projects is always only noticeable with a delay. However, the current Covid-19 pandemic has by its very nature a strong impact on the short- and medium-term market development. Customer call-off figures are likely to be severely affected, which in turn is reflected in the Group's sales and revenue performance.

Production footprint of the STS Group

Source: Company

Source: Company

Technological expertise

In addition to the internationalisation and diversification of the customer base, acquisitions made in the run-up to the IPO have led to an expansion of the product range and technological expertise. According to management, STS Group is currently the only supplier on the market that can offer both acoustic and thermoplastic technologies and combine them into comprehensive system solutions.

Competitive advantages and strategy

Structural change offers opportunities

Market development is not only influenced by macroeconomic factors, such as economic growth in general and transport volumes in particular, but also by technological trends which create additional uncertainty and make it difficult to forecast future market structure. These trends include automation, electromobility, digitisation, and increasingly stringent regulations on fuel consumption and exhaust emissions. While manufacturers of internal combustion engines tend to be negatively affected by the trend towards electromobility and tighter emissions regulation, this is not the case with the STS Group. On the contrary, lightweight and innovative plastic materials are an essential factor in weight reduction and thus in avoiding exhaust emissions (combustion engines) and increasing range (electromobility).

Capitalizing on competitive advantages

After the organisational integration of the company has been completed, the STS Group has now a number of competitive advantages (USPs) that will enable the company more often to be given precedence over competitors when contracts are being awarded, at least more frequently than in the past. These long-term corporate capabilities form the basis of the STS Group's strategy and positioning.

According to management, there is a strong customer preference for **vertical integration** of the production process. The production of intermediate products in the Plastics (e.g. SMC) and Acoustics (e.g. felt mats) segments carried out by STS offers the advantage of complete control over the production processes and raw materials and, accordingly, more easily conducted quality control and swifter customisation of products to customer requirements. According to management, only a few competitors possess this ability.

Flexibility regarding the size of produced batches is relevant in order to satisfy orders from customers of different sizes and to accept non-standard orders from existing customers. Given its flexibility in this respect, STS can address a wide range of customers and thus differentiate itself from larger automotive and truck parts suppliers who concentrate only on servicing customers with large series orders.

Proximity to customers and the associated global reach is beneficial to a company for at least two reasons. On the one hand, proximity during the development process is helpful in order to be able to collaborate effectively; on the other hand, price advantages can be realized through local production, especially in countries with favourable cost structures such as China, Eastern Europe, Brazil and Mexico.

Compared to its competitors, STS enjoys a **high flexibility regarding which technologies to use in the production process**. The possibility of offering both soft-trim and hard-trim components represents another critical USP of STS that makes it stand out from the competition.

In line with the **One-Stop-Shop approach**, since the integration of all acquisitions, customers in the commercial vehicle division have also the opportunity to procure all plastic-related preliminary products for the construction of a vehicle cabin from STS from a single source. This gives STS the opportunity to increase its **cross-selling** activities, especially as the acquisitions of recent years have significantly expanded the STS Group's customer portfolio. In September 2018, only four (less than one third) of STS's 15 largest customers had purchased both hard trim and soft trim components. To simplify cross-selling, management also centralized its sales departments.

With regard to further product development, management is also planning to use the opportunities offered by the combination of soft-trim and hard-trim products, so as to be able to tap further sales potential

through **developing and marketing integrated product systems** such as the "Next Cabin".

The **order won in the summer of 2018 for the supply of front modules** for a major European commercial vehicle manufacturer with a total volume of EUR 150 m is indicative of the sales potential resulting from winning orders of a more technically complex nature. The front modules consist of almost one hundred individual components and are supplied to the customer completely from a single source.

Production growth in Poland

In the short to medium term, the Acoustics segment of STS Group will benefit from the low (by European standards) wage costs of its Miedzyrzecz plant in western Poland, which went into operation in 2017. In 2018, there were still problems in the start-up phase at this plant and correspondingly extraordinary costs in production. These have already decreased in the following period, but the plant continues to make losses. If the further development in the wake of the Covid-19 crisis does not thwart the planning, the plant is to be ramped up to full capacity by 2021, while in the future capacity could even be increased in order to process further new orders or to relocate existing orders from Italy – the location of the other Acoustics production facilities.

Sales growth in China...

The acquisitions made in recent years have also laid the foundation for global expansion. With regard to sales, growth within the Chinese market will be of primary importance over the next few years. Up to 50 percent of the annual additional Group-wide sales of EUR 100 m anticipated by management by 2023 (before Covid-19) are expected to result from market share gains in China. Here, the Group is strongly positioned in the production and sale of high-quality plastic parts, particularly for higher-value commercial vehicles in the logistics sector; there is already a customer relationship with seven of the ten most important regional manufacturers in the commercial vehicle sector. In 2018, the opening of a new research and development centre in Wuxi near Shanghai and the acquisition of a new order for the supply of a battery cover for an electric vehicle model further underscored the company's technological leadership over regional manufacturers. With the construction of a new plant in the central Chinese province of Hubei, which, as expected by management, passed the start-up phase without complications, the company ex-

Positioning in China – STS production and customers

Source: Company

panded its regional footprint and production capacity in 2019, setting the course for future growth. Thus, a total order volume of more than EUR 130 m was generated in China in 2019 through special efforts in acquisition. The new orders also include three orders in the e-mobility field.

...and North America

The STS Group has also growth ambitions with regard to the USA. To date, there is no dedicated production facility in the country itself, so that orders will be processed in Mexico for the time being. A major order received in 2018 from a US commercial vehicle manufacturer for the supply of driver cabin parts from 2020 on was followed in December 2019 by the announcement of a new customer order spread over ten years for the production of a complete truck roof system made of fibre-reinforced plastic (SMC) in North America in the amount of EUR 230 m. This major order entails the establishment of a new business unit and the construction of a new production facility, presumably in Virginia.

