MS Industrie AG
Germany - Automobile

HAUCK & AUFHÄUSER
INSTITUTIONAL RESEARCH AG

Buy (Initiation)

Price target: EUR 3.00

Price:	EUR 1.95	**Next result:**	FY 2012 01.04.13
Bloomberg:	MSAG GR	**Market cap:**	EUR 57.5 m
Reuters:	MSAG.DE	**Enterprise Value:**	EUR 136.8 m

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Strong earnings growth momentum with low volatility: initiate with BUY!

The transformation from a holding company with a broad portfolio to a focused industrial automotive supplier is in full swing.

In automotive (c. 87% of group sales), MS Industrie mainly supplies truck and engine manufacturers with Diesel motor parts (aluminium housings, rocker arms, valve train and valve bridge systems). Here, **the company particularly benefits from exclusive contracts with Daimler** for the supply of valve bridge systems for its new heavy truck engine (also known as "Weltmotor") and MAN for the supply of all rocker arms for all truck motors worldwide.

These contracts clearly underline the competitive quality of the company erecting high entry barriers. It was achieved by high product quality and a sound reliability in terms of delivery translating into high customer loyalty. Hence, a prolongation of the Daimler contract for the next years is expected to be signed soon.

Most importantly, **the Daimler contract provides high visibility for top line growth**, driven by the increasing penetration of the "Weltmotor" in Daimler's large scale engine portfolio, as well as the ramp-up at other producers (such as MTU).

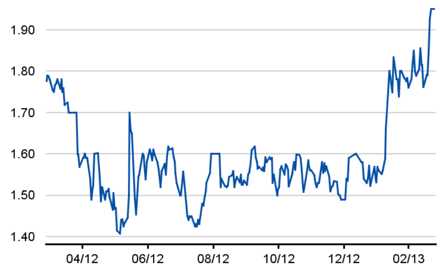
At the same time, **EBIT should grow strongly disproportionally by a CAGR 2012-15E of 32%**, as the company can rely on substantial economies of scale, mainly in personnel and D&A.

This should come along with an **increasing cash generation** which coupled with the divestment of the remaining non-core commercial real estate assets in 2014E should massively **improve the balance sheet structure** with 1) net debt / EBITDA coming down from 4.3x in 2012E to 1.7x in 2015E, 2) net gearing shrinking by 110 pp to 94% in 2015E, while ultimately **lifting the ROCE from 6% in 2012E to 13.1% in 2015E.**

We expect the stock to re-rate along with the improving market's perception for the strong core business and the final divestment of the real estate assets. **As the current valuation of PER 2014E of 7.5x** (adjusted for PPAs) **looks undemanding, we initiate with BUY. PT of € 3.00 is based on FCFY 2014E**.

Y/E 31.12 (EUR m)	2009	2010	2011	2012E	2013E	2014E	2015E
Sales	102.5	116.7	154.3	173.3	190.3	212.7	240.6
Sales growth	-47 %	14 %	32 %	12 %	10 %	12 %	13 %
EBITDA	6.2	15.9	20.9	17.7	17.9	22.0	27.8
EBIT	-4.0	5.6	9.2	7.7	7.7	11.6	17.5
Net income	-7.6	0.8	2.1	3.2	2.7	5.8	10.0
Net debt	45.6	49.5	74.3	76.1	76.1	57.9	47.8
Net gearing	175.9 %	156.3 %	218.8 %	206.8 %	191.9 %	141.6 %	93.6 %
Net Debt/EBITDA	7.3	3.1	3.5	4.3	4.2	2.6	1.7
EPS fully diluted	-0.35	0.03	0.07	0.11	0.09	0.20	0.34
CPS	-0.03	-0.36	-0.52	0.02	0.10	0.17	0.20
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Gross profit margin	48.7 %	42.6 %	42.5 %	42.9 %	42.5 %	42.6 %	42.7 %
EBITDA margin	6.1 %	13.6 %	13.6 %	10.2 %	9.4 %	10.4 %	11.5 %
EBIT margin	-4.0 %	4.8 %	6.0 %	4.4 %	4.1 %	5.5 %	7.3 %
ROCE	-3.6 %	5.4 %	7.9 %	6.0 %	5.7 %	8.7 %	13.1 %
EV/sales	0.9	0.9	0.9	0.8	0.7	0.6	0.5
EV/EBITDA	14.6	6.5	6.4	7.7	7.6	5.4	3.9
EV/EBIT	-22.4	18.5	14.6	17.8	17.7	10.2	6.2
PER	-5.9	63.8	13.9	18.2	21.5	9.9	5.8
Adjusted FCF yield	2.0 %	8.6 %	10.9 %	7.7 %	6.8 %	9.4 %	13.9 %

Source: Company data, Hauck & Aufhäuser Close price as of: 11.03.2013



Source: Company data, Hauck & Aufhäuser

High/low 52 weeks:	1.95 / 1.41
Price/Book Ratio:	1.6
Relative performance (SDAX):	
3 months	14.5 %
6 months	8.3 %
12 months	-5.8 %

Changes in estimates

		Sales	EBIT	EPS
2012	*old:*	173.3	7.7	0.11
	Δ	-	-	-
2013	*old:*	190.3	7.7	0.09
	Δ	-	-	-
2014	*old:*	212.7	11.6	0.20
	Δ	-	-	-

Key share data:

Number of shares: (in m pcs)	29.5
Authorised capital: (in € m)	9.7
Book value per share: (in €)	1.2
Ø trading volume: (12 months)	34,000

Major shareholders:

Free Float	54.0 %
MS ProActive	20.0 %
Dreyer Ventures & Management	10.0 %
Management	10.0 %
MM Vermögensverw. / Paladin	6.0 %

Company description:
Supplier of Diesel motor parts and systems for truck manufacturers, of electric motors and components and of welding machines for the automotive and packaging industries.

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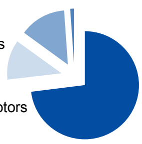
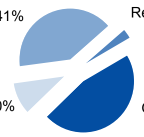
Executive Summary

MS Industrie AG is a **listed industrial holding company** focussing on:

- **Engine technology** (Diesel and electric engines, 85% of industrial sales) **looks set to increasingly benefit from an exclusive deal with Daimler** for the supply of the valve train system for the new heavy truck engine, the "Weltmotor". Moreover, the company supplies various industries with electric motors and systems.

- **Welding technology** (mechanical engineering and packaging technology). Here, the company **mainly supplies the automotive industry with welding equipment for interior as well as exterior plastic components** (c. 14% of industrial sales). On top of that, the company delivers ultrasonic welding systems to the packaging machine industry, addressing end customers like consumer goods and food industries (c. 1% of industrial sales).

While the **industrial activities generate the largest part of the company's revenues (c. 98%)**, MS Industrie also disposes of an **industrial real estate portfolio**, of which the largest part (c. 70%) is not used by the own production and is likely to be divested which would significantly improve the balance sheet structure and the company's return profile.

	Industrial holdings	Real estate holdings	Services / Others	Group
Products	Motor & gear parts, packaging machines	Light industrial real estate	-	
				
Sales 12E (€ m)	169.3	2.3	1.0	**173.3**
Sales share	97.7%	1.3%	0.6%	
End markets	Heavy Truck manufacturers (Daimler, MAN), Motor manufacturers, Special mechanical engineering, Packaging industry	Industrial companies of all sizes	-	
Market positions	Single-source supplier for Daimler and MAN	-	-	
Customers	Daimler, MAN, MTU, ZF, Volkswagen, BMW, suppliers, Dürr Dental, ABUS, Handtmann, Zehnder Pumpen, Beiersdorf, Roche, Unilever	ThyssenKrupp, Kaufland, Elektromotorenwerk Grünhain, Clean Car - Smart Repair, Schmöle	-	
Competitors	Motor engineering: Gnutti (IT), WH Industries (US, acquired by Gnutti in 2012) Packaging: Sonotronic, Herrmann	-	-	
Sales distribution by activity and region (12E)				
Production sites	Spaichingen, Zittau, Grünhain (Germany), Webberville (USA)	-	-	
EBIT 12E (€ m)				**7.7**
EBIT-margin				**4.4%**
ROCE 12E				**6.0%**

Source: Company data; Hauck & Aufhäuser

Competitive Quality and ROCE Decomposition

Quality mainly anchored in exclusive supply contracts

Exclusive and long lasting supply contracts with leading truck OEMs such as Daimler and MAN (which together control c. 20% of the global truck market and are present on all continents) and Diesel motor manufacturers such as MTU and ZF Friedrichshafen **provide high barriers to entry**.

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Global competitive landscape for heavy truck (> 6t) manufacturers, 2011

Name	Sold vehicles (in 000)	Market share	Origin
Daimler	**310**	**13%**	**Germany**
Dongfeng	269	11%	China
FAW	202	9%	China
Tata Motors	184	8%	India
Volvo	166	7%	Sweden
CNHTC/Sinotruk	159	7%	China
Paccar (DAF)	119	5%	USA
MAN	**118**	**5%**	**Germany**
BAIC	110	5%	China
Torch	105	4%	China
Navistar	**92**	**4%**	**USA**
Isuzu	89	4%	Japan
Toyota/Hino	79	3%	Japan
Ford	77	3%	USA
Anhui Jianghuai	58	2%	China
Ashok Leyland	57	2%	India
Fiat Industrial (Iveco)	55	2%	Italy
Scania	52	2%	Sweden
Kamaz	42	2%	Russia

Source: Financial Times Deutschland

Capitalising on MS Spaichingen's long history (since 1965, when the company began with the production of knitting machines) of creating value for clients through the **high quality of products** and a **high degree of reliability**, MS Industrie has been able to secure the **exclusivity of supply of certain Diesel motor parts for both Daimler and MAN:**

- For the large model range of Daimler's newest heavy truck motor, the OM 47X (also known as "Weltmotor"), **MS Industrie is likely to renew its "single source supplier" contract for valve bridge systems** (which represent unit revenues of c. € 900) for the next years: in 2012, the company has already supplied c. 92,000 (or 100%) of Daimler "Weltmotors" of the large model range worldwide,

- Even if no "single source supplier" status has contractually been agreed with MAN, **MS Industrie already benefits from a de facto exclusivity as it supplies MAN with rocker arms for all Diesel motors worldwide**. As a Tier-1 supplier, MS Industrie has already entered a contract for further supplying MAN with rocker arms after the OEM switches to its new motor generation, the RX motor.

MS Industrie's solutions for Daimler and MAN

Daimler "Weltmotor" (2013-2018)			MAN motors (until 2014) and RX motor (after 2014)
Heavy truck engine	**Medium truck engine**	**Light truck engine**	**All motors**
MS Industrie is single source supplier for valve bridge systems	Gnutti (+ WH Industries)	In development, no contract awarded yet	MS Industrie is the only supplier worldwide for rocker arms
Revenues per unit: c. € 900	Revenues per unit: c. € 100-200 (eH&A)	n/a	Revenues per unit: c. € 100-200

Source: Company data; Hauck & Aufhäuser

The fact that Daimler decided in 2007 (a renewal is likely to be signed in the next months) to award MS Industrie the contract for supplying the heavy truck motor with the highest technical requirements is a further proof of MS Industrie's high product and service quality. In contrast, the Italian competitor

Gnutti (which has acquired the third largest player in the market, US-based WH Industries in 2012) only secured the contract for supplying the medium truck motor characterised by lower unit revenues. In fact, MS Industrie's solution for the OM 47X motor represents the largest part (estimated at c. 4%) of the motor's cost which is itself the most expensive vehicle item (eH&A: c. € 20-25k for a motor vs. an average price of c. € 120k for a truck).

As the amount of ordered components is not very large, **OEMs tend to source their components from a small amount of suppliers on which they can rely in terms of quality and delivery deadlines** (MS Industrie was awarded the best Tognum and MTU finished parts supplier and was among the 100 most innovative medium-sized German companies in 2011 and 2012).

