

<p>Buy</p> <p>EUR 10.50</p> <p>Price EUR 9.13</p> <p>Upside 15.0 %</p>	<p>Value Indicators: EUR</p> <p>DCF: 10.50</p> <p>FCF-Value Potential 19e: 9.20</p> <p>SotP: 0.00</p>	<p>Share data:</p> <p>Bloomberg: KSC GR</p> <p>Reuters: HACGn.DE</p> <p>ISIN: DE000A1A6V48</p>	<p>Description:</p> <p>Digital transformation and business optimisation consultancy for the retail industry</p>
	<p>Market Snapshot: EUR m</p> <p>Market cap: 340.4</p> <p>No. of shares (m): 37.3</p> <p>EV: 325.3</p> <p>Freefloat MC: 148.1</p> <p>Ø Trad. Vol. (30d): 246.58 th</p>	<p>Shareholders:</p> <p>Freefloat 43.5 %</p> <p>Supervisory Board (founders) 35.0 %</p> <p>CEO (founder) 11.0 %</p> <p>Müller (founder) 10.5 %</p>	<p>Risk Profile (WRe): 2017/18e</p> <p>Beta: 1.2</p> <p>Price / Book: 4.7 x</p> <p>Equity Ratio: 66 %</p>

Bringing "Rapid Transformation" to classic retail; Coverage initiated

KPS is a consultancy that transforms classic retail businesses to respond to the challenges posed by pure online retailers and changing consumer behaviour. KPS, which focuses on retail, combines consultancy skills with IT and digitalisation expertise. Its "Rapid Transformation" consultancy method, which shortens project times by up to 50% compared to traditional consultancy methods, differentiates it from a plethora of often unfocused consultancies. Big-name clients such as Lidl are testimony to KPS's standing in the retail landscape in Germany.

Process and IT-related consulting for the retail sector: As a process and IT specialist in the retail sector, KPS helps its retail and consumer goods clients, who are operating in a disruptive and fiercely competitive market environment, to implement highly efficient digitalised processes. This enables clients to adapt to changing consumer shopping behaviour, use multiple channels to address consumers, optimise logistics and, as a result, secure their market positioning and strengthen consumer loyalty in a fast-changing market environment.

Building on standard IT solutions: KPS's **competitive advantage** is based on its deep retail and consumer goods industry expertise. Coupled with digital know-how in market-leading solutions for this vertical, such as SAP, Hybris, Adobe etc., **KPS differentiates itself from the competition by bridging the gap** between pure strategy and business consultancy and IT implementation expertise.

Innovative consulting approach creates value for clients: Along with industry and IT expertise, KPS's "Rapid Transformation" consultancy method is a key differentiating factor. This unique method shortens project times by up to 50% compared to traditional consulting methods with the implementation of check-points along the consulting project process and close collaboration with clients' specialised departments. This reduces project risks and leads to high ROI for the customers.

Market-share gains reflect the reputation KPS has earned: The German consulting market is growing by approx. 7% p.a, and at an even higher rate in the retail-related subsector. KPS's excellent market reputation in the retail sector and its many successfully implemented projects serve as a reference for further customer wins, which fuel order flow and boost the top line. Business expansion is flanked by acquisitions which help to access new regions and broaden the technological and business process-related expertise, especially in areas such as logistics which is becoming increasingly important to meet short delivery times and high consumer demand. As a result, the KPS top line has increased at a CAGR of 12% over the last five years, supported by acquisitions.

Margin expansion: KPS's efficient consulting approach, short implementation times and its value creation for clients are valued by customers and this is reflected in solid profitability. KPS has been able to expand its margins further with the support of economies of scale, a growing share of own consultants vs. freelancers and greater efficiency, resulting from centralisation of services and consulting delivery.

Valuation: KPS is well positioned to continue pursuing its successful path. Following a streak of strong results, however, the first half of the current fiscal year was characterised by delays of a larger project which put the share price under pressure. Our DCF-based valuation model leads to a PT of **EUR 10.50**. Given the upside, coverage is initiated with a Buy rating.



Rel. Performance vs CDAX:

1 month:	5.5 %
6 months:	-8.2 %
Year to date:	-28.6 %
Trailing 12 months:	-47.0 %

Company events:

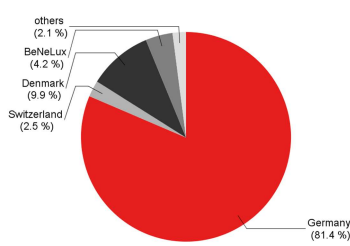
FY End: 30.9. in EUR m	CAGR (16/17-19/20e)	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Sales	7.3 %	111.1	122.9	144.9	160.3	171.0	185.0	198.0
Change Sales yoy		14.5 %	10.7 %	17.9 %	10.6 %	6.7 %	8.2 %	7.0 %
Gross profit margin		52.5 %	57.7 %	59.7 %	61.1 %	60.0 %	60.4 %	60.4 %
EBITDA	7.1 %	17.5	19.6	23.3	26.4	20.2	28.3	32.5
Margin		15.7 %	16.0 %	16.0 %	16.5 %	11.8 %	15.3 %	16.4 %
EBIT adj.	5.8 %	16.7	18.6	22.3	24.8	16.2	24.7	29.3
Margin		15.0 %	15.1 %	15.4 %	15.4 %	9.5 %	13.3 %	14.8 %
EBIT	5.8 %	16.7	18.6	22.3	24.8	16.2	24.7	29.3
Net income	2.0 %	16.3	18.0	19.3	19.8	11.9	18.0	21.0
EPS	1.9 %	0.50	0.53	0.55	0.53	0.32	0.48	0.56
DPS	8.7 %	0.28	0.30	0.33	0.35	0.35	0.42	0.45
Dividend Yield		5.4 %	5.4 %	4.2 %	2.2 %	3.8 %	4.6 %	4.9 %
FCFPS		0.42	0.37	0.52	0.29	0.29	0.45	0.52
FCF / Market cap		8.1 %	6.7 %	6.6 %	1.8 %	3.2 %	4.9 %	5.7 %
EV / Sales		1.5 x	1.5 x	1.8 x	3.6 x	1.9 x	1.7 x	1.5 x
EV / EBITDA		9.7 x	9.3 x	11.4 x	22.1 x	16.1 x	10.9 x	8.9 x
EV / EBIT adj.		10.1 x	9.8 x	11.9 x	23.6 x	20.1 x	12.5 x	9.9 x
EV / EBIT		10.1 x	9.8 x	11.9 x	23.6 x	20.1 x	12.5 x	9.9 x
P / E		10.4 x	10.4 x	14.3 x	29.8 x	28.5 x	19.0 x	16.3 x
FCF Potential Yield		10.0 %	10.4 %	7.5 %	3.5 %	4.9 %	7.0 %	8.4 %
Net Debt		-1.1	-3.9	-10.9	-4.2	-15.1	-31.9	-51.4
ROCE (NOPAT)		56.0 %	42.7 %	41.5 %	34.7 %	20.0 %	31.0 %	35.5 %
Guidance:		2018: Revenues: EUR 160-170m; EBIT EUR 16-20m						

Sales development in EUR m



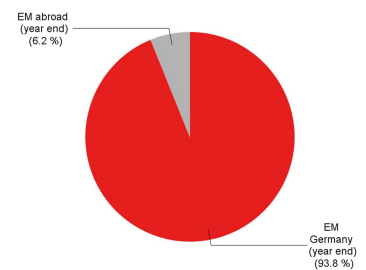
Source: Warburg Research

Sales by regions 2016/17



Source: Warburg Research

Employees by regions 2016/17



Source: Warburg Research

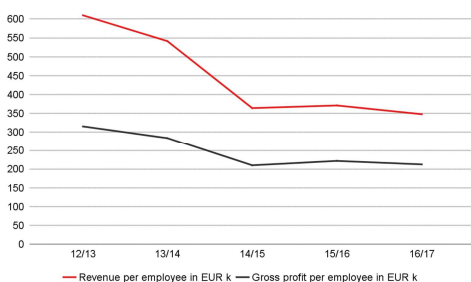
Company Background

- KPS is a Munich-based consultancy specialising in digital business transformation and process optimisation...
- ...with a dedicated focus on the retail industry and expertise in market-leading software applications such as SAP, Hybris, Adobe or Intershop.
- This exclusive focus enables KPS to cover the entire spectrum of retail in omni-channel and digital transformation such as classic merchandise management, e-commerce as well as digital customer management and marketing.
- KPS enables retailers to react to the market disruption by pure e-commerce players such as Amazon, Ebay, Zalando etc. and take them to the forefront of digitalisation in the retail sector.
- Consequently, KPS bridges the gap between traditional strategy and business consultants and IT implementation providers.

Competitive Quality

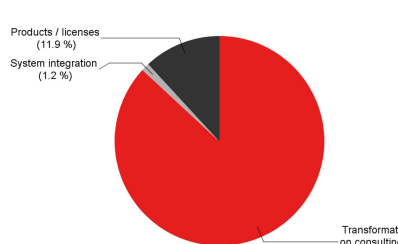
- KPS is the European market leader in digital transformation consulting for the retail sector.
- The unique positioning bridges the gap between strategy consulting and software implementation.
- KPS's Rapid Transformation method reduces customer project times by 50% highlighting the company's position as the preferred partner for digital transformation in retail.
- KPS's dedicated focus on the retail industry is valued by clients
- The focus on market-leading software solutions such as SAP, Hybris, Adobe etc. increases the addressable market.

Revenue and gross profit per employee in EUR k



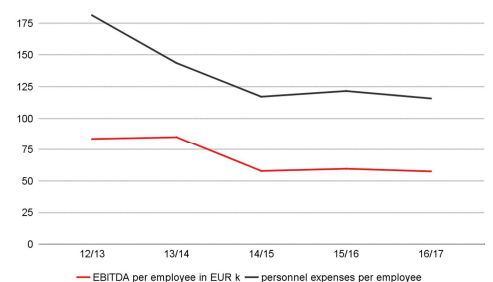
Source: Warburg Research

Sales by segments 2016/17



Source: Warburg Research

per employee figures in EUR k



Source: Warburg Research

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Summary of Investment Case

Investment triggers

- KPS enables clients (active in the traditional retail sector) to react to market disruption by pure e-commerce players, such as Amazon, Ebay, Zalando etc., and takes them to the forefront of digitalisation in the retail industry.
- 2018 guidance was below market expectations and KPS had a muted H1 as project starts were delayed and PPA-related amortisation triggered an EBIT guidance adjustment.
- Media focus on KPS's biggest client and an SAP transformation project was not supportive for the share price either.
- Against the backdrop of the last two quarters (EBIT of EUR 4.4m and EUR 4.5m), our implied Q4 EBIT estimate of EUR 4.2m looks conservative.
- The events listed above have created an entry point.

Competitive quality

- **KPS is European market leader in digital transformation consulting for the retail industry.**
- **The company's unique Rapid Transformation method reduces customer project times by 50%**, which makes KPS a preferred partner for digital transformation in retail.
- KPS is one of the most **renowned** and among the bigger consultancies for digital transformation in the retail industry in a **highly fragmented consultancy market**
- The company's exclusive focus enables KPS to cover the entire spectrum of retail in omni-channel and digital transformation such as classic merchandise management, e-commerce as well as digital customer management and marketing,
- The focus on market-leading software solutions such as SAP, Hybris, Adobe etc. increases the addressable market
- **Unique positioning** bridges the existing gap between strategy consulting and software implementation.

Growth

- **High single-digit growth in the consulting market.**
- **Even higher growth in the retail industry-related consulting market.**
- Order book usually supports **visibility for the next 18 months**
- Margin expansion is supported by economies of scale and **a growing share of own staff rather than freelancers**
- Attractive returns owing to high project efficiency and **centralised project and consultancy delivery**

Valuation

- The price target of EUR 10.50 is based on a **DCF model**.
- The **Free Cash Flow Value Potential** model signals a value of EUR 9.
- The **peer group** indicates a fair value of ca. EUR 10 based on EV/EBIT multiples supporting the DCF value.

Digitalising the retail industry to react to market disruption

KPS is a Munich-based consultancy

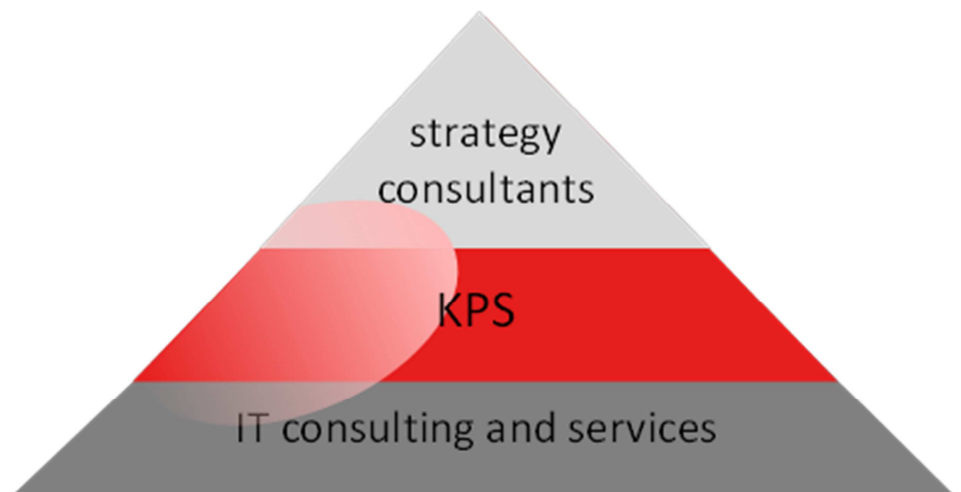
- specialising in **digital business transformation** and process optimisation
- with a dedicated focus on the **retail industry** and
- expertise in market-leading software applications such **SAP, Hybris, Adobe or Intershop**.

