

**Buy** (old: Buy)

**Price target: EUR 18.50** (old: EUR 13.60)

<b>Price:</b>	EUR 12.47	<b>Next result:</b>	Q2 '17: tba
<b>Bloomberg:</b>	SANT GR	<b>Market cap:</b>	EUR 734.5 m
<b>Reuters:</b>	SANT1.DE	<b>Enterprise Value:</b>	EUR 714.8 m

16-June-17

**Tim Wunderlich, CFA**  
Analyst

tim.wunderlich@ha-research.de  
Tel.: +49 40 4143885 81

## Embedded growth; Chg. Est. & PT

With the pending full take-over of Kontron and the co-operation with Foxconn (24% shareholder of S&T), **S&T is a company transformed** offering growth and margin potential not yet adequately priced by the capital market.

**This becomes evident when considering its future set-up:** S&T will have control over the entire value chain for embedded systems including Kontron's customisation know-how targeting a broad client base (>3,000 clients) as well as Foxconn's low-cost manufacturing capacity AND its global distribution network.

Most importantly, S&T's software will be key in enhancing the embedded solutions by **adding valuable Internet of Things functionality (IoT)** such as data analytics, security, and remote maintenance – all of which should help customers improve the quality and safety of their products. This is seen to go a long way towards **differentiating S&T from hardware-focused rivals like Advantech or Radisys** which lack the value-add provided by S&T's software features.

At the same time, its new set-up should put S&T in the **midst of mega trends** including embedded security and Internet of Things – markets which are expected to grow at dynamic rates of 15% p.a. going forward.

**Add to that significant synergies:** Not only will S&T be able to target Kontron's installed base with IoT products offering a € 350m total sales opportunity p.a. Rather, it can also fall back on Foxconn's distribution clout opening up the North American and Asian markets for the company – after all, **Foxconn has ambitious plans to become the global market leader for embedded systems with the help of S&T.**

This explains why we expect S&T to grow at **10% per year organically** (CAGR 2016-19E) to € 1.1bn by 2019E. Even more importantly, **EBITDA is seen to rise disproportionately by 40% p.a. on average to € 96m by 2019E** reflecting c. € 30m cost synergies with Kontron, efficiency gains (i.e. production outsourcing to Foxconn) and favourable mix effects (i.e. more embedded IoT software).

With S&T trading on 9x EV/EBIT '19E, the market is seen to underestimate the growth potential offered by S&T's new set-up while assigning little option value to its likely full take-over by Foxconn within 2-3 years. **BUY with a new € 18.50 PT** as we raise estimates and roll valuation to FCFY '19E to give S&T full credit for growth and cost synergies.

Y/E 31.12 (EUR m)	2013	2014	2015	2016	2017E	2018E	2019E
Sales	337.9	385.5	468.2	503.7	870.0	971.9	1,069.1
Sales growth	0 %	14 %	21 %	8 %	73 %	12 %	10 %
EBITDA	20.1	22.9	28.4	34.4	55.0	76.4	96.2
EBIT	14.3	16.6	20.6	24.1	31.2	52.8	72.2
Net income	11.7	13.0	15.8	14.6	18.4	42.1	61.1
Net debt	9.3	1.5	-9.4	-32.0	-31.4	-52.0	-89.8
Net gearing	13.5 %	1.7 %	-9.4 %	-20.7 %	-7.5 %	-11.5 %	-17.8 %
Net Debt/EBITDA	0.5	0.1	0.0	0.0	0.0	0.0	0.0
EPS pro forma	0.30	0.30	0.36	0.30	0.43	0.72	1.04
CPS	0.15	0.35	0.50	1.12	0.28	0.67	1.00
DPS	0.06	0.07	0.08	0.10	0.11	0.12	0.14
Dividend yield	0.5 %	0.6 %	0.6 %	0.8 %	0.9 %	1.0 %	1.1 %
Gross profit margin	33.1 %	33.2 %	34.3 %	33.9 %	36.8 %	37.8 %	38.7 %
EBITDA margin	5.9 %	5.9 %	6.1 %	6.8 %	6.3 %	7.9 %	9.0 %
EBIT margin	4.2 %	4.3 %	4.4 %	4.8 %	3.6 %	5.4 %	6.8 %
ROCE	10.8 %	12.4 %	13.8 %	8.8 %	6.5 %	9.3 %	12.4 %
EV/sales	1.5	1.4	1.1	1.2	0.8	0.7	0.6
EV/EBITDA	25.0	23.7	18.8	16.9	13.0	9.1	6.8
EV/EBIT	35.2	32.7	25.8	24.1	22.9	13.1	9.1
PER	41.8	41.5	34.7	41.2	28.9	17.4	12.0
Adjusted FCF yield	2.9 %	2.9 %	3.9 %	3.8 %	5.1 %	8.4 %	11.6 %

Source: Company data, Hauck & Aufhäuser Close price as of: 15.06.2017



Source: Company data, Hauck & Aufhäuser

<b>High/low 52 weeks:</b>	13.64 / 6.48
<b>Price/Book Ratio:</b>	1.8
<b>Relative performance (TecDAX):</b>	
3 months	7.2 %
6 months	22.8 %
12 months	37.1 %

## Changes in estimates

		Sales	EBIT	EPS
2017	old:	870.0	27.1	0.43
	Δ	-	15%	na
2018	old:	971.9	51.8	0.71
	Δ	-	2%	1%
2019	old:	1,039.9	59.5	0.85
	Δ	3%	21%	22%

## Key share data:

Number of shares: (in m pcs)	54.1
Authorised capital: (in € m)	12.1
Book value per share: (in €)	7.1
Ø trading volume: (12 months)	60,000



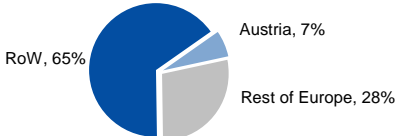
## Major shareholders:

Free Float	76.2 %
Ennoconn	23.8 %
CEO (incl. in Free Float)	3.0 %

## Company description:

S&T combines an IT system house business with a portfolio of security appliances targeting Cloud Computing applications.

## Company background

	IoT Solutions	Embedded Systems	IT Services	Group
Explanation	 <p>The segment includes:</p> <p>(1) <b>Security appliances</b> to protect internet-connected machines from unwarranted access. Appliances combine hardware with software including firewall, anti-virus and spam filter functionality. Key end-markets: Industrial Automation, Infotainment, Medical and Smart Energy.</p> <p>(2) <b>Smart energy appliances</b> including control software and smart meters for intelligent electricity networks.</p>	 <p>Embedded systems (hardware + software) are <b>miniaturised "electronic brains"</b> embedded in various devices to perform specific functions.</p> <p>This may include the computer of an airplane, the radar system of a submarine or the electronics of a digital camera.</p> <p>Key end-markets include communications, industrial and transportation. Embedded systems are typically customised to fit the end-market's needs.</p>	<p><b>Consulting. Integration. Outsourcing.</b></p> <p>S&amp;T offers the <b>full range of IT services</b> to Eastern European customers including consulting, integration and outsourcing as well as IT hardware.</p> <p>Further, services include technology and process consulting on smart energy networks.</p> <p>S&amp;T is also helping customers implement <b>Private Cloud solutions</b> e.g. a key cloud client is retailer Mercator in Croatia.</p>	
	<p style="text-align: center;"><b>S&amp;T will enhance these products by adding IoT functionality (e.g. data analytics, security)</b></p> <p style="text-align: center;"><b>This segment includes most of the revenues of former Kontron</b></p>			
<b>Segment sales 17E (€ m)</b>	297	233	340	<b>870</b>
<b>Sales share</b>	34%	27%	39%	100%
<b>Market positions</b>	<b>Niche player</b> active in Germany, Switzerland, Austria and Eastern Europe.	<b>Leading global player</b> with c. 10% worldwide market share.	<b>Leading IT service provider in Eastern Europe.</b>	
<b>Customers</b>	S&T serves several thousand customers worldwide.	<b>Largest clients</b> include e.g. O2, Siemens, Dräger, OMV, Juniper, Federal Grid and Gazprom.		
<b>Competitors</b>	SonicWALL, Barracuda Networks as well as small regional players and do-it-yourself (i.e. captive part of the market).	Advantech, Radisys, Emerson, Fanuc and others as well as do-it-yourself (i.e. captive part of the market).	Small regionally active system houses in Eastern Europe are key rivals.	
<b>Raw Materials</b>	Hardware components including e.g. CPU, memory, and hard drives as well as software such as Microsoft TMG.	Hardware including CPUs from Intel, memory, etc.	IT hardware including personal computers, servers, notebooks and periphery.	
<b>Suppliers</b>	Microsoft, IKARUS, Intel, Art of Defence, Oracle, HP, IBM, SAP, NVIDIA, EMC, Cisco, Dell and others.			
<b>Sales distribution by region (17E)</b>				
<b>Production sites</b>	S&T is responsible for assembling the security appliances and adding third-party and proprietary software. Partly, the company relies on external assembly partners such as Pyramid GmbH. Going forward, <b>partner Foxconn will take care of hardware manufacturing</b> for embedded computers and smart energy appliances.			
<b>EBITDA 17E (€ m)</b>	19	16	20	<b>55</b>
<b>EBITDA margin</b>	6.5%	6.8%	6.0%	<b>6.3%</b>

