Drillisch

(TecDAX, Telecom/Internet)

WARBURG RESEARCH

Hold	
EUR 35.00	(EUR 37.00)
Price	EUR 33.92
Upside	3.2 %

Value Indicators:	EUR
DCF:	35.00
FCF-Value Potential 18e:	35.00

Share data:	
Bloomberg:	DRI GR
Reuters:	DRIG
ISIN:	DE0005545503

Description:

Virtual mobile network operator

Market Snapshot:	EUR m
Market cap:	1,857
No. of shares (m):	55
EV:	1,927
Freefloat MC:	1,484
Ø Trad. Vol. (30d):	7.56 m

Shareholders:	
Freefloat	79.9 %
M Brucherseifer+Management	1.9 %
United Internet Ventures AG	20.7 %
Allianz Global Investors	*6.4 %*
Alken Luxemburg	*4.8 %*

Risk Profile (WRe):	2016e
Beta:	1.1
Price / Book:	6.2 x
Equity Ratio:	48 %
Net Fin. Debt / EBITDA:	0.6 x
Net Debt / EBITDA:	0.6 x

Competitive quality improves with decreasing mobile unit costs

In this note, we fine-tune our expectations 2016e-2018e and introduce our detailed expectations for 2019e. In the period 2016e-2018e we mainly reduce our sales projections on the back of lower ARPU assumptions (see the table below). Gross profit, EBITDA and EBIT remain almost unchanged due to higher gross margin expectations.

In our DCF model, we reduce our long-term expectation for sales growth. Previously, we expected sales growth (CAGR) of 5.4% in the period 2015-2028e. Now, we estimate sales CAGR of 3.4% in this period. We revised our assumption and expect Drillisch to enter a steady-state modus as early as in 2022e (old: 2027e). We are more cautious in the long run. We think it will be difficult for Drillisch to continue outperforming the mobile telecommunication market after 2022e. As a consequence, we are reducing our DCF-based PT from EUR 37 to EUR 35. In this valuation approach, we have not priced in any strategic value for the MBA-MVNO contract.

Furthermore we analyse the quality of the Q1/16 results in an attempt to calculate the potential non-operative gross profit contribution. In Q3/15 and Q4/15, the positive impact of so-called one-item effects was relatively high. Based on our findings, of the EUR 68m gross profit in Q1/16, only EUR 3m cannot be explained by the operative business.

Also in this note, we examine the economic consequences of the MBA-MVNO contract with Telefonica Deutschland. Drillisch is obliged to purchase a defined percentage of the total mobile data usage (not just that of Drillisch) on the Telefonica Deutschland network. This increases gradually along a so-called glide-path. However, current mobile data usage is higher is originally planned and Drillisch needs to buy greater mobile data volume than expected in 2014. To manage such capacity uncertainties, Drillisch receives high discounts on the extra mobile data volume. Therefore, average mobile data unit costs are decreasing which allows Drillisch to reduce retail prices while the average gross margin per customer remains stable. This puts Drillisch in a relatively good competitive position.

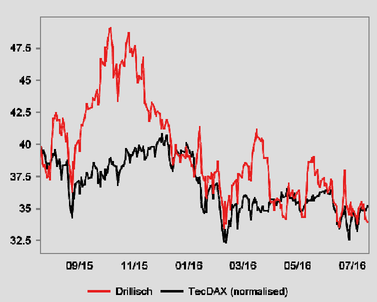
Rating remains Hold with a new DCF-based PT of EUR 35 (old: EUR 37).

Changes in Estimates:

FY End: 31.12. in EUR m	2016e (old)	+ / -	2017e (old)	+ / -	2018e (old)	+ / -
Sales	735	-3.9 %	843	-4.0 %	909	-4.6 %
EBITDA	115	-0.2 %	151	0.3 %	182	0.3 %
EBIT	64	-0.3 %	101	0.5 %	132	0.5 %
EPS	0.75	-1.3 %	1.21	0.8 %	1.61	0.0 %

Comment on Changes:

- Fine-tuning of our expectations, see the Financials section



Rel. Performance vs TecDAX:	
1 month:	-5.1 %
6 months:	-7.7 %
Year to date:	-1.6 %
Trailing 12 months:	-3.9 %

Company events:	
11.08.16	Q2
10.11.16	Q3

FY End: 31.12. in EUR m	CAGR (15-18e)	2012	2013	2014	2015	2016e	2017e	2018e
Sales	11.3 %	324	290	290	630	706	810	867
Change Sales yoy		-7.3 %	-10.3 %	-0.3 %	117.3 %	12.2 %	14.6 %	7.2 %
Gross profit margin		*34.3 %*	*41.8 %*	*49.9 %*	*40.8 %*	*40.6 %*	*39.8 %*	*42.7 %*
EBITDA	20.2 %	62	71	85	105	115	151	183
Margin		*19.1 %*	*24.4 %*	*29.4 %*	*16.7 %*	*16.2 %*	*18.7 %*	*21.1 %*
EBIT	24.2 %	55	61	75	69	64	101	133
Margin		*17.1 %*	*21.1 %*	*26.0 %*	*11.0 %*	*9.0 %*	*12.5 %*	*15.3 %*
Net income	24.1 %	23	156	50	46	41	67	88
EPS	24.2 %	0.44	3.25	0.91	0.84	0.74	1.22	1.61
EPS adj.	31.0 %	0.44	0.84	0.91	0.84	1.02	1.50	1.89
DPS	1.9 %	1.30	1.60	1.70	1.70	1.70	1.80	1.80
Dividend Yield		14.8 %	10.5 %	6.4 %	4.2 %	5.0 %	5.3 %	5.3 %
FCFPS		0.02	0.77	1.21	-1.58	1.25	1.74	2.21
FCF / Market cap		0.5 %	5.2 %	4.1 %	-4.0 %	3.7 %	5.1 %	6.5 %
EV / Sales		1.4 x	1.2 x	3.3 x	3.1 x	2.7 x	2.4 x	2.1 x
EV / EBITDA		7.1 x	5.0 x	11.3 x	18.6 x	16.8 x	12.7 x	10.0 x
EV / EBIT		7.9 x	5.8 x	12.8 x	28.3 x	30.3 x	19.1 x	13.7 x
P / E		20.0 x	4.7 x	29.4 x	47.7 x	45.8 x	27.8 x	21.2 x
P / E adj.		20.0 x	18.2 x	29.4 x	47.7 x	33.3 x	22.6 x	18.1 x
FCF Yield Potential		13.1 %	10.9 %	5.4 %	3.8 %	4.3 %	5.5 %	7.0 %
Net Debt		253	-99	-225	45	70	68	-52
ROCE (NOPAT)		18.5 %	21.7 %	46.1 %	19.1 %	11.4 %	19.7 %	28.0 %
Guidance:	EBITDA 2016e: EUR 115m - EUR 120m, dividend per share 2015e: EUR 1.7							

Analyst

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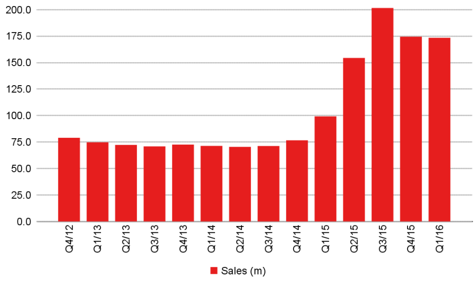
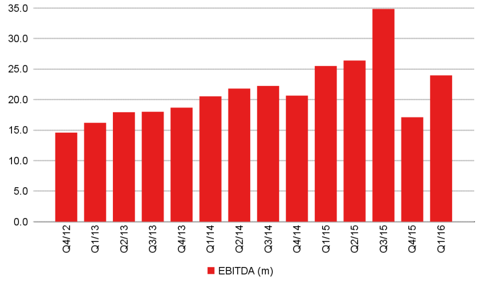
Sales development
in EUR m



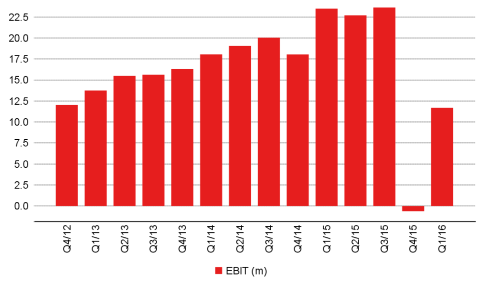
Source: Warburg Research

EBITDA development
in EUR m



Source: Warburg Research

EBIT development
in EUR m



Source: Warburg Research

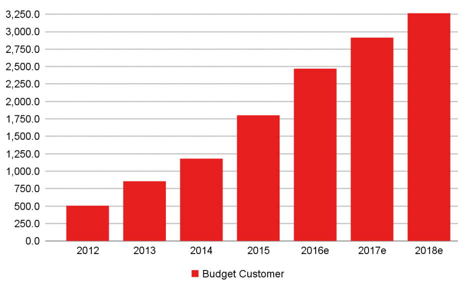
Company Background

- Drillisch (DRI) has a so-called MBA-MVNO contract with Telefonica Deutschland (TD) for exclusive access to 20% of the Telefonica Deutschland network capacity in Germany. Capacity is measured in mobile data volume.
- The obligation to purchase 20% of the capacity starts in 2019. Until then, the volume that DRI is obliged to purchase will increase gradually. DRI also has the option to buy an additional 10% of the capacity.
- The contract secures DRI access to all future network technologies and complete access to LTE. Purchasing conditions should be very attractive providing a competitive advantage.
- DRI is pursuing a challenger strategy in the German mobile telecoms market with a multi-brand strategy. There are two core brands: 'Yourfone' for stationary distribution and 'smartmobil' for online sales.
- Drillisch sees itself as the price-quality leader for mobile tariffs in the German market. Its tariff prices are lower than those of network operators or other MVNOs and it provides higher mobile data volumes.

