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Europa | Poland | Telecommunication

DR. KALLIWODA
RESEARCH GmbH

Initiating Coverage

BUY

Price target: PLN 5.60

Overview

Industry:	Telecommunication
Country:	Poland
ISIN:	PLVENTS00019
Reuters:	HWE.WA
Bloomberg:	HWE PW
Website:	www.hawesa.pl

Last price:	2.92
High	Low
Price 52 weeks:	4.77 2.27
Market cap. (PLNm)	313.13
No of shares (m)	107.24

Shareholders

Trinitybay Investments Ltd	26.13%
Petrenams Ltd	9.09%
Marek Falenta	7.73%
Free float	57.05%

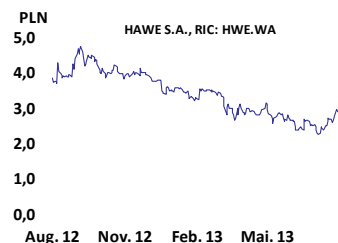
Performance

4 weeks	26.96%
13 weeks	2.10%
26 weeks	-10.15%
52 weeks	-22.34%
YTD	-15.85%

Dividend

	in PLN	in %
2009	0.00	0.00%
2010	0.00	0.00%
2011	0.00	0.00%
2012	0.00	0.00%

52-weeks chart



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HAWES S.A.

Largest “operator for operators” in Poland

■ HAWES S.A., which has been listed on the WSE since 2007, is the leading independent operator of Poland-wide fiber-optic infrastructure. The company leases its network, which currently spans 3,500 km of fiber-optic lines, to providers of voice and internet services at a gross margin of c. 90%. Another business area is the planning, construction and maintenance of fiber-optic networks, where we estimate the long-term gross margin at 14-15%.

■ In our opinion, HAWES will be a major beneficiary of the ongoing developments within the telecommunication industry. As competition intensifies and data volumes increase e.g. due to online video and games, IPTV and the roll-out of fast mobile technology LTE, the network infrastructure has to be upgraded regularly, which can be expensive. Hence, instead of modernizing their own infrastructure telco operators and cable TV companies often lease network capacity from specialized operators, while concentrating themselves on product quality and customer service. Another growth factor is that compared to EU average the fiber-optic network in Poland remains relatively undeveloped, with only 24% of it allowing fast transfer rates of >10 Mbps vs. 49% in EU-27.

■ In Q1/13, HAWES's revenues equaled PLN 48.8m, which corresponded to a y-o-y growth of 77.7%. This resulted from several new fiber-optic lease contracts. With +158.6% to PLN 29.3m and +183.9% to PLN 25.2m, EBIT and net income improved significantly y-o-y resulting from a much better costs structure. Due to higher working capital operating cash flow decreased from PLN 5.8m in Q1/12 to PLN -1.9m. At the end of March 2013, HAWES had equity of PLN 328.1m and a net gearing of 65.4%.

■ We initiate coverage of HAWES with a 12-months price target (50% DCF, 50% peer group) of PLN 5.60, which implies an upside of 91.8% at present. We see tremendous growth potential for the company in the coming years as fibers allow much faster data transfer than copper lines over longer distances. In addition, with an EV/EBITDA 2013E of just 7.4x and P/E 2013E of 6.5x, the stock seems very attractively valued at present.

in PLNm	2010	2011	2012	2013E	2014E	2015E
Net sales	101.10	130.59	107.90	159.50	349.22	358.18
EBITDA	47.03	67.66	32.98	71.46	102.53	103.11
EBIT	43.13	59.20	24.14	60.61	91.15	91.16
Net income	37.23	49.62	16.91	48.12	73.02	73.17
EPS	0.35	0.47	0.16	0.45	0.68	0.68
Tangible BVPS	2.06	2.41	2.57	3.02	3.70	4.38
RoE	15.15%	18.76%	5.76%	14.66%	18.78%	15.84%
EBIT margin	42.67%	45.34%	22.37%	38.00%	26.10%	25.45%
P/E	8.25x	6.21x	18.52x	6.51x	4.29x	4.28x
P/Tangible BVPS	1.42x	1.21x	1.14x	0.97x	0.79x	0.67x
EV/EBITDA	11.22x	7.80x	16.00x	7.38x	5.15x	5.12x

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1 Company profile

HAWE, which is based in Warsaw, is engaged in planning, construction and maintenance of telecommunication networks as well as in fiber leasing and distribution of telecommunication equipment. The company's customers include fixed-line and mobile operators as well as cable TV providers. It owns c. 3,500 km (plus additional 480 km, which it leases) of fiber-optic lines and in the last years has constructed over 45,000 km of such lines for third parties. HAWE has been listed on the Warsaw Stock Exchange since 2007 and employs 185 people.

2 SWOT Analysis

Strengths

- Leading independent operator of network infrastructure in Poland; network currently has 4,000 km
- Unique competencies: network maintenance; planning and construction of over 45,000 km of fiber lines so far; telco services based on own fiber-optic network
- Leasing of fibers to telco operators guarantees stable cash flows over 10-20 years
- High entry barriers as network is impossible to replicate in the medium term and clients need at least 12 months to change their infrastructure operator
- Large experience in terms of consortiums with providers of telco services/solutions as well as co-operation with local authorities
- After re-financing in July, HAWE's interest-bearing debt is 100% long term
- With an average daily trading volume of 816k shares, HAWE is one of the most liquid small and midcaps on the WSE
- CEO Krzysztof Witon was previously in charge of broadband networks at Poland's largest telco operator TPSA; Vice President Jaroslaw Bauc was CEO of mobile operator Polkomtel and Finance Minister

Weaknesses

- HAWE only has clients from the telco industry
- Its business requires high CAPEX
- Large chunk (c. 20%) of sales depends on public contracts
- 2012 results were far below HAWE's original guidance (Sales = PLN 270m; EBITDA = PLN 137.5m; Net income = PLN 101m) due to delays of investments by local governments and telco operators

Opportunities

- Further expansion and better monetisation of Poland-wide fibre-optic network; value-accretive acquisitions
- Large multi-billion PLN public contracts, which are co-financed by the EU; Government wants all Poles to have access to broadband with min. 30 Mbps by 2020
- Cisco Systems estimates that IP traffic in the CEE will increase from 1.2 exabyte per month in 2011 to 6 in 2016; main reason are higher data volumes due to mobile technology LTE, IPTV and online video & games
- EU plans to expand the sewerage system in Poland by 80% to 220k km by 2015E and government regulation that all new buildings have to have fiber-optic infrastructure will spur the growth of HAWE's market
- Poland has a highly attractive geographic location as a data transit country between the West and the East; HAWE wants to benefit from international data traffic and therefore plans to improve its links with fibre-optic networks from neighbouring countries
- HAWE's large asset base as well as attractive business model and valuation make the company an interesting takeover target for financial and strategic investors
- HAWE's business model allows for payment of high dividends in the long run

Threats

- Intensifying competition
- Increasing costs associated with construction and upgrades of network infrastructure
- Risk associated with wrong estimation of leasing values relating to network infrastructure
- Risks relating to delays of permits, which can negatively affect HAWE's construction segment
- Liquidity risks relating to investments into network infrastructure and acquisitions
- Loss of key employees
- Dilution risk if HAWE was to issue new shares in order to take over a larger competitor

3 Valuation

In order to account for current market valuations, we have valued HAWE by using a weighted average of our DCF model (50%) and peer group (50%). Our 12-months price target for the stock equals PLN 5.60, which implies an upside potential of 91.8% at current level.

