

<b>Buy</b> <b>EUR 40.00</b> (EUR 32.00) Price <b>EUR 34.94</b> <b>Upside 14.5 %</b>	<b>Value Indicators:</b> EUR DCF: 40.00 FCF-Value Potential 16e: 18.60	<b>Share data:</b> Bloomberg: DRI GR Reuters: DRIG ISIN: DE0005545503	<b>Description:</b> Virtual mobile network operator
	<b>Market Snapshot:</b> EUR m Market cap: 1,858 No. of shares (m): 53 EV: 1,937 Freefloat MC: 1,784 Ø Trad. Vol. (30d; EUR): 12.01 m	<b>Shareholders:</b> Freefloat 96.0 % MV GmbH + MV GmbH 1.6 % M. Brucherseifer 2.0 % <i>Union Investment</i> 5.1 % <i>Fidelity</i> 4.1 %	<b>Risk Profile (WRe):</b> 2014e Beta: 1.3 Price / Book: 5.8 x Equity Ratio: 71 %

## New DCF-based PT of EUR 40 - Buy

Since our latest note in October 2014 ("Challenger strategy") there have been two events to have influenced our model:

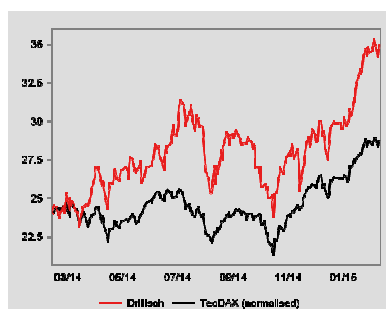
- Drillisch acquired yourfone for roughly EUR 75m (WRe). Yourfone has more than 200k customers. Assuming an ARPU of EUR 16, yourfone annually generates revenues of EUR 38m. Drillisch said at the latest analyst conference that under new MVNO-MBA conditions ("network contract with Telefonica Deutschland") a gross profit of EUR 2m could be generated per month. We incorporate the cash outflow for the acquisition (closing was January 2, 2015) in our model (EUR 75m) but wait for the integration of sales and EBITDA contribution.
- As expected, Drillisch sold its own shares (9.8% of the share capital or 5.1m shares) and had gross proceeds of EUR 143m.

Our DCF-based PT of EUR 32 was reached. Up to now, we had an additional EUR 234m of debt reflected in the DCF valuation for the financing of handsets. This figure is not reflected in our balance sheet projections because we simply think that Drillisch does not need this additional financing. The notification of the additional financial debts was only made because of the high insecurity surrounding Drillisch's challenger strategy and its financing. Now, we are reducing this figure and reflect a net debt of EUR 136m (old: EUR 274m) in our DCF calculation. Furthermore, we are reducing the WACC from 7.6% to 6.9% due to our new assumption regarding the market return rate (new: 7.0%, old: 8.0%). As a result, we increase our DCF-based PT from EUR 32 to EUR 40. Stock remains a Buy.

Q4/14 outlook: As has been pointed out several times, we think Drillisch will start its accelerated growth path in the second half of 2015. Hence, Q4/14 should have a similar pattern as the quarters before. We expect 75k "MVNO" customer net additions, group sales of EUR 72.2m (Q4/13: EUR 72.6m) and a group EBITDA of EUR 20.5m (Q4/13: EUR 18.7m).

Drillisch is going to publish its 2014 annual report on March 20. On the same day, it will hold an investors' and analysts' conference. We expect some more details on the growth plan for 2015.

Changes in Estimates:				Comment on Changes:			
FY End: 31.12. in EUR m	2014e (old)	+ / -	2015e (old)	+ / -	2016e (old)	+ / -	
Sales	295	-3.1 %	584	0.0 %	714	0.0 %	2014: Fine tuning of our estimates
EBITDA	85	0.0 %	97	0.0 %	115	0.0 %	EPS reduction 2015e and 2016e: Higher number of shares related to the sale of own shares.
EBIT	75	0.0 %	76	0.0 %	93	0.0 %	2014 EPS reduction: Higher number of shares related to the sale of own shares; Higher than originally assumed interest expenses.
EPS	1.15	-20.9 %	0.93	-9.7 %	1.16	-10.3 %	

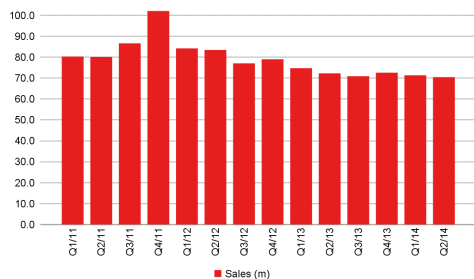


Rel. Performance vs TecDAX:	
1 month:	8.4 %
6 months:	2.7 %
Year to date:	8.8 %
Trailing 12 months:	27.0 %