Competitive Quality

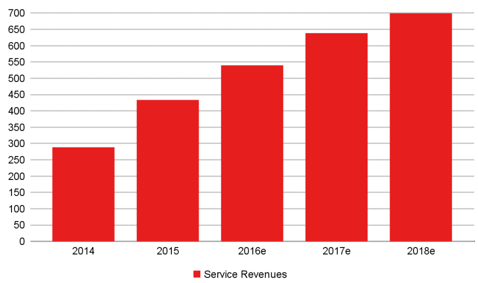
- Management track-record: Since 2003, management has adjusted the strategy several times and successfully adapted to market changes. Drillisch was transformed from a prepaid distributer to a leading MBA-MVNO in Germany
- Network and technology access: Based on its contracts, DRI can operate similar to a mobile network operator without high capex risks. Compared to its competitors it has best access to capacities and technology
- Drillisch's purchasing conditions are assumed to be very competitive. Drillisch beats network operator tariffs by more than 25% and can place itself as the price-quality leader
- Wide range of contracts with network operators: Beside the MBA-MVNO contract with TD, DRI has an MVNO contract with Vodafone and serveral MSP contracts.

Budget customers
in k



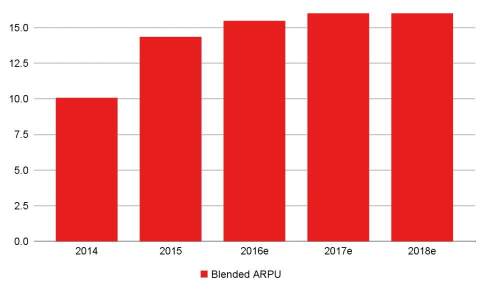
Source: Warburg Research

Service Revenues
in EUR m



Source: Warburg Research

Blended ARPU
in EUR



Source: Warburg Research

Introduction and Summary

In our last note ("*Challenger strategy comes at higher cost than originally expected*" 06.05.2016), we pointed out that the mixed earnings quality in Q3 and Q4/15 was explained by a high level of positive non-operative and one-time effects. We believe 2015 was a year of transition for Drillisch, driven by the introduction of the MBA-MVNO contract with Telefonica Deutschland and acquisitions (yourfone, The Phone House). Additionally, we reduced our PT to EUR 37 as we are expecting the challenger strategy to come at a higher cost.

In this note, we analyse two further important issues which we discussed with the CFO, Andreas Driesen, and the Head of IR, Oliver Keil:

- **Have one-time effects continued to impact Q1/16?** Group gross profit stood at EUR 68m in Q1/16. As we calculate an MVNO gross profit of EUR 60m, there is a difference of EUR 8m between the core business and the results at group level. We estimate that EUR 3m was contributed by The Phone House distribution business (low margin, low quality business), EUR 1m from the old mobile service provider business (structurally declining), EUR 0.5m by other services (add-on mobile services such as insurance, handsets and others) and EUR 0.5m from own work capitalised. Based on our calculations, a gross profit contribution of roughly EUR 3m cannot be explained in more detail. However, this is only 4.4% of the group gross profit in Q1/16. In our conversations with the company, Drillisch ruled out that the "non-explainable" gross profit contribution related to reserves or other one-item contributions from the latest acquisitions (Yourfone, The Phone House Company).
- **Economic consequences of the MBA-MVNO contract**: We discussed again the mechanism of the MBA-MVNO contract with Telefonica Deutschland. Drillisch is obliged to purchase a defined percentage of the total mobile data usage on the Telefonica Deutschland network monthly. This increases gradually along a so-called glide-path. The expected capacities in the glide-path period were defined in 2014. Even if the total mobile data usage is higher than predicted in 2014, the originally defined percentage remains unchanged. Therefore, Drillisch is obliged to buy a higher mobile data volume than planned. The contract mechanism thus exposes Drillisch to high capacity risk. To manage the risk, we assume that Drillisch receives high price discounts of more than 60% on the average mobile data unit costs for the extra mobile data volume. As result, the higher the used capacity on the Telefonica Deutschland network, the lower the average overall mobile data unit costs for Drillisch. There are consequences for the AGPPU too. We think that the average gross margin per SIM card in combination with the subscriber base has a higher economic relevance than the absolute AGPPU figure because of the economic consequences of the MBA-MVNO contract.

Furthermore, we fine-tune our expectations 2016e-2018e and introduce our detailed expectations for 2019e. In the period 2016e-2018e, we are mainly reducing our sales projections based on lower ARPU assumptions. Gross profit, EBITDA and EBIT remain almost unchanged due to higher gross margin expectations.

In our DCF model, we reduce our long-term expectation for sales growth. Up to now, we expected sales growth CAGR of 5.4% in the period 2015-2028e. Now, we estimate CAGR sales growth of 3.3% in this period. We revised our assumption and expect Drillisch to enter a steady-state modus in 2022e (old: 2027e). As a consequence we are reducing our DCF-based PT from EUR 37 to EUR 34.50.

Our investment case remains unchanged. Drillisch has put in place a challenger strategy in the mobile telecommunication market in Germany on the basis of the MBA-MVNO contract with Telefonica Deutschland. Mobile subscriber base, group EBITDA and FCF should grow over time. However, we estimate an EBITDA 17e of EUR 151m, which is below Drillisch's guidance of EUR 160-170m. Hold is reiterated with a PT of EUR 35.

Current discussion regarding Drillisch and our view

Earnings quality and "non-operative" items in 2015

As we pointed out in our last note, the mixed earnings quality in Q3/15 and Q4/15 was explained, in our view, by the high share of non-operating items such as a one-item payment from Telefonica D for the takeover of the shops, the payment of roughly EUR 11m from Telefonica for the takeover of yourfone which included ca. 35k low quality customer contracts, positive consolidation effects of TPH (TPH = The Phone House Company) which had an impact on the group gross profit in Q4/15.

The table below shows that in Q3/15 and Q4/15 there is a high difference between the MVNO Gross Profit and the Group Gross Profit (= Total Gross Profit). In Q3/15, most of the EUR 21m relates to the payment from Telefonica Deutchland and in Q4/15 the EUR 18m is related to accounting and consolidation effects at TPH.

Drillisch: Customers and gross profit in 2015

Drillisch Customers and Gross Profit	Q1/15	Q2/15	Q3/15	Q4/15	2015
Budget customers in k	**1.497**	**1.629**	**1.770**	**1.932**	**1.932**
change in% qoq		*9%*	*9%*	*9%*	
net additions		132	141	162	
Volume customers in k	**732**	**698**	**679**	**655**	**655**
change in %		*-5%*	*-3%*	*-4%*	
net additions		-34	-19	-24	
MVNO customers in k	**2.229**	**2.327**	**2.449**	**2.587**	**2.587**
change in%		*4%*	*5%*	*6%*	
net additions		98	122	138	
Other in k	132	122	98	91	91
Total customers in k	**2.361**	**2.449**	**2.547**	**2.678**	**2.678**
net additions		88	98	131	
AGPPU budget customers in EUR	**9,2**	**9,28**	**9,12**	**8,77**	**9,08**
AGPPU blended in EUR	**7,23**	**7,38**	**7,47**	**7,28**	**7,34**
Gross Profit MVNO in EUR m	**48**	**52**	**55**	**57**	**212**
Gross Profit Other in EUR m	**0**	**4**	**21**	**18**	**43**
Gross Profit total in EUR m	**48**	**55**	**76**	**75**	**254**

Source: Warburg Research

Definition

- Budget customers: Subscribers who pay a monthly fixed fee ("budget") for a pre-defined package of mobile data volume, voice and SMS.
- Volume customers: Customers who pay only the monthly used voice and mobile data volume ("pay-as-you-go" customers).
- MVNO customers: MVNO = Mobile Virtual Network Operator. MVNO customers include all Drillisch customers included in MVNO tariffs.
- Total customers: Drillisch still has a small number of classic mobile service provider customers. Total customers are defined as the sum of MVNO and other (mobile service provider) customers.