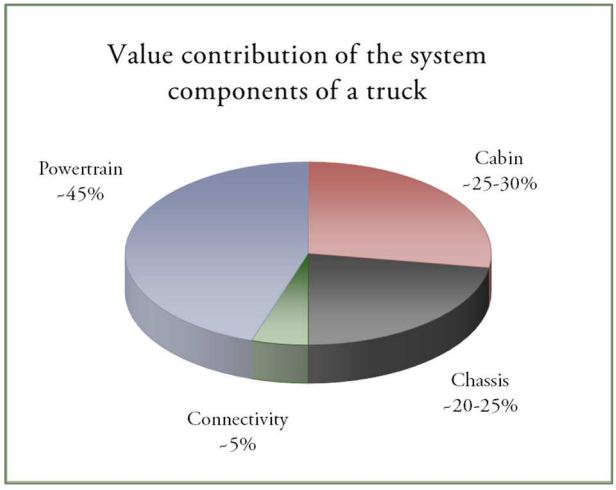
Efficiency improvement measures

Following the integration of the acquisitions completed in 2018, the STS Group is increasingly working on improving the efficiency of existing processes. Purchasing and sales have already been successfully centralised in Bavaria. Further automation and standardisation within the manufacturing processes as well as consolidation and centralisation, particularly in the areas of design, engineering and production, are currently being worked on. According to management, the goal of all efficiency enhancement measures is both to further improve the competitive position with regard to costs and to achieve a low double-digit EBITDA margin in the long term.

Market

Cabin parts as part of total value added in commercial vehicle production

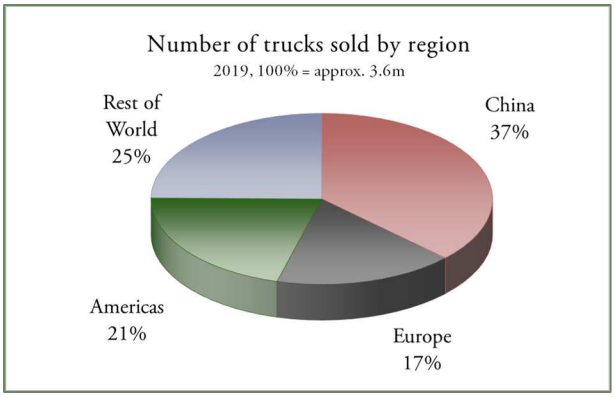
As a systems supplier of interior and exterior parts for motor vehicles, the business success of the STS Group is directly linked to the demand for passenger cars and trucks in general, and medium and heavy commercial vehicles in particular. Subdividing the components of a commercial vehicle into the categories powertrain, systems/connectivity, chassis and cab, it is clear that the STS Group's focus is on the cab category, which comprises the subcategories exterior, interior, electronics and comfort. According to Roland Berger estimates, this area represents a value contribution of approximately 25 to 30 percent to the production costs of a commercial vehicle, with the majority of the value-add being generated by the suppliers.



Source: Roland Berger: "Trends in the Truck and Trailer Market", August 2018

China largest market

According to estimates by the market research institute IHS, approximately 3.6 million medium and heavy trucks were produced worldwide in 2019, China being here the most important market with a production of around 1.3 million units or 37 percent. With a share of just under 20 percent, Europe represents a much smaller submarket.



Source: IHS Markit, own estimate

Further market penetration as an opportunity

Since STS generates only about 14 percent of its current sales in China, there is – in relation to the size of the local market – a considerable potential to be realised from further market penetration. Recently, however, the output development has not followed a steady expansion path. After production figures in China grew by 40 percent in 2017 due to pull-forward effects resulting from the introduction of stricter regulations, e.g. concerning overloading of trucks, the years 2018 and 2019 saw a consolidation phase.

The situation before Covid-19

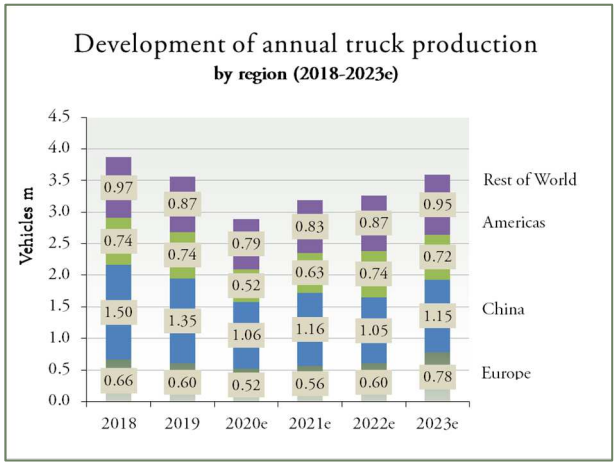
Even before the outbreak of the Covid-19 pandemic, global long-term growth prospects were already weak. For the five-year period from 2019 to 2024, the IHS calculated in January 2019 that global production figures for medium and heavy trucks would grow at a meagre rate of 0.3 percent annually.

Growth in the regions varies between -1.3 percent for South America and +2.9 percent for Europe, the latter being driven especially by Eastern Europe. For China, IHS Markit assumed in 2019 a stabilisation and a growth of 0.5 percent p.a. after a sharp drop in production. For comparison: according to a study by

Landesbank Baden-Württemberg, total worldwide output increased by 0.9 percent p.a. between 2011 and 2017 (source: LBBW: "Blickpunkt Automotive, Trucks fahren bald auf eigenen Wegen").