This exclusive focus enables KPS to

- cover the entire spectrum of retail in omni-channel and **digital transformation** such as classic merchandise management, e-commerce as well as digital customer management and marketing,
- offer a wide range of services such as consulting, business transformation and software implementation as a **one-stop shop**,
- support clients to react to market disruption by pure e-commerce players such as Amazon, Ebay, Zalando etc. and take them to the forefront of **digitalisation in the retail industry**.

Consequently, KPS's business activities bridge the existing gap between traditional strategy and business consultants and IT implementation providers.

KPS positioning

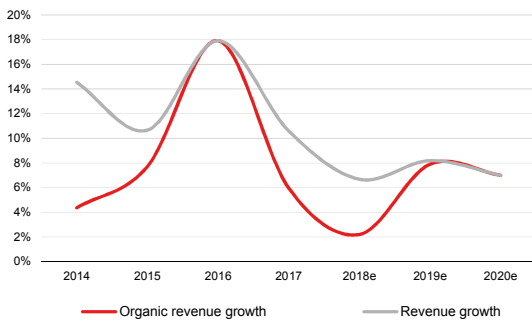


Source: Warburg Research

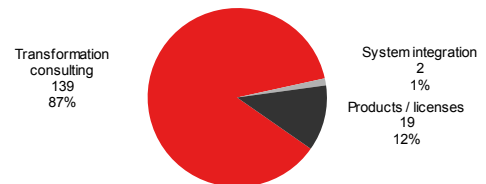
Company Overview

Segments	Transformation consulting	System integration	Products / licenses
Offering	Making fundamental changes in how business is conducted to help cope with digital disruption of the market environment	Process and implementation consulting.	Reselling of software licenses, maintenance agreements and hardware components
	Digitalisation, Omnichannel, E-Commerce, Marketing, Merchandise Management, Strategy Development	Focal points: - SAP technology - non-SAP: High availability, Security solutions, Storage solutions	SAP, Hybris, Adobe, IBM, Saperion (Enterprise Content Management), Intershop
Revenue 2017	EUR 139m	EUR 2m	EUR 19m
EBITDA margin	23%	-5%	26%
Market position	- European market leader in business transformation and process optimisation consulting for the retail industry. - Top-5 consultancy in Germany.		
Market and market environment	Both the German IT and the consulting market has a volume of ca. EUR 30bn, is strongly fragmented and is growing by ca. 7% p.a.		
Competitors	(strategy) consultants: e.g. Roland Berger, McKinsey, Boston Consulting Group or Bain; local consultancies: e.g. Simon-Kucher, Zeb, Horvath, or Goetzpartners; IT service providers: e.g. Accenture, IBM Consultants, CapGemini.		
Customers	clients stem mainly from a variety of retail sectors such as fashion, food, animal supplies, furniture, electronics or jewelry as well as consumer goods. Customer examples include Lidl, Nespresso, Sportschek, Hugo Boss and others. KPS` biggest client accounts for more than 30 % of total revenue.		

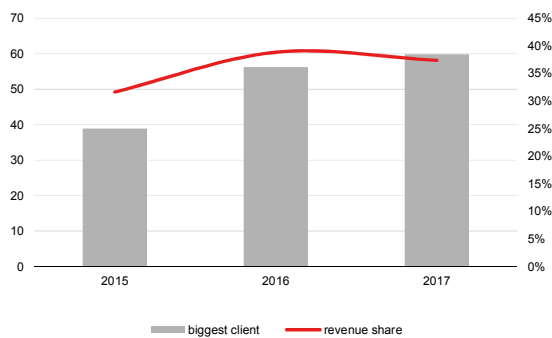
Revenue growth



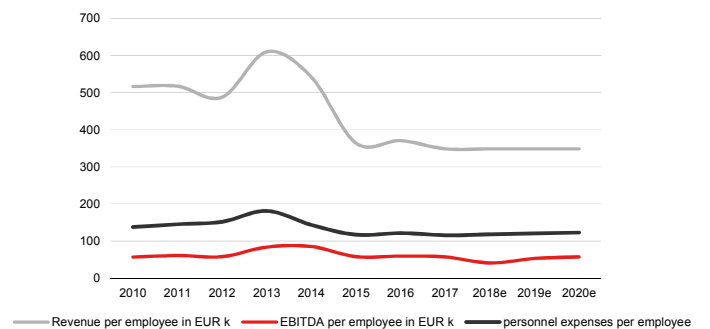
Revenue split by segments



Biggest client



Per employee ratios



Sources: KPS, Warburg Research, KPS

Competitive Quality

- **Dedicated focus on the retail industry** leads to distinguished customer perception.
- **Unique positioning** bridges the existing gap between strategy consulting and software implementation.
- **Focus on market-leading software** solutions such as SAP, Hybris, Adobe etc.
- **KPS's unique Rapid Transformation method reduces customer project times by 50%** making KPS a preferred partner for digital transformation in retail.
- **European market leader in digital transformation consulting for the retail industry.**

Exclusive positioning bridges the gap between strategy consulting and software implementation

As a management and transformation consultancy, KPS **bridges the gap between** pure business and strategy consultants (e.g. IBM Consultants, Boston Consulting, Roland Berger) on the one hand and IT services and implementation companies (Accenture and the plethora of its smaller peers) on the other.

While KPS is competing with these players, its unique positioning also differentiates it from the others:

- **Its holistic approach** covers strategy consulting, business processes optimisation and software implementation making KPS a one-stop-shop transformation partner for its clients.
- **With a dedicated focus on the retail industry**, it boasts a wealth of expertise in the underlying business processes and customer behaviour.

“Rapid transformation” method generates high ROI for customers

In its consulting projects KPS utilises its unique **Rapid Transformation method**. Strategy development, process design, adaptation and implementation take place, as far as possible, in parallel using suitable software solutions. The transitions are fluid and there are no media breaks during the project. This enables KPS to

- **carry out transformation projects up to 50% faster**, as there is no need to waste time on tasks such as description of existing processes which is part of the traditional waterfall consultancy method.
- **eliminate project risks** that are inherent to the traditional waterfall principle as Rapid Transformation carries out checks during the project
- faster and improved implementation of innovative strategies and processes leads to the achievement of efficient processes and, as a result, an **attractive ROI**.

Rapid transformation method vs. Waterfall



Sources: Warburg Research, KPS

KPS's high speed of implementation is based on four cornerstones and parallel implementation of:

- **KPS Simultaneous Engineering** – the parallel development of strategic outlines, processes and supporting technologies
- **KPS All-Stars** – assignment of top consultants with very strong sector expertise as well as process and technology know-how – **no juniors**. Especially, the fundamental comprehension of complex topics such as textile trade,- starting from product development, all the way to inventory management in retail and the connected complex dependencies of the organisation, processes and IT infrastructures require the knowledge of specialized professionals
- **KPS Campus** – early integration of specialty departments and IT in projects,
- **KPS Rapid Prototyping**– this approach displays future processes in the system after just a few weeks, which in turn allows for a fast transition to project pilot phases and an early production rollout with high security and minimized risk.

KPS helps retailers to improve their competitive position

Apart from the giants of online retail, such as Amazon, Alibaba and Zalando, many small, often highly specialised online retail stores are disrupting the retail sector. Competition from online retail is forcing the classic department stores and supermarkets to break new ground by establishing a presence in online commerce while intelligently interlocking analogue and digital sales channels in an omni-channel approach.

This transformation is not just about online marketing or the development of mobile apps. The reorganisation of the back office infrastructure is just as important. Processes such as purchasing, warehouse management and logistics have to be adapted to the new structures, business processes reorganized and accelerated and employees retrained.

Unique competitive position translated into market leadership

Esteemed by clients

As a retail and software application specialist, KPS enables its clients in the retail and consumer goods industry to react to digital disruption. KPS has become Germany's largest digital business transformation company for the retail industry, reflecting the company's unique position and the esteem in which it is held by clients.

Experienced consultants

While most consultancies follow an "up-or-out" approach with regard to staff, KPS values the experience and expertise of its consultants. KPS's Rapid Transformation Method and the SAP processing streams enable KPS to provide certain services remotely. This reduces travel time and gives consultants the opportunity to achieve a better work-life balance. High employee retention at KPS is reflected in

- an average age of approx. 42 years.
- 20-25% of employees are women.
- low employee attrition rates of approx. 4%

As a result, KPS clients benefit from experienced personnel who reliably carry out transformation projects to the satisfaction of often highly demanding clients.

Reference projects and awards

As a consultancy, reference projects and customers are an important factor when it comes to gaining new clients and therefore a main pillar of the firm's competitive advantage. Reference clients include Nespresso, Puma, shoe retailer Deichmann, which implemented an omni-channel project with KPS, or Hugo Boss, which realised its transformation initiative with KPS. Retailer Lidl is known for being KPS's biggest client.

Furthermore, KPS has won many awards. For example, the company was ranked Top 100 Innovator in Germany. Moreover, KPS and its subsidiary Infront were named "Best consultancy in Germany" by Statista and trade magazine "brandeins". KPS is also among the "10 Most Recommended Solution Providers" – to name but a few examples that show the retail sector's recognition of KPS.

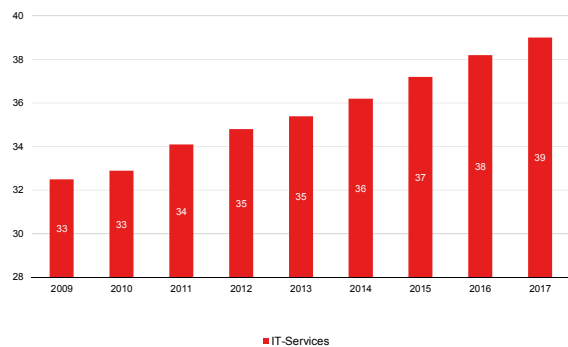
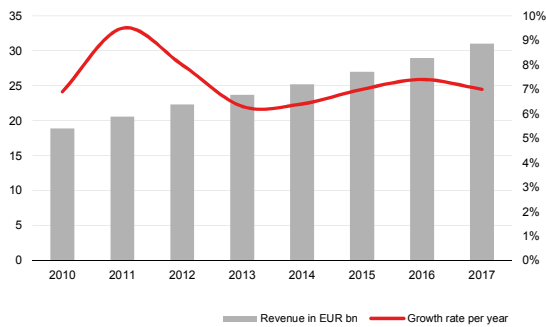
Ongoing Digitalisation Drives Growth

- High single-digit growth in the consulting market.
- Even higher growth in the retail industry-related consulting market.
- Defensive 2018 guidance reflects some moving parts related to the beginning of bigger projects
- Order book supports visibility for the next 18 months
- Margin expansion supported by economies of scale, a higher share of own staff vs. freelancers
- Attractive returns owing to high project efficiency and centralised project and consultancy delivery

Attractive market conditions

With its comprehensive understanding of (sales) processes in the retail industry combined with software application expertise, KPS is exposed to trends in markets such as **retail**, **consulting** as well as **IT-related consulting and services**. Both markets are in a healthy condition and are growing at attractive rates.

Consulting market and IT services market growth



Sources: Warburg Research, Bitkom, Lünendonk

Mid to high single-digit growth in consulting

The German consulting market has grown by 7% over the last couple of years reaching a level of more than EUR 30bn. This expansion was driven by:

- the healthy overall economic environment,
- ongoing demand for consultancy support in strategy, processes and IT in the course of digital transformation,
- proportionately higher demand from the retail industry where the consulting market is expanding by ca. 10%. Issues such as CRM, logistics and distribution are driving this growth.

While the overall German IT services market is growing at a low to mid single-digit percentage rate, consultancy-based IT services, which have a stronger focus on projects than operation, are growing at a slightly faster pace than the overall market. Growth in the German IT-related consulting market is being driven by:

- **digital transformation**, which is currently providing the most important growth impetus,
- modernisation of business processes, the installation of cloud-based business models and processes as well as application development and implementation.

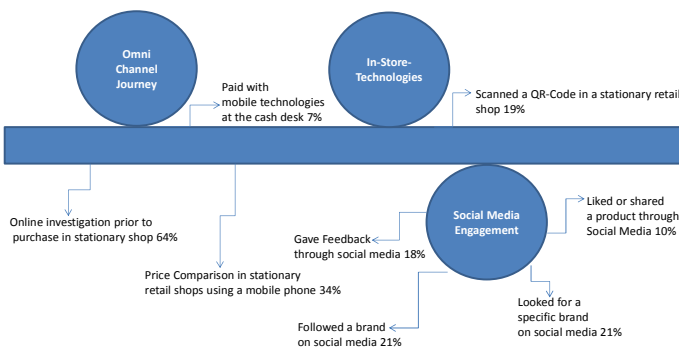
Supportive market-growth trends

Digitalisation has changed consumer behaviour. Mobile, for example, can no longer be described as an “emerging” channel. Consumers use it as a platform to communicate, to socialise and to shop. However digitalisation has not replaced traditional channels. Online and offline channels co-exist and are often used simultaneously. Shoppers, for instance, can compare product prices and descriptions online and then locate the nearest stationary store to purchase or collect the specific product. Shopping has become more individualised and customers differ depending on personal preferences and interests. Strategies that work for one customer may not work for another.

