

Buy EUR 64.00 Price EUR 44.36 Upside 44.3 %	Value Indicators: EUR DCF: 64.00 FCF-Value Potential: 55.00	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: 7,841 No. of shares (m): 177 EV: 7,878 Freefloat MC: 2,093 Ø Trad. Vol. (30d): 12.57 m	Shareholders: Freefloat: 26.7 % United Internet: 73.3 %	Risk Profile (WRe): 2018e Beta: 1.1 Price / Book: 1.8 x Equity Ratio: 83 % Net Fin. Debt / EBITDA: 0.1 x Net Debt / EBITDA: 0.1 x

Confidence for 2019; Capex-lean investment case intact

We had a meeting with the company recently to test our current investment case and discuss issues such as concerns regarding the spectrum auction, our customer growth assumptions for 1&1 Drillisch, and overall conditions in the German telecommunications market.

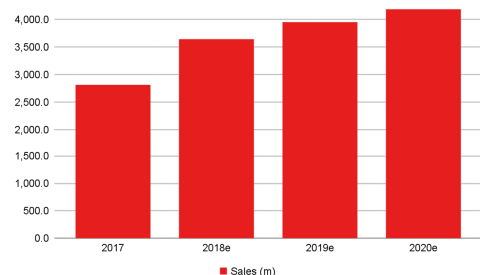
- In our view, there is a greater likelihood that the business model of 1&1 Drillisch will remain capex-lean and will not be transformed into an MNO-model with its own infrastructure. This conviction is based on the MBA-MVNO contract with Telefónica D which includes access to all future technologies at least until 2030 and a national roaming option, as the final terms of the Bundesnetzagentur did not implement mandatory national roaming for MNOs. Furthermore, plans by Vodafone to shut down its 3G network could pave the way for additional 4G access. Nevertheless, certain considerations favour a change to an MNO business model. These include the rather low requirements for new entrants such as coverage of only 25% until 2024 and of 50% until 2026 or the operating leverage that comes with ownership of a network combined with greater entrepreneurial freedom.
- To meet our expectations of 980k net adds (includes both mobile and VDSL/DSL), 315k are required in Q4 2018 which we regard as achievable considering the usually strong Christmas business. We expect annual gross additions of about 3m (total VDSL/DSL & mobile customer base amounted to 13.3m in Q3 2018) and a monthly churn of ca. 1.45% for mobile and ca. 1.2% for fixed line which should result in combined net adds of 810k for FY 2019 and 680k for FY 2020.
- Competition could intensify if there is a market tendency towards more convergence products. However, 1&1 Drillisch's access to DSL/VDSL, mobile and web hosting puts the company in an excellent position to react to potential change in customer demand.
- The announced Unity Media/Vodafone acquisition process would probably result in a concentrated market structure in the German cable network market which is likely to increase competition in 1&1 Drillisch's fixed-line business. A potentially successful deal, however, could force the regulator to open the merged cable network infrastructure to German wholesalers and consequently put 1&1 Drillisch into the comfortable situation of a remedy taker.

Conclusion: We regard our investment case as confirmed and are optimistic for 1&1 Drillisch's operational development in 2019. Our assumptions for a capex-lean business model with continuous customer growth of 3m gross adds per year and a stable combined monthly churn rate of 1.4% (weighted average) for both mobile and fixed line will result in significant FCF growth (WRe: 2020 FCF of EUR 668m, implied FCF yield of 8.5%) driven by the company's operational leverage and an EBITDA CAGR of 25.7% until FY 2020 (WRe: FY 2020 EBITDA of EUR 1,003m).

While we recognise the entrepreneurial reasoning behind a higher capex business case, we think it would weigh on the stock price in the short term. The participation at the spectrum auction in January should not cause confusion as it maintains the company's strong negotiation power with MNOs.