Opportunities in China

With regard to China, however, we believe that the sales potential for manufacturers of plastic components is generally more positive than the forecast development in commercial vehicle production would suggest. On the one hand, following an amendment to the law made in 2016, more "part-intensive" long-nose trucks will be produced in the future, and on the other hand it is forecast that the new statutory emission targets coming into force in stages during 2020 will lead to increased substitution of metal by plastic components. A first major order to produce the complete front and side trim of a so-called "long-nose truck" was acquired in May 2019.



Source: IHS Markit, own estimate

Slowdown in 2019

2019 was not a good year for the commercial vehicle industry. The first few months of last year were already marked by a slowing, which left its mark on all major regions of the world for the rest of the year. In Europe and China, production of medium and heavy commercial vehicles fell by around 10 percent each. In other Asian markets, such as Thailand, and in North America, the situation did not look much better. At least in China, however, strong production figures for the fourth quarter gave temporarily rise to hopes of a turnaround and recovery.

...and now Covid-19

In the first quarter of 2020, however, China had to massively curtail economic activities due to Covid-19, which also had a strong impact on the commercial vehicle industry. Indicative of the extent of the downturn are the sales figures published by General Motors for the first quarter in China: sales of motor vehicles – including passenger cars – fell by 43 percent compared to the previous year. Although the viral disease had been hoped to be confined to Asia (like SARS at the time), it became a global problem at the latest when large areas of northern Italy were sealed off on March 8th. In the weeks that followed, restrictions on the freedom of movement and forced closures of shops and in some cases - factories were imposed all over the world. Politicians reacted by announcing aid programmes for the real economy and additional liquidity for banks and capital markets. Most analysts are therefore cautiously optimistic about systemic factors such as the stability of banks and states. Nevertheless, economists expect a significant demand shock, a reduction in productivity and potentially also a supply shock caused by the interruption of supply chains. The estimates regarding global economic growth were thereupon successively reduced. At the beginning of the pandemic, only a slight slowdown in global economic growth was expected. On 2 March, the OECD still anticipated global growth of 2.4 percent for 2020. The Ifo Institute was already more pessimistic in its spring economic forecast published on March 19th with zero global growth. Barely a month later, the IMF published part of its World Economic Outlook in advance with a forecast of -3.0 percent. This forecast is 6.3 percentage points below the previously estimated level. For 2021, on the other hand, the IMF expects a recovery, with expected growth of 5.8 percent, 2.4 percentage points higher than previously estimated.

Low commercial vehicle sales in 2020

The analysts at IHS Markit expect a similarly high decline in the global economy in 2020 (2.6 percent). A study published on April 17th simulated the impact on

production figures for heavy and medium commercial vehicles in 2020 and beyond. The analysts expect global production figures to decline by 22 percent compared to the previous year. North America (-33 percent) and China (-21 percent) are particularly affected, while a comparatively small decline of 14 percent is expected for Europe. However, the assessment for China might be somewhat pessimistic. According to STS, demand in the commercial vehicle market in China is already close to the high levels seen before the outbreak of the pandemic.

Recovery in subsequent years

The extent to which there will be an investment backlog, and the time when more trucks will be bought again, cannot be determined with any certainty at present, nor can the time when the pandemic will officially be over. The IMF and IHS Markit agree in their scenarios that the 2020 "growth gap" will be closed again in the following two to three years and expect thus a U-shaped scenario. More optimistic scenarios, such as the rapid availability of suitable drugs or vaccines, are just as possible as more pessimistic scenarios that focus on secondary effects on the labour market, the banking system, and public finances.

Figures

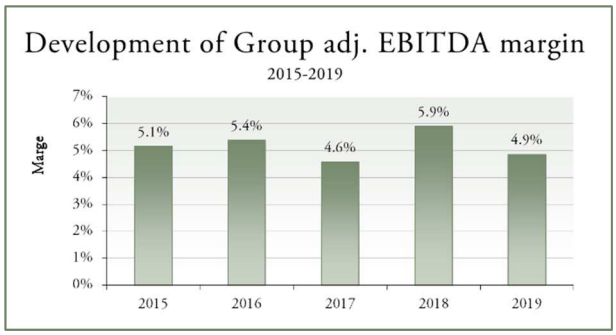
Strong external growth

The STS Group has grown strongly over the last few years. While sales in 2015 amounted to EUR 134.5 m, in 2019 the company generated about EUR 363 m, which corresponds to an average annual growth rate of 28 percent. This growth was achieved through acquisitions and the development of new business areas, as is evident from the fact that the Acoustics division, the original core business of STS, has not only stagnated but even slightly decreased.

Source: Company

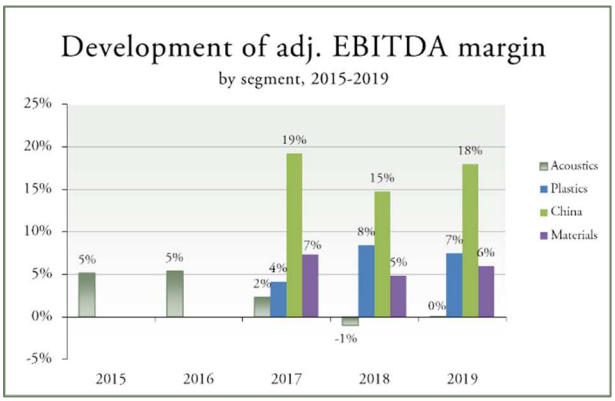
Constant long-term total margin

Over the same period, at company level the adjusted EBITDA margin fluctuated between 4.6 and 5.9 percent, without any downward or upward trend.



