

|   |   |   |   |
|---|---|---|---|
| <b>Buy</b> (Hold)<br><b>EUR 620.00</b> (EUR 515.00)<br><br>Price EUR 507.00<br><b>Upside 22.3 %</b> | <b>Value Indicators:</b> EUR<br>DCF: 620.66<br>FCF-Value Potential 19e: 365.61  | <b>Share data:</b><br>Bloomberg: RAA GR<br>Reuters: RAAG<br>ISIN: DE0007010803  | <b>Description:</b><br>Global supplier of thermal food preparation equipment for professional kitchens. |
|   | <b>Market Snapshot:</b> EUR m<br>Market cap: 5,765<br>No. of shares (m): 11<br>EV: 5,501<br>Freefloat MC: 1,677<br>Ø Trad. Vol. (30d): 2.06 m | <b>Shareholders:</b><br>Freefloat 29.1 %<br>Siegfried Meister family 63.1 %<br>Walter Kurtz 7.8 %<br>AGI 3.0 %<br>Royce 2.1 % | <b>Risk Profile (WRe):</b> 2018e<br>Beta: 0.9<br>Price / Book: 11.9 x<br>Equity Ratio: 78 %             |

## Shift towards one-brand strategy to unlock stronger growth; Upgrade to Buy

Rational is set to announce a major shift towards a “one-brand” strategy, the trade press has reported. Frima’s VarioCookingCenter (c. 8% of group sales in FY 2017) is to be distributed under the better-known Rational brand.

We very much welcome this decision as we expect it will accelerate the market penetration of the VarioCookingCenter and drive sales growth at Frima (WRe: +25% in 2019 & 2020). Additionally, it should unlock cost savings within the group by improving a slightly inefficient organizational structure with its double-layer of operating costs. We anticipate the consolidation of separate marketing and controlling activities will boost the Frima EBIT margin of the segment from 17% currently, to 20% by 2020. Our revised estimates and our updated DCF valuation result in a new PT of EUR 620, implying 20% upside potential. We thus upgrade the stock to Buy.

**Frima’s VarioCookingCenter to take on the Rational badge:** Closer cooperation between Rational and Frima should facilitate stronger growth at Frima. Firstly, Rational is one of the best-known names in the professional kitchen equipment business and use of the Rational brand should clearly raise awareness for the VarioCookingCenter. Secondly, Frima may avail of the existing sales infrastructure of Rational, particularly when moving into new markets. Finally, closer cooperation should allow Rational to consolidate separate marketing and controlling activities at Frima which should save costs. We now estimate sales growth at Frima to rise to 25% in 2019 and 2020, clearly exceeding the division’s historical long-term sales CAGR of 18%, while the EBIT margin should expand from 17% to 20% by 2020. Our estimates do not include Frima’s potential market entry to the US and China, which may be in the offing.

**Tailwind from upsurge in global growth:** As Rational has historically proved to be very sensitive to global economic activity, the current synchronized upsurge in global growth is likely to benefit the group. Consequently, annual sales growth of more than 10% in the coming years looks clearly attainable. This is reflected in our 2019 and 2020 top-line estimates while our 2018 top-line growth estimate already considers an adverse FX impact from the weakening USD compared to the EUR (12% of group sales in USD).

**Most attractive entry point in three years:** Based on our 2019 estimates, the shares are currently trading on a FY 2019 P/E ratio of 31x, clearly below the company’s own historical 3-year average FY +2 P/E multiple of 34x. Hence, the current valuation represents the most attractive entry point in the last three years. We upgrade the stock to Buy with a new PT of EUR 620.

| Changes in Estimates:   |             |        |             |       |             |       | Comment on Changes:   |  |
|-------------------------|-------------|--------|-------------|-------|-------------|-------|---|--|
| FY End: 31.12. in EUR m | 2018e (old) | + / -  | 2019e (old) | + / - | 2020e (old) | + / - |   |  |
| Sales                   | 755         | 2.1 %  | 828         | 4.0 % | n.a.        | n.m.  | <ul style="list-style-type: none"> <li>We have revised our FY 2018 estimates to reflect current FX rates.</li> <li>Our updated estimates for FY 2019 and FY 2020 reflect our expectation of stronger top-line growth as well as margin expansion at Frima.</li> </ul> |  |
| EBIT                    | 212         | -1.5 % | 233         | 3.8 % | n.a.        | n.m.  |   |  |
| EPS                     | 14.17       | -1.3 % | 15.62       | 4.1 % | n.a.        | n.m.  |   |  |

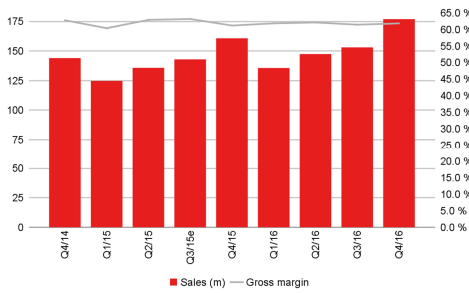


| Rel. Performance vs SDAX: |        |
|---------------------------|--------|
| 1 month:                  | -6.1 % |
| 6 months:                 | -9.8 % |
| Year to date:             | -5.2 % |
| Trailing 12 months:       | 0.2 %  |

| Company events: |         |
|-----------------|---------|
| 15.03.18        | FY 2017 |
| 03.05.18        | Q1      |
| 09.05.18        | AGM     |
| 09.08.18        | Q2      |