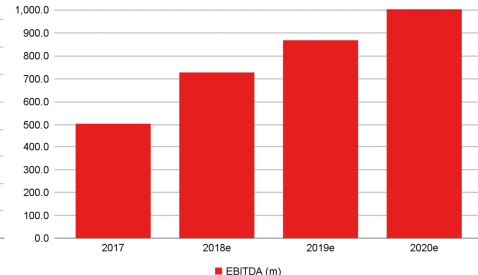
	FY End: 31.12. in EUR m	CAGR (17-20e)	2014	2015	2016	2017	2018e	2019e	2020e
	Sales	14.2 %	290	630	710	2,812	3,642	3,951	4,186
Change Sales yoy		-0.3 %	117.3 %	12.8 %	296.1 %	29.5 %	8.5 %	5.9 %	
Gross profit margin		100.0 %	100.0 %	100.0 %	32.9 %	29.7 %	31.0 %	32.6 %	
EBITDA	25.7 %	85	105	120	505	728	868	1,003	
Margin		29.4 %	16.7 %	16.9 %	18.0 %	20.0 %	22.0 %	24.0 %	
EBIT	24.2 %	75	69	59	440	577	711	843	
Margin		26.0 %	11.0 %	8.3 %	15.6 %	15.9 %	18.0 %	20.2 %	
Net income	7.2 %	50	46	26	465	386	476	573	
EPS	7.2 %	0.91	0.84	0.48	2.63	2.18	2.69	3.24	
EPS adj.	7.2 %	0.91	0.84	0.48	2.63	2.18	2.69	3.24	
DPS	4.0 %	1.70	1.70	1.70	1.60	1.60	1.70	1.80	
Dividend Yield		6.4 %	4.2 %	4.5 %	3.0 %	3.6 %	3.8 %	4.1 %	
FCFPS		1.21	-1.58	1.36	n.a.	0.41	2.40	3.78	
FCF / Market cap		4.1 %	-4.0 %	3.2 %	2.8 %	0.9 %	5.4 %	8.5 %	
EV / Sales		3.3 x	3.1 x	2.7 x	3.3 x	2.2 x	2.0 x	1.8 x	
EV / EBITDA		11.3 x	18.6 x	15.7 x	18.5 x	10.8 x	8.9 x	7.3 x	
EV / EBIT		12.8 x	28.3 x	32.2 x	21.2 x	13.6 x	10.9 x	8.7 x	
P / E		29.4 x	47.7 x	79.3 x	20.4 x	20.3 x	16.5 x	13.7 x	
P / E adj.		29.4 x	47.7 x	79.3 x	20.4 x	20.3 x	16.5 x	13.7 x	
FCF Potential Yield		5.4 %	3.8 %	4.1 %	5.8 %	6.3 %	7.7 %	9.4 %	
Net Debt		-225	45	86	124	37	-105	-472	
ROCE (NOPAT)		46.1 %	19.1 %	7.3 %	14.7 %	9.4 %	11.0 %	13.3 %	
Guidance:	Revenues of EUR 3.7bn, EBITDA of EUR 750m, 1m net adds								