Therefore, MS Industrie's comfortable situation remains secured, as **new entrants would first have to:**

- **Spend all the necessary CAPEX for building up the needed production capacities** (i.e. some € 50m),

- **Expand their business operations internationally** as customers value the geographical proximity of their suppliers (resulting in lower logistic costs),

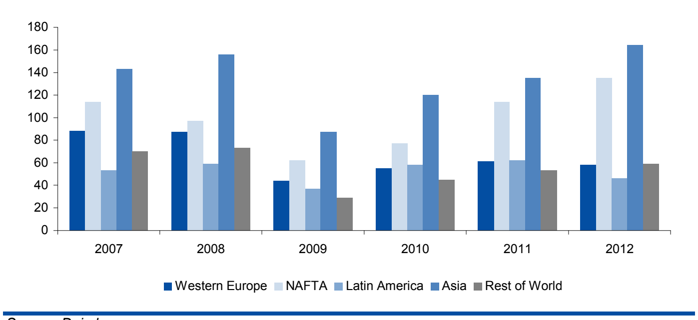
- **Go down along the learning curve before efficiently competing with MS Industrie**, even if R&D spending (less than 1% of group sales) is not seen as a huge hurdle.

While at first sight MS Industrie's dependence on Daimler (which represented some 55% of the company's industrial revenues in 2011) could be seen negatively, one has to remember that **the dependence in fact exists on both sides**, as Daimler is equally dependent on MS Industrie. In fact, such a situation translates into a **very high customer loyalty**, generally resulting in contract roll-overs.

Furthermore, **this dependence has also a positive impact on pricing:** in an industry which is characterised by customers exerting constant pricing pressure on their suppliers, MS Industrie is less impacted by price concession agreements than competitors which do not benefit from a "single source supplier" status. **Additionally, MS Industrie seems to have contractually passed on rising input costs and negative FX effects to Daimler.**

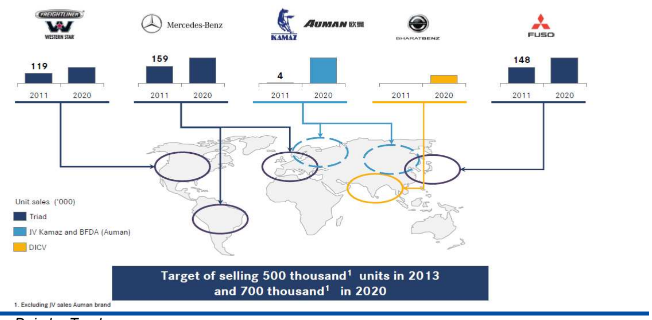
Finally, a "single source supplier" status with **"reference customers" like Daimler and MAN is highly valuable to strengthen the market's perception of the company**, which explains why MS Industrie recently won new clients for its Diesel motor part activity, such as ZF USA for example.

Daimler's truck sales by region, in 000 units



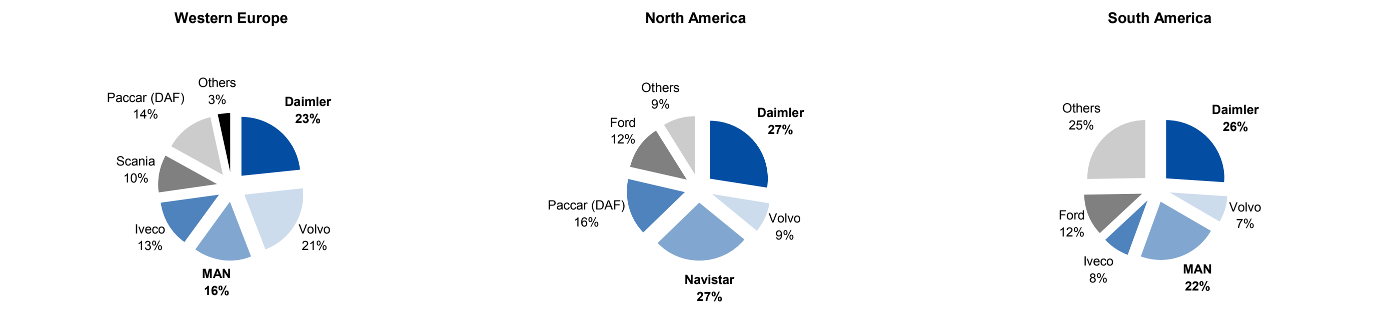
Source: Daimler

Daimler's strategy: further expansion in the BRIC countries



Source. Daimler Trucks

MS Industrie's target regions - Market structure 2010



Source: Financial Times Deutschland; Hauck & Aufhäuser

Deleveraging and economies of scale should support the business quality going forward

MS Industrie's returns look set to strongly benefit in the mid-term from:

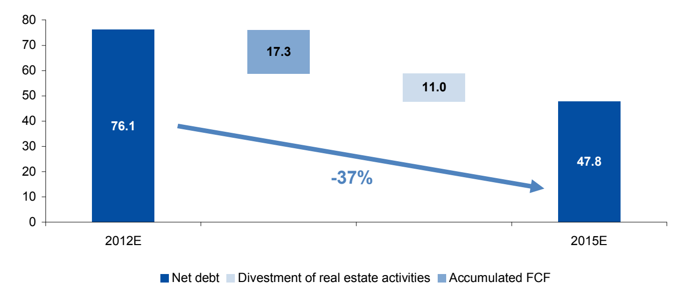
- A strong increase in revenues and subsequent **economies of scale**, **explaining the strong increase in the EBIT margin** from 4.4% in 2012E to 7.3% in 2015E,

- **Positive effects from deleveraging the balance sheet** boosting capital turn from 1.3x in 2012E to 1.7x in 2015E.

The company's **ability to translate a sizeable amount of revenues (c. 2-4%) into cash** (eH&A: € 17.3m cumulated over the next 3 years) combined with a significant debt reduction due to the divestment of the real estate activity (eH&A: c. € 11m) should allow them to **halve its net debt over the 2012-15E period**.

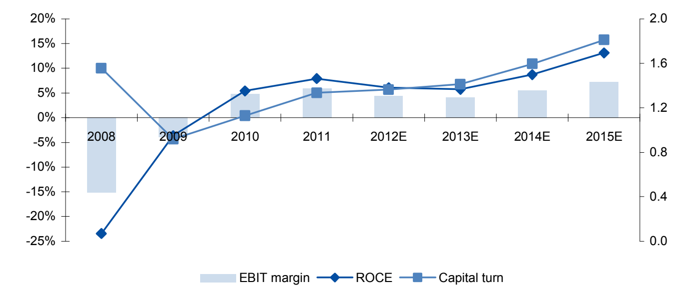
All in all, **MS Industrie should be able to more than double its ROCE from 6.0% in 2012E to 13.1% in 2015E.**

Substantial net debt reduction from 2012E to 2015E



Source. Company data; Hauck & Aufhäuser

ROCE decomposition



Source. Company data; Hauck & Aufhäuser

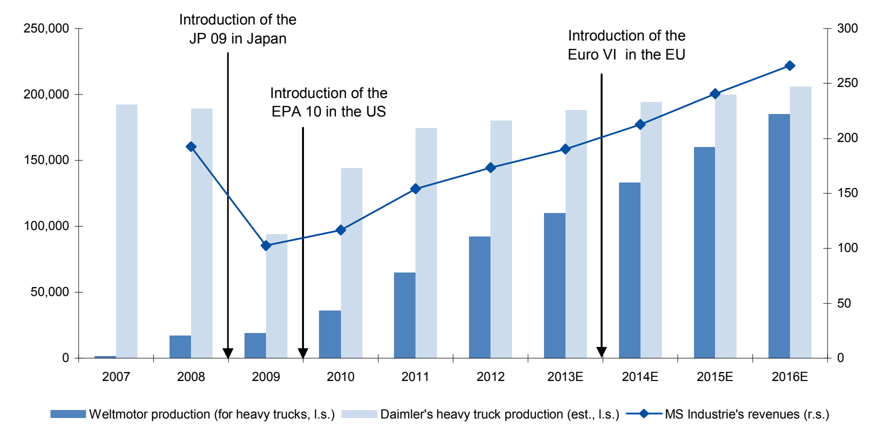
Growth

Top-line clearly not only driven by the worldwide truck production but also by sharpening emission regulations

We expect dynamic sales growth of c. 12% CAGR 2011-15E on the back of:

- **Ramp-up of the large scale model range of Daimler's "Weltmotor"** whose valve bridge systems are exclusively supplied by MS Industrie,
- **Ramp-up of the new MAN truck motor** (the RX motor, for which the serial production will start in 2015) and of new clients such as ZF USA, and MWM (MotorenWerke Mannheim),
- **A recovery of the global truck market** (driven by Europe and the US, also characterised by pent-up demand for replacement as the truck fleets have become older on average over the last years).

Increasing penetration of the "Weltmotor" in Daimler's large scale engine portfolio

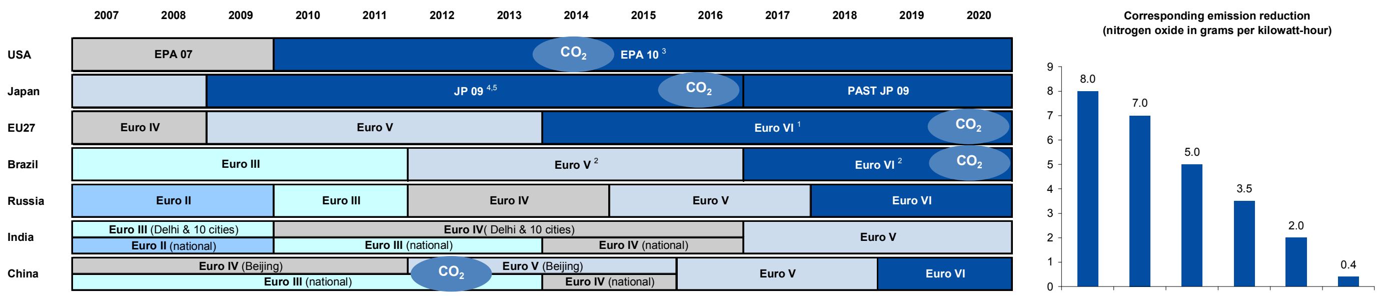


Source: Company data; Daimler; Hauck & Aufhäuser

In order to comply with the Euro VI and the EPA 10 emission standards, Daimler has developed a new motor type, the OM 47X (also known as "Weltmotor"), which replaces the old OM 500 type after c. 40 years of use and has been introduced in the US in 2007.

The Euro VI emission standard is the second strictest norm in terms of NOx (nitrogen oxide) **emissions** after the US standard EPA 10 (0.4g/KWh for Euro VI vs. 0.27g/KWh for EPA 10) and will be introduced in Europe as of January 1, 2014.