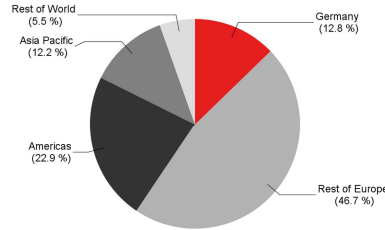
| FY End: 31.12. in EUR m | CAGR (17-20e)  | 2014   | 2015   | 2016   | 2017   | 2018e  | 2019e  | 2020e  |
|-------------------------|--|--------|--------|--------|--------|--------|--------|--------|
| Sales                   | 11.2 %   | 497    | 564    | 613    | 702    | 771    | 861    | 965    |
| Change Sales yoy        |  | 7.7 %  | 13.6 % | 8.6 %  | 14.5 % | 9.8 %  | 11.7 % | 12.0 % |
| Gross profit margin     |  | 61.2 % | 61.9 % | 61.8 % | 61.0 % | 61.2 % | 62.3 % | 62.4 % |
| EBITDA                  | 12.7 %   | 154    | 169    | 176    | 199    | 221    | 256    | 286    |
| Margin                  |  | 30.9 % | 29.9 % | 28.8 % | 28.4 % | 28.7 % | 29.7 % | 29.6 % |
| EBIT                    | 13.2 %   | 145    | 160    | 167    | 188    | 208    | 242    | 272    |
| Margin                  |  | 29.2 % | 28.4 % | 27.2 % | 26.8 % | 27.0 % | 28.1 % | 28.2 % |
| Net income              | 13.2 %   | 110    | 122    | 127    | 143    | 159    | 185    | 208    |
| EPS                     | 13.2 %   | 9.68   | 10.71  | 11.18  | 12.60  | 13.99  | 16.26  | 18.29  |
| DPS                     | 13.2 %   | 6.80   | 7.50   | 10.00  | 8.80   | 9.80   | 11.20  | 12.75  |
| Dividend Yield          |  | 2.8 %  | 2.2 %  | 2.3 %  | 1.8 %  | 1.9 %  | 2.2 %  | 2.5 %  |
| FCFPS                   |  | 8.41   | 10.86  | 9.23   | 8.37   | 11.92  | 14.23  | 15.82  |
| FCF / Market cap        |  | 3.5 %  | 3.2 %  | 2.1 %  | 1.7 %  | 2.4 %  | 2.8 %  | 3.1 %  |
| EV / Sales              |  | 5.1 x  | 6.5 x  | 7.6 x  | 7.7 x  | 7.1 x  | 6.3 x  | 5.6 x  |
| EV / EBITDA             |  | 16.6 x | 21.8 x | 26.5 x | 27.2 x | 24.9 x | 21.3 x | 18.9 x |
| EV / EBIT               |  | 17.5 x | 23.0 x | 28.1 x | 28.9 x | 26.4 x | 22.5 x | 19.8 x |
| P / E                   |  | 24.9 x | 32.2 x | 38.7 x | 39.5 x | 36.2 x | 31.2 x | 27.7 x |
| FCF Potential Yield     |  | 4.4 %  | 3.4 %  | 2.8 %  | 2.9 %  | 3.2 %  | 3.7 %  | 3.9 %  |
| Net Debt                |  | -192   | -236   | -247   | -229   | -264   | -314   | -367   |
| ROCE                    |  | 44.8 % | 43.8 % | 40.9 % | 42.4 % | 42.8 % | 43.8 % | 40.6 % |
| Guidance:               | 2017: Sales growth of 11-13% and EBIT margin of 26-27% |        |        |        |        |        |        |        |

**Sales and Gross Margin**  
in EUR m, %



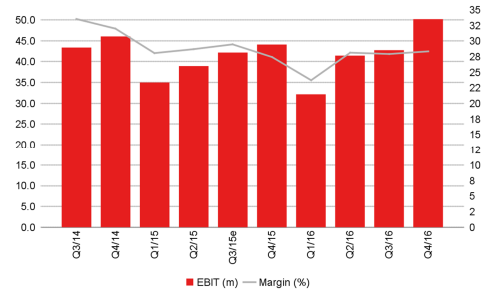
Source: Warburg Research

**Sales by regions**  
2017; in %



Source: Warburg Research

**EBIT and EBIT margin**  
in EUR m, %



Source: Warburg Research

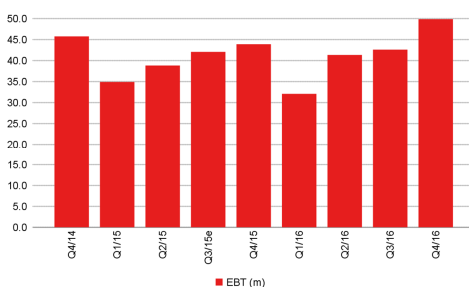
## Company Background

- Global leader in equipment for thermal food preparation for professional kitchens with a 54% market share.
- Europe excluding Germany accounts for roughly half of group sales, including Portugal, Ireland, Greece, Spain which account for c. 3pp and Italy for c. 4pp.
- Foreign currency sales account for about 43% group sales, mainly USD, Yen and GBP. Rational benefits from a weakening Euro through positive translation and transaction effects.
- Organic sales growth is driven by a low penetration of the target market for combi ovens for professional kitchens.
- Rational claims to have created this market in 1976 with the introduction of the first combi oven and since then has developed the market further.

## Competitive Quality

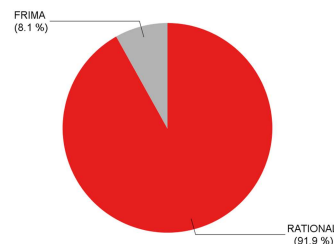
- Customers, professional kitchens serving at least 20 meals per day, benefit from short amortisation periods of less than six months on average driven by cost savings on staff, raw materials, energy.
- Rational is by far the biggest supplier in the market and is five times larger than the no. 2 (Competitors: Lainox, Electrolux and Convothem).
- This supplies significant competitive advantages with benefits of scale in production, distribution, service and R&D.

**EBT development**  
in EUR m



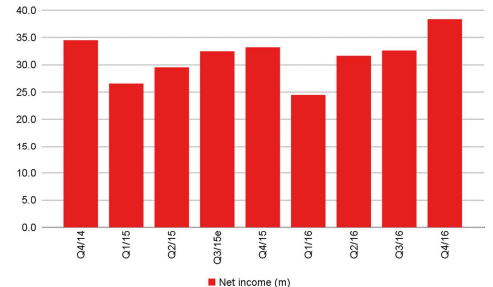
Source: Warburg Research

**Sales by segments**  
2017; in %



Source: Warburg Research

**Net income development**  
in EUR m



Source: Warburg Research

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|  |           |
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## Summary of Investment Case

### Investment triggers

- Rational is set to announce a new one-brand strategy and is planning to distribute all products under the Rational brand, as reported by the trade press. We believe that this could drive sales numbers for Frima's VarioCookingCenter in existing as well as in new markets beyond Europe and accelerate market penetration of the technology.
- We also believe that it is only a question of time before Rational considers selling the VarioCookingCenter in its largest non-European sales markets, China and the US, which would represent an additional boost for sales figures. That, however, is currently not reflected in our estimates and would therefore represent potential upside.
- Finally, we expect the group to realize cost savings thanks to closer cooperation between Rational and Frima. The group currently has a rather inefficient organizational structure owing to a double layer of OPEX costs within the group, particularly with respect to marketing and general administration. We estimate that easily implemented cost savings should boost the EBIT margin at Frima from c. 17% currently to 20% by FY 2020.