Company events:	
20.03.15	FY 2014
13.05.15	Q1
21.05.15	AGM
13.08.15	Q2

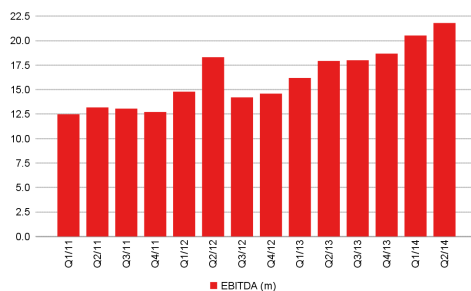
FY End: 31.12. in EUR m	CAGR (13-16e)	2010	2011	2012	2013	2014e	2015e	2016e
Sales	35.0 %	362	349	324	290	285	584	714
Change Sales yoy		5.2 %	-3.7 %	-7.3 %	-10.3 %	-1.7 %	104.6 %	22.3 %
Gross profit margin		24.9 %	30.1 %	34.3 %	41.8 %	50.2 %	34.6 %	37.3 %
EBITDA	17.5 %	46	51	62	71	85	97	115
Margin		12.7 %	14.7 %	19.1 %	24.4 %	29.8 %	16.6 %	16.1 %
EBIT	15.0 %	40	48	55	61	75	76	93
Margin		11.1 %	13.8 %	17.1 %	21.1 %	26.4 %	13.0 %	13.0 %
Net income	-29.1 %	31	41	23	156	49	45	56
EPS	-31.6 %	0.58	0.77	0.44	3.25	0.91	0.84	1.04
EPS adj.	7.4 %	0.58	0.77	0.44	0.84	0.91	0.84	1.04
DPS	4.0 %	0.50	0.70	1.30	1.60	1.80	1.80	1.80
Dividend Yield		9.5 %	9.6 %	14.8 %	10.5 %	5.2 %	5.2 %	5.2 %
FCFPS		0.69	0.32	0.02	0.77	0.90	-2.09	0.91
EV / Sales		0.1 x	0.7 x	1.4 x	1.2 x	5.8 x	3.3 x	2.8 x
EV / EBITDA		0.7 x	4.7 x	7.1 x	5.0 x	19.5 x	20.0 x	17.3 x
EV / EBIT		0.7 x	5.1 x	7.9 x	5.8 x	22.0 x	25.5 x	21.3 x
P / E		9.0 x	9.4 x	20.0 x	4.7 x	38.4 x	41.6 x	33.6 x
P / E adj.		9.0 x	9.4 x	20.0 x	18.2 x	38.4 x	41.6 x	33.6 x
FCF Yield Potential		108.1 %	15.6 %	13.1 %	10.9 %	3.1 %	3.5 %	4.0 %
Net Debt		31	138	253	-99	-203	79	126
ROE		21.4 %	26.9 %	16.4 %	92.2 %	18.0 %	15.1 %	22.1 %
ROCE (NOPAT)		15.6 %	15.9 %	18.5 %	21.7 %	43.0 %	22.3 %	18.1 %
Guidance:		EBITDA 2014e: EUR 82m - EUR 85m, dividend per share 2014e: EUR 1.60						

Sales development in EUR m



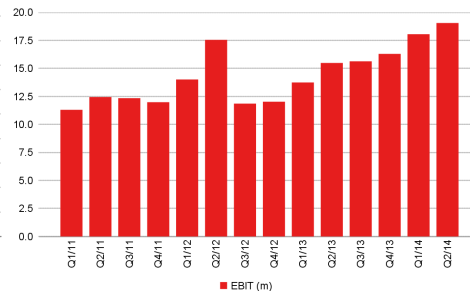
Source: Warburg Research

EBITDA development in EUR m



Source: Warburg Research

EBIT development in EUR m



Source: Warburg Research

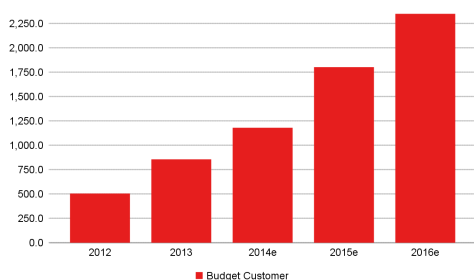
## Company Background

- Drillisch has a contract with Telefonica Deutschland about the exclusive access of 20% of the Telefonica Detschland's network capacity in Germany. Capacity is measuered in mobile data volume.
- Drillisch has the obligation to purchase the capacity independently it can sell it or not to its own customer base. The obligation to acquire 20% of the used capacity will start in 2019.
- Between 2015 and 2019, the volume which Drillisch is obliged to purchase, is increasing step by step.
- Drillisch is positioned as a mobile virtual network operator. It has introduced a challenger strategy at the German mobile telecom market. It is establishing beside its current online sales channels a retail network.
- Drillisch sees itself as the price-quality leader for mobile tariffs in the German market. It can offer tariff prices lower than those of network operators or other MVNOs but deliver higher mobile data volumes.

## Competitive Quality

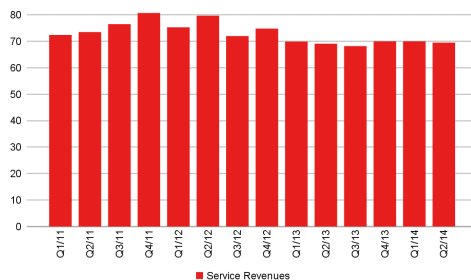
- Management track-record: Since 2003, the management has several times adjusted the strategy and sucessfully reacted on market changes. Drillisch was transferred from a prepaid distributor to a leading MVNO in Germany.
- Network and technolgy access: Drillisch can operate as a mobile network operator without taking CAPEX and technology risks. In addition, it has the best access to capacities and technology compared to competition.
- Attractive purchase conditions: Drillisch's purchase conditions are assumed to be very competitive. Drillisch beats network operativer tariffs by more than 25% and can place itself as the price-quality leader.