Source: Company data, Hauck & Aufhäuser

## The „new“ S&T: A company transformed

S&T is aiming for no less than to become the **global market leader for embedded computers** targeting Internet of Things (IoT) applications.

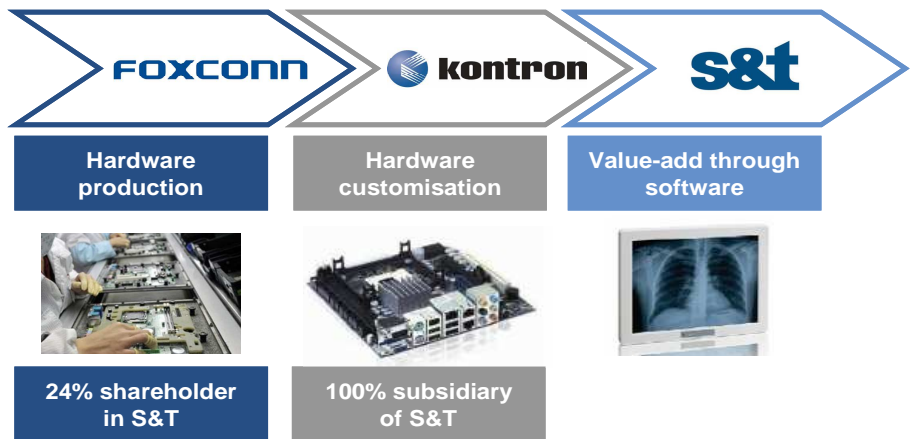
In this regard, the merger with Kontron (100% subsidiary by June 2017) and co-operation with Foxconn (24% shareholder of S&T) are seen to be **major milestones** as the three companies will bring complementary skills to the table:

- **Foxconn will engineer and manufacture the embedded computer hardware.** This is seen to grant S&T access to low-cost production capacity otherwise available only to heavyweights such as Apple for the iPhone.

- Kontron (now “Embedded Systems”) is seen to contribute its **expertise in end-market customisation** as well as its existing customer base (>3,000 clients) and brand name.
- **S&T will add value to the embedded solutions by integrating software** including security, remote maintenance, and real-time data analytics.

As a result, the “new” S&T will cover the **complete value chain for embedded systems applicable to Internet of Things**.

## S&T to cover the complete value chain for embedded IoT systems



Source: Company data, Hauck & Aufhäuser

## Differentiation driven by IoT software

This set-up differentiates S&T from rivals like Advantech or Radisys:

- **S&T should command a cost advantage** over rivals thanks to its access to Foxconn’s best-in-class manufacturing capacities. This cost advantage should increase in 2018 and 2019 with a rising outsourcing share (so far: 25% of production outsourced to Foxconn).
- With a focus on hardware, rivals typically **lack the strong value-add** provided by S&T’s software (e.g. security, remote maintenance, data analytics).

A simple example should reveal the value-add: S&T’s embedded solutions could be installed in equipment used during surgery (e.g. respirators). With S&T’s new capabilities, real-time data on e.g. ventilation, heart rate and equipment performance can be transferred to and saved in the cloud.

In this way the equipment manufacturer (e.g. Dräger) can **verify that its equipment did not malfunction** in case something goes wrong with the surgery. At the same time, S&T’s security prevents that unauthorized third parties access the data.

This is a **valuable feature for OEMs** potentially saving millions in litigations at a cost of only € 2,000 per device – a petty price considering that S&T’s embedded solutions are typically used in equipment worth € 1m or more.

Importantly, this feature of “total quality control” is not limited to medical applications but addresses a rapidly expanding market (see below).

### Outstanding growth prospects: In the midst of mega trends

With its focus on embedded systems for Internet of Things, **S&T will position itself in the midst of mega trends** offering outstanding growth opportunities.

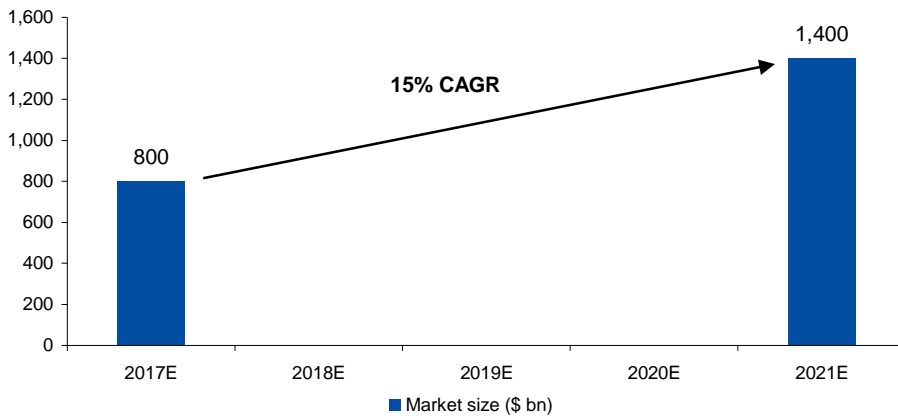
To start with, even the underlying embedded systems market is seen to grow at a solid 6% CAGR to \$ 225bn by 2021E (*Source: Zion Market Research*). Key drivers include the rising demand for smart electronic devices, growing applications in the automotive industry as well as the trend to outsource (i.e. a large part of the embedded systems market is yet captive).

But the embedded systems market (*as per Zion Market Research*) reflects mostly hardware – **S&T’s embedded technology is more advanced than this** incorporating software such as security and data analytics.

A more adequate growth perspective is offered by the IoT and embedded security markets:

- According to IDC, **the global IoT market is expected to grow at a 15% CAGR to reach a volume of \$ 1.4 trillion by 2021E** comprising needed IoT hardware, software, services and connectivity. Industrial applications are expected to attract the largest investments as companies should be looking to access large amounts of real-time data to optimise efficiency (e.g. production, procurement etc.).

#### Global IoT market: 15% growth CAGR through 2021E



Source: IDC, Hauck & Aufhäuser

- The global market value for embedded security for Internet of Things is expected to **soar at a 15% CAGR to above \$ 2.5bn** by 2027 (*Future Market Insights*). As more and more machines are getting connected to the internet, companies will need to rely on security solutions to fend off cyber attacks (e.g. espionage, sabotage).