Discounted Cash Flow method (DCF)

Discounted Cash Flow Model (Basis 08/2013)

	Phase 1								
in PLNm	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	159.50	349.22	358.18	156.43	159.77	162.64	165.58	167.99	170.45
(y-o-y change)	47.8%	118.9%	2.6%	-56.3%	2.1%	1.8%	1.8%	1.5%	1.5%
Operating profit	60.61	91.15	91.16	59.44	58.16	56.27	54.31	51.91	49.94
(operating margin)	38.0%	26.1%	25.5%	38.0%	36.4%	34.6%	32.8%	30.9%	29.3%
NOPLAT	49.09	73.83	73.84	48.15	47.11	45.58	43.99	42.05	40.45
+ Depreciation & Amortization	10.85	11.39	11.96	12.56	13.18	13.84	14.53	15.26	16.02
= Net operating cash flow	59.94	85.22	85.79	60.70	60.29	59.42	58.53	57.31	56.48
- Total investments (Capex and WC)	-73.45	-127.74	22.03	149.98	-5.38	-5.24	-5.65	-6.03	-6.74
Capital expenditures	-63.16	-12.35	-12.92	-12.72	-13.34	-14.00	-14.69	-15.42	-16.18
Working capital	-10.29	-115.39	34.95	162.69	7.96	8.76	9.04	9.39	9.44
= Free cash flow (FCF)	-13.51	-42.52	107.83	210.68	54.91	54.18	52.87	51.28	49.74
PV of FCFs	-13.07	-37.65	87.35	156.16	37.24	33.62	30.02	26.64	23.64

PV of FCFs in explicit period 343.94

PV of FCFs in terminal period 404.79

Enterprise value (EV) 748.72

+ Net cash / - net debt (31 March 2013) -214.53

Shareholder value 534.20

Number of shares outstanding (m) **107.24**

WACC 9.3%

Cost of equity 10.5%

Debt costs before tax 8.0%

Tax rate 19.0%

Debt costs after tax 6.5%

Equity ratio 70.0%

Debt ratio 30.0%

Fair value per share in PLN 4.98

Fair value per share in PLN (in 12 months) 5.44

Sensitivity Analysis		Terminal EBIT margin						
		26.3%	27.3%	28.3%	29.3%	30.3%	31.3%	32.3%
WACC	6.3%	10.97	11.23	11.50	11.76	12.02	12.29	12.55
	7.3%	8.13	8.32	8.51	8.69	8.88	9.07	9.26
	8.3%	6.35	6.49	6.63	6.77	6.91	7.05	7.19
	9.3%	5.12	5.23	5.33	5.44	5.55	5.66	5.77
	10.3%	4.21	4.30	4.38	4.47	4.56	4.65	4.73
	11.3%	3.51	3.58	3.65	3.73	3.80	3.87	3.94

Source: Dr. Kalliwoda Research GmbH

Peer Group Analysis

Our peer group comprises seven operators of telecommunication infrastructure from Poland, France, Russia, Hungary and the Czech Republic:

- (1) *ATM S.A.*: ATM S.A., which is based in Warsaw, is a telecommunication operator and leading provider of colocation (data center) services in Poland. The company is also one of the leading providers of data center services in Central and Eastern Europe. As a telco operator, it offers among others broadband data transmission services and Internet access for companies and institutions. ATM's telco infrastructure comprises: three modern data centers with a total space of 8,300 sqm and 42 MW power supply as well as a Poland-wide network with fiber-optic backbone and 8 MANs. It provides its services under the brands of ATMAN and Thinx Poland. ATM S.A. has been listed on the WSE since 2004 and employs c. 180 people. In 2012, the company had revenues of PLN 182.7m.
- (2) *Alcatel-Lucent SA*: Alcatel Lucent SA, which is based in Paris, provides solutions used by service providers, business customers and public administration to offer voice, data, and video services to their own customers. The company operates in three business segments: Networks, Software, Services and Solutions as well as Enterprise. In Poland, Alcatel-Lucent does not own a fiber-optic network, however constructs them and delivers components. In fiscal-year 2012, the company had revenues of EUR 14.4bn.
- (3) *Rostelekom OAO*: Rostelekom OAO, which is based in Moscow, is a Russian telecommunication operator. Throughout Russia, Rostelecom renders domestic long-distance (DLD) and international long-distance (ILD) telecommunication, mobile voice and data, broadband Internet access and pay TV services. It has approximately 500,000 km of backbone infrastructure and provides access to 35m subscribers. In fiscal-year 2012, Rostelekom generated total revenues of RUB 321.3bn.
- (4) *Magyar Telekom*: Magyar Telekom, which is based in Budapest, provides telecommunication services in Hungary. The company offers voice and data communication services e.g. Digifon, voice mail, televoting, ISDN, high-speed data communication, line lease, Internet access, audio and video transmission as well as cable TV. For fiscal-year 2012, Magyar Telekom reported sales of HUF 607.1bn.
- (5) *Telefonica Czech Republic as*: Telefonica Czech Republic as, which is based in Prague, is a Czech provider of integrated telecommunication services. The company's business is divided into two segments: Fixed and Mobile. Additionally, it provides data services and consultancy, lines lease and real-time mobile payment services. In fiscal-year 2012, Telefonica Czech Republic generated sales of CZK 50.5bn.
- (6) *Telekomunikacja Polska S.A.*: TPSA, which is based in Warsaw and majority-owned by France Telecom, is the national telco operator in Poland. The company offers such services as fixed-line and mobile telephony, Integrated Services Digital Network (ISDN), broadband and mobile Internet access as well as TV and Voice over Internet Protocol (VoIP). It also provides leased lines, data transmission and sells telecommunication equipment. Its fiber-optic network is the largest in Poland and covers 80,000 km. In fiscal-year 2012, TPSA had revenues of PLN 14.1bn.

- (7) *Netia S.A.*: Netia, which is based in Warsaw, is the leading alternative telco operator in Poland. The company uses third-party networks, but also operates an own one. Its services include fixed-line voice telephone services, Integrated Services Digital Network (ISDN), Voice over Internet Protocol (VoIP), voice mail, mobile and fixed-accessible Internet as well as leased lines. Its fiber-optic network covers 12,500 km. In 2012, Netia had sales of PLN 2.1bn.