### Valuation

- Our updated DCF valuation points to a new PT of EUR 620, implying 20% upside potential.
- In terms of relative valuation, trading multiples for the shares have come down significantly and the shares now trade on a FY 2019 P/E ratio of 31x, below the company's own historical 3-year average FY +2 P/E ratio of 34x and significantly below the average FY +2 P/E multiple of 35.5x in FY 2017.

### Growth

- As a result of closer cooperation between Rational and Frima, we expect sales momentum for Frima to accelerate. Thus, we estimate annual sales growth to rise to 25% in FY 2019 and 2020, respectively. That is significantly higher than Frima's sales CAGR of 18% between 2011 and 2017. Consequently, we now expect Frima to exceed the EUR 100m sales mark by 2020.
- More importantly, Frima has recently expanded its production capacity in Wittenheim (France) and therefore has sufficient capacity to ramp up annual production volumes to c. 9,000 units (WRe: c. 5,000 in FY 2017) by FY 2020, in our view.
- Finally, the Rational group has proved to be very sensitive to global economic activity and we therefore expect the "broadest synchronised global growth upsurge since 2010" (according to the IMF) to provide a tailwind for Rational's sales figures. We have therefore upgraded our sales estimates for the group and now estimate sales growth of 12% in FY 2019 and 2020, clearly ahead of the group's long-term sales CAGR of 9%.

### Competitive quality

- Rational is by far the largest supplier in the combi-steamer technology. The company estimates that it holds a market share of more than 50% worldwide thanks to its stringent focus on the combi-steamer technology.
- In addition, Rational benefits from very high brand awareness in professional kitchens and high customer loyalty.
- In terms of its financials, Rational boasts unparalleled key figures such as an average EBIT margin of 26-28%, an equity ratio of more than 70% and net liquidity of c. EUR 230m.

### Warburg versus consensus

- With respect to the current fiscal year our estimates are broadly in line with consensus expectations.
- However, for FY 2019 and 2020 our sales and EBIT estimates stand 1% and 3% above street expectations respectively.

Company Overview

RATIONAL

FRIMA

Segments



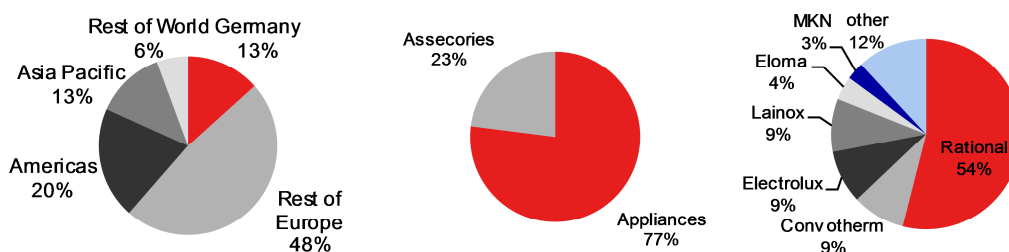
RATIONAL focuses on cooking processes in which heat is transferred via a combination of steam and hot air.

FRIMA focuses on cooking applications in which food is cooked in liquid or with direct contact heat.

|            |       |       |
|------------|-------|-------|
| Sales 2016 | 570.0 | 47.1  |
| % of total | 92%   | 8%    |
| EBIT 2016  | 158.8 | 7.6   |
| margin     | 27.9% | 16.1% |
| % of total | 95%   | 5%    |

|                   |   |
|-------------------|---|
| Standard guidance | High single-digit sales growth; EBIT margin in a range of 26-28%  |
| Market positions  | Global market leader with around 54% market share in professional kitchen equipment for thermal food preparation                                    |
| Currency exposure | c. 43% of sales in non-Euro currency. 12% of total sales in USD, 10% in GBP and 21% in other currencies.  |
| Customers         | c. 50% institutional customers, c. 31% restaurants/hotels, c. 5% super markets /trade gastronomy, c. 7% fast-food, system gastronomy, c. 7% caterer |
| Competitors       | Convotherm (Manitowoc), Electrolux (Zanussi), Lainox (ALI Group), Eloma (AI Group), MKN   |

Sales split by region, product line & market share (FY 2016)



Source: Warburg Research

## New one-brand strategy

- Rational is set to announce a shift towards a one-brand strategy, representing a significant departure from its previous marketing strategy.
- We expect that distribution of the VarioCookingCenter under the Rational brand should raise awareness for the technology and facilitate faster market penetration.
- Customer experience is set to improve significantly since Frima sales staff should be able to use Rational's existing service infrastructure.
- We expect the current global upsurge in economic activity to benefit Rational as the company has historically reacted very sensitively to global growth.

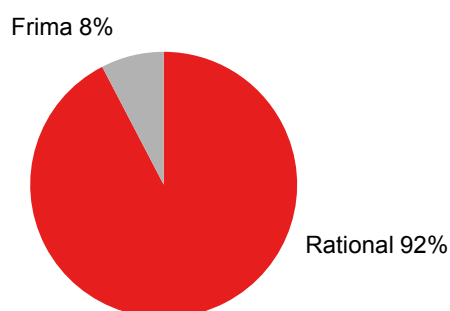
### Market penetration of the VCC to gain momentum

## Frima takes on the Rational badge

### Move to accelerate market penetration

From FY 2018 onwards Frima's VarioCookingCenter, a complementary product to the best-selling SelfCookingCenter, is set to be increasingly distributed and marketed under the Rational brand, according to information in the trade press. In a first step, Rational has decided to market the VarioCookingCenter in new markets under the Rational brand. This decision has been taken following a very successful test phase in 2017, when the product was introduced to new markets such as Spain and the UK under the Rational branding. We very much welcome this decision since the Frima brand is widely unknown in markets beyond France and Germany and a combined market presence is likely to accelerate the market penetration of the VarioCookingCenter technology, in our view. Moreover, this strategic decision would enable Frima to take advantage of the existing Rational infrastructure in these markets.

### Frima sales contribution in FY 2016



Source: Warburg Research

Rational is set to distribute the VarioCookingCenter under the Rational brand and capitalize on the existing Rational infrastructure in the following European markets:

- Spain
- UK
- Scandinavia
- Italy
- as well as in its previous core markets Austria and Russia

### One local point of contact for both segments

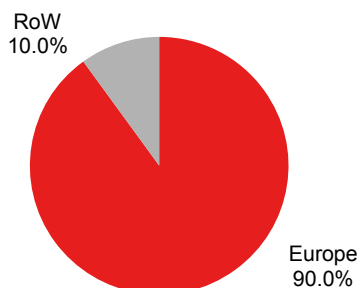
We expect the decision to integrate Frima into the Rational organization to improve customer experience. For instance, the move should provide existing customers with more comprehensive after-sales services. Frima's sales staff should benefit from access to local Rational support activities such as technical service and customer service. In addition, customers and local partners in the various markets will have local points of contact for both product lines of the Rational group. We deem these measures as important steps to drive penetration of the VarioCookingCenter in existing as well as in new markets.