Sales development
in EUR m



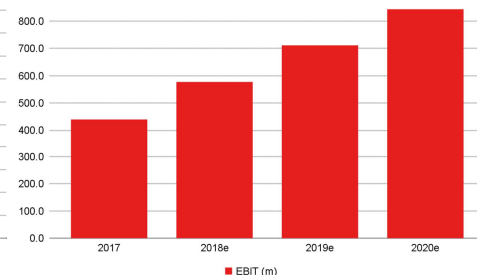
Source: Warburg Research

EBITDA development
in EUR m



Source: Warburg Research

EBIT development
in EUR m



Source: Warburg Research

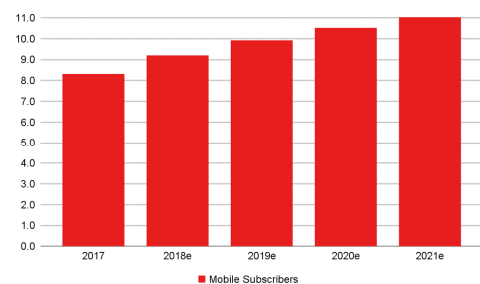
Company Background

- 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

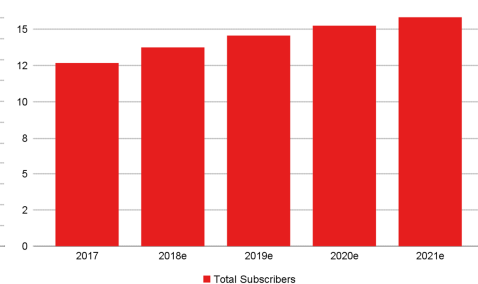
- Drillisch's MBA-MVNO contract with Telefonica Deutschland secures until 2030 access to sufficient mobile data capacities and to all future technologies for attractive network costs.
- Strategic flexibility: With the huge customer base in mobile and fixed-line in combination with the great network operator 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



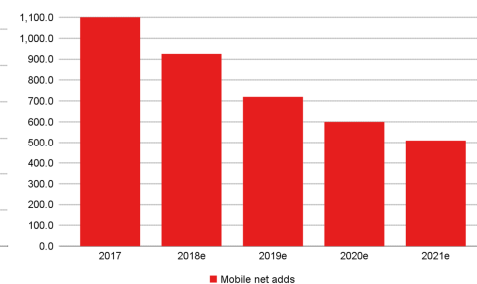
Source: Warburg Research

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	3,606	3,786	3,938	4,095	4,259	4,387	4,475	4,564	4,655	4,748	4,820	4,892	4,965	
Sales change	29.5 %	5.0 %	4.0 %	4.0 %	4.0 %	3.0 %	2.0 %	2.0 %	2.0 %	2.0 %	1.5 %	1.5 %	1.5 %	1.5 %
EBIT	577	711	843	860	937	1,009	1,074	1,141	1,164	1,187	1,205	1,223	1,241	
EBIT-margin	16.0 %	18.8 %	21.4 %	21.0 %	22.0 %	23.0 %	24.0 %	25.0 %	25.0 %	25.0 %	25.0 %	25.0 %	25.0 %	
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 %	33.0 %	
NOPAT	387	476	574	576	628	676	720	764	780	795	807	819	832	
Depreciation	151	157	160	164	170	167	157	137	116	119	96	73	74	
in % of Sales	4.2 %	4.1 %	4.1 %	4.0 %	4.0 %	3.8 %	3.5 %	3.0 %	2.5 %	2.5 %	2.0 %	1.5 %	1.5 %	
Changes in provisions	0	0	0	4	-4	0	0	0	0	0	0	0	0	
Change in Liquidity from														
- Working Capital	39	13	18	1	3	2	1	1	1	1	1	1	1	
- Capex	45	45	47	41	43	44	45	46	56	62	67	73	74	
Capex in % of Sales	1.2 %	1.2 %	1.2 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.2 %	1.3 %	1.4 %	1.5 %	1.5 %	
Other	300	150	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	153	425	669	702	749	797	830	854	839	851	835	818	831	843
PV of FCF	152	392	574	559	554	548	530	506	462	435	397	361	340	5,609
share of PVs	9.79 %			41.09 %										49.12 %

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	1.40
		Others	1.20
WACC	7.66 %	Beta	1.12

Valuation (m)

Present values 2030e	5,810		
Terminal Value	5,609		
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	11,418	Value per share (EUR)	64.59

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
1.30	8.7 %	53.20	53.92	54.69	55.51	56.39	57.34	58.37	1.30	8.7 %	52.04	53.20	54.35	55.51	56.67	57.82	58.98
1.21	8.2 %	56.90	57.77	58.71	59.71	60.80	61.97	63.23	1.21	8.2 %	56.00	57.23	58.47	59.71	60.95	62.19	63.43
1.17	7.9 %	58.95	59.91	60.95	62.06	63.26	64.57	65.99	1.17	7.9 %	58.20	59.49	60.77	62.06	63.34	64.63	65.92
1.12	7.7 %	61.15	62.21	63.36	64.59	65.94	67.40	68.99	1.12	7.7 %	60.59	61.92	63.26	64.59	65.93	67.27	68.60
1.07	7.4 %	63.51	64.69	65.96	67.34	68.85	70.49	72.29	1.07	7.4 %	63.17	64.56	65.95	67.34	68.74	70.13	71.52
1.03	7.2 %	66.06	67.37	68.79	70.34	72.02	73.88	75.92	1.03	7.2 %	65.98	67.43	68.89	70.34	71.79	73.24	74.69
0.94	6.7 %	71.80	73.44	75.23	77.19	79.34	81.74	84.40	0.94	6.7 %	72.43	74.01	75.60	77.19	78.77	80.36	81.95