Budget customers in k



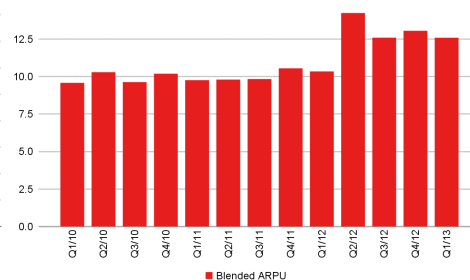
Source: Warburg Research

Service Revenues in EUR m



Source: Warburg Research

Blended ARPU in EUR



Source: Warburg Research

**DCF model**

Figures in EUR m	Detailed forecast period			Transitional period										Term. Value
	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	
Sales	285	584	714	857	968	1,065	1,097	1,130	1,164	1,199	1,235	1,272	1,272	
Sales change	-1.7 %	104.6 %	22.3 %	20.0 %	13.0 %	10.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	0.0 %
EBIT	75	76	93	147	190	228	241	249	256	264	272	280	280	
EBIT-margin	26.4 %	13.0 %	13.0 %	17.1 %	19.6 %	21.4 %	22.0 %	22.0 %	22.0 %	22.0 %	22.0 %	22.0 %	22.0 %	
Tax rate (EBT)	32.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	
NOPAT	51	52	64	101	131	157	167	172	177	182	187	193	193	
Depreciation	10	21	22	27	30	32	33	34	35	36	37	38	25	
in % of Sales	3.4 %	3.6 %	3.1 %	3.1 %	3.1 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	2.0 %	
Changes in provisions	0	0	0	0	-1	0	0	0	0	0	0	0	0	
Change in Liquidity from														
- Working Capital	1	13	11	10	8	7	2	2	3	3	3	3	0	
- Capex	10	164	15	17	19	21	22	23	23	24	25	25	25	
Capex in % of Sales	3.4 %	28.1 %	2.1 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	51	-104	60	100	132	161	175	180	186	191	197	203	193	193
PV of FCF	51	-99	53	83	103	117	120	115	111	107	103	99	89	1,291
share of PVs	0.25 %			44.68 %										55.06 %

**Model parameter**

Derivation of WACC:		Derivation of Beta:	
Debt ratio	25.00 %	Financial Strength	1.00
Cost of debt (after tax)	2.1 %	Liquidity (share)	1.00
Market return	7.00 %	Cyclicality	1.00
Risk free rate	1.50 %	Transparency	1.00
		Others	1.75
<b>WACC</b>	<b>6.86 %</b>	<b>Beta</b>	<b>1.26</b>

**Valuation (m)**

Present values 2026e	1,054		
Terminal Value	1,291		
Financial liabilities	176		
Pension liabilities	1		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	115	No. of shares (m)	57.3
<b>Equity Value</b>	<b>2,283</b>	<b>Value per share (EUR)</b>	<b>39.86</b>

**Sensitivity Value per Share (EUR)**

Beta	WACC	Terminal Growth							Beta	WACC	Delta EBIT-margin						
		-0.75 %	-0.50 %	-0.25 %	0.00 %	0.25 %	0.50 %	0.75 %			-1.5 pp	-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
1.50	7.9 %	32.23	32.71	33.22	33.77	34.35	34.97	35.63	1.50	7.9 %	31.13	32.01	32.89	33.77	34.65	35.53	36.41
1.38	7.4 %	34.76	35.34	35.95	36.60	37.30	38.05	38.86	1.38	7.4 %	33.77	34.71	35.66	36.60	37.55	38.49	39.44
1.32	7.1 %	36.15	36.78	37.45	38.17	38.94	39.77	40.67	1.32	7.1 %	35.23	36.21	37.19	38.17	39.15	40.13	41.11
1.26	6.9 %	37.64	38.33	39.07	39.86	40.71	41.63	42.63	1.26	6.9 %	36.80	37.82	38.84	39.86	40.88	41.90	42.92
1.20	6.6 %	39.23	39.98	40.80	41.68	42.62	43.65	44.76	1.20	6.6 %	38.49	39.56	40.62	41.68	42.74	43.80	44.86
1.14	6.4 %	40.93	41.77	42.67	43.64	44.69	45.83	47.08	1.14	6.4 %	40.32	41.43	42.53	43.64	44.75	45.85	46.96
1.02	5.9 %	44.73	45.76	46.87	48.08	49.39	50.83	52.41	1.02	5.9 %	44.46	45.67	46.87	48.08	49.29	50.49	51.70

- In 2015e we assume an upfront investment of EUR 150m related to the contract with Telefonica Deutschland
- Number of shares: 57m; convertible bonds: +4.1m; own shares: +5.1m
- Additional financial debts of EUR 234m are reflected which relates to the factoring transactions for handsets

## Free Cash Flow Value Potential

Warburg Research's valuation tool "FCF Value Potential" reflects the ability of the company to generate sustainable free cash flows. It is based on the "FCF potential" - a FCF "ex growth" figure - which assumes unchanged working capital and pure maintenance capex. A value indication is derived by discounting the "FCF potential" of a given year with the weighted costs of capital. The fluctuating value indications over time add a timing element to the DCF model (our preferred valuation tool).

