

Buy (Hold) EUR 72.00 (EUR 56.00) Price EUR 52.91 Upside 36.1 %	Value Indicators: EUR FCF-Value Potential: 0.00 SotP: 0.00	Share data: Bloomberg: DRI GR Reuters: DRIG ISIN: DE0005545503	Description: Virtual mobile network operator
	Market Snapshot: EUR m Market cap: 2,897 No. of shares (m): 55 EV: 2,965 Freefloat MC: 2,315 Ø Trad. Vol. (30d): 9.28 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): 2017e Beta: 1.0 Price / Book: 11.3 x Equity Ratio: 45 % Net Fin. Debt / EBITDA: 0.4 x Net Debt / EBITDA: 0.4 x

Window of opportunity to buy Drillisch shares; Playing the synergy case

UI's voluntary tender offer (cash offer of EUR 50 for each Drillisch share) ended yesterday, Wednesday (12.07.17) and investor focus is now likely to turn to the extraordinary general meeting of Drillisch, scheduled for July 25, at which a 75% vote in favour of the UI-DRI transaction is required. We believe that potential buyers of Drillisch shares may be awaiting the outcome of the shareholders' vote. This provides a window of opportunity from now until July 25 to Buy Drillisch shares.

Drillisch currently has a market cap of roughly EUR 3.5bn. If the AGM approves the transaction, Drillisch's market cap will increase to roughly EUR 9.2bn and UI will hold roughly 72%, which implies a freefloat market cap of EUR 2.5bn.

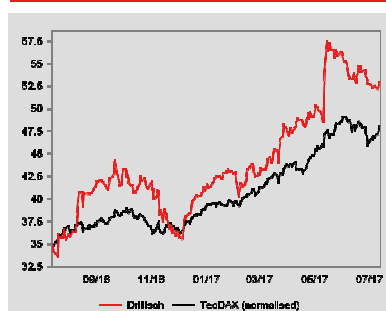
Important to note is that there is no profit transfer agreement between UI and DRI for three years at least. Ralph Dommermuth (currently 42% owner of UI and UI's CEO) will become the CEO of Drillisch. We conclude that Mr Dommermuth will position Drillisch as a cash cow and maximize Drillisch's dividend payments. UI needs the cash for its M&A strategy in its Applications entity. We believe Mr. Dommermuth will continue or even improve Drillisch's shareholder friendly dividend policy. If UI implements a profit transfer agreement after three years, UI has to guarantee a fixed perpetuity dividend payment to Drillisch shareholders. In our view, the short period of time between now and July 25 offers a unique window of opportunity to buy the Drillisch share.

Our view is supported by fundamental considerations:

- In our latest Drillisch comment, we calculated FCF potential of EUR 675m by 2020e ("Dividend scenario by 2020e" 13.06.2017). Previously, we took a WACC of 6.3% in our DCF approach. Assuming steady-state FCF growth after 2020e of 2% (which is a rather cautious assumption regarding the expected synergies after 2020e), the fair value would be EUR 72.
- In 2020e we expect net profit for 1&1 of EUR 400m and for DRI of EUR 150m (DRI's own projections: EUR 198m!). Adding synergies of EUR 70m after tax results in an expected net profit (before potential PPA) of EUR 620m or EUR 3.54 per DRI share (post transaction). Hence, based on our assumption, DRI newco is implicitly trading at a 2020e 15x P/E (before potential PPA). Given the growth prospects between 2017e and 2020e and the period 2020e we see the implicit valuation at current levels as attractive.

Short-term news-flow (Q2/17 results) should be in line with market expectations in terms of customer growth. We increase our DCF-based PT from EUR 56 to EUR 72 based on our FCF-approach for 2020e for the Drillisch newco. We think that the execution risk for the UI-DRI transaction at the EGM is limited and acceptable. If the merger between 1&1 and DRI fails, prices for both shares will fall immediately and sharply. Rating is changed from Hold to Buy.

We will fine-tune our model after the publication of Q2/17 results. Expectations shown below are still our expectations for Drillisch as a stand-alone company. The UI-DRI-transaction is not included.