- 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	386	476	573	
+ Depreciation + Amortisation	10	36	61	65	151	157	160	
- 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	498	594	694	
FCF Potential Yield (on market EV)	5.4 %	3.8 %	4.1 %	5.8 %	6.3 %	7.7 %	9.4 %	
WACC	7.66 %	7.66 %	7.66 %	7.66 %	7.66 %	7.66 %	7.66 %	
= Enterprise Value (EV)	961	1,961	1,891	9,337	7,878	7,737	7,369	
= Fair Enterprise Value	683	962	1,006	7,009	6,503	7,752	9,059	
- Net Debt (Cash)	124	124	124	124	37	-105	-472	
- 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	839	1,118	1,162	7,165	6,466	7,857	9,531	
Number of shares, average	55	55	55	177	177	177	177	
= Fair value per share (EUR)	15.32	20.41	21.22	40.53	36.58	44.45	53.92	
premium (-) / discount (+) in %					-17.5 %	0.2 %	21.5 %	
Sensitivity Fair value per Share (EUR)								
	10.66 %	3.66	4.79	4.97	29.37	26.22	32.11	39.50
	9.66 %	3.95	5.20	5.40	32.32	28.96	35.37	43.31
	8.66 %	4.30	5.70	5.92	35.95	32.33	39.38	48.00
WACC	7.66 %	4.75	6.32	6.57	40.53	36.58	44.45	53.92
	6.66 %	5.33	7.14	7.43	46.49	42.10	51.03	61.61
	5.66 %	6.11	8.25	8.59	54.54	49.58	59.95	72.03
	4.66 %	7.23	9.83	10.24	66.06	60.26	72.68	86.91

■ ...

Valuation	2014	2015	2016	2017	2018e	2019e	2020e
Price / Book	4.4 x	6.2 x	7.4 x	2.5 x	1.8 x	1.8 x	1.7 x
Book value per share ex intangibles	4.25	-0.46	-1.29	-0.17	3.18	4.95	7.18
EV / Sales	3.3 x	3.1 x	2.7 x	3.3 x	2.2 x	2.0 x	1.8 x
EV / EBITDA	11.3 x	18.6 x	15.7 x	18.5 x	10.8 x	8.9 x	7.3 x
EV / EBIT	12.8 x	28.3 x	32.2 x	21.2 x	13.6 x	10.9 x	8.7 x
EV / EBIT adj.*	12.8 x	28.3 x	32.2 x	21.2 x	13.6 x	10.9 x	8.7 x
P / FCF	24.1 x	n.a.	31.3 x	35.4 x	108.1 x	18.5 x	11.7 x
P / E	29.4 x	47.7 x	79.3 x	20.4 x	20.3 x	16.5 x	13.7 x
P / E adj.*	29.4 x	47.7 x	79.3 x	20.4 x	20.3 x	16.5 x	13.7 x
Dividend Yield	6.4 %	4.2 %	4.5 %	3.0 %	3.6 %	3.8 %	4.1 %
FCF Potential Yield (on market EV)	5.4 %	3.8 %	4.1 %	5.8 %	6.3 %	7.7 %	9.4 %

*Adjustments made for: -

Company Specific Items	2014	2015	2016	2017	2018e	2019e	2020e
Total Subscribers	289	434	551	13	14	15	15
Mobile Subscribers	1,180	1,923	2,723	8	9	10	11
Mobile net adds	10	14	16	1,100	925	720	600