### Expansion of footprint beyond Europe

More importantly, market entry of the VarioCookingCenter technology into new non-European markets will be exclusively marketed under the Rational brand. Rational has already started to sell the VarioCookingCenter with the Rational badge in Australia, Japan, Chile and South Korea.

This is an important development since the VCC can still be regarded as heavily skewed toward European markets. We therefore estimate that more than 90% of Frima's sales in FY 2017 stem from Europe. Hence, a global uniform roll-out of the VCC in all non-European markets could prove to be an important source of sales growth for the Rational group.

#### Frima estimated sales split by regions (WRe)



Source: Warburg Research

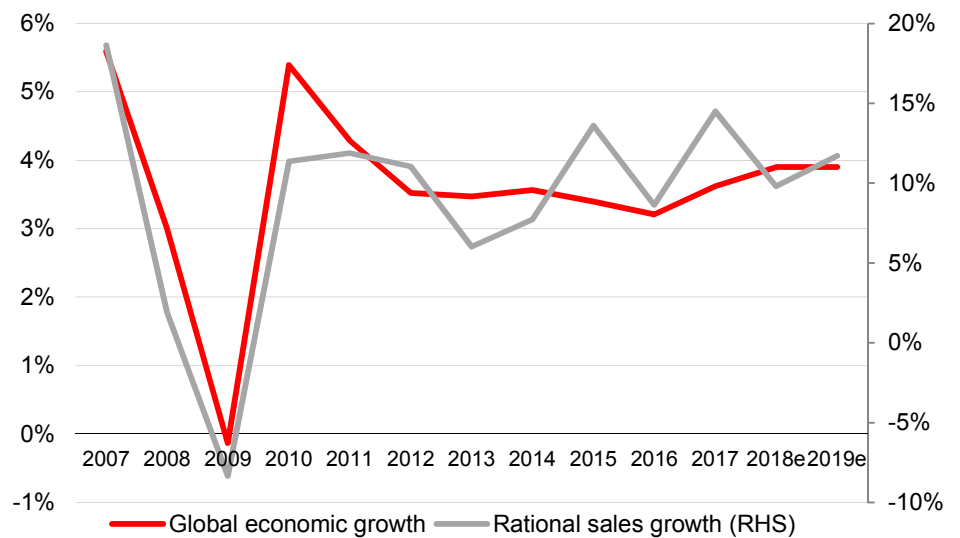
Finally, Rational is currently in the process of combining marketing, controlling as well general administration activities of the Frima production line with the corresponding activities of the remaining group in Landsberg am Lech, potentially resulting in cost savings. We discuss potential synergy effects in the Financials section of this note.

### Global growth upsurge to provide tailwind

In addition to company-specific factors such as management’s decision to distribute the VCC under the renowned Rational brand, we also expect the company to benefit from stronger than initially expected global growth. In January 2018, estimates for global GDP growth had to be revised upwards. The International Monetary Fund (IMF) indicated in January that we are currently experiencing the “broadest synchronised global growth upsurge since 2010”. Consequently, the IMF upgraded its forecasts for global economic growth from 3.7% to 3.9% for FY 2018 and 2019. Economists at M.M.Warburg share this upbeat view and anticipate global growth of 4.0% in the current year.

Our analysis of historic global economic data has reinforced our view that Rational, as a global market leader in its industry, is very much dependent on favourable development in the level of economic activity. Looking at the historic time line, we have derived a correlation coefficient of 0.91 between global GDP growth and sales growth at Rational, indicating a strong positive linear relationship between the two variables (and a coefficient of determination of 0.83).

**Rational group sales vs global GDP growth (IMF)**



Source: IMF, Warburg Research



## Growth / Financials

- Annual sales growth at Frima is set to accelerate from a sales CAGR of 18% between 2011 and 2017 to 25% in FY 2019 and FY 2020, in our view.
- We have also identified marketing and controlling activities at Frima, which are likely to be merged with the corresponding activities at Rational. This is likely to result in an OPEX reduction at Frima, with easily implemented cost savings.
- EBIT margins at the Frima division should therefore increase from 17% currently to 20% by FY 2020, according to our estimates.

Annual sales growth at Frima to accelerate to 25%

### Frima to gain momentum

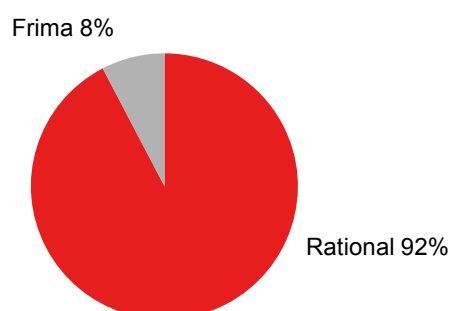
#### Sales CAGR of 18% set to be surpassed in the coming years

Frima, the often overlooked subsidiary of Rational, has been rather slow in gaining traction in the last years. Some critics claim that this can be attributed to the strict separation of the operations between the two production lines. Frima's operations, which are based in Wittenheim (France), are largely autonomously managed. The division has its own marketing and controlling departments, resulting in a double-layer of opex within the Rational group.

Essentially, however, the company has been unable to benefit from the existing Rational infrastructure when entering new markets or expanding beyond core markets such as France and Germany. Hence, the market penetration of the VarioCookingCenter (VCC), which was introduced back in 2005, has been rather slow. According to our information, the Frima division had sold a total of 25,000 units of the VCC by the end of FY 2016. We acknowledge that market penetration of a new technology can take a substantial amount of time and, in this case, is exacerbated by space constraints in professional kitchens, which can also be slow to adopt new technology. Nonetheless, we do believe that the commercial success of the VCC has potentially been unnecessarily hampered by Frima's solo approach to new market entry.

In FY 2016, Frima generated sales of EUR 47m, implying a contribution to group sales of around 8%. According to Rational's preliminary FY 2017 release in January, total sales in the division continued to increase at a rate of 22% in FY 2017.