Retailers are forced to react to changing consumer behaviour to defend their revenues and customer relations in light of digitalisation and emergence of new players. This creates the need for consultancies such as KPS.

Consulting market and IT services market growth

Digitalisation shapes Customer Journey



How the Digital Revolution has Impacted Consumer Behaviour



Source: Bookbook - Closing the Gap. Created by The Entertainment Experts.

The New Multi-Screen World

Understanding Cross-Platform Consumer Behavior

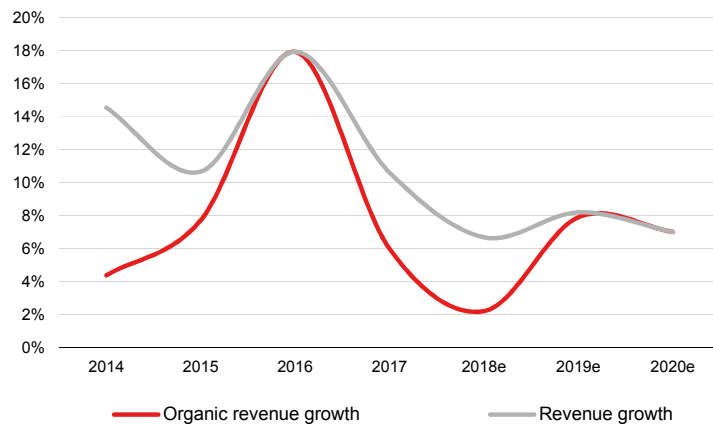
Key statistics from the infographics:

- Majority of media consumption is screen-based: 90% of all media interactions are screen based; 38% of our daily media interactions are on smartphones.
- Consumers move between multiple devices to accomplish their goals: 90% of people use multiple screens sequentially. Popular cross device activities: Browsing the Internet (81%), Shopping Online (67%), Managing Finances (46%), Planning a trip (43%). Search is the most common way consumers continue from one device to another.
- Television no longer commands our full attention: 77% of the times that viewers watch TV, it is with another device. 49% with a smartphone, 34% with a PC/laptop.
- Online shopping is a multi-screen activity: 67% of people have used multiple devices sequentially to shop online. Smartphones' accessibility enables spur of the moment shopping: 19% Planned, 81% Spontaneous.

Sources: various

Proven growth strategy

Revenue growth



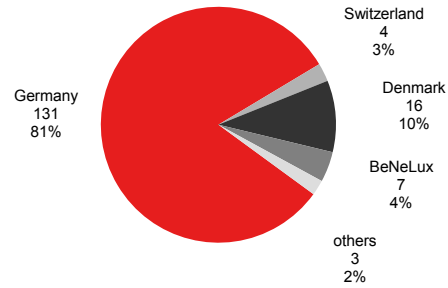
Sources: KPS, Warburg Research

Over the last couple of years, KPS has achieved solid organic growth which was flanked by acquisitions. KPS's organic revenue growth model is essentially based on three pillars:

- **Specialisation:** The clear sector focus and high speed of implementation with the KPS Rapid Transformation Method gives KPS the competitive advantage to achieve further growth. The Rapid Transformation method enables customers to remain agile following the successful completion of projects and retain the capacity to continuously develop their processes and technologies to maintain their market position.
- **Business field penetration:** KPS's major business is transformation consulting. This accounts for an 87%-share of total revenue. In 2017, transformation consulting recorded leading growth figures among consulting segments owing to increased demand for digitalization.
- **Internationalisation:** Germany is KPS's core market, accounting for approx. 80% of revenues. KPS has been in the Swiss market since 2011 and has been aggressively pursuing the Scandinavian market since 2015 acquiring Saphira Consulting, a Danish company in 2016. Furthermore, KPS recently acquired the Spanish firm ICE Consultants Europe SL, a company with more than 100 consultants. With this acquisition, KPS has laid the foundation to strengthen its market penetration in the transformation consulting business across Europe. In terms of synergies, both Saphira and ICE Consultants are long-standing SAP consulting partners. ICE has more than 15 years of experience in business process optimisation and implementation of SAP solutions. Furthermore, ICE has a loyal customer base in Spain, Argentina, Germany, Switzerland, and especially in the Netherlands. Over the past year, the Benelux countries have emerged as a focus in the KPS strategy of internationalisation. So far, the focus has been on expansion in Europe.

Conclusion: The KPS growth strategy follows a clear plan, in which attractive double-digit growth rates are visible, even in the medium term.

Internationalisation offers growth opportunities



Source: Warburg Research

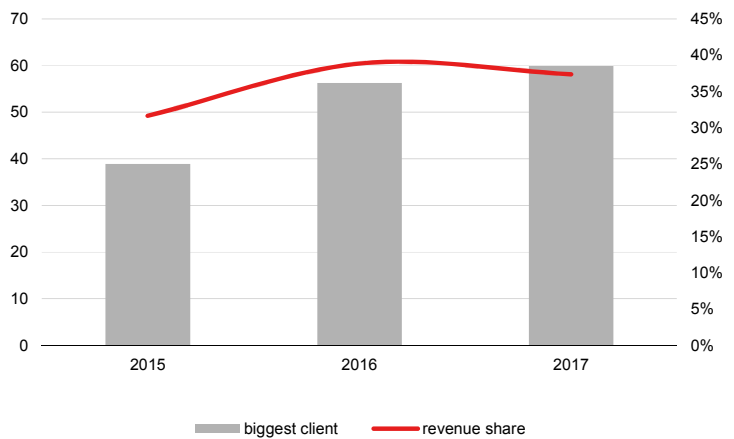
Large transformation projects increase medium-term visibility

Bigger projects contribute to high efficiency: To achieve a high sales level as well as project efficiency, KPS hardly ever carries out transformation projects with a volume of less than EUR 10m. Clients like retail chains and consumer goods companies are large companies (e.g. discount chain, Lidl, generates revenues of EUR 40bn p.a.) and individual clients can thus represent a high share of revenue in a particular year.

Transformation project for the world’s biggest discounter: In 2014 KPS had seven major customers. In 2015 its customer structure changed as Lidl initiated the biggest transformation project in the company's history.

Visibility contributes to high employee utilisation: While big project delays can cause volatility, they also contribute to high visibility. The order book at the end of last year had a reach of ca. 18 months. These longer-term contracts contribute to high employee utilisation of nearly 100%. Some 80% of KPS revenues are based on time-and-material agreements.

Customer revenue split reflects large transformation projects



Sources: KPS, Warburg Research

Acquisitions accelerate growth and broaden the spectrum of expertise

As well as organic growth, KPS is pursuing growth via acquisitions. While the cost synergies of such acquisitions are hardly worth mentioning, KPS's active market consolidation supports:

- access to new client groups in the retail and consumer goods industry.
- regional expansion.
- access to further IT-related competence.

The most recent acquisitions include the strategy and business consultant Infront Consulting as well as ICE Consultants, a Spanish consultancy, which like KPS focuses on SAP and retail clients. As well as the growth impetus associated with acquisitions, they also have a direct value-accretive impact. This is clearly underlined by the ROCE, which is far higher than the costs of capital.

Takeovers

Year	Target	Focus
2007	Haitec AG	IT service provider focused on Computer Aided Engineering
2007	Autinform	German consulting firm specialized in SAP Integrator
2013	SAP division of Didas Business Service GmbH	SAP services division of system consulting firm
2014	getit GmbH	Leading German service provider for e-commerce
2016	Saphira Consulting	Danish Consulting Firm. High growth in SAP Cloud solutions market
2017	Infront Consulting	Consultancy advising in the areas Strategy, Business Development, Business Performance. Main sector of focus: digital transformation. Infront was acquired for EUR 4.3 m and 133,365 treasury shares
2017	ICE Consultants Europe SL	SAP and CRM; Spanish consulting service provider at national and European level. Focused on retail clients
2018	Envoy Digital	SAP Hybris e-commerce specialist and Hybris implementation partner

Sources: KPS, Warburg Research

Rapid Transformation generates superior returns

The ability to carry out projects up to 50% faster and generate a superior ROI for its customers is also reflected in outstanding margins, which are ahead of peers. Delays to project starts and higher PPA-related amortisation, however, had a negative impact on sales and EBIT progression in 2018.

Continuous margin expansion

in EUR m	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Own work capitalised	0.0	0.0	0.0	0.0	0.0	0.0	15	5.1	3.5	3.0	3.0
Total sales	49.6	50.2	61.9	97.0	111.1	122.9	146.4	165.4	174.5	188.0	201.0
Material Expenses	25.3	24.6	28.0	46.9	52.8	52.0	59.9	67.6	71.8	76.2	81.4
<i>ratio</i>	<i>51.1%</i>	<i>49.1%</i>	<i>45.1%</i>	<i>48.3%</i>	<i>47.5%</i>	<i>42.3%</i>	<i>41.3%</i>	<i>42.2%</i>	<i>42.0%</i>	<i>41.2%</i>	<i>41.1%</i>
Gross profit	24.3	25.5	34.0	50.1	58.3	70.9	86.5	97.9	102.7	111.8	119.6
Personnel expenses	13.2	14.1	19.3	28.8	29.4	39.5	47.5	53.3	60.0	61.0	62.5
<i>ratio</i>	<i>26.7%</i>	<i>28.1%</i>	<i>31.2%</i>	<i>29.7%</i>	<i>26.5%</i>	<i>32.2%</i>	<i>32.8%</i>	<i>33.2%</i>	<i>35.1%</i>	<i>33.0%</i>	<i>31.6%</i>
Other operating income	0.3	0.5	0.4	0.4	0.8	10	0.9	2.8	15	2.0	2.1
Other operating expenses	5.9	6.0	7.7	8.3	12.2	12.7	16.6	21.0	24.0	24.5	26.7
<i>other expenses/personnel expenses</i>	<i>44.4%</i>	<i>42.5%</i>	<i>39.8%</i>	<i>28.9%</i>	<i>41.4%</i>	<i>32.2%</i>	<i>34.9%</i>	<i>39.4%</i>	<i>40.0%</i>	<i>40.2%</i>	<i>42.8%</i>
EBITDA	5.5	5.9	7.4	13.3	17.5	19.6	23.3	26.4	20.2	28.3	32.5
<i>margin</i>	<i>11.0%</i>	<i>11.8%</i>	<i>11.9%</i>	<i>13.7%</i>	<i>15.7%</i>	<i>16.0%</i>	<i>16.0%</i>	<i>16.5%</i>	<i>11.8%</i>	<i>15.3%</i>	<i>16.4%</i>
Depreciation of fixed assets	0.0	0.1	0.0	0.1	0.1	0.3	0.3	0.7	0.8	0.9	10
Amortisation of intangible fixed assets	0.1	0.1	0.4	0.7	0.7	0.7	0.7	0.9	3.2	2.7	2.2
EBIT	5.3	5.8	6.9	12.5	16.7	18.6	22.3	24.8	16.2	24.7	29.3
<i>margin</i>	<i>10.7%</i>	<i>11.5%</i>	<i>11.2%</i>	<i>12.9%</i>	<i>15.0%</i>	<i>15.1%</i>	<i>15.4%</i>	<i>15.4%</i>	<i>9.5%</i>	<i>13.3%</i>	<i>14.8%</i>
Financial result	-1.1	-0.5	-0.5	-0.2	0.2	-0.4	-0.1	1.1	-0.1	-0.1	-0.1
EBT	4.2	5.3	6.5	12.4	16.9	18.2	22.2	25.8	16.1	24.6	29.2
Taxes total	1.2	0.6	-1.7	-3.9	0.6	0.1	2.9	6.0	4.2	6.6	8.2
<i>tax ratio</i>	<i>29.0%</i>	<i>11.9%</i>	<i>-26.3%</i>	<i>-31.6%</i>	<i>3.3%</i>	<i>0.6%</i>	<i>13.0%</i>	<i>23.4%</i>	<i>26.0%</i>	<i>27.0%</i>	<i>28.0%</i>
Net income	3.0	4.7	8.2	16.3	16.3	18.0	19.3	19.8	11.9	18.0	21.0

Sources: Warburg Research, KPS

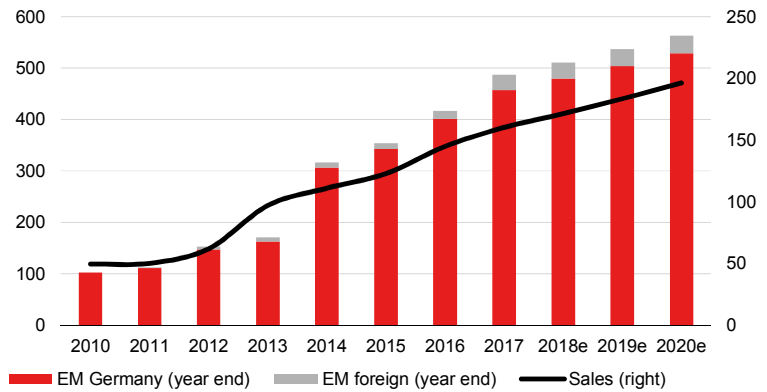
KPS is further enhancing its competitive position with the development of SAP processing streams and this is reflected in the recent growth of **own work capitalised**. These processing streams are basically a process model and describe a client's value chain. They enable KPS to

- gain a 360-degree view of a client's processes and value chain.
- Re-use consulting and customer services and thus provide consulting services off-site in a centralised manner, which enhances the productivity of its experienced experts.
- increase employee retention by reducing travel time.
- deliver the projects in time and budget.