Consolidated profit and loss

In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Sales	290	630	710	2,812	3,642	3,951	4,186
Change Sales yoy	-0.3 %	117.3 %	12.8 %	296.1 %	29.5 %	8.5 %	5.9 %
COGS	0	0	0	1,888	2,562	2,726	2,823
Gross profit	290	630	710	925	1,080	1,225	1,363
<i>Gross margin</i>	<i>100.0 %</i>	<i>100.0 %</i>	<i>100.0 %</i>	<i>32.9 %</i>	<i>29.7 %</i>	<i>31.0 %</i>	<i>32.6 %</i>
Research and development	0	0	0	0	0	0	0
Sales and marketing	0	0	0	394	404	411	423
Administration expenses	0	0	0	74	87	91	92
Other operating expenses	0	0	0	45	36	40	42
Other operating income	0	0	0	28	25	28	38
Unfrequent items	0	0	0	0	0	0	0
EBITDA	85	105	120	505	728	868	1,003
<i>Margin</i>	<i>29.4 %</i>	<i>16.7 %</i>	<i>16.9 %</i>	<i>18.0 %</i>	<i>20.0 %</i>	<i>22.0 %</i>	<i>24.0 %</i>
Depreciation of fixed assets	1	5	4	15	16	17	17
EBITA	84	101	117	490	712	851	986
Amortisation of intangible assets	9	32	58	50	135	140	143
Goodwill amortisation	0	0	0	0	0	0	0
EBIT	75	69	59	440	577	711	843
<i>Margin</i>	<i>26.0 %</i>	<i>11.0 %</i>	<i>8.3 %</i>	<i>15.6 %</i>	<i>15.9 %</i>	<i>18.0 %</i>	<i>20.2 %</i>
EBIT adj.	75	69	59	440	577	711	843
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	576	710	842
<i>Margin</i>	<i>25.1 %</i>	<i>10.5 %</i>	<i>7.8 %</i>	<i>15.3 %</i>	<i>15.8 %</i>	<i>18.0 %</i>	<i>20.1 %</i>
Total taxes	23	20	29	121	190	234	270
Net income from continuing operations	50	46	26	310	386	476	573
Income from discontinued operations (net of tax)	0	0	0	171	0	0	0
Net income before minorities	50	46	26	481	386	476	573
Minority interest	0	0	0	17	0	0	0
Net income	50	46	26	465	386	476	573
<i>Margin</i>	<i>17.2 %</i>	<i>7.3 %</i>	<i>3.7 %</i>	<i>16.5 %</i>	<i>10.6 %</i>	<i>12.0 %</i>	<i>13.7 %</i>
Number of shares, average	55	55	55	177	177	177	177
EPS	0.91	0.84	0.48	2.63	2.18	2.69	3.24
EPS adj.	0.91	0.84	0.48	2.63	2.18	2.69	3.24

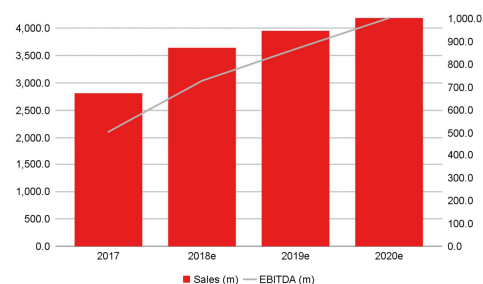
*Adjustments made for:

Guidance: Revenues of EUR 3.7bn, EBITDA of EUR 750m, 1m net adds

Financial Ratios

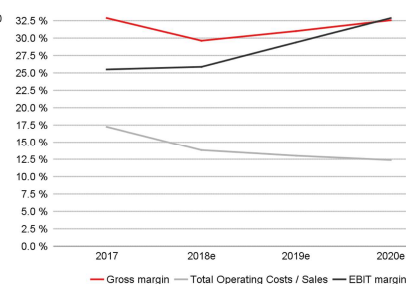
	2014	2015	2016	2017	2018e	2019e	2020e
Total Operating Costs / Sales	71.2 %	83.6 %	83.3 %	17.2 %	13.8 %	13.0 %	12.4 %
Operating Leverage	-81.7 x	-0.1 x	-1.2 x	2.2 x	1.1 x	2.7 x	3.1 x
EBITDA / Interest expenses	23.8 x	26.1 x	27.8 x	53.0 x	728.3 x	868.2 x	1003.5 x
Tax rate (EBT)	31.0 %	30.4 %	52.4 %	28.0 %	33.0 %	33.0 %	32.0 %
Dividend Payout Ratio	185.9 %	203.2 %	352.2 %	91.1 %	73.3 %	63.2 %	55.5 %
Sales per Employee	827,566	1,798,703	2,028,606	8,035,180	10,405,714	11,288,571	11,960,000

Sales, EBITDA
in EUR m



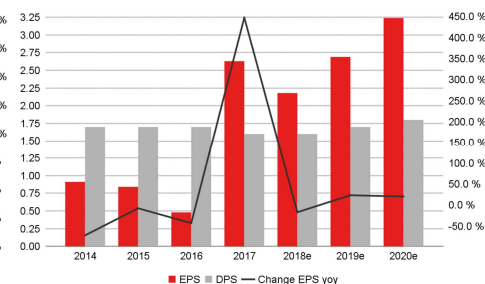
Source: Warburg Research

Operating Performance
in %



Source: Warburg Research

Performance per Share



Source: Warburg Research

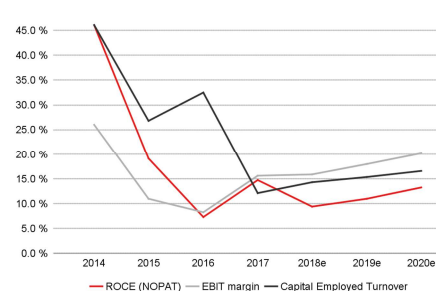
Consolidated balance sheet

In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Assets							
Goodwill and other intangible assets	99	378	354	3,834	3,719	3,599	3,478
thereof other intangible assets	31	271	255	901	786	666	545
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	546	546	550
Fixed assets	101	390	365	3,855	4,295	4,183	4,074
Inventories	5	32	10	46	52	56	76
Accounts receivable	48	89	93	183	240	271	287
Liquid assets	317	123	93	150	138	280	647
Other short-term assets	4	55	35	502	462	585	624
Current assets	374	299	230	881	892	1,192	1,634
Total Assets	476	689	595	4,736	5,187	5,375	5,708
Liabilities and shareholders' equity							
Subscribed capital	59	60	60	194	194	194	194
Capital reserve	231	296	296	2,447	2,447	2,447	2,447
Retained earnings	31	31	31	1,164	1,433	1,357	1,532
Other equity components	10	-34	-104	0	207	476	573
Shareholders' equity	331	353	283	3,805	4,281	4,474	4,747
Minority interest	0	0	0	0	0	0	0
Total equity	331	353	283	3,805	4,281	4,474	4,747
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	175	175	175
thereof short-term financial liabilities	0	0	50	0	0	0	0
Accounts payable	22	81	45	230	250	271	287
Other liabilities	23	69	66	327	367	338	380
Liabilities	144	336	312	931	906	901	962
Total liabilities and shareholders' equity	476	689	595	4,736	5,187	5,375	5,708