Introduction of emission standards worldwide for heavy trucks



1 New truck types: 2013
2 Estimated timeline
3 Corresponding to c. 0.27g/KWh of Nox (introduced 2007 for diesel HDEs and 2010 for gasoline HDEs), i.e. Euro VI compliant
4 NOx emissions limited to 0.7g/KWh (vs. 2.0g/KWh for Euro V and 0.27g/KWh and 0.4g/KWh for EPA 2007-2010 and Euro VI respectively)
5 Equivalent to a norm between Euro V and EPA 10

Source: MAN; Daimler Commercial Vehicles; EPA; www.dieselnet.com

A closer look at introduction schedules of the different norms in the respective markets clearly shows that emission **standards will continue to sharpen going forward, thus supporting the increasing penetration of the "Weltmotor"** in Daimler's large scale engine portfolio **and clearly boosting sales at MS Industrie.**

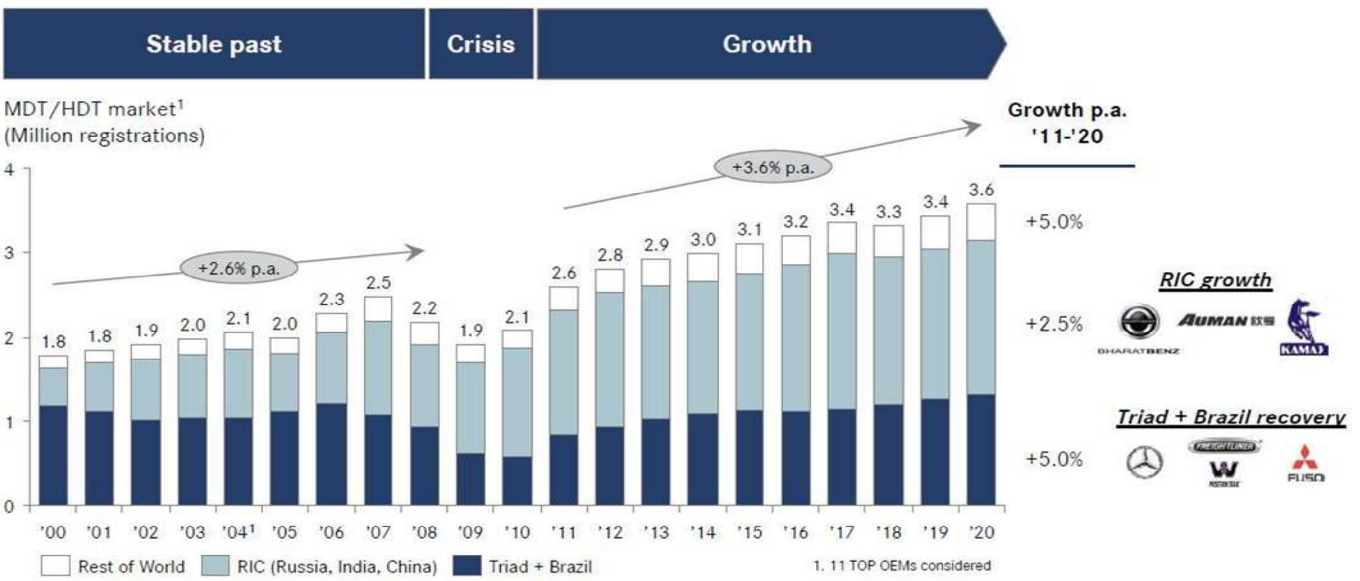
Furthermore, **a potential introduction of this motor in the Chinese market** (which is being currently supplied with the older OM 500 model range) **is not to be ruled out in the mid term**, thus providing a further catalyst for the new model's penetration and consequently for MS Industrie's unit sales.

The remaining part of MS Industrie's Diesel motor component activities (excl. Daimler, c. 15% of industrial sales) **should benefit from:**

- The **ramp-up of the new MAN RX motor** (MS Industrie should continue to enjoy the exclusivity of supply for parts of the new engine as in the past for the rocker arms of all MAN motors worldwide) **and of recently acquired customers** such as ZF USA and MWM,

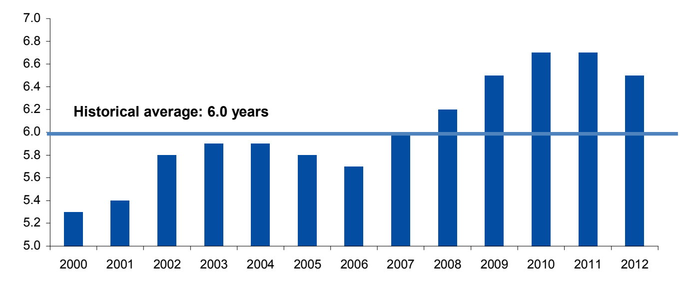
- The **positive trend in the global truck market in the years ahead**, thanks to a **recovery in the mature regions** (not only driven by improving macroeconomics but also by pent-up demand for replacement) and **favourable GDP development in the emerging markets** (resulting in growing construction markets and further extensions of the highway infrastructures) where MS Industrie's customers are also present through partnerships.

Sustainable industry growth of 3.6% p.a. expected until 2020 across cycles driven by global GDP growth



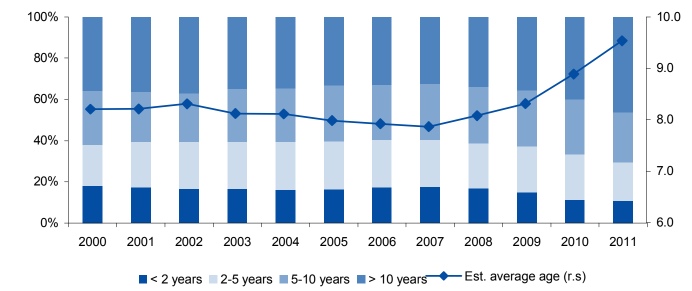
Source: Daimler Trucks; Hauck & Aufhäuser

Average age of the heavy truck fleet in the US (in years)



Source: ACT Research; Daimler

Heavy truck fleet in the EU27+EFTA - Split by age



Source: Eurostat; Hauck & Aufhäuser

Other activities should also contribute to growth

The remaining activity related to the automotive sector: **welding machinery** (c. 15% of industrial sales) **which addresses automotive OEMs** with machines for the welding of interior and exterior plastic modules should benefit from **long term secular growth linked to:**

- **A continuously increasing amount of vehicle models** differentiating themselves in terms of interior and exterior equipment and design,

- **An increasing plastic content per vehicle** due to the trend in weight reduction.

Therefore, a steadily increasing business, largely in-line with the growth of the worldwide automotive sector (thanks to a broad client portfolio) is expected over time.

Finally, while **the electromotor activity is more or less a steady business** generating some € 17-20m of sales p.a. (or c. 14% of industrial sales), **the welding/packaging machinery business** (c. 1% of industrial revenues) **should continue to be ramped up in the short to mid term** (large end-customers like Beiersdorf and Unilever have been won recently). This business field offers an innovative technology for packaging (based on ultrasonic technology) and thus allows clients to improve their packaging processes (in terms of time and material consumption). In the mid term, this segment is expected to likely triple to c. € 6m.

All in all, we expect MS Industrie's revenues to grow at a CAGR of c. 12% over the 2011-15E period.

Bottom-line clearly benefitting from operating leverage and balance sheet deleveraging effects

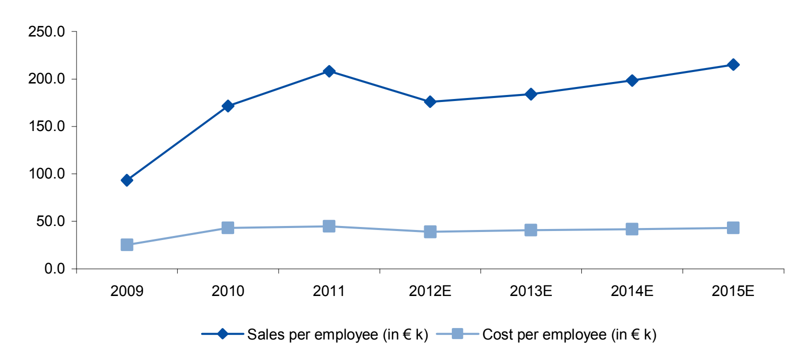
We expect the **EBIT margin to strongly increase from 4.2% in 2012E to 7.3% in 2015E on the back of significant economies of scale in**:

- **Personnel:** while revenues are expected to surge by some 12% per year, there is **limited need for additional personnel, as the company can rely on a relatively high automation rate.** Consequently, the personnel expense ratio is expected to drop by 2.1 pp to 20% of sales in 2015E

- **Other operating expenses** (including freight, maintenance, energy and selling costs): as c. 50% of these are fixed, the ratio is expected to decrease by 1.6 pp to 12.5% of sales in 2015E,

- **D&A,** as **the investment cycle related to the ramp-up of the "Weltmotor" should come to an end in 2013E** and fixed assets are not growing proportionally to sales.

Sales per employee vs. cost per employee



Source. Company data; Hauck & Aufhäuser

According to MS Industrie's strategy of focussing on the core industrial activities, **the company is expected to divest its real estate activities in 2014E**. As Beno Immobilien carries financial debt in the range of c. € 11m (with a c. 5% interest rate), **the financial result is expected to improve strongly from 2014E onwards.**

However, after benefitting from operating losses recorded in the past, **MS Industrie's net earnings should be negatively impacted by a tax rate normalising to the levels of c. 30-31% from 2013E onwards.**

MS Industrie - Bottom-line development

	2009	2010	2011	2012E	2013E	2014E	2015E
Net sales	**102.5**	**116.7**	**154.3**	**173.3**	**190.3**	**212.7**	**240.6**
yoy		*13.9%*	*32.2%*	*12.4%*	*9.8%*	*11.8%*	*13.1%*
Total sales	**102.5**	**119.8**	**155.2**	**173.3**	**190.3**	**212.7**	**240.6**
Material expenses	52.6	68.7	89.2	99.0	109.4	122.1	137.9
as a % of total sales	*51.3%*	*57.4%*	*57.5%*	*57.1%*	*57.5%*	*57.4%*	*57.3%*
Gross profit	**49.9**	**51.1**	**66.0**	**74.4**	**80.9**	**90.6**	**102.8**
margin	*48.7%*	*43.8%*	*42.8%*	*42.9%*	*42.5%*	*42.6%*	*42.7%*
Personnel expenses	27.9	29.3	33.2	38.2	42.1	44.9	48.1
as a % of total sales	*27.2%*	*24.5%*	*21.4%*	*22.1%*	*22.1%*	*21.1%*	*20.0%*
Other operating income	4.6	11.5	10.9	6.0	5.1	4.1	3.1
as a % of total sales	*4.5%*	*9.6%*	*7.0%*	*3.5%*	*2.7%*	*1.9%*	*1.3%*
Other operating expenses	20.4	17.4	22.8	24.4	26.0	27.8	30.0
as a % of total sales	*19.9%*	*14.5%*	*14.7%*	*14.1%*	*13.6%*	*13.1%*	*12.5%*
EBITDA	**6.2**	**15.9**	**20.9**	**17.7**	**17.9**	**22.0**	**27.8**
margin	*6.1%*	*13.6%*	*13.6%*	*10.2%*	*9.4%*	*10.4%*	*11.5%*
Depreciation & Amortisation	9.8	10.3	9.8	10.0	10.2	10.4	10.3
as a % of total sales	*9.5%*	*8.6%*	*6.3%*	*5.8%*	*5.4%*	*4.9%*	*4.3%*
Impairments & exceptionals	0.5	0.0	2.0	0.0	0.0	0.0	0.0
as a % of total sales	*0.5%*	*0.0%*	*1.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
EBIT	**-4.1**	**5.6**	**9.2**	**7.7**	**7.7**	**11.6**	**17.5**
margin	*-4.0%*	*4.8%*	*6.0%*	*4.4%*	*4.1%*	*5.5%*	*7.3%*
Financial result	-6.9	-4.9	-7.4	-4.5	-3.8	-3.2	-3.0
as a % of total sales	*-6.7%*	*-4.1%*	*-4.8%*	*-2.6%*	*-2.0%*	*-1.5%*	*-1.2%*
EBT	**-10.9**	**0.7**	**1.8**	**3.2**	**3.9**	**8.4**	**14.5**
margin	*-10.7%*	*0.6%*	*1.2%*	*1.8%*	*2.1%*	*4.0%*	*6.0%*
Taxes	-2.2	-0.2	-0.4	0.0	1.2	2.6	4.5
Tax rate	*20.0%*	*-34.6%*	*-20.4%*	*0.0%*	*31.0%*	*31.0%*	*31.0%*
Minorities	-1.2	0.1	0.0	0.0	0.0	0.0	0.0
as a % of EAT	*13.3%*	*11.4%*	*2.0%*	*1.4%*	*1.6%*	*0.0%*	*0.0%*
Net income	**-7.6**	**0.8**	**2.1**	**3.2**	**2.7**	**5.8**	**10.0**
margin	*-7.4%*	*0.7%*	*1.4%*	*1.8%*	*1.4%*	*2.7%*	*4.2%*
Average NoSh	21.4	26.4	28.9	29.5	29.5	29.5	29.5
EPS	**-0.35**	**0.03**	**0.07**	**0.11**	**0.09**	**0.20**	**0.34**

Source: Company data; Hauck & Aufhäuser

Valuation

To value MS Industrie, we have used two different approaches:

- An adjusted FCF valuation
- A DCF model

Both metrics suggest that **MS Industrie is currently undervalued**.