#### Frima sales contribution in FY 2016

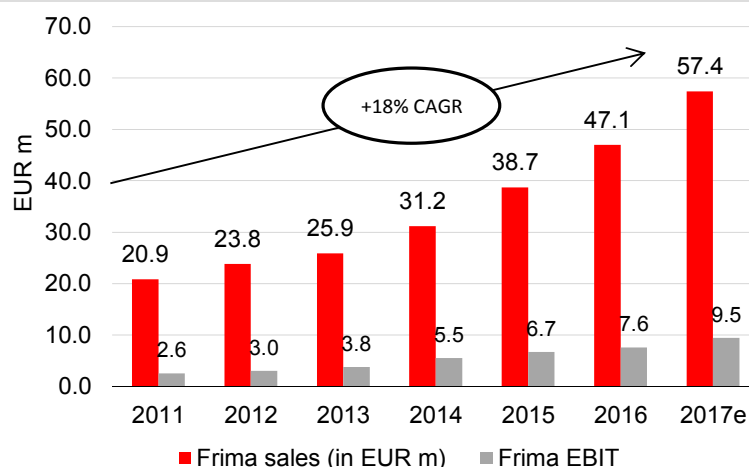


Source: Warburg Research

Hence, growth at the division was stronger than its long-term sales CAGR of 18%. This

can be attributed, among other things, to the company's decision to use the Rational brand to distribute the VCC in new countries such as Spain and the UK.

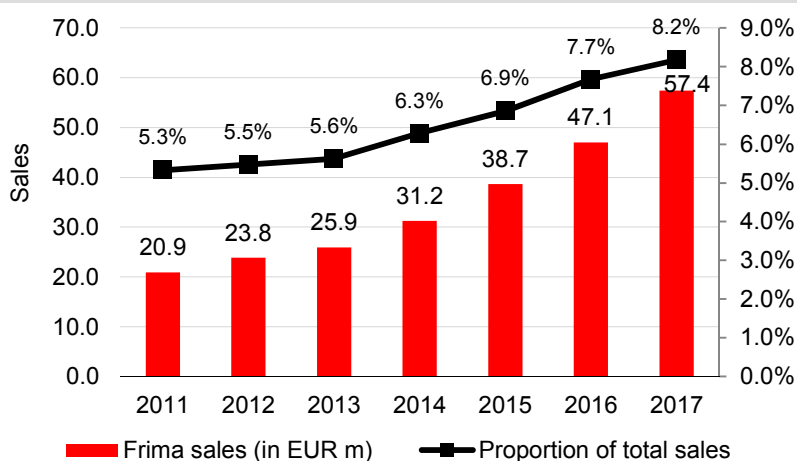
**Decent sales growth CAGR of 18% p.a. at Frima**



Source: Warburg Research

We therefore believe that the shift towards a one-brand strategy should support the market penetration of the VCC in existing European markets and result in stronger annual sales growth. We illustrate our detailed forecast for the Frima division in a table further below.

**Frima to become more important to Rational**



Source: Warburg Research

**Unlocking synergy potential and cost savings**

As a result of closer cooperation between the Rational and Frima production lines, we expect the group to identify potential cost savings, particularly with respect to corporate areas such as controlling and marketing.

The table below illustrates our expectations for the Frima division in the coming years. We expect cost savings to be made in sales and marketing as well as in general administration. As a result, we expect EBIT margins of the segment to improve from

around 17% (based on external sales) in FY 2017 to 20% by FY 2020. We believe that the elimination of the double-layer of operating costs, which represent low-hanging fruit in our view, could result in cumulative costs savings of EUR 5m until FY 2020.

At the same time, top-line growth should accelerate from 22% to around 25% as the segment enters new selected markets outside of Europe while market penetration in European markets should intensify thanks to the new organizational set-up.

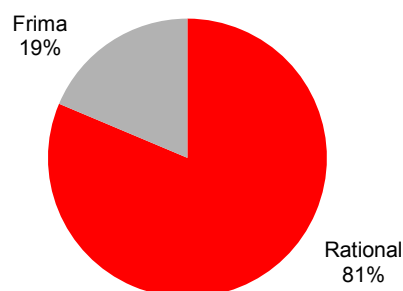
It is, however, important to note that our estimates do not yet consider market entry to the US or China. If Frima enters those markets, this would represent additional upside potential to our estimates as these markets are clearly among the largest sales markets for Rational's SelfCookingCenter and unit sales figures for Frima's VarioCookingCenter could receive a corresponding boost from entry to these markets.

