

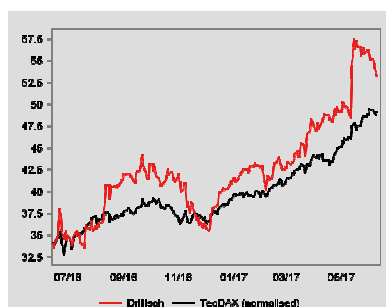
<b>Hold</b> <b>EUR 56.00</b>  Price EUR 53.29 Upside 5.1 %	<b>Value Indicators:</b> EUR FCF-Value Potential 19e: 42.00 SotP: 56.00	<b>Share data:</b> Bloomberg: DRI GR Reuters: DRIG ISIN: DE0005545503	<b>Description:</b> Virtual mobile network operator
	<b>Market Snapshot:</b> EUR m Market cap: 2,918 No. of shares (m): 55 EV: 2,986 Freefloat MC: 2,331 Ø Trad. Vol. (30d): 25.36 m	<b>Shareholders:</b> Freefloat 79.9 % M Brucherseifer+Management 1.9 % United Internet Ventures AG 20.7 % Allianz Global Investors 6.4 % Alken Luxemburg 4.8 %	<b>Risk Profile (WRe):</b> 2017e Beta: 1.0 Price / Book: 11.4 x Equity Ratio: 45 % Net Fin. Debt / EBITDA: 0.4 x Net Debt / EBITDA: 0.4 x

## Dividend scenario 2020e: EUR 3.70 dividend potential

- In this comment we try to calculate Drillisch's dividend potential in 2020e after a successful transaction with United Internet. Before we start, we summarize the most important data regarding the DRI-UTDI transaction:
- Drillisch: Extraordinary shareholder meeting: Tuesday, July 25. Drillisch shareholders need to vote with a 75% majority for a transfer of 1&1 Telecommunication AG into Drillisch AG by United Internet in exchange for 107.9m new Drillisch shares (capital increase).
- United Internet: Voluntary offer to Drillisch shareholders: UI offers EUR 50 for each Drillisch share: offer period 26.05.2017 – 23.06.2017.

## Dividend scenario 2020e: EUR 3.70 dividend potential payment, implying a fair value of EUR 74 per share

- In our stand alone cases for Drillisch and United Internet, we anticipate for Drillisch an EBITDA by 2020e of EUR 240m and EUR 590m for 1&1. Both figures are below the projections of the companies (DRI: EUR 311m, UTDI for 1&1: EUR 675m). Adding our stand alone projections and including the announced expected annual synergies of EUR 150m implies a combined EBITDA in 2020e of EUR 980m.
- New DRI should be debt free, working capital effects can be neglected, business operations should be CAPEX light with annual CAPEX of EUR 40m, and tax payments are estimated to be around EUR 290. Hence, based on our assumptions, in 2020e Drillisch's FCF could reach EUR 650m (FCF = EBITDA – CAPEX – taxes).
- After the closing of the transaction, the number of new Drillisch shares (including Drillisch's convertible) should be roughly 175.2m which translates into an expected FCF 2020e of EUR 3.70. Drillisch should remain debt free, hence, from an economic point of view, the complete FCF could be paid out as dividends. A dividend of EUR 3.70 implies a dividend yield for 2020e of 7.1%. Assuming a theoretical fair yield of 5% implies a fair value of EUR 74, and 4% implies EUR 92. Before the announcement of the transaction, DRI traded at a dividend yield of between 4% and 5%.
- Conclusion:** For the time being, we leave our rating unchanged. It should be considered that from today's point of view, it is rather difficult for outsiders to make own calculations on synergies. Even more important in our view, one reason (among others such as synergies, improving competitive strength of a combined entity) for both companies to do the merger could potentially be that Drillisch and United Internet identified increasing mid-term risks. In a stand alone case, UI mi not sufficiently have competitive access to mobile networks and technologies via its existing contracts. Drillisch potentially was in danger of not being able to fulfil the exaggerated expectations on growth and future profits. Furthermore, under a stand alone scenario, Drillisch probably would not have been strong enough to fully exploit the value of the MBA-MVNO contract. We need some more clarification and insights on such questions before we become more optimistic on DRI again.