in EUR m	2010	2011	2012	2013	2014e	2015e	2016e	
Net Income before minorities	31	41	23	156	49	45	56	
+ Depreciation + Amortisation	6	3	6	10	10	21	22	
- Net Interest Income	2	4	-35	117	-4	-11	-13	
- Maintenance Capex	2	2	6	10	10	10	10	
+ Other	0	0	0	0	0	0	0	
<b>= Free Cash Flow Potential</b>	<b>32</b>	<b>38</b>	<b>58</b>	<b>39</b>	<b>52</b>	<b>67</b>	<b>80</b>	
Free Cash Flow Yield Potential	108.1 %	15.6 %	13.1 %	10.9 %	3.1 %	3.5 %	4.0 %	
WACC	6.86 %	6.86 %	6.86 %	6.86 %	6.86 %	6.86 %	6.86 %	
<b>= Enterprise Value (EV)</b>	<b>30</b>	<b>244</b>	<b>441</b>	<b>356</b>	<b>1,655</b>	<b>1,937</b>	<b>1,984</b>	
<b>= Fair Enterprise Value</b>	<b>473</b>	<b>556</b>	<b>841</b>	<b>564</b>	<b>760</b>	<b>975</b>	<b>1,167</b>	
- Net Debt (Cash)	-100	-100	-100	-100	-205	77	125	
- Pension Liabilities	1	1	1	1	1	1	1	
- Other	-280	-280	-280	-280	0	0	0	
- Market value of minorities	0	0	0	0	0	0	0	
+ Market value of investments	0	0	0	0	0	0	0	
<b>= Fair Market Capitalisation</b>	<b>852</b>	<b>935</b>	<b>1,220</b>	<b>942</b>	<b>963</b>	<b>896</b>	<b>1,041</b>	
No. of shares (total) (m)	53	53	53	53	53	53	53	
<b>= Fair value per share (EUR)</b>	<b>16.02</b>	<b>17.57</b>	<b>22.93</b>	<b>17.72</b>	<b>18.11</b>	<b>16.85</b>	<b>19.58</b>	
premium (-) / discount (+) in %					-48.2 %	-51.8 %	-44.0 %	
<b>Sensitivity Fair value per Share (EUR)</b>								
	9.86 %	13.31	14.39	18.12	14.49	13.77	11.27	12.90
	8.86 %	14.01	15.21	19.36	15.33	14.89	12.71	14.62
	7.86 %	14.88	16.24	20.92	16.37	16.30	14.52	16.78
WACC	<b>6.86 %</b>	<b>16.02</b>	<b>17.57</b>	<b>22.93</b>	<b>17.72</b>	<b>18.11</b>	<b>16.85</b>	<b>19.58</b>
	5.86 %	17.54	19.36	25.63	19.53	20.55	19.98	23.32
	4.86 %	19.68	21.88	29.44	22.08	24.00	24.40	28.61
	3.86 %	22.94	25.70	35.23	25.96	29.23	31.11	36.64

- FCF-Value potential does exclude the growth potential until 2019e
- FCF-Value potential reflects until 2016e the cash outflows which are needed to prepare the assumed growth path.
- The valuation tool ignores the substantial FCF growth after 2016.
- Therefore, results are misleading because it overestimates current growth-related OPEX but ignores FCF growth.

<b>Valuation</b>							
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014e</b>	<b>2015e</b>	<b>2016e</b>
Price / Book	2.0 x	2.3 x	3.9 x	3.4 x	5.8 x	6.8 x	8.0 x
Book value per share ex intangibles	1.16	1.63	0.24	2.42	4.17	-0.85	-1.36
EV / Sales	0.1 x	0.7 x	1.4 x	1.2 x	5.8 x	3.3 x	2.8 x
EV / EBITDA	0.7 x	4.7 x	7.1 x	5.0 x	19.5 x	20.0 x	17.3 x
EV / EBIT	0.7 x	5.1 x	7.9 x	5.8 x	22.0 x	25.5 x	21.3 x
EV / EBIT adj.*	0.7 x	5.1 x	7.9 x	5.8 x	22.0 x	25.5 x	21.3 x
P / FCF	7.8 x	24.2 x	188.4 x	19.1 x	38.7 x	n.a.	38.3 x
P / E	9.0 x	9.4 x	20.0 x	4.7 x	38.4 x	41.6 x	33.6 x
P / E adj.*	9.0 x	9.4 x	20.0 x	18.2 x	38.4 x	41.6 x	33.6 x
Dividend Yield	9.5 %	9.6 %	14.8 %	10.5 %	5.2 %	5.2 %	5.2 %
Free Cash Flow Yield Potential	108.1 %	15.6 %	13.1 %	10.9 %	3.1 %	3.5 %	4.0 %

\*Adjustments made for: -

<b>Company Specific Items</b>							
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014e</b>	<b>2015e</b>	<b>2016e</b>
Service Revenues	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Budget Customer	n.a.	n.a.	0	0	0	0	0
Blended ARPU	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