- AGPPU budget customers: AGPPU = Average Gross Profit Per User. Drillisch does not publish ARPU figures (Average Revenue Per User). Instead, it publishes the KPI AGPPU. AGPPU budget customers represent the average gross profit per “budget” users. The AGGPU of budget customers is more than three times higher than the AGPPU of volume customers.
- AGPPU blended: AGPPU blended is defined as the gross profit of all MVNO customers within a certain time period divided by the MVNO customer base at the end of the time period. Drillisch publishes the KPI AGPPU blended.
- Gross Profit MVNO: Drillisch defines the MVNO business as its core business. Hence, the Gross Profit MVNO is the gross profit of the core business and therefore an important KPI to analyse the operating performance. The KPI Gross Profit MVNO is not provided by Drillisch but can be approximately calculated as follows: AGPPU blended * MVNO customers.
- Gross Profit Other: is the difference between total Gross Profit and Gross Profit MVNO. It is the gross profit contribution which is generated outside Drillisch’s core business. In our view the figure is important to analyse Drillisch’s earnings quality. In 2015, there were many positive and negative one-item effects which made it difficult to analyse the underlying operating business.
- Gross Profit total: It is the gross profit as it is shown in the P&L.

Group gross profit performance in Q1/16

In Q1/16 non-operative effects may have continued but to a much lower extent (to even negligible) in our view.

Based on our calculations, roughly EUR 8m of the group gross profit of EUR 68m is not driven by the MVNO business. We think that EUR 1m is contributed by the old MSP business and that EUR 3m stems from TPH. As a result, roughly EUR 4m of the EUR 8m cannot be explained by MVNO activities, TPH and the old MSP business. Assuming that EUR 0.5m of the group gross profit is generated with hardware sales, insurance packages and other mobile business-related services, roughly EUR 3.5m remains pProfit is calculated as such: group gross profit = group revenues – material expenses + own work capitalised.

Own work capitalised stood at EUR 0.5m in Q1/16. Consequently, only EUR 3m of EUR 68m (or only 4.4%) remain, which we cannot explain. However, Drillisch ruled out that the EUR 3m is driven by reserves resulting from the acquisitions in 2015.

It has come to our attention that there is some discussion about the company’s earnings quality and whether it is heavily influenced by non-operating and non-cash relevant effects.

Based on our findings, 4.4% or EUR 3m of the gross profit in Q1/16 cannot be explained.

For no other company in our TMI (Telecom Media Internet) coverage do we have such detailed insight into the group gross profit split. Furthermore, 4.4% does not seem sufficient to justify worries about earnings quality if we assume this figure will decrease over time.

Drillisch: Quarterly overview customers and gross profit

Drillisch Quarterly Overview	Q1/15	Q2/15	Q3/15	Q4/15	Q1/16
Budget customers in k	**1,497**	**1,629**	**1,770**	**1,932**	**2100**
change in% qoq		*9%*	*9%*	*9%*	*9%*
net additions		132	141	162	168
Volume customers in k	**732**	**698**	**679**	**655**	**612**
change in %		*-5%*	*-3%*	*-4%*	*-7%*
net additions		-34	-19	-24	-43
MVNO customers in k	**2,229**	**2,327**	**2,449**	**2,587**	**2712**
change in%		*4%*	*5%*	*6%*	*5%*
net additions		98	122	138	125
Other in k	132	122	98	91	85
Total customers in k	**2,361**	**2,449**	**2,547**	**2,678**	**2797**
net additions		88	98	131	119
AGPPU budget customers in EUR	**9.2**	**9.28**	**9.12**	**8.77**	**8.7**
AGPPU volume customers in EUR	**3.07**	**3.06**	**3.31**	**3.07**	**2.88**
AGPPU blended in EUR	**7.23**	**7.38**	**7.47**	**7.28**	**7.32**
Gross Profit MVNO in EUR m	**48**	**52**	**55**	**57**	**60**
Gross Profit Other in EUR m	0	4	21	18	8
Gross Profit total in EUR m	**48**	**55**	**76**	**75**	**68**

Warburg calculation: Expectecd contribution to GP	
The Phone House	3
old Mobile Service Provider Business	1
Own work capitalized	0.5
Other services	0.5
Contribution total	5
Remaining non-explainable Gross Profit	**3**

Source: Warburg Research

Warburg Research assumptions to calculate expected contribution to GP (gross profit):

- The Phone House: Drillisch acquired The Phone House in 2015. Among other activities, The Phone House runs a distribution business for mobile subscriber contracts. Looking at latest financial reports (source: Bundesanzeiger.de), we estimate TPH achieves a gross profit of roughly EUR 3m per quarter (WRe).
- Old mobile service provider business: Drillisch still has roughly 85k classical MVNO customers. Assuming an ARPU of EUR 15/month and a gross profit margin of 30%, gross profit contribution is calculated with EUR 1m per quarter (WRe).
- Own work capitalised: This figure is taken from the Drillisch P&L
- Other services: Beside mobile contracts, Drillisch offers insurance packages for handsets, hardware and further add-on services. We estimate that of that a gross profit of EUR 0.5m is generated.

However, we are identifying other potential risks for the Drillisch share. Competition has increased and we regard the target to achieve group EBITDA of EUR 160-170m in 2017e as challenging. We are currently anticipating group EBITDA of EUR 151m.

Conclusion earnings quality: The high level of one-time effects in Q3 and Q4/15 are all fully traceable, as explained above. However in Q1/16, 4.4% (EUR 3m) of group gross profit cannot be accounted for, based on our calculations. Drillisch has ruled out that the remaining EUR 3m is generated by reserves or any one-item profit contributions resulting from acquisitions in 2015.

If we take EUR 3m as a run-rate for the coming quarters, roughly EUR 12m or 4.4% of the expected 2016 group gross profit cannot be explained in more detail.

Budget customer AGPPU performance

Recently, Drillisch substantially reduced its prices for data packages. The price for its flagship product (2 GB LTE data volume per month) decreased from EUR 15/month to EUR 8/month, guaranteed for 24 months. This means, that new customers come in with a lower ARPU (EUR 6.40) than the current AGPPU (EUR 8.70). Consequently, group AGPPU should decrease over time. We have modelled rather flat development while some analysts even expect an increase in AGPPU in future. At first glance, one could conclude that this is a clearly negative sign for the underlying investment case, which forecasts that EBITDA and EBIT growth should kick in 2017e.

Our view on the mechanics of the MBA-MVNO

Under the MBA-MVNO contract with Telefonica Deutschland, Drillisch is obliged to acquire a certain mobile data volume from Telefonica each month for a fixed price per GB (Giga Byte). The mobile data volume to be acquired each month increases gradually from month to month along a so-called glide path until 2019, until it reaches 20% of the complete used mobile data volume on the Telefonica Deutschland network.

However this is less predictable than it might seem, as the percentage obligation to take and buy a certain delivered mobile data volume within a defined time period is NOT based on a fixed defined total network capacity but on the overall used mobile data capacity on the network within a certain period of time, which includes not only Drillisch usage, but the usage by all other parties too (Telefonica D, United Internet and others).

Hence, Drillisch has signed a contract under which the mobile data capacity to be purchased can be predicted maybe three or four months in advance (as described in the originally defined glide-path in 2014). However, because the purchase obligation is linked to the mobile data capacity used, the possible extra data volume to be purchased in 12 or 24 months is rather unpredictable.

This extra volume could be substantially higher than anticipated in the original plan in 2014. Hence, Drillisch faces “MBA-MVNO contract volume risk” because higher volumes (than originally planned and anticipated) must be paid for and sold to the market.

To limit and manage this MBA-MVNO contract volume risk, Drillisch has negotiated an additional price scheme with Telefonica to cover the “MBA-MVNO contract volume risk” or potential extra mobile data volume.

We estimate that Drillisch receives a discount of more than 60% on the average unit costs along the originally planned capacity glide-path.