**Sales growth: 10% organic sales growth CAGR expected**

<b>S&amp;T: Sales growth expectations 2013-19E</b>							
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Sales</b>	<b>338</b>	<b>386</b>	<b>468</b>	<b>504</b>	<b>870</b>	<b>972</b>	<b>1,069</b>
y-o-y	na	14%	21%	8%	73%	12%	10%
<b>IoT Solutions</b>					<b>297</b>	<b>351</b>	<b>395</b>
y-o-y					na	18%	13%
in % of sales					34%	36%	37%
<b>Embedded Systems</b>					<b>233</b>	<b>263</b>	<b>298</b>
y-o-y					na	13%	13%
in % of sales					27%	27%	28%
<b>IT Services</b>					<b>340</b>	<b>358</b>	<b>376</b>
y-o-y					6%	5%	5%
in % of sales					39%	37%	35%

Source: Company data, Hauck & Aufhäuser. Note: Kontron consolidated as of Dec. 2016. New segment structure since 2017

Segments IoT Solutions and Embedded Systems are seen to be major contributors to the expected dynamic group sales growth. Key growth drivers:

- Upgrading Kontron’s installed base.** S&T will offer software upgrades to make Kontron’s installed base of embedded systems (4m units) IoT-ready: The software will offer security, remote maintenance and data analytics. **The total revenue opportunity is seen at € 350m per year** which would be recurring (assumptions: clients pay an annual fee of € 350 per software upgrade / 1m embedded computer or 25% of the installed base could be upgraded).
- New products to be launched in H2.** In H2’17 S&T will launch new IoT-ready embedded computers which are expected to fetch a much higher ASP (€ 2,000 vs. € 1,000 previously) including a recurring part (eH&A: 30% of selling price). The higher price should be enforceable given the strong value-add of new solutions including security, data analytics etc.
- Expansion into North America and Asia.** With S&T currently focused on Europe (eH&A: >50% of group sales), Asia and North America offer untapped growth potential. We expect S&T to show disproportionate growth in both regions falling back on Foxconn’s distribution network.

In sum, **we conservatively expect a total of € 100m sales by 2019E** to stem from new IoT products, software upgrades and the expansion into North America and Asia with the help of Foxconn.

On top of this, as stand-alone businesses, security appliances and smart energy appliances (i.e. S&T’s former core business / both included in the IoT solutions segment) are expected to **grow dynamically by c. 10% per year** reflecting above all dynamic customer win activity for security appliances in medical and industrial applications.

**EBITDA growth: EBITDA margin to soar to 9.0% by 2019E**

<b>S&amp;T: EBITDA growth expectations 2013-19E</b>							
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Gross Profit</b>	<b>112</b>	<b>128</b>	<b>162</b>	<b>172</b>	<b>321</b>	<b>369</b>	<b>415</b>
Gross Margin	33%	33%	35%	34%	37%	38%	39%
<b>Personnel</b>	<b>66</b>	<b>72</b>	<b>90</b>	<b>93</b>	<b>186</b>	<b>204</b>	<b>222</b>
in % of sales	19.6%	18.8%	19.1%	18.6%	21.4%	21.0%	20.8%
<b>Other expenses</b>	<b>26</b>	<b>33</b>	<b>44</b>	<b>44</b>	<b>80</b>	<b>88</b>	<b>97</b>
in % of sales	7.6%	8.6%	9.3%	8.7%	9.2%	9.1%	9.1%
<b>EBITDA</b>	<b>20</b>	<b>23</b>	<b>28</b>	<b>34</b>	<b>55</b>	<b>76</b>	<b>96</b>
EBITDA margin	5.9%	5.9%	6.1%	6.8%	6.3%	7.9%	9.0%
<b>IoT Solutions</b>					<b>19</b>	<b>29</b>	<b>38</b>
EBITDA margin					7%	8%	10%
<b>Embedded Systems</b>					<b>16</b>	<b>27</b>	<b>35</b>
EBITDA margin					7%	10%	12%
<b>IT Services</b>					<b>20</b>	<b>21</b>	<b>24</b>
EBITDA margin					6%	6%	6%
<b>D&amp;A</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>24</b>	<b>24</b>	<b>24</b>
in % of sales	1.7%	1.6%	1.7%	2.0%	2.7%	2.4%	2.2%
<b>EBIT</b>	<b>14</b>	<b>17</b>	<b>21</b>	<b>24</b>	<b>31</b>	<b>53</b>	<b>72</b>
EBIT margin	4.2%	4.3%	4.4%	4.8%	3.6%	5.4%	6.8%
<b>Financial expenses</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>3</b>
<b>Taxes</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>4</b>	<b>6</b>
Tax rate	1%	5%	4%	-2%	12%	9%	9%
<b>Net income before minorities</b>	<b>12</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>23</b>	<b>44</b>	<b>63</b>
Net margin	3.5%	3.6%	3.8%	4.1%	2.6%	4.5%	5.9%
<b>Minorities</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>2</b>
in % of sales	0.1%	0.3%	0.4%	1.2%	0.5%	0.2%	0.2%
<b>Net income after minorities</b>	<b>12</b>	<b>13</b>	<b>16</b>	<b>15</b>	<b>18</b>	<b>42</b>	<b>61</b>
Net margin	3.5%	3.4%	3.4%	2.9%	2.1%	4.3%	5.7%
<b>EPS</b>	<b>0.30</b>	<b>0.32</b>	<b>0.36</b>	<b>0.33</b>	<b>0.34</b>	<b>0.72</b>	<b>1.04</b>

Source: Company data, Hauck & Aufhäuser

**EBITDA is expected to grow at a 40% CAGR to reach € 96m by 2019E implying a 9.0% EBITDA margin.** Key drivers include:

- **Cost savings.** Measures to save € 18m costs (of € 20m initial target) at Kontron have been implemented. Key measures include (1) axing 220 employees, 70 of which earned € 100,000 on average and (2) Letting go of external consultants which cost € 7m per year (eH&A). Additional cost savings of € 8-10m (reduction of double admin functions, no more listing and accounting expenses etc.) should be achieved once the merger has been completed (June 2017) and Kontron delisted.
- **Gross margin improvements.** We expect S&T's gross margin to increase by 5pp from 2016 to reach 39% by 2019E. This should reflect above all expected strong 40%+ gross margins of embedded IoT products (due to software, higher ASP and recurring component / Kontron's "old" products: 25% gross margin). Further, gross margins should benefit from the ongoing production shift to Foxconn which benefits from best-in-class manufacturing costs (25% of Kontron's production has already been outsourced).

**Net income is seen to rise even more dynamically by 60% (CAGR 2016-19E)** due to deleveraging efforts, decreasing minorities (as S&T will own 100% of Kontron by Q3 2017) and as PPA amortisation should decline gradually.

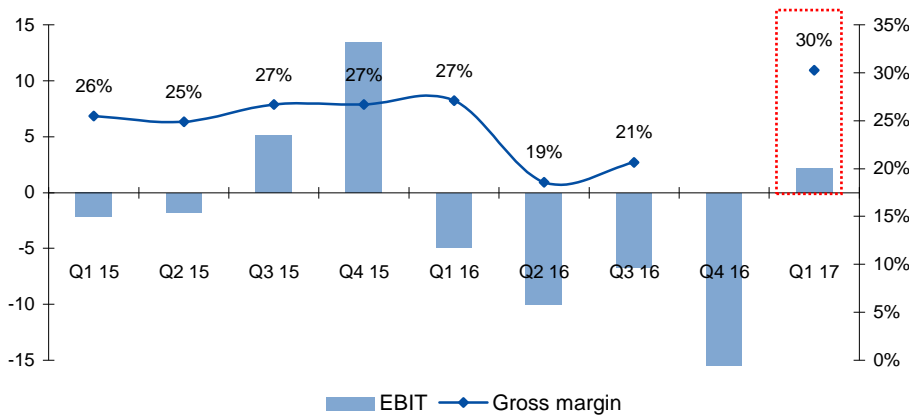
Our EPS estimates already account for a **fully diluted 59m share count** following the 100% merger with Kontron.

**Kontron: Turnaround achieved**

Importantly, **S&T is fully on track to turn Kontron around as evidenced by Q1'17 results**: In the first quarter of the year, Kontron returned to EBIT profitability (€ 2m) and reported a substantial gross margin improvement (+3pp yoy to 30%).

**This should comfort investors** who have largely been concerned that Kontron may present too much of a challenge to S&T: Note that prior to S&T's involvement, Kontron was too strongly focused on embedded hardware while lacking software know-how. This contributed to its deteriorating margin profile and lacklustre growth in light of tough competition.

**Kontron: Significant EBIT and gross margin improvement in Q1'17**



Source: Company data, Hauck & Aufhäuser. Note: The gross margin in Q4'16 was negative due to write-offs

The Q1 rebound in the gross margin and EBIT profitability reflect that turnaround measures are taking effect. This includes:

- **Deep restructuring measures** implemented by S&T's CEO Niederhauser starting in December 2016. This comprised letting go of external consultants as well as cutting headcount in admin.
- **Positive sales mix effects** thanks to the rising share of embedded systems software as well as efficiency gains as Foxconn is increasingly taking care of hardware production.