HAWE's most important non-listed competitors are:

- (1) *GTS Energies*: GTS Central Europe (GTS CE) is the largest alternative communication carrier in the CEE region with currently c. 40,000 business customers. GTS CE delivers end-to-end Internet access, data transfer and fixed telephony services for business customers in the Czech Republic, Slovakia, Hungary, Romania and Poland. GTS CE is owned by a consortium of private equity funds, which includes Columbia Capital, M/C Venture Partners, Innova Capital, HarbourVest Partners, Oak Investment Partners and Bessemer Venture Partners.
- (2) *Exatel*: Exatel, which is part of the listed PGE Group, is one of the leading alternative telecommunication operators. Its service offer includes data transmission, line lease, voice services, Internet services, as well as hosting and colocation. Exatel has more than 1,500 customers in Poland, which include telecommunication operators as well as large and medium-sized enterprises from various sectors such as finance and power engineering. The company manages the second largest telecommunication network in Poland with a total length of more than 20,000 km optic fibers (along the power grid) covering 400 cities and links to 80 domestic and 60 foreign operators allowing data transmission all over Central Europe.
- (3) *TK Telekom*: With a countrywide copper and fiber-optic network of almost 30,000 km (thereof c. 6,000 km fibers along railway tracks), TK Telekom is among the largest backbone network operators in Poland. The company offers data transmission, line lease, Internet access and voice services, satisfying the needs of telecommunication operators, public administration and business customers. The owners of TK Telekom are the Polish State Treasury and the state-owned Polish railway operator PKP S.A.

Company	EV/EBITDA		EV/EBIT		P/BVPS	EBITDA margin	Net gearing
	2013E	2014E	2013E	2014E	Latest	2012	Latest
ATM S.A. (PLN)	10.85	9.40	20.09	17.19	1.48	24.38%	24.26%
Alcatel-Lucent SA (EUR)	7.24	5.11	46.60	14.04	3.28	4.22%	103.35%
Rostelekom OAO (RUB)	4.70	4.52	9.96	9.46	1.53	36.64%	88.86%
Magyar Telekom (HUF)	3.43	3.54	8.04	8.22	0.71	32.54%	57.44%
Telefonica Czech Republic as (CZK)	5.03	5.23	12.72	13.10	1.79	40.23%	-7.47%
TPSA S.A. (PLN)	3.50	3.73	16.33	17.22	0.74	33.89%	36.01%
Netia S.A. (PLN)	4.65	4.99	33.29	36.82	0.86	26.77%	20.22%
Median	4.70	4.99	16.33	14.04	1.48	32.54%	36.01%
HAWE S.A. (PLN)	7.38	5.15	8.71	5.79	0.95	30.56%	65.39%
Premium/Discount	57.22%	3.13%	-46.70%	-58.76%	-35.40%		
Fair value HAWE S.A. (PLN)	5.27						

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Knowledge

According to our peer group, HAWE currently trades at a significant discount to its peers. In our view, this stems from fact that the positive impact of the new construction contracts on results has not yet been accounted for in the company's market valuation. The peer-group-based fair value of HAWE equals PLN 5.27.

4 Q1/13 results and outlook

Revenues

In Q1/13, HAWE generated total sales of PLN 48.8m, which increased by 77.7% y-o-y. The growth was driven by the segment "Telecommunication services", where revenues went up by 90.3% to PLN 42.3m at a gross margin of 76.2%. The reasons were new contracts relating to leasing of fiber-optic lines (KRe: 4 vs. 12 in whole 2012). For these agreements, HAWE uses two approaches: (1) it books them as finance lease, whereby revenues and trade receivables increase by their net value immediately, but cash flows only in future years and (2) IRU, whereby both revenues and cash flows increase already at contract inception. Currently, almost all of HAWE's fiber lease contracts are booked according to the first approach, but the second will become more important in the future.

Q1/13 results compared to previous year

Q1/13 vs. previous year

in PLNm	Q1/13	Q1/12	change (%)
Net sales	48.75	27.43	77.7%
EBITDA	31.94	13.52	136.2%
EBITDA margin	65.5%	49.3%	
EBIT	29.31	11.33	158.6%
EBIT margin	60.1%	41.3%	
Net income	25.20	8.88	183.9%
Net margin	51.7%	32.4%	

Source: Company information, Dr. Kalliwoda Research GmbH

Sales split Q1/13 vs. Q1/12

Sales and Gross margins according to segments Q1/13 vs. Q1/12

	Q1/13	Q1/12		Q1/13	Q1/12
Telecommunication services			Others		
Sales €m	42.31	22.23	Sales €m	0.59	1.44
Share of total sales	86.8%	81.0%	Share of total sales	1.2%	5.3%
Gross margin	76.7%	61.0%	Gross margin	3.0%	63.2%
Planning, construction and maintenance			Group		
Sales €m	5.86	3.76	Total sales	48.75	27.43
Share of total sales	12.0%	13.7%	change y-o-y	77.7%	
Gross margin	-13.7%	7.8%			

Source: Company information, Dr. Kalliwoda Research GmbH

In the segment “Planning, construction and maintenance”, revenues grew by 55.8% to PLN 5.9m in Q1/13. In our opinion, the reason was work relating to e.g. planning and construction of a fiber-optic network in the Lubuskie province. The following provides an overview over HAWE’s current projects in the “Planning, construction and maintenance” segment:

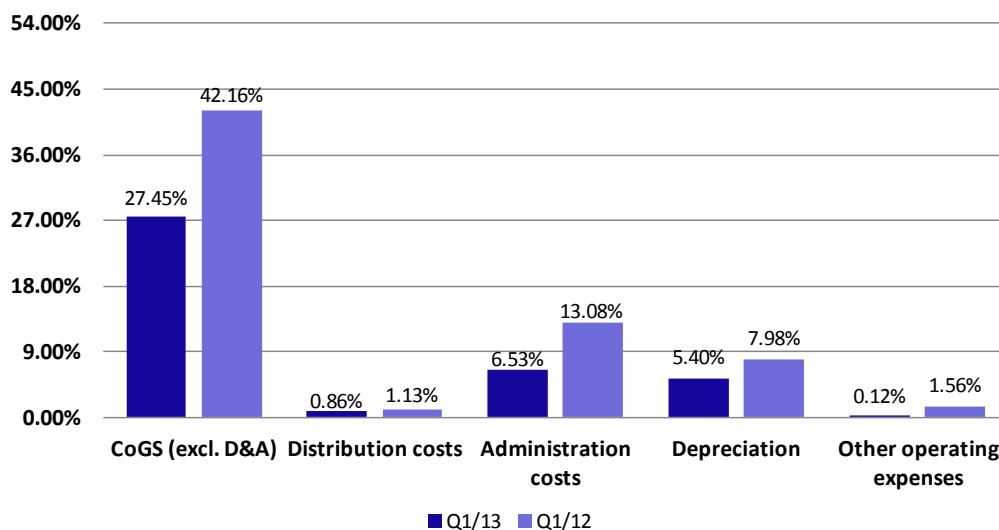
Planning, construction and maintenance projects