FCF yield

Due to the fact that companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and due to the fact that long-term returns often are flawed by the lack of sufficient visibility, an Adjusted Free Cash Flow analysis (Adjusted FCF) has been conducted.

The main driver of this model is the level of return available to a *controlling* investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company. Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance CAPEX).

Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after tax return equals the model's hurdle rate of 7.5%. Anything less suggests the stock is expensive; anything more suggests the stock is cheap.

Our PT of € 3.00 is based on the FCFY 2014E. Even applying a very restrictive hurdle rate of 10% after taxes on the 2014E figures the stock does not look expensive at current levels, thus supporting our view that the valuation is undemanding.

MS Industrie AG

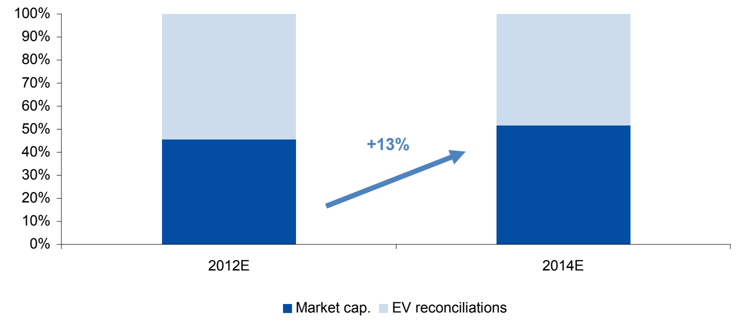
FCF yield, year end Dec. 31		2011	2012E	2013E	2014E	2015E
EBITDA		**20.9**	**17.7**	**17.9**	**22.0**	**27.8**
- Maintenance capex		7.8	8.0	8.2	8.3	8.2
- Minorities		0.0	0.0	0.0	0.0	0.0
- tax expenses *		0.6	1.0	1.2	2.6	4.5
= Adjusted Free Cash Flow		**12.5**	**8.6**	**8.5**	**11.1**	**15.0**
Actual Market Cap		**56.4**	**57.5**	**57.5**	**57.5**	**57.5**
+ Net debt (cash)		74.3	76.1	76.1	57.9	47.8
+ Pension provisions		3.2	3.2	3.2	3.2	3.2
+ 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		-11.1	-11.1	-11.1	-0.4	-0.4
- Dividend payment		0.0	0.0	0.0	0.0	0.0
EV Reconciliations		*66.4*	*68.1*	*68.1*	*60.7*	*50.6*
= Actual EV'		**122.8**	**125.7**	**125.7**	**118.2**	**108.1**
Adjusted Free Cash Flow yield		**10.2%**	**6.9%**	**6.8%**	**9.4%**	**13.9%**
Sales		**154.3**	**173.3**	**190.3**	**212.7**	**240.6**
Actual EV/sales		0.8x	0.7x	0.7x	0.6x	0.4x
Hurdle rate		7.5%	7.5%	7.5%	7.5%	7.5%
FCF margin		8.1%	5.0%	4.5%	5.2%	6.2%
Fair EV/sales		1.1x	0.7x	0.6x	0.7x	0.8x
Fair EV		**166.7**	**115.2**	**113.3**	**148.1**	**200.3**
- EV Reconciliations		*66.4*	*68.1*	*68.1*	*60.7*	*50.6*
Fair Market Cap		**100.3**	**47.1**	**45.2**	**87.4**	**149.8**
No. of shares (million)		28.9	29.5	29.5	29.5	29.5
Fair value per share		**3.5**	**1.6**	**1.5**	**3.0**	**5.1**
Premium (-) / discount (+) in %		**77.8%**	**-18.2%**	**-21.5%**	**51.9%**	**160.4%**
** the tax expenses are normalised with a tax rate of 31% on EBT in 2011 and 2012E*						
Sensitivity analysis fair value						
Hurdle rate	7.5%	3.5	1.6	1.5	3.0	5.1
	10.0%	2.0	0.6	0.6	1.7	3.4
	12.5%	1.2	0.0	0.0	1.0	2.4
	15.0%	0.6	-0.4	-0.4	0.5	1.7

Source: Company data; Hauck & Aufhäuser

We value MS Industrie on the basis of an adjusted FCFY 2014E as visibility in growth is granted by the further ramp-up of the large scale OM 47X motor at the key customer Daimler.

Even without any value creation (EV remaining constant at c. € 117m between 2012E and 2014E), the market value of equity should increase by about +13% (CAGR of +6%) thanks to the deleveraging effect. While the following graph shows this for 2014E, the effect is even more compelling when looking at 2015E when debt is expected to drop again by c. € 10m (or 17%).

Evolution of the enterprise value structure



Source: Company data; Hauck & Aufhäuser

DCF model

The DCF model used to value MS Industrie assumes revenues CAGR of 12% in the forecast period (2011-2014E), a CAGR of 3% in the medium term (2014E-2019E) and a long-term growth rate of 2%. For the terminal year, we assume an EBIT margin of 7.5%.

The WACC is set at 9.2%, made up of a risk-free rate of 2.0%, an equity risk premium of 6.0% and a beta of 1.2.

The DCF model indicates a fair value of € 3.20. Even very conservative assumptions of only 5.5% terminal year EBIT margin or 0% long-term growth suggest that the stock is not expensive at current levels of € 1.95.

MS Industrie AG

DCF (EUR m) (except per share data and beta)	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal value
NOPAT	7.7	5.3	8.0	12.0	17.2	17.5	17.0	16.4	15.8
Depreciation	10.0	10.2	10.4	10.3	8.9	8.8	9.1	9.2	4.7
Increase/decrease in working capital	-4.6	-1.9	-3.0	-6.0	-5.5	-2.9	-2.4	-1.9	-1.3
Increase/decrease in long-term provisions and accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capex	-16.0	-11.0	-6.0	-4.2	-4.1	-4.3	-4.5	-4.6	-4.7
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	**-3.0**	**2.6**	**9.4**	**12.2**	**16.5**	**19.1**	**19.2**	**19.1**	**14.5**
Present value	-3.1	2.5	8.3	10.0	12.4	13.0	11.5	10.5	103.4
WACC	8.1%	6.8%	7.1%	7.3%	7.7%	8.3%	9.2%	9.2%	9.2%

DCF per share derived from	
Total present value	169
thereof terminal value	61%
Net debt (net cash) at start of year	74
Financial assets	11
Provisions and off balance sheet debt	11
Equity value	94
No. of shares outstanding	29.5
Discounted cash flow per share	**3.2**
upside/(downside)	**64%**
Share price	**1.95**

DCF avg. growth and earnings assumptions	
Short term growth (2011-2014)	11.3%
Medium term growth (2014 - 2018)	3.0%
Long term growth (2018 - infinity)	2.0%
Terminal year EBIT margin	7.5%

WACC derived from	
Cost of borrowings before taxes	7.3%
Tax rate	0.0%
Cost of borrowings after taxes	7.3%
Required return on invested capital	9.2%
Risk premium	6.0%
Risk-free rate	2.0%
Beta	1.2

Sensitivity analysis DCF

WACC	Long term growth: 0%	1.0%	2.0%	2.5%	3.0%
11.2%	1.6	1.8	2.1	2.2	2.4
10.2%	2.0	2.2	2.6	2.8	3.0
9.2%	2.4	2.7	3.2	3.5	3.8
8.2%	2.9	3.4	4.1	4.5	5.0
7.2%	3.7	4.4	5.3	5.9	6.7

Sensitivity analysis DCF

WACC	EBIT margin terminal year: 5.5%	6.5%	7.5%	8.5%	9.5%
11.2%	1.4	1.7	2.1	2.4	2.8
10.2%	1.7	2.1	2.6	3.0	3.4
9.2%	2.2	2.7	3.2	3.7	4.2
8.2%	2.8	3.4	4.1	4.7	5.3
7.2%	3.7	4.5	5.3	6.1	6.9

Source: Company data; Hauck & Aufhäuser

Theme

The rewriting of the equity story should increase MS Industrie's visibility in the capital markets and trigger a re-rating of the share

Thanks to MS Industrie's strategy of focussing on its core industrial activities and divesting its non-core real estate portfolio in the mid term, **a change in the market's perception** from a conglomerate company to an industrial company should take place in the short to mid term. **This should allow the company to improve its attraction** in the eye of market players, as:

- **The healthy top line growth** driven by the penetration of the "Weltmotor" in Daimler's truck motor portfolio **should not be masked by excess of diversification going forward,**

- **The balance sheet and the financing structure look set to strongly improve** with a net gearing shrinking by more than 100 pp from 207% in 2012E to 94% in 2015E,

- **The ROCE is expected to soar from 6.0% in 2012E to 13.1% in 2015E.**

This ongoing process is gradually taking place and **should contribute to generate and support a positive sentiment among investors who had not been aware of MS Industrie's hidden potential.**

MS Industrie AG - recent portfolio divestments

2010	2011	2012	until 2014E
Meridio Vermögensverwaltung	Vantargis AG	Solarpark Haunsfeld	Beno Immobilien GmbH
Mengele Agrartechnik AG	Zehnder Pumpen GmbH		UMT AG
independent capital AG	Leipziger Solarpark AG		

Source: Company data

Also the expected newsflow regarding the signing of the multiannual "Weltmotor" contract with Daimler should contribute positively to the change in perception and to a consequent re-rating process, as this should provide more visibility on MS Industrie's earnings potential thanks to a healthy top line development and subsequent economies of scale.

2013 should rather be back-end loaded in terms of orders

2013E should rather be back-end loaded in terms of orders as:

- **The truck market is expected to bottom-out in 2013E in Europe**, with an improving situation in H2, not only supported by an **more positive macroeconomic environment** but also by **pent-up demand**, as the average age of the truck fleet reaches new summits (eH&A: 9.5y.),

- Some European end customers will certainly place their orders at the end of 2013E, before the switch to Euro VI,

- The fiscal cliff thematic in the US could weigh on local demand; however, after 3 consecutive very strong years in terms of demand for MS Industrie's "Weltmotor" parts, **we already anticipate declining incremental volumes**.

Furthermore, as the “Weltmotor” is already commercialised in Europe under the Euro V label, **Daimler will only have to switch from one label to the other at the beginning of 2014E**. Therefore, **no decrease in ordered volumes is expected in 2014E**, but rather a lifted development.

Number of "Weltmotors" equipped by MS Industrie, by regional market (in k units)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Number of "Weltmotors", USA	2	17	19	36	48	65	72	83	93	98
Incremental		*15*	*2*	*17*	*12*	*17*	*7*	*11*	*10*	*5*
Number of "Weltmotors", Europe					17	27	36	48	64	83
Incremental						*10*	*9*	*12*	*16*	*19*
Number of "Weltmotors", worldwide	2	17	19	36	65	92	108	131	157	181
Incremental		*15*	*2*	*17*	*29*	*27*	*16*	*23*	*26*	*24*

Source: Company data; Hauck & Aufhäuser

Returns Analysis

Balance sheet structure

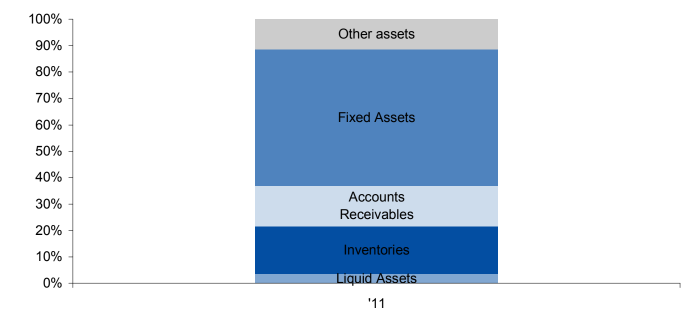
MS Industrie's business is relatively capital-intense with PP&E accounting for c. 37% of total assets. All together, fixed assets represent 52% of total assets. However, this figure is inflated by the book value of the real estate portfolio (c. € 16m or 7.6% of total assets) of Beno Immobilien GmbH, which is likely be deconsolidated in 2014E. Adjusting for this, fixed assets would account for 40% of total assets. Furthermore, intangible assets are largely related to PPA items and will therefore be fully amortised over the next 4-5 years.