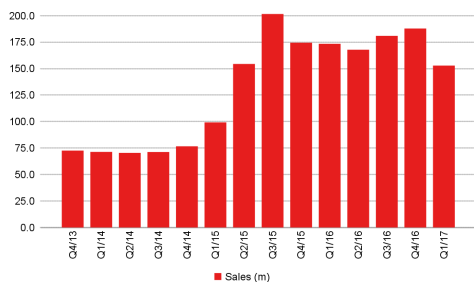


Rel. Performance vs TecDAX:	
1 month:	-0.8 %
6 months:	2.6 %
Year to date:	5.5 %
Trailing 12 months:	11.9 %

Company events:	
10.08.17	Q2
14.11.17	Q3

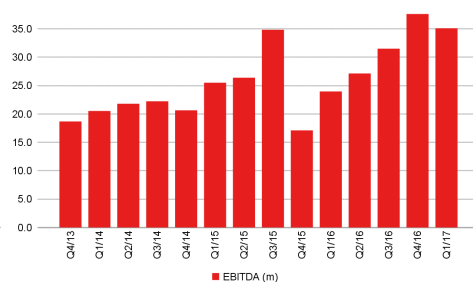
FY End: 31.12. in EUR m	CAGR (16-19e)	2013	2014	2015	2016	2017e	2018e	2019e
Sales	4.0 %	290	290	630	710	657	749	798
Change Sales yoy		-10.3 %	-0.3 %	117.3 %	12.8 %	-7.5 %	14.0 %	6.5 %
Gross profit margin		41.8 %	49.9 %	40.8 %	39.6 %	51.6 %	52.9 %	54.1 %
EBITDA	23.4 %	71	85	105	120	165	207	226
Margin		24.4 %	29.4 %	16.7 %	16.9 %	25.1 %	27.6 %	28.3 %
EBIT	44.2 %	61	75	69	59	103	145	176
Margin		21.1 %	26.0 %	11.0 %	8.3 %	15.7 %	19.4 %	22.1 %
Net income	65.1 %	156	50	46	26	66	98	119
EPS	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
DPS	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 %	4.0 %
FCFPS		0.77	1.21	-1.58	1.36	2.05	2.26	2.46
FCF / Market cap		5.2 %	4.1 %	-4.0 %	3.2 %	3.9 %	4.6 %	5.0 %
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	18.0 x	13.7 x	12.4 x
EV / EBIT		5.8 x	12.8 x	28.3 x	32.2 x	28.8 x	19.6 x	16.0 x
P / E		4.7 x	29.4 x	47.7 x	79.3 x	44.1 x	31.9 x	26.3 x
P / E adj.		18.2 x	29.4 x	47.7 x	79.3 x	44.1 x	31.9 x	26.3 x
FCF Potential Yield		10.9 %	5.4 %	3.8 %	4.1 %	3.8 %	5.0 %	5.4 %
Net Debt		-99	-225	45	86	68	-57	-90
ROCE (NOPAT)		21.7 %	46.1 %	19.1 %	7.3 %	19.8 %	32.1 %	43.0 %
Guidance:		EBITDA 2017e: EUR 160m - EUR 170m						

