

Recommendation: **BUY** (BUY) Risk: **MEDIUM** (MEDIUM) Price target: **EUR 23.00** (20.00)

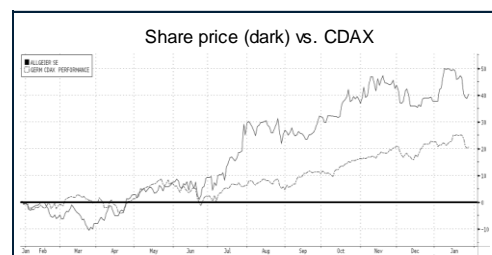
28 January 2014

Start into 2014 with two acquisitions

- After Allgeier had concentrated on the integration of previous years' acquisitions and the sharpening of the Group's strategy during 2013, the new year has been started with the resumption of M&A activities. One week ago, Allgeier announced the takeover of a majority stake in the IT service provider **innocate solutions**, Düsseldorf. With 25 employees, the company specialises in communication and productivity solutions based on Microsoft technologies. Even though the acquired business volume is relatively small (CBSRe: EUR 2.2m in sales), we appreciate that Allgeier is strengthening its position in the strategically important fields of MS SharePoint, MS Dynamics CRM and Unified Communications solutions.
- Yesterday, Allgeier announced the acquisition of **WK EDV GmbH** by Allgeier's subsidiary Xiopia. WK EDV is specialised in custom software solutions for optimising business processes at large companies and SMEs with an emphasis in the automotive sector. The portfolio focuses on IT solutions for complex audio-visual information systems, device management, mobile services as well as on the development of mobile software. While the target's product portfolio does not exactly match the strategic high-growth areas as defined by Allgeier's Agenda 2015, its strong foothold in the automotive sector should improve Allgeier's customer access in this sector. On basis of the last financial statements published by WK EDV, we estimate that its annual sales volume should be at least around EUR 10m.
- On basis of new growth and margin assumptions for Allgeier's business divisions, we **revised our financial estimates**, now assuming lower sales volumes but **higher margins** for FY 2013-2015E. As a result, we **increase our EPS estimate** for 2013E from EUR 0.83 to EUR 0.95 (excluding income from disposals: EUR 0.98).
- Allgeier **sold 500,000 treasury shares** (5.5% of the share capital) by way of an Accelerated Bookbuilding to institutional investors at a price of EUR 15.30 per share on 11 Dec. 2013. While the gross proceeds (EUR 7.65m) increase the company's overall fair value of equity, the increase in outstanding shares somewhat dilutes the derived fair value per share as it is high above EUR 15.30. Due to our raised earnings estimates, our valuation approach now nevertheless easily backs a **raise in our price target to EUR 23.00 (old: EUR 20.00)**. We maintain our **BUY** recommendation.

Y/E Dec 31, EUR m	2011	2012	2013E	2014E	2015E
Sales	378.8	422.8	485.0	524.3	559.4
EBITDA	22.3	22.9	30.3	35.0	38.6
EBIT	12.0	9.1	18.3	22.7	28.6
Net result	4.4	8.4	8.0	12.9	16.9
EPS (incl. discontinued op.)	0.52	1.00	0.95	1.55	2.02
EPS (from continuing op.)	0.52	0.39	0.98	1.55	2.02
DPS	0.50	0.50	0.50	0.50	0.50
EBITDA margin	5.9%	5.4%	6.3%	6.7%	6.9%
EBIT margin	3.2%	2.2%	3.8%	4.3%	5.1%
EV/EBITDA	7.8	7.6	5.7	5.0	4.5
P/E	30.1	15.8	16.5	10.2	7.8

Source: CBS Research AG, Allgeier SE



Source: CBS Research, Bloomberg, Allgeier SE

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	485.0	502.7	524.3	542.9	559.4	586.4
EBITDA	30.3	29.0	35.0	33.2	38.6	36.8
EPS	0.95	0.83	1.55	1.43	2.02	1.90

Internet: www.allgeier.com Sector: Software/IT services
WKN: 508630 ISIN: DE0005086300
Reuters: AEIG.DE Bloomberg: AEI GY

Short company profile:

Munich-based Allgeier SE is one of the leading IT companies for Business Performance in the German-speaking region. With more than 4,400 employees and over 1,300 freelance IT experts, Allgeier offers its customers a complete service approach spanning design, implementation, and through to the operation of IT landscapes. Six operating divisions, each with their individual specialist or sector-related focal points, work together for more than 2,000 customers from almost all sectors.