As a consequence, these R&D efforts should enhance the company's strong competitive position, which in turn will help gain additional projects and stimulate future growth and profits.

Material costs include **costs of purchased services** attributable to project-related third-party freelancers, primarily for capacity reasons, but also to supplement highly specialised expertise. The material expenses ratio has been in steady decline indicating that KPS is broadening its expertise and requires fewer external experts. While historically the internal vs. external staff ratio stood at 40:60 it now stands at 60:40. The target is to achieve 90:10 in the long term. This transition has also been a major contributor to margin expansion. Expenses related to hardware and software reselling (ca. EUR 3m) are negligible.

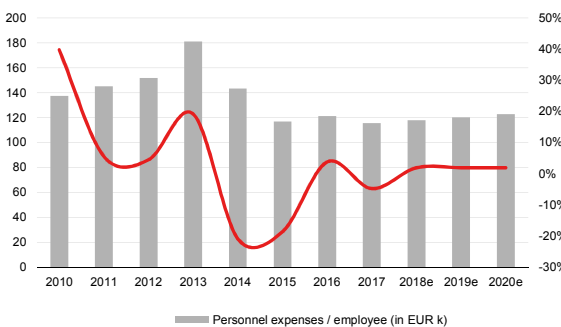
Employee development



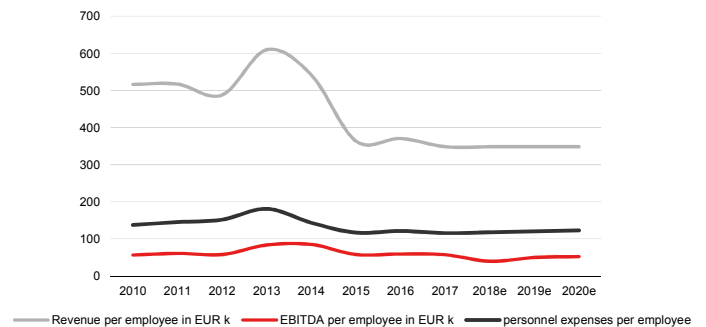
Sources: KPS, Warburg Research

The number of employees has a strong correlation to revenues generated. **Personnel expenses** develop approximately in line with the number of employees. Despite a scarcity of qualified experts, KPS has managed to maintain the average cost per employee approximately stable over the last couple of years reflecting its attractiveness as an employer. The increase in 2013 is due to a combination of the takeover of Didas' SAP division and the record day effect. In 2014, KPS acquired getit.

Personnel expenses per employee



Key figures per employee



Sources: Warburg Research, KPS

Other operating costs mainly include items like rent, travel, vehicle and training costs. While these develop more or less in line with the number of employees or personnel costs, there are slight economies of scale in central cost positions like administration.

Depreciation of property, plant and equipment are minor and are chiefly related to technical and office equipment. In 2017, there was an expense of just EUR 0.7m or less than 0.5% compared to revenues. Despite the firm's long takeover history, amortisation resulting from purchase price allocation is relatively low. As a result there is little distortion of profitability.

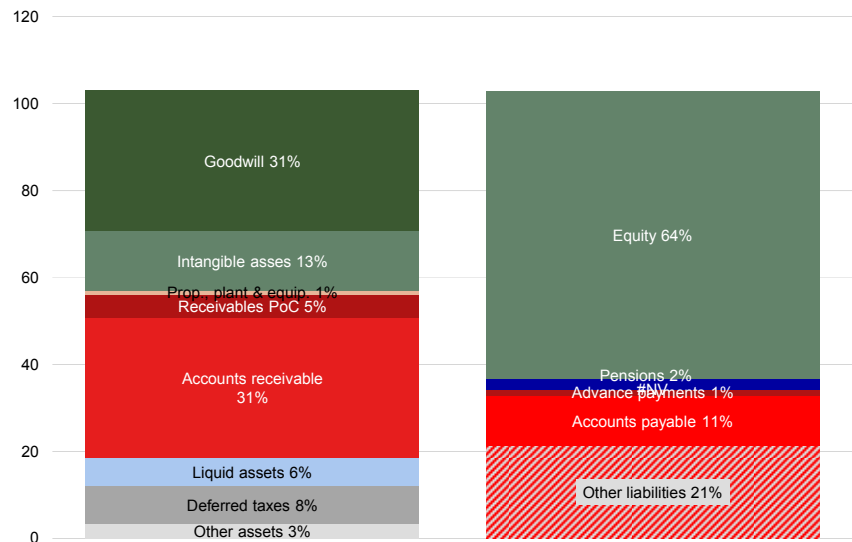
The rather low tax rate of below 25% is due to tax loss carry forwards. These amounted to EUR 37m at the end of 2016/17. In 2007/08 they amounted to more than EUR 90m and originate from the reverse takeover of Haitec in 2007. Following the utilisation of the tax loss carry forwards, we expect a tax rate of ca. 30%.

Balance sheet reflects low investment requirement

KPS business activity has low capital intensity as revenues are generated via consulting and IT-related services. This is also reflected in the balance sheet.

The capital tied up in fixed assets is mainly attributable to goodwill, which can be traced back to the company's M&A history. Additionally, a major share of capital is tied up in receivables.

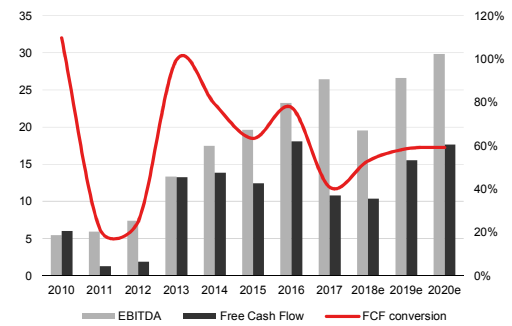
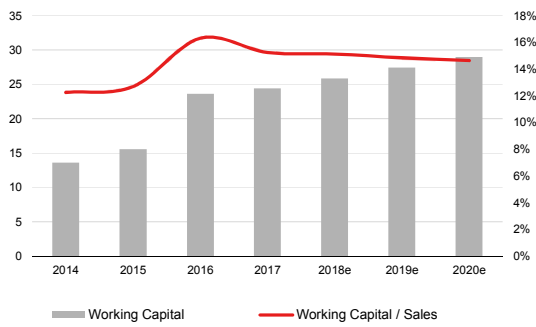
Balance sheet 2017



Source: Warburg Research

- **Goodwill** is attributable to KPS digital GmbH (previously getit GmbH; EUR 21.2m), KPS Consulting GmbH & Co. KG (EUR 7.8m), Saphira Consulting A/S (EUR 1.8m), KPS Services GmbH (EUR 1.2m), KPS Solutions GmbH (EUR 0.3m). The **ROCE of more than 35%** achieved by KPS in 2017 underlines the intrinsic value of its non-tangible assets.
- **Other non-tangible assets** are mainly attributable to purchase price allocations (EUR 3.5m) and KPS's development of SAP process streams (EUR 5m).
- **Property, plant and equipment** assets are mainly hardware such as notebooks, servers and furniture. These items represent a relatively small share of the balance sheets total, which underlines the low investment intensity of the business model.
- **Accounts receivable** tie up large parts of capital (EUR 37.5m). The majority of projects are priced on a **variable basis** rather than at fixed prices. Given the individual size of customer projects and compared to KPS's revenue level of more than EUR 160m, PoC receivables are relatively small and related to fixed-price projects. Overall, receivables are relatively high with DSOs of >80 days reflecting high project volumes: e.g. invoices that surpass certain thresholds (such as EUR 0.5m) often must be approved by top management of client companies. Going forward, KPS will aim to lower the project volumes in order to lower DSOs.
- **Liquid assets** mark EUR 6.7m of total assets. As KPS is debt free, liquidity equals net liquidity. However net liquidity fell by EUR 5.9m yoy owing to acquisitions.

Working capital and FCF conversion



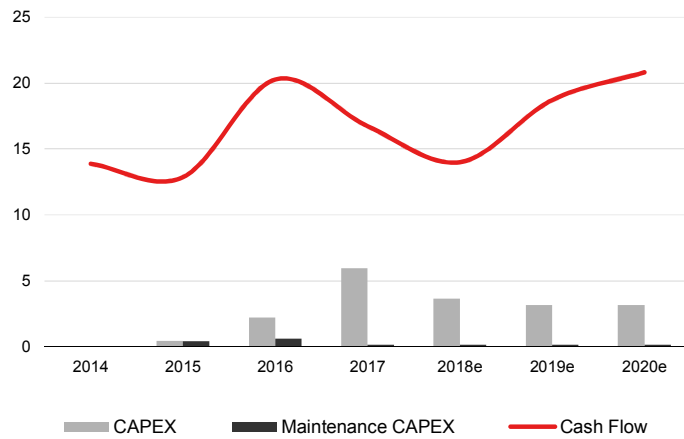
Source: Warburg Research

- The high **equity ratio** of 64% is somewhat subdued by goodwill and intangible assets. Nevertheless, KPS is in a strong financial position. Owing to its highly cash-generative business and as acquisitions are funded by cash in hand, KPS does not bear any financial liabilities.
- **Other liabilities** account for almost one quarter of the total balance sheet liabilities. These are mainly related to personnel (bonuses, vacation provisions, variable salary components). As such, these are a corresponding position to the receivables and show, to some extent, the characteristics of a working capital position.

Low capital intensity leads to outstanding ROCE

As a consulting and IT solution and service company, the business model has low capital intensity. Capex of less than 1% of revenues can be comfortably financed from cash flows generated by KPS. The investments are mainly related to office and business equipment. In 2016, capex started to increase as KPS is investing in SAP processing streams which will enable the company to accelerate project times and translate its enhancing competitive advantage into attractive returns.

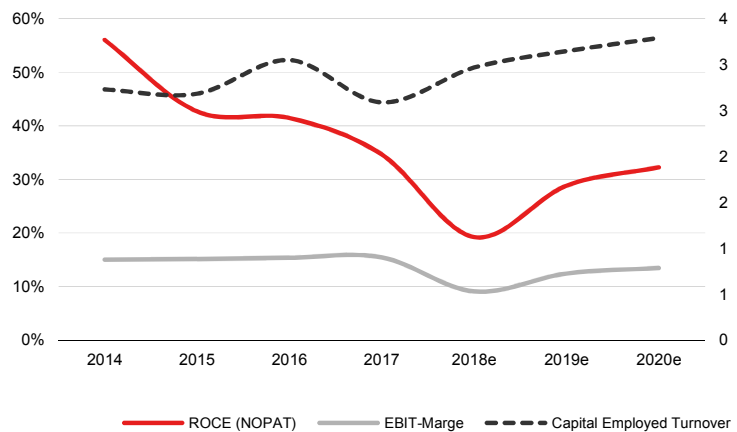
Investments and cash flow



Sources: Warburg Research, KPS

KPS's good positioning in the consulting market for the European retail industry and the low capital intensity of KPS's business activity are reflected in the returns, which are well in excess of the investors' demands and reflect high capital efficiency. Its currently lower level compared to e.g. 2014 is a consequence of the company's M&A history.

ROCE development

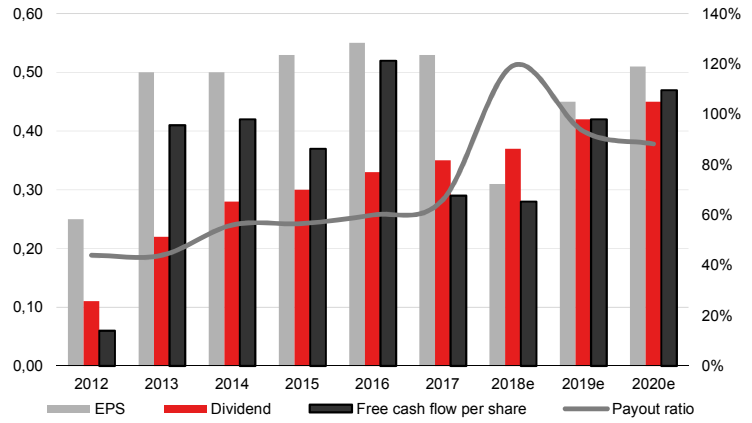


Sources: Warburg Research, KPS

Cash-generative business supports shareholder-friendly dividend policy

As a consequence of its capital-light business model and its existing organic growth opportunities, KPS has sufficient leeway to pursue a shareholder-friendly dividend policy and pay out a significant portion of its EPS and FCF per share.

High dividend payout ratio



Sources: Warburg Research, KPS

Valuation

- The price target of EUR 10.50 is based on a DCF model.
- The Free Cash Flow Value Potential model signals a value of EUR 9.
- All in all, the peer group comparison indicates a fair valuation based on EV/EBITDA multiples and a fair value of EUR 10 based on EV/EBIT.