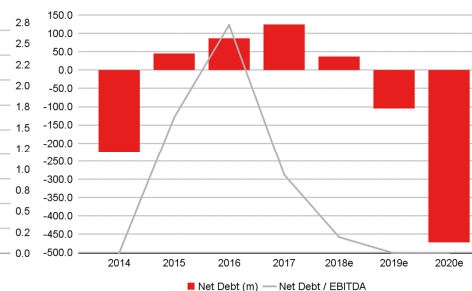
Financial Ratios

	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	64.2 x	50.6 x	40.3 x
Capital Employed Turnover	2.7 x	1.6 x	1.9 x	0.7 x	0.8 x	0.9 x	1.0 x
ROA	49.1 %	11.9 %	7.2 %	12.1 %	9.0 %	11.4 %	14.1 %
Return on Capital							
ROCE (NOPAT)	46.1 %	19.1 %	7.3 %	14.7 %	9.4 %	11.0 %	13.3 %
ROE	18.1 %	13.5 %	8.3 %	22.7 %	9.5 %	10.9 %	12.4 %
Adj. ROE	18.1 %	13.5 %	8.3 %	22.7 %	9.5 %	10.9 %	12.4 %
Balance sheet quality							
Net Debt	-225	45	86	124	37	-105	-472
Net Financial Debt	-226	44	85	124	37	-105	-472
Net Gearing	-67.9 %	12.8 %	30.5 %	3.3 %	0.9 %	-2.3 %	-10.0 %
Net Fin. Debt / EBITDA	n.a.	41.6 %	70.5 %	24.6 %	5.1 %	n.a.	n.a.
Book Value / Share	6.0	6.4	5.2	21.5	24.2	25.3	26.9
Book value per share ex intangibles	4.2	-0.5	-1.3	-0.2	3.2	4.9	7.2

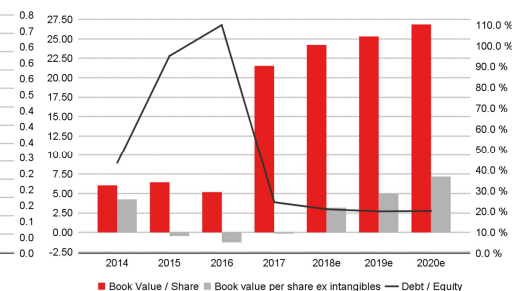
ROCE Development



Net debt in EUR m



Book Value per Share in EUR



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

Consolidated cash flow statement

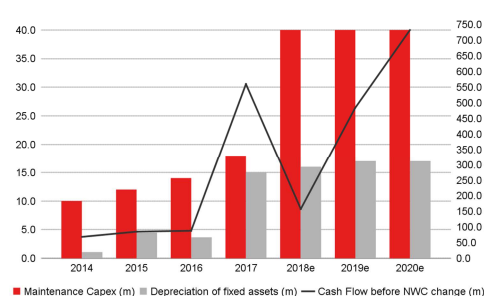
In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Net income	50	46	26	481	386	476	573
Depreciation of fixed assets	1	5	4	15	16	17	17
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	9	32	58	64	135	140	143
Increase/decrease in long-term provisions	1	0	0	0	0	0	0
Other non-cash income and expenses	9	4	0	0	-380	-150	0
Cash Flow before NWC change	69	86	88	560	157	483	733
Increase / decrease in inventory	1	-27	22	0	-6	-4	-20
Increase / decrease in accounts receivable	-2	-41	-4	-71	-57	-31	-16
Increase / decrease in accounts payable	4	58	-37	-75	23	22	18
Increase / decrease in other working capital positions	0	0	11	0	0	0	0
Increase / decrease in working capital (total)	3	-9	-8	-146	-40	-13	-18
Net cash provided by operating activities [1]	72	76	81	294	118	469	715
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	-99	0	0
Dividends paid	-77	-90	-93	0	-283	-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	298	0	0
Net cash provided by financing activities [3]	63	-101	-86	-153	-84	-283	-300
Change in liquid funds [1]+[2]+[3]	130	-194	-30	92	-12	142	368
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	138	280	647