Sales development
in EUR m



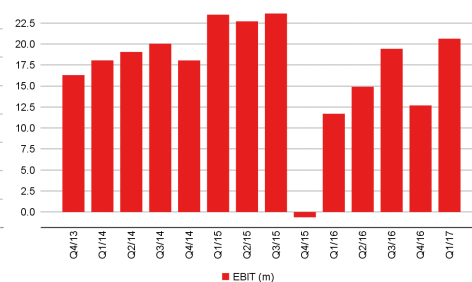
Source: Warburg Research

EBITDA development
in EUR m



Source: Warburg Research

EBIT development
in EUR m



Source: Warburg Research

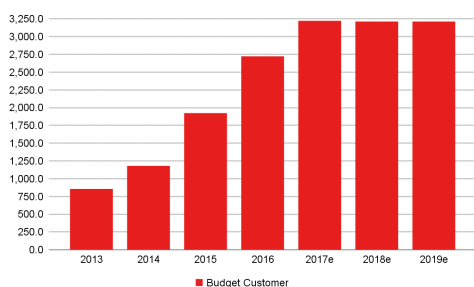
Company Background

- 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

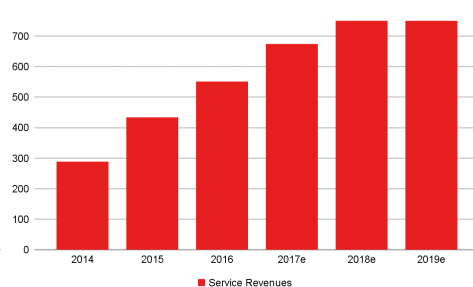
- Management track-record: Since 2003, management has adjusted the strategy several times and successfully adapted to market changes. Drillisch was transformed from a prepaid distributor to a leading MBA-MVNO in Germany
- Network and technology access: Based on its contracts, DRI can operate similar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



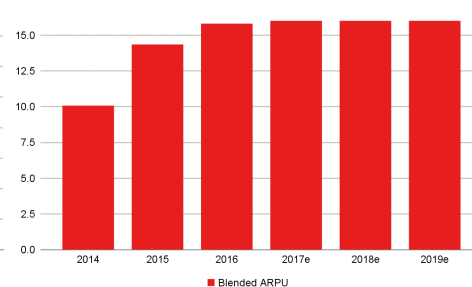
Source: Warburg Research

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
WACC	6.33 %	Beta	1.00

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
Equity Value	2,631	Value per share (EUR)	44.35

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	
= Free Cash Flow Potential	39	52	74	77	114	143	152	
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 %	
= Enterprise Value (EV)	356	961	1,961	1,891	2,965	2,841	2,808	
= Fair Enterprise Value	611	827	1,165	1,218	1,802	2,259	2,402	
- 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	
= Fair Market Capitalisation	805	1,020	1,358	1,412	1,734	2,315	2,492	
Aktienanzahl (Mio.)	48	55	55	55	55	59	59	
= Fair value per share (EUR)	16.76	18.64	24.80	25.78	31.66	39.17	42.16	
premium (-) / discount (+) in %					-40.2 %	-26.0 %	-20.3 %	
Sensitivity Fair value per Share (EUR)								
	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	6.33 %	14.69	18.64	24.80	25.78	31.66	39.24	42.23
	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

Valuation							
	2013	2014	2015	2016	2017e	2018e	2019e
Price / Book	3.4 x	4.4 x	6.2 x	7.4 x	11.3 x	8.3 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	18.0 x	13.7 x	12.4 x
EV / EBIT	5.8 x	12.8 x	28.3 x	32.2 x	28.8 x	19.6 x	16.0 x
EV / EBIT adj.*	5.8 x	12.8 x	28.3 x	32.2 x	28.8 x	19.6 x	16.0 x
P / FCF	19.1 x	24.1 x	n.a.	31.3 x	27.9 x	23.5 x	21.5 x
P / E	4.7 x	29.4 x	47.7 x	79.3 x	44.1 x	31.9 x	26.3 x
P / E adj.*	18.2 x	29.4 x	47.7 x	79.3 x	44.1 x	31.9 x	26.3 x
Dividend Yield	10.5 %	6.4 %	4.2 %	4.5 %	3.4 %	3.6 %	4.0 %
FCF Potential Yield (on market EV)	10.9 %	5.4 %	3.8 %	4.1 %	3.8 %	5.0 %	5.4 %

*Adjustments made for: -

Company Specific Items							
	2013	2014	2015	2016	2017e	2018e	2019e
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