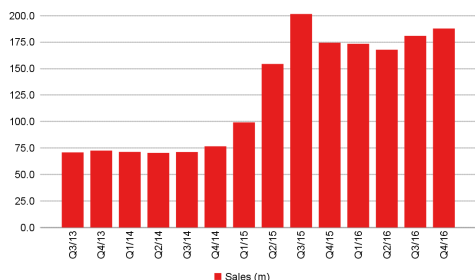


<b>Rel. Performance vs TecDAX:</b>	
1 month:	-5.1 %
6 months:	8.6 %
Year to date:	4.6 %
Trailing 12 months:	10.3 %

<b>Company events:</b>	
10.08.17	Q2
14.11.17	Q3

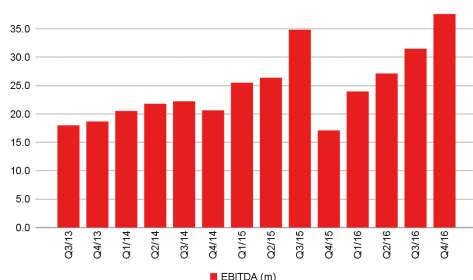
FY End: 31.12. in EUR m	CAGR (16-19e)	2013	2014	2015	2016	2017e	2018e	2019e
<b>Sales</b>	4.0 %	290	290	630	710	657	749	798
Change Sales yoy		-10.3 %	-0.3 %	117.3 %	12.8 %	-7.5 %	14.0 %	6.5 %
Gross profit margin		41.8 %	49.9 %	40.8 %	39.6 %	51.6 %	52.9 %	54.1 %
<b>EBITDA</b>	23.4 %	71	85	105	120	165	207	226
Margin		24.4 %	29.4 %	16.7 %	16.9 %	25.1 %	27.6 %	28.3 %
<b>EBIT</b>	44.2 %	61	75	69	59	103	145	176
Margin		21.1 %	26.0 %	11.0 %	8.3 %	15.7 %	19.4 %	22.1 %
<b>Net income</b>	65.1 %	156	50	46	26	66	98	119
<b>EPS</b>	61.2 %	3.25	0.91	0.84	0.48	1.20	1.66	2.01
EPS adj.	61.2 %	0.84	0.91	0.84	0.48	1.20	1.66	2.01
<b>DPS</b>	7.3 %	1.60	1.70	1.70	1.70	1.80	1.90	2.10
Dividend Yield		10.5 %	6.4 %	4.2 %	4.5 %	3.4 %	3.6 %	3.9 %
<b>FCFPS</b>		0.77	1.21	-1.58	1.36	2.05	2.26	2.46
<b>FCF / Market cap</b>		5.2 %	4.1 %	-4.0 %	3.2 %	3.8 %	4.6 %	5.0 %
<b>EV / Sales</b>		1.2 x	3.3 x	3.1 x	2.7 x	4.5 x	3.8 x	3.5 x
<b>EV / EBITDA</b>		5.0 x	11.3 x	18.6 x	15.7 x	18.1 x	13.8 x	12.5 x
<b>EV / EBIT</b>		5.8 x	12.8 x	28.3 x	32.2 x	29.0 x	19.7 x	16.1 x
<b>P / E</b>		4.7 x	29.4 x	47.7 x	79.3 x	44.4 x	32.1 x	26.5 x
<b>P / E adj.</b>		18.2 x	29.4 x	47.7 x	79.3 x	44.4 x	32.1 x	26.5 x
<b>FCF Potential Yield</b>		10.9 %	5.4 %	3.8 %	4.1 %	3.8 %	5.0 %	5.4 %
<b>Net Debt</b>		-99	-225	45	86	68	-57	-90
<b>ROCE (NOPAT)</b>		21.7 %	46.1 %	19.1 %	7.3 %	19.8 %	32.1 %	43.0 %
<b>Guidance:</b>		EBITDA 2017e: EUR 160m - EUR 170m						

Sales development in EUR m



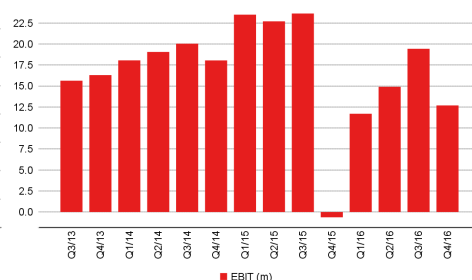
Source: Warburg Research

EBITDA development in EUR m



Source: Warburg Research

EBIT development in EUR m



Source: Warburg Research

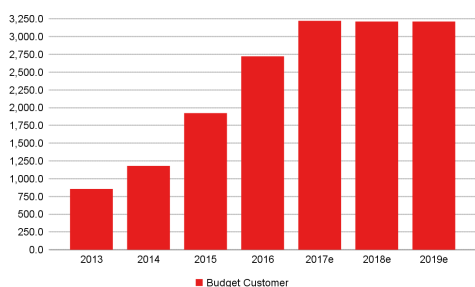
## Company Background

- 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

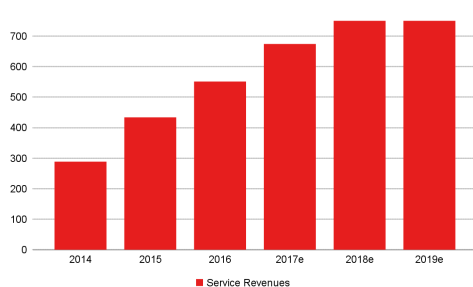
- Management track-record: Since 2003, management has adjusted the strategy several times and successfully adapted to market changes. Drillisch was transformed from a prepaid distributor to a leading MBA-MVNO in Germany
- Network and technology access: Based on its contracts, DRI can operate similar 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 several MSP contracts.