Apart from inventories (18% of total assets, the main part of this item consisting of raw materials and unfinished goods) and receivables (15% of total assets), c. 11% of total assets are tied up in other assets, of which the largest part consists of assets held for disposal (€ 5.7m related to the Solarpark Haunsfeld, which was sold in 2012, and € 4m related to the UMT AG).

On the liabilities side, equity accounts for c. 24% of total liabilities, while interest-bearing liabilities represent the largest part with a share of c. 56%. This highly leveraged structure results from the strong investing at MS Spaichingen in the last years, as well as from the typical long term real estate financing pattern.

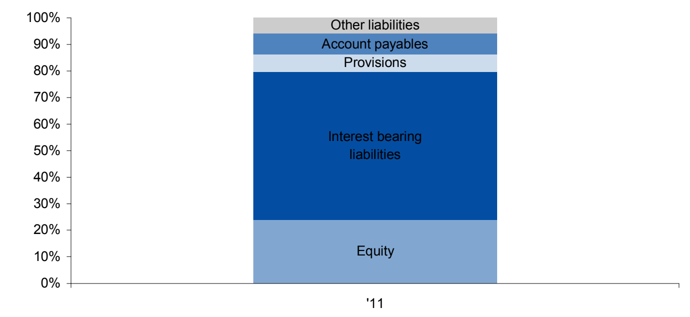
Accounts payables and provisions only represent some 8% and 7% of the total liabilities respectively.

Balance sheet - Assets



Source: Company data; Hauck & Aufhäuser

Balance sheet - Liabilities

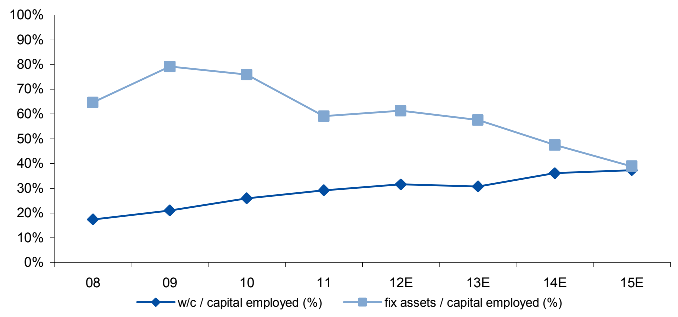


Source: Company data; Hauck & Aufhäuser

Capital employed

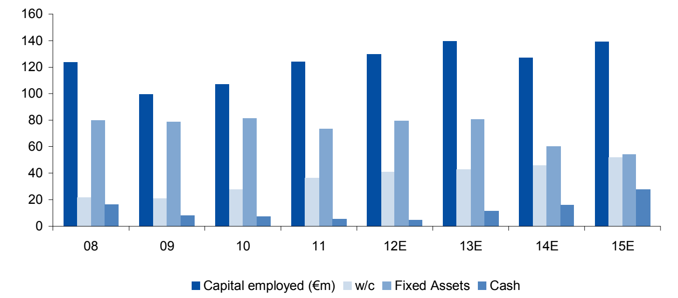
Overall, c. 59% of capital employed is tied up in fixed assets (2011) which include c. € 16m related to Beno's real estate portfolio. Adjusting for this, the ratio of capital employed tied up in fixed assets would come in at c. 46%. Working capital represents c. 31% of capital employed (2011). As the company looks set to divest its real estate activities in 2014 and gradually deleverage its balance sheet, the importance of fixed assets will decrease over time. At the same time, working capital is largely expected to develop proportionally to sales. However a better inventory management should have a positive effect here. Consequently, cash is seen gaining an increasing significance in capital employed in the next years.

Capital employed



Source: Company data; Hauck & Aufhäuser

Capital employed - Deleveraging and cash generation

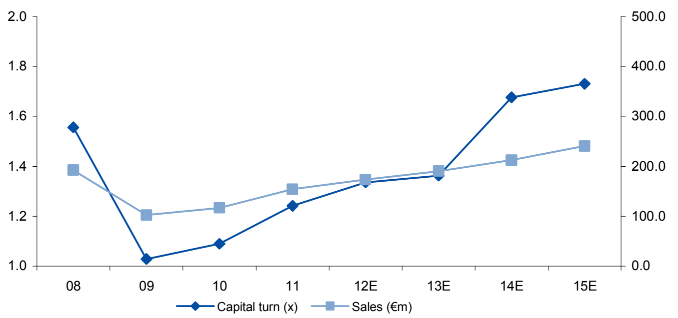


Source: Company data; Hauck & Aufhäuser

Capital efficiency

Overall, MS Industrie's capital efficiency looks decent at 1.3x taking into account the capital intensity of the business. Nevertheless, the deleveraging of the balance sheet should have a significant positive effect on capital turn, explaining the jump from 1.3x in 2013E to 1.7x in 2014E.

Capital employed turnover and sales



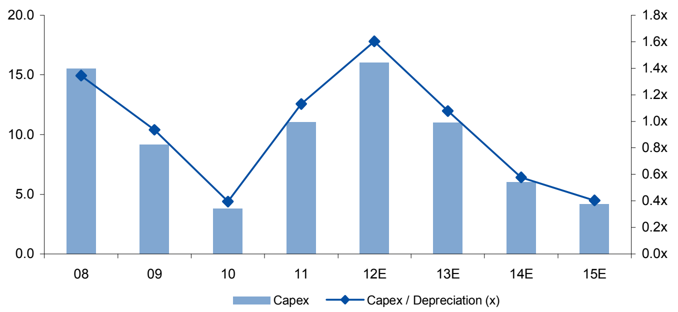
Source: Company data; Hauck & Aufhäuser

Capex cycle and net capex

Usually, the company does not have to invest that much in maintenance. In fact, machinery is depreciated over a cycle of 6-10 years, while the equipment is used over a timeframe of c. 15 years. This suggests that MS Industrie has to spend less than D&A for maintaining its production equipment (c. € 8m in maintenance vs. c. € 10.5m of D&A, including € 1.8m of PPA amortization).

As the current expansion cycle is expected to come to an end in 2013E, the overall capex cycle should turn into investor's favour, with CAPEX/depreciation ratios well below 1.0x.

Capex bar and Capex/depreciation



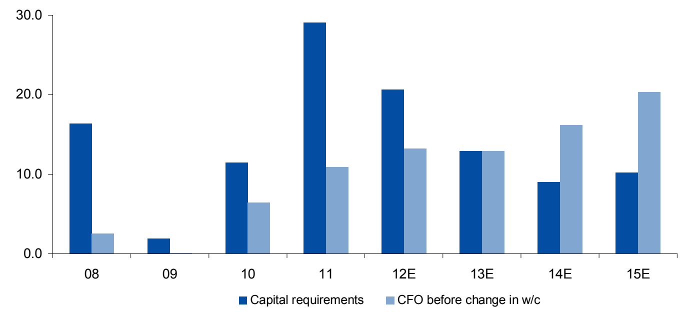
Source: Company data; Hauck & Aufhäuser

Capital requirements

In the past, the company was not able to finance its capital requirements from its cash generation, resulting in a high leverage (net gearing of 219% in 2011).

However, due to an increasing profitability going forward resulting from economies of scale, coupled with a more efficient inventory management and a capex cycle coming to an end, the company should have an easy time funding its capital requirements with its cash flow in the coming years.

Capital requirements and CFO before changes in w/c



Source: Company data; Hauck & Aufhäuser

Cash flow analysis

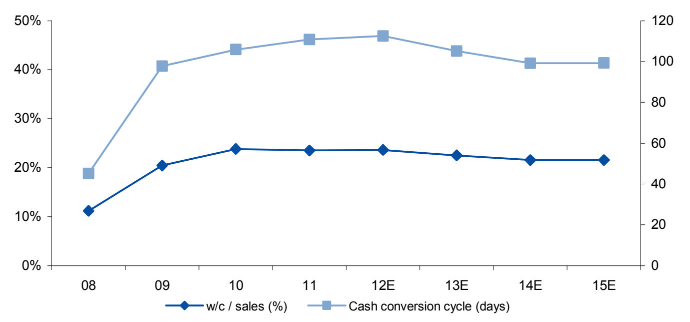
Going forward, MS Industrie's cash conversion cycle looks set to improve from some 110 days in the peak (2011) to more acceptable levels of around 100 days from 2014E onwards, driven by an improving inventory management while payment terms (from customers and at suppliers) are not set to change.

Going forward, MS Industrie's CFO/sales looks set to improve on the back of:

- Better margins thanks to a better capacity utilisation and economies of scale,
- Declining interest expenses due to the deleveraging of the balance sheet,
- A smoother development of working capital due to the increasing relative weight of the automotive supplier activities characterised by more stable payment terms from customers in the group's business, resulting in less volatility for the cash flow from operations.

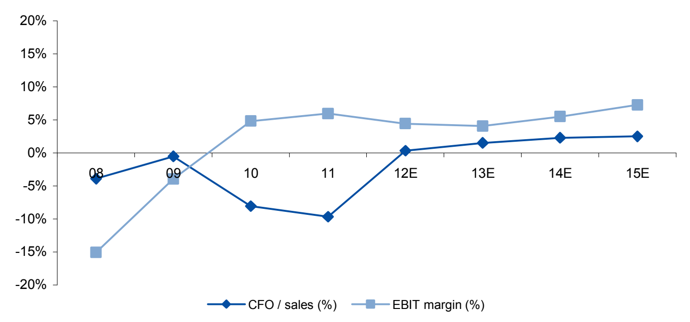
Overall, the company should be able to translate some 3% of sales into cash after 2014E.

Cash flow analysis



Source: Company data; Hauck & Aufhäuser

CFO/sales and EBIT margin



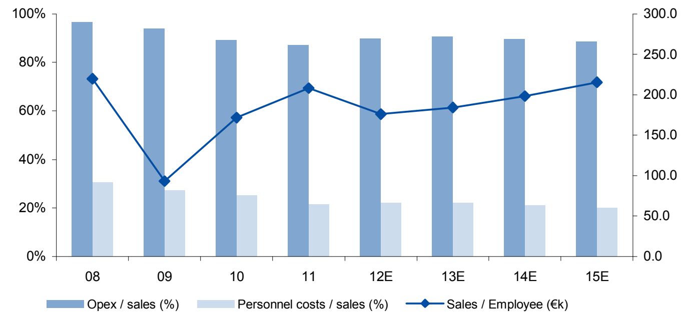
Source: Company data; Hauck & Aufhäuser

Pricing environment and operational leverage

Pricing pressure is not really a significant topic for MS Industrie, as the company looks set to agree a long-term contract with Daimler securing c. 50% of the g's revenues. As with all suppliers in the sector, price concessions have been agreed: however, as a single source supplier, MS Industrie gets less price pressure than other players with weaker bargaining power. Moreover, the company is able to pass on all raw material price increases and negative FX effects to Daimler, as contractually agreed. Thus, the material expense is expected to remain rather stable. MS Industrie uses total cost accounting. The largest part of OPEX consists of material expenses which usually represent some 57-58% of revenues.

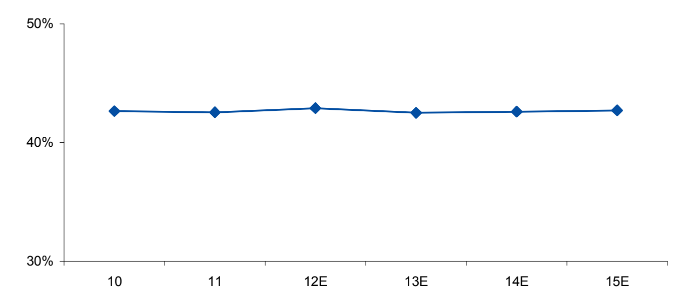
After input costs, personnel is the most important cost factor, explaining some 23% of total operating costs and 22% of sales (2012E). While sales/employee has temporarily decreased from € 218.7k to € 175.3k in 2012E following the build-up of human capacity necessary to meet higher demand resulting from the further penetration of the "Weltmotor" in the next years, the company looks set to benefit from economies of scale in personnel from 2013E onwards, as needs for additional employees are limited due to a relatively high level of automation.