**We expect Kontron's healthy operating performance to continue in Q2.** EBIT is seen to remain in positive territory and – even more importantly – Kontron's book-to-bill is expected to surge back above 1.0x (i.e. signalling expansion / first time since Q2 16) as new IoT upgrade kits stimulate demand.

Importantly, one-off costs have been finalized in 2016 – **there will be no additional restructuring burdens in 2017.**

## Valuation

**Our adjusted Free Cash Flow Yield model results in a price target of € 18.50.**

We consider it justified to look at 2019E for valuation purposes as cost and growth synergies from the merger with Kontron and co-operation with Foxconn should in part only be realized in that year. However, upside to the current share price can be found already in 2018E (fair value: € 13.90) underpinning the current undemanding valuation.

FCF yield, year end Dec. 31	2015	2016	2017E	2018E	2019E	
<b>EBITDA</b>	<b>28.4</b>	<b>34.4</b>	<b>55.0</b>	<b>76.4</b>	<b>96.2</b>	
- Maintenance capex	5.2	7.6	12.0	12.5	13.0	
- Minorities	1.8	5.8	4.2	2.0	2.2	
- tax expenses	0.8	-0.3	3.1	4.4	6.3	
+ other	0.0	0.0	0.0	0.0	0.0	
<b>= Adjusted Free Cash Flow</b>	<b>20.5</b>	<b>21.3</b>	<b>35.7</b>	<b>57.5</b>	<b>74.7</b>	
<b>Actual Market Cap</b>	<b>539.6</b>	<b>601.3</b>	<b>734.5</b>	<b>734.5</b>	<b>734.5</b>	
+ Net debt (cash)	-9.4	-32.0	-31.4	-52.0	-89.8	
+ Pension provisions	2.5	11.6	11.7	11.8	12.0	
+ Off balance sheet financing	0.0	0.0	0.0	0.0	0.0	
+ Adjustments prepayments	0.0	0.0	0.0	0.0	0.0	
- Financial assets	-3.1	-12.1	-3.1	-3.1	-3.1	
- Dividend payment	-3.1	-3.5	-4.8	-6.5	-7.1	
<i>EV Reconciliations</i>	-13.0	-35.9	-27.6	-49.8	-88.0	
<b>= Actual EV'</b>	<b>526.6</b>	<b>565.4</b>	<b>706.9</b>	<b>684.7</b>	<b>646.4</b>	
<b>Adjusted Free Cash Flow yield</b>	<b>3.9%</b>	<b>3.8%</b>	<b>5.1%</b>	<b>8.4%</b>	<b>11.6%</b>	
<b>Sales</b>	<b>468.2</b>	<b>503.7</b>	<b>870.0</b>	<b>971.9</b>	<b>1069.1</b>	
Actual EV/sales	1.1x	1.1x	0.8x	0.7x	0.6x	
Hurdle rate	7.5%	7.5%	7.5%	7.5%	7.5%	
FCF margin	4.4%	4.2%	4.1%	5.9%	7.0%	
Fair EV/sales	0.6x	0.6x	0.6x	0.8x	0.9x	
<b>Fair EV</b>	<b>275.3</b>	<b>285.9</b>	<b>479.4</b>	<b>771.6</b>	<b>1,002.3</b>	
- <i>EV Reconciliations</i>	-13.0	-35.9	-27.6	-49.8	-88.0	
<b>Fair Market Cap</b>	<b>288.3</b>	<b>321.8</b>	<b>507.0</b>	<b>821.3</b>	<b>1,090.3</b>	
No. of shares (million)	43.3	48.2	58.9	58.9	58.9	
<b>Fair value per share</b>	<b>6.7</b>	<b>6.7</b>	<b>8.6</b>	<b>13.9</b>	<b>18.5</b>	
<b>Premium (-) / discount (+) in %</b>	<b>-47%</b>	<b>-46%</b>	<b>-31%</b>	<b>12%</b>	<b>48%</b>	
<b>Sensitivity analysis fair value</b>						
	7.5%	6.7	6.7	8.6	13.9	18.5
<b>Hurdle rate</b>	10.0%	5.1	5.2	6.6	10.7	14.2
	12.5%	4.1	4.3	5.3	8.7	11.7
	15.0%	3.5	3.7	4.5	7.4	10.0

Source: Company data, Hauck & Aufhäuser

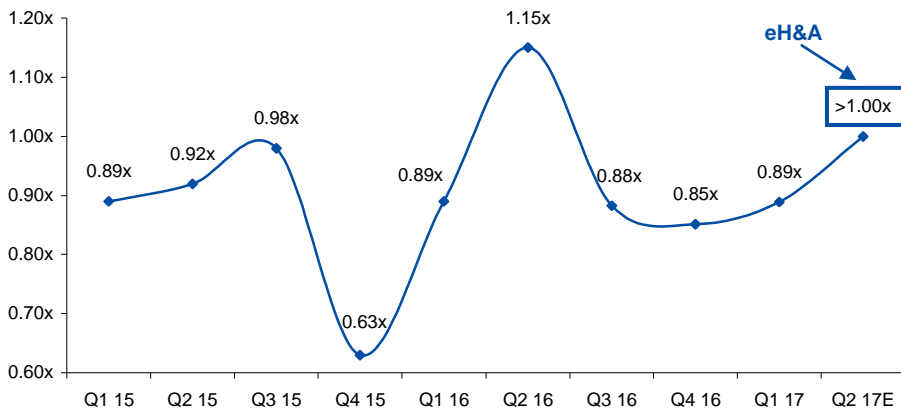


News flow

Theme should remain very supportive for the investment case. Key news flow items to keep an eye on:

- **Possible FY guidance upgrade.** S&T has generated almost 25% of its FY EBITDA guidance (“above € 50m”) already in Q1. This is a strong result as typically Q1 accounts for less than 20% of FY EBITDA given that especially the service business is back-end loaded. At the same time, the H2 bottom-line performance should get a boost from an additional € 8m cost savings (annualised) following the merger with Kontron. Accordingly, **the FY guidance looks too conservative:** We expect FY’17E EBITDA of € 55m which is some 10% above guidance.
- **Further operational improvements at Kontron expected.** Kontron reported healthy Q1 results showing a return to EBIT profitability (€ 2m EBIT) thanks to cost savings as well as a more favourable sales mix (i.e. more software) boosting the gross margin (+3pp yoy to 30%). We expect Q2 to be another quarter of solid profitability. Even more importantly, **the book-to-bill should climb back above 1.0x** reflecting first success of S&T’s new Internet of Things strategy and a strengthened focus on R&D.

Kontron: Book-to-Bill to show first success of new strategy in Q2



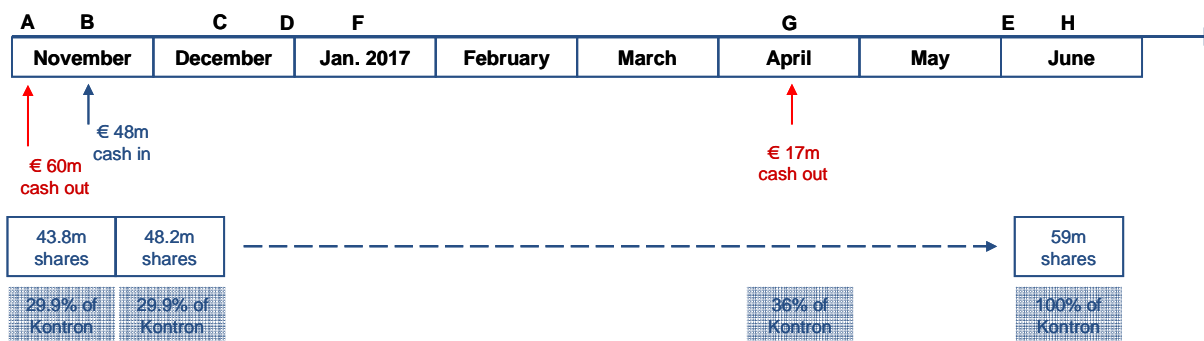
Source: Company data, Hauck & Aufhäuser

- **Kontron merger expected to go through on June 19.** Kontron shareholders will vote on the merger at the annual general meeting on June 19 (75% approval needed). We expect the merger to go through as: (1) S&T already controls some 36% of Kontron’s outstanding shares directly and should have secured approval by some major Kontron shareholders; (2) No more than 70% of Kontron shareholders are even expected to attend the meeting; (3) S&T will offer an attractive premium to Kontron’s current share price (see appendix).
- **Additional cost synergy potential after merger.** Importantly, once the merger is completed in June 2017 S&T should have access to an additional € 8-10m cost synergies as it can get rid of e.g. double functions in admin as well as listing and accounting expenses.
- **Take-over a possible exit option.** Note that Foxconn owns c. 24% of S&T. In our view, the Chinese company is likely interested in fully acquiring S&T as part of its strategy to become the global leader for embedded computers. However, Mr. Niederhauser’s veto should have so far prevented a full take-over: Foxconn holds S&T’s CEO in high esteem and Mr. Niederhauser is in our view eager to prove that he can turn Kontron around and strongly grow the combined business. Once this is accomplished in two to three years **we consider it very likely that Foxconn will fully snap up S&T.**