Source: Company

Since there have been high extraordinary earnings and expenses in recent years, particularly as a result of the IPO and the acquisitions, an analysis of the historical development of net profit does not provide any helpful information. The situation is similar with large cost blocks such as material costs and personnel costs, between which major reclassifications have been made over the years, so that long-term trends cannot yet be derived.



Source: Company

Different segment performance

In contrast, a breakdown by corporate segments provides an informative picture. With the formation of the China division in 2017, a highly profitable segment with an annual adjusted EBITDA margin of 15-19 percent joined the Group. While the profitability of the Plastics and Materials segments was in the mid-single-digit percentage range over the entire period, the profitability of the Acoustics segment moved sharply downwards towards 0 percent.

Acoustics as STS's biggest headache

Accordingly, there is a strong correlation between sales and profitability development. As already noted in the last report, there are specific reasons for the low profitability of the Acoustics division, such as the generally weak passenger car business and start-up difficulties at a Polish plant that went into operation in 2018. Nonetheless, there is a structurally low level of

profitability throughout the Group that still needs to be sustainably increased.

Sales decline in 2019

The sales development for the year 2019 was significantly below expectations. At the beginning of last year, management had still expected total sales to be roughly on a par with the previous year (EUR 400 m), but then had to issue a sales and profit warning in August and reduce the sales forecast by 4.5 to 9.5 percent. The realised decline in sales of 9.6 percent to annual sales of EUR 362.8 m hit the lower end of the company's forecast exactly. Our original sales expectations of EUR 391.8 m were too optimistic as well, as we assumed that the commercial vehicle market in Europe would not suffer as much as it actually did.

Business figures	2018	2019	*Change*
Sales	401.2	362.8	*-9.6%*
- Acoustics	*124.4*	*112.1*	*-9.9%*
- Plastics	*198.6*	*169.0*	*-14.9%*
China	*48.6*	*50.4*	*3.6%*
- Material & Consolidated	*29.6*	*31.3*	*5.7%*
Adj. EBITDA	23.68	17.62	*-25.6%*
- Acoustics	*-1.24*	*0.04*	-
- Plastics	*16.78*	*12.63*	*-24.3%*
China	*7.16*	*9.04*	*+26.3%*
- Material & Consolidated	*1.08*	*-4.09*	-

In m Euro and percent; source: Company

The STS Group accordingly cites the development of the automotive and commercial vehicle economy in Europe and the related call-offs from existing customers in the Acoustics and Plastics segments as the main reason for the decline in sales. In the two segments, sales fell by 9.9 percent and 14.9 percent, respectively. At the beginning of the year, the company had assumed a stable development of production figures for medium and heavy-duty commercial vehicles; as a matter of fact, however, production figures in Europe fell by 9 percent. The market for passenger cars and light commercial vehicles in Italy, important for the Acoustics segment, was hit even harder, plummeting by 15 percent in the course of the year.

Positive sales development in China

Development was more positive in China, where the long-announced sales revival came about in the fourth quarter of 2019 due to the start of production of new orders. Even though we had expected stronger growth overall for the year, especially in light of the company's ambitious medium-term planning, the 3.6 percent increase in sales is still remarkable against the background of an automotive market that shrank by 8 percent in 2019.

Fixed costs a burden

In line with sales, costs developed downwards at Group level. The cost of materials fell by EUR 24.5 m year-on-year from EUR 233.8 m to EUR 209.3 m. As in the previous year, the cost-of-materials ratio also fell slightly, from 57.4 percent to 56.6 percent, which is partly due to lower utilisation of the temporary staff included here. The picture is much more negative with regard to personnel expenses (for permanent employees). Since this item is largely fixed costs in the short term, the decline in sales led to a significant increase in the personnel expenses ratio from 25.5 percent to 28.0 percent. Personnel expenses for permanent employees themselves remained almost constant at EUR 103.4 m. A slightly lower number of employees (2,509 vs. 2.541) was offset by a slight increase in personnel expenses per employee. In the current market situation and with the currently low profitability (EBITDA margin in Q4 2019 of 4.1 percent), fixed costs in the personnel department are a burden.

Positive one-off effect due to IFRS 16 and elimination of IPO costs

Two effects had an impact on "other expenses", which fell from EUR 61.9 m to EUR 47.6 m: Firstly, the elimination of the extraordinary costs associated with the IPO in 2018, estimated at around EUR 12 m, and secondly, the first-time application of IFRS 16, i.e. the reclassification of lease payments. In return, depreciation and amortisation increased. Another factor that

led to the overall sharp increase in depreciation was an extraordinary write-down with regard to the rights of use for land and buildings.

Plant closure possible

The unfavourable cost development compared to sales development was also recognized by the management and measures to reduce fixed costs were prepared. Accordingly, the closure of a French production facility in the Plastics segment was announced in December 2019. In the plant in question, STS employs approximately 80 of staff and generates sales of approximately EUR 15 m per year. According to management, the closure could in principle be implemented as early as the 2020 financial year and lead to a reduction in fixed costs. To what extent Covid-19 has changed the plans and what details are planned, we expect to learn when the first quarter results are published.

Results	2018	2019	*Change*
Adj. EBITDA	23.7	17.6	*-26%*
EBITDA	11.9	14.6	*+23%*
EBIT	-1.3	-6.5	-
Net profit	-4.8	-12.1	-

In m Euro, source: Company

EBIT and net profit down

In total, the operating expense ratios (based on sales) thus increased by 1.4 percentage points last year, which is reflected accordingly in the adjusted EBITDA. Adjusted EBITDA fell from EUR 23.7 m to EUR 17.6 m; management's goal of maintaining the previous year's adjusted EBITDA level was missed. The net loss for the year rose from EUR 4.8 m to EUR 12.1 m. This disproportionately high increase is due to two effects. First, the introduction of IFRS 16 and the resulting lower financial result. Second, tax expenses that increased again by EUR 0.7 m despite negative earnings before taxes. The difference between the taxes theoretically payable and those actually paid in the event of territorial consolidation of profits is now around EUR 4.9 m.