Cost base and leverage



Source: Company data; Hauck & Aufhäuser

Evolution of the gross margin



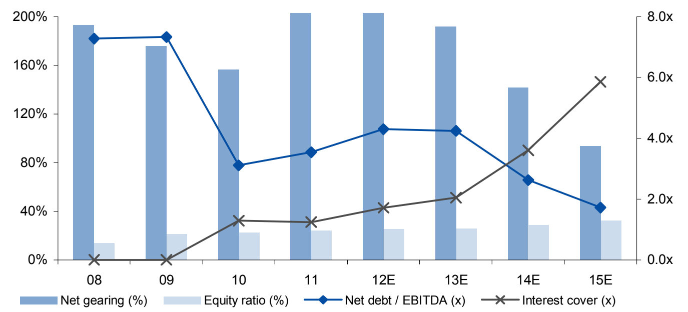
Source: Company data; Hauck & Aufhäuser

Solvency

While a continuously improving earnings generation will help the company to improve its equity ratio in the years to come, the divestment of the real estate activities until 2014E and the resulting deleveraging will have a significantly positive impact: total assets will be reduced by c. € 16m while the net financial debt will drop by € 11m (or c. 15%).

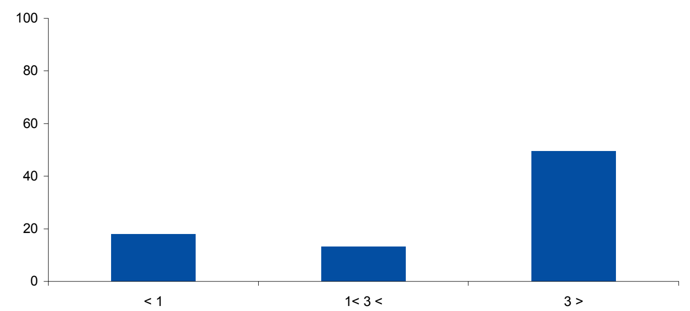
Consequently, net debt / EBITDA and net gearing should shrink significantly from 4.3x and 207% in 2012E to 1.7x and 94% in 2015E respectively, while the equity ratio should improve by 7pp to 32% over the same period.

Solvency



Source: Company data; Hauck & Aufhäuser

Debt maturity

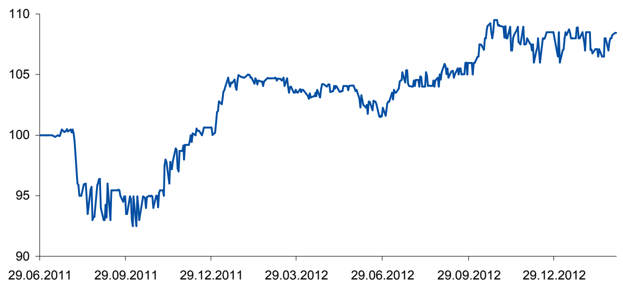


Source: Company data; Hauck & Aufhäuser

MS Industrie's debt structure at the end of 2012E mainly consists of:

- A corporate bond with a nominal value of € 23m, maturing in July 2016, with a coupon rate of 7.25%,
- C. € 11m of bank liabilities from Beno Immobilien GmbH (which will disappear in 2014E with the divestment),
- Other liabilities to the tune of c. € 47m, mainly related to MS Spaichingen and consisting of bank liabilities (short and long term) and leasing liabilities.

MS Spaichingen corporate bond - historical price development



Source: Deutsche Börse

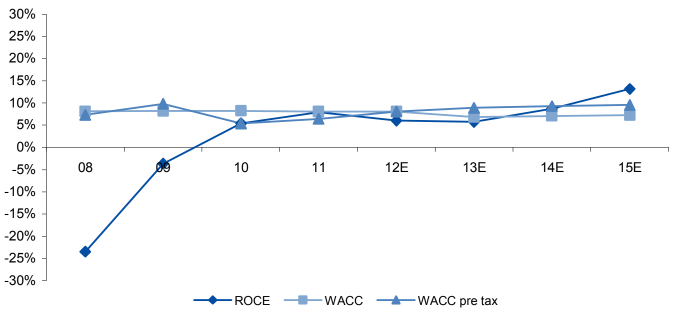
Value creation and cyclicality of returns

In the past years, MS Industrie's value creation was rather poor, driven by a weak operating performance and limited capital efficiency. However, due to the presence of (positive and negative) one-offs, a precise comparison over time is not very meaningful. Moreover, as a former private equity company, MS Industrie had further participations in its portfolio in the past which were not all satisfactory in terms of performance.

Going forward, the company should be able to generate ROCEs exceeding WACC thanks to:

- A strong increase in revenues and subsequent economies of scale leading to EBIT margins soaring from 4.2% in 2012E to 7.3% in 2015E,
- Positive effects from deleveraging the balance sheet boosting capital turn from 1.3x in 2012E to 1.7x in 2015E.

Returns



Source: Company data; Hauck & Aufhäuser

Company Background

Business model and geographical exposure

MS Industrie AG is a Munich, Germany based, **listed industrial holding company**. To a large extend, the transformation from an investment company to a focussed industrial company mainly supplying the automotive market is completed and the company's core investments focus on the **two growth drivers**:

- **Engine technology** (Diesel and electric engines) through the Maschinenfabrik Spaichingen GmbH (MS Spaichingen) of which 94% are held by MS Industrie AG and the Elektromotorenwerk Grünhain GmbH of which 100% are held.

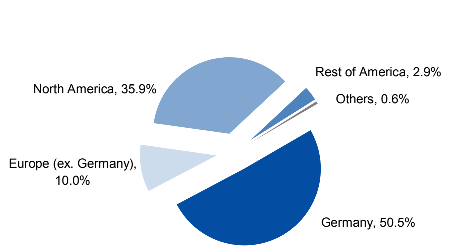
- **Welding technology** (mechanical engineering and packaging technology) through the MS Spaichingen group.

MS Spaichingen with its motor engineering and welding products accounted for the biggest amount **of industrial sales** with **86% in 2011** while **EMGR** operating in the electric engines industry accounted for the **remaining 14%.**

Furthermore, the company holds an 80% stake in BENO Immobilien GmbH, an industrial real estate company.

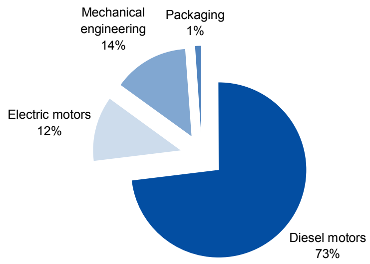
The company derives the largest part of its revenues from Europe (c. 60% in 2011, especially Germany which accounted for 50.5% of industrial sales in 2011 and is expected to represent some 46% in 2012E). Through its presence in the USA, **the company also generates a substantial part of its sales in the NAFTA region** (c. 36% in 2011, expected to grow to c. 40% in 2012E).

MS Industrie AG - Regional sales split of the industrial activities, 2011



Source: Company data

MS Industrie AG - Industrial activity split - 2011



Source: Company data

Industrial activity by business unit

The motors segment accounts for the company's majority of industrial activity with a share of around 85% to which the electric motors segment contributes 12% and the Diesel motors roughly six times as much. Only 1% of the remaining activities are apportioned to ultrasonic welding while **the remaining 14% of industrial activity are contributed by the industrial welding systems** used in the automotive industry.

End markets and key customers by business unit

MS Spaichingen essentially **produces parts and systems for** three different product categories namely **Diesel engines**, **industrial welding systems** and **ultrasonic welding systems** for packaging:

- **MS Engine** is a Tier-1 supplier for a range of companies in the automotive industry including the companies Daimler, MAN, MTU Friedrichshafen and ZF Friedrichshafen which the company supplies with amongst others **rocker levers and valve bridges** finding application in **vehicle engines**.

- **MS Welding** produces **specialty welding machines for the automotive industry** with customers such as Volkswagen, BMW and Ford while the unit also manufactures **ultrasound welding systems** serving Hastamat, Beiersdorf and Unilever among other companies using the machines for welding of paper, plastic, foil and other cold welding materials.

At the production site in Spaichingen the company employs currently around 500 employees, while the unit also disposes of a workforce of c. 200 employees in Webberville near Detroit in the USA.

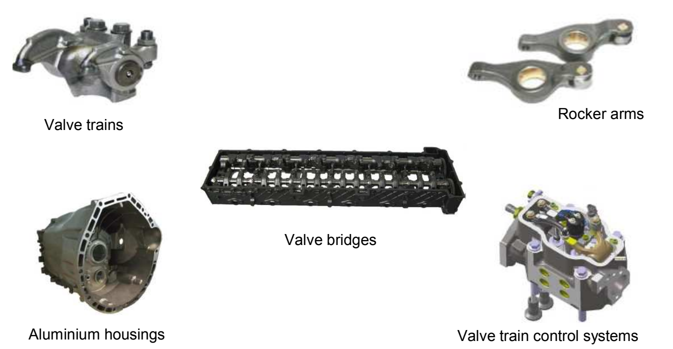
ElektroMotorenwerk GRünhain (EMGR) is specialised in the area of **electric engines** and is a **leading supplier of power trains and its components for industrial purposes**. The company manufactures amongst others, parts which find application in medical devices, pumps, electric drives, conveyor belts and crane systems supplying companies like Dürr Dental, Abus, Handtmann and Zehnder to mention but a few. Currently, the Grünhain production site employs around 240 people.

MS Industrie AG - Key Customers

MS Engine | **MS Welding** | **EMGR**

Source: Company data; Hauck & Aufhäuser

MS Industrie - products at a glance (Diesel motors)



Source: Company data

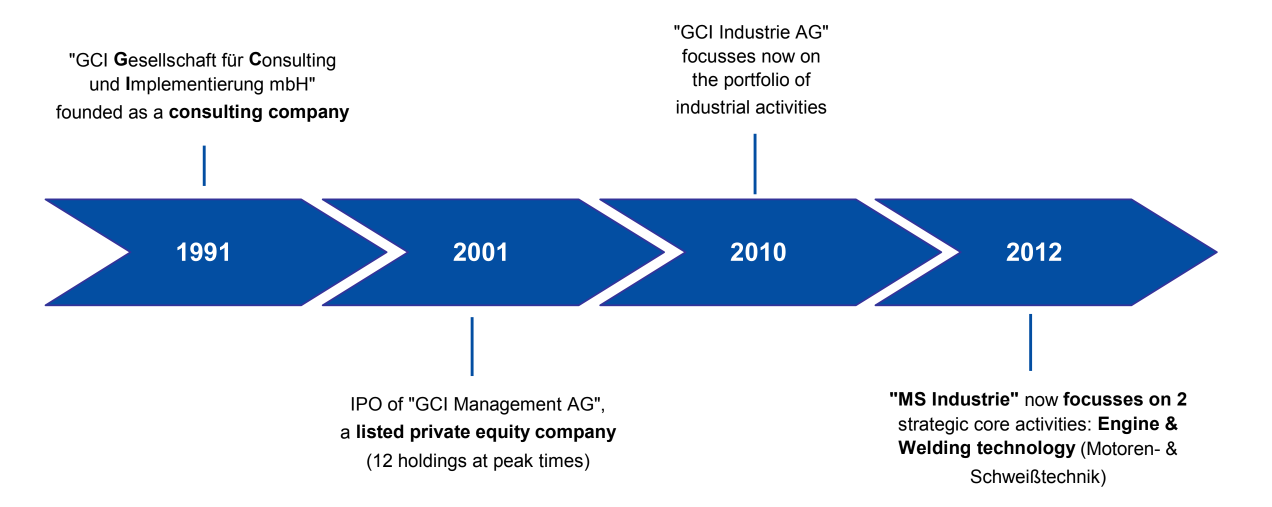
History

Originally **founded in 1991** as a consulting company („Gesellschaft für Consulting & Implementierung mbH"or GCI), the company converted into a listed private equity firm with an IPO in 2001. In the peak, GCI Management AG owned some 12 participations in different German SMEs.