## Appendix I: A detailed look at the Kontron transaction

- Kontron shareholders will vote on the merger at the annual general meeting on June 19. A 75% approval is needed for the merger to go through. If approval is secured, **S&T will own 100% of Kontron.**
- Kontron shareholders have two options. (1) **All cash** – Shareholders can pocket € 3.11 per Kontron share. (2) **Shares plus cash** – Shareholders can opt to receive 0.26 S&T shares plus a cash compensation of € 0.04 per Kontron share. The latter deal is more attractive reflecting a 6% premium to Kontron’s current share price (assumption: S&T share price of € 12.70). Hence, **we expect every shareholder to pick option two.**
- If everyone picks option two, S&T will need to issue roughly 10m new shares to pay off existing Kontron shareholders. **Total outstanding S&T shares will then amount to c. 59m.** S&T will own 100% of Kontron.

### Roadmap S&T – Kontron transaction



- A** S&T acquired 29.9% in Kontron
- B** Foxconn subscribed to a 10% capital increase in S&T
- C** S&T took control of Kontron (supervisory and management board)
- D** Start of full consolidation of Kontron
- E** Foxconn acquired 19.3% in S&T from shareholder Grosso
- F** Foxconn supports S&T / Kontron in operations
- G** S&T supports Kontron with a 10% capital raise
- H** Full merger of S&T and Kontron

Source: Company data, Hauck & Aufhäuser

## Appendix II: Glossary

- **Embedded Computers.** These are miniaturised “electronic brains” embedded into various devices to perform specific functions. Applications may include digital cameras, the computer of an airplane or the radar system of a submarine.
- **Internet of Things.** Machines (e.g. consumer or capital goods) are increasingly being connected to the internet to improve production efficiency, control quality, etc. For instance, while few welding robots in the global installed base are internet-ready, almost every new welding robot sold today has an IP-address.
- **Security Appliances.** A module combining hardware (e.g. Intel CPUs) with software (e.g. Microsoft Threat Management Gateway) to protect networks from unauthorized access by third parties. For instance, a network of IP-based welding robots worth >€ 10m will need a security module worth € 3,000 to fend off cyber attacks.
- **Smart Energy Appliances.** S&T offers control software, smart energy meters and the communication protocol needed to implement intelligent energy grids which improve energy consumption.

**Financials**

Profit and loss (EUR m)	2013	2014	2015	2016	2017E	2018E	2019E
<b>Net sales</b>	<b>337.9</b>	<b>385.5</b>	<b>468.2</b>	<b>503.7</b>	<b>870.0</b>	<b>971.9</b>	<b>1,069.1</b>
<i>Sales growth</i>	-0.5 %	14.1 %	21.4 %	7.6 %	72.7 %	11.7 %	10.0 %
Increase/decrease in finished goods and work-in-process	0.9	1.2	2.7	2.8	3.0	3.0	3.0
<b>Total sales</b>	<b>338.8</b>	<b>386.8</b>	<b>470.9</b>	<b>506.5</b>	<b>873.0</b>	<b>974.9</b>	<b>1,072.1</b>
Other operating income	6.7	5.0	6.3	6.1	6.5	6.5	6.5
Material expenses	226.7	258.3	309.3	334.8	551.6	606.0	657.0
Personnel expenses	66.2	72.4	89.5	93.5	186.3	204.4	222.0
Other operating expenses	32.5	38.2	50.0	50.0	86.6	94.6	103.4
Total operating expenses	318.7	363.9	442.6	472.1	818.0	898.5	975.9
<b>EBITDA</b>	<b>20.1</b>	<b>22.9</b>	<b>28.4</b>	<b>34.4</b>	<b>55.0</b>	<b>76.4</b>	<b>96.2</b>
Depreciation	2.3	2.2	7.7	10.3	8.3	8.5	8.5
<b>EBITA</b>	<b>17.8</b>	<b>20.7</b>	<b>20.6</b>	<b>24.1</b>	<b>46.7</b>	<b>67.9</b>	<b>87.7</b>
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	3.5	4.1	0.0	0.0	15.5	15.1	15.5
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>14.3</b>	<b>16.6</b>	<b>20.6</b>	<b>24.1</b>	<b>31.2</b>	<b>52.8</b>	<b>72.2</b>
Interest income	0.5	1.6	0.3	0.3	0.4	0.3	0.4
Interest expenses	2.7	3.2	3.0	4.4	5.8	4.6	2.9
Other financial result	0.0	-0.3	0.5	0.0	-0.1	0.0	0.0
Financial result	-2.2	-1.8	-2.2	-4.0	-5.5	-4.2	-2.6
<b>Recurring pretax income from continuing operations</b>	<b>12.1</b>	<b>14.8</b>	<b>18.4</b>	<b>20.1</b>	<b>25.7</b>	<b>48.6</b>	<b>69.6</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>12.1</b>	<b>14.8</b>	<b>18.4</b>	<b>20.1</b>	<b>25.7</b>	<b>48.6</b>	<b>69.6</b>
Taxes	0.1	0.8	0.8	-0.3	3.1	4.4	6.3
<b>Net income from continuing operations</b>	<b>11.9</b>	<b>14.0</b>	<b>17.6</b>	<b>20.4</b>	<b>22.6</b>	<b>44.2</b>	<b>63.3</b>
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>11.9</b>	<b>14.0</b>	<b>17.6</b>	<b>20.4</b>	<b>22.6</b>	<b>44.2</b>	<b>63.3</b>
Minority interest	0.2	1.0	1.8	5.8	4.2	2.0	2.2
<b>Net income (net of minority interest)</b>	<b>11.7</b>	<b>13.0</b>	<b>15.8</b>	<b>14.6</b>	<b>18.4</b>	<b>42.1</b>	<b>61.1</b>
Average number of shares	39.2	41.2	43.5	44.2	54.1	58.9	58.9
<b>EPS reported</b>	<b>0.30</b>	<b>0.32</b>	<b>0.36</b>	<b>0.33</b>	<b>0.34</b>	<b>0.72</b>	<b>1.04</b>