Budget customers in k



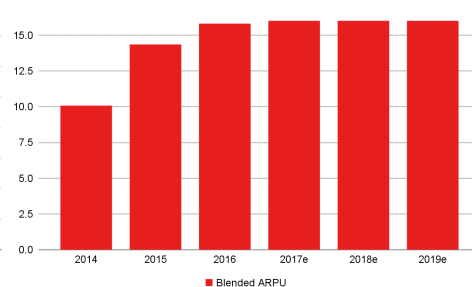
Source: Warburg Research

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	
	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e		
Sales	657	749	798	849	883	910	919	919	919	919	919	919	919	919	
Sales change	-7.5 %	14.0 %	6.5 %	6.4 %	4.0 %	3.0 %	1.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBIT	103	145	176	191	208	214	216	216	216	216	216	216	216	216	
EBIT-margin	15.7 %	19.4 %	22.1 %	22.5 %	23.5 %	23.5 %	23.5 %	23.5 %	23.5 %	23.5 %	23.5 %	23.5 %	23.5 %	23.5 %	
Tax rate (EBT)	33.4 %	32.0 %	32.0 %	32.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	31.0 %	
NOPAT	69	99	120	130	143	147	149	149	149	149	149	149	149	149	
Depreciation	62	62	50	51	44	45	37	37	37	37	37	37	37	37	
in % of Sales	9.4 %	8.3 %	6.3 %	6.0 %	5.0 %	5.0 %	4.0 %	4.0 %	4.0 %	4.0 %	4.0 %	4.0 %	4.0 %	4.0 %	
Changes in provisions	0	0	0	-1	-1	0	0	0	0	0	0	0	0	0	
Change in Liquidity from															
- Working Capital	3	8	5	5	3	2	1	0	0	0	0	0	0	0	
- Capex	16	19	19	15	15	15	16	16	15	14	14	14	14	14	
Capex in % of Sales	2.4 %	2.5 %	2.4 %	1.8 %	1.7 %	1.7 %	1.7 %	1.7 %	1.6 %	1.5 %	1.5 %	1.5 %	1.5 %	1.5 %	
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	112	134	146	159	169	175	169	170	171	172	172	172	172	172	
PV of FCF	108	122	125	129	128	125	114	107	102	96	90	85	80	1,262	
share of PVs	13.32 %			39.47 %										47.21 %	

**Model parameter**

Derivation of WACC:		Derivation of Beta:	
Debt ratio	12.00 %	Financial Strength	1.00
Cost of debt (after tax)	1.4 %	Liquidity (share)	1.00
Market return	7.00 %	Cyclicality	1.00
Risk free rate	1.50 %	Transparency	1.00
		Others	1.00
<b>WACC</b>	<b>6.33 %</b>	<b>Beta</b>	<b>1.00</b>

**Valuation (m)**

Present values 2029e	1,411		
Terminal Value	1,262		
Financial liabilities	140		
Pension liabilities	2		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	100	No. of shares (m)	59.3
<b>Equity Value</b>	<b>2,631</b>	<b>Value per share (EUR)</b>	<b>44.35</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
1.21	7.3 %	36.61	37.09	37.59	38.13	38.71	39.33	39.99	1.21	7.3 %	35.98	36.69	37.41	38.13	38.85	39.57	40.28
1.10	6.8 %	39.17	39.74	40.36	41.01	41.72	42.48	43.31	1.10	6.8 %	38.70	39.47	40.24	41.01	41.78	42.56	43.33
1.05	6.6 %	40.59	41.22	41.89	42.62	43.41	44.25	45.18	1.05	6.6 %	40.22	41.02	41.82	42.62	43.42	44.22	45.02
1.00	6.3 %	42.10	42.80	43.55	44.35	45.23	46.18	47.21	1.00	6.3 %	41.86	42.69	43.52	44.35	45.19	46.02	46.85
0.95	6.1 %	43.73	44.50	45.33	46.23	47.21	48.28	49.44	0.95	6.1 %	43.63	44.50	45.36	46.23	47.10	47.97	48.83
0.90	5.8 %	45.48	46.33	47.26	48.27	49.37	50.57	51.89	0.90	5.8 %	45.56	46.46	47.37	48.27	49.18	50.08	50.98
0.79	5.3 %	49.41	50.48	51.65	52.92	54.32	55.87	57.58	0.79	5.3 %	49.95	50.94	51.93	52.92	53.91	54.90	55.90

▪ ...