In our view, excess mobile data volume (or extra mobile data volume) is defined as:

The DIFFERENCE between the planned or projected used mobile data capacity on the

Telefonica D network at the time the contract was signed and the current and actual used mobile data capacity (within a certain time period) MULTIPLIED by Drillisch's percentage mobile data purchase volume obligation.

Economic consequences of the MBA-MVNO contract

Drillisch faces "MBA-MVNO contract volume risk" because it does not know exactly how much mobile data volume it will be obliged to acquire in future from Telefonica Deutschland.

The higher the delivery of excess mobile data volume (compared to the original plan when the contract was signed), the lower the average purchase costs for Drillisch per mobile GB.

Therefore, if the mobile data usage on the Telefonica network is higher than originally planned, Drillisch is obliged to buy greater mobile data volume from Telefonica. However average purchase costs per GB decrease substantially based on hefty discounts for the excess capacity.

To our understanding, the used mobile data capacity on the Telefonica Deutschland network is indeed higher than expected. Hence, Drillisch receives higher data volumes at lower average mobile data purchase prices than planned. As a consequence, Drillisch can reduce retail prices for data packages while the gross margin should remain unchanged.

Thus, Average Gross Profit Per User (AGPPU) might not be the only appropriate indicator to track the operative performance of Drillisch. Monthly network costs for Drillisch are fixed because the monthly delivery volume of a certain amount of mobile data is fixed. This volume has to be sold to the mobile market at a sufficient gross profit margin (WRe: at least > 60%) and to a sufficient subscriber base. In our view, crucial is not the absolute gross profit per user but the gross margin per sold SIM card and the number of subscribers. The average gross margin per sold SIM card is a function of ARPU, average mobile data usage per SIM card and average purchase costs for mobile data.

Hence, if the AGPPU decreases over time this is not necessarily a negative sign as long as:

- Net addition figures come in higher than originally anticipated;
- The average gross margin remains stable at a sufficient level (or even increases over time).

However, group gross profit remains a function of AGPPU * subscriber base. Consequently, lower AGPPU in future should be accompanied by a higher subscriber base (and higher net additions per quarter).

Drillisch's EBITDA guidance 2017e

Drillisch expects EBITDA of EUR 160-170m in 2017e, which is above our projection of EUR 151m. We think that competition is intensifying and therefore customer growth should come at a higher cost than originally planned.

Drillisch does not capitalise direct customer acquisition costs. Only a part of the present value of the cash advantage for customers resulting from the handset sale is capitalised but does not affect the P&L (or EBITDA, EBIT, EBT). At the time of the handset sale, the full amount is shown at sales and at material expenses at the same time (=> GP = 0). It is also booked in accounts receivable and then amortized over the contract period.

Valuation

FCF Value Potential

Under our new long-term assumptions, Drillisch will move from a growth modus to a steady state modus as early as in 2020e. Hence, the fair value for 2018e (EUR 35) derived from the FCFV potential approach roughly corresponds with our DCF-based fair value of EUR 35.50.

DCF approach

- Major changes to our old model: In our previous approach, we modeled ongoing revenue growth of +5% in 2020e, +5% in 2021e, +3% each year between 2022e – 2025e and 2% in 2026e an 2027e. We become more conservative as regards the long-term growth prospects and now expect Drillisch to enter a steady-state modus in 2020e (revenue growth 2020e: +4%, revenue growth in 2021e: +2%, afterwards: revenue growth +0%). Firstly, in recent weeks we have observed increased and intensive competition initiated by Drillisch and United Internet. Secondly, we do not expect market growth for service revenues in the long term. Up to now, we expected Drillisch to be able to continue outperforming the market after 2022e. To be more conservative, now we assume Drillisch's performance will be in line with our overall market assumption.
- In our old model we expected a long-term EBIT margin of 20.5% and we leave our assumption unchanged.
- We have not reflected any strategic or option value for Drillisch's outstanding und unique MBA-MVNO contract with Telefonica Deutschland. We think that the logic of the mobile telecommunication industry would be a merger between Drillisch and United Internet. A combination of both companies should be value-accretive because of an improving price environment and cost synergies. However, it is a question of valuation and we think this will not happen in the short run.
- WACC is reduced from 7.5% to 6.9% owing to higher visibility on the MBA-MVNO contract and its financial implications.
- As a result, we derive a new DCF-based PT of EUR 35.00 (old: EUR 37).

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 via the perpetuity of a given year's "FCF potential" with consideration of 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	2012	2013	2014	2015	2016e	2017e	2018e
Net Income before minorities	23	156	50	46	41	66	88
+ Depreciation + Amortisation	6	10	10	36	51	50	50
- Net Interest Income	-35	117	-3	-3	-5	-5	-5
- Maintenance Capex	6	10	10	12	14	15	15
+ Other	0	0	0	0	0	0	0
= Free Cash Flow Potential	**58**	**39**	**52**	**74**	**82**	**105**	**128**
Free Cash Flow Yield Potential	13.1 %	10.9 %	5.4 %	3.8 %	4.3 %	5.5 %	7.0 %
WACC	6.84 %	6.84 %	6.84 %	6.84 %	6.84 %	6.84 %	6.84 %
= Enterprise Value (EV)	**441**	**356**	**961**	**1,961**	**1,927**	**1,925**	**1,820**
= Fair Enterprise Value	**844**	**566**	**765**	**1,078**	**1,204**	**1,542**	**1,871**
- Net Debt (Cash)	44	44	44	44	69	66	-54
- Pension Liabilities	1	1	1	1	2	2	2
- 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
= Fair Market Capitalisation	**1,079**	**800**	**1,000**	**1,313**	**1,133**	**1,474**	**1,923**
No. of shares (total) (m)	55	55	55	55	55	55	55
= Fair value per share (EUR)	**19.70**	**14.62**	**18.27**	**23.98**	**20.70**	**26.92**	**35.11**
premium (-) / discount (+) in %					-39.0 %	-20.6 %	2.7 %

Sensitivity Fair value per Share (EUR)

	9.84 %	15.00	11.47	14.00	17.97	13.99	18.33	24.69
	8.84 %	16.21	12.28	15.10	19.52	15.72	20.55	27.38
	7.84 %	17.73	13.30	16.48	21.46	17.89	23.32	30.76
WACC	**6.84 %**	**19.70**	**14.62**	**18.27**	**23.98**	**20.70**	**26.92**	**35.11**
	5.84 %	22.34	16.39	20.66	27.35	24.47	31.74	40.97
	4.84 %	26.07	18.89	24.05	32.12	29.79	38.56	49.24
	3.84 %	31.75	22.69	29.20	39.37	37.89	48.94	61.83

- FCF-Value Potential excludes the growth potential until 2019e

DCF model

Figures in EUR m	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	
	Detailed forecast period			Transitional period										Term. Value
Sales	706	810	867	903	939	967	977	977	977	977	977	977	977	
Sales change	*12.2 %*	*14.6 %*	*7.2 %*	*4.1 %*	*4.0 %*	*3.0 %*	*1.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*
EBIT	64	100	133	207	221	227	230	230	215	215	205	205	200	
EBIT-margin	*9.0 %*	*12.4 %*	*15.3 %*	*22.9 %*	*23.5 %*	*23.5 %*	*23.5 %*	*23.5 %*	*22.0 %*	*22.0 %*	*21.0 %*	*21.0 %*	*20.5 %*	
Tax rate (EBT)	*31.0 %*	*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	44	69	91	143	152	157	158	158	148	148	142	142	138	
Depreciation	51	50	50	41	38	34	29	27	24	23	23	22	22	
in % of Sales	*7.2 %*	*6.2 %*	*5.8 %*	*4.5 %*	*4.0 %*	*3.5 %*	*3.0 %*	*2.8 %*	*2.5 %*	*2.4 %*	*2.4 %*	*2.3 %*	*2.3 %*	
Changes in provisions	0	0	0	-1	-1	0	0	0	0	0	0	0	0	
Change in Liquidity from														
- Working Capital	7	4	-2	2	2	0	0	0	0	0	0	0	0	
- Capex	14	16	19	21	23	24	25	25	24	22	23	22	22	
Capex in % of Sales	*2.0 %*	*2.0 %*	*2.2 %*	*2.3 %*	*2.4 %*	*2.5 %*	*2.6 %*	*2.6 %*	*2.5 %*	*2.3 %*	*2.4 %*	*2.3 %*	*2.3 %*	
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	74	99	124	159	165	166	163	160	148	149	142	142	138	138
PV of FCF	74	92	108	130	126	119	109	100	87	82	73	68	62	909
share of PVs	12.80 %			44.67 %										42.52 %