**Warburg Research Frima P&L forecast**
**Frima P&L forecast**

|                                   | 2013          | 2014          | 2015          | 2016          | 2017e         | 2018e         | 2019e         | 2020e          |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| VCC units sold (WRe)              | 2,350         | 2,900         | 3,306         | 4,000         | 4,880         | 6,003         | 7,503         | 9,379          |
| ASP in EUR                        | 11,035        | 10,762        | 11,120        | 11,225        | 11,317        | 11,317        | 11,317        | 11,317         |
| <b>External sales (EURm)</b>      | <b>25.933</b> | <b>31.209</b> | <b>36.762</b> | <b>44.904</b> | <b>55.232</b> | <b>67.935</b> | <b>84.919</b> | <b>106.149</b> |
|                                   |               | 20.3%         | 17.8%         | 22.1%         | 23.0%         | 23.0%         | 25.0%         | 25.0%          |
| Total sales                       | 28.269        | 33.32         | 38.694        | 47.052        | 57.332        | 70.035        | 87.019        | 108.249        |
| Cost of sales                     | 13.171        | 14.906        | 17.369        | 21.817        | 26.677        | 32.609        | 40.761        | 50.951         |
| <b>Gross profit (EURm)</b>        | <b>12.8</b>   | <b>16.3</b>   | <b>19.4</b>   | <b>23.1</b>   | <b>28.6</b>   | <b>35.3</b>   | <b>44.2</b>   | <b>55.2</b>    |
| <i>Gross margin (%)</i>           | <i>49%</i>    | <i>52%</i>    | <i>53%</i>    | <i>51%</i>    | <i>52%</i>    | <i>52.0%</i>  | <i>52.0%</i>  | <i>52.0%</i>   |
| <b>Research and development</b>   | <b>1.167</b>  | <b>1.404</b>  | <b>1.654</b>  | <b>2.021</b>  | <b>2.485</b>  | <b>3.057</b>  | <b>3.821</b>  | <b>4.777</b>   |
| as of sales (%)                   | 4.5%          | 4.5%          | 4.5%          | 4.5%          | 4.5%          | 4.5%          | 4.5%          | 4.5%           |
| <b>Sales and marketing</b>        | <b>6.613</b>  | <b>7.958</b>  | <b>9.374</b>  | <b>11.451</b> | <b>14.084</b> | <b>16.984</b> | <b>20.381</b> | <b>25.210</b>  |
| as of sales (%)                   | 25.5%         | 25.5%         | 25.5%         | 25.5%         | 25.5%         | 25.0%         | 24.0%         | 23.8%          |
| <b>General and administration</b> | <b>1.167</b>  | <b>1.404</b>  | <b>1.654</b>  | <b>2.021</b>  | <b>2.485</b>  | <b>2.717</b>  | <b>3.397</b>  | <b>3.981</b>   |
| as of sales (%)                   | 4.5%          | 4.5%          | 4.5%          | 4.5%          | 4.5%          | 4.0%          | 4.0%          | 3.8%           |
| <b>Other operating income</b>     | <b>0.519</b>  | <b>0.624</b>  | <b>0.735</b>  | <b>0.898</b>  | <b>1.105</b>  | <b>1.359</b>  | <b>1.698</b>  | <b>2.123</b>   |
| as of sales (%)                   | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%           |
| <b>Other operating expenses</b>   | <b>0.52</b>   | <b>0.62</b>   | <b>0.74</b>   | <b>0.90</b>   | <b>1.10</b>   | <b>1.36</b>   | <b>1.70</b>   | <b>2.12</b>    |
| as of sales (%)                   | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%           |
| EBITDA                            |               | 5.903         | 7.085         | 8.077         | 10.0          | 13.193        | 17.339        | 22.230         |
|                                   |               | 18.9%         | 19.3%         | 18.0%         | 18.1%         | 19.4%         | 20.4%         | 20.9%          |
| <b>EBIT (EURm)</b>                | <b>3.82</b>   | <b>5.54</b>   | <b>6.71</b>   | <b>7.60</b>   | <b>9.50</b>   | <b>12.57</b>  | <b>16.56</b>  | <b>21.23</b>   |
| <i>Margin %</i>                   | <i>14.7%</i>  | <i>17.7%</i>  | <i>18.3%</i>  | <i>16.9%</i>  | <i>17.2%</i>  | <i>18.5%</i>  | <i>19.5%</i>  | <i>20.0%</i>   |

Source: Warburg Research

Assuming Frima grows at 22-25% p.a., the segment's sales contribution to the group is likely to more than double to c. 19% by FY 2025, underlining our view that Rational's investment case is set to receive a boost from a growing VarioCookingCenter business in the coming years.

**Forecast segment split in FY 2025 (WRe)**


Source: Warburg Research

**Consensus estimates fail to reflect development at Frima**

As a result of our upbeat view on Frima's development and the general macroeconomic environment, we have revised our top-line and profitability estimates. Consequently we now stand slightly above street expectations for 2019 and 2020.

Our revised estimates point to top-line growth of 12% in both 2019 and 2020. Consequently, our sales estimate is 1% higher than current market expectations for both years. However, in terms of profitability, our EBIT estimates for 2019 and 2020 stand some 3% above market expectations. That, in turn, translates into higher net income and EPS estimates for the corresponding fiscal years than currently anticipated by the market.

**Consensus overview**

| as of 20.02.2018       | 2018e        | 2019e        | 2020e        |
|------------------------|--------------|--------------|--------------|
| <b>Sales</b>           | <b>765.9</b> | <b>848.9</b> | <b>956.0</b> |
| eWR                    | 770.7        | 861.1        | 964.7        |
| delta %                | 1%           | 1%           | 1%           |
| sales growth eCons     | 9%           | 11%          | 13%          |
| sales growth eWR       | 10%          | 12%          | 12%          |
| <b>EBIT</b>            | <b>209.7</b> | <b>235.4</b> | <b>263.5</b> |
| eWR                    | 208.5        | 242.2        | 272.5        |
| delta %                | -1%          | 3%           | 3%           |
| <b>net profit</b>      | <b>160.1</b> | <b>180.2</b> | <b>201.5</b> |
| Delta eWR              | 159.0        | 184.8        | 208.0        |
| delta %                | -1%          | 3%           | 3%           |
| <b>EPS</b>             | <b>14.00</b> | <b>15.70</b> | <b>17.7</b>  |
| eWR                    | 13.99        | 16.26        | 18.29        |
| delta %                | 0%           | 4%           | 3%           |
| <b>DPS</b>             | <b>11.10</b> | <b>12.03</b> | <b>13.04</b> |
| eWR                    | 9.80         | 11.20        | 12.75        |
| delta %                | -12%         | -7%          | -2%          |
| payout ratio consensus | 79%          | 77%          | 74%          |
| payout ratio eWR       | 70%          | 69%          | 70%          |

Source: Warburg Research

## Valuation

- Revised DCF valuation points to a new PT of EUR 620, implying 20% upside.
- In terms of relative valuation, the shares currently trade on a FY 2019 P/E ratio of 31x, implying a current valuation below the company's own historical average 3-year multiple of 34x.
- Recent pullback in share price represents attractive entry point, in our view.

**FY 2019 P/E ratio of 31x stands below historical average multiples**

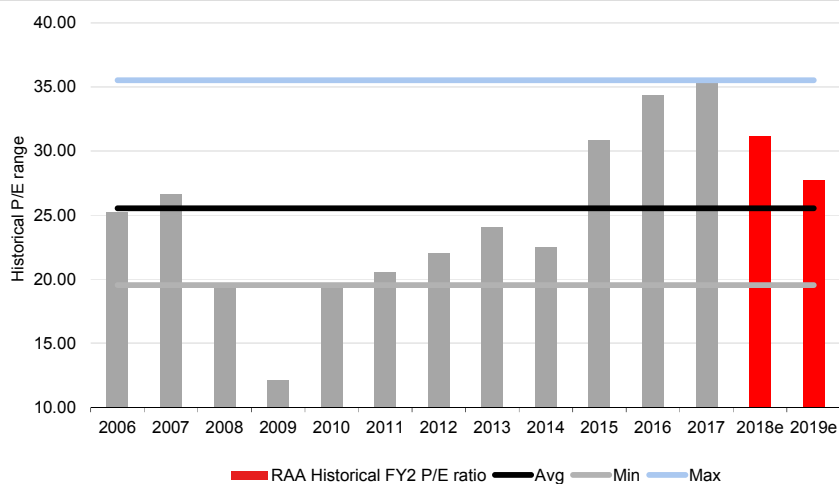
## Relative valuation

### Lower valuation multiples indicate attractive entry point

Although we value Rational based on absolute valuation, by way of DCF, we have conducted a relative valuation as a sanity check for our price target.