▪ 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	2013	2014	2015	2016	2017e	2018e	2019e	
Net Income before minorities	156	50	46	26	66	98	119	
+ Depreciation + Amortisation	10	10	36	61	62	62	50	
- Net Interest Income	117	-3	-3	-3	-4	-1	-1	
- Maintenance Capex	10	10	12	14	18	18	18	
+ Other	0	0	0	0	0	0	0	
<b>= Free Cash Flow Potential</b>	<b>39</b>	<b>52</b>	<b>74</b>	<b>77</b>	<b>114</b>	<b>143</b>	<b>152</b>	
FCF Potential Yield (on market EV)	10.9 %	5.4 %	3.8 %	4.1 %	3.8 %	5.0 %	5.4 %	
WACC	6.33 %	6.33 %	6.33 %	6.33 %	6.33 %	6.33 %	6.33 %	
<b>= Enterprise Value (EV)</b>	<b>356</b>	<b>961</b>	<b>1,961</b>	<b>1,891</b>	<b>2,986</b>	<b>2,862</b>	<b>2,829</b>	
<b>= Fair Enterprise Value</b>	<b>611</b>	<b>827</b>	<b>1,165</b>	<b>1,218</b>	<b>1,802</b>	<b>2,259</b>	<b>2,402</b>	
- Net Debt (Cash)	85	85	85	85	66	-59	-92	
- Pension Liabilities	2	2	2	2	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	
<b>= Fair Market Capitalisation</b>	<b>805</b>	<b>1,020</b>	<b>1,358</b>	<b>1,412</b>	<b>1,734</b>	<b>2,315</b>	<b>2,492</b>	
No. of shares (total) (m)	55	55	55	55	55	55	55	
<b>= Fair value per share (EUR)</b>	<b>14.69</b>	<b>18.64</b>	<b>24.80</b>	<b>25.78</b>	<b>31.66</b>	<b>42.28</b>	<b>45.50</b>	
premium (-) / discount (+) in %					-40.6 %	-20.7 %	-14.6 %	
<b>Sensitivity Fair value per Share (EUR)</b>								
	9.33 %	11.10	13.78	17.96	18.63	21.08	26.93	29.14
	8.33 %	12.01	15.01	19.70	20.44	23.76	30.05	32.45
	7.33 %	13.17	16.57	21.90	22.74	27.17	34.01	36.67
WACC	<b>6.33 %</b>	<b>14.69</b>	<b>18.64</b>	<b>24.80</b>	<b>25.78</b>	<b>31.66</b>	<b>39.24</b>	<b>42.23</b>
	5.33 %	16.79	21.47	28.79	29.96	37.84	46.42	49.87
	4.33 %	19.85	25.61	34.63	36.06	46.87	56.93	61.04
	3.33 %	24.75	32.25	43.97	45.83	61.32	73.75	78.93

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

<b>Valuation</b>							
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Price / Book	3.4 x	4.4 x	6.2 x	7.4 x	11.4 x	8.4 x	8.2 x
Book value per share ex intangibles	2.42	4.25	-0.46	-1.29	-0.91	1.59	2.31
EV / Sales	1.2 x	3.3 x	3.1 x	2.7 x	4.5 x	3.8 x	3.5 x
EV / EBITDA	5.0 x	11.3 x	18.6 x	15.7 x	18.1 x	13.8 x	12.5 x
EV / EBIT	5.8 x	12.8 x	28.3 x	32.2 x	29.0 x	19.7 x	16.1 x
EV / EBIT adj.*	5.8 x	12.8 x	28.3 x	32.2 x	29.0 x	19.7 x	16.1 x
P / FCF	19.1 x	24.1 x	n.a.	31.3 x	28.1 x	23.6 x	21.7 x
P / E	4.7 x	29.4 x	47.7 x	79.3 x	44.4 x	32.1 x	26.5 x
P / E adj.*	18.2 x	29.4 x	47.7 x	79.3 x	44.4 x	32.1 x	26.5 x
Dividend Yield	10.5 %	6.4 %	4.2 %	4.5 %	3.4 %	3.6 %	3.9 %
FCF Potential Yield (on market EV)	10.9 %	5.4 %	3.8 %	4.1 %	3.8 %	5.0 %	5.4 %

\*Adjustments made for: -

<b>Company Specific Items</b>							
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Service Revenues	n.a.	0	0	0	0	0	0
Budget Customer	0	0	0	0	0	0	0
Blended ARPU	n.a.	0	0	0	0	0	0