Financial Ratios

	2014	2015	2016	2017	2018e	2019e	2020e
Cash Flow							
FCF	66	-87	75	n.a.	73	424	668
Free Cash Flow / Sales	21.0 %	-13.9 %	9.4 %	9.5 %	2.0 %	10.7 %	16.0 %
Free Cash Flow Potential	52	74	77	537	498	594	694
Free Cash Flow / Net Profit	122.2 %	-189.9 %	251.7 %	57.7 %	18.8 %	89.2 %	116.6 %
Interest Received / Avg. Cash	0.4 %	0.3 %	1.1 %	0.8 %	0.0 %	0.0 %	0.0 %
Interest Paid / Avg. Debt	4.0 %	3.1 %	2.5 %	4.2 %	0.4 %	0.6 %	0.6 %
Management of Funds							
Investment ratio	3.8 %	26.1 %	2.0 %	0.9 %	1.2 %	1.1 %	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 %	29.8 %	28.7 %	29.4 %
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	49.3 x	48.3 x	37.1 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	37
Cash conversion cycle (Days)	n.a.	n.a.	n.a.	-13	-5	-5	-4

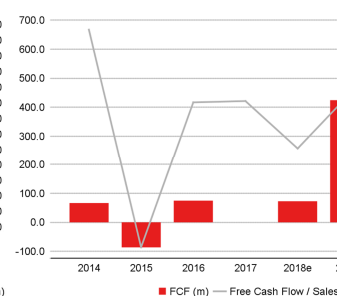
CAPEX and Cash Flow

in EUR m



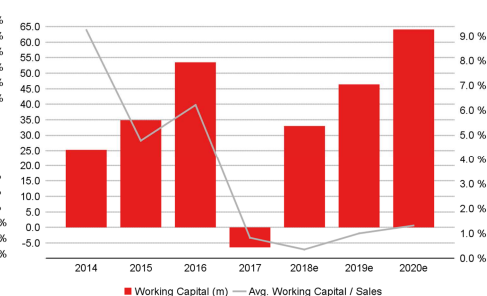
Free Cash Flow Generation

in EUR m



Working Capital

in EUR m



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

LEGAL DISCLAIMER

This research report ("investment 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 is intended solely for the recipient and may not be passed on to another company without their prior consent, regardless of whether the company is part of the same corporation or not. It contains selected information and does not purport to be complete. The investment recommendation is based on publicly available information and data ("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 investment recommendations 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 investment recommendation, 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 investment recommendation. Provided a investment recommendation 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 investment recommendation 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 investment recommendation 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 §85 OF THE GERMAN SECURITIES TRADING ACT (WPHG), MAR AND MIFID II INCL. COMMISSION DELEGATED REGULATION (EU) 2016/958 AND (EU) 2017/565

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 85 of the German Securities Trading Act (WpHG) and Art. 20 MAR 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)
1&1 Drillisch	6	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	132	65
Hold	62	30
Sell	3	1
Rating suspended	7	3
Total	204	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	31	70
Hold	11	25
Sell	0	0
Rating suspended	2	5
Total	44	100

PRICE AND RATING HISTORY 1&1 DRILLISCH AS OF 20.12.2018


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.

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

Jonas Blum +40 40 309537-240
Small/Mid Cap Research jblum@warburg-research.com

Christian Cohrs +49 40 309537-175
Industrials & Transportation 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

Marius Fuhrberg +49 40 309537-185
Financial Services mfuhrberg@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

Marina Manas Cháfer +49 40 309537-254
Renewables, Small/Mid Cap mmanaschafer@warburg-research.com

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

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

Franz Schall +40 40 309537-230
Automobiles, Car Suppliers fschall@warburg-research.com

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

Patrick Schmidt +49 40 309537-125
Leisure, Internet pschmidt@warburg-research.com

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

Cansu Tatar +49 40 309537-248
Cap. Goods ctatar@warburg-research.com

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

Robert-Jan van der Horst +49 40 309537-290
Technology rvanderhorst@warburg-research.com

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

INSTITUTIONAL EQUITY SALES

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

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

Lyubka Bogdanova +49 69 5050-7411
Ireland, Poland, Australia lbogdanova@mmwarburg.com

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

Alexander Eschweiler +49 40 3282-2669
Germany aeschweiler@mmwarburg.com

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

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

Sanjay Oberoi +49 69 5050-7410
United Kingdom, USA 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 3282-2658
Sales Trading jtreptow@mmwarburg.com

Jan Walter +49 40 3282-2662
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