Since 2010, the company known as GCI Industrie AG has been focussing on the portfolio of industrial activities while disposing of some non-operational real-estate assets.

In July 2012, the company changed its name to "MS Industrie AG", in order to clarify its **focus on both strategic core activities of engine technology** (in German: "Motorentechnik") and **welding technology** (in German: "Schweißtechnik").

MS Industrie AG - History



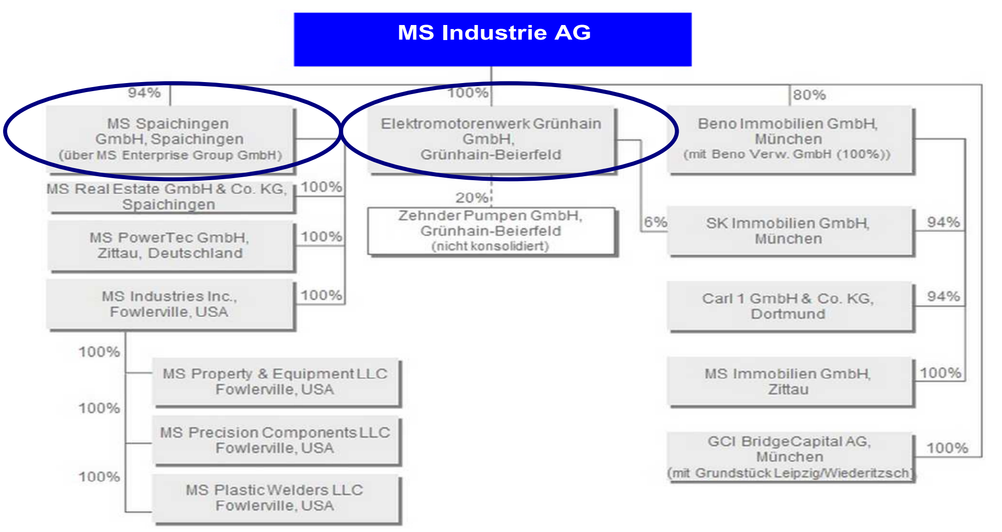
Source: Company data

Legal structure

The legal structure looks as follows, whereas one has to remember that MS Industrie clearly focuses on the main activities of motor engineering and welding engineering, addressed by:

- MS Spaichingen,
- Elektromotorenwerk Grünhain (EMGR).

MS Industrie AG - Legal structure



(excluding minority interests of MS Industrie AG)

Source: Company data; Hauck & Aufhäuser

Shareholder structure

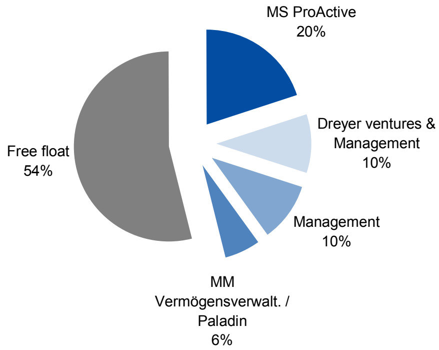
MS Industrie AG went public in 2001. The 29.50 million outstanding shares are listed on the **General Standard of the Frankfurt stock exchange**.

The major shareholders of the company are:

- MS ProActive Beteiligungs GmbH & Co. KG, which currently owns 20% of the outstanding shares.
- Dreyer Ventures & Management, investment vehicle of Mr. Christian Dreyer (CEO of SMT Scharf) which owns 10% of the outstanding shares (Mr. Christian Dreyer is also a chief of the supervisory board).
- The management of the company which currently owns 10% of the outstanding shares.
- MM Vermögensverwaltungs GmbH & Co. KG / Paladin (Carsten Maschmeyer's investment vehicles) which currently owns 6% of the outstanding shares.

The remaining **54% consist of free float**. The shareholder structure is presented in the chart below.

MS Industrie AG - Shareholder structure



Source: Bloomberg

Management

Dr. Andreas Aufschnaiter
Economics studies.
Previously worked as a consultant with Arthur Andersen.
Has been working with MS Industrie AG since the foundation of the company (formerly GCI) in 1991.
CEO/CFO of MS Industrie AG since 2000.

Dipl. Ing. (FH) Armin Distel
Engineering studies
Works with MS Spaichingen since 1990.
Managing director at MS Spaichingen GmbH since 2006.
COO of MS Industrie AG since January 1, 2013.

Financials

Profit and loss (EUR m)	2009	2010	2011	2012E	2013E	2014E	2015E
Net sales	**102.5**	**116.7**	**154.3**	**173.3**	**190.3**	**212.7**	**240.6**
Sales growth	*-46.8 %*	*13.9 %*	*32.2 %*	*12.4 %*	*9.8 %*	*11.8 %*	*13.1 %*
Increase/decrease in finished goods and work-in-process	0.0	3.1	0.9	0.0	0.0	0.0	0.0
Total sales	**102.5**	**119.8**	**155.2**	**173.3**	**190.3**	**212.7**	**240.6**
Other operating income	4.6	11.5	10.9	6.0	5.1	4.1	3.1
Material expenses	52.6	68.7	89.2	99.0	109.4	122.1	137.9
Personnel expenses	27.9	29.3	33.2	38.2	42.1	44.9	48.1
Other operating expenses	20.4	17.4	22.8	24.4	26.0	27.8	30.0
Total operating expenses	96.2	103.9	134.3	155.6	172.4	190.7	212.9
EBITDA	**6.2**	**15.9**	**20.9**	**17.7**	**17.9**	**22.0**	**27.8**
Depreciation	7.6	7.7	7.5	7.8	8.2	8.4	8.3
EBITA	**-1.4**	**8.2**	**13.5**	**9.9**	**9.7**	**13.6**	**19.5**
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	2.2	2.6	2.3	2.2	2.0	2.0	2.0
Impairment charges	0.5	0.0	2.0	0.0	0.0	0.0	0.0
EBIT	**-4.0**	**5.6**	**9.2**	**7.7**	**7.7**	**11.6**	**17.5**
Interest income	6.9	0.5	0.1	0.0	0.0	0.0	0.0
Interest expenses	13.8	4.8	7.5	4.5	3.8	3.2	3.0
Other financial result	0.0	-0.6	0.0	0.0	0.0	0.0	0.0
Financial result	-6.9	-4.9	-7.4	-4.5	-3.8	-3.2	-3.0
Recurring pretax income from continuing operations	**-10.9**	**0.7**	**1.8**	**3.2**	**3.9**	**8.4**	**14.5**
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	**-10.9**	**0.7**	**1.8**	**3.2**	**3.9**	**8.4**	**14.5**
Taxes	-2.2	-0.2	-0.4	0.0	1.2	2.6	4.5
Net income from continuing operations	**-8.7**	**0.9**	**2.2**	**3.2**	**2.7**	**5.8**	**10.0**
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**-8.7**	**0.9**	**2.2**	**3.2**	**2.7**	**5.8**	**10.0**
Minority interest	-1.2	0.1	0.0	0.0	0.0	0.0	0.0
Net income (net of minority interest)	**-7.6**	**0.8**	**2.1**	**3.2**	**2.7**	**5.8**	**10.0**
Average number of shares	21.4	26.4	28.9	29.5	29.5	29.5	29.5
EPS reported	**-0.35**	**0.03**	**0.07**	**0.11**	**0.09**	**0.20**	**0.34**

Profit and loss (common size)	2009	2010	2011	2012E	2013E	2014E	2015E
Net sales	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Increase/decrease in finished goods and work-in-process	0.0 %	2.7 %	0.6 %	0.0 %	0.0 %	0.0 %	0.0 %
Total sales	**100.0 %**	**102.7 %**	**100.6 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Other operating income	4.5 %	9.9 %	7.1 %	3.5 %	2.7 %	1.9 %	1.3 %
Material expenses	51.3 %	58.9 %	57.8 %	57.1 %	57.5 %	57.4 %	57.3 %
Personnel expenses	27.2 %	25.2 %	21.5 %	22.1 %	22.1 %	21.1 %	20.0 %
Other operating expenses	19.9 %	14.9 %	14.8 %	14.1 %	13.6 %	13.1 %	12.5 %
Total operating expenses	93.9 %	89.0 %	87.0 %	89.8 %	90.6 %	89.6 %	88.5 %
EBITDA	**6.1 %**	**13.6 %**	**13.6 %**	**10.2 %**	**9.4 %**	**10.4 %**	**11.5 %**
Depreciation	7.4 %	6.6 %	4.8 %	4.5 %	4.3 %	3.9 %	3.4 %
EBITA	**-1.3 %**	**7.1 %**	**8.7 %**	**5.7 %**	**5.1 %**	**6.4 %**	**8.1 %**
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	2.1 %	2.3 %	1.5 %	1.3 %	1.1 %	0.9 %	0.8 %
Impairment charges	0.5 %	0.0 %	1.3 %	0.0 %	0.0 %	0.0 %	0.0 %
EBIT	**-4.0 %**	**4.8 %**	**6.0 %**	**4.4 %**	**4.1 %**	**5.5 %**	**7.3 %**
Interest income	6.8 %	0.4 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %
Interest expenses	13.5 %	4.1 %	4.9 %	2.6 %	2.0 %	1.5 %	1.2 %
Other financial result	0.0 %	-0.5 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	-6.7 %	-4.2 %	-4.8 %	-2.6 %	-2.0 %	-1.5 %	-1.2 %
Recurring pretax income from continuing operations	**-10.7 %**	**0.6 %**	**1.2 %**	**1.8 %**	**2.1 %**	**4.0 %**	**6.0 %**
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings before taxes	**-10.7 %**	**0.6 %**	**1.2 %**	**1.8 %**	**2.1 %**	**4.0 %**	**6.0 %**
Tax rate	20.0 %	-34.6 %	-20.4 %	0.0 %	31.0 %	31.0 %	31.0 %
Net income from continuing operations	**-8.5 %**	**0.8 %**	**1.4 %**	**1.8 %**	**1.4 %**	**2.7 %**	**4.2 %**
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income	**-8.5 %**	**0.8 %**	**1.4 %**	**1.8 %**	**1.4 %**	**2.7 %**	**4.2 %**
Minority interest	-1.1 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income (net of minority interest)	**-7.4 %**	**0.7 %**	**1.4 %**	**1.8 %**	**1.4 %**	**2.7 %**	**4.2 %**

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2009	2010	2011	2012E	2013E	2014E	2015E
Intangible assets	**12.6**	**11.3**	**9.6**	**7.4**	**5.4**	**3.4**	**1.4**
Property, plant and equipment	61.0	56.8	52.9	61.1	63.9	56.5	52.3
Financial assets	5.3	13.1	11.1	11.1	11.1	0.4	0.4
FIXED ASSETS	**78.8**	**81.3**	**73.5**	**79.6**	**80.4**	**60.2**	**54.1**
Inventories	13.9	20.5	25.6	26.7	27.2	28.4	32.1
Accounts receivable	14.1	19.1	21.8	24.2	26.6	29.7	33.6
Other current assets	4.1	11.4	16.1	10.4	10.4	10.4	10.4
Liquid assets	8.1	7.1	5.1	4.5	11.5	15.7	27.8
Deferred taxes	3.1	1.9	0.2	0.2	0.1	0.1	0.0
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT ASSETS	43.3	60.1	68.7	65.9	75.8	84.2	103.9
TOTAL ASSETS	**122.2**	**141.4**	**142.2**	**145.5**	**156.1**	**144.4**	**158.0**
SHAREHOLDERS EQUITY	25.9	31.7	34.0	36.8	39.6	40.9	51.0
MINORITY INTEREST	3.3	2.1	1.5	1.4	1.4	1.4	1.4
Long-term debt	46.7	50.9	59.1	62.6	69.6	55.6	57.6
Provisions for pensions and similar obligations	3.5	3.1	3.2	3.2	3.2	3.2	3.2
Other provisions	13.1	13.6	6.2	7.9	7.9	7.9	7.9
Non-current liabilities	**63.3**	**67.6**	**68.5**	**73.6**	**80.7**	**66.7**	**68.7**
short-term liabilities to banks	7.0	5.7	20.2	18.0	18.0	18.0	18.0
Accounts payable	7.0	11.9	11.1	10.0	10.9	12.2	13.8
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)	8.0	16.3	3.7	2.7	2.7	2.7	2.7
Deferred taxes	7.6	6.2	3.3	3.0	2.8	2.6	2.4
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	**29.6**	**40.0**	**38.3**	**33.7**	**34.5**	**35.5**	**36.9**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**122.2**	**141.4**	**142.2**	**145.5**	**156.1**	**144.4**	**158.0**

