

Buy EUR 70.00 (EUR 84.00) Price EUR 60.55 Upside 15.6 %	Value Indicators: EUR DCF: 70.00 FCF-Value Potential: 64.00	Share data: Bloomberg: DRI GR Reuters: DRIG ISIN: DE0005545503	Description: Drillisch distributes fixed-line and mobile services to residential customers in Germany
	Market Snapshot: EUR m Market cap: 10,703 No. of shares (m): 177 Freefloat MC: 2,857 Ø Trad. Vol. (30d): 11.04 m	Shareholders: Freefloat 26.7 % United Internet 73.3 %	Risk Profile (WRe): 2018e Beta: 1.0 Price / Book: 2.7 x Equity Ratio: 82 %

Adjustments to investment case; PT reduced to EUR 70

With the publication of the Q4/17 results, 1&1 incorporated IFRS 15 accounting rules and, more importantly, announced attractive pre-financing offers for mobile handsets, which prompt adjustments to our investment case and estimates.

The 1&1 customer acquisition strategy is based (among other factors) on attractive pre-financing offers for mobile handsets. 1&1 provides subscribers with a mobile device free of charge or for a nominal upfront payment and the subscriber makes a regular monthly payment (for example EUR 20) over 24 months. At the end of the subscription period, the customer has repaid the pre-financing value.

Our previous investment case: With the merger of 1&1 and Drillisch, synergies would be easily realized: (1) Better utilization of Drillisch's MBA-MVNO contract with Telefonica D, (2) cost and distribution synergies, (3) optimization of the brand portfolio. The brand 1&1 would be positioned as the key brand and Smartmobil would remain the SIM-only brand. The overall handset financing value would remain at a pre-merger level. A combination of customer growth, sales and cost synergies would drive profits and cash flow. 1&1 would remain a capex-light business.

In our previous model we reflected 1m mobile net additions in 2018 – with a similar pre-financing value as in 2017 (c. EUR 300m). 1&1's move to increase the pre-financing value by EUR 300m to EUR 600m runs contrary to our former investment hypothesis. In other words, customer growth corresponds to higher risk. In our view, pre-financing cannot be the only key differentiator in competition. Telefonica Deutschland, for instance, currently offers a 10 GB data tariff including a Samsung S9 for EUR 40/month. The comparable 1&1 offer costs EUR 42/month. We believe that customer growth is not predominantly a result of the total value of handset financing. If this were the case, network operators would have been pursuing this strategy to a greater extent in the past.

Our key conclusion from 1&1's massive extension of pre-financing is that, compared to our former investment case, it would seem to be more difficult to generate customer growth (>1m net additions annually) considering 1&1's swing to higher handset financing value. Overall, we can no longer maintain our best-bull case scenario for 1&1 Drillisch. Consequently, we reduce our long-term assumption (EBITDA margin from 30.6% to 26.0%). The adjustments are made on the basis of increased risks of higher than anticipated customer acquisition expenses and lower than assumed customer growth. DCF-based PT is reduced from EUR 84 to EUR 70. Rating remains Buy.

Changes in Estimates:				Comment on Changes:			
FY End: 31.12. in EUR m	2018e (old)	+ / -	2019e (old)	+ / -	2020e (old)	+ / -	
Sales	3,340	8.6 %	3,739	3.6 %	4,049	1.6 %	■ 2018e: Changes relate mainly to IFRS 15 effects as well as 1&1 Drillisch's implemented pre-financing strategy. ■ 2019e, 2020e: EBITDA reduction based on higher expenses overall and EBIT cut is impacted by higher D&A
EBITDA	721	6.9 %	902	-8.5 %	1,045	-14.8 %	
EBIT	621	-1.9 %	800	-17.7 %	943	-23.2 %	
EPS	2.35	-1.7 %	3.03	-17.8 %	3.63	-23.4 %	

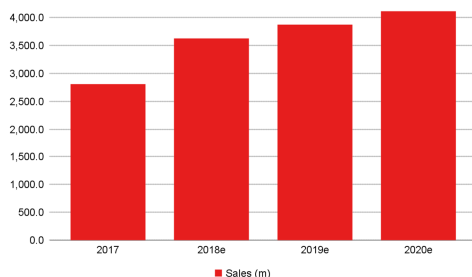


Rel. Performance vs TecDAX:	
1 month:	-5.5 %
6 months:	-16.0 %
Year to date:	-22.5 %
Trailing 12 months:	-14.1 %