Profit and loss (common size)	2013	2014	2015	2016	2017E	2018E	2019E
<b>Net sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Increase/decrease in finished goods and work-in-process	0.3 %	0.3 %	0.6 %	0.6 %	0.3 %	0.3 %	0.3 %
<b>Total sales</b>	<b>100.3 %</b>	<b>100.3 %</b>	<b>100.6 %</b>	<b>100.6 %</b>	<b>100.3 %</b>	<b>100.3 %</b>	<b>100.3 %</b>
Other operating income	2.0 %	1.3 %	1.3 %	1.2 %	0.7 %	0.7 %	0.6 %
Material expenses	67.1 %	67.0 %	66.1 %	66.5 %	63.4 %	62.4 %	61.5 %
Personnel expenses	19.6 %	18.8 %	19.1 %	18.6 %	21.4 %	21.0 %	20.8 %
Other operating expenses	9.6 %	9.9 %	10.7 %	9.9 %	10.0 %	9.7 %	9.7 %
Total operating expenses	94.3 %	94.4 %	94.5 %	93.7 %	94.0 %	92.4 %	91.3 %
<b>EBITDA</b>	<b>5.9 %</b>	<b>5.9 %</b>	<b>6.1 %</b>	<b>6.8 %</b>	<b>6.3 %</b>	<b>7.9 %</b>	<b>9.0 %</b>
Depreciation	0.7 %	0.6 %	1.7 %	2.0 %	1.0 %	0.9 %	0.8 %
<b>EBITA</b>	<b>5.3 %</b>	<b>5.4 %</b>	<b>4.4 %</b>	<b>4.8 %</b>	<b>5.4 %</b>	<b>7.0 %</b>	<b>8.2 %</b>
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	1.0 %	1.1 %	0.0 %	0.0 %	1.8 %	1.6 %	1.4 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>4.2 %</b>	<b>4.3 %</b>	<b>4.4 %</b>	<b>4.8 %</b>	<b>3.6 %</b>	<b>5.4 %</b>	<b>6.8 %</b>
Interest income	0.1 %	0.4 %	0.1 %	0.1 %	0.0 %	0.0 %	0.0 %
Interest expenses	0.8 %	0.8 %	0.6 %	0.9 %	0.7 %	0.5 %	0.3 %
Other financial result	0.0 %	-0.1 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	-0.7 %	-0.5 %	-0.5 %	-0.8 %	-0.6 %	-0.4 %	-0.2 %
<b>Recurring pretax income from continuing operations</b>	<b>3.6 %</b>	<b>3.8 %</b>	<b>3.9 %</b>	<b>4.0 %</b>	<b>3.0 %</b>	<b>5.0 %</b>	<b>6.5 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Earnings before taxes</b>	<b>3.6 %</b>	<b>3.8 %</b>	<b>3.9 %</b>	<b>4.0 %</b>	<b>3.0 %</b>	<b>5.0 %</b>	<b>6.5 %</b>
Tax rate	1.1 %	5.2 %	4.3 %	-1.6 %	12.0 %	9.0 %	9.0 %
<b>Net income from continuing operations</b>	<b>3.5 %</b>	<b>3.6 %</b>	<b>3.8 %</b>	<b>4.1 %</b>	<b>2.6 %</b>	<b>4.5 %</b>	<b>5.9 %</b>
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>3.5 %</b>	<b>3.6 %</b>	<b>3.8 %</b>	<b>4.1 %</b>	<b>2.6 %</b>	<b>4.5 %</b>	<b>5.9 %</b>
Minority interest	0.1 %	0.3 %	0.4 %	1.2 %	0.5 %	0.2 %	0.2 %
<b>Net income (net of minority interest)</b>	<b>3.5 %</b>	<b>3.4 %</b>	<b>3.4 %</b>	<b>2.9 %</b>	<b>2.1 %</b>	<b>4.3 %</b>	<b>5.7 %</b>

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2013	2014	2015	2016	2017E	2018E	2019E
<b>Intangible assets</b>	<b>44.8</b>	<b>57.1</b>	<b>72.8</b>	<b>183.2</b>	<b>363.9</b>	<b>368.2</b>	<b>374.1</b>
Property, plant and equipment	9.0	11.4	15.2	27.5	24.4	21.3	18.7
Financial assets	2.8	3.8	3.1	12.1	3.1	3.1	3.1
<b>FIXED ASSETS</b>	<b>56.5</b>	<b>72.3</b>	<b>91.0</b>	<b>222.8</b>	<b>391.4</b>	<b>392.6</b>	<b>395.8</b>
Inventories	22.7	30.0	28.7	84.9	87.0	97.2	106.9
Accounts receivable	71.6	95.7	86.4	168.6	190.7	213.0	234.3
Other current assets	15.2	22.0	36.7	41.5	42.5	43.6	44.7
Liquid assets	42.9	39.5	60.3	125.6	124.6	107.0	129.8
Deferred taxes	11.1	13.6	15.9	25.4	25.4	25.4	25.4
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT ASSETS</b>	<b>163.6</b>	<b>200.8</b>	<b>228.0</b>	<b>445.9</b>	<b>470.2</b>	<b>486.2</b>	<b>541.1</b>
<b>TOTAL ASSETS</b>	<b>220.1</b>	<b>273.1</b>	<b>319.1</b>	<b>668.7</b>	<b>861.5</b>	<b>878.8</b>	<b>936.9</b>
SHAREHOLDERS EQUITY	69.2	86.9	99.8	154.0	419.9	453.0	504.6
MINORITY INTEREST	2.1	2.8	2.4	87.0	2.5	2.5	2.5
Long-term debt	23.9	26.1	28.1	74.2	74.2	40.0	25.0
Provisions for pensions and similar obligations	2.9	2.3	2.5	11.6	11.7	11.8	12.0
Other provisions	3.9	4.6	6.0	39.1	40.3	41.5	42.7
<b>Non-current liabilities</b>	<b>30.7</b>	<b>33.0</b>	<b>36.5</b>	<b>124.8</b>	<b>126.1</b>	<b>93.3</b>	<b>79.7</b>
short-term liabilities to banks	28.4	14.8	22.9	19.5	19.0	15.0	15.0
Accounts payable	46.6	74.2	70.1	134.3	140.6	157.1	172.8
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	41.8	59.9	85.9	143.7	148.0	152.4	157.0
Deferred taxes	1.4	1.5	1.4	5.4	5.4	5.4	5.4
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current liabilities</b>	<b>118.1</b>	<b>150.3</b>	<b>180.3</b>	<b>302.8</b>	<b>313.0</b>	<b>329.9</b>	<b>350.2</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>220.1</b>	<b>273.1</b>	<b>319.1</b>	<b>668.7</b>	<b>861.5</b>	<b>878.8</b>	<b>936.9</b>