Duration	Contract description	Consortium members	Contract value
2013-2014	Planning and construction of a fiber-optic network in Zabrze	HAWE	PLN 18m
2012-2015	Planning, construction and maintenance of a fiber-optic network in the province of Warmia and Mazury; 2,241 km	HAWE, Alcatel-Lucent, TPSA	PLN 316m
2013	Planning and construction of a fiber-optic network in the city of Boleslawiec	HAWE	PLN 1.7m
2013	Planning and construction of a fiber-optic network in the city of Zawiercie	HAWE	PLN 1.2m
2012-2013	Planning and construction of a fiber-optic network in the Lubuskie province	HAWE, TPSA	PLN 22m
2013-2015	Planning and construction of a fiber-optic network in the Podkarpackie province; 2,006 km; The contract is not yet won, however HAWE's consortium is the only applicant	HAWE, Alcatel-Lucent, TPSA	PLN 300m (KRe)

Source: Company information, Dr. Kalliwoda Research GmbH

Profitability

Share in total sales Q1/13 vs. Q1/12



Source: Company information, Dr. Kalliwoda Research GmbH

In Q1/13, HAWE's EBIT increased by 158.6% y-o-y to PLN 29.3m and the operating margin from 41.3% to 60.1%. The reason was a strong increase of the gross margin in the segment "Telecommunication services" and an improved cost structure y-o-y. Net income (+183.9% to PLN 25.9m) was additionally positively affected by a higher net financial result (PLN 1.8m vs. PLN 0.3m in Q1/12) – it includes interest income relating to leasing of fiber-optic lines - and a lower effective tax rate y-o-y (19.1% vs. 23.5%)

At the end of fiscal-year 2012, management decided to change the way it accounts for the costs associated with the project "HAWE's Poland-wide fiber-optic network". Instead of splitting the costs into different kinds of expenses and afterwards showing them as "fixed-assets under construction", the company opted for showing them directly in "fixed-assets under construction", which is supposed to clear operating costs from investment expenses.

Balance Sheet and Cash Flow

As of 31 March 2013, the most important positions on HAWE's balance sheet were equity of PLN 328.1m and teletechnical infrastructure totaling PLN 285.4m, which is related to the company's fiber-optic network.

At the end of March 2013, HAWE's interest-bearing debt amounted to PLN 216.9m, of which 82.4% were short-term due to auditor's classification after a breach of covenants. Given the cash position of PLN 2.4m, the company's net debt position amounted to PLN 214.5m and the net gearing to 65.4%. In July 2013 HAWE raised PLN 30.8m through a long-term bond issue and thus was able to re-finance all of its short-term debt.

Between January and March 2013, HAWE generated an operating cash flow of PLN -1.9m compared to PLN 5.8m last year. The reason was an increase of trade receivables by PLN 31.3m, which was related to new contracts for the lease of fiber-optic lines. In most cases, HAWE treats these contracts as finance lease and adds their value to trade receivables at inception. Then, over 10-20 years, the capital share of the contract is subtracted from trade receivables and the interest increases the net financial result.

In Q1/13, cash flows from investing and financing amounted to PLN -5.1m and PLN -4.7m, compared to PLN -9.1m and PLN 3.7m in Q1/12 respectively. In total, the cash position declined by PLN 11.7m to PLN 2.4m.

Outlook

In our view, HAWE is a highly interesting long-term investment opportunity. Despite the tremendous growth potential of fiber-optic leasing (e.g. fiber-optic lines are needed to connect LTE transmitters), the stock is very attractively valued at present. Hence, we initiate the coverage with a 12-months price target of PLN 5.60, which is weighted average of our DCF model (50%) and peer group analysis (50%). Based on our forecasts, our price target implies an EV/EBITDA 2013E and P/E 2013E of 11.4x and 12.5x respectively. In the last 12 months, HAWE's share price has declined by 22.3%, which in our view was due to the missed 2012 guidance and the large amount of short-term debt that however was re-financed in July through the issuance of long-term bonds worth PLN 30.8m.

As one of very few companies in Poland, HAWE has a very modern, three-duct fiber-optic network, which covers Poland's most important cities and can be leased or sold to providers of fixed-line and mobile telephony as well as Internet access. In addition, the company has extensive experience in terms of planning, constructing and servicing fiber-optic networks as part of projects, which are financed by the Polish state, the EU or both. Therefore, we are confident that in the coming years HAWE will be a major beneficiary of the following trends: (1) need for faster connections due to growing data volumes (2) due to decreasing ARPUs and high competition traditional telco operators have started to buy infrastructure from specialized providers, which allows them to reduce CAPEX and makes capacity available for investments into products and service quality and (3) need to expand network infrastructure in Poland as (broadband) Internet penetration among Poles remains far behind EU average (Eurostat: 62% of Poles use the Internet vs. EU average of 72%; 57% have broadband connections vs. EU average of 67%).

In our model, we have assumed that HAWE's fastest-growing segment in the coming years will be "Planning, construction and maintenance" with a sales CAGR 12-15 of 123.9%. The reason is that by 2015 we expect a dynamic sales growth in this business area from the projects in the provinces Warmia & Mazury (PLN 330m; KRe: HAWE's share is 35%) and Podkarpackie (not yet won, but HAWE's consortium only one to submit an offer; KRe: PLN 300m, HAWE's share 35%) as well as with private clients. However, the gross margin should remain well-below the segment "Telecommunication services" (14.9%-15.1% vs. 72%-76%), which we expect to grow at a CAGR 12-15 of 9.5%.

For HAWE's EBIT margin, we have forecast that it will decline from 38% in 2013 to 29.3% in 2021 due to increasing competition. However, we want to emphasize that in our view the company's business has very high entry barriers and we do not expect any other player to be able to replicate the size and quality of its fiber-optic network in the next 2-3 years.

As stated in the company's strategy for 2013-17, we expect HAWE to continue to invest heavily into the expansion of its own fiber-optic network (e.g. routes Warsaw-Terespol and Wroclaw-Krakow-Cieszyn). By 2017, the company plans to have 3,900 km of own fiber-optic lines (now it has 3,500 km) plus 6,800 km of distribution lines (now it has 480 km). However, as management have not yet provided any financial details regarding its strategy, the CAPEX figures, which we have used in our model, only reflect our own estimates.

Our valuation does not include any acquisitions of similar operators into account. In 2012, HAWE was supposed to take over TK Telecom Sp. z.o.o that is owned by the Polish state and the Polish Railway Company (PKP), which however failed due to unresolved issues during due diligence. The transaction would have expanded the company's network by c. 24,000 km of copper (KRe) and 6,000 km of fiber-optic lines.