Company events:	
09.08.18	Q2
15.11.18	Q3

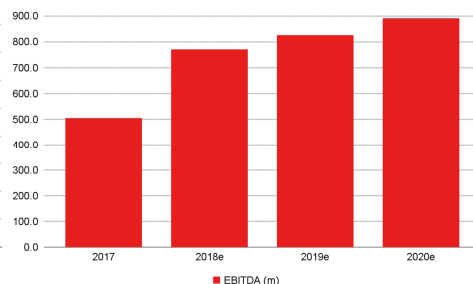
FY End: 31.12. in EUR m	CAGR (17-20e)	2014	2015	2016	2017	2018e	2019e	2020e
Sales	13.5 %	290	630	710	2,812	3,628	3,874	4,114
Change Sales yoy		-0.3 %	117.3 %	12.8 %	296.1 %	29.0 %	6.8 %	6.2 %
Gross profit margin		100.0 %	100.0 %	100.0 %	32.9 %	30.2 %	30.2 %	30.5 %
EBITDA	20.8 %	85	105	120	505	771	826	891
Margin		29.4 %	16.7 %	16.9 %	18.0 %	21.2 %	21.3 %	21.7 %
EBIT	18.1 %	75	69	59	440	610	659	724
Margin		26.0 %	11.0 %	8.3 %	15.6 %	16.8 %	17.0 %	17.6 %
Net income	1.9 %	50	46	26	465	408	441	492
EPS	1.9 %	0.91	0.84	0.48	2.63	2.31	2.49	2.78
EPS adj.	1.9 %	0.91	0.84	0.48	2.63	2.31	2.49	2.78
DPS	0.0 %	1.70	1.70	1.70	1.80	1.60	1.70	1.80
Dividend Yield		6.4 %	4.2 %	4.5 %	3.4 %	2.6 %	2.8 %	3.0 %
FCFPS		1.21	-1.58	1.36	n.a.	1.04	2.38	3.36
FCF / Market cap		4.1 %	-4.0 %	3.2 %	2.8 %	1.7 %	3.9 %	5.6 %
EV / Sales		3.3 x	3.1 x	2.7 x	3.3 x	n.a.	n.a.	2.5 x
EV / EBITDA		11.3 x	18.6 x	15.7 x	18.5 x	n.a.	n.a.	11.7 x
EV / EBIT		12.8 x	28.3 x	32.2 x	21.2 x	n.a.	n.a.	14.4 x
P / E		29.4 x	47.7 x	79.3 x	20.4 x	26.2 x	24.3 x	21.8 x
P / E adj.		29.4 x	47.7 x	79.3 x	20.4 x	26.2 x	24.3 x	21.8 x
FCF Potential Yield		5.4 %	3.8 %	4.1 %	5.8 %	n.a.	n.a.	5.9 %
Net Debt		-225	45	86	124	n.a.	n.a.	-270
ROCE (NOPAT)		46.1 %	19.1 %	7.3 %	14.7 %	n.a.	n.a.	n.a.
Guidance:	n.a.							

Sales development in EUR m



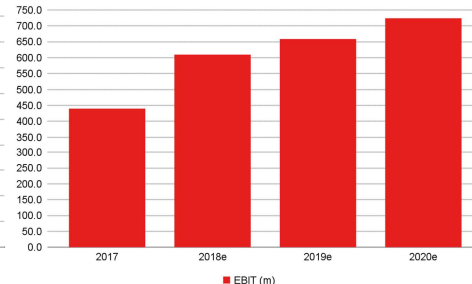
Source: Warburg Research

EBITDA development in EUR m



Source: Warburg Research

EBIT development in EUR m



Source: Warburg Research

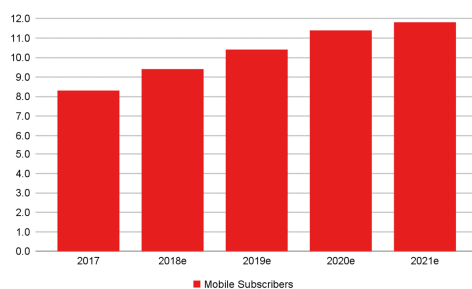
Company Background

- Drillisch sells mobile, fixed-line and value-added services to residential customers in Germany. Its core brands are 1&1 and Smartmobil. Drillisch has more than 12m subscribers.
- Drillisch has a broad network operator contract portfolio: Deutsche Telekom, Versatel, Telefonica Deutschland, Vodafone, among others.
- The MBA-MVNO contract with Telefonica Deutschland is based on monthly fixed-mobile data volumes which Drillisch is forced to purchase. Hence, Drillisch has a so-called inventory risk.
- Monthly obliged mobile data volume which Drillisch is forced to acquire, is increasing over time and depends on the used monthly mobile data capacity.