**Consolidated profit & loss**

In EUR m	2010	2011	2012	2013	2014e	2015e	2016e
<b>Sales</b>	<b>362</b>	<b>349</b>	<b>324</b>	<b>290</b>	<b>285</b>	<b>584</b>	<b>714</b>
Change Sales yoy	5.2 %	-3.7 %	-7.3 %	-10.3 %	-1.7 %	104.6 %	22.3 %
Increase / decrease in inventory	0	0	0	0	0	0	0
Own work capitalised	2	2	2	2	3	3	4
<b>Total Sales</b>	<b>364</b>	<b>351</b>	<b>326</b>	<b>293</b>	<b>288</b>	<b>587</b>	<b>718</b>
Material Expenses	274	246	215	171	145	385	451
<b>Gross profit</b>	<b>362</b>	<b>349</b>	<b>324</b>	<b>290</b>	<b>285</b>	<b>584</b>	<b>714</b>
<i>Gross profit margin</i>	<i>24.9 %</i>	<i>30.1 %</i>	<i>34.3 %</i>	<i>41.8 %</i>	<i>50.2 %</i>	<i>34.6 %</i>	<i>37.3 %</i>
Personnel expenses	24	21	23	24	24	41	59
Other operating income	3	2	8	4	4	9	6
Other operating expenses	23	34	34	30	38	73	99
Unfrequent items	0	0	0	0	0	0	0
<b>EBITDA</b>	<b>46</b>	<b>51</b>	<b>62</b>	<b>71</b>	<b>85</b>	<b>97</b>	<b>115</b>
<i>Margin</i>	<i>12.7 %</i>	<i>14.7 %</i>	<i>19.1 %</i>	<i>24.4 %</i>	<i>29.8 %</i>	<i>16.6 %</i>	<i>16.1 %</i>
Depreciation of fixed assets	1	1	1	1	1	3	3
<b>EBITA</b>	<b>45</b>	<b>51</b>	<b>61</b>	<b>70</b>	<b>84</b>	<b>95</b>	<b>112</b>
Amortisation of intangible assets	5	3	5	9	9	19	19
Goodwill amortization	0	0	0	0	0	0	0
<b>EBIT</b>	<b>40</b>	<b>48</b>	<b>55</b>	<b>61</b>	<b>75</b>	<b>76</b>	<b>93</b>
<i>Margin</i>	<i>11.1 %</i>	<i>13.8 %</i>	<i>17.1 %</i>	<i>21.1 %</i>	<i>26.4 %</i>	<i>13.0 %</i>	<i>13.0 %</i>
<b>EBIT adj.</b>	<b>40</b>	<b>48</b>	<b>55</b>	<b>61</b>	<b>75</b>	<b>76</b>	<b>93</b>
Interest income	1	1	1	1	1	1	1
Interest expenses	2	5	12	50	5	12	13
Other financial income (loss)	3	8	-24	166	0	0	0
<b>EBT</b>	<b>42</b>	<b>52</b>	<b>21</b>	<b>178</b>	<b>72</b>	<b>65</b>	<b>81</b>
<i>Margin</i>	<i>11.7 %</i>	<i>15.0 %</i>	<i>6.4 %</i>	<i>61.3 %</i>	<i>25.1 %</i>	<i>11.1 %</i>	<i>11.3 %</i>
Total taxes	12	11	-3	22	23	20	25
<b>Net income from continuing operations</b>	<b>31</b>	<b>41</b>	<b>23</b>	<b>156</b>	<b>49</b>	<b>45</b>	<b>56</b>
Income from discontinued operations (net of tax)	0	0	0	0	0	0	0
<b>Net income before minorities</b>	<b>31</b>	<b>41</b>	<b>23</b>	<b>156</b>	<b>49</b>	<b>45</b>	<b>56</b>
Minority interest	0	0	0	0	0	0	0
<b>Net income</b>	<b>31</b>	<b>41</b>	<b>23</b>	<b>156</b>	<b>49</b>	<b>45</b>	<b>56</b>
<i>Margin</i>	<i>8.5 %</i>	<i>11.7 %</i>	<i>7.2 %</i>	<i>53.7 %</i>	<i>17.0 %</i>	<i>7.7 %</i>	<i>7.8 %</i>
Number of shares, average	53	53	53	48	53	53	53
<b>EPS</b>	<b>0.58</b>	<b>0.77</b>	<b>0.44</b>	<b>3.25</b>	<b>0.91</b>	<b>0.84</b>	<b>1.04</b>
EPS adj.	0.58	0.77	0.44	0.84	0.91	0.84	1.04

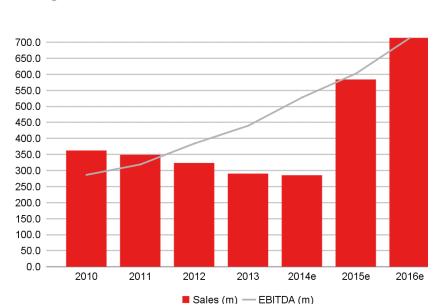
\*Adjustments made for:

**Guidance: EBITDA 2014e: EUR 82m - EUR 85m, dividend per share 2014e: EUR 1.60**

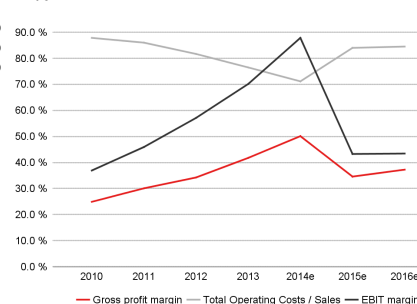
**Financial Ratios**

	2010	2011	2012	2013	2014e	2015e	2016e
Total Operating Costs / Sales	87.8 %	85.9 %	81.6 %	76.4 %	71.1 %	83.9 %	84.4 %
Operating Leverage	-1.8 x	-5.3 x	-2.1 x	-1.0 x	-13.2 x	0.0 x	1.0 x
EBITDA / Interest expenses	23.2 x	10.9 x	5.3 x	1.4 x	18.9 x	8.4 x	8.8 x
Tax rate (EBT)	27.4 %	21.5 %	-12.9 %	12.5 %	32.0 %	31.0 %	31.0 %
Dividend Payout Ratio	86.3 %	90.7 %	294.8 %	49.3 %	196.9 %	213.8 %	172.4 %
Sales per Employee	1,035,689	997,420	924,834	829,911	815,429	1,668,571	2,040,000