Share data:

Share price (EUR, latest closing price):	15.74
Shares outstanding (m):	8.8
Market capitalisation (EUR m):	138.0
Enterprise value (EUR m):	173.7
Ø daily trading volume (3 m., no. of shares):	20,930

Performance data:

High 52 weeks (EUR):	17.33
Low 52 weeks (EUR):	10.51
Absolute performance (12 months):	35.0%
Relative performance vs. CDAX:	
1 month	-3.6%
3 months	-6.6%
6 months	-4.4%
12 months	-1.5%

Shareholders:

Supervisory Board & Management Board:	42%
Own shares:	3%
Institutional investors:	3%
Other free float:	52%

Financial calendar:

Preliminary figures FY2013:	Feb/March 2014
Annual report 2013:	30 April 2014

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Profit and loss account

IFRS	2010	2011	2012	2013E	2014E	2015E
Sales	308.7	378.8	422.8	485.0	524.3	559.4
YoY growth	38.1%	22.7%	11.6%	14.7%	8.1%	6.7%
Inventory changes (finished goods,	0.0	0.3	0.6	0.2	0.2	0.2
Other own work capitalised	0.1	0.1	0.0	0.1	0.1	0.1
Total output	308.8	379.1	423.5	485.4	524.6	559.7
Cost of materials	-182.5	-220.2	-218.8	-227.1	-245.0	-260.9
as % of total output	-59.1%	-58.1%	-51.7%	-46.8%	-46.7%	-46.6%
Gross profit	126.2	158.9	204.7	258.2	279.6	298.8
as % of total output	40.9%	41.9%	48.3%	53.2%	53.3%	53.4%
Personnel expenses	-88.4	-109.0	-149.0	-188.3	-203.5	-217.2
as % of total output	-28.6%	-28.7%	-35.2%	-38.8%	-38.8%	-38.8%
Other operating income	5.8	6.6	7.3	6.3	6.4	6.5
as % of total output	1.9%	1.7%	1.7%	1.3%	1.2%	1.2%
Other operating expenses	-25.5	-34.2	-40.0	-45.9	-47.5	-49.6
as % of total output	-8.2%	-9.0%	-9.4%	-9.5%	-9.1%	-8.9%
EBITDA	18.1	22.3	22.9	30.3	35.0	38.6
as % of total output	5.9%	5.9%	5.4%	6.2%	6.7%	6.9%
Depreciation and amortization, excl. goodwill impairments	-7.0	-10.3	-13.7	-12.1	-12.3	-10.0
as % of total output	-2.3%	-2.7%	-3.2%	-2.5%	-2.3%	-1.8%
Goodwill impairments	0.0	0.0	-0.2	0.0	0.0	0.0
as % of total output	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT	11.0	12.0	9.1	18.3	22.7	28.6
as % of total output	3.6%	3.2%	2.2%	3.8%	4.3%	5.1%
Interest income	0.7	0.4	0.6	0.6	0.2	0.3
Interest expenses	-1.6	-2.9	-3.6	-5.0	-3.6	-3.8
EBT (Earnings before income taxes)	10.2	9.5	6.1	13.8	19.3	25.0
as % of total output	3.3%	2.5%	1.4%	2.8%	3.7%	4.5%
Taxes on income	-1.5	-4.2	-2.4	-5.1	-5.8	-7.5
as % of EBT	-14.4%	-44.1%	-38.9%	-37.1%	-30.0%	-30.0%
Income from continuing operations	8.7	5.3	3.7	8.7	13.5	17.5
Income from discontinued operations/ disposals, net of taxes	-	-	5.1	-0.2	-	-
Net income of the group	8.7	5.3	8.8	8.5	13.5	17.5
as % of total output	2.8%	1.4%	2.1%	1.7%	2.6%	3.1%
Minority interests	-0.4	-0.9	-0.4	-0.5	-0.6	-0.6
Net income attributable to shareholder:	8.3	4.4	8.4	8.0	12.9	16.9
Basic earnings per share (EUR)	0.99	0.52	1.00	0.95	1.55	2.02
- of which from continuing operations	0.99	0.52	0.39	0.98	1.55	2.02
Adjusted earnings per share (EUR)*	1.18	1.27	1.85	1.73	2.09	2.32

* Adjusted EPS = Adjusted net income divided by weighted average of shares outstanding;

Adjusted net income = Operating EBITA minus financial result minus assumed taxes (30% tax rate) minus minority interests.