Competitive Quality

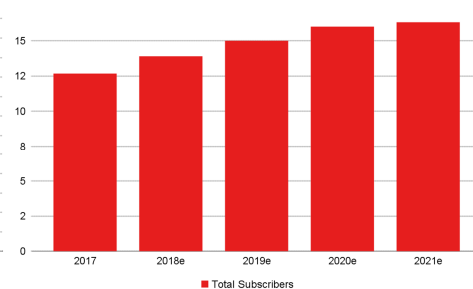
- Drillisch's MBA-MVNO contract with Telefonica Deutschland secures until 2030 access to sufficient mobile data capacities and to all future technologies for attractive network costs.
- Strategic flexibility: With the huge customer base in mobile and fixed-line in combination with the great network operator contracts, Drillisch is able to react flexible to changing market conditions.
- Strong brand portfolio: 1&1, Smartmobil and yourfone; especially 1&1 is a well-known brand in Germany for telecommunication services.
- Capex-lean business model with almost no technology risks: Drillisch acquires all network capacities and does not cover investment in infrastructure.

Mobile Subscribers in m



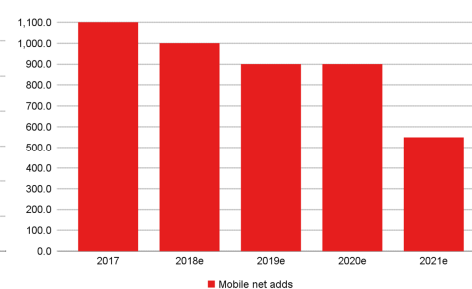
Source: Warburg Research

Total Subscribers in m



Source: Warburg Research

Mobile net adds in k



Source: Warburg Research

DCF model

Figures in EUR m	Detailed forecast period			Transitional period										Term. Value
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	
Sales	3,628	3,874	4,114	4,319	4,514	4,649	4,742	4,837	4,934	5,032	5,108	5,185	n.a.	1.5 %
Sales change	29.0 %	6.8 %	6.2 %	5.0 %	4.5 %	3.0 %	2.0 %	2.0 %	2.0 %	2.0 %	1.5 %	1.5 %	n.a.	
EBIT	610	659	724	777	880	953	996	1,137	1,184	1,208	1,226	1,244	n.a.	n.a.
EBIT-margin	16.8 %	17.0 %	17.6 %	18.0 %	19.5 %	20.5 %	21.0 %	23.5 %	24.0 %	24.0 %	24.0 %	24.0 %	n.a.	
Tax rate (EBT)	33.0 %	33.0 %	32.0 %	33.0 %	33.0 %	33.0 %	33.0 %	33.0 %	33.0 %	33.0 %	33.0 %	33.0 %	n.a.	n.a.
NOPAT	408	441	492	521	590	639	667	762	793	809	821	834	n.a.	
Depreciation	161	167	167	173	181	177	166	145	123	126	102	78	n.a.	n.a.
in % of Sales	4.4 %	4.3 %	4.1 %	4.0 %	4.0 %	3.8 %	3.5 %	3.0 %	2.5 %	2.5 %	2.0 %	1.5 %	n.a.	
Changes in provisions	0	0	0	4	-4	0	0	0	0	0	0	0	n.a.	n.a.
Change in Liquidity from														
- Working Capital	39	12	18	6	3	2	1	2	2	2	1	1	n.a.	n.a.
- Capex	45	45	47	43	45	46	47	48	59	65	72	78	n.a.	
Capex in % of Sales	1.2 %	1.2 %	1.1 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.2 %	1.3 %	1.4 %	1.5 %	n.a.	n.a.
Other	300	150	0	0	0	0	0	0	0	0	0	0	n.a.	
Free Cash Flow (WACC Model)	185	401	595	649	718	767	784	857	856	868	851	832	n.a.	858
PV of FCF	180	364	505	515	532	531	508	519	484	459	420	384	n.a.	6,731
share of PVs	8.39 %			37.75 %										53.85 %