DCF model

DCF model	Detailed forecast period			Transitional period										Term. Value
	17/18e	18/19e	19/20e	20/21e	21/22e	22/23e	23/24e	24/25e	25/26e	26/27e	27/28e	28/29e	29/30e	
Figures in EUR m														
Sales	171.0	185.0	198.0	207.8	217.9	228.2	238.6	249.2	259.9	270.7	281.6	292.6	304.1	
Sales change	6.7 %	8.2 %	7.0 %	5.0 %	4.9 %	4.7 %	4.6 %	4.4 %	4.3 %	4.2 %	4.0 %	3.9 %	3.9 %	2.0 %
EBIT	16.2	24.7	29.3	30.1	32.3	34.7	36.3	37.9	39.5	41.1	42.8	44.5	46.2	
EBIT-margin	9.5 %	13.3 %	14.8 %	14.5 %	14.8 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	
Tax rate (EBT)	26.0 %	27.0 %	28.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	
NOPAT	12.0	18.0	21.1	21.1	22.6	24.3	25.4	26.5	27.6	28.8	30.0	31.1	32.4	
Depreciation	4.0	3.6	3.2	3.1	2.6	1.8	1.9	2.0	2.1	2.2	2.3	2.3	2.4	
in % of Sales	2.3 %	1.9 %	1.6 %	1.5 %	1.2 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	
Changes in provisions	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Change in Liquidity from														
- Working Capital	1.4	1.6	1.5	2.2	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7	
- Capex	3.7	3.2	3.2	1.5	1.5	1.6	1.7	1.7	1.8	1.9	2.0	2.0	2.1	
Capex in % of Sales	2.1 %	1.7 %	1.6 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free Cash Flow (WACC Model)	10.9	16.9	19.6	20.7	22.3	23.1	24.2	25.3	26.4	27.6	28.7	29.9	31.1	32
PV of FCF	10.9	15.6	16.7	16.3	16.2	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	200
share of PVs	11.19 %			36.93 %										51.88 %

Model parameter				Valuation (m)			
Derivation of WACC:		Derivation of Beta:		Present values 2029/30e	186		
Debt ratio	1.00 %	Financial Strength	1.00	Terminal Value	200		
Cost of debt (after tax)	2.1 %	Liquidity (share)	1.30	Financial liabilities	0		
Market return	7.00 %	Cyclicality	1.20	Pension liabilities	2		
Risk free rate	1.50 %	Transparency	1.20	Hybrid capital	0		
		Others	1.50	Minority interest	0		
				Market val. of investments	0		
				Liquidity	7	No. of shares (m)	37.3
WACC	8.26 %	Beta	1.24	Equity Value	390	Value per share (EUR)	10.47

Sensitivity Value per Share (EUR)

Beta	WACC	Terminal Growth							Beta	WACC	Delta EBIT-margin						
		1.25 %	1.50 %	1.75 %	2.00 %	2.25 %	2.50 %	2.75 %			-1.5 pp	-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
1.42	9.3 %	8.60	8.72	8.85	8.99	9.14	9.30	9.47	1.42	9.3 %	8.05	8.37	8.68	8.99	9.30	9.61	9.92
1.33	8.8 %	9.20	9.35	9.51	9.67	9.85	10.05	10.26	1.33	8.8 %	8.67	9.00	9.34	9.67	10.01	10.34	10.68
1.29	8.5 %	9.54	9.70	9.87	10.06	10.26	10.47	10.71	1.29	8.5 %	9.01	9.36	9.71	10.06	10.40	10.75	11.10
1.24	8.3 %	9.89	10.07	10.26	10.47	10.69	10.94	11.20	1.24	8.3 %	9.39	9.75	10.11	10.47	10.83	11.19	11.55
1.19	8.0 %	10.28	10.48	10.69	10.92	11.17	11.44	11.74	1.19	8.0 %	9.79	10.17	10.54	10.92	11.29	11.67	12.05
1.15	7.8 %	10.69	10.91	11.15	11.41	11.69	11.99	12.33	1.15	7.8 %	10.23	10.62	11.01	11.41	11.80	12.19	12.58
1.06	7.3 %	11.63	11.90	12.20	12.52	12.88	13.27	13.71	1.06	7.3 %	11.23	11.66	12.09	12.52	12.95	13.38	13.81

- KPS is expected to grow at mid single-digit rates.
- Strong margins reflect efficient consulting delivery.
- Beta reflects high customer concentration.

The DCF model is based on the following assumptions:

Revenue growth 2017-2020e at a CAGR of 7% as a result of:

- further penetration of markets that are already being addressed
- geographical expansion
- the expansion of the consulting and services offering which has sufficient tailwind from secular growth trends
- inorganic revenue contributions from Infront and ICE consultants which were acquired in August and October 2017.

Based on these growth assumptions, KPS should approach the long-term growth rate of 2%.

Proportionally greater earnings growth: In general, KPS's business activities are labour-intensive and earnings should grow more or less in line with revenue. However, as outlined in previous sections, margin development should benefit from KPS's centralised service and consultancy delivery which looks set to increase efficiency and employee utilisation

Coupled with the cessation of PPA amortisation (current margin impact ca. 2pp), an EBIT margin of about 14% is expected to be achieved in the long term.

The long-term tax rate is estimated at 30%.

A beta of 1.2, which reflects high customer concentration, leads to weighted capital costs of 8.3%.

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 by discounting the "FCF potential" of a given year with the weighted costs of capital. The fluctuating value indications over time add a timing element to the DCF model (our preferred valuation tool).

Result: The outcome of the FCF Value Potential approach – cutting out growth - indicates a value of ca. EUR 9.20 for 2020e.

Free Cash Flow Value Potential

in EUR m	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e	
Net Income before minorities	16.3	18.0	19.3	19.8	11.9	18.0	21.0	
+ Depreciation + Amortisation	0.8	1.0	1.0	1.7	4.0	3.6	3.2	
- Net Interest Income	0.2	-0.4	-0.1	1.1	-0.1	-0.1	-0.1	
- Maintenance Capex	0.0	0.4	0.6	0.2	0.2	0.2	0.2	
+ Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
= Free Cash Flow Potential	16.9	19.1	19.7	20.2	15.8	21.5	24.1	
FCF Potential Yield (on market EV)	10.0 %	10.4 %	7.5 %	3.5 %	4.9 %	7.0 %	8.4 %	
WACC	8.26 %	8.26 %	8.26 %	8.26 %	8.26 %	8.26 %	8.26 %	
= Enterprise Value (EV)	169.2	182.9	264.2	584.9	325.3	308.5	289.0	
= Fair Enterprise Value	204.5	231.1	239.0	244.8	191.7	260.1	292.3	
- Net Debt (Cash)	-6.7	-6.7	-6.7	-6.7	-17.5	-34.3	-53.8	
- Pension Liabilities	2.4	2.4	2.4	2.4	2.4	2.4	2.4	
- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Market value of minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ Market value of investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
= Fair Market Capitalisation	208.7	235.4	243.3	249.0	206.8	291.9	343.7	
Aktienanzahl (Mio.)	32.9	33.9	34.9	37.3	37.3	37.3	37.3	
= Fair value per share (EUR)	6.35	6.94	6.96	6.68	5.55	7.83	9.22	
premium (-) / discount (+) in %					-39.2 %	-14.2 %	1.0 %	
Sensitivity Fair value per Share (EUR)								
	11.26 %	4.14	4.66	4.82	4.93	4.18	5.97	7.13
	10.26 %	4.53	5.10	5.28	5.40	4.54	6.47	7.69
	9.26 %	5.01	5.64	5.83	5.97	4.99	7.08	8.37
WACC	8.26 %	5.60	6.31	6.53	6.68	5.55	7.83	9.22
	7.26 %	6.35	7.17	7.41	7.58	6.26	8.79	10.30
	6.26 %	7.35	8.30	8.57	8.78	7.19	10.06	11.72
	5.26 %	8.73	9.85	10.18	10.43	8.48	11.81	13.69

■ FCF-Value-CAGR 2014-2020e: 9%

Peer Group Comparison

For a peer group comparison, we have taken into consideration companies with a focus on consulting and IT services. While this comparison serves to derive a value indication, it is distorted by differences between the companies in terms of business focus, growth, geographic positioning, and the size of the company or competitive positioning.

Accenture

Employees: ca. 435,000

Accenture is a leading global professional service company, providing a broad range of service and solutions in strategy, consulting, digital, technology and operations.

Atos Origin

Employees: ca. 100,000

Atos Origin offers a wide range of IT services, which address almost all industries. Software accounts for about 15% of revenues, while maintenance and professional services account for about two-thirds of revenue. Germany, with a revenue share of approx. 40%, is the most important market.

Booz Allen Hamilton

Employees: ca. 23,000

Booz Allen Hamilton is a leading American technology consulting firm, which has five core areas: Consulting, Analytics, Digital Solutions, Engineering, and Cyber.

Capgemini

Employees: ca. 180,000

Capgemini supports its customers in the areas of Consulting Services, Technology Services, (system integration and development of IT applications), Outsourcing Services or Local Professional Services.

CGI Group

Employees: 68,000

CGI Group is a Canadian IT consultancy, which is specialized in Application Services, Business Consulting, Business Process Services, Infrastructure Services, IT Outsourcing Services and Systems Integration Services.

IBM

Employees: ca. 380,000

IBM is a technology company, which operates five segments: Cognitive Solutions, Global Business Services, Technology Services & Cloud Platforms, Systems and Global Financing.

SNP

Employees: ca. 1,400

SNP helps companies plan and implement technologies that increase market share, improve performance and decrease costs. The key areas are: Business Transformation, IT Transformation, Transformation Services, and Transformation Software.

Basic data of the peer group valuation

Company	LC	Price in LC	MC in LC m	EV in LC m	EPS			Sales			EBITDA			EBIT		
					18e	19e	20e	18e	19e	20e	18e	19e	20e	18e	19e	20e
Accenture PLC	USD	162.89	104,371.5	100,979.9	6.70	7.26	7.88	39,413.7	42,116.7	44,863.8	6,726.4	7,207.8	7,760.1	5,828.9	6,313.0	6,849.3
Atos SE	EUR	98.14	10,489.6	10,741.9	8.68	9.79	10.31	12,373.4	13,108.3	13,477.3	1,671.1	1,885.5	1,989.6	1,199.5	1,372.8	1,457.4
Booz Allen Hamilton Holding Corp	USD	49.26	7,020.6	8,674.7	1.95	2.49	2.79	6,213.6	6,637.3	7,098.8	575.6	636.5	688.1	508.6	568.8	614.0
Capgemini SE	EUR	111.40	18,806.2	20,958.3	6.02	6.72	7.31	13,096.4	13,887.0	14,644.5	1,861.6	2,002.8	2,134.8	1,469.9	1,636.9	1,765.9
CGI Group Inc	CAD	85.36	21,564.0	26,075.7	4.18	4.59	4.87	11,498.1	11,896.2	12,238.2	2,088.1	2,217.1	2,305.3	1,696.7	1,800.9	1,887.3
International Business Machines C	USD	145.34	132,661.7	160,007.7	13.81	14.07	14.60	80,316.4	80,182.3	80,614.9	19,464.9	20,130.9	19,874.8	14,291.6	14,916.3	15,273.0
SNP Schneider-Neureither & Partner	EUR	19.46	106.5	142.4	-0.36	0.67	1.36	137.6	148.4	162.8	15	10.6	16.1	-3.5	5.8	10.9
KPS	EUR	8.60	320.6	305.5	0.32	0.48	0.56	171.0	185.0	198.0	20.2	28.3	32.5	16.2	24.7	29.3

Sources: Warburg Research, Bloomberg

The PER is often distorted by the financing structure of the peer companies. While the EV/EBIT multiple is often negatively impacted by PPA-related amortisation (approx. EUR 3m for KPS), we currently allocate higher significance to this multiple as KPS's EV/EBITDA multiple is currently positively impacted by R&D capitalisation of approx. EUR 3m (EUR 5.1m in 2017) associated with the development of SAP processing streams.

All in all, the peer group comparison indicates a fair valuation based on EV/EBITDA multiples and a fair value of EUR 10 based on EV/EBIT.