Cash flow development

With the high net loss in 2019 and the absence of cash inflows, the total cash flow also turned clearly negative from EUR +15.3 m to EUR -14.0 m. As a result, the amount of cash and cash equivalents available decreased from EUR 31.2 m to EUR 17.2 m. The application of IFRS 16 and the derecognition of receivables from factoring had a strong impact on the cash flow statement without having any impact on the operating business. Accordingly, the individual items in the cash flow statement cannot be compared on a one-to-one basis.

Equity ratio of about 30 percent

Regarding the structure of the balance sheet, equity of EUR 68.6 m was offset by liabilities of EUR 187.9 m at the end of the last financial year. This results in a solid equity ratio of 27 percent. In the previous year, the equity ratio was 30 percent.

Position	Amount at 31.12.2019
Bank debts	12.4
Third-party loans	7.7
Reverse Factoring	12.1
Pension obligations	20.5
Leasing obligations	24.1
Total Interest-bearing borrowed capital	**76.8**
Of which terminable at short notice	*11.4*

In m Euro, source: Company, SMC Research

Net debt

In view of the difficult economic conditions and the reduced liquidity, the company's net debt is also coming under greater scrutiny. In addition to bank debts of EUR 12.4 m, there are debts to affiliated companies (loans from third parties) of EUR 7.7 m. Leasing obligations and pension obligations are of a more accounting and long-term nature.

More relevant for liquidity, because easier to terminate, are the short-term bank debts and loans from

third parties amounting to EUR 11.4 m. With a current liquidity of EUR 17.2 m and the prospect of government emergency loans, the risk of a liquidity bottleneck appears low. However, there is a residual risk in the event that short-term loans are terminated or not rolled over.

Equity Story

Integration complete

Within just a few years, the STS Group has developed into a leading automotive supplier in the plastics sector. With the acquisitions in 2016 and 2017, management was able to expand the product range and to lay the foundation for global internationalisation. The integration of these acquisitions was completed in 2018.

Playing out the Group's advantages

After the completion of the integration, the STS Group has a superior performance profile compared to its competitors. The company operates globally, produces its own intermediate products, is flexible with regard to batch size and production technology and is capable of producing both hard-trim and soft-trim products and combining them in integrated systems. These competitive advantages offer the opportunity for successful order acquisition and a growth spurt after the Corona crisis is overcome.

Growth outside Europe

The plants in Mexico, Brazil, and China enable STS to act as a one-stop shop for global customers throughout the world. At the same time, the Group plans to use the know-how developed in Europe to grow aggressively in these new regions. In the USA, a major order was acquired in December 2019, which will likely lead to the opening of a significant new business unit in the long term. And in China, STS Group opened a new plant last year and expanded its production technology to include injection moulding.

Modest valuation

As the share price fell by almost 90 percent since the IPO, the valuation of STS has been drastically reduced. The decline in the share price is due to the persistently poor commercial vehicle economy and the uncertainty about the near future triggered by the Covid-19 pandemic. With an EV/adj. EBITDA multiple of 4.4x for 2019, STS is favourably priced.

Margin improvement

Most of the company's price potential results from the possibility of raising profitability to a level customary in the industry. With an EBITDA margin (adjusted) of 4.9 percent for 2019, the company is currently relatively unprofitable compared to peer companies, which have an average margin of around 10 percent. In 2018, however, the company has already impressively demonstrated that it is capable to make massive improvements in efficiency. The Plastics division generated a margin of 8.4 percent at that time, compared with 4.1 percent in the year before. At the same time, Polytec generated a margin of 10.3 percent. This enabled STS to significantly reduce the performance gap to Polytec within one year. It is now up to the management to build on these successes and further increase the margin, which has now fallen back to 7.5 percent.

Expansion of high-margin revenues

Further internationalisation should also have a positive effect on the margin development. With an adjusted EBITDA margin of 18 percent, the return in China is well above average, so that further disproportionately high growth there should have a positive effect on the operating profitability of the entire Group. Finally, STS is increasingly becoming a system provider supplying complex modules, which should also have a positive effect on the profitability of the business.

DCF valuation

Covid-19 and the forecast for 2020

The aggravation of the Covid-19 pandemic during the first quarter of 2020 has had a drastic impact on production. In China, the plants were completely closed for between two and six weeks from the beginning of February. Corona reached Europe and South America with a time delay, so that the plants here also had to close from the 12th calendar week (mid-March) onwards due to legal regulations and the closure of production facilities of customers in the commercial vehicle industry. By now, production in China has not only restarted, but is already at a very high level. And the plants in Germany, France and Italy were also given the green light in the 18th calendar week. Despite the encouraging development in China, the company expects total sales for the full year 2020 to be lower than in 2019. Due to the uncertainty caused by the current development, management does not want to commit to a specific sales target. With regard to the corporate result, which at STS is measured by adjusted EBITDA, the management expects lower figures as well, again without giving further details.