Rational's full-cycle historical average FY +2 P/E ratio between FY 2006 and 2017 stands at a multiple of 26x (excluding the outlier in 2009), indicating that the shares have never been available on the cheap. Nonetheless, when considering our FY 2019 estimates, the shares now trade on a FY 2019 P/E multiple of about 31x, clearly below its own 3-year average FY +2 P/E multiple of 34x and some 13% below its FY 2017 average FY +2 P/E ratio of 35.5x.

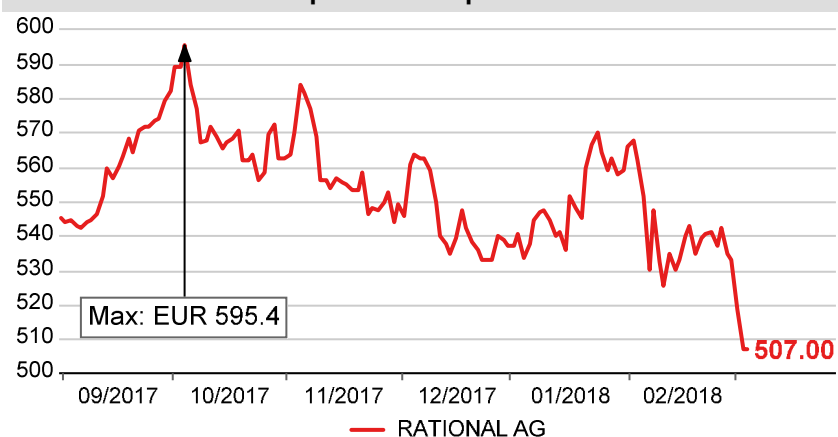
### Historical FY +2 P/E ratios vs WRe forward P/E ratios



Source: FactSet, Warburg Research

### Recent pullback in share price has created an attractive entry point

The relatively inexpensive entry point can be attributed to a recent pullback in the share price in January and February, in line with the development of the general stock market. As a result, the shares are now trading on the lowest multiples in the last three years.

**Rational 6-month share price development**


Source: FactSet Prices

Source: FactSet, Warburg Research

**DCF valuation**

Our updated price target of EUR 620 is based on absolute valuation, by way of DCF. Our new, higher price target can be attributed to the upward revision of our near-term FY 2019 and 2020 estimates but also our assumptions for the transitional period as well as for the terminal value.

- We now estimate peak sales growth of 12% in 2021 and 2022, upped from previously 9% p.a.
- In order to derive our terminal value, we now estimate an EBIT margin of 20.5%, compared to 20% previously.

All other assumptions remain unchanged. We continue to assume

- A sustainable growth rate of 2% in perpetuity.
- In terms of profitability, we continue to assume a peak EBIT margin of 28%.
- Weighted average cost of capital (WACC) of 5.68%, implying a risk-free rate of 1.5%, a market premium of 5.5% and a beta of 0.90.

In this context, however, it is important to note that our DCF valuation can still be regarded as rather conservative. For instance, we model a significant drop in the EBIT margin during the transitional period from 28% in FY 2021 to 22% by FY 2030. We regard such a development in the margin as rather unlikely.

DCF model

| Figures in EUR m            | Detailed forecast period |        |        | Transitional period |        |        |        |        |        |        |        |        |        | Term. Value |
|-----------------------------|--------------------------|--------|--------|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|
|                             | 2018e                    | 2019e  | 2020e  | 2021e               | 2022e  | 2023e  | 2024e  | 2025e  | 2026e  | 2027e  | 2028e  | 2029e  | 2030e  |             |
| Sales                       | 771                      | 861    | 965    | 1,081               | 1,210  | 1,319  | 1,438  | 1,553  | 1,677  | 1,811  | 1,938  | 2,054  | 2,178  | 2.0 %       |
| Sales change                | 9.8 %                    | 11.7 % | 12.0 % | 12.0 %              | 12.0 % | 9.0 %  | 9.0 %  | 8.0 %  | 8.0 %  | 8.0 %  | 7.0 %  | 6.0 %  | 6.0 %  |             |
| EBIT                        | 208                      | 242    | 272    | 303                 | 339    | 369    | 403    | 404    | 402    | 435    | 465    | 493    | 479    |             |
| EBIT-margin                 | 27.0 %                   | 28.1 % | 28.2 % | 28.0 %              | 28.0 % | 28.0 % | 28.0 % | 26.0 % | 24.0 % | 24.0 % | 24.0 % | 24.0 % | 22.0 % |             |
| Tax rate (EBT)              | 23.5 %                   | 23.5 % | 23.5 % | 23.5 %              | 23.5 % | 23.5 % | 23.5 % | 23.5 % | 23.5 % | 24.0 % | 24.0 % | 25.0 % | 25.0 % |             |
| NOPAT                       | 159                      | 185    | 208    | 231                 | 259    | 283    | 308    | 309    | 308    | 330    | 353    | 370    | 359    |             |
| Depreciation                | 13                       | 14     | 13     | 15                  | 17     | 18     | 20     | 28     | 34     | 36     | 39     | 41     | 44     |             |
| in % of Sales               | 1.6 %                    | 1.6 %  | 1.4 %  | 1.4 %               | 1.4 %  | 1.4 %  | 1.4 %  | 1.8 %  | 2.0 %  | 2.0 %  | 2.0 %  | 2.0 %  | 2.0 %  |             |
| Changes in provisions       | 0                        | 0      | 0      | 0                   | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |             |
| Change in Liquidity from    |                          |        |        |                     |        |        |        |        |        |        |        |        |        |             |
| - Working Capital           | 13                       | 17     | 20     | 22                  | 24     | 21     | 22     | 22     | 23     | 25     | 24     | 22     | 23     |             |
| - Capex                     | 23                       | 20     | 22     | 25                  | 18     | 20     | 26     | 28     | 34     | 36     | 39     | 41     | 44     |             |
| Capex in % of Sales         | 3.0 %                    | 2.3 %  | 2.3 %  | 2.3 %               | 1.5 %  | 1.5 %  | 1.8 %  | 1.8 %  | 2.0 %  | 2.0 %  | 2.0 %  | 2.0 %  | 2.0 %  |             |
| Other                       | 0                        | 0      | 0      | 0                   | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |             |
| Free Cash Flow (WACC Model) | 136                      | 162    | 180    | 200                 | 234    | 261    | 280    | 288    | 285    | 306    | 330    | 348    | 337    | 333         |
| PV of FCF                   | 131                      | 147    | 155    | 163                 | 180    | 191    | 194    | 188    | 177    | 179    | 183    | 183    | 168    | 4,589       |
| share of PVs                | 6.34 %                   |        |        | 26.45 %             |        |        |        |        |        |        |        |        |        | 67.21 %     |