Balance sheet (common size)	2009	2010	2011	2012E	2013E	2014E	2015E
Intangible assets	**10.3 %**	**8.0 %**	**6.7 %**	**5.1 %**	**3.4 %**	**2.3 %**	**0.9 %**
Property, plant and equipment	49.9 %	40.2 %	37.2 %	42.0 %	40.9 %	39.1 %	33.1 %
Financial assets	4.3 %	9.3 %	7.8 %	7.7 %	7.1 %	0.3 %	0.3 %
FIXED ASSETS	**64.5 %**	**57.5 %**	**51.7 %**	**54.7 %**	**51.5 %**	**41.7 %**	**34.2 %**
Inventories	11.3 %	14.5 %	18.0 %	18.3 %	17.4 %	19.6 %	20.3 %
Accounts receivable	11.6 %	13.5 %	15.3 %	16.6 %	17.0 %	20.6 %	21.3 %
Other current assets	3.4 %	8.1 %	11.3 %	7.1 %	6.6 %	7.2 %	6.6 %
Liquid assets	6.6 %	5.0 %	3.6 %	3.1 %	7.4 %	10.9 %	17.6 %
Deferred taxes	2.5 %	1.4 %	0.2 %	0.1 %	0.1 %	0.0 %	0.0 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
CURRENT ASSETS	35.5 %	42.5 %	48.3 %	45.3 %	48.5 %	58.3 %	65.8 %
TOTAL ASSETS	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
SHAREHOLDERS EQUITY	21.2 %	22.4 %	23.9 %	25.3 %	25.4 %	28.3 %	32.3 %
MINORITY INTEREST	2.7 %	1.5 %	1.0 %	0.9 %	0.9 %	0.9 %	0.9 %
Long-term debt	38.2 %	36.0 %	41.6 %	43.0 %	44.6 %	38.5 %	36.5 %
Provisions for pensions and similar obligations	2.8 %	2.2 %	2.3 %	2.2 %	2.1 %	2.2 %	2.0 %
Other provisions	10.7 %	9.6 %	4.4 %	5.4 %	5.1 %	5.5 %	5.0 %
Non-current liabilities	**51.8 %**	**47.8 %**	**48.2 %**	**50.6 %**	**51.7 %**	**46.2 %**	**43.5 %**
short-term liabilities to banks	5.8 %	4.0 %	14.2 %	12.4 %	11.5 %	12.5 %	11.4 %
Accounts payable	5.8 %	8.4 %	7.8 %	6.9 %	7.0 %	8.5 %	8.8 %
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)	6.5 %	11.5 %	2.6 %	1.8 %	1.7 %	1.9 %	1.7 %
Deferred taxes	6.2 %	4.4 %	2.3 %	2.1 %	1.8 %	1.8 %	1.5 %
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Current liabilities	**24.3 %**	**28.3 %**	**26.9 %**	**23.2 %**	**22.1 %**	**24.6 %**	**23.4 %**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2009	2010	2011	2012E	2013E	2014E	2015E
Net profit/loss	-8.7	0.9	2.2	3.2	2.7	5.8	10.0
Depreciation of fixed assets (incl. leases)	7.6	7.7	7.5	7.8	8.2	8.4	8.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	2.2	2.6	2.3	2.2	2.0	2.0	2.0
Others	-1.0	-4.7	-1.0	0.0	0.0	0.0	0.0
Cash flow from operations before changes in w/c	0.1	6.5	10.9	13.2	12.9	16.2	20.3
Increase/decrease in inventory	17.2	-13.1	-11.4	-1.1	-0.5	-1.2	-3.7
Increase/decrease in accounts receivable	0.0	0.0	0.0	-2.4	-2.4	-3.1	-3.9
Increase/decrease in accounts payable	-10.0	5.5	-6.7	-1.1	1.0	1.3	1.6
Increase/decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	7.2	-7.6	-18.0	-4.6	-1.9	-3.0	-6.0
Cash flow from operating activities	**7.3**	**-1.2**	**-7.1**	**8.6**	**11.0**	**13.2**	**14.3**
CAPEX	9.2	3.8	11.0	16.0	11.0	6.0	4.2
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	2.8	2.0	3.7	5.7	0.0	0.0	0.0
Cash flow from investing activities	**-6.3**	**-2.0**	**-7.3**	**-10.3**	**-11.0**	**-6.0**	**-4.2**
Cash flow before financing	0.9	-3.2	-14.5	-1.8	0.0	7.2	10.1
Increase/decrease in debt position	-5.4	0.5	14.5	1.2	7.0	-3.0	2.0
Purchase of own shares	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Capital measures	-0.1	2.6	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-1.8	-1.0	-1.7	0.0	0.0	0.0	0.0
Effects of exchange rate changes on cash	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	**-7.2**	**2.2**	**12.5**	**1.2**	**7.0**	**-3.0**	**2.0**
Increase/decrease in liquid assets	-8.3	-1.0	-2.0	-0.6	7.0	4.2	12.1
Liquid assets at end of period	**8.1**	**7.1**	**5.1**	**4.5**	**11.5**	**15.7**	**27.8**

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2009	2010	2011	2012E	2013E	2014E	2015E
P&L growth analysis							
Sales growth	-46.8 %	13.9 %	32.2 %	12.4 %	9.8 %	11.8 %	13.1 %
EBITDA growth	-3.4 %	155.8 %	31.6 %	-15.6 %	1.4 %	22.9 %	26.0 %
EBIT growth	-86.0 %	-238.7 %	63.4 %	-16.4 %	0.7 %	50.6 %	50.1 %
EPS growth	-85.1 %	-108.6 %	138.2 %	46.9 %	-15.0 %	116.3 %	72.3 %
Efficiency							
Total operating costs / sales	93.9 %	89.0 %	87.0 %	89.8 %	90.6 %	89.6 %	88.5 %
Sales per employee	93.1	171.6	208.2	176.0	184.1	198.4	215.3
EBITDA per employee	5.7	23.4	28.3	17.9	17.3	20.6	24.8
Balance sheet analysis							
Avg. working capital / sales	20.7 %	20.9 %	20.8 %	22.3 %	22.0 %	20.8 %	20.3 %
Inventory turnover (sales/inventory)	7.4	5.7	6.0	6.5	7.0	7.5	7.5
Trade debtors in days of sales	50.3	59.9	51.6	51.0	51.0	51.0	51.0
A/P turnover [(A/P*365)/sales]	25.0	37.2	26.3	21.0	21.0	21.0	21.0
Cash conversion cycle (days)	97.7	105.8	110.8	112.6	105.2	99.2	99.3
Cash flow analysis							
Free cash flow	-1.9	-5.0	-18.2	-7.4	0.0	7.2	10.1
Free cash flow/sales	-1.8 %	-4.3 %	-11.8 %	-4.3 %	0.0 %	3.4 %	4.2 %
FCF / net profit	24.6 %	-618.6 %	-862.2 %	-236.0 %	0.2 %	124.0 %	101.2 %
FCF yield	-4.5 %	-9.7 %	-32.2 %	-12.9 %	0.0 %	12.5 %	17.6 %
Capex / depn	93.6 %	39.5 %	113.1 %	160.4 %	107.8 %	57.7 %	40.3 %
Capex / maintenance capex	117.0 %	46.2 %	140.8 %	200.0 %	134.8 %	72.1 %	50.4 %
Capex / sales	8.9 %	3.5 %	7.2 %	n/a	n/a	n/a	n/a
Security							
Net debt	45.6	49.5	74.3	76.1	76.1	57.9	47.8
Net Debt/EBITDA	7.3	3.1	3.5	4.3	4.2	2.6	1.7
Net debt / equity	1.8	1.6	2.2	2.1	1.9	1.4	0.9
Interest cover	0.0	1.2	1.2	1.7	2.0	3.6	5.9
Dividend payout ratio	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Asset utilisation							
Capital employed turnover	1.0	1.1	1.2	1.3	1.4	1.7	1.7
Operating assets turnover	1.3	1.4	1.7	1.7	1.8	2.1	2.3
Plant turnover	1.7	2.1	2.9	2.8	3.0	3.8	4.6
Inventory turnover (sales/inventory)	7.4	5.7	6.0	6.5	7.0	7.5	7.5
Returns							
ROCE	-3.6 %	5.4 %	7.9 %	6.0 %	5.7 %	8.7 %	13.1 %
ROE	-29.1 %	2.5 %	6.2 %	8.6 %	6.8 %	14.2 %	19.6 %
Other							
Interest paid / avg. debt	23.5 %	8.7 %	11.1 %	5.6 %	4.5 %	4.0 %	4.0 %
No. employees (average)	1100	680	741	985	1034	1072	1118
Number of shares	21.4	26.4	28.9	29.5	29.5	29.5	29.5
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS reported	-0.35	0.03	0.07	0.11	0.09	0.20	0.34
Valuation ratios							
P/BV	1.6	1.6	1.7	1.6	1.5	1.4	1.1
EV/sales	0.9	0.9	0.9	0.8	0.7	0.6	0.5
EV/EBITDA	14.6	6.5	6.4	7.7	7.6	5.4	3.9
EV/EBITA	-66.3	12.6	9.9	13.9	14.1	8.7	5.6
EV/EBIT	-22.4	18.5	14.6	17.8	17.7	10.2	6.2
EV/FCF	-48.8	-20.9	-7.4	-18.4	25107.4	16.5	10.7
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Company data, Hauck & Aufhäuser

Disclosure in respect of section 34b of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

Company	Disclosure
MS Industrie AG	5, 8

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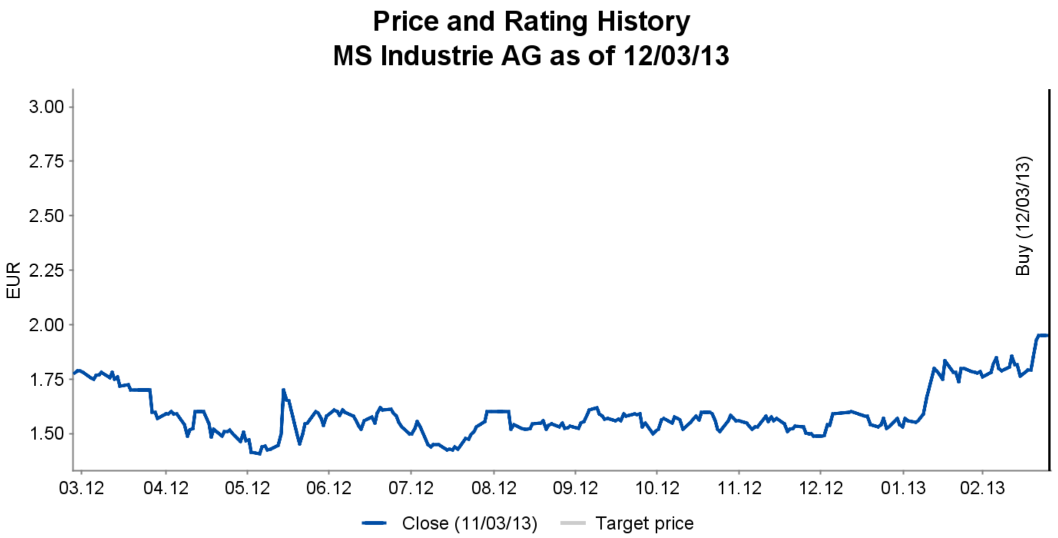
Historical target price and rating changes for MS Industrie AG in the last 12 months



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Competent supervisory authority

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