Peer group comparison

Company	LC	Price in LC	MC in LC m	EV in LC m	P / E			EV / Sales			EV / EBITDA			EV / EBIT		
					18e	19e	20e	18e	19e	20e	18e	19e	20e	18e	19e	20e
Accenture PLC	USD	162.89	104,371.5	100,979.9	24.3 x	22.4 x	20.7 x	2.6 x	2.4 x	2.3 x	15.0 x	14.0 x	13.0 x	17.3 x	16.0 x	14.7 x
Atos SE	EUR	98.14	10,489.6	10,741.9	11.3 x	10.0 x	9.5 x	0.9 x	0.8 x	0.8 x	6.4 x	5.7 x	5.4 x	9.0 x	7.8 x	7.4 x
Booz Allen Hamilton Holding Corp	USD	49.26	7,020.6	8,674.7	25.3 x	19.8 x	17.7 x	14 x	13 x	12 x	15.1 x	13.6 x	12.6 x	17.1 x	15.3 x	14.1 x
Capgemini SE	EUR	111.40	18,806.2	20,958.3	18.5 x	16.6 x	15.2 x	16 x	15 x	14 x	11.3 x	10.5 x	9.8 x	14.3 x	12.8 x	11.9 x
CGI Group Inc	CAD	85.36	21,564.0	26,075.7	20.4 x	18.6 x	17.5 x	2.3 x	2.2 x	2.1 x	12.5 x	11.8 x	11.3 x	15.4 x	14.5 x	13.8 x
International Business Machines C	USD	145.34	132,661.7	160,007.7	10.5 x	10.3 x	10.0 x	2.0 x	2.0 x	2.0 x	8.2 x	7.9 x	8.1 x	11.2 x	10.7 x	10.5 x
SNP Schneider-Neureither & Partner	EUR	19.46	106.5	142.4	neg.	28.9 x	14.4 x	10 x	10 x	0.9 x	94.1 x	13.5 x	8.8 x	neg.	24.6 x	13.1 x
Average					18.4 x	18.1 x	15.0 x	17 x	16 x	15 x	23.2 x	11.0 x	9.9 x	14.0 x	14.5 x	12.2 x
Median					19.4 x	18.6 x	15.2 x	16 x	15 x	14 x	12.5 x	11.8 x	9.8 x	14.8 x	14.5 x	13.1 x
KPS	EUR	8.60	320.6	305.5	26.9 x	17.9 x	15.4 x	1.8 x	1.7 x	1.5 x	15.1 x	10.8 x	9.4 x	18.9 x	12.4 x	10.4 x
Valuation difference to Average					-32%	1%	-2%	-6%	-3%	-1%	53%	2%	5%	-26%	17%	17%
Fair value per share based on Average					5.88	8.68	8.39	8.09	8.33	8.51	12.97	8.75	8.99	6.49	10.03	10.00

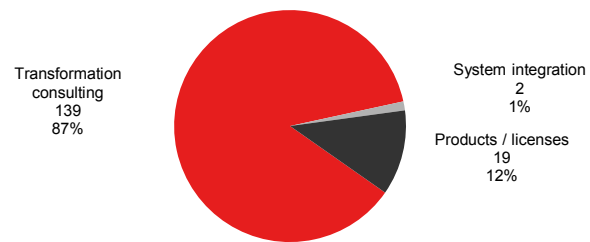
Sources: Warburg Research, Bloomberg

Company & Products

Complementary business segments

The biggest revenue contributor is KPS's core segment **Management / Transformation Consulting**. The other two segments **System Integration** (1%) and **Product/Licenses** complement the core business as KPS also supports its clients to enact the digital transformation and software implementation.

Revenue split by segments



Sources: KPS, Warburg Research

Management/Transformation consulting

In Transformation Consulting, complex digitalisation projects are implemented for clients mainly in the retail and consumer goods industry. For these clients, KPS develops and implements concepts and solutions with a focus on procedural, organisational, logistical, financial, and systemic parameters.

The consulting activities close the existing gap between classical strategy and process consultants on one side and implementation partners and system integrators on the other. Additionally, this consulting segment includes KPS's offering as a close SAP consulting partner.

System Integration

This segment centres on technology-related process and implementation consulting. KPS covers both SAP and non-SAP technologies such as Adobe or Intershop.

KPS's main focus areas in the field of SAP technology are eSOA and Netweaver. Non-SAP technology covers areas such as high availability, security and storage solutions. As the basis for a successful company is mainly displayed by a secure and highly-available system landscape, with its solutions KPS is able to ensure the seamless integration of all processes in heterogeneous system landscapes.

Products / Licenses

To round off the performance spectrum, KPS distributes software licenses, offers maintenance agreements as well as hardware components as a certified system house and reseller. It offers the products of notable providers such as SAP, IBM and SAPERION, with whom KPS shares long-standing relationships and diverse consulting and reselling partnerships.

Comprehensive service offering

KPS's offering for the digital transformation of the retail industry includes the following services

- Strategy & conception
- Development & integration (e-commerce)
- Design & edit of user interfaces (e-commerce)
- Project and quality management (e-commerce)
- Application management & operations
- Web analysis & optimisation (e-commerce)
- Omni channel e-commerce transformation in order to increase customer interaction
- Optimising logistics processes
- Supply chain management

Focus on retail and consumer goods clients

Clients mainly come from the retail sector. Within this sector, KPS clients stem from different sub sectors such as textile, food, animal supplies, furniture, electronics, and jewellery. A smaller share of clients comes from the adjacent sectors of consumer goods sector and logistics. Lidl is known for being KPS's biggest client.

Customer examples



Source: Warburg Research

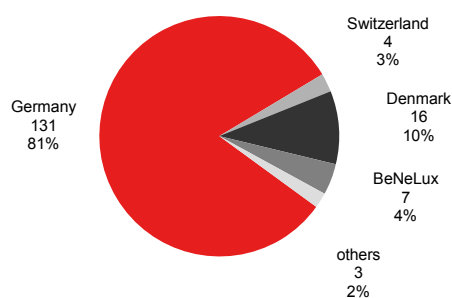
Regions

Germany is the most important sales market for KPS: In 2017, approx. 80% of the revenue was generated in the domestic market.

Some EUR 30m were generated outside Germany. Scandinavia accounted for a volume of EUR 16m (10%), followed by the BeNeLux countries with EUR 6.7m or 4%, and Switzerland with a volume of EUR 4m or 3%.

In the USA KPS generates approx. 2% of its revenues. The expansion into this region was mainly a result of the regional expansion of an important client.

Regional revenue split



Source: Warburg Research

Locations

KPS is headquartered in Munich. In 2019 KPS will relocate to a new office at the Phoenix Lake close to Dortmund. This move indicates further growth as the new office at the Phoenix Lake has twice the capacity of the current headquarters. Other German locations include Heilbronn, Wolfsburg and Saarbrücken.

European strategic offices outside of Germany include Copenhagen, Zürich, Vienna, Amsterdam and Barcelona.

KPS also has one office outside Europe, which is located in Arlington, Virginia in the US. This presence was a result of a client's international expansion. Cross-checks of available media reports suggest that this customer is Lidl.

Locations



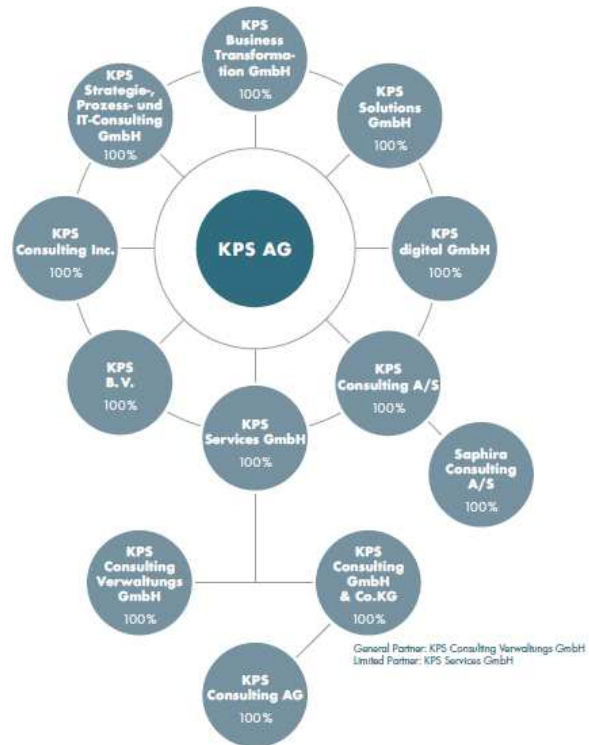
Source: Warburg Research

Subsidiaries and corporate structure

KPS has numerous subsidiaries, which vary in terms of their regional, technological or business specialisation.

- KPS Consulting A/S based in Copenhagen, a derivative entity resulting from the Saphira Consulting acquisition focusing on the **Nordics**, a region on which KPS has put a lot of emphasis on in the last few years.
- KPS B.V. was strategically established in Amsterdam to enhance and grow business activities in the **BeNeLux** region.
- KPS Consulting AG, based in Zürich, was established as a hub entity for the **Swiss** operational business. However, it is still a sub entity of the biggest KPS subsidiary, KPS Services GmbH.
- KPS Consulting Inc. in Wilmington gives KPS presence in the **US**.
- KPS Strategie-, Prozess- und IT-Consulting GmbH was established in September 2017 in **Vienna** to support future growth in Continental Europe.
- KPS digital GmbH arose from the acquisition of getit GmbH. getit GmbH was a leading E-Commerce provider and **specialist for software platforms such as Hybris (SAP), Intershop and Adobe**.

Related companies



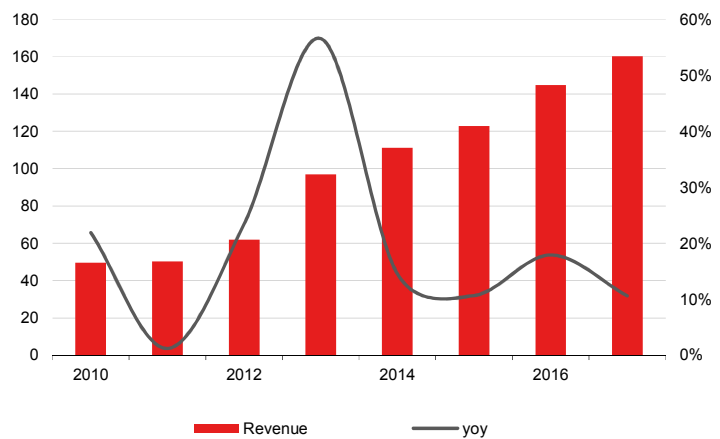
Source: Warburg Research

- In 2017, KPS acquired the Spanish firm ICE Consultants Europe SL, a company with more than 100 consultants. ICE Consultants is mainly active in the retail and consumer goods industry and, like KPS, a close partner of **SAP**.
- Furthermore, in 2018, KPS acquired German Infront Consulting, a leading boutique **consultancy for digital strategy and transformation** within German-speaking countries with manpower of around 25 consultants.

Company history

- KPS was founded in 2000 by Dietmar Müller, Michael Tsifdaris, Leonardo Musso and Uwe Grünwald. The vision was to create a consultancy, which defines strategic goals, and is able to optimise and redefine processes. Moreover, the implementation is based on a standard software stack and all this within the shortest possible time frame. In 2000, revenue was EUR 1.2m.
- In **2001**, the company gained its first projects in retail and the pharma industry. A strategic partnership with SAP as a service partner was formed.
- In **2003** first projects in the fashion sector and the consumer goods industry were gained. The KPS **Rapid Transformation** method was established.
- In **2004**, KPS expanded to Austria and Switzerland. The team increased to 60 consultants. Another strategic expertise partnership was formed with SAP in the areas of retail and fashion.
- In **2006**, another KPS office was established near SAP in Walldorf.

Rapidly growing business



Source: Warburg Research

- In **2007**, KPS acquired Haitec AG and Autinform via a reverse takeover. As a result, KPS became a **listed** company. The headquarters were moved to Munich.
- In **2009**, first projects were carried out in the Nordic region.
- In **2011**, KPS achieved market leadership in business transformation in the retail industry.
- In **2013**, KPS acquired the SAP business field of the Didas Business Service GmbH. Consequently, the KPS team increased to 450 consultants with revenues of EUR 97m.
- In **2015**, business activities expanded to northern Europe, UK, France, and Spain.
- In **2016**, the KPS branches in Amsterdam and Arlington, USA were established. The latter was a consequence of a client's international expansion.
- In **2017**, KPS acquired the Spanish SAP Partner ICE Consultants Europe in Barcelona as well as the German strategy consultancy Infront Consulting. In 2017, KPS had 1,000 consultants and reached a revenue level of EUR 160m.

Management

Executive Board



Leonardo Musso, Chairman of the Executive Board

Leonardo Musso has been a member of the Executive Board since 2015 and is one of the four founders of KPS AG. He started his career at BMW AG after successfully completing his studies in economics and business at the universities of Florence, Konstanz, and Barcelona. Before joining KPS, he worked for IBM Consulting, where he was responsible for a variety of project initiatives. Since joining KPS, he has been leading the daily operational business.



Dr. Michael Mirz, Vice President and Managing Partner

Dr. Michael Mirz completed his studies in business at Boston University and IESE Business School. He has more than 20 years of experience in the areas of retail, industry and automotive. He is specialised in the fields of Business Development and Business Consulting and is responsible for large KPS transformation projects with a focus on omni channel, supply chain optimisation and corporate restructuring.



Steffen Sattler, Vice President and Managing Partner

Steffen Sattler started his career at SAP Consulting after obtaining a degree in International Management. He has been active for more than 18 years as a management consultant in the areas of retail, consumer goods and industry. Before joining KPS in 2006, he was an advisor to notable enterprises on post-merger strategies.



Matthias Nollenberger, Vice President and Managing Partner

Matthias Nollenberger majored in Operations Research at the University of Jena and held several management positions within Europe before joining KPS. He has 18 years of experience in the management and SAP advisory business. His main focus is retail, consumer goods and automotive. Matthias Nollenberger leads big international transformation initiatives for KPS. In addition, he is responsible for the areas of technology and architecture.



Josef Richter, Vice President and Managing Partner

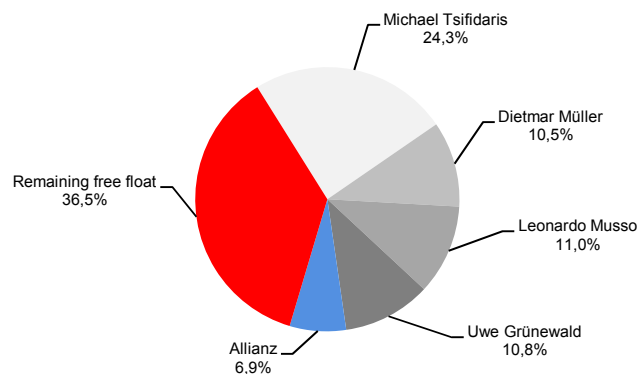
Josef Richter started his career at Webasto after successfully obtaining a degree in business administration. He has more than 25 years of experience in the areas of fashion, consumer goods and automotive supply. He came to KPS as a managing partner in 2009. Ever since, he has been in charge of big projects in Europe. Moreover, the expansion to Scandinavia lies within his field of responsibilities.