Model parameter

Derivation of WACC:		Derivation of Beta:	
Debt ratio	0.00 %	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	7.00 %	Beta	1.00

Valuation (m)

Present values 2030e	5,767		
Terminal Value	6,731		
Financial liabilities	0		
Pension liabilities	2		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	0	No. of shares (m)	176.8
Equity Value	12,496	Value per share (EUR)	70.70

Sensitivity Value per Share (EUR)

Beta	WACC	Terminal Growth							Beta	WACC	Delta EBIT-margin						
		0.75 %	1.00 %	1.25 %	1.50 %	1.75 %	2.00 %	2.25 %			-1.5 pp	-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
1.18	8.0 %	56.45	57.37	58.36	59.42	60.57	61.81	63.16	1.18	8.0 %	55.51	56.81	58.12	59.42	60.72	62.03	63.33
1.09	7.5 %	60.93	62.05	63.27	64.59	66.02	67.58	69.29	1.09	7.5 %	60.35	61.77	63.18	64.59	66.00	67.41	68.82
1.05	7.3 %	63.43	64.68	66.03	67.51	69.12	70.88	72.82	1.05	7.3 %	63.09	64.57	66.04	67.51	68.98	70.45	71.92
1.00	7.0 %	66.13	67.52	69.04	70.70	72.51	74.50	76.71	1.00	7.0 %	66.08	67.62	69.16	70.70	72.23	73.77	75.31
0.95	6.8 %	69.05	70.62	72.32	74.19	76.24	78.51	81.03	0.95	6.8 %	69.36	70.97	72.58	74.19	75.80	77.41	79.02
0.91	6.5 %	72.24	73.99	75.92	78.03	80.37	82.96	85.86	0.91	6.5 %	72.96	74.65	76.34	78.03	79.72	81.41	83.10
0.82	6.0 %	79.52	81.76	84.24	86.99	90.07	93.53	97.45	0.82	6.0 %	81.36	83.24	85.11	86.99	88.87	90.75	92.62

- Base case scenario: Drillisch remains positioned in its Capex-lean business model and does not invest in infrastructure
- Base case assumption: Absence of irrational movements from competitors by initiating price wars.

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	2014	2015	2016	2017	2018e	2019e	2020e	
Net Income before minorities	50	46	26	481	408	441	492	
+ Depreciation + Amortisation	10	36	61	65	161	167	167	
- Net Interest Income	-3	-3	-3	-9	-1	-1	-1	
- Maintenance Capex	10	12	14	18	40	40	40	
+ Other	0	0	0	0	0	0	0	
= Free Cash Flow Potential	52	74	77	537	530	569	620	
FCF Potential Yield (on market EV)	5.4 %	3.8 %	4.1 %	5.8 %	n/a	n/a	5.9 %	
WACC	7.00 %	7.00 %	7.00 %	7.00 %	7.00 %	7.00 %	7.00 %	
= Enterprise Value (EV)	961	1,961	1,891	9,337	n.a.	n.a.	10,433	
= Fair Enterprise Value	748	1,053	1,101	7,670	7,568	8,123	8,852	
- Net Debt (Cash)	124	124	124	124	161	23	-270	
- Pension Liabilities	0	0	0	0	0	0	0	
- 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	903	1,209	1,257	7,825	7,407	8,099	9,122	
Aktienanzahl (Mio.)	55	55	55	177	177	177	177	
= Fair value per share (EUR)	16.49	22.07	22.95	44.27	41.90	45.82	51.61	
premium (-) / discount (+) in %					-30.8 %	-24.3 %	-14.8 %	
Sensitivity Fair value per Share (EUR)								
	10.00 %	3.84	5.05	5.24	31.25	29.06	32.03	36.58
	9.00 %	4.17	5.51	5.73	34.63	32.39	35.61	40.48
	8.00 %	4.58	6.09	6.33	38.85	36.55	40.08	45.35
WACC	7.00 %	5.11	6.84	7.11	44.27	41.90	45.82	51.61
	6.00 %	5.81	7.83	8.15	51.50	49.04	53.48	59.95
	5.00 %	6.80	9.22	9.60	61.63	59.03	64.20	71.64
	4.00 %	8.28	11.30	11.78	76.81	74.01	80.28	89.17