Source: CBS Research AG, Allgeier SE

Valuation summary

	Weighting factor	Fair value per share (EUR)
DCF valuation	50.0%	26.71
Peer group valuation	50.0%	23.47
Fair value per share (EUR)		25.09

Source: CBS Research AG

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	∞
Sales revenues	485.0	524.3	559.4	587.4	605.0	623.2	641.8	661.1	680.9	691.2	
Y-o-Y growth	14.7%	8.1%	6.7%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	1.5%	
EBIT	18.3	22.7	28.6	31.3	33.3	36.1	37.2	38.3	39.5	40.1	
EBIT margin as % of sales	3.8%	4.3%	5.1%	5.3%	5.5%	5.8%	5.8%	5.8%	5.8%	5.8%	
Income tax on EBIT (cash tax rate)	-10.2	-5.1	-8.9	-9.4	-10.0	-10.8	-11.2	-11.5	-11.8	-12.0	
Depreciation and amortisation	12.1	12.3	10.0	10.0	6.6	6.5	6.8	6.8	7.0	7.0	
Change in net working capital and non-cash income and expenses*	-4.9	-3.3	-2.7	-3.4	-2.5	-2.5	-2.6	-2.7	-2.8	-2.0	
Net capital expenditure incl. earnouts	-8.7	-16.2	-13.7	-6.6	-5.8	-6.7	-8.1	-7.4	-6.8	-7.0	
Free cash flow	6.5	10.4	13.3	21.9	21.7	22.5	22.1	23.6	25.0	26.1	
Present values	6.5	9.5	11.0	16.6	15.0	14.2	12.7	12.3	11.9	11.4	148.8
Present value Phase 1	27.0										
Present value Phase 2	94.1										
Present value Phase 3	148.8										
Total present value	269.9										
+ Liquid funds and securities	43.7										
- Financial debt** and minority interests	-79.4										
Fair value of equity	234.2										
Number of shares outstanding (m)	8.8										
Fair value per share (EUR)	26.71										

Risk free rate	3.50%	Target equity ratio	80.0%
Equity risk premium	6.00%	Beta	1.20
Debt risk premium	1.40%	WACC	9.25%
Tax shield (Phase 3)	30.0%	Terminal growth	1.50%

Sensitivity analysis						
Terminal growth (Phase 3)						
	0.5%	1.0%	1.5%	2.0%	2.5%	
8.25%	28.80	30.16	31.73	33.55	35.69	
8.75%	26.58	27.73	29.04	30.55	32.30	
WACC 9.25%	24.62	25.60	26.71	27.97	29.41	
9.75%	22.87	23.71	24.66	25.72	26.93	
10.25%	21.31	22.03	22.84	23.74	24.77	

*Other non-cash income and expenses comprise mainly expenses from additions to provisions