Model parameter

Derivation of WACC:		Derivation of Beta:	
Debt ratio	10.00 %	Financial Strength	1.00
Cost of debt (after tax)	1.4 %	Liquidity (share)	1.00
Market return	7.00 %	Cyclicality	0.90
Risk free rate	1.50 %	Transparency	1.00
		Others	1.50
WACC	**6.84 %**	**Beta**	**1.08**

Valuation (m)

Present values 2028e	1,229		
Terminal Value	909		
Financial liabilities	90		
Pension liabilities	2		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	60	No. of shares (m)	59.3
Equity Value	**2,107**	**Value per share (EUR)**	**35.52**

Sensitivity Value per Share (EUR)

Beta	WACC	Terminal Growth -0.75 %	-0.50 %	-0.25 %	**0.00 %**	0.25 %	0.50 %	0.75 %
1.28	7.8 %	30.05	30.37	30.72	31.09	31.49	31.91	32.36
1.18	7.3 %	31.90	32.29	32.71	33.16	33.63	34.14	34.69
1.13	7.1 %	32.92	33.35	33.81	34.30	34.82	35.39	36.00
1.08	6.8 %	34.00	34.47	34.98	**35.52**	36.10	36.73	37.41
1.03	6.6 %	35.16	35.68	36.23	36.83	37.48	38.18	38.94
0.98	6.3 %	36.40	36.97	37.58	38.25	38.97	39.75	40.60
0.88	5.8 %	39.15	39.85	40.62	41.44	42.34	43.33	44.41

Beta	WACC	Delta EBIT-margin -1.5 pp	-1.0 pp	-0.5 pp	**+0.0 pp**	+0.5 pp	+1.0 pp	+1.5 pp
1.28	7.8 %	28.87	29.61	30.35	31.09	31.83	32.57	33.32
1.18	7.3 %	30.78	31.57	32.36	33.16	33.95	34.74	35.53
1.13	7.1 %	31.84	32.66	33.48	34.30	35.11	35.93	36.75
1.08	6.8 %	32.98	33.82	34.67	**35.52**	36.37	37.21	38.06
1.03	6.6 %	34.20	35.07	35.95	36.83	37.71	38.59	39.47
0.98	6.3 %	35.51	36.42	37.34	38.25	39.16	40.07	40.99
0.88	5.8 %	38.47	39.46	40.45	41.44	42.43	43.42	44.41

- …
- Number of shares: 57m; convertible bonds: +4.54m

Financials

Gross profit and customer assumptions 2015 – 2019e

Before we describe our assumptions, we recap on our most important findings.

In the last chapters we pointed out that rather than the absolute AGPPU being the key criteria to analyse the operative performance, one of the most important KPI in our view is the function group gross profit = blended AGPPU * Subscribers, on condition that the average gross profit margin per subscriber is >60%. Furthermore, we said it was important to understand the economic effects of the MBA-MVNO contract.

Under the terms of the contract, Drillisch is obliged to buy (on a monthly basis) a fixed defined percentage figure of the used mobile data capacity on the Telefonica Deutschland network. As a result, Drillisch's mobile data purchase volume can be higher than originally planned in 2014. On the excess or extra capacity, Drillisch receives a huge discount (WRe: >50%). Therefore, the higher the deviation between the current used volume and the originally planned volume, the lower Drillisch's mobile data unit costs.

- Budget customers. Drillisch has substantially lowered its package prices. For instance, currently consumers can buy 2 GB LTE mobile data package (including voice and SMS flat-rate) for EUR 7.99 (normal price level: EUR 14.99). We conclude that Drillisch will be more aggressive in the upcoming quarters. We are increasing our assumptions for budget customer net addition figures as follows: In 2016e we are increasing our expectation from 2017e: old: +445k to new +510k; 2018e: old: +350k to +490k.
- AGPPU budget customers: We are slightly adjusting our AGPPU assumptions for customers. In 2016e we are expecting an AGPPU of EUR 8.65 (old: EUR 8.75) in 2017e and EUR 8.70 (old: EUR 9.05) in 2018e. Our AGPPU expectation is higher than the current AGPPU for the cheapest package from Smartmobil (retail price (EUR 7.99/month). The resulting net revenue for Drillisch is EUR 6.40 (AGGPU budget customers 2016e: EUR 8.76. In our view, many customers take additional services for which they have to pay an extra fee. Furthermore Drillisch distributes data packages with prices of more than EUR 20 (SIM-only, handest is not included). Hence, Drillisch should be able to keep the AGPPU at roughly EUR 8.70 over time.
- Overall, we are expecting that the budget customer base should grow from 1.932m in 2015 with CAGR 18.5% to 3.82m in 2019e. In the same period, group gross profit should grow from EUR 254m in 2015 with CAGR 12.5% to 413m.
- Our EBITDA and EBIT assumptions for 2016e, 2017e and 2018e remain unchanged. This relates to the unchanged group gross profit assumptions.

Drillisch: Customers and Gross Profit	2015	2016e	2017e	2018e	2019e
Budget customers in k	**1,932**	**2,470**	**2,980**	**3,470**	**3,820**
change in% yoy		28%	21%	16%	10%
net additions		538	510	490	350
Volume customers k	**655**	**608**	**558**	**488**	**408**
change in %		-7%	-8%	-13%	-16%
net additions		-47	-50	-70	-80
MVNO customers in k	**2,587**	**3,078**	**3,538**	**3,958**	**4,228**
change in%		19%	15%	12%	7%
net additions		491	460	420	270
Other in k	**91**	**59**	**40**	**20**	**0**
Total customers in k	**2,678**	**3,137**	**3,578**	**3,978**	**4,228**
net additions		459	441	400	250
AGPPU budget customers in EUR	**9.08**	**n.m**	**8.65**	**8.67**	**8.70**
change in %		n.a.	n.a.	0%	0%
AGPPU volume customers in EUR	**3.13**	**n.m.**	**2.7**	**2.6**	**2.4**
change in %		n.a.	n.a.	-4%	-8%
AGPPU blended in EUR	**7.34**	**7.7**	**7.6**	**7.8**	**8.0**
change in %		4%	-0.8%	3%	2%
Gross Profit MVNO in EUR m	**212**	**260**	**302**	**352**	**393**
Gross Profit Other in EUR m	43	26	21	19	20
Gross Profit total in EUR m	**254**	**287**	**323**	**371**	**413**
change yoy		*13%*	*13%*	*15%*	*11%*

Group Revenue, EBITDA and EBIT projections

- In 2015, ARPU stood at EUR 14.30 (WRe, Drillisch does not directly publish the ARPU). We model that the ARPU will increase slightly to EUR 15.0 by 2017e and afterwards decrease again slightly to EUR 14.50 in 2018e and EUR 14.20 in 2019e. In our old model, we expected the ARPU to increase to EUR 16.0 by 2017e and then remain at the EUR 16.0 level over time. Because of our lowered ARPU assumptions, group sales are revised downwards slightly: 2016e from EUR 737m to EUR 706m, 2017e from EUR 843m to EUR 809m.
- Group gross profit: We leave our group gross profit figure almost unchanged (2017e: old: EUR 323m; new EUR 323m and 2018e: old EUR 373m, new: EUR 371m). This means that we are assuming higher gross margins than in our old model, reflecting Drillisch's decreasing unit costs, based on the extra capacity it is obliged to purchase.
- In 2019e, we are slightly reducing our EBIT assumption from EUR 212m to EUR 207m.

See our detailed model below.