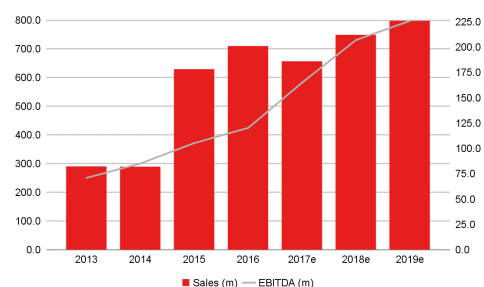
Consolidated profit & loss

In EUR m	2013	2014	2015	2016	2017e	2018e	2019e
Sales	290	290	630	710	657	749	798
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
Total Sales	293	291	632	712	660	753	802
Material expenses	171	147	375	431	321	357	370
Gross profit	121	144	257	281	339	396	432
<i>Gross profit margin</i>	<i>41.8 %</i>	<i>49.9 %</i>	<i>40.8 %</i>	<i>39.6 %</i>	<i>51.6 %</i>	<i>52.9 %</i>	<i>54.1 %</i>
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
EBITDA	71	85	105	120	165	207	226
<i>Margin</i>	<i>24.4 %</i>	<i>29.4 %</i>	<i>16.7 %</i>	<i>16.9 %</i>	<i>25.1 %</i>	<i>27.6 %</i>	<i>28.3 %</i>
Depreciation of fixed assets	1	1	5	4	4	4	4
EBITA	70	84	101	117	161	203	222
Amortisation of intangible assets	9	9	32	58	58	58	46
Goodwill amortisation	0	0	0	0	0	0	0
EBIT	61	75	69	59	103	145	176
<i>Margin</i>	<i>21.1 %</i>	<i>26.0 %</i>	<i>11.0 %</i>	<i>8.3 %</i>	<i>15.7 %</i>	<i>19.4 %</i>	<i>22.1 %</i>
EBIT adj.	61	75	69	59	103	145	176
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
EBT	178	73	66	56	99	144	175
<i>Margin</i>	<i>61.3 %</i>	<i>25.1 %</i>	<i>10.5 %</i>	<i>7.8 %</i>	<i>15.0 %</i>	<i>19.2 %</i>	<i>21.9 %</i>
Total taxes	22	23	20	29	33	46	56
Net income from continuing operations	156	50	46	26	66	98	119
Income from discontinued operations (net of tax)	0	0	0	0	0	0	0
Net income before minorities	156	50	46	26	66	98	119
Minority interest	0	0	0	0	0	0	0
Net income	156	50	46	26	66	98	119
<i>Margin</i>	<i>53.7 %</i>	<i>17.2 %</i>	<i>7.3 %</i>	<i>3.7 %</i>	<i>10.0 %</i>	<i>13.1 %</i>	<i>14.9 %</i>
Number of shares, average	48	55	55	55	55	59	59
EPS	3.25	0.91	0.84	0.48	1.20	1.66	2.01
EPS adj.	0.84	0.91	0.84	0.48	1.20	1.66	2.01

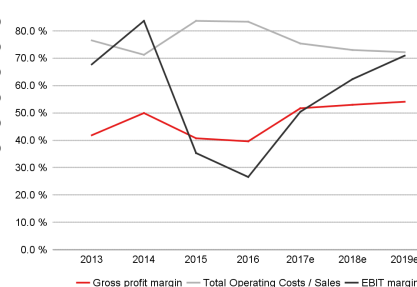
*Adjustments made for:

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

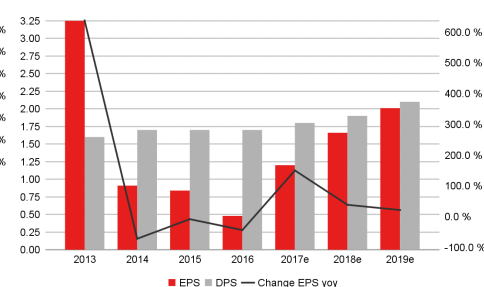
	2013	2014	2015	2016	2017e	2018e	2019e
Total Operating Costs / Sales	76.4 %	71.2 %	83.6 %	83.3 %	75.3 %	72.9 %	72.2 %
Operating Leverage	-1.0 x	-81.7 x	-0.1 x	-1.2 x	-10.1 x	2.9 x	3.3 x
EBITDA / Interest expenses	1.4 x	23.8 x	26.1 x	27.8 x	39.3 x	207.0 x	226.0 x
Tax rate (EBT)	12.5 %	31.0 %	30.4 %	52.4 %	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