Valuation	2014	2015	2016	2017	2018e	2019e	2020e
Price / Book	4.4 x	6.2 x	7.4 x	2.5 x	2.7 x	2.6 x	2.5 x
Book value per share ex intangibles	4.25	-0.46	-1.29	-0.17	1.59	3.21	5.02
EV / Sales	3.3 x	3.1 x	2.7 x	3.3 x	n.a.	n.a.	2.5 x
EV / EBITDA	11.3 x	18.6 x	15.7 x	18.5 x	n.a.	n.a.	11.7 x
EV / EBIT	12.8 x	28.3 x	32.2 x	21.2 x	n.a.	n.a.	14.4 x
EV / EBIT adj.*	12.8 x	28.3 x	32.2 x	21.2 x	n.a.	n.a.	14.4 x
P / FCF	24.1 x	n.a.	31.3 x	35.4 x	58.1 x	25.5 x	18.0 x
P / E	29.4 x	47.7 x	79.3 x	20.4 x	26.2 x	24.3 x	21.8 x
P / E adj.*	29.4 x	47.7 x	79.3 x	20.4 x	26.2 x	24.3 x	21.8 x
Dividend Yield	6.4 %	4.2 %	4.5 %	3.4 %	2.6 %	2.8 %	3.0 %
FCF Potential Yield (on market EV)	5.4 %	3.8 %	4.1 %	5.8 %	n.a.	n.a.	5.9 %

*Adjustments made for: -

Company Specific Items	2014	2015	2016	2017	2018e	2019e	2020e
Total Subscribers	289	434	551	13	14	15	16
Mobile Subscribers	1,180	1,923	2,723	8	9	10	11
Mobile net adds	10	14	16	1,100	1,000	900	900

Consolidated profit and loss

In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Sales	290	630	710	2,812	3,628	3,874	4,114
Change Sales yoy	-0.3 %	117.3 %	12.8 %	296.1 %	29.0 %	6.8 %	6.2 %
COGS	0	0	0	1,888	2,533	2,704	2,859
Gross profit	290	630	710	925	1,096	1,170	1,255
<i>Gross margin</i>	<i>100.0 %</i>	<i>100.0 %</i>	<i>100.0 %</i>	<i>32.9 %</i>	<i>30.2 %</i>	<i>30.2 %</i>	<i>30.5 %</i>
Research and development	0	0	0	0	0	0	0
Sales and marketing	0	0	0	394	395	415	424
Administration expenses	0	0	0	74	87	93	99
Other operating expenses	0	0	0	45	29	31	37
Other operating income	0	0	0	28	25	27	29
Unfrequent items	0	0	0	0	0	0	0
EBITDA	85	105	120	505	771	826	891
<i>Margin</i>	<i>29.4 %</i>	<i>16.7 %</i>	<i>16.9 %</i>	<i>18.0 %</i>	<i>21.2 %</i>	<i>21.3 %</i>	<i>21.7 %</i>
Depreciation of fixed assets	1	5	4	15	16	17	17
EBITA	84	101	117	490	755	809	874
Amortisation of intangible assets	9	32	58	50	145	150	150
Goodwill amortisation	0	0	0	0	0	0	0
EBIT	75	69	59	440	610	659	724
<i>Margin</i>	<i>26.0 %</i>	<i>11.0 %</i>	<i>8.3 %</i>	<i>15.6 %</i>	<i>16.8 %</i>	<i>17.0 %</i>	<i>17.6 %</i>
EBIT adj.	75	69	59	440	610	659	724
Interest income	1	1	1	1	0	0	0
Interest expenses	4	4	4	10	1	1	1
Other financial income (loss)	0	0	0	0	0	0	0
EBT	73	66	56	431	609	658	723
<i>Margin</i>	<i>25.1 %</i>	<i>10.5 %</i>	<i>7.8 %</i>	<i>15.3 %</i>	<i>16.8 %</i>	<i>17.0 %</i>	<i>17.6 %</i>
Total taxes	23	20	29	121	201	217	231
Net income from continuing operations	50	46	26	310	408	441	492
Income from discontinued operations (net of tax)	0	0	0	171	0	0	0
Net income before minorities	50	46	26	481	408	441	492
Minority interest	0	0	0	17	0	0	0
Net income	50	46	26	465	408	441	492
<i>Margin</i>	<i>17.2 %</i>	<i>7.3 %</i>	<i>3.7 %</i>	<i>16.5 %</i>	<i>11.2 %</i>	<i>11.4 %</i>	<i>12.0 %</i>
Number of shares, average	55	55	55	177	177	177	177
EPS	0.91	0.84	0.48	2.63	2.31	2.49	2.78
EPS adj.	0.91	0.84	0.48	2.63	2.31	2.49	2.78