**Financial debt including pension provisions

Source: CBS Research AG

Multiple-based valuation

Company name	P / E			EV / EBIT			EV / EBITDA		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
European IT service/consulting companies (market cap below EUR 1bn):									
ASSYSTEM	12.4	10.7	9.9	7.2	6.2	6.0	5.8	5.3	5.0
BOUVET ASA	12.1	11.2	9.4	8.1	7.6	6.3	7.3	6.8	5.8
CENIT AG	16.0	14.7	12.4	8.1	7.3	6.2	6.3	5.8	5.2
COR&FJA AG	n.m.	13.2	11.3	n.m.	11.1	10.4	n.m.	6.8	6.6
DATAGROUP AG	22.4	15.8	10.6	16.4	13.2	9.7	8.2	8.3	6.4
DEVOTEAM SA	14.0	11.5	8.6	7.2	6.1	4.9	5.2	4.5	3.6
ECONOCOM GROUP	14.7	13.8	12.5	10.0	9.5	8.1	8.7	8.2	7.2
GFI INFORMATIQUE	13.6	11.6	10.5	7.0	6.4	6.0	6.2	5.7	5.3
GFT TECHNOLOGIES AG	14.5	12.8	11.2	10.1	8.0	7.3	8.4	6.9	6.4
GROUPE STERIA SCA	8.7	6.8	6.1	7.8	6.4	5.9	5.2	4.6	4.4
ORDINA NV	30.6	15.6	16.3	n.m.	14.4	8.7	14.3	9.4	6.5
PHOENIX IT GROUP LTD	10.3	8.8	n.m.	10.1	9.2	n.m.	5.4	5.1	n.m.
SOLUCOM	13.8	12.7	n.m.	8.0	7.4	n.m.	7.6	7.0	n.m.
SOPRA GROUP	14.2	12.5	11.1	11.6	10.0	8.8	10.1	8.6	7.8
TIETO OYJ	12.4	11.1	10.6	10.3	8.9	8.3	6.2	5.8	5.5
ADESSO AG	19.8	16.0	14.4	n.m.	n.m.	n.m.	7.8	6.6	6.1
REALTECH AG	n.m.	n.m.	13.6	n.m.	n.m.	8.5	n.m.	12.7	4.8
S&T AG	9.9	9.3	8.2	9.0	8.5	7.7	6.3	6.0	5.4
Average	15.0	12.2	11.0	9.4	8.8	7.5	7.4	6.9	5.7
Median	13.9	12.5	10.9	8.6	8.3	7.7	6.8	6.7	5.6
Major players with market cap above EUR 1bn:									
ATOS	15.2	13.7	12.6	9.6	8.8	8.2	6.3	5.9	5.5
CAP GEMINI	16.8	14.8	13.4	9.8	9.1	8.4	7.7	7.2	6.7
INDRA SISTEMAS SA	16.2	14.6	12.9	12.9	11.6	10.7	10.2	9.4	8.8
Average	16.1	14.4	13.0	10.8	9.9	9.1	8.1	7.5	7.0
Median	16.2	14.6	12.9	9.8	9.1	8.4	7.7	7.2	6.7
Indian IT service companies:									
INFOSYS LTD	20.1	16.9	14.7	15.4	12.9	11.4	13.9	11.7	10.3
TATA CONSULTANCY SVCS LTD	23.1	19.4	16.8	17.7	15.1	13.2	16.9	14.4	12.6
WIPRO LTD	18.2	15.6	13.8	14.9	12.6	11.3	13.4	11.4	10.2
Average	20.5	17.3	15.1	16.0	13.5	12.0	14.7	12.5	11.0
Median	20.1	16.9	14.7	15.4	12.9	11.4	13.9	11.7	10.3
Weighted average of peer groups	16.1	14.3	12.4	10.7	9.8	9.0	9.0	8.3	7.2
EURm, except EPS (EUR)									
	EPS			EBIT			EBITDA		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Allgeier SE (estimates by CBSR)	0.95	1.55	2.02	18.3	22.7	28.6	30.3	35.0	38.6
Applied multiples (peer group - weighted average)	16.1	14.3	12.4	10.7	9.8	9.0	9.0	8.3	7.2
Fair Enterprise Value	-	-	-	196.2	222.4	255.7	274.1	290.0	279.1
+ Liquid funds and securities	43.7								
- Financial debt incl. pension provisions	-76.4								
- Minority interests	-3.0								
Fair value of equity from each multiple	134.6	193.7	220.6	160.5	186.7	220.0	238.4	254.3	243.4
Average of derived fair values	205.8								
Premium (discount) vs. peer group companies	0%								
Fair value of equity	205.8								
Number of shares outstanding (m)	8.8								
Fair value per share (EUR)	23.47								

Source: CBS Research AG

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Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
2 April 2013	BUY	EUR 10.85	EUR 17.00
21 May 2013	BUY	EUR 12.225	EUR 17.00
15 August 2013	BUY	EUR 14.75	EUR 17.00
15 November 2013	BUY	EUR 16.55	EUR 20.00

28 January 2014	BUY	EUR 15.74	EUR 23.00
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Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

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The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

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