Balance sheet (common size)	2013	2014	2015	2016	2017E	2018E	2019E
<b>Intangible assets</b>	<b>20.3 %</b>	<b>20.9 %</b>	<b>22.8 %</b>	<b>27.4 %</b>	<b>42.2 %</b>	<b>41.9 %</b>	<b>39.9 %</b>
Property, plant and equipment	4.1 %	4.2 %	4.7 %	4.1 %	2.8 %	2.4 %	2.0 %
Financial assets	1.3 %	1.4 %	1.0 %	1.8 %	0.4 %	0.4 %	0.3 %
<b>FIXED ASSETS</b>	<b>25.7 %</b>	<b>26.5 %</b>	<b>28.5 %</b>	<b>33.3 %</b>	<b>45.4 %</b>	<b>44.7 %</b>	<b>42.2 %</b>
Inventories	10.3 %	11.0 %	9.0 %	12.7 %	10.1 %	11.1 %	11.4 %
Accounts receivable	32.6 %	35.0 %	27.1 %	25.2 %	22.1 %	24.2 %	25.0 %
Other current assets	6.9 %	8.1 %	11.5 %	6.2 %	4.9 %	5.0 %	4.8 %
Liquid assets	19.5 %	14.5 %	18.9 %	18.8 %	14.5 %	12.2 %	13.9 %
Deferred taxes	5.1 %	5.0 %	5.0 %	3.8 %	2.9 %	2.9 %	2.7 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>CURRENT ASSETS</b>	<b>74.3 %</b>	<b>73.5 %</b>	<b>71.5 %</b>	<b>66.7 %</b>	<b>54.6 %</b>	<b>55.3 %</b>	<b>57.8 %</b>
<b>TOTAL ASSETS</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
SHAREHOLDERS EQUITY	31.4 %	31.8 %	31.3 %	23.0 %	48.7 %	51.6 %	53.9 %
MINORITY INTEREST	0.9 %	1.0 %	0.8 %	13.0 %	0.3 %	0.3 %	0.3 %
Long-term debt	10.9 %	9.6 %	8.8 %	11.1 %	8.6 %	4.6 %	2.7 %
Provisions for pensions and similar obligations	1.3 %	0.8 %	0.8 %	1.7 %	1.4 %	1.3 %	1.3 %
Other provisions	1.8 %	1.7 %	1.9 %	5.8 %	4.7 %	4.7 %	4.6 %
<b>Non-current liabilities</b>	<b>14.0 %</b>	<b>12.1 %</b>	<b>11.5 %</b>	<b>18.7 %</b>	<b>14.6 %</b>	<b>10.6 %</b>	<b>8.5 %</b>
short-term liabilities to banks	12.9 %	5.4 %	7.2 %	2.9 %	2.2 %	1.7 %	1.6 %
Accounts payable	21.2 %	27.2 %	22.0 %	20.1 %	16.3 %	17.9 %	18.4 %
Advance payments received on orders	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other liabilities (incl. from lease and rental contracts)	19.0 %	21.9 %	26.9 %	21.5 %	17.2 %	17.3 %	16.8 %
Deferred taxes	0.6 %	0.5 %	0.5 %	0.8 %	0.6 %	0.6 %	0.6 %
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Current liabilities</b>	<b>53.7 %</b>	<b>55.1 %</b>	<b>56.5 %</b>	<b>45.3 %</b>	<b>36.3 %</b>	<b>37.5 %</b>	<b>37.4 %</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2013	2014	2015	2016	2017E	2018E	2019E
Net profit/loss	11.9	14.0	17.6	20.4	22.6	44.2	63.3
Depreciation of fixed assets (incl. leases)	2.3	2.2	7.7	10.3	8.3	8.5	8.5
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	3.5	4.1	0.0	0.0	15.5	15.1	15.5
Others	-10.6	4.1	-5.2	-1.9	0.1	0.1	0.1
Cash flow from operations before changes in w/c	7.2	24.4	20.2	28.9	46.5	67.9	87.5
Increase/decrease in inventory	0.7	-7.4	1.3	9.3	-2.1	-10.2	-9.7
Increase/decrease in accounts receivable	10.3	-24.0	9.2	-1.5	-22.1	-22.3	-21.3
Increase/decrease in accounts payable	-7.1	27.6	-4.1	20.3	6.3	16.5	15.7
Increase/decrease in other working capital positions	0.0	0.0	0.0	4.4	0.0	0.0	0.0
Increase/decrease in working capital	3.9	-3.8	6.5	32.5	-17.9	-16.1	-15.3
<b>Cash flow from operating activities</b>	<b>11.1</b>	<b>20.6</b>	<b>26.7</b>	<b>61.4</b>	<b>28.7</b>	<b>51.8</b>	<b>72.1</b>
CAPEX	5.8	5.8	9.5	9.3	24.4	24.8	27.3
Payments for acquisitions	-4.6	5.5	0.4	59.2	0.0	0.0	0.0
Financial investments	0.2	1.7	0.6	4.3	0.0	0.0	0.0
Income from asset disposals	1.4	0.4	0.9	-0.9	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>0.0</b>	<b>-12.6</b>	<b>-9.6</b>	<b>-73.6</b>	<b>-24.4</b>	<b>-24.8</b>	<b>-27.3</b>
Cash flow before financing	11.1	8.0	17.1	-12.2	4.3	27.1	44.9
Increase/decrease in debt position	1.9	3.1	6.1	39.8	-0.5	-38.2	-15.0
Purchase of own shares	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	-0.1	10.5	0.0	44.0	0.0	0.0	0.0
Dividends paid	0.0	2.4	3.1	3.5	4.8	6.5	7.1
Others	-2.1	1.3	-3.8	-8.5	0.0	0.0	0.0
Effects of exchange rate changes on cash	-0.5	-1.1	0.5	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-1.6</b>	<b>12.5</b>	<b>-0.7</b>	<b>71.8</b>	<b>-5.3</b>	<b>-44.6</b>	<b>-22.1</b>
Increase/decrease in liquid assets	9.1	19.5	16.8	59.5	-1.0	-17.6	22.8
<b>Liquid assets at end of period</b>	<b>42.9</b>	<b>39.5</b>	<b>60.3</b>	<b>125.6</b>	<b>124.6</b>	<b>107.0</b>	<b>129.8</b>

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2013	2014	2015	2016	2017E	2018E	2019E
Domestic	68.4	65.1	52.4	60.1	56.6	58.3	58.8
yoy change	-2.4 %	-4.8 %	-19.5 %	14.8 %	-5.9 %	3.1 %	0.8 %
Rest of Europe	269.6	320.5	184.3	166.3	243.6	272.1	299.3
yoy change	0.0 %	18.9 %	-42.5 %	-9.8 %	46.5 %	11.7 %	10.0 %
NAFTA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	n/a	n/a	231.5	277.3	569.9	641.5	710.9
yoy change	n/a	n/a	n/a	19.8 %	105.5 %	12.6 %	10.8 %
<b>TTL</b>	<b>337.9</b>	<b>385.5</b>	<b>468.2</b>	<b>503.7</b>	<b>870.0</b>	<b>971.9</b>	<b>1,069.1</b>
yoy change	-0.5 %	14.1 %	21.4 %	7.6 %	72.7 %	11.7 %	10.0 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2013	2014	2015	2016	2017E	2018E	2019E
<b>P&amp;L growth analysis</b>							
Sales growth	-0.5 %	14.1 %	21.4 %	7.6 %	72.7 %	11.7 %	10.0 %
EBITDA growth	21.3 %	14.0 %	23.9 %	21.3 %	60.0 %	38.9 %	25.9 %
EBIT growth	28.2 %	16.2 %	24.1 %	16.9 %	29.4 %	69.2 %	36.7 %
EPS growth	9.3 %	5.4 %	15.3 %	-9.3 %	3.1 %	110.4 %	45.0 %
<b>Efficiency</b>							
Total operating costs / sales	94.3 %	94.4 %	94.5 %	93.7 %	94.0 %	92.4 %	91.3 %
Sales per employee	211.9	203.5	209.9	223.6	301.9	276.3	300.9
EBITDA per employee	12.6	12.1	12.7	15.3	19.1	21.7	27.1
<b>Balance sheet analysis</b>							
Avg. working capital / sales	14.7 %	12.9 %	10.3 %	16.3 %	14.7 %	14.9 %	15.0 %
Inventory turnover (sales/inventory)	14.9	12.8	16.3	5.9	10.0	10.0	10.0
Trade debtors in days of sales	77.4	90.6	67.4	122.2	80.0	80.0	80.0
A/P turnover [(A/P*365)/sales]	50.3	70.2	54.6	97.3	59.0	59.0	59.0
Cash conversion cycle (days)	38.9	28.2	18.6	68.3	44.5	43.9	43.4
<b>Cash flow analysis</b>							
Free cash flow	5.3	14.8	17.2	52.1	4.3	27.1	44.9
Free cash flow/sales	1.6 %	3.8 %	3.7 %	10.3 %	0.5 %	2.8 %	4.2 %
FCF / net profit	45.3 %	114.1 %	108.6 %	357.3 %	23.3 %	64.2 %	73.5 %
Capex / depre	103.4 %	119.1 %	130.9 %	131.5 %	102.4 %	105.0 %	113.6 %
Capex / maintenance capex	78.4 %	37.3 %	44.8 %	33.3 %	43.5 %	42.8 %	45.2 %
Capex / sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Security</b>							
Net debt	9.3	1.5	-9.4	-32.0	-31.4	-52.0	-89.8
Net Debt/EBITDA	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Net debt / equity	0.1	0.0	-0.1	-0.2	-0.1	-0.1	-0.2
Interest cover	5.3	5.2	6.9	5.5	5.4	11.5	24.5
Dividend payout ratio	20.1 %	23.3 %	21.9 %	33.1 %	35.2 %	16.8 %	13.5 %
<b>Asset utilisation</b>							
Capital employed turnover	2.6	2.8	2.9	1.3	1.5	1.7	1.8
Operating assets turnover	6.0	6.1	7.8	3.4	5.4	5.6	5.7
Plant turnover	37.6	33.7	30.9	18.3	35.6	45.7	57.3
Inventory turnover (sales/inventory)	14.9	12.8	16.3	5.9	10.0	10.0	10.0
<b>Returns</b>							
ROCE	10.8 %	12.4 %	13.8 %	8.8 %	6.5 %	9.3 %	12.4 %
ROE	17.0 %	14.9 %	15.9 %	9.5 %	4.4 %	9.3 %	12.1 %
<b>Other</b>							
Interest paid / avg. debt	5.3 %	6.8 %	6.5 %	6.0 %	6.2 %	6.2 %	6.2 %
No. employees (average)	1595	1895	2230	2252	2882	3518	3553
Number of shares	39.2	41.2	43.5	44.2	54.1	58.9	58.9
DPS	0.1	0.1	0.1	0.1	0.1	0.1	0.1
EPS reported	0.30	0.32	0.36	0.33	0.34	0.72	1.04
<b>Valuation ratios</b>							
P/BV	7.1	6.2	5.5	3.9	1.7	1.6	1.5
EV/sales	1.5	1.4	1.1	1.2	0.8	0.7	0.6
EV/EBITDA	25.0	23.7	18.8	16.9	13.0	9.1	6.8
EV/EBITA	28.3	26.3	25.8	24.1	15.3	10.2	7.5
EV/EBIT	35.2	32.7	25.8	24.1	22.9	13.1	9.1
EV/FCF	94.6	36.7	31.0	11.2	166.4	25.7	14.6
Adjusted FCF yield	2.9 %	2.9 %	3.9 %	3.8 %	5.1 %	8.4 %	11.6 %
Dividend yield	0.5 %	0.6 %	0.6 %	0.8 %	0.9 %	1.0 %	1.1 %