Source: Warburg Research

Operating Performance
in %


Source: Warburg Research

Performance per Share


Source: Warburg Research

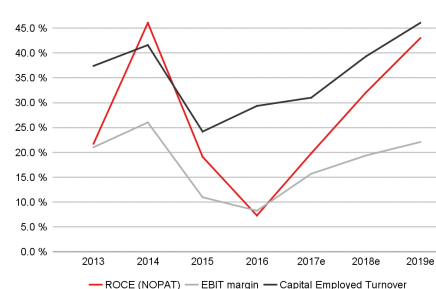
Consolidated balance sheet

In EUR m	2013	2014	2015	2016	2017e	2018e	2019e
Assets							
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
Fixed assets	103	101	390	365	319	276	245
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
Current assets	249	374	299	230	248	290	304
Total Assets	352	476	689	595	567	566	549
Liabilities and shareholders' equity							
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
Total equity	218	331	353	283	256	348	355
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
Liabilities	135	144	336	312	310	219	194
Total liabilities and shareholders' equity	352	476	689	595	567	566	549

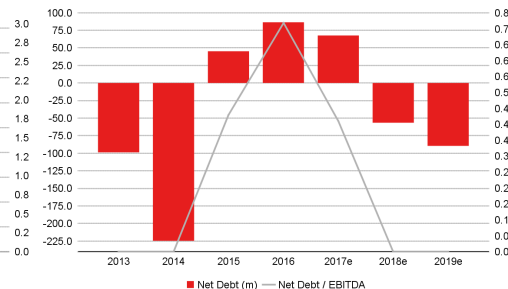
Financial Ratios

	2013	2014	2015	2016	2017e	2018e	2019e
Efficiency of Capital Employment							
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 %
Return on Capital							
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 %
Balance sheet quality							
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

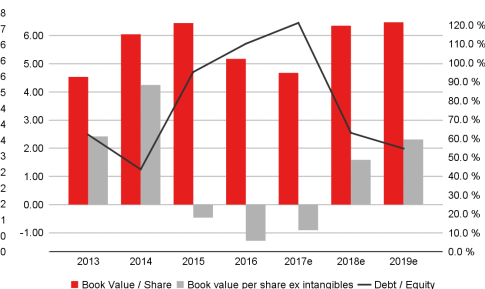
ROCE Development



Net debt in EUR m



Book Value per Share in EUR



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

Consolidated cash flow statement

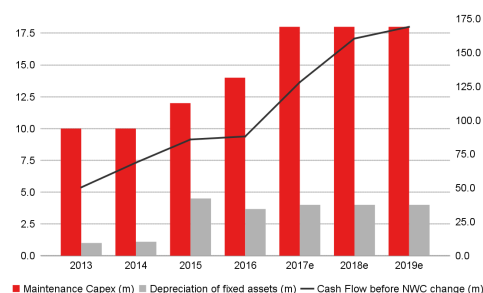
In EUR m	2013	2014	2015	2016	2017e	2018e	2019e
Net income	156	50	46	26	66	98	119
Depreciation of fixed assets	1	1	5	4	4	4	4
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	9	9	32	58	58	58	46
Increase/decrease in long-term provisions	0	1	0	0	0	0	0
Other non-cash income and expenses	-115	9	4	0	0	0	0
Cash Flow before NWC change	51	69	86	88	128	160	169
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
Net cash provided by operating activities [1]	57	72	76	81	128	152	164
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
Net cash provided by investing activities [2]	350	-5	-169	-25	-16	-19	-19
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
Net cash provided by financing activities [3]	-298	63	-101	-86	-96	-113	-142
Change in liquid funds [1]+[2]+[3]	110	130	-194	-30	16	20	3
Effects of exchange-rate changes on cash	0	0	0	0	0	0	0
Cash and cash equivalent at end of period	187	317	123	93	109	129	132

Financial Ratios

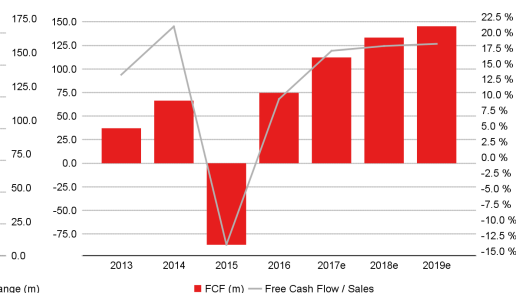
	2013	2014	2015	2016	2017e	2018e	2019e
Cash Flow							
FCF	37	66	-87	75	112	133	145
Free Cash Flow / Sales	13.2 %	21.0 %	-13.9 %	9.4 %	17.1 %	17.8 %	18.2 %
Free Cash Flow Potential	39	52	74	77	114	143	152
Free Cash Flow / Net Profit	24.7 %	122.2 %	-189.9 %	251.7 %	170.6 %	136.2 %	122.1 %
Interest Received / 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 %
Management of Funds							
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