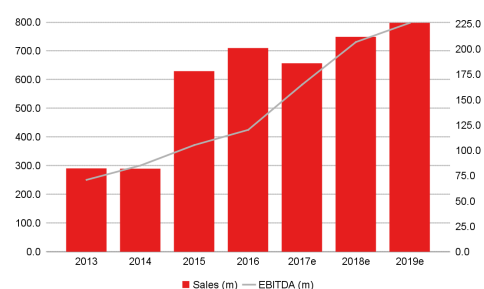
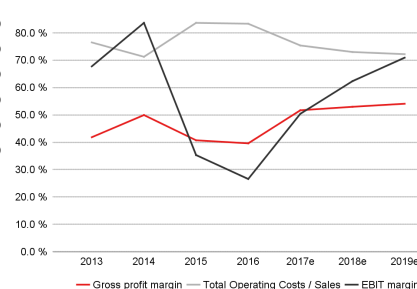
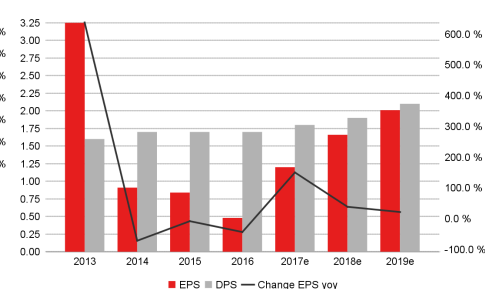
**Consolidated profit & loss**

In EUR m	2013	2014	2015	2016	2017e	2018e	2019e
<b>Sales</b>	<b>290</b>	<b>290</b>	<b>630</b>	<b>710</b>	<b>657</b>	<b>749</b>	<b>798</b>
Change Sales yoy	-10.3 %	-0.3 %	117.3 %	12.8 %	-7.5 %	14.0 %	6.5 %
Increase / decrease in inventory	0	0	0	0	0	0	0
Own work capitalised	2	2	2	2	3	4	4
<b>Total Sales</b>	<b>293</b>	<b>291</b>	<b>632</b>	<b>712</b>	<b>660</b>	<b>753</b>	<b>802</b>
Material expenses	171	147	375	431	321	357	370
<b>Gross profit</b>	<b>121</b>	<b>144</b>	<b>257</b>	<b>281</b>	<b>339</b>	<b>396</b>	<b>432</b>
<b>Gross profit margin</b>	<b>41.8 %</b>	<b>49.9 %</b>	<b>40.8 %</b>	<b>39.6 %</b>	<b>51.6 %</b>	<b>52.9 %</b>	<b>54.1 %</b>
Personnel expenses	24	25	47	60	63	65	67
Other operating income	4	1	20	19	12	11	10
Other operating expenses	30	36	125	119	123	135	149
Unfrequent items	0	0	0	0	0	0	0
<b>EBITDA</b>	<b>71</b>	<b>85</b>	<b>105</b>	<b>120</b>	<b>165</b>	<b>207</b>	<b>226</b>
<b>Margin</b>	<b>24.4 %</b>	<b>29.4 %</b>	<b>16.7 %</b>	<b>16.9 %</b>	<b>25.1 %</b>	<b>27.6 %</b>	<b>28.3 %</b>
Depreciation of fixed assets	1	1	5	4	4	4	4
<b>EBITA</b>	<b>70</b>	<b>84</b>	<b>101</b>	<b>117</b>	<b>161</b>	<b>203</b>	<b>222</b>
Amortisation of intangible assets	9	9	32	58	58	58	46
Goodwill amortisation	0	0	0	0	0	0	0
<b>EBIT</b>	<b>61</b>	<b>75</b>	<b>69</b>	<b>59</b>	<b>103</b>	<b>145</b>	<b>176</b>
<b>Margin</b>	<b>21.1 %</b>	<b>26.0 %</b>	<b>11.0 %</b>	<b>8.3 %</b>	<b>15.7 %</b>	<b>19.4 %</b>	<b>22.1 %</b>
<b>EBIT adj.</b>	<b>61</b>	<b>75</b>	<b>69</b>	<b>59</b>	<b>103</b>	<b>145</b>	<b>176</b>
Interest income	1	1	1	1	0	0	0
Interest expenses	50	4	4	4	4	1	1
Other financial income (loss)	166	0	0	0	0	0	0
<b>EBT</b>	<b>178</b>	<b>73</b>	<b>66</b>	<b>56</b>	<b>99</b>	<b>144</b>	<b>175</b>
<b>Margin</b>	<b>61.3 %</b>	<b>25.1 %</b>	<b>10.5 %</b>	<b>7.8 %</b>	<b>15.0 %</b>	<b>19.2 %</b>	<b>21.9 %</b>
Total taxes	22	23	20	29	33	46	56
<b>Net income from continuing operations</b>	<b>156</b>	<b>50</b>	<b>46</b>	<b>26</b>	<b>66</b>	<b>98</b>	<b>119</b>
Income from discontinued operations (net of tax)	0	0	0	0	0	0	0
<b>Net income before minorities</b>	<b>156</b>	<b>50</b>	<b>46</b>	<b>26</b>	<b>66</b>	<b>98</b>	<b>119</b>
Minority interest	0	0	0	0	0	0	0
<b>Net income</b>	<b>156</b>	<b>50</b>	<b>46</b>	<b>26</b>	<b>66</b>	<b>98</b>	<b>119</b>
<b>Margin</b>	<b>53.7 %</b>	<b>17.2 %</b>	<b>7.3 %</b>	<b>3.7 %</b>	<b>10.0 %</b>	<b>13.1 %</b>	<b>14.9 %</b>
Number of shares, average	48	55	55	55	55	59	59
<b>EPS</b>	<b>3.25</b>	<b>0.91</b>	<b>0.84</b>	<b>0.48</b>	<b>1.20</b>	<b>1.66</b>	<b>2.01</b>
EPS adj.	0.84	0.91	0.84	0.48	1.20	1.66	2.01