Sales split according to segments 2013E-15E

Sales split 2013E-2015E			
in PLNm	2013E	2014E	2015E
Telecommunication services	96.50	104.22	108.18
(% of sales)	60.5%	29.8%	30.2%
Gross margin	76.0%	74.0%	72.0%
thereof: Sale and leasing of dark fibres	67.7%	68.7%	69.7%
thereof: Sale of teletechnical infrastructure	16.9%	15.5%	14.1%
thereof: Data transfer	8.4%	8.6%	8.8%
thereof: Maintenance, colocation, Internet access	7.0%	7.2%	7.4%
Planning, construction and maintenance	63.00	245.00	250.00
(% of sales)	39.5%	70.2%	69.8%
Gross margin	15.1%	15.0%	14.9%
Zabrze	2.90	15.00	0.00
Boleslawiec	1.70	0.00	0.00
Lubuskie province	18.50	1.00	0.00
Warmia & Mazury province (PLN 330m; HAWE's share 35%)	3.70	28.90	41.70
Podkarpackie province (PLN 300m; HAWE's share 35%)	0.00	40.80	27.20
Zawiercie	1.20	0.00	0.00
Sale of third duct, maintenance, contracts with private clients	35.00	159.30	181.10
Total revenues	159.50	349.22	358.18
(change y-o-y)	47.8%	118.9%	2.6%

Source: Dr. Kalliwoda Research GmbH

Our forecasts 2013E-2015E

Our estimates 2013E-2015E			
in PLNm	2013E	2014E	2015E
Net sales	159.50	349.22	358.18
EBITDA	71.46	102.53	103.11
EBITDA margin	44.8%	29.4%	28.8%
EBIT	60.61	91.15	91.16
EBIT margin	38.0%	26.1%	25.5%
Net income	48.12	73.02	73.17
Net margin	30.2%	20.9%	20.4%

Source: Dr. Kalliwoda Research GmbH

Quarterly results and estimates 2011-2013E

in PLNm	Q1/11	Q2/11	Q3/11	Q4/11	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012
Net sales	21.97	19.00	13.44	76.18	130.59	27.43	32.60	12.22	35.65	107.90
<i>y-o-y change</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	24.8%	71.6%	-9.1%	-53.2%	-17.4%
EBITDA	13.86	-8.60	3.64	58.76	67.66	13.52	-0.28	1.43	18.30	32.98
<i>EBITDA margin</i>	63.1%	-45.3%	27.1%	77.1%	51.8%	49.3%	-0.8%	11.7%	51.3%	30.6%
EBIT	11.90	1.31	1.57	44.44	59.20	11.33	8.91	-0.85	4.76	24.14
<i>EBIT margin</i>	54.1%	6.9%	11.7%	58.3%	45.3%	41.3%	27.3%	-7.0%	13.3%	22.4%
Net income	10.42	0.27	0.72	38.21	49.62	8.88	5.09	0.55	2.39	16.91
<i>Net margin</i>	47.4%	1.4%	5.3%	50.2%	38.0%	32.4%	15.6%	4.5%	6.7%	15.7%

in PLNm	Q1/13	Q2/13E	Q3/13E	Q4/13E	2013E
Net sales	48.75	40.20	28.60	41.95	159.50
<i>y-o-y change</i>	77.7%	23.3%	134.0%	17.7%	47.8%
EBITDA	31.94	16.10	11.00	12.42	71.46
<i>EBITDA margin</i>	65.5%	40.0%	38.5%	29.6%	44.8%
EBIT	29.31	13.50	8.40	9.41	60.61
<i>EBIT margin</i>	60.1%	33.6%	29.4%	22.4%	38.0%
Net income	25.20	9.60	4.50	8.83	48.12
<i>Net margin</i>	51.7%	23.9%	15.7%	21.0%	30.2%

Source: Company information, Dr. Kalliwoda Research GmbH

5 Business model

The HAWE Group provides complex telecommunication services based on proprietary fiber-optic infrastructure as well as planning, construction and maintenance for the telco industry and local public administration. The Group owns a Poland-wide fiber-optic network, which currently covers 3,500 km (3,900 by 2017) with unlimited transfer capacity. The network goes through key metropolitan regions and administrative centers in Poland. In addition, it also has many interconnection points with neighboring countries e.g. Russia (Kaliningrad region), Lithuania, Belarus, Ukraine and Germany. HAWE Group was founded in 2007 and currently has 185 employees.

Today, HAWE Group consists of three subsidiaries:

HAWE Telekom Sp. z.o.o (100%), which is in charge of its telco business (leasing of optic fibers)

HAWE Budownictwo Sp. z.o.o (100%), which is responsible for planning, construction and maintenance of fiber-optic lines, and

ORSS Sp. z.o.o (100%), which is in charge of the company's fiber-optic project in the province of Warmia and Mazury

The following provides a description of HAWE's business segments:

Telecommunication services based on own infrastructure

The business area, which in 2012 generated 80% of HAWE's total revenues at a gross margin of 58%, provides telecom infrastructure services, which are offered to Polish and international fixed-line, mobile and cable TV operators (e.g. Netia S.A., TPSA S.A., ATM S.A., Polska Telefonii Cyfrowa S.A., Polkomtel S.A., Multimedia Polska S.A., UPC Polska Sp. z o.o., Vectra S.A., GTS Poland Sp. z o.o.).

Currently, HAWE's network spans in total c. 4,000 km of fibers (3,500 km own, 480 leased ones). It comprises three ducts, which are parallel to each other: two with fibers and an empty one, which however can be upgraded with fibers within approx. four months. Apart from Warsaw and Upper Silesia, where it leases network infrastructure from third parties, HAWE's network covers all the largest Polish administrative and economic centers.

The most important revenue source is leasing of dark fibers, which in 2012 constituted 66.7% of segment sales. HAWE leases its own fibers based on long-term finance lease contracts, which usually have a duration of 10-20 years, similar to the depreciable life of the network infrastructure. Other services include leasing of empty network ducts, colocation (leasing of space with associated infrastructure e.g. alarm system, air conditioning in HAWE's teletechnical buildings) as well as telco services for Internet Service Providers (Internet access, data transfer with 10-1000 Mb/s, VoIP).

In this business area, HAWE benefits (1) from the growing demand for fiber-optic connections, which are much faster than copper lines and allow data transfer over long distances and (2) from the trend towards purchasing of infrastructure from specialized providers, which can always offer latest technology and allow traditional telco operators to focus on product quality and client service. In addition, as it has several interconnection points with networks from neighbor countries, HAWE can be in the future a major beneficiary of international data traffic, which goes through Poland. With 337 centers and c. 85,000 employees, which heavily rely on 24/7 high-speed connections with offices worldwide, Poland is today one of the most important locations for Shared Services and Business Process Outsourcing in the world.