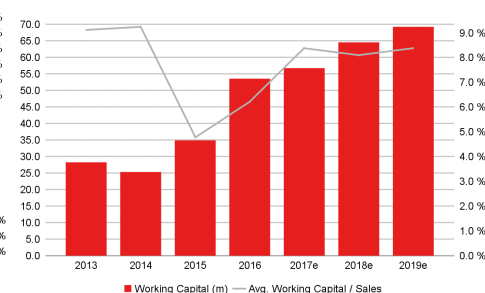
in EUR m



Free Cash Flow Generation



Working Capital



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

LEGAL DISCLAIMER

This research report (“investment recommendation” or “recommendation”) was prepared by the Warburg Research GmbH, a fully owned subsidiary of the M.M.Warburg & CO (AG & Co.) KGaA and is passed on by the M.M.Warburg & CO (AG & Co.) KGaA. It contains selected information and does not purport to be complete. The report is based on publicly available information and data (“the information”) believed to be accurate and complete. Warburg Research GmbH neither examines the information for accuracy and completeness, nor guarantees its accuracy and completeness. Possible errors or incompleteness of the information do not constitute grounds for liability of M.M.Warburg & CO (AG & Co.) KGaA or Warburg Research GmbH for damages of any kind whatsoever, and M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH are not liable for indirect and/or direct and/or consequential damages. In particular, neither M.M.Warburg & CO (AG & Co.) KGaA nor Warburg Research GmbH are liable for the statements, plans or other details contained in these analyses concerning the examined companies, their affiliated companies, strategies, economic situations, market and competitive situations, regulatory environment, etc. Although due care has been taken in compiling this research report, it cannot be excluded that it is incomplete or contains errors. M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH, their shareholders and employees are not liable for the accuracy and completeness of the statements, estimations and the conclusions derived from the information contained in this document. Provided a research report is being transmitted in connection with an existing contractual relationship, i.e. financial advisory or similar services, the liability of M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH shall be restricted to gross negligence and wilful misconduct. In case of failure in essential tasks, M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH are liable for normal negligence. In any case, the liability of M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH is limited to typical, expectable damages. This research report does not constitute an offer or a solicitation of an offer for the purchase or sale of any security. Partners, directors or employees of M.M.Warburg & CO (AG & Co.) KGaA, Warburg Research GmbH or affiliated companies may serve in a position of responsibility, i.e. on the board of directors of companies mentioned in the report. Opinions expressed in this report are subject to change without notice. All rights reserved.

COPYRIGHT NOTICE

This work including all its parts is protected by copyright. Any use beyond the limits provided by copyright law without permission is prohibited and punishable. This applies, in particular, to reproductions, translations, microfilming, and storage and processing on electronic media of the entire content or parts thereof.

DISCLOSURE ACCORDING TO §34B OF THE GERMAN SECURITIES TRADING ACT (WHPG), THE ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS (FINANV) AND MAR INCL. COMMISSION DELEGATED REGULATION (EU) 2016/958

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 (see also <http://www.mmwarburg.de/disclaimer/disclaimer.htm#Valuation>). 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.

This commentary reflects the opinion of the relevant author at the point in time of its compilation. A change in the fundamental factors underlying the valuation can mean that the valuation is subsequently no longer accurate. Whether, or in what time frame, an update of this commentary follows is not determined in advance.

Additional internal and organisational arrangements to prevent or to deal with conflicts of interest have been implemented. Among these are the spatial separation of Warburg Research GmbH from M.M.Warburg & CO (AG & Co.) KGaA and the creation of areas of confidentiality. This prevents the exchange of information, which could form the basis of conflicts of interest for Warburg Research in terms of the analysed issuers or their financial instruments.

The analysts of Warburg Research GmbH do not receive a gratuity – directly or indirectly – from the investment banking activities of M.M.Warburg & CO (AG & Co.) KGaA or of any company within the Warburg Group.