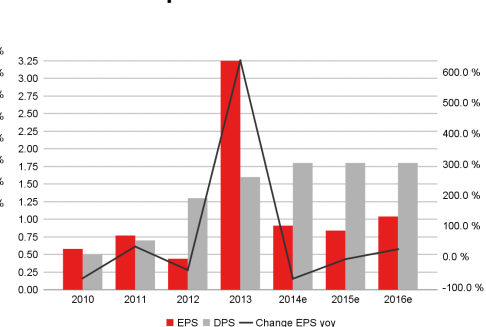
**Sales, EBITDA**  
in EUR m



**Operating Performance**  
in %



**Performance per Share**



Source: Warburg Research

Source: Warburg Research

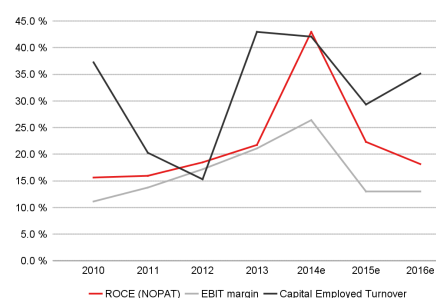
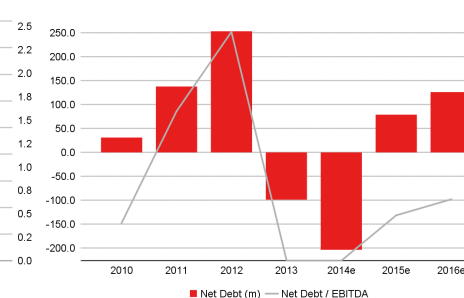
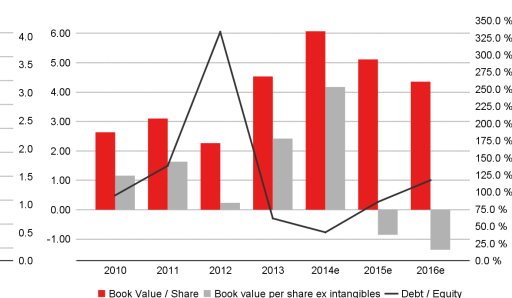
Source: Warburg Research

**Consolidated balance sheet**

In EUR m	2010	2011	2012	2013	2014e	2015e	2016e
<b>Assets</b>							
Goodwill and other intangible assets	78	78	108	101	101	317	304
thereof other intangible assets	11	11	41	34	34	250	237
thereof Goodwill	67	67	67	67	67	67	67
Property, plant and equipment	1	1	1	1	2	3	9
Financial assets	123	236	260	0	0	0	0
Other long-term assets	0	0	0	0	0	0	0
<b>Fixed assets</b>	<b>203</b>	<b>316</b>	<b>369</b>	<b>103</b>	<b>103</b>	<b>321</b>	<b>314</b>
Inventories	8	9	8	6	7	20	24
Accounts receivable	28	42	42	45	45	80	98
Liquid assets	28	21	77	187	291	69	52
Other short-term assets	8	7	26	11	12	17	17
<b>Current assets</b>	<b>72</b>	<b>78</b>	<b>153</b>	<b>249</b>	<b>355</b>	<b>185</b>	<b>190</b>
<b>Total Assets</b>	<b>275</b>	<b>394</b>	<b>523</b>	<b>352</b>	<b>457</b>	<b>506</b>	<b>504</b>
<b>Liabilities and shareholders' equity</b>							
Subscribed capital	59	57	54	53	53	53	53
Capital reserve	126	120	92	96	96	96	96
Retained earnings	31	31	31	31	-16	78	27
Other equity components	-76	-43	-56	37	190	45	56
Shareholder's equity	140	165	120	218	323	272	232
Minority interest	0	0	0	0	0	0	0
<b>Total equity</b>	<b>140</b>	<b>165</b>	<b>120</b>	<b>218</b>	<b>323</b>	<b>272</b>	<b>232</b>
Provisions	11	7	11	11	12	12	12
thereof provisions for pensions and similar obligations	0	1	1	1	1	1	1
Financial liabilities (total)	58	158	330	87	86	146	176
thereof short-term financial liabilities	0	0	0	0	0	0	0
Accounts payable	25	25	16	16	16	48	59
Other liabilities	40	39	45	21	21	28	25
<b>Liabilities</b>	<b>134</b>	<b>228</b>	<b>402</b>	<b>135</b>	<b>134</b>	<b>234</b>	<b>272</b>
<b>Total liabilities and shareholders' equity</b>	<b>275</b>	<b>394</b>	<b>523</b>	<b>352</b>	<b>457</b>	<b>506</b>	<b>504</b>