Decline in revenue in 2020

In our last comment, we had already reacted to the emerging consequences of the Covid-19 pandemic and lowered our sales expectations for 2020. As the situation becomes more acute, we are adjusting our sales expectations once again. In line with the economic expectations of the IMF and the forecasts of IHS Markit for the commercial vehicle industry, we now expect sales in all segments except China to decline by 14 percent in 2020. By contrast, we take a very positive view of China due to the strong production figures of recent weeks and are even raising our sales estimate for the year as a whole from EUR 52 to 58 m, thus expressing our expectation that quarterly sales in the second to fourth quarters will reach a similarly high level as at the end of 2019 (fourth quarter). In total, this results in consolidated annual sales of EUR 327.6 m, which represents a decline of 9.7 percent compared to the previous year.

Post-Covid-19 recovery 2021 and 2022

As mentioned in the Market section, industry experts expect that it will take two to three years in Europe to overcome the effects of Covid-19, both at the macroeconomic and sectoral level, and for GDP and truck production figures to reach the old levels. We expect that the recovery of the commercial vehicle industry will be reflected in the sales of the STS Group, i.e. that the Acoustics, Plastics and Materials segments will not be able to generate sales at the level of 2019 until 2022.

Personnel cost trend 2020

The economic development in the current year will also have a significant impact in terms of earnings. Three effects figure rather prominently. First, the evolution of fixed costs in general and personnel costs in particular. Through the consistent use of government short-time work regulations – 100 percent of plant employees are on short-time work, while administrative staff are on partial short-time work – management is currently able to keep costs fairly low. Nevertheless, we estimate that the production stop and the general decline in sales will lead to a deterioration in the personnel expenses ratio from 28.0 to 28.9 percent in the course of the year.

Development of material costs 2020

By contrast, we believe that material costs will develop very positively in 2020. On the one hand, the centralisation of purchasing is bearing fruit, as was already evident last year. On the other hand, the Covid-19 crisis is also leading to a massive drop in commodity prices, especially petroleum products. Another area especially promising for further cost savings in 2020 is the cost block "other operating expenses". This cost block, which includes in particular maintenance costs

and overheads, has already been significantly reduced in 2019 compared to 2018, even after taking into account the extraordinary expenses included here.

Restructuring expenses

In 2019, extraordinary expenses of EUR 3.0 m were incurred, of which EUR 2.3 m were severance costs, EUR 0.4 m consulting costs and EUR 0.3 m costs for reorganisation measures. At the same time, efficiency improvement measures were announced in France, for which no provisions have yet been made. We consider further measures to be extremely important for profitability and assume that it is highly probable that the STS Group will continue to make considerable expenditures for severance payments in the coming years. Accordingly, in our model we expect for the time being a total of EUR 9 m in additional expenses for 2020 and 2021.

Impact on EBITDA and net profit

In total, the above-mentioned effects will lead to a 26 percent decline in adjusted EBITDA from EUR 17.6 m to EUR 13.1 m (- EUR 4.5 m). The adjusted EBITDA margin falls thus from 4.9 percent to 4.0 percent. In line with our expectations, slightly lower tax expenses and depreciation and amortisation have a positive effect on net income. Nevertheless, according to our calculations, the net loss for the year will increase in almost equal measure by EUR 3.3 m to EUR 15.4 m.

Reduced liquidity and balance sheet risk

The effects of the Covid-19 crisis have left STS Group with a clearly negative annual result for the second year in a row, which of course has also an impact on liquidity and the equity ratio. Assuming a constant level of debt, these will decrease to EUR 11.0 m and 22 percent respectively, according to our calculations. The net debt-to-adjusted EBITDA ratio (leverage ratio) calculated for 2019, including pension obligations, was 3.4 and will deteriorate to 4.1 in 2020 under the assumptions we have described above, thus reaching a risky level. Accordingly, STS's main shareholder Mutares states in its annual report that, due to the market distortions, STS "is not in a position to fully cover the liquidity requirements of the coming months from existing funds and fixed credit commitments". However, a comprehensive package of measures to secure liquidity is being implemented to counteract this, including the use of government aid programmes that were set up to cushion the crisis. Ultimately, the management is confident that it can master this task.

Medium-term planning

The company itself is aiming for a strong increase in both sales and the EBITDA margin in the medium term. At the beginning of 2019 – i.e. before the slump in the automotive sector in Europe and China and the Covid-19 crisis – management had set itself the target of growing by 4.5 percent p.a. until 2023, increasing sales by EUR 100 m from EUR 400 to 500 m. At the same time, according to planning, the adjusted EBITDA margin was expected to rise to over 10 percent, which would have corresponded to an adjusted EBITDA of EUR 50 m and thus almost doubled the operating profit at the time. About half of this growth was expected to come from new orders from China. Furthermore, the management expected additional orders in the Plastics/SMC area from North America. These plans have been upset by developments in recent months and last year, but in our opinion, they still represent a best-case scenario for the period up to 2025.

Long-term sales development

For the period after 2021, we generally see a positive sales trend. In the Acoustics, Plastics and Materials divisions, the company is dependent on the commercial vehicle sector in Europe, which is currently experiencing weak growth. IHS Markit expects a strong recovery in 2023 and 2024. However, we are more conservative in this respect and expect only a slight recovery in the market for the time being.

From 2022 growth from cross-selling

From 2022 on, on the other hand, we expect an additional growth spurt of 2 percentage points per year in all segments except North America in order to better reflect the additional sales potential resulting from newly developed products and cross-selling.

Growth in North America and China

Following the opening of the third production facility last year, the introduction of injection moulding technology, excellent figures for the fourth quarter of 2019 and full capacity utilisation of the production facilities at this time, we have raised our sales forecast for the China segment and now expect sales to grow to approximately EUR 75 m by 2023. We are also very optimistic about the North America segment, emerging in the medium term. The major order announced in December 2019 will generate additional annual sales of EUR 20 to 30 m in the medium term and high growth rates as a result of winning new customers in the commercial vehicle and passenger car sectors.