Planning, construction and maintenance of third-party networks

HAWE also offers planning, construction and maintenance services for third parties, which in 2012 had a share of 20.6% in its total sales. In 2012, the segment's gross margin amounted to -15.8%, which was however caused by restructuring. We have assumed that in the long run it will equal c. 15% due to a much higher share of Maintenance & Servicing contracts (2012: 52.1%).

On fiber-optic projects, HAWE usually works in a consortium with one or two other telco service providers. Over the last years, it has gained vast experience through projects, which were financed by the EU or the Polish state or both. So far, HAWE has constructed 45,000 km of fiber-optic lines.

The Polish state invests heavily into fiber-optic infrastructure as it wants to guarantee all its inhabitants access to fast broadband internet (>30 Mbps) by 2020. HAWE takes part in several tenders for projects, which are also financed by EU funds. One project, which it has already won, is for planning, construction and maintenance of a fiber-optic network with 2,241 km in the province of Warmia and Mazury. Together with its partners, HAWE usually realizes such projects through special-purpose vehicles.

6 The telecommunication market in Poland

Latest market data

According to the department for electronic communication (Urząd Komunikacji Elektronicznej), the Polish telecommunication market was worth PLN 41.7bn (-2.4% y-o-y) in 2012. While following a 6.3% lower number of users and a 7.8% lower ARPU y-o-y the value of fixed-line telephony decreased by 13.5% y-o-y to PLN 4.5bn, mobile telephony declined by 1% y-o-y to PLN 18.9bn mainly due to significantly lower MTR (Mobile Termination Rate) and higher competition in retail. The value of the Internet segment increased by 10.7% y-o-y to PLN 4.4bn, which stemmed from strong development of mobile data transfer (+23% y-o-y). In Poland, the fast mobile technology LTE was already introduced in 2011, which made the country a frontrunner in Europe.

In 2012, the market leaders were the national operator Telekomunikacja Polska S.A. (fixed-line telephony, broadband internet), PTK Centertel S.A. (mobile telephony, company is owned by TPSA) as well as Polkomtel Sp. z o.o. (mobile internet). While the broadband internet penetration (ADSL, cable TV etc.) was the fourth lowest in the EU, in case of mobile telephony it reached 132.1% and was thus 1.4% higher than EU average (source: UKE based on Telecom Market Matrix from Analysys Mason).

Polish telecommunication market in 2012

	Internet access	Fixed-line telephony	Mobile telephony
Value	PLN 4.4bn (+10.7% y-o-y)	PLN 4.5bn (-13.5% y-o-y)	PLN 18.9bn (-1% y-o-y)
Number of users	Broadband (7.6m, +13.4%); Mobile (4.1m, +24.2%)	7.4m (-6.3% y-o-y)	Market penetration 132.1%
TOP 3 players	PTK Centertel (owned by TPSA), TPSA, Polkomtel	TPSA, Netia, UPC	T-Mobile Polska, PTK Centertel, Polkomtel

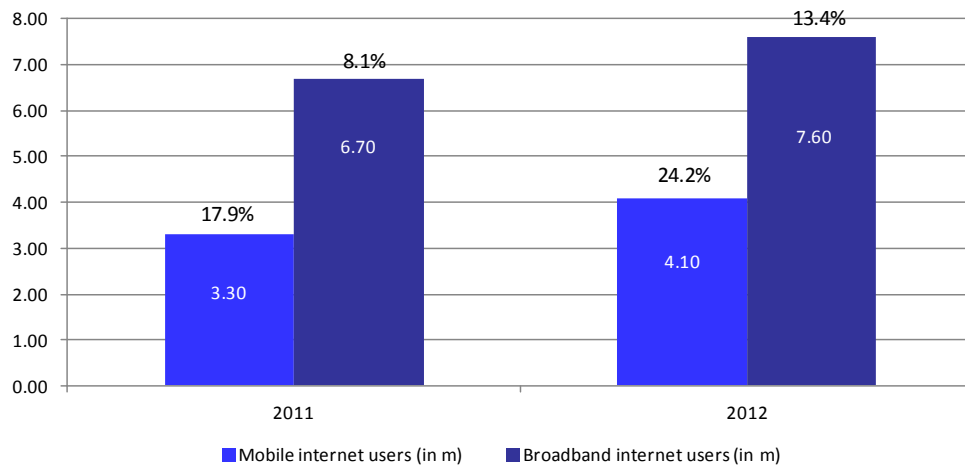
Source: UKE, Dr. Kalliwoda Research GmbH

Market development

Since 2007, the department for electronic communication (UKE) has implemented numerous regulatory measures in order to make the market for telecommunication services in Poland more competitive. The other major changes stemmed from technological innovations. First, telecommunication services are today not only offered by traditional operators, but also by providers of cable and satellite TV that provide telephone and Internet services in a package with TV. Their infrastructure offers higher data transmission rates than traditional telco networks at lower prices (40-50% less on average according to UKE). Second, the increasing popularity of smartphones and introduction of fast mobile data transfer technology LTE (right now only Polkomtel and Cyfrowy Polsat are offering it in Poland, but others will follow soon) are dynamically increasing mobile data volumes. It seems likely that this will strengthen the trend towards substitution of fixed-line telephony and broadband internet with mobile voice and data transfer services. According to UKE, it is possible that in a few years voice telephony will not be offered on fixed-line anymore and LTE will outpace broadband internet technology ADSL.

Like in case of mobile voice telephony, operators, who offer LTE, need to install transmitters at a certain distance, which in cities has to be even shorter due to buildings, which interrupt their signal. The transmitters have to be connected if they are supposed to send data to each other and optic fibers are most capable of doing that over long distances.

Growth of mobile and broadband internet users 2011-2012



Source: UKE based on Teligen T-Basket, Dr. Kalliwoda Research GmbH

Investments into fiber-optic networks

According to the Polish statistical office (GUS), the market for the construction of telecommunication and electrical lines was worth PLN 5bn in 2012, thereof PLN 3.3bn for new investments and PLN 1.7bn for modernization. Based on data of the Information System on Broadband Infrastructure (SIIS), in 2012 Polish operators were supposed to spend PLN 485.7m for 7,733 km of new fibers, whereby the national operator TPSA accounted for 2,000 km. For 2013, operators such as TPSA and HAWE plan to invest in 4,891 km (PLN 348.8m) of new lines. According to UKE, fiber-optic lines account for 20.2% of all planned investments into telco infrastructure in 2013.