**Financial Ratios**

	2010	2011	2012	2013	2014e	2015e	2016e
<b>Efficiency of Capital Employment</b>							
Operating Assets Turnover	-28.2 x	79.7 x	12.4 x	9.8 x	9.2 x	12.7 x	11.3 x
Capital Employed Turnover	2.1 x	1.2 x	0.9 x	2.4 x	2.4 x	1.7 x	2.0 x
ROA	15.2 %	13.0 %	6.4 %	151.5 %	47.3 %	14.0 %	17.7 %
<b>Return on Capital</b>							
ROCE (NOPAT)	15.6 %	15.9 %	18.5 %	21.7 %	43.0 %	22.3 %	18.1 %
ROE	21.4 %	26.9 %	16.4 %	92.2 %	18.0 %	15.1 %	22.1 %
Adj. ROE	21.4 %	26.9 %	16.4 %	23.8 %	18.0 %	15.1 %	22.1 %
<b>Balance sheet quality</b>							
Net Debt	31	138	253	-99	-203	79	126
Net Financial Debt	30	137	252	-100	-205	77	125
Net Gearing	22.1 %	83.3 %	210.0 %	-45.4 %	-63.0 %	29.0 %	54.4 %
Net Fin. Debt / EBITDA	66.1 %	266.5 %	407.8 %	n.a.	n.a.	79.9 %	108.4 %
Book Value / Share	2.6	3.1	2.3	4.5	6.1	5.1	4.4
Book value per share ex intangibles	1.2	1.6	0.2	2.4	4.2	-0.9	-1.4

**ROCE Development**

**Net debt in EUR m**

**Book Value per Share in EUR**


Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

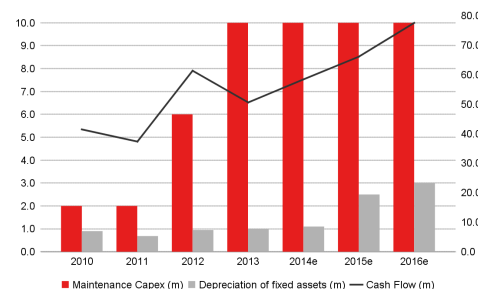
**Consolidated cash flow statement**

In EUR m	2010	2011	2012	2013	2014e	2015e	2016e
Net income	31	41	23	156	49	45	56
Depreciation of fixed assets	1	1	1	1	1	3	3
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	5	3	5	9	9	19	19
Increase/decrease in long-term provisions	0	0	0	0	0	0	0
Other non-cash income and expenses	5	-7	31	-115	0	0	0
<b>Cash Flow</b>	<b>41</b>	<b>37</b>	<b>61</b>	<b>51</b>	<b>58</b>	<b>66</b>	<b>78</b>
Increase / decrease in inventory	-1	-1	1	2	-1	-12	-4
Increase / decrease in accounts receivable	5	-13	0	-3	1	-35	-18
Increase / decrease in accounts payable	-3	-3	-22	-2	-1	34	11
Increase / decrease in other working capital positions	-1	0	-16	10	0	0	-3
Increase / decrease in working capital (total)	-1	-17	-37	6	-1	-13	-14
<b>Net cash provided by operating activities</b>	<b>41</b>	<b>20</b>	<b>24</b>	<b>57</b>	<b>58</b>	<b>53</b>	<b>64</b>
Investments in intangible assets	-3	-3	-20	-17	-8	-160	-6
Investments in property, plant and equipment	-2	-2	-2	-2	-2	-4	-9
Payments for acquisitions	0	0	0	0	0	-75	0
Financial investments	0	-67	-75	0	0	0	0
Income from asset disposals	3	0	106	370	0	0	0
<b>Net cash provided by investing activities</b>	<b>-1</b>	<b>-70</b>	<b>8</b>	<b>350</b>	<b>-10</b>	<b>-239</b>	<b>-15</b>
Change in financial liabilities	-23	78	92	-183	-1	60	30
Dividends paid	-16	-27	-36	-62	-85	-96	-96
Purchase of own shares	0	-8	-32	-8	0	0	0
Capital measures	0	0	0	0	0	0	0
Other	0	-1	0	-44	142	0	0
<b>Net cash provided by financing activities</b>	<b>-39</b>	<b>43</b>	<b>25</b>	<b>-298</b>	<b>56</b>	<b>-36</b>	<b>-66</b>
Change in liquid funds	1	-7	57	110	104	-222	-17
Effects of exchange-rate changes on cash	0	0	0	0	0	0	0
<b>Cash and cash equivalent at end of period</b>	<b>28</b>	<b>21</b>	<b>77</b>	<b>187</b>	<b>291</b>	<b>69</b>	<b>52</b>