Supervisory Board

Michael Tsifidaris is **Chairman of the Supervisory Board**. He is one of the four founders of KPS consulting. Following his business administration studies, he started his career at IBM Consulting, where he held several international management positions. In 2002, Michael Tsifidaris took over as the executive partner of KPS Consulting. In 2008, he became Chairman of the Supervisory Board. Other members of the supervisory board are **Hans-Werner Hartmann**, an international corporate lawyer, and **Uwe Grünewald**, one of the founders of KPS and a longstanding IBM Manager.

Shareholders

Shareholder structure



Source: KPS, Warburg Research

The largest shareholder with 24.3% of the voting rights is the Supervisory Board Chairman and co-founder Michael Tsifdaris. The current CEO Leonardo Musso holds 11%. Co-founder and Supervisory Board member Uwe Grünwald owns 10.8% of the equity. Next largest, with 10.5% of the shares is the co-founder and former CEO Dietmar Müller. In 2017 he lowered his stake from a level of approx. 25%. Allianz (6.9%) has been a shareholder since the placement. Lastly, 36.5% of the shares are part of the remaining free float.

DCF model

Figures in EUR m	Detailed forecast period			Transitional period										Term. Value
	17/18e	18/19e	19/20e	20/21e	21/22e	22/23e	23/24e	24/25e	25/26e	26/27e	27/28e	28/29e	29/30e	
Sales	171.0	185.0	198.0	207.8	217.9	228.2	238.6	249.2	259.9	270.7	281.6	292.6	304.1	
Sales change	6.7 %	8.2 %	7.0 %	5.0 %	4.9 %	4.7 %	4.6 %	4.4 %	4.3 %	4.2 %	4.0 %	3.9 %	3.9 %	2.0 %
EBIT	16.2	24.7	29.3	30.1	32.3	34.7	36.3	37.9	39.5	41.1	42.8	44.5	46.2	
EBIT-margin	9.5 %	13.3 %	14.8 %	14.5 %	14.8 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	15.2 %	
Tax rate (EBT)	26.0 %	27.0 %	28.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	30.0 %	
NOPAT	12.0	18.0	21.1	21.1	22.6	24.3	25.4	26.5	27.6	28.8	30.0	31.1	32.4	
Depreciation	4.0	3.6	3.2	3.1	2.6	1.8	1.9	2.0	2.1	2.2	2.3	2.3	2.4	
in % of Sales	2.3 %	1.9 %	1.6 %	1.5 %	1.2 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	
Changes in provisions	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Change in Liquidity from														
- Working Capital	1.4	1.6	1.5	2.2	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7	
- Capex	3.7	3.2	3.2	1.5	1.5	1.6	1.7	1.7	1.8	1.9	2.0	2.0	2.1	
Capex in % of Sales	2.1 %	1.7 %	1.6 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	0.7 %	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free Cash Flow (WACC Model)	10.9	16.9	19.6	20.7	22.3	23.1	24.2	25.3	26.4	27.6	28.7	29.9	31.1	32
PV of FCF	10.9	15.6	16.7	16.3	16.2	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	200
share of PVs	11.19 %			36.93 %										51.88 %

Model parameter

Derivation of WACC:		Derivation of Beta:	
Debt ratio	1.00 %	Financial Strength	1.00
Cost of debt (after tax)	2.1 %	Liquidity (share)	1.30
Market return	7.00 %	Cyclicality	1.20
Risk free rate	1.50 %	Transparency	1.20
		Others	1.50
WACC	8.26 %	Beta	1.24

Valuation (m)

Present values 2029/30e	186		
Terminal Value	200		
Financial liabilities	0		
Pension liabilities	2		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	7	No. of shares (m)	37.3
Equity Value	390	Value per share (EUR)	10.47

Sensitivity Value per Share (EUR)

Beta	WACC	Terminal Growth							Beta	WACC	Delta EBIT-margin						
		1.25 %	1.50 %	1.75 %	2.00 %	2.25 %	2.50 %	2.75 %			-1.5 pp	-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
1.42	9.3 %	8.60	8.72	8.85	8.99	9.14	9.30	9.47	1.42	9.3 %	8.05	8.37	8.68	8.99	9.30	9.61	9.92
1.33	8.8 %	9.20	9.35	9.51	9.67	9.85	10.05	10.26	1.33	8.8 %	8.67	9.00	9.34	9.67	10.01	10.34	10.68
1.29	8.5 %	9.54	9.70	9.87	10.06	10.26	10.47	10.71	1.29	8.5 %	9.01	9.36	9.71	10.06	10.40	10.75	11.10
1.24	8.3 %	9.89	10.07	10.26	10.47	10.69	10.94	11.20	1.24	8.3 %	9.39	9.75	10.11	10.47	10.83	11.19	11.55
1.19	8.0 %	10.28	10.48	10.69	10.92	11.17	11.44	11.74	1.19	8.0 %	9.79	10.17	10.54	10.92	11.29	11.67	12.05
1.15	7.8 %	10.69	10.91	11.15	11.41	11.69	11.99	12.33	1.15	7.8 %	10.23	10.62	11.01	11.41	11.80	12.19	12.58
1.06	7.3 %	11.63	11.90	12.20	12.52	12.88	13.27	13.71	1.06	7.3 %	11.23	11.66	12.09	12.52	12.95	13.38	13.81

- KPS is expected to grow at mid single-digit rates.
- Strong margins reflect efficient consulting delivery.
- Beta reflects high customer concentration.

Free Cash Flow Value Potential

Warburg Research's valuation tool "FCF Value Potential" reflects the ability of the company to generate sustainable free cash flows. It is based on the "FCF potential" - a FCF "ex growth" figure - which assumes unchanged working capital and pure maintenance capex. A value indication is derived via the perpetuity of a given year's "FCF potential" with consideration of the weighted costs of capital. The fluctuating value indications over time add a timing element to the DCF model (our preferred valuation tool).

in EUR m	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e	
Net Income before minorities	16.3	18.0	19.3	19.8	11.9	18.0	21.0	
+ Depreciation + Amortisation	0.8	1.0	1.0	1.7	4.0	3.6	3.2	
- Net Interest Income	0.2	-0.4	-0.1	1.1	-0.1	-0.1	-0.1	
- Maintenance Capex	0.0	0.4	0.6	0.2	0.2	0.2	0.2	
+ Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
= Free Cash Flow Potential	16.9	19.1	19.7	20.2	15.8	21.5	24.1	
FCF Potential Yield (on market EV)	10.0 %	10.4 %	7.5 %	3.5 %	4.9 %	7.0 %	8.4 %	
WACC	8.26 %	8.26 %	8.26 %	8.26 %	8.26 %	8.26 %	8.26 %	
= Enterprise Value (EV)	169.2	182.9	264.2	584.9	325.3	308.5	289.0	
= Fair Enterprise Value	204.5	231.1	239.0	244.8	191.7	260.1	292.3	
- Net Debt (Cash)	-6.7	-6.7	-6.7	-6.7	-17.5	-34.3	-53.8	
- Pension Liabilities	2.4	2.4	2.4	2.4	2.4	2.4	2.4	
- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Market value of minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ Market value of investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
= Fair Market Capitalisation	208.7	235.4	243.3	249.0	206.8	291.9	343.7	
Aktienanzahl (Mio.)	32.9	33.9	34.9	37.3	37.3	37.3	37.3	
= Fair value per share (EUR)	6.35	6.94	6.96	6.68	5.55	7.83	9.22	
premium (-) / discount (+) in %					-39.2 %	-14.2 %	1.0 %	
Sensitivity Fair value per Share (EUR)								
	11.26 %	4.14	4.66	4.82	4.93	4.18	5.97	7.13
	10.26 %	4.53	5.10	5.28	5.40	4.54	6.47	7.69
	9.26 %	5.01	5.64	5.83	5.97	4.99	7.08	8.37
WACC	8.26 %	5.60	6.31	6.53	6.68	5.55	7.83	9.22
	7.26 %	6.35	7.17	7.41	7.58	6.26	8.79	10.30
	6.26 %	7.35	8.30	8.57	8.78	7.19	10.06	11.72
	5.26 %	8.73	9.85	10.18	10.43	8.48	11.81	13.69

■ FCF-Value-CAGR 2014-2020e: 9%

Valuation	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Price / Book	4.1 x	3.8 x	4.7 x	8.9 x	4.7 x	3.8 x	3.1 x
Book value per share ex intangibles	0.28	0.53	0.69	0.64	0.81	1.28	1.82
EV / Sales	1.5 x	1.5 x	1.8 x	3.6 x	1.9 x	1.7 x	1.5 x
EV / EBITDA	9.7 x	9.3 x	11.4 x	22.1 x	16.1 x	10.9 x	8.9 x
EV / EBIT	10.1 x	9.8 x	11.9 x	23.6 x	20.1 x	12.5 x	9.9 x
EV / EBIT adj.*	10.1 x	9.8 x	11.9 x	23.6 x	20.1 x	12.5 x	9.9 x
P / FCF	12.3 x	15.0 x	15.2 x	54.7 x	31.5 x	20.3 x	17.4 x
P / E	10.4 x	10.4 x	14.3 x	29.8 x	28.5 x	19.0 x	16.3 x
P / E adj.*	10.4 x	10.4 x	14.3 x	29.8 x	28.5 x	19.0 x	16.3 x
Dividend Yield	5.4 %	5.4 %	4.2 %	2.2 %	3.8 %	4.6 %	4.9 %
FCF Potential Yield (on market EV)	10.0 %	10.4 %	7.5 %	3.5 %	4.9 %	7.0 %	8.4 %

*Adjustments made for: PPA-related amortisations

Consolidated profit & loss

In EUR m	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Sales	111.1	122.9	144.9	160.3	171.0	185.0	198.0
Change Sales yoy	14.5 %	10.7 %	17.9 %	10.6 %	6.7 %	8.2 %	7.0 %
Increase / decrease in inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Own work capitalised	0.0	0.0	1.5	5.1	3.5	3.0	3.0
Total Sales	111.1	122.9	146.4	165.4	174.5	188.0	201.0
Material expenses	52.8	52.0	59.9	67.6	71.8	76.2	81.4
Gross profit	58.3	70.9	86.5	97.9	102.7	111.8	119.6
<i>Gross profit margin</i>	<i>52.5 %</i>	<i>57.7 %</i>	<i>59.7 %</i>	<i>61.1 %</i>	<i>60.0 %</i>	<i>60.4 %</i>	<i>60.4 %</i>
Personnel expenses	29.4	39.5	47.5	53.3	60.0	61.0	62.5
Other operating income	0.8	1.0	0.9	2.8	1.5	2.0	2.1
Other operating expenses	12.2	12.7	16.6	21.0	24.0	24.5	26.7
Unfrequent items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	17.5	19.6	23.3	26.4	20.2	28.3	32.5
<i>Margin</i>	<i>15.7 %</i>	<i>16.0 %</i>	<i>16.0 %</i>	<i>16.5 %</i>	<i>11.8 %</i>	<i>15.3 %</i>	<i>16.4 %</i>
Depreciation of fixed assets	0.1	0.3	0.3	0.7	0.8	0.9	1.0
EBITA	17.4	19.3	23.0	25.7	19.4	27.4	31.5
Amortisation of intangible assets	0.7	0.7	0.7	0.9	3.2	2.7	2.2
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	16.7	18.6	22.3	24.8	16.2	24.7	29.3
<i>Margin</i>	<i>15.0 %</i>	<i>15.1 %</i>	<i>15.4 %</i>	<i>15.4 %</i>	<i>9.5 %</i>	<i>13.3 %</i>	<i>14.8 %</i>
EBIT adj.	16.7	18.6	22.3	24.8	16.2	24.7	29.3
Interest income	0.3	0.0	0.0	1.2	0.0	0.0	0.0
Interest expenses	0.1	0.4	0.1	0.1	0.1	0.1	0.1
Other financial income (loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	16.9	18.2	22.2	25.8	16.1	24.6	29.2
<i>Margin</i>	<i>15.2 %</i>	<i>14.8 %</i>	<i>15.3 %</i>	<i>16.1 %</i>	<i>9.4 %</i>	<i>13.3 %</i>	<i>14.7 %</i>
Total taxes	0.6	0.1	2.9	6.0	4.2	6.6	8.2
Net income from continuing operations	16.3	18.0	19.3	19.8	11.9	18.0	21.0
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income before minorities	16.3	18.0	19.3	19.8	11.9	18.0	21.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	16.3	18.0	19.3	19.8	11.9	18.0	21.0
<i>Margin</i>	<i>14.7 %</i>	<i>14.7 %</i>	<i>13.3 %</i>	<i>12.4 %</i>	<i>7.0 %</i>	<i>9.7 %</i>	<i>10.6 %</i>
Number of shares, average	32.9	33.9	34.9	37.3	37.3	37.3	37.3
EPS	0.50	0.53	0.55	0.53	0.32	0.48	0.56
EPS adj.	0.50	0.53	0.55	0.53	0.32	0.48	0.56

*Adjustments made for: PPA-related amortisations

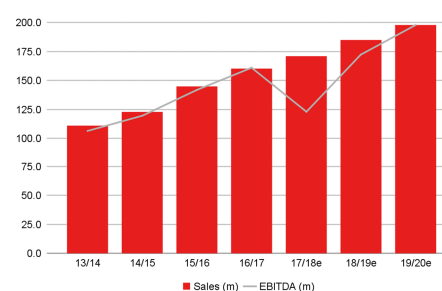
Guidance: 2018: Revenues: EUR 160-170m; EBIT EUR 16-20m

Financial Ratios

	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Total Operating Costs / Sales	84.3 %	84.0 %	85.0 %	86.7 %	90.2 %	86.3 %	85.1 %
Operating Leverage	2.3 x	1.1 x	1.1 x	1.1 x	-5.2 x	6.4 x	2.7 x
EBITDA / Interest expenses	186.0 x	43.8 x	244.8 x	197.1 x	212.4 x	297.7 x	341.8 x
Tax rate (EBT)	3.3 %	0.6 %	13.0 %	23.4 %	26.0 %	27.0 %	28.0 %
Dividend Payout Ratio	56.4 %	56.4 %	59.8 %	65.9 %	109.5 %	87.2 %	79.8 %
Sales per Employee	350,397	347,218	347,561	n.a.	n.a.	n.a.	n.a.