All prices of financial instruments given in this investment recommendation are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH are subject to the supervision of the Federal Financial Supervisory Authority, BaFin. M.M.Warburg & CO (AG & Co.) KGaA is additionally subject to the supervision of the European Central Bank (ECB).

SOURCES

All data and consensus estimates have been obtained from FactSet except where stated otherwise.

Additional information for clients in the United States

1. This research report (the "Report") is a product of Warburg Research GmbH, Germany, a fully owned subsidiary of M.M.Warburg & CO (AG & Co.) KGaA, Germany (in the following collectively "Warburg"). Warburg is the employer of the research analyst(s), who have prepared the Report. The research analyst(s) reside outside the United States and are not associated persons of any U.S. regulated broker-dealer and therefore are not subject to the supervision of any U.S. regulated broker-dealer.
2. The Report is provided in the United States for distribution solely to "major U.S. institutional investors" under Rule 15a-6 of the U.S. Securities Exchange Act of 1934.
3. Any recipient of the Report should effect transactions in the securities discussed in the Report only through J.P.P. Euro-Securities, Inc., Delaware.
4. J.P.P. Euro-Securities, Inc. does not accept or receive any compensation of any kind for the dissemination of the research reports from Warburg.

Reference in accordance with section 34b of the German Securities Trading Act (WpHG), the Ordinance on the Analysis of Financial Instruments (FinAnV), MAR and Commission Delegated Regulation (EU) regarding possible conflicts of interest with companies analysed:

- 1- Warburg Research, or an affiliated company, or an employee of one of these companies responsible for the compilation of the research, hold a **share of more than 5%** of the equity capital of the analysed company.
- 2- Warburg Research, or an affiliated company, within the last twelve months participated in the **management of a consortium** for an issue in the course of a public offering of such financial instruments, which are, or the issuer of which is, the subject of the investment recommendation.
- 3- Companies affiliated with Warburg Research **manage financial instruments**, which are, or the issuers of which are, subject of the investment recommendation, in a market based on the provision of buy or sell contracts.
- 4- MMWB, Warburg Research, or an affiliated company, reached an agreement with the issuer to provide **investment banking and/or investment services** and the relevant agreement was in force in the last 12 months or there arose for this period, based on the relevant agreement, the obligation to provide or to receive a service or compensation - provided that this disclosure does not result in the disclosure of confidential business information.
- 5- The company compiling the analysis or an affiliated company had reached an **agreement on the compilation of the investment recommendation** with the analysed company.
- 6- Companies affiliated with Warburg Research **regularly trade** financial instruments of the analysed company or derivatives of these.
- 6a- Warburg Research, or an affiliated company, holds a **net long position of more than 0.5%** of the total issued share capital of the analysed company.
- 6b- Warburg Research, or an affiliated company, holds a **net short position of more than 0.5%** of the total issued share capital of the analysed company.
- 6c- The issuer holds shares of more than 5% of the total issued capital of Warburg Research or an affiliated company.
- 7- The company preparing the analysis as well as its affiliated companies and employees have **other important interests** in relation to the analysed company, such as, for example, the exercising of mandates at analysed companies.

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

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-	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	106	54
Hold	83	42
Sell	8	4
Rating suspended	1	1
Total	198	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	29	71
Hold	9	22
Sell	2	5
Rating suspended	1	2
Total	41	100

PRICE AND RATING HISTORY DRILLISCH AS OF 13.07.2017


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.

EQUITIES

Roland Rapelius +49 40 3282-2673
Head of Equities rrapelius@mmwarburg.com

RESEARCH

Michael Heider +49 40 309537-280
Head of Research mheider@warburg-research.com

Henner Rüschemeyer +49 40 309537-270
Head of Research hrueschmeier@warburg-research.com

Lucas Boventer +49 40 309537-290
Renewables, Internet, Media lboventer@warburg-research.com

Christian Cohrs +49 40 309537-175
Engineering, Logistics ccohrs@warburg-research.com

Felix Ellmann +49 40 309537-120
Software, IT fellmann@warburg-research.com

Jörg Philipp Frey +49 40 309537-258
Retail, Consumer Goods jfrey@warburg-research.com

Marie-Thérèse Grübner +49 40 309537-240
Small Cap Research mgruebner@warburg-research.com