7 Profit and loss statement

Profit and loss statement - HAWE						
	Fiscal year					
in PLNm	2010	2011	2012	2013E	2014E	2015E
Revenues	101.10	130.59	107.90	159.50	349.22	358.18
<i>Cost of goods sold</i>	-37.67	-42.48	-53.80	-76.65	-235.35	-243.04
Gross profit	63.43	88.11	54.11	82.85	113.87	115.14
<i>Other operating income</i>	2.39	1.57	4.33	4.41	4.50	4.59
<i>Distribution costs</i>	-1.57	-1.83	-1.67	-2.47	-2.60	-2.72
<i>Personnel costs</i>	-11.14	-14.56	-15.96	-11.17	-11.72	-12.31
<i>Other operating expenses</i>	-6.07	-5.62	-7.83	-2.17	-1.52	-1.58
EBITDA	47.03	67.66	32.98	71.46	102.53	103.11
<i>Depreciation</i>	-3.90	-8.45	-8.83	-10.85	-11.39	-11.96
Operating income	43.13	59.20	24.14	60.61	91.15	91.16
<i>Net financial result</i>	2.96	0.52	-1.98	-1.20	-1.00	-0.82
EBT	46.10	59.72	22.16	59.41	90.15	90.34
<i>Income taxes</i>	-8.86	-10.10	-5.25	-11.29	-17.13	-17.16
Net income / loss	37.23	49.62	16.91	48.12	73.02	73.17
<i>EPS</i>	0.35	0.47	0.16	0.45	0.68	0.68
<i>DPS</i>	0.00	0.00	0.00	0.00	0.00	0.00
Change y-o-y						
<i>Revenues</i>	n.a	29.17%	-17.37%	47.82%	118.95%	2.57%
<i>Cost of goods sold</i>	n.a	12.76%	26.64%	42.48%	207.05%	3.27%
<i>Gross profit</i>	n.a	38.92%	-38.59%	53.13%	37.44%	1.11%
<i>Other operating income</i>	n.a	-34.54%	176.01%	2.00%	2.00%	2.00%
<i>Distribution costs</i>	n.a	16.52%	-8.83%	47.82%	5.00%	5.00%
<i>Personnel costs</i>	n.a	30.69%	9.56%	-30.03%	5.00%	5.00%
<i>Other operating expenses</i>	n.a	-7.33%	39.19%	-72.25%	-30.04%	4.03%
<i>EBITDA</i>	n.a	43.85%	-51.26%	116.69%	43.49%	0.57%
<i>Depreciation</i>	n.a	116.74%	4.50%	22.79%	5.00%	5.00%
<i>Operating income</i>	n.a	37.26%	-59.22%	151.05%	50.38%	0.01%
<i>Net financial result</i>	n.a	-82.61%	-485.05%	-39.49%	-16.67%	-18.00%
<i>EBT</i>	n.a	29.56%	-62.89%	168.10%	51.74%	0.21%
<i>Income taxes</i>	n.a	n.a	-48.02%	114.93%	51.74%	0.21%
<i>Net income / loss</i>	n.a	33.26%	-65.92%	184.61%	51.74%	0.21%
<i>EPS</i>	n.a	n.a	-66.45%	184.61%	51.74%	0.21%
Share in total sales						
<i>Revenues</i>	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<i>Cost of goods sold</i>	-37.26 %	-32.53 %	-49.86 %	-48.05 %	-67.39 %	-67.85 %
<i>Gross profit</i>	62.74 %	67.47 %	50.14 %	51.95 %	32.61 %	32.15 %
<i>Other operating income</i>	2.37 %	1.20 %	4.01 %	2.77 %	1.29 %	1.28 %
<i>Distribution costs</i>	-1.56 %	-1.40 %	-1.55 %	-1.55 %	-0.74 %	-0.76 %
<i>Personnel costs</i>	-11.02 %	-11.15 %	-14.79 %	-7.00 %	-3.36 %	-3.44 %
<i>Other operating expenses</i>	-6.00 %	-4.31 %	-7.25 %	-1.36 %	-0.44 %	-0.44 %
<i>EBITDA</i>	46.52 %	51.81 %	30.56 %	44.80 %	29.36 %	28.79 %
<i>Depreciation</i>	-3.86 %	-6.47 %	-8.19 %	-6.80 %	-3.26 %	-3.34 %
<i>Operating income</i>	42.67 %	45.34 %	22.37 %	38.00 %	26.10 %	25.45 %
<i>Net financial result</i>	2.93 %	0.39 %	-1.84 %	-0.75 %	-0.29 %	-0.23 %
<i>EBT</i>	45.60 %	45.73 %	20.54 %	37.25 %	25.81 %	25.22 %
<i>Income taxes</i>	-8.77 %	-7.74 %	-4.87 %	-7.08 %	-4.90 %	-4.79 %
<i>Net income / loss</i>	36.83 %	37.99 %	15.67 %	30.17 %	20.91 %	20.43 %

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8 Balance sheet

Balance sheet - HAWE						
	Fiscal year					
in PLNm	2010	2011	2012	2013E	2014E	2015E
Assets						
Cash and equivalents	8.83	27.59	14.10	52.62	19.29	71.14
Inventories	2.12	3.31	3.58	5.02	15.16	15.39
Trade accounts and notes receivables	23.96	39.34	37.79	51.63	103.75	96.90
Teletechnical infrastructure	81.02	83.90	0.00	0.00	0.00	0.00
Other current assets	7.90	8.80	14.41	20.50	43.14	42.45
Current assets, total	123.82	162.94	69.88	129.77	181.34	225.89
Property, plant and equipment	13.52	12.88	11.49	10.69	10.64	10.59
Other intangible assets	0.57	0.88	0.76	0.74	0.75	0.76
Goodwill	28.64	28.64	28.64	28.64	28.64	28.64
Teletechnical infrastructure	111.63	129.16	239.16	292.30	293.30	294.30
Long-term trade receivables	97.98	155.56	195.00	200.52	334.26	307.02
Other financial assets	0.00	0.00	0.20	0.21	0.21	0.21
Deferred tax assets	7.93	0.00	0.00	0.00	0.00	0.00
Non-current assets, total	260.27	327.12	475.25	533.09	667.79	641.52
Total assets	384.09	490.06	545.14	662.86	849.14	867.40
Liabilities						
Trade payables	18.86	18.75	31.99	44.11	130.92	130.54
Other short-term liabilities	4.47	6.11	9.35	13.83	30.27	31.05
Short-term financial debt	82.62	31.38	162.43	0.00	0.00	0.00
Provisions	1.35	2.04	1.85	2.74	6.00	6.15
Current liabilities, total	107.30	58.28	205.63	60.67	167.19	167.74
Long-term financial debt	10.72	126.35	6.47	230.00	250.00	200.00
Provisions	0.04	0.04	0.04	0.06	0.14	0.14
Other long-term liabilities	0.00	0.31	0.31	0.45	0.99	1.01
Deferred tax liabilities	20.30	21.99	28.50	19.36	5.49	0.00
Long-term liabilities, total	31.06	148.68	35.32	249.87	256.61	201.16
Total liabilities	138.35	206.96	240.94	310.55	423.80	368.89
Shareholders equity, total	245.74	283.10	304.19	352.32	425.33	498.51
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities and equity	384.09	490.06	545.14	662.86	849.14	867.40