*Adjustments made for:

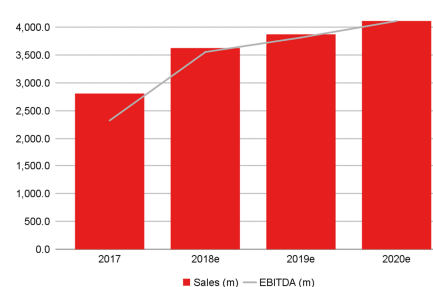
Guidance: n.a.

Financial Ratios

	2014	2015	2016	2017	2018e	2019e	2020e
Total Operating Costs / Sales	71.2 %	83.6 %	83.3 %	17.2 %	13.4 %	13.2 %	12.9 %
Operating Leverage	-81.7 x	-0.1 x	-1.2 x	2.2 x	1.3 x	1.2 x	1.6 x
EBITDA / Interest expenses	23.8 x	26.1 x	27.8 x	53.0 x	770.6 x	825.6 x	891.0 x
Tax rate (EBT)	31.0 %	30.4 %	52.4 %	28.0 %	33.0 %	33.0 %	32.0 %
Dividend Payout Ratio	185.9 %	203.2 %	352.2 %	102.5 %	69.4 %	68.2 %	64.7 %
Sales per Employee	827,566	1,798,703	2,028,606	8,035,180	10,366,571	11,068,571	11,753,429

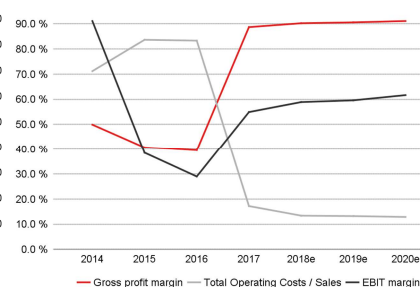
Sales, EBITDA

in EUR m

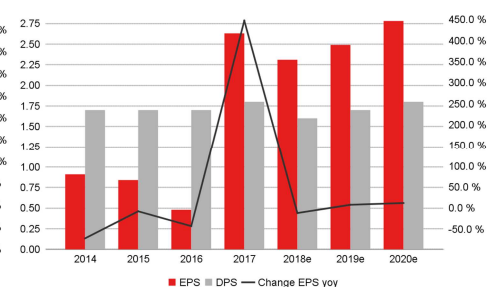


Operating Performance

in %



Performance per Share



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

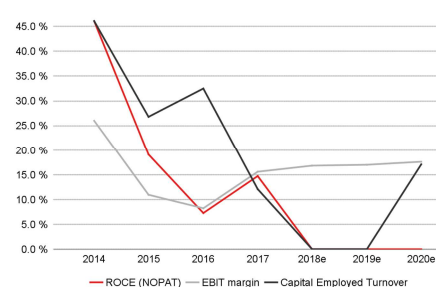
Consolidated balance sheet

In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Assets							
Goodwill and other intangible assets	99	378	354	3,834	3,709	3,579	3,451
thereof other intangible assets	31	271	255	901	776	646	518
thereof Goodwill	67	107	99	2,933	2,933	2,933	2,933
Property, plant and equipment	3	11	11	15	24	32	40
Financial assets	0	0	1	6	6	6	6
Other long-term assets	0	0	0	0	0	0	0
Fixed assets	101	390	365	3,855	3,739	3,617	3,497
Inventories	5	32	10	46	52	55	75
Accounts receivable	48	89	93	183	239	265	282
Liquid assets	317	123	93	150	n.a.	n.a.	270
Other short-term assets	4	55	35	502	n.a.	n.a.	1,100
Current assets	374	299	230	881	1,137	1,373	1,727
Total Assets	476	689	595	4,736	4,876	4,990	5,224
Liabilities and shareholders' equity							
Subscribed capital	59	60	60	194	194	194	194
Capital reserve	231	296	296	2,447	2,542	2,542	2,542
Retained earnings	31	31	31	1,164	845	970	1,110
Other equity components	10	-34	-104	0	408	441	492
Shareholders' equity	331	353	283	3,805	3,990	4,147	4,339
Minority interest	0	0	0	0	0	0	0
Total equity	331	353	283	3,805	3,990	4,147	4,339
Provisions	9	19	24	100	114	117	120
thereof provisions for pensions and similar obligations	2	1	2	0	0	0	0
Financial liabilities (total)	91	167	178	274	0	0	0
thereof short-term financial liabilities	0	0	50	0	0	0	0
Accounts payable	22	81	45	230	249	265	282
Other liabilities	23	69	66	327	524	460	484
Liabilities	144	336	312	931	887	842	886
Total liabilities and shareholders' equity	476	689	595	4,736	4,876	4,990	5,224