Ulrich Huwald +49 40 309537-255
Health Care, Pharma uhuwald@warburg-research.com

Thilo Kleibauer +49 40 309537-257
Retail, Consumer Goods tkleibauer@warburg-research.com

Eggert Kuls +49 40 309537-256
Engineering ekuls@warburg-research.com

Andreas Pläsier +49 40 309537-246
Banks, Financial Services aplaesier@warburg-research.com

Jochen Reichert +49 40 309537-130
Telco, Internet, Media jreichert@warburg-research.com

J. Moritz Rieser +49 40 309537-260
Real Estate mrieser@warburg-research.com

Arash Roshan Zamir +49 40 309537-155
Cap. Goods, Renewables aroshanzamir@warburg-research.com

Malte Schaumann +49 40 309537-170
Technology mschaumann@warburg-research.com

Patrick Schmidt +49 40 309537-125
Small Cap Research pschmidt@warburg-research.com

Oliver Schwarz +49 40 309537-250
Chemicals, Agriculture oschwarz@warburg-research.com

Marc-René Tonn +49 40 309537-259
Automobiles, Car Suppliers mtonn@warburg-research.com

Björn Voss +49 40 309537-254
Steel, Car Suppliers bvoss@warburg-research.com

Alexander Wahl +49 40 309537-230
Car Suppliers, Construction awahl@warburg-research.com

Andreas Wolf +49 40 309537-140
Software, IT awolf@warburg-research.com

INSTITUTIONAL EQUITY SALES

Holger Nass +49 40 3282-2669
Head of Equity Sales, USA hnass@mmwarburg.com

Klaus Schilling +49 40 3282-2664
Dep. Head of Equity Sales, GER kschilling@mmwarburg.com

Tim Beckmann +49 40 3282-2665
United Kingdom tbeckmann@mmwarburg.com

Lyubka Bogdanova +49 69 5050-7411
United Kingdom, Australia lbogdanova@mmwarburg.com

Jens Buchmüller +49 69 5050-7415
Scandinavia, Austria jbuchmueller@mmwarburg.com

Paul Dontenwill +49 40 3282-2666
USA, Poland, The Netherlands pdontenwill@mmwarburg.com

Matthias Fritsch +49 40 3282-2696
United Kingdom mfritsch@mmwarburg.com

Michael Kriszun +49 40 3282-2695
United Kingdom mkriszun@mmwarburg.com

Marc Niemann +49 40 3282-2660
Germany mniemann@mmwarburg.com

Sanjay Oberoi +49 69 5050-7410
United Kingdom soberoi@mmwarburg.com

Simon Pallhuber +49 69 5050-7414
Switzerland, France spallhuber@mmwarburg.com

Angelika Flegler +49 69 5050-7417
Roadshow/Marketing aflegler@mmwarburg.com

Juliane Willenbruch +49 40 3282-2694
Roadshow/Marketing jwillenbruch@mmwarburg.com

SALES TRADING

Oliver Merkel +49 40 3282-2634
Head of Sales Trading omerckel@mmwarburg.com

Elyaz Dust +49 40 3282-2702
Sales Trading edust@mmwarburg.com

Michael Ilgenstein +49 40 3282-2700
Sales Trading milgenstein@mmwarburg.com

Bastian Quast +49 40 3282-2701
Sales Trading bquast@mmwarburg.com

Jörg Treptow +49 40 3262-2658
Sales Trading jtreptow@mmwarburg.com

Jan Walter +49 40 3262-2662
Sales Trading jwalter@mmwarburg.com

MACRO RESEARCH

Carsten Klude +49 40 3282-2572
Macro Research cklude@mmwarburg.com

Dr. Christian Jasperneite +49 40 3282-2439
Investment Strategy cjasperneite@mmwarburg.com

Our research can be found under:

Warburg Research research.mmwarburg.com/en/index.html
Bloomberg MMWA GO
FactSet www.factset.com

Thomson Reuters www.thomsonreuters.com
Capital IQ www.capitaliq.com

For access please contact:

Andrea Schaper +49 40 3282-2632
Sales Assistance aschaper@mmwarburg.com

Kerstin Muthig +49 40 3282-2703
Sales Assistance kmuthig@mmwarburg.com