Drillisch: Assumptions 2015 – 2019e

Drillisch (figures in EUR m)	2015	2016e	2017e	2018e	2019e
Total Customers in k	**2,678**	**3,137**	**3,578**	**3,978**	**4,228**
ARPU in EUR	14.3	14.7	15.0	14.5	14.2
Service Revenues in EUR m	**434**	**514**	**604**	**657**	**699**
change		*19%*	*17%*	*9%*	*6%*
Other Revenues in EUR m	196	192	205	210	216
Group Revenues in EUR m	**630**	**706**	**809**	**867**	**915**
change%		*12%*	*15%*	*7%*	*6%*
Own work capitalised	2	2	3	4	5
Total Output	**632**	**708**	**812**	**871**	**920**
change		*12%*	*15%*	*7%*	*6%*
Material expenses	**375**	**422**	**490**	**501**	**507**
in% of Total Output	59%	60%	60%	57%	55%
change		*12%*	*16%*	*2%*	*1%*
Gross Profit	**257**	**287**	**323**	**371**	**413**
in% of Total Output	41%	40%	40%	43%	45%
change		*12%*	*13%*	*15%*	*11%*
Personnel expenses	47	57	59	63	65
Other Operating Income	20	10	9.5	9	10.5
Other Operating Expenses	125	125	122	134	118
Marketing Expenses	64	60	60	64	50
Other Operating Expenses	60	65	62	70	68
EBITDA	**105**	**115**	**151**	**183**	**241**
change		*9%*	*32%*	*21%*	*32%*
margin	16.7%	16.2%	18.7%	21.1%	26.3%
D&A	36	51	51	51	33
EBIT	**69**	**64**	**100**	**132**	**208**
change		*-8%*	*58%*	*32%*	*58%*
margin	11.0%	9.0%	12.4%	15.2%	22.7%

Source: Warburg Research

DCF model

Figures in EUR m	Detailed forecast period 2016e	2017e	2018e	Transitional period 2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	Term. Value
Sales	706	810	867	903	939	967	977	977	977	977	977	977	977	
Sales change	*12.2 %*	*14.6 %*	*7.2 %*	*4.1 %*	*4.0 %*	*3.0 %*	*1.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*
EBIT	64	100	133	207	221	227	230	230	215	215	205	205	200	
EBIT-margin	*9.0 %*	*12.4 %*	*15.3 %*	*22.9 %*	*23.5 %*	*23.5 %*	*23.5 %*	*23.5 %*	*22.0 %*	*22.0 %*	*21.0 %*	*21.0 %*	*20.5 %*	
Tax rate (EBT)	*31.0 %*	*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	44	69	91	143	152	157	158	158	148	148	142	142	138	
Depreciation	51	50	50	41	38	34	29	27	24	23	23	22	22	
in % of Sales	*7.2 %*	*6.2 %*	*5.8 %*	*4.5 %*	*4.0 %*	*3.5 %*	*3.0 %*	*2.8 %*	*2.5 %*	*2.4 %*	*2.4 %*	*2.3 %*	*2.3 %*	
Changes in provisions	0	0	0	-1	-1	0	0	0	0	0	0	0	0	
Change in Liquidity from														
- Working Capital	7	4	-2	2	2	0	0	0	0	0	0	0	0	
- Capex	14	16	19	21	23	24	25	25	24	22	23	22	22	
Capex in % of Sales	*2.0 %*	*2.0 %*	*2.2 %*	*2.3 %*	*2.4 %*	*2.5 %*	*2.6 %*	*2.6 %*	*2.5 %*	*2.3 %*	*2.4 %*	*2.3 %*	*2.3 %*	
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	74	99	124	159	165	166	163	160	148	149	142	142	138	138
PV of FCF	74	92	108	130	126	119	109	100	87	82	73	68	62	909
share of PVs	12.80 %			44.67 %										42.52 %

Model parameter

Derivation of WACC:		Derivation of Beta:	
Debt ratio	10.00 %	Financial Strength	1.00
Cost of debt (after tax)	1.4 %	Liquidity (share)	1.00
Market return	7.00 %	Cyclicality	0.90
Risk free rate	1.50 %	Transparency	1.00
		Others	1.50
WACC	**6.84 %**	**Beta**	**1.08**

Valuation (m)

Present values 2028e	1,229		
Terminal Value	909		
Financial liabilities	90		
Pension liabilities	2		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	60	No. of shares (m)	59.3
Equity Value	**2,107**	**Value per share (EUR)**	**35.52**

Sensitivity Value per Share (EUR)

Beta	WACC	Terminal Growth -0.75 %	-0.50 %	-0.25 %	**0.00 %**	0.25 %	0.50 %	0.75 %
1.28	7.8 %	30.05	30.37	30.72	31.09	31.49	31.91	32.36
1.18	7.3 %	31.90	32.29	32.71	33.16	33.63	34.14	34.69
1.13	7.1 %	32.92	33.35	33.81	34.30	34.82	35.39	36.00
1.08	6.8 %	34.00	34.47	34.98	**35.52**	36.10	36.73	37.41
1.03	6.6 %	35.16	35.68	36.23	36.83	37.48	38.18	38.94
0.98	6.3 %	36.40	36.97	37.58	38.25	38.97	39.75	40.60
0.88	5.8 %	39.15	39.85	40.62	41.44	42.34	43.33	44.41

Beta	WACC	Delta EBIT-margin -1.5 pp	-1.0 pp	-0.5 pp	**+0.0 pp**	+0.5 pp	+1.0 pp	+1.5 pp
1.28	7.8 %	28.87	29.61	30.35	31.09	31.83	32.57	33.32
1.18	7.3 %	30.78	31.57	32.36	33.16	33.95	34.74	35.53
1.13	7.1 %	31.84	32.66	33.48	34.30	35.11	35.93	36.75
1.08	6.8 %	32.98	33.82	34.67	**35.52**	36.37	37.21	38.06
1.03	6.6 %	34.20	35.07	35.95	36.83	37.71	38.59	39.47
0.98	6.3 %	35.51	36.42	37.34	38.25	39.16	40.07	40.99
0.88	5.8 %	38.47	39.46	40.45	41.44	42.43	43.42	44.41

- …
- Number of shares: 57m; convertible bonds: +4.54m

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 via the perpetuity of a given year's "FCF potential" with consideration of 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	2012	2013	2014	2015	2016e	2017e	2018e
Net Income before minorities	23	156	50	46	41	66	88
+ Depreciation + Amortisation	6	10	10	36	51	50	50
- Net Interest Income	-35	117	-3	-3	-5	-5	-5
- Maintenance Capex	6	10	10	12	14	15	15
+ Other	0	0	0	0	0	0	0
= Free Cash Flow Potential	**58**	**39**	**52**	**74**	**82**	**105**	**128**
Free Cash Flow Yield Potential	13.1 %	10.9 %	5.4 %	3.8 %	4.3 %	5.5 %	7.0 %
WACC	6.84 %	6.84 %	6.84 %	6.84 %	6.84 %	6.84 %	6.84 %
= Enterprise Value (EV)	**441**	**356**	**961**	**1,961**	**1,927**	**1,925**	**1,820**
= Fair Enterprise Value	**844**	**566**	**765**	**1,078**	**1,204**	**1,542**	**1,871**
- Net Debt (Cash)	44	44	44	44	69	66	-54
- Pension Liabilities	1	1	1	1	2	2	2
- 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
= Fair Market Capitalisation	**1,079**	**800**	**1,000**	**1,313**	**1,133**	**1,474**	**1,923**
No. of shares (total) (m)	55	55	55	55	55	55	55
= Fair value per share (EUR)	**19.70**	**14.62**	**18.27**	**23.98**	**20.70**	**26.92**	**35.11**
premium (-) / discount (+) in %					-39.0 %	-20.6 %	2.7 %

Sensitivity Fair value per Share (EUR)

	9.84 %	15.00	11.47	14.00	17.97	13.99	18.33	24.69
	8.84 %	16.21	12.28	15.10	19.52	15.72	20.55	27.38
	7.84 %	17.73	13.30	16.48	21.46	17.89	23.32	30.76
WACC	**6.84 %**	**19.70**	**14.62**	**18.27**	**23.98**	**20.70**	**26.92**	**35.11**
	5.84 %	22.34	16.39	20.66	27.35	24.47	31.74	40.97
	4.84 %	26.07	18.89	24.05	32.12	29.79	38.56	49.24
	3.84 %	31.75	22.69	29.20	39.37	37.89	48.94	61.83

- FCF-Value Potential excludes the growth potential until 2019e

Valuation

	2012	2013	2014	2015	2016e	2017e	2018e
Price / Book	3.9 x	3.4 x	4.4 x	6.2 x	6.2 x	6.8 x	5.2 x
Book value per share ex intangibles	0.24	2.42	4.25	-0.46	-0.74	-0.58	1.68
EV / Sales	1.4 x	1.2 x	3.3 x	3.1 x	2.7 x	2.4 x	2.1 x
EV / EBITDA	7.1 x	5.0 x	11.3 x	18.6 x	16.8 x	12.7 x	10.0 x
EV / EBIT	7.9 x	5.8 x	12.8 x	28.3 x	30.3 x	19.1 x	13.7 x
EV / EBIT adj.*	7.9 x	5.8 x	12.8 x	28.3 x	30.3 x	19.1 x	13.7 x
P / FCF	188.4 x	19.1 x	24.1 x	n.a.	29.3 x	21.0 x	16.7 x
P / E	20.0 x	4.7 x	29.4 x	47.7 x	45.8 x	27.8 x	21.2 x
P / E adj.*	20.0 x	18.2 x	29.4 x	47.7 x	33.3 x	22.6 x	18.1 x
Dividend Yield	14.8 %	10.5 %	6.4 %	4.2 %	5.0 %	5.3 %	5.3 %
Free Cash Flow Yield Potential	13.1 %	10.9 %	5.4 %	3.8 %	4.3 %	5.5 %	7.0 %