\*Adjustments made for:

**Guidance: EBITDA 2017e: EUR 160m - EUR 170m**
**Financial Ratios**

	2013	2014	2015	2016	2017e	2018e	2019e
Total Operating Costs / Sales	76.4 %	71.2 %	83.6 %	83.3 %	75.3 %	72.9 %	72.2 %
Operating Leverage	-1.0 x	-81.7 x	-0.1 x	-1.2 x	-10.1 x	2.9 x	3.3 x
EBITDA / Interest expenses	1.4 x	23.8 x	26.1 x	27.8 x	39.3 x	207.0 x	226.0 x
Tax rate (EBT)	12.5 %	31.0 %	30.4 %	52.4 %	33.4 %	32.0 %	32.0 %
Dividend Payout Ratio	49.3 %	185.9 %	203.2 %	352.2 %	149.8 %	114.7 %	104.3 %
Sales per Employee	829,911	827,566	1,798,703	2,028,606	1,877,143	2,140,000	2,280,000

**Sales, EBITDA**  
in EUR m

**Operating Performance**  
in %

**Performance per Share**


Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

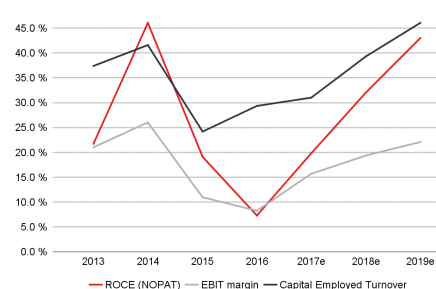
**Consolidated balance sheet**

In EUR m	2013	2014	2015	2016	2017e	2018e	2019e
<b>Assets</b>							
Goodwill and other intangible assets	101	99	378	354	306	261	228
thereof other intangible assets	34	31	271	255	207	162	129
thereof Goodwill	67	67	107	99	99	99	99
Property, plant and equipment	1	3	11	11	13	15	17
Financial assets	0	0	0	1	1	1	1
Other long-term assets	0	0	0	0	0	0	0
<b>Fixed assets</b>	<b>103</b>	<b>101</b>	<b>390</b>	<b>365</b>	<b>319</b>	<b>276</b>	<b>245</b>
Inventories	6	5	32	10	13	15	16
Accounts receivable	45	48	89	93	92	105	114
Liquid assets	187	317	123	93	109	129	132
Other short-term assets	11	4	55	35	34	42	42
<b>Current assets</b>	<b>249</b>	<b>374</b>	<b>299</b>	<b>230</b>	<b>248</b>	<b>290</b>	<b>304</b>
<b>Total Assets</b>	<b>352</b>	<b>476</b>	<b>689</b>	<b>595</b>	<b>567</b>	<b>566</b>	<b>549</b>
<b>Liabilities and shareholders' equity</b>							
Subscribed capital	53	59	60	60	60	65	65
Capital reserve	96	231	296	296	296	391	391
Retained earnings	31	31	31	31	-165	-206	-220
Other equity components	37	10	-34	-104	66	98	119
Shareholders' equity	218	331	353	283	256	348	355
Minority interest	0	0	0	0	0	0	0
<b>Total equity</b>	<b>218</b>	<b>331</b>	<b>353</b>	<b>283</b>	<b>256</b>	<b>348</b>	<b>355</b>
Provisions	11	9	19	24	25	29	30
thereof provisions for pensions and similar obligations	1	2	1	2	2	2	2
Financial liabilities (total)	87	91	167	178	174	70	40
thereof short-term financial liabilities	0	0	0	50	50	50	0
Accounts payable	16	22	81	45	43	49	53
Other liabilities	21	23	69	66	68	70	71
<b>Liabilities</b>	<b>135</b>	<b>144</b>	<b>336</b>	<b>312</b>	<b>310</b>	<b>219</b>	<b>194</b>
<b>Total liabilities and shareholders' equity</b>	<b>352</b>	<b>476</b>	<b>689</b>	<b>595</b>	<b>567</b>	<b>566</b>	<b>549</b>