Source: Company data, Hauck & Aufhäuser

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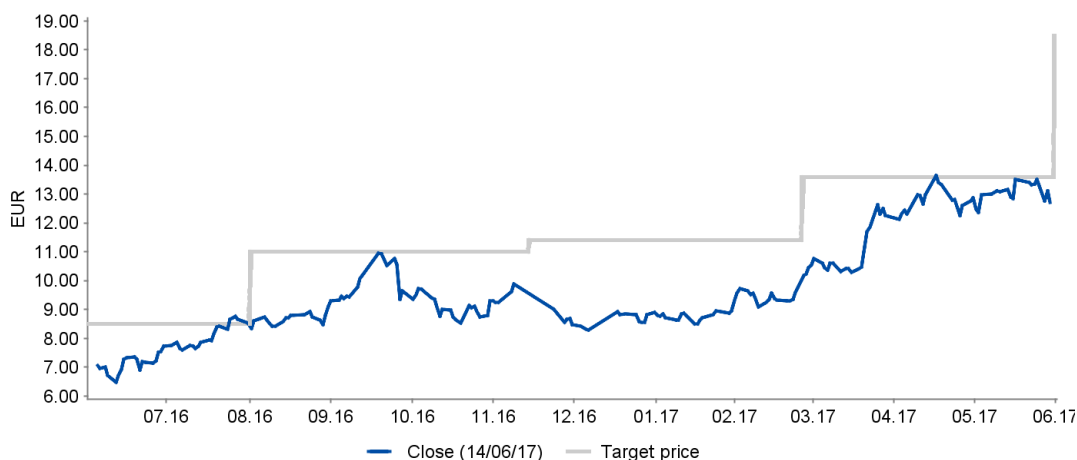
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Company	Disclosure
S&T AG	2

**Historical target price and rating changes for S&T AG in the last 12 months**

**Price and Rating History  
S&T AG as of 16/06/17**

Initiation coverage  
30-May-12



Company	Date	Analyst	Rating	Target price	Close
S&T AG	27.04.2017	Wunderlich, CFA, Tim	Buy	EUR 13.60	EUR 12.65
	07.04.2017	Wunderlich, CFA, Tim	Buy	EUR 13.60	EUR 11.85
	13.03.2017	Wunderlich, CFA, Tim	Buy	EUR 13.60	EUR 10.19
	05.12.2016	Wunderlich, CFA, Tim	Buy	EUR 11.40	EUR 9.88
	03.11.2016	Wunderlich, CFA, Tim	Buy	EUR 11.00	EUR 8.62
	02.11.2016	Wunderlich, CFA, Tim	Buy	EUR 11.00	EUR 8.62

13.10.2016	Wunderlich, CFA, Tim	Buy	EUR 11.00	EUR 9.63
17.08.2016	Wunderlich, CFA, Tim	Buy	EUR 11.00	EUR 8.33
03.08.2016	Wunderlich, CFA, Tim	Buy	EUR 8.50	EUR 8.17

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**Contacts: Hauck&Aufhäuser Privatbankiers AG**

**Hauck & Aufhäuser Research**

Hauck & Aufhäuser  
Privatbankiers AG  
Mittelweg 16/17  
20148 Hamburg  
Germany

Tel.: +49 (0) 40 414 3885 93  
Fax: +49 (0) 40 414 3885 71  
Email: info@ha-research.de  
www.ha-research.de

**Henning Breiter**  
Head of Research  
Tel.: +49 40 414 3885 73  
E-Mail: henning.breiter@ha-research.de

**Tim Wunderlich, CFA**  
Head of Research  
Tel.: +49 40 414 3885 81  
E-Mail: tim.wunderlich@ha-research.de

**Robin Brass, CFA**  
Analyst  
Tel.: +49 40 414 3885 76  
E-Mail: robin.brass@ha-research.de

**Lars Dannenberg**  
Analyst  
Tel.: +49 40 414 3885 92  
E-Mail: lars.dannenberg@ha-research.de

**Christian Glowa**  
Analyst  
Tel.: +49 40 414 3885 95  
E-Mail: christian.glowa@ha-research.de

**Pierre Gröning**  
Analyst  
Tel.: +49 40 450 6342 30 92  
E-Mail: pierre.groening@ha-research.de

**Aliaksandr Halitsa**  
Analyst  
Tel.: +49 40 414 3885 83  
E-Mail: aliaksandr.halitsa@ha-research.de

**Christian Salis**  
Analyst  
Tel.: +49 40 414 3885 96  
E-Mail: christian.salis@ha-research.de

**Torben Teichler**  
Analyst  
Tel.: +49 40 414 3885 74  
E-Mail: torben.teichler@ha-research.de

**Hauck & Aufhäuser Sales**

**Oliver Anderson**  
Sales  
Tel.: +44 207 408 1100  
E-Mail: oliver.anderson@ha-research.de

**Christian Schwenkenbecher**  
Analyst  
Tel.: +49 40 414 3885 76  
E-Mail: christian.schwenkenbecher@ha-research.de

**Toby Woods**  
Sales  
Tel.: +44 207 408 1100  
E-Mail: toby.woods@ha-research.de

**Christian Alisch**  
Sales  
Tel.: +49 40 414 3885 99  
E-Mail: christian.alisch@ha-research.de

**Vincent Bischoff**  
Sales  
Tel.: +49 40 414 3885 88  
E-Mail: vincent.bischoff@ha-research.de

**Hugues Madelin**  
Sales  
Tel.: +33 1 78 41 40 62  
E-Mail: hugues.madelin@ha-research.de

**Georgina Harrold**  
Sales  
Tel.: +49 69 2161 1299  
E-Mail: georgina.harrold@hauck-aufhaeuser.de

**Jan Neynaber**  
Sales  
Tel.: +49 69 2161 1268  
E-Mail: jan.neynaber@hauck-aufhaeuser.de

**Marco Schumann**  
Sales  
Tel.: +49 69 2161 1250  
E-Mail: marco.schumann@hauck-aufhaeuser.de

**JPP Eurosecurities Inc.**  
Sales North America  
**Quinn Raftery**  
Tel.: +1 231 649 4998  
E-Mail: quinn.raftery@haa-na.com

**Alexander Lachmann**  
Sales  
Tel.: +41 43 497 30 23  
E-Mail: alexander.lachmann@ha-research.de

**Hauck & Aufhäuser Sales Trading**

Hauck & Aufhäuser  
Privatbankiers AG  
Mittelweg 16/17  
20148 Hamburg  
Germany

Tel.: +49 40 414 3885 75  
Fax: +49 40 414 3885 71  
Email: info@hauck-aufhaeuser.de  
www.hauck-aufhaeuser.de

**Mirko Brueggemann**  
Trading  
Tel.: +49 40 414 3885 75  
E-Mail: mirko.brueggemann@hauck-aufhaeuser.de

**Joseph Kaselak**  
Trading  
Tel.: +49 40 450 6342 3093  
E-Mail: joseph.kaselak@hauck-aufhaeuser.de

**Christian von Schuler**  
Trading  
Tel.: +49 40 414 3885 77  
E-Mail: christian.schuler@hauck-aufhaeuser.de

**Fin Schaffer**  
Trading  
Tel.: +49 40 414 3885 98  
E-Mail: fin.schaffer@hauck-aufhaeuser.de

**Kathleen Jonas**  
Middle-Office  
Tel.: +49 40 414 3885 97  
E-Mail: kathleen.jonas@hauck-aufhaeuser.de

**Carolin Weber**  
Middle-Office  
Tel.: +49 40 414 3885 87  
E-Mail: carolin.weber@hauck-aufhaeuser.de