*Adjustments made for: -

Company Specific Items

	2012	2013	2014	2015	2016e	2017e	2018e
Service Revenues	n.a.	n.a.	0	0	0	0	0
Budget Customer	0	0	0	0	0	0	0
Blended ARPU	n.a.	n.a.	0	0	0	0	0

Consolidated profit & loss

In EUR m	2012	2013	2014	2015	2016e	2017e	2018e
Sales	**324**	**290**	**290**	**630**	**706**	**810**	**867**
Change Sales yoy	-7.3 %	-10.3 %	-0.3 %	117.3 %	12.2 %	14.6 %	7.2 %
Increase / decrease in inventory	0	0	0	0	0	0	0
Own work capitalised	2	2	2	2	2	3	4
Total Sales	**326**	**293**	**291**	**632**	**709**	**813**	**872**
Material Expenses	215	171	147	375	422	490	501
Gross profit	**111**	**121**	**144**	**257**	**287**	**323**	**371**
Gross profit margin	*34.3 %*	*41.8 %*	*49.9 %*	*40.8 %*	*40.6 %*	*39.8 %*	*42.7 %*
Personnel expenses	23	24	25	47	57	59	63
Other operating income	8	4	1	20	10	10	9
Other operating expenses	34	30	36	125	125	122	134
Unfrequent items	0	0	0	0	0	0	0
EBITDA	**62**	**71**	**85**	**105**	**115**	**151**	**183**
Margin	*19.1 %*	*24.4 %*	*29.4 %*	*16.7 %*	*16.2 %*	*18.7 %*	*21.1 %*
Depreciation of fixed assets	1	1	1	5	5	4	4
EBITA	**61**	**70**	**84**	**101**	**110**	**147**	**179**
Amortisation of intangible assets	5	9	9	32	46	46	46
Goodwill amortization	0	0	0	0	0	0	0
EBIT	**55**	**61**	**75**	**69**	**64**	**101**	**133**
Margin	*17.1 %*	*21.1 %*	*26.0 %*	*11.0 %*	*9.0 %*	*12.5 %*	*15.3 %*
EBIT adj.	**55**	**61**	**75**	**69**	**64**	**101**	**133**
Interest income	1	1	1	1	0	0	0
Interest expenses	12	50	4	4	5	5	5
Other financial income (loss)	-24	166	0	0	0	0	0
EBT	**21**	**178**	**73**	**66**	**59**	**97**	**128**
Margin	*6.4 %*	*61.3 %*	*25.1 %*	*10.5 %*	*8.4 %*	*11.9 %*	*14.8 %*
Total taxes	-3	22	23	20	18	30	40
Net income from continuing operations	**23**	**156**	**50**	**46**	**41**	**67**	**88**
Income from discontinued operations (net of tax)	0	0	0	0	0	0	0
Net income before minorities	**23**	**156**	**50**	**46**	**41**	**67**	**88**
Minority interest	0	0	0	0	0	0	0
Net income	**23**	**156**	**50**	**46**	**41**	**67**	**88**
Margin	*7.2 %*	*53.7 %*	*17.2 %*	*7.3 %*	*5.8 %*	*8.3 %*	*10.2 %*
Number of shares, average	53	48	55	55	55	55	55
EPS	**0.44**	**3.25**	**0.91**	**0.84**	**0.74**	**1.22**	**1.61**
EPS adj.	0.44	0.84	0.91	0.84	1.02	1.50	1.89

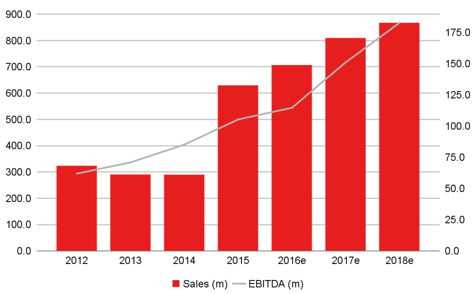
*Adjustments made for:

Guidance: EBITDA 2016e: EUR 115m - EUR 120m, dividend per share 2015e: EUR 1.7

Financial Ratios

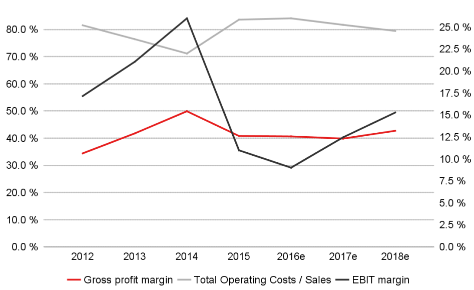
	2012	2013	2014	2015	2016e	2017e	2018e
Total Operating Costs / Sales	81.6 %	76.4 %	71.2 %	83.6 %	84.1 %	81.7 %	79.4 %
Operating Leverage	-2.1 x	-1.0 x	-81.7 x	-0.1 x	-0.7 x	4.0 x	4.4 x
EBITDA / Interest expenses	5.3 x	1.4 x	23.8 x	26.1 x	25.5 x	33.6 x	40.6 x
Tax rate (EBT)	-12.9 %	12.5 %	31.0 %	30.4 %	31.0 %	30.7 %	31.0 %
Dividend Payout Ratio	294.8 %	49.3 %	185.9 %	203.2 %	228.3 %	147.3 %	111.5 %
Sales per Employee	924,834	829,911	827,566	1,798,703	2,018,286	2,312,857	2,478,286

Sales, EBITDA
in EUR m



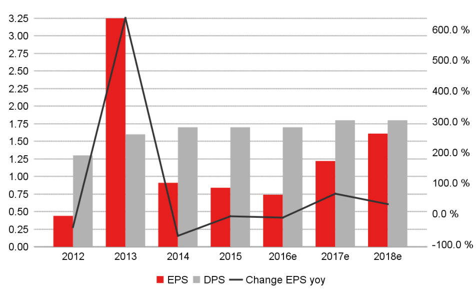
Source: Warburg Research

Operating Performance
in %



Source: Warburg Research

Performance per Share



Source: Warburg Research

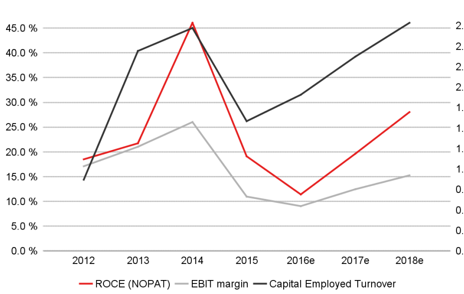
Consolidated balance sheet

In EUR m	2012	2013	2014	2015	2016e	2017e	2018e
Assets							
Goodwill and other intangible assets	108	101	99	378	341	305	271
thereof other intangible assets	41	34	31	271	234	198	164
thereof Goodwill	67	67	67	107	107	107	107
Property, plant and equipment	1	1	3	11	11	13	16
Financial assets	260	0	0	0	0	0	0
Other long-term assets	0	0	0	0	0	0	0
Fixed assets	**369**	**103**	**101**	**390**	**353**	**319**	**288**
Inventories	8	6	5	32	35	37	39
Accounts receivable	42	45	48	89	99	115	121
Liquid assets	77	187	317	123	73	75	94
Other short-term assets	26	11	4	55	62	64	72
Current assets	**153**	**249**	**374**	**299**	**269**	**291**	**327**
Total Assets	**523**	**352**	**476**	**689**	**622**	**610**	**614**
Liabilities and shareholders' equity							
Subscribed capital	54	53	59	60	60	60	65
Capital reserve	92	96	231	296	296	296	391
Retained earnings	31	31	31	31	-96	-148	-181
Other equity components	-56	37	10	-34	41	66	88
Shareholders' equity	120	218	331	353	301	273	363
Minority interest	0	0	0	0	0	0	0
Total equity	**120**	**218**	**331**	**353**	**301**	**273**	**363**
Provisions	11	11	9	19	21	22	26
thereof provisions for pensions and similar obligations	1	1	2	1	2	2	2
Financial liabilities (total)	330	87	91	167	141	141	40
thereof short-term financial liabilities	0	0	0	0	0	0	0
Accounts payable	16	16	22	81	87	100	107
Other liabilities	45	21	23	69	72	74	78
Liabilities	**402**	**135**	**144**	**336**	**321**	**337**	**251**
Total liabilities and shareholders' equity	**523**	**352**	**476**	**689**	**622**	**610**	**614**