No change in margin

With regard to margin development, we are sticking to our long-term EBITDA target margin of 7.3 percent, which corresponds to a target EBIT margin of 4.0 percent, but we do see potential for improvement beyond this if the dynamic development in the USA and China continues. Of particular importance for long-term profitability in this context will be the currently still unknown profitability of the sales planned for the USA. The table on the previous page shows the development of the most important cash flow data resulting from these premises in the detailed forecast period until 2027. Further details on the balance sheet, income statement and cash flow can also be found in the Annex.

Safety discount for terminal value

At the end of the detailed forecast period, we continue to apply a safety margin discount of 25 percent (to 3.0 percent) on the EBIT margin to calculate the terminal value and calculate subsequently with a perpetual cash flow growth of 1.0 percent.

Discount rate 8.2 percent

We discount the free cash flows resulting from these assumptions with WACC (Weighted Average Cost of Capital) at an interest rate on borrowed capital of 6.0 percent. The cost of equity is determined using the

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales	**327.6**	**349.2**	**384.0**	**403.0**	**421.9**	**442.5**	**465.3**	**490.4**
Sales growth	-9.7%	6.6%	10.0%	4.9%	4.7%	4.9%	5.1%	5.4%
EBIT margin	-3.5%	-0.1%	1.7%	2.6%	3.3%	3.6%	3.8%	4.0%
EBIT	**-11.6**	**-0.4**	**6.5**	**10.5**	**14.0**	**15.9**	**17.7**	**19.6**
Tax rate	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Adjusted tax payments	1.5	1.5	1.9	3.0	4.1	4.6	5.1	5.7
NOPAT	**-13.1**	**-1.9**	**4.6**	**7.4**	**9.9**	**11.3**	**12.6**	**13.9**
+ Depreciation & Amortisation	18.7	18.0	18.0	17.3	16.7	16.4	16.2	16.1
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	**5.6**	**16.1**	**22.6**	**24.7**	**26.7**	**27.7**	**28.8**	**30.1**
- Increase Net Working Capital	4.5	1.6	-2.2	-1.2	-1.2	-1.3	-1.5	-1.6
- Investments in fixed assets	-14.0	-18.0	-13.1	-13.7	-14.3	-15.0	-15.8	-16.7
Free cash flow	**-3.9**	**-0.3**	**7.3**	**9.8**	**11.1**	**11.3**	**11.5**	**11.8**

SMC valuation model

Capital Asset Pricing Model (CAPM). Our risk-free interest rate is – at 1.0 percent – the long-term average of the German current yield and for the market risk premium we use an above-average value of 6.5 percent (the past-based average market risk premium used for Germany in 2019 was 5.7 percent, source: Pablo Fernandez, Mar Martinez and Isabel F. Acin: Market Risk Premium and Risk-free Rate used for 69 countries in 2019: a survey). Combined with a beta of 1.5 and a target debt ratio of 40 percent, this results in a WACC rate of 8.2 percent.

Target price: EUR 7.00 per share

In our favourite scenario (perpetual growth 1.0 percent, WACC 8.2 percent), these assumptions add up to a market value of equity of EUR 41.2 m. This corresponds to EUR 6.90 per share, from which we derive a price target of EUR 7.00. On this basis, we currently see a price potential of more than 100 percent.

High estimation risk

In addition to the fundamental fair value calculation, we assess the estimation risk on a scale from 1 point (very low) to 6 points (very high). The valuation of the company is heavily dependent on the management's ability to reduce the material and personnel cost ratio and, in particular, to make the Acoustics segment so profitable that the company's overall profitability approaches the industry average. The second major value driver is the development of sales in the high-margin Chinese business, which could deliver a pleasant or an unpleasant surprise. In addition, the US business offers considerable potential, although this is currently still difficult to assess (especially in terms of profitability). On balance, we therefore classify the forecast risk at 6 points as above average at the moment, especially since the development of the sector is subject to a high degree of uncertainty for the foreseeable future due to Covid-19.

Sensitivity analysis

For our sensitivity analysis, we have varied the input parameters WACC and perpetual growth. The calculated fair value lies between EUR 3.40 per share in the most restrictive case (WACC of 9.2 percent and perpetual growth of 0 percent) and EUR 12.90 in the most optimistic case.

Sensitivity analysis	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
7.2%	12.90	11.50	10.40	9.40	8.60
7.7%	10.50	9.40	8.50	7.70	7.00
8.2%	8.50	7.60	**6.90**	6.20	5.60
8.7%	6.80	6.10	5.50	4.90	4.40
9.2%	5.30	4.70	4.20	3.80	3.40

Conclusion

When STS Group went public in mid-2018, management was confident that after a short period of integration, new products and international expansion would enable the company to catch up within a few years with more profitable competitors in terms of both sales and profitability.

Subsequently, the company has repeatedly achieved major successes, such as expansion in China with the successful acquisition of new customers, the forthcoming market entry in the USA, underpinned by major orders, and the development and marketing of niche products in the e-mobility sector.

Overall, however, the Group has not yet managed to take a decisive step forward. One reason for this was the declining demand situation in the commercial vehicle sector in Europe and China. The negative trend in registrations that became apparent in Europe at the beginning of 2019 was not only confirmed, but even intensified over the year. On the other hand, the successes from the targeted cross-selling between the Acoustics and Plastics segments have so far been limited.

The difficult market conditions led to a sharp drop in sales of 9.6 percent last year, which caused a double-digit net loss of EUR 12.1 m.