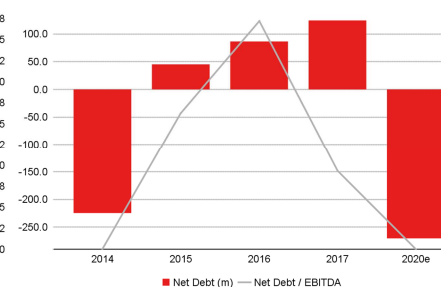
Financial Ratios

	2014	2015	2016	2017	2018e	2019e	2020e
Efficiency of Capital Employment							
Operating Assets Turnover	10.4 x	13.7 x	11.1 x	340.3 x	64.1 x	50.3 x	40.1 x
Capital Employed Turnover	2.7 x	1.6 x	1.9 x	0.7 x	n.a.	n.a.	1.0 x
ROA	49.1 %	11.9 %	7.2 %	12.1 %	10.9 %	12.2 %	14.1 %
Return on Capital							
ROCE (NOPAT)	46.1 %	19.1 %	7.3 %	14.7 %	n.a.	n.a.	n.a.
ROE	18.1 %	13.5 %	8.3 %	22.7 %	10.5 %	10.8 %	11.6 %
Adj. ROE	18.1 %	13.5 %	8.3 %	22.7 %	10.5 %	10.8 %	11.6 %
Balance sheet quality							
Net Debt	-225	45	86	124	n.a.	n.a.	-270
Net Financial Debt	-226	44	85	124	n.a.	n.a.	-270
Net Gearing	-67.9 %	12.8 %	30.5 %	3.3 %	n.a.	n.a.	-6.2 %
Net Fin. Debt / EBITDA	n.a.	41.6 %	70.5 %	24.6 %	n.a.	n.a.	n.a.
Book Value / Share	6.0	6.4	5.2	21.5	22.6	23.5	24.5
Book value per share ex intangibles	4.2	-0.5	-1.3	-0.2	1.6	3.2	5.0

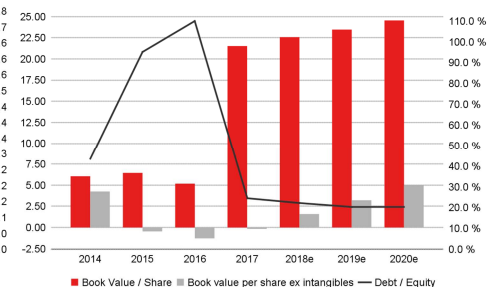
ROCE Development



Net debt in EUR m



Book Value per Share in EUR



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

Consolidated cash flow statement

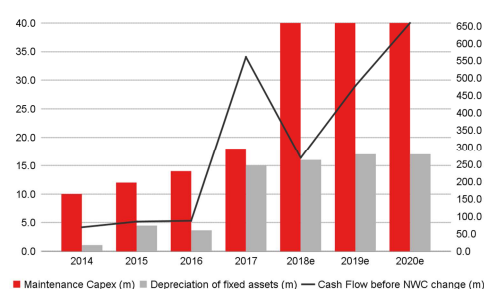
In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Net income	50	46	26	481	408	441	492
Depreciation of fixed assets	1	5	4	15	16	17	17
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	9	32	58	64	145	150	150
Increase/decrease in long-term provisions	1	0	0	0	0	0	0
Other non-cash income and expenses	9	4	0	0	-300	-130	0
Cash Flow before NWC change	69	86	88	560	269	478	659
Increase / decrease in inventory	1	-27	22	0	-5	-4	-20
Increase / decrease in accounts receivable	-2	-41	-4	-71	-56	-27	-17
Increase / decrease in accounts payable	4	58	-37	-75	22	18	19
Increase / decrease in other working capital positions	0	0	11	0	0	0	0
Increase / decrease in working capital (total)	3	-9	-8	-146	-39	-12	-18
Net cash provided by operating activities [1]	72	76	81	294	229	465	641
Investments in intangible assets	-9	-160	-9	-10	-20	-20	-22
Investments in property, plant and equipment	-2	-4	-5	-16	-25	-25	-25
Payments for acquisitions	0	-7	-20	0	0	0	0
Financial investments	0	1	0	0	0	0	0
Income from asset disposals	1	0	1	0	0	0	0
Net cash provided by investing activities [2]	-5	-169	-25	-49	-45	-45	-47
Change in financial liabilities	0	0	10	96	-274	0	0
Dividends paid	-77	-90	-93	0	-318	-283	-300
Purchase of own shares	0	0	0	0	0	0	0
Capital measures	0	0	0	0	0	0	0
Other	140	-10	-4	0	98	0	0
Net cash provided by financing activities [3]	63	-101	-86	-153	-495	-283	-300
Change in liquid funds [1]+[2]+[3]	130	-194	-30	92	-310	137	294
Effects of exchange-rate changes on cash	0	0	0	0	0	0	0
Cash and cash equivalent at end of period	317	123	93	184	-161	-23	270