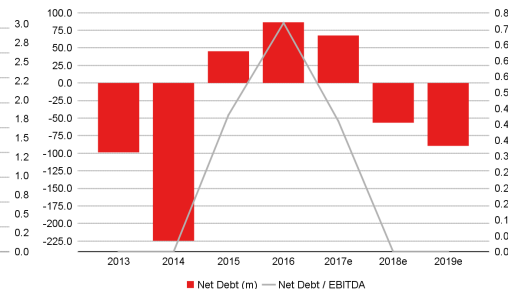
**Financial Ratios**

	2013	2014	2015	2016	2017e	2018e	2019e
<b>Efficiency of Capital Employment</b>							
Operating Assets Turnover	9.8 x	10.4 x	13.7 x	11.1 x	9.5 x	9.5 x	9.3 x
Capital Employed Turnover	2.4 x	2.7 x	1.6 x	1.9 x	2.0 x	2.6 x	3.0 x
ROA	151.5 %	49.1 %	11.9 %	7.2 %	20.6 %	35.5 %	48.6 %
<b>Return on Capital</b>							
ROCE (NOPAT)	21.7 %	46.1 %	19.1 %	7.3 %	19.8 %	32.1 %	43.0 %
ROE	92.2 %	18.1 %	13.5 %	8.3 %	24.4 %	32.4 %	33.9 %
Adj. ROE	23.8 %	18.1 %	13.5 %	8.3 %	24.4 %	32.4 %	33.9 %
<b>Balance sheet quality</b>							
Net Debt	-99	-225	45	86	68	-57	-90
Net Financial Debt	-100	-226	44	85	66	-59	-92
Net Gearing	-45.4 %	-67.9 %	12.8 %	30.5 %	26.4 %	-16.3 %	-25.3 %
Net Fin. Debt / EBITDA	n.a.	n.a.	41.6 %	70.5 %	39.8 %	n.a.	n.a.
Book Value / Share	4.5	6.0	6.4	5.2	4.7	6.4	6.5
Book value per share ex intangibles	2.4	4.2	-0.5	-1.3	-0.9	1.6	2.3