The current year will not bring any improvement due to the distortions of the Covid-19 crisis. Instead, due to necessary restructuring costs, a further slump in sales and a net loss for the year of a similar magnitude to 2019 is expected. One of management's fast-acting cost-cutting measures to counteract this during the crisis was the introduction of short-time working. For the rest of the year, the focus will be on fixed costs and liquidity, and the company is also applying to participate in government aid programmes.

In our opinion, the strong order situation in China and the successes in order acquisition on the American continent are encouraging and promising for the future. In the medium term, the company should also benefit from the synergies resulting from the integration of the competences located in the company divisions. Cross-selling, the development of integrated products and the use of economies of scale in corporate functions are all expected to have a positive effect on sales and margins, albeit one that is currently difficult to quantify.

In conclusion, the company is currently still at the beginning of a long-term process of growth and efficiency improvement and still subject to considerable uncertainty.

However, the recent successes in order acquisition, together with additional successes we assume to be achieved in the near future, will be reflected in stronger revenue development in the medium term. We expect this development to go along with higher margins. We have represented this in our model and determined a fair value of EUR 7.00 per share despite a conservative approach. Based on a price potential of more than 120 percent, we rate the share as a "speculative buy", with the speculative character resulting primarily from the fact that the value of the company depends to a large extent on margin improvements in the future and the company's success in China. In addition, the Covid-19 crisis currently poses an increased risk for the company's further development.

Annex I: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
ASSETS									
I. Total non-current	136.4	131.8	131.8	126.8	123.2	120.8	119.5	119.1	119.6
1. Intangible assets	23.8	23.4	23.0	21.5	20.4	19.6	18.9	18.5	18.3
2. Tangible assets	102.9	98.7	99.1	95.6	93.1	91.6	90.8	90.9	91.7
II. Total current assets	120.0	110.2	110.9	121.5	132.3	145.1	161.0	178.0	196.2
LIABILITIES									
I. Equity	68.6	53.2	49.0	51.6	57.2	65.4	75.1	86.2	98.7
II. Accruals	21.8	24.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8
III. Liabilities									
1. Long-term liabilities	33.3	33.3	33.3	33.3	33.3	33.5	34.8	36.4	38.1
2. Short-term liabilities	132.8	130.7	132.6	135.7	137.3	139.2	142.8	146.7	151.2
TOTAL	**256.5**	**242.0**	**242.6**	**248.3**	**255.6**	**265.9**	**280.5**	**297.1**	**315.8**

P&L estimation

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales	362.8	327.6	349.2	384.0	403.0	421.9	442.5	465.3	490.4
Total operating revenues	369.6	327.6	349.2	384.0	403.0	421.9	442.5	465.3	490.4
Gross profit	160.3	145.1	153.7	168.9	177.3	185.6	194.7	204.7	215.8
EBITDA	17.6	13.1	20.6	24.5	27.8	30.8	32.3	33.9	35.7
EBIT	-6.5	-11.6	-0.4	6.5	10.5	14.0	15.9	17.7	19.6
EBT	-9.9	-14.4	-3.2	3.8	7.8	11.6	13.6	15.6	17.7
EAT (before minorities)	-12.1	-15.4	-4.2	2.7	5.6	8.2	9.7	11.1	12.6
EAT	-12.1	-15.4	-4.2	2.7	5.6	8.2	9.7	11.1	12.6
EPS	-2.02	-2.57	-0.71	0.44	0.93	1.37	1.61	1.85	2.09

Annex II: Cash flows estimation and key figures

Cash flows estimation

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
CF operating	36.6	10.7	18.2	21.3	24.5	26.6	27.6	28.8	30.2
CF from investments	-15.0	-14.0	-18.0	-13.1	-13.7	-14.3	-15.0	-15.8	-16.7
CF financing	-35.6	-2.9	-2.9	-2.9	-2.9	-2.4	0.2	0.6	0.9
Liquidity beginning of year	33.2	17.2	11.0	8.4	13.8	21.7	31.6	44.3	57.9
Liquidity end of year	17.2	11.0	8.4	13.8	21.7	31.6	44.3	57.9	72.3

Key figures

percent	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales growth	-9.6%	-9.7%	6.6%	10.0%	4.9%	4.7%	4.9%	5.1%	5.4%
Adj. EBITDA margin	4.9%	4.0%	5.9%	6.4%	6.9%	7.3%	7.3%	7.3%	7.3%
EBIT margin	-1.8%	-3.5%	-0.1%	1.7%	2.6%	3.3%	3.6%	3.8%	4.0%
EBT margin	-2.7%	-4.4%	-0.9%	1.0%	1.9%	2.7%	3.1%	3.4%	3.6%
Net margin (after minorities)	-3.3%	-4.7%	-1.2%	0.7%	1.4%	1.9%	2.2%	2.4%	2.6%

Disclaimer

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The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dr. Bastian Brand

Participants in the preparation of the present financial analysis: Dipl.-Kfm. Holger Steffen

The present analysis was finished on 04.05.2020 at 7:30 and published on 04.05.2020 at 7:40.

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Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
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The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

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In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Rating	Target price	Conflict of interests
12.03.2020	Speculative Buy	7.50 Euro	1), 3), 4)
13.01.2020	Speculative Buy	10.00 Euro	1), 3), 4)
19.11.2019	Speculative Buy	10.00 Euro	1), 3), 4)
10.10.2019	Speculative Buy	10.00 Euro	1), 3), 4)
14.08.2019	Speculative Buy	10.00 Euro	1), 3), 4)
21.05.2019	Speculative Buy	14.10 Euro	1), 3)
15.04.2019	Speculative Buy	15.10 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: two updates and up to three comments

The publishing dates for the financial analyses are not yet fixed at the present moment.

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