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9 Cash flow statement

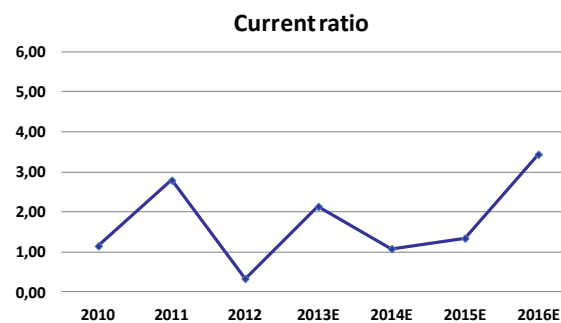
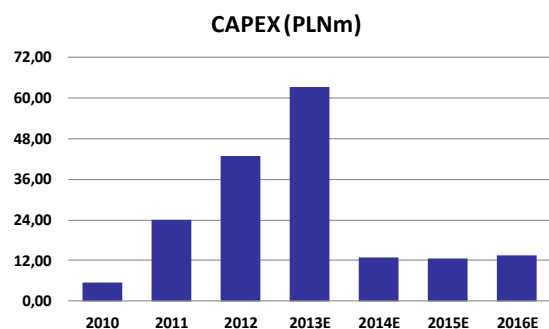
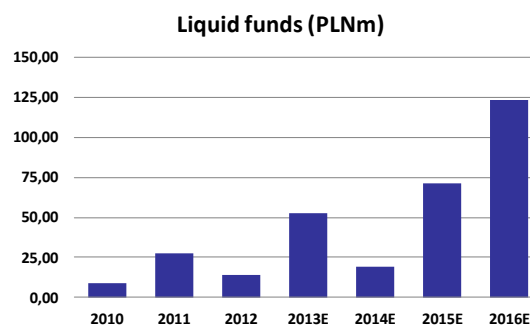
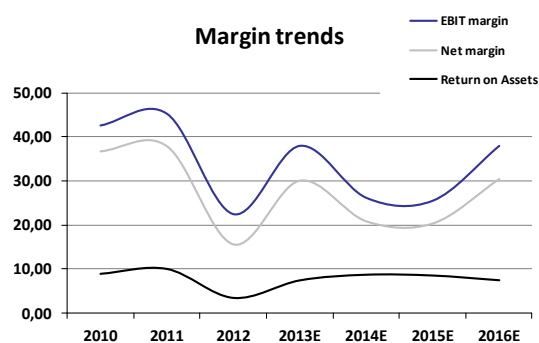
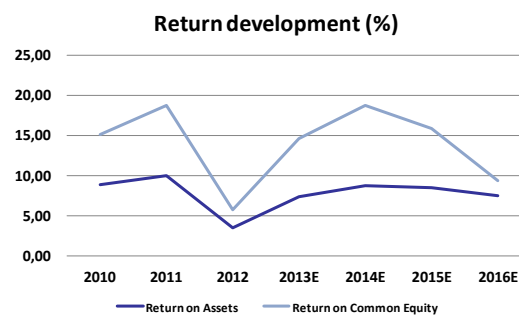
Cash flow statement - HAWE						
in PLNm	Fiscal year					
	2010	2011	2012	2013E	2014E	2015E
Net income / loss	37.23	49.62	16.91	48.12	73.02	73.17
Depreciation	3.90	8.45	8.83	10.85	11.39	11.96
Change of working capital	-79.55	-71.91	-27.11	-10.29	34.95	162.69
Others	10.12	18.65	6.33	-8.24	-5.33	-3.55
Net operating cash flow	-28.30	4.82	27.99	40.44	114.03	244.28
Cash flow from investing	-5.54	-24.07	-42.95	-63.16	-12.92	-12.72
Free cash flow	-33.84	-19.25	-14.96	-22.72	101.11	231.56
Cash flow from financing	37.66	38.02	1.46	61.24	-134.45	-179.71
Change of cash	3.83	18.76	-13.50	38.52	-33.34	51.86
Cash at the beginning of the period	5.00	8.83	27.59	14.10	52.62	19.29
Cash at the end of the period	8.83	27.59	14.10	52.62	19.29	71.14

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10 Financial ratios

Fiscal year	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Gross margin	62.74%	67.47%	50.14%	54.50%	46.50%	32.15%	54.12%	52.99%
EBITDA margin	46.52%	51.81%	30.56%	44.80%	29.36%	28.79%	46.03%	44.65%
EBIT margin	42.67%	45.34%	22.37%	38.00%	26.10%	25.45%	38.00%	36.40%
Net margin	36.83%	37.99%	15.67%	30.17%	20.91%	20.43%	30.54%	29.34%
Return on equity (ROE)	15.15%	18.76%	5.76%	14.66%	18.78%	15.84%	9.36%	8.78%
Return on assets (ROA)	8.92%	10.02%	3.47%	7.44%	8.72%	8.53%	7.46%	7.14%
Return on capital employed (ROCE)	12.59%	11.39%	5.43%	8.15%	10.83%	10.55%	8.12%	7.77%
Net debt (in PLNm)	84.51	130.13	154.80	177.38	230.71	128.86	-53.44	-84.75
Net gearing	34.39%	45.97%	50.89%	50.35%	54.24%	25.85%	-10.23%	-15.53%
Equity ratio	63.98%	57.77%	55.80%	53.15%	50.09%	57.47%	80.83%	82.65%
Current ratio	1.15	2.80	0.34	2.14	1.08	1.35	3.44	3.73
Quick ratio	0.31	1.15	0.25	1.72	0.74	1.00	3.03	3.32
Net interest cover	-14.56	-114.96	12.17	50.51	91.15	111.17	129.22	200.54
Net debt/EBITDA	1.80	1.92	4.69	2.48	2.25	1.25	-0.74	-1.19
Tangible BVPS	2.06	2.41	2.57	3.02	3.70	4.38	4.60	4.82
CAPEX/Sales	n.a	21.85%	30.98%	39.60%	3.54%	3.61%	8.13%	8.35%
Working capital/Sales	107.45%	139.48%	194.10%	137.76%	95.96%	83.80%	87.89%	81.06%
EV/Sales	5.22	4.04	4.89	3.31	1.51	1.47	3.37	3.30
EV/EBITDA	11.22	7.80	16.00	7.38	5.15	5.12	7.33	7.40
EV/EBIT	12.23	8.91	21.86	8.71	5.79	5.79	8.88	9.07
P/Tangible BVPS	1.42	1.21	1.14	0.97	0.79	0.67	0.63	0.61
P/E	8.25	6.21	18.52	6.51	4.29	4.28	6.55	6.68
P/FCF	-9.25	-16.26	-20.94	-13.78	3.10	1.35	5.69	5.71

Source: Company information, Dr. Kalliwoda Research GmbH



Source: Company information, Dr. Kalliwoda Research GmbH

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