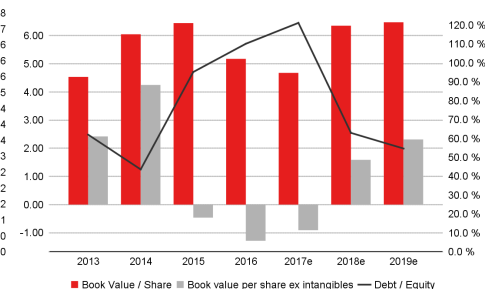
**ROCE Development**



**Net debt in EUR m**



**Book Value per Share in EUR**



Source: Warburg Research

Source: Warburg Research

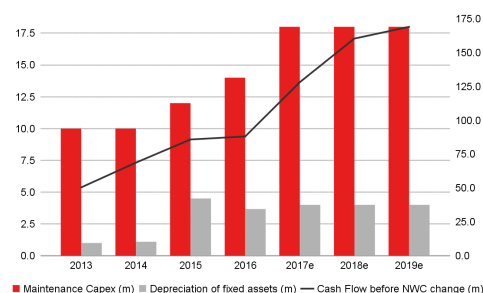
Source: Warburg Research

**Consolidated cash flow statement**

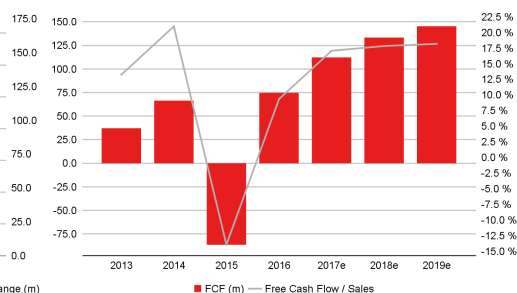
In EUR m	2013	2014	2015	2016	2017e	2018e	2019e
Net income	156	50	46	26	66	98	119
Depreciation of fixed assets	1	1	5	4	4	4	4
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	9	9	32	58	58	58	46
Increase/decrease in long-term provisions	0	1	0	0	0	0	0
Other non-cash income and expenses	-115	9	4	0	0	0	0
<b>Cash Flow before NWC change</b>	<b>51</b>	<b>69</b>	<b>86</b>	<b>88</b>	<b>128</b>	<b>160</b>	<b>169</b>
Increase / decrease in inventory	2	1	-27	22	-3	-2	-1
Increase / decrease in accounts receivable	-3	-2	-41	-4	1	-13	-9
Increase / decrease in accounts payable	-2	4	58	-37	-1	7	5
Increase / decrease in other working capital positions	10	0	0	11	3	0	0
Increase / decrease in working capital (total)	6	3	-9	-8	0	-8	-5
<b>Net cash provided by operating activities [1]</b>	<b>57</b>	<b>72</b>	<b>76</b>	<b>81</b>	<b>128</b>	<b>152</b>	<b>164</b>
Investments in intangible assets	-17	-9	-160	-9	-10	-13	-13
Investments in property, plant and equipment	-2	-2	-4	-5	-6	-6	-6
Payments for acquisitions	0	0	-7	-20	0	0	0
Financial investments	0	0	1	0	0	0	0
Income from asset disposals	370	1	0	1	0	0	0
<b>Net cash provided by investing activities [2]</b>	<b>350</b>	<b>-5</b>	<b>-169</b>	<b>-25</b>	<b>-16</b>	<b>-19</b>	<b>-19</b>
Change in financial liabilities	-183	0	0	10	-3	-104	-30
Dividends paid	-62	-77	-90	-93	-93	-106	-112
Purchase of own shares	-8	0	0	0	0	0	0
Capital measures	0	0	0	0	0	0	0
Other	-44	140	-10	-4	0	98	0
<b>Net cash provided by financing activities [3]</b>	<b>-298</b>	<b>63</b>	<b>-101</b>	<b>-86</b>	<b>-96</b>	<b>-113</b>	<b>-142</b>
<b>Change in liquid funds [1]+[2]+[3]</b>	<b>110</b>	<b>130</b>	<b>-194</b>	<b>-30</b>	<b>16</b>	<b>20</b>	<b>3</b>
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>187</b>	<b>317</b>	<b>123</b>	<b>93</b>	<b>109</b>	<b>129</b>	<b>132</b>

**Financial Ratios**

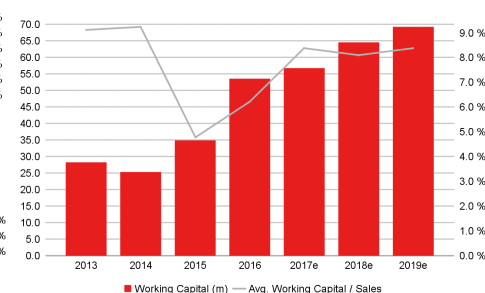
	2013	2014	2015	2016	2017e	2018e	2019e
<b>Cash Flow</b>							
FCF	37	66	-87	75	112	133	145
Free Cash Flow / Sales	13.2 %	21.0 %	-13.9 %	9.4 %	17.1 %	17.8 %	18.2 %
Free Cash Flow Potential	39	52	74	77	114	143	152
Free Cash Flow / Net Profit	24.7 %	122.2 %	-189.9 %	251.7 %	170.6 %	136.2 %	122.1 %
Interest Received / Avg. Cash	1.0 %	0.4 %	0.3 %	1.1 %	0.0 %	0.0 %	0.0 %
Interest Paid / Avg. Debt	24.2 %	4.0 %	3.1 %	2.5 %	2.4 %	0.8 %	1.8 %
<b>Management of Funds</b>							
Investment ratio	6.4 %	3.8 %	26.1 %	2.0 %	2.4 %	2.5 %	2.4 %
Maint. Capex / Sales	3.4 %	3.5 %	1.9 %	2.0 %	2.7 %	2.4 %	2.3 %
Capex / Dep	191.8 %	110.9 %	454.7 %	22.8 %	25.8 %	30.6 %	38.0 %
Avg. Working Capital / Sales	9.1 %	9.2 %	4.8 %	6.2 %	8.4 %	8.1 %	8.4 %
Trade Debtors / Trade Creditors	286.7 %	218.1 %	109.4 %	206.2 %	212.5 %	212.8 %	216.6 %
Inventory Turnover	27.5 x	26.8 x	11.6 x	43.2 x	24.5 x	23.8 x	23.1 x
Receivables collection period (days)	57	60	51	48	51	51	52
Payables payment period (days)	34	54	79	38	49	50	52
Cash conversion cycle (Days)	-34	-53	-48	-32	-38	-39	-42

**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	6	<a href="http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0005545503.htm">http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0005545503.htm</a>

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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-	<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 – ANALYSED RESEARCH UNIVERSE BY RATING**

Rating	Number of stocks	% of Universe
Buy	105	53
Hold	83	42
Sell	10	5
Rating suspended	1	1
<b>Total</b>	<b>199</b>	<b>100</b>

**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	29	69
Hold	10	24
Sell	2	5
Rating suspended	1	2
<b>Total</b>	<b>42</b>	<b>100</b>

**PRICE AND RATING HISTORY DRILLISCH AS OF 13.06.2017**


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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