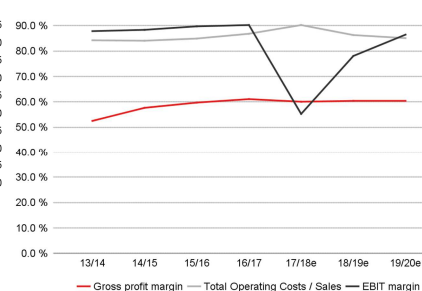
Sales, EBITDA

in EUR m

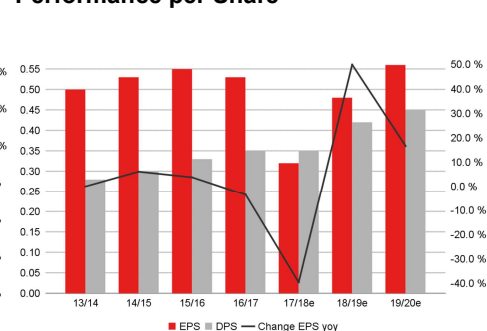


Operating Performance

in %



Performance per Share



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

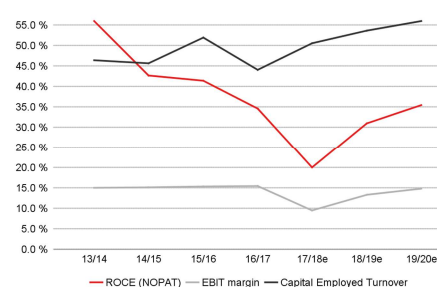
Consolidated balance sheet

In EUR m	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Assets							
Goodwill and other intangible assets	32.4	31.6	32.5	42.3	42.6	42.9	43.7
thereof other intangible assets	1.9	1.2	0.4	3.5	3.8	4.1	4.9
thereof Goodwill	30.5	30.5	30.5	32.2	32.2	32.2	32.2
Property, plant and equipment	0.7	0.8	1.1	1.0	0.4	-0.4	-1.2
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed assets	33.1	32.4	33.6	43.3	43.0	42.5	42.5
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	24.5	29.5	34.5	37.5	40.0	43.2	46.2
Liquid assets	8.7	6.5	12.6	6.7	17.5	34.3	53.8
Other short-term assets	12.9	17.3	14.4	15.5	10.0	10.0	10.0
Current assets	46.1	53.3	61.5	59.6	67.5	87.5	110.1
Total Assets	79.2	85.8	95.1	102.9	110.5	130.0	152.5
Liabilities and shareholders' equity							
Subscribed capital	33.9	33.9	37.3	37.3	37.3	37.3	37.3
Capital reserve	-11.6	-11.6	-11.6	-11.6	-11.6	-11.6	-11.6
Retained earnings	0.1	4.1	0.7	0.7	12.6	30.5	51.5
Other equity components	19.5	23.4	32.0	39.8	34.4	34.3	34.3
Shareholders' equity	41.9	49.8	58.4	66.2	72.7	90.6	111.6
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	41.9	49.8	58.4	66.2	72.7	90.6	111.6
Provisions	14.0	16.3	17.2	14.6	14.6	14.6	14.6
thereof provisions for pensions and similar obligations	3.5	2.6	1.8	2.4	2.4	2.4	2.4
Financial liabilities (total)	4.0	0.0	0.0	0.0	0.0	0.0	0.0
thereof short-term financial liabilities	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	9.6	11.5	10.7	11.5	12.6	14.2	15.7
Other liabilities	9.7	8.2	8.8	10.6	10.6	10.6	10.6
Liabilities	37.3	36.0	36.7	36.7	37.8	39.4	40.9
Total liabilities and shareholders' equity	79.2	85.8	95.1	102.9	110.5	130.0	152.5

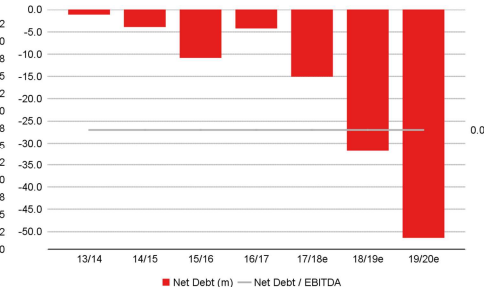
Financial Ratios

	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Efficiency of Capital Employment							
Operating Assets Turnover	7.8 x	7.5 x	5.9 x	6.3 x	6.5 x	6.8 x	7.1 x
Capital Employed Turnover	2.7 x	2.7 x	3.0 x	2.6 x	3.0 x	3.2 x	3.3 x
ROA	49.4 %	55.6 %	57.3 %	45.7 %	27.7 %	42.2 %	49.5 %
Return on Capital							
ROCE (NOPAT)	56.0 %	42.7 %	41.5 %	34.7 %	20.0 %	31.0 %	35.5 %
ROE	49.2 %	39.4 %	35.6 %	31.8 %	17.2 %	22.0 %	20.8 %
Adj. ROE	49.2 %	39.4 %	35.6 %	31.8 %	17.2 %	22.0 %	20.8 %
Balance sheet quality							
Net Debt	-1.1	-3.9	-10.9	-4.2	-15.1	-31.9	-51.4
Net Financial Debt	-4.7	-6.5	-12.6	-6.7	-17.5	-34.3	-53.8
Net Gearing	-2.7 %	-7.9 %	-18.6 %	-6.4 %	-20.7 %	-35.2 %	-46.1 %
Net Fin. Debt / EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Book Value / Share	1.2	1.5	1.6	1.8	2.0	2.4	3.0
Book value per share ex intangibles	0.3	0.5	0.7	0.6	0.8	1.3	1.8

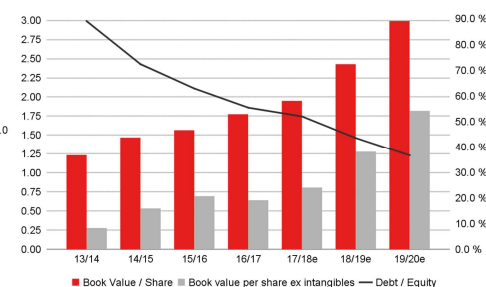
ROCE Development



Net debt in EUR m



Book Value per Share in EUR



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

Consolidated cash flow statement

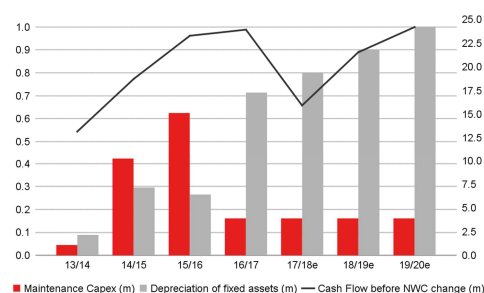
In EUR m	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Net income	16.3	18.0	19.3	19.8	11.9	18.0	21.0
Depreciation of fixed assets	0.1	0.3	0.3	0.7	0.8	0.9	1.0
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.7	0.7	0.7	0.9	3.2	2.7	2.2
Increase/decrease in long-term provisions	-3.1	0.6	0.9	-0.4	0.0	0.0	0.0
Other non-cash income and expenses	-0.8	-0.9	2.1	2.8	0.0	0.0	0.0
Cash Flow before NWC change	13.2	18.7	23.3	23.9	15.9	21.5	24.2
Increase / decrease in inventory	-0.8	-7.1	-2.7	0.0	0.0	0.0	0.0
Increase / decrease in accounts receivable	0.0	0.0	0.0	-6.4	-2.6	-3.2	-3.0
Increase / decrease in accounts payable	0.0	0.0	0.0	0.0	1.1	1.6	1.5
Increase / decrease in other working capital positions	1.6	1.3	-0.3	-0.8	0.0	0.0	0.0
Increase / decrease in working capital (total)	0.7	-5.9	-3.0	-7.2	-1.4	-1.6	-1.5
Net cash provided by operating activities [1]	13.9	12.9	20.3	16.7	14.5	19.9	22.7
Investments in intangible assets	0.0	0.0	-1.6	-5.8	-3.5	-3.0	-3.0
Investments in property, plant and equipment	0.0	-0.4	-0.6	-0.2	-0.2	-0.2	-0.2
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	7.5	1.0	1.8	6.4	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by investing activities [2]	-7.5	-1.4	-4.0	-12.4	-3.7	-3.2	-3.2
Change in financial liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-7.2	-9.5	-10.2	-12.3	0.0	0.0	0.0
Purchase of own shares	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by financing activities [3]	-7.5	-9.7	-10.2	-12.3	0.0	0.0	0.0
Change in liquid funds [1]+[2]+[3]	-1.1	1.8	6.1	-8.0	10.8	16.8	19.5
Effects of exchange-rate changes on cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalent at end of period	6.4	10.5	12.6	4.6	17.5	34.3	53.8

Financial Ratios

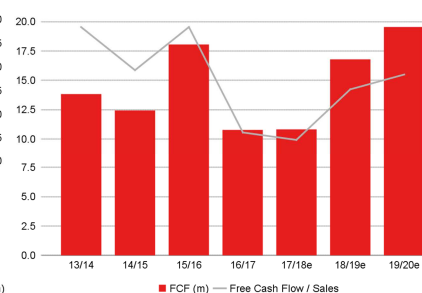
	2013/14	2014/15	2015/16	2016/17	2017/18e	2018/19e	2019/20e
Cash Flow							
FCF	13.8	12.4	18.1	10.8	10.8	16.8	19.5
Free Cash Flow / Sales	12.4 %	10.1 %	12.5 %	6.7 %	6.3 %	9.1 %	9.9 %
Free Cash Flow Potential	16.9	19.1	19.7	20.2	15.8	21.5	24.1
Free Cash Flow / Net Profit	84.7 %	68.9 %	93.7 %	54.4 %	90.8 %	93.5 %	93.0 %
Interest Received / Avg. Cash	3.5 %	0.2 %	0.1 %	12.6 %	0.0 %	0.0 %	0.0 %
Interest Paid / Avg. Debt	4.7 %	22.4 %	n.a.	n.a.	n.a.	n.a.	n.a.
Management of Funds							
Investment ratio	0.1 %	0.4 %	1.5 %	3.7 %	2.1 %	1.7 %	1.6 %
Maint. Capex / Sales	0.0 %	0.3 %	0.4 %	0.1 %	0.1 %	0.1 %	0.1 %
Capex / Dep	7.2 %	42.6 %	222.0 %	359.9 %	91.7 %	88.0 %	99.0 %
Avg. Working Capital / Sales	11.1 %	11.9 %	13.5 %	15.0 %	14.7 %	14.4 %	14.3 %
Trade Debtors / Trade Creditors	254.8 %	257.7 %	322.0 %	326.4 %	317.5 %	304.2 %	294.3 %
Inventory Turnover	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Receivables collection period (days)	81	88	87	85	85	85	85
Payables payment period (days)	66	80	65	62	64	68	70
Cash conversion cycle (Days)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

CAPEX and Cash Flow

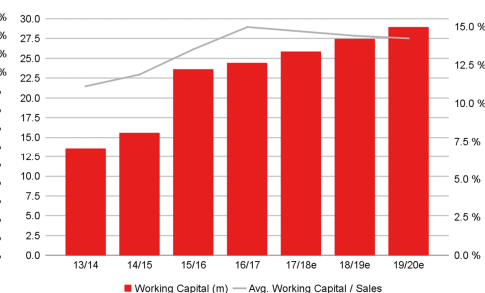
in EUR m



Free Cash Flow Generation



Working Capital



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

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This report has been made accessible to the company analysed.

Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
KPS	5	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE000A1A6V48.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	111	54
Hold	90	44
Sell	4	2
Rating suspended	0	0
Total	205	100

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING ...

... taking into account only those companies which were provided with major investment services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	32	68
Hold	15	32
Sell	0	0
Rating suspended	0	0
Total	47	100

PRICE AND RATING HISTORY KPS AS OF 20.08.2018



Markings in the chart show rating changes by Warburg Research GmbH in the last 12 months. Every marking details the date and closing price on the day of the rating change.

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