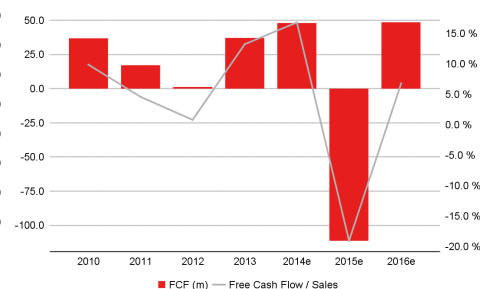
**Financial Ratios**

	2010	2011	2012	2013	2014e	2015e	2016e
<b>Cash Flow</b>							
FCF	37	17	1	37	48	-111	49
Free Cash Flow / Sales	9.9 %	4.6 %	0.8 %	13.2 %	16.8 %	-19.1 %	6.8 %
Free Cash Flow Potential	32	38	58	39	52	67	80
Free Cash Flow / Sales	9.9 %	4.6 %	0.8 %	13.2 %	16.8 %	-19.1 %	6.8 %
Free Cash Flow / Net Profit	116.3 %	39.0 %	10.6 %	24.7 %	98.7 %	-248.6 %	87.4 %
Interest Received / Avg. Cash	2.9 %	2.2 %	1.9 %	1.0 %	0.3 %	0.3 %	0.8 %
Interest Paid / Avg. Debt	2.9 %	4.4 %	4.8 %	24.2 %	5.2 %	9.9 %	8.1 %
<b>Management of Funds</b>							
Investment ratio	1.4 %	1.1 %	6.7 %	6.4 %	3.4 %	28.1 %	2.1 %
Maint. Capex / Sales	0.6 %	0.6 %	1.9 %	3.4 %	3.5 %	1.7 %	1.4 %
Capex / Dep	84.7 %	119.3 %	337.7 %	191.8 %	99.0 %	777.3 %	68.2 %
Avg. Working Capital / Sales	-3.9 %	-1.6 %	4.3 %	9.1 %	10.0 %	6.1 %	6.8 %
Trade Debtors / Trade Creditors	114.8 %	166.1 %	260.7 %	286.7 %	285.9 %	166.7 %	166.6 %
Inventory Turnover	35.6 x	27.6 x	27.1 x	27.5 x	20.4 x	19.7 x	18.9 x
Receivables collection period (days)	29	44	47	57	57	50	50
Payables payment period (days)	33	37	27	34	39	46	48
Cash conversion cycle (Days)	-56	-56	-28	-34	-36	-33	-33

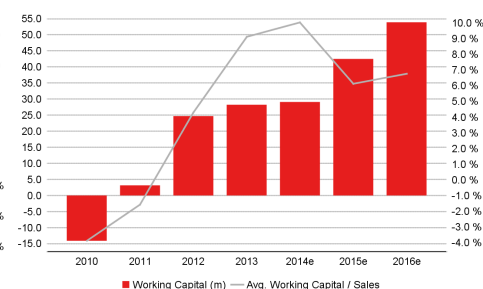
**CAPEX and Cash Flow**  
in EUR m



**Free Cash Flow Generation**



**Working Capital**



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research



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The valuation underlying the investment recommendation for the company analysed here is based on generally accepted and widely used methods of fundamental analysis, such as e.g. DCF Model, Free Cash Flow Potential, Peer Group Comparison or Sum of the Parts Model. The result of this fundamental valuation is modified to take into consideration the analyst's assessment as regards the expected development of investor sentiment and its impact on the share price.

Independent of the applied valuation methods, there is the risk that the price target will not be met, for instance because of unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rate etc. For investments in foreign markets and instruments there are further risks, generally based on exchange rate changes or changes in political and social conditions.

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- 2- Within the last twelve months, the company preparing the analysis or any of its affiliated companies have participated in the management of a **consortium** for the public offering of financial securities, which are (or the issuer of which) is the subject of the analysis.
- 3- The company preparing the analysis or any of its affiliated companies **manage the securities** of the analysed company on the grounds of an existing contract.
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- 6- The company preparing the analysis or any of its affiliated companies **regularly trade** in shares or derivatives of the analysed company.
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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
Drillisch	5, 6	<a href="http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0005545503.htm">http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0005545503.htm</a>

**INVESTMENT RECOMMENDATION**

Investment recommendation: expected direction of the share price development of the financial instrument up to the given price target in the opinion of the analyst who covers this financial instrument.

-B-	<b>Buy:</b>	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	<b>Hold:</b>	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	<b>Sell:</b>	The price of the analysed financial instrument is expected to fall over the next 12 months.
“-“	<b>Rating suspended:</b>	The available information currently does not permit an evaluation of the company.

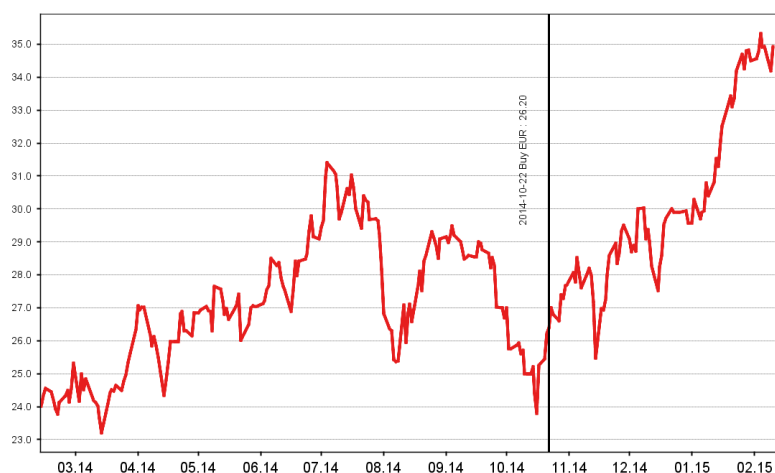
**WARBURG RESEARCH GMBH – RESEARCH UNIVERSE BY RATING**

Rating	Number of stocks	% of Universe
Buy	108	57
Hold	69	37
Sell	8	4
Rating suspended	4	2
<b>Total</b>	<b>189</b>	<b>100</b>

**WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING ...**

... Looking only at companies for which a disclosure according to § 34b of the Germany Securities Trading Act and the FinAnV has to be made.

Rating	Number of stocks	% of Universe
Buy	84	59
Hold	51	36
Sell	5	3
Rating suspended	3	2
<b>Total</b>	<b>143</b>	<b>100</b>

**PRICE AND RATING HISTORY DRILLISCH AS OF 11.02.2015**


The chart has markings if Warburg Research GmbH changed its rating in the last 12 months. Every marking represents the date and closing price on the day of the rating change.

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