Financial Ratios

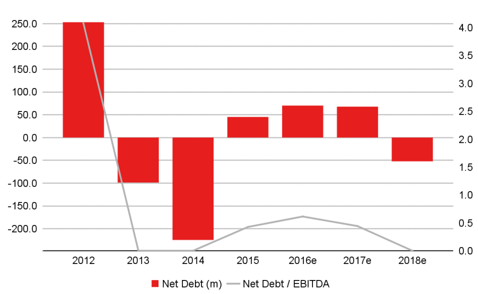
	2012	2013	2014	2015	2016e	2017e	2018e
Efficiency of Capital Employment							
Operating Assets Turnover	12.4 x	9.8 x	10.4 x	13.7 x	13.4 x	13.6 x	14.3 x
Capital Employed Turnover	0.9 x	2.4 x	2.7 x	1.6 x	1.9 x	2.4 x	2.8 x
ROA	6.4 %	151.5 %	49.1 %	11.9 %	11.6 %	21.0 %	30.7 %
Return on Capital							
ROCE (NOPAT)	18.5 %	21.7 %	46.1 %	19.1 %	11.4 %	19.7 %	28.0 %
ROE	16.4 %	92.2 %	18.1 %	13.5 %	12.5 %	23.3 %	27.8 %
Adj. ROE	16.4 %	23.8 %	18.1 %	13.5 %	17.1 %	28.5 %	32.5 %
Balance sheet quality							
Net Debt	253	-99	-225	45	70	68	-52
Net Financial Debt	252	-100	-226	44	69	66	-54
Net Gearing	210.0 %	-45.4 %	-67.9 %	12.8 %	23.3 %	24.8 %	-14.3 %
Net Fin. Debt / EBITDA	407.8 %	n.a.	n.a.	41.6 %	59.8 %	43.8 %	n.a.
Book Value / Share	2.3	4.5	6.0	6.4	5.5	5.0	6.6
Book value per share ex intangibles	0.2	2.4	4.2	-0.5	-0.7	-0.6	1.7

ROCE Development



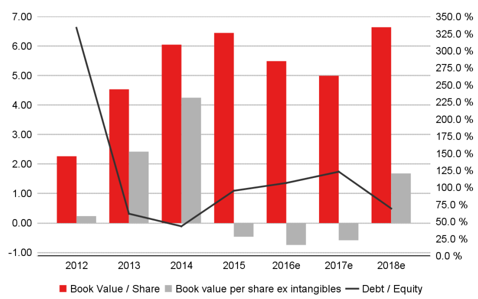
Source: Warburg Research

Net debt
in EUR m



Source: Warburg Research

Book Value per Share
in EUR



Source: Warburg Research

Consolidated cash flow statement

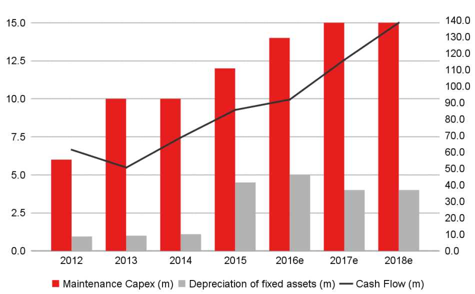
In EUR m	2012	2013	2014	2015	2016e	2017e	2018e
Net income	23	156	50	46	41	66	88
Depreciation of fixed assets	1	1	1	5	5	4	4
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	5	9	9	32	46	46	46
Increase/decrease in long-term provisions	0	0	1	0	0	0	0
Other non-cash income and expenses	31	-115	9	4	0	0	0
Cash Flow	**61**	**51**	**69**	**86**	**92**	**116**	**139**
Increase / decrease in inventory	1	2	1	-27	-3	-2	-3
Increase / decrease in accounts receivable	0	-3	-2	-41	-10	-17	-6
Increase / decrease in accounts payable	-22	-2	4	58	6	14	10
Increase / decrease in other working capital positions	-16	10	0	0	-3	0	0
Increase / decrease in working capital (total)	-37	6	3	-9	-10	-4	2
Net cash provided by operating activities	**24**	**57**	**72**	**76**	**82**	**111**	**140**
Investments in intangible assets	-20	-17	-9	-160	-9	-10	-12
Investments in property, plant and equipment	-2	-2	-2	-4	-5	-6	-7
Payments for acquisitions	0	0	0	-7	0	0	0
Financial investments	-75	0	0	1	0	0	0
Income from asset disposals	106	370	1	0	0	0	0
Net cash provided by investing activities	**8**	**350**	**-5**	**-169**	**-14**	**-16**	**-19**
Change in financial liabilities	92	-183	0	0	-26	0	-101
Dividends paid	-36	-62	-77	-90	-93	-93	-99
Purchase of own shares	-32	-8	0	0	0	0	0
Capital measures	0	0	0	0	0	0	0
Other	0	-44	140	-10	0	0	98
Net cash provided by financing activities	**25**	**-298**	**63**	**-101**	**-119**	**-93**	**-103**
Change in liquid funds	57	110	130	-194	-51	2	19
Effects of exchange-rate changes on cash	0	0	0	0	0	0	0
Cash and cash equivalent at end of period	**77**	**187**	**317**	**123**	**73**	**75**	**94**

Financial Ratios

	2012	2013	2014	2015	2016e	2017e	2018e
Cash Flow							
FCF	1	37	66	-87	68	95	121
Free Cash Flow / Sales	0.8 %	13.2 %	21.0 %	-13.9 %	9.7 %	11.8 %	14.0 %
Free Cash Flow Potential	58	39	52	74	82	105	128
Free Cash Flow / Net Profit	10.6 %	24.7 %	122.2 %	-189.9 %	167.7 %	142.8 %	137.0 %
Interest Received / Avg. Cash	1.9 %	1.0 %	0.4 %	0.3 %	0.0 %	0.0 %	0.0 %
Interest Paid / Avg. Debt	4.8 %	24.2 %	4.0 %	3.1 %	2.9 %	3.2 %	5.0 %
Management of Funds							
Investment ratio	6.7 %	6.4 %	3.8 %	26.1 %	2.0 %	2.0 %	2.2 %
Maint. Capex / Sales	1.9 %	3.4 %	3.5 %	1.9 %	2.0 %	1.9 %	1.7 %
Capex / Dep	337.7 %	191.8 %	110.9 %	454.7 %	27.5 %	32.0 %	38.0 %
Avg. Working Capital / Sales	4.3 %	9.1 %	9.2 %	4.8 %	5.4 %	5.4 %	5.2 %
Trade Debtors / Trade Creditors	260.7 %	286.7 %	218.1 %	109.4 %	113.3 %	115.5 %	113.4 %
Inventory Turnover	27.1 x	27.5 x	26.8 x	11.6 x	12.0 x	13.3 x	12.7 x
Receivables collection period (days)	47	57	60	51	51	52	51
Payables payment period (days)	27	34	54	79	75	74	78
Cash conversion cycle (Days)	-28	-34	-53	-48	-45	-47	-52

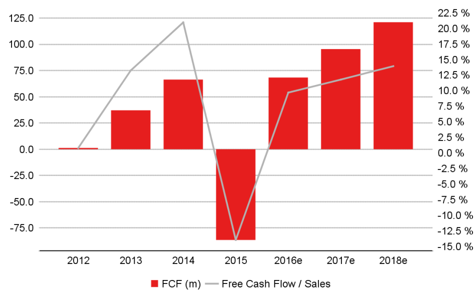
CAPEX and Cash Flow

in EUR m



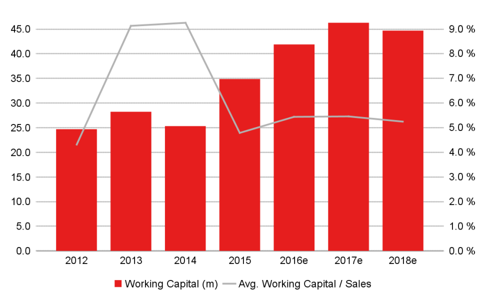
Source: Warburg Research

Free Cash Flow Generation



Source: Warburg Research

Working Capital



Source: Warburg Research

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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
Drillisch	5, 6	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0005545503.htm

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

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING

Rating	Number of stocks	% of Universe
Buy	121	64
Hold	60	32
Sell	5	3
Rating suspended	2	1
Total	**188**	**100**

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING …

… taking into account only those companies which were provided with major investment services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	24	73
Hold	7	21
Sell	1	3
Rating suspended	1	3
Total	**33**	**100**

PRICE AND RATING HISTORY DRILLISCH AS OF 19.07.2016

Markings in the chart show rating changes by Warburg Research GmbH in the last 12 months. Every marking details the date and closing price on the day of the rating change.

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