Financial Ratios

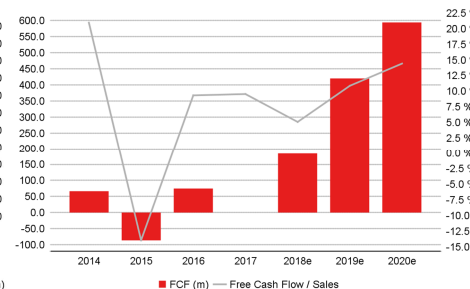
	2014	2015	2016	2017	2018e	2019e	2020e
Cash Flow							
FCF	66	-87	75	n.a.	184	420	594
Free Cash Flow / Sales	21.0 %	-13.9 %	9.4 %	9.5 %	5.1 %	10.8 %	14.4 %
Free Cash Flow Potential	52	74	77	537	530	569	620
Free Cash Flow / Net Profit	122.2 %	-189.9 %	251.7 %	57.7 %	45.2 %	95.4 %	120.8 %
Interest Received / Avg. Cash	0.4 %	0.3 %	1.1 %	0.8 %	n.a.	n.a.	n.a.
Interest Paid / Avg. Debt	4.0 %	3.1 %	2.5 %	4.2 %	0.7 %	n.a.	n.a.
Management of Funds							
Investment ratio	3.8 %	26.1 %	2.0 %	0.9 %	1.2 %	1.2 %	1.1 %
Maint. Capex / Sales	3.5 %	1.9 %	2.0 %	0.6 %	1.1 %	1.0 %	1.0 %
Capex / Dep	110.9 %	454.7 %	22.8 %	40.0 %	28.0 %	26.9 %	28.1 %
Avg. Working Capital / Sales	9.2 %	4.8 %	6.2 %	0.8 %	0.4 %	1.0 %	1.3 %
Trade Debtors / Trade Creditors	218.1 %	109.4 %	206.2 %	79.6 %	96.0 %	100.0 %	100.0 %
Inventory Turnover	0.0 x	0.0 x	0.0 x	40.6 x	48.9 x	48.9 x	38.2 x
Receivables collection period (days)	60	51	48	24	24	25	25
Payables payment period (days)	n.a.	n.a.	n.a.	44	36	36	36
Cash conversion cycle (Days)	n.a.	n.a.	n.a.	-36	-29	-29	-27

CAPEX and Cash Flow

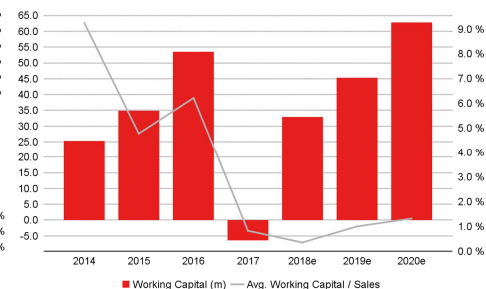
in EUR m



Free Cash Flow Generation



Working Capital



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

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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.

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Rating	Number of stocks	% of Universe
Buy	111	54
Hold	89	43
Sell	5	2
Rating suspended	0	0
Total	205	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	32	73
Hold	12	27
Sell	0	0
Rating suspended	0	0
Total	44	100

PRICE AND RATING HISTORY 1&1 DRILLISCH AS OF 29.05.2018


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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