Model parameter

|                          |               |                     |             |
|--------------------------|---------------|---------------------|-------------|
| Derivation of WACC:      |               | Derivation of Beta: |             |
| Debt ratio               | 20.00 %       | Financial Strength  | 0.80        |
| Cost of debt (after tax) | 2.3 %         | Liquidity (share)   | 1.00        |
| Market return            | 7.00 %        | Cyclicality         | 0.80        |
| Risk free rate           | 1.50 %        | Transparency        | 0.90        |
|                          |               | Others              | 1.00        |
| <b>WACC</b>              | <b>5.62 %</b> | <b>Beta</b>         | <b>0.90</b> |

Valuation (m)

|                            |              |                              |               |
|----------------------------|--------------|------------------------------|---------------|
| Present values 2030e       | 2,239        |                              |               |
| Terminal Value             | 4,589        |                              |               |
| Financial liabilities      | 28           |                              |               |
| Pension liabilities        | 3            |                              |               |
| Hybrid capital             | 0            |                              |               |
| Minority interest          | 0            |                              |               |
| Market val. of investments | 0            |                              |               |
| Liquidity                  | 260          | No. of shares (m)            | 11.4          |
| <b>Equity Value</b>        | <b>7,057</b> | <b>Value per share (EUR)</b> | <b>620.66</b> |

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 |
| 1.13 | 6.6 % | 445.85          | 457.63 | 470.62 | 485.02        | 501.07 | 519.06  | 539.38  | 1.13 | 6.6 % | 452.27            | 463.19  | 474.11  | 485.02        | 495.94  | 506.85  | 517.77  |
| 1.01 | 6.1 % | 493.14          | 508.43 | 525.47 | 544.57        | 566.15 | 590.70  | 618.90  | 1.01 | 6.1 % | 507.42            | 519.81  | 532.19  | 544.57        | 556.95  | 569.34  | 581.72  |
| 0.96 | 5.9 % | 520.67          | 538.23 | 557.91 | 580.15        | 605.45 | 634.51  | 668.23  | 0.96 | 5.9 % | 540.36            | 553.63  | 566.89  | 580.15        | 593.41  | 606.67  | 619.93  |
| 0.90 | 5.6 % | 551.38          | 571.67 | 594.58 | <b>620.66</b> | 650.61 | 685.36  | 726.17  | 0.90 | 5.6 % | 577.87            | 592.14  | 606.40  | <b>620.66</b> | 634.92  | 649.19  | 663.45  |
| 0.84 | 5.4 % | 585.85          | 609.46 | 636.34 | 667.21        | 703.03 | 745.09  | 795.18  | 0.84 | 5.4 % | 620.97            | 636.38  | 651.80  | 667.21        | 682.63  | 698.04  | 713.46  |
| 0.79 | 5.1 % | 624.81          | 652.51 | 684.33 | 721.25        | 764.60 | 816.23  | 878.76  | 0.79 | 5.1 % | 670.99            | 687.74  | 704.50  | 721.25        | 738.00  | 754.76  | 771.51  |
| 0.67 | 4.6 % | 720.20          | 759.43 | 805.50 | 860.37        | 926.82 | 1008.94 | 1113.03 | 0.67 | 4.6 % | 799.75            | 819.96  | 840.16  | 860.37        | 880.58  | 900.78  | 920.99  |

- Sales growth driven by a low penetration of combi oven technology in professional kitchens
- Peak EBIT margins expected at 28% in the foreseeable future, driven by sales growth and operating leverage
- Working capital requirements are expected to remain at high levels owing to the internationalisation of the business

**Free Cash Flow Value Potential**

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

| in EUR m                                      | 2014          | 2015          | 2016          | 2017          | 2018e         | 2019e         | 2020e         |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Income before minorities                  | 110           | 122           | 127           | 143           | 159           | 185           | 208           |               |
| + Depreciation + Amortisation                 | 8             | 9             | 10            | 12            | 13            | 14            | 13            |               |
| - Net Interest Income                         | -1            | -1            | -1            | -1            | -1            | -1            | -1            |               |
| - Maintenance Capex                           | 7             | 7             | 7             | 8             | 8             | 9             | 9             |               |
| + Other                                       | 0             | 0             | 0             | 10            | 10            | 10            | 0             |               |
| <b>= Free Cash Flow Potential</b>             | <b>112</b>    | <b>124</b>    | <b>130</b>    | <b>158</b>    | <b>174</b>    | <b>201</b>    | <b>213</b>    |               |
| FCF Potential Yield (on market EV)            | 4.4 %         | 3.4 %         | 2.8 %         | 2.9 %         | 3.2 %         | 3.7 %         | 3.9 %         |               |
| WACC  | 5.62 %        | 5.62 %        | 5.62 %        | 5.62 %        | 5.62 %        | 5.62 %        | 5.62 %        |               |
| <b>= Enterprise Value (EV)</b>                | <b>2,548</b>  | <b>3,684</b>  | <b>4,677</b>  | <b>5,426</b>  | <b>5,501</b>  | <b>5,450</b>  | <b>5,398</b>  |               |
| <b>= Fair Enterprise Value</b>                | <b>1,997</b>  | <b>2,207</b>  | <b>2,318</b>  | <b>2,806</b>  | <b>3,097</b>  | <b>3,571</b>  | <b>3,790</b>  |               |
| - Net Debt (Cash)                             | -232          | -232          | -232          | -232          | -267          | -318          | -370          |               |
| - Pension Liabilities                         | 3             | 3             | 3             | 3             | 3             | 3             | 3             |               |
| - Other                                       | 0             | 0             | 0             | 0             | 0             | 0             | 0             |               |
| - Market value of minorities                  | 0             | 0             | 0             | 0             | 0             | 0             | 0             |               |
| + Market value of investments                 | 0             | 0             | 0             | 0             | 0             | 0             | 0             |               |
| <b>= Fair Market Capitalisation</b>           | <b>2,226</b>  | <b>2,436</b>  | <b>2,546</b>  | <b>3,035</b>  | <b>3,361</b>  | <b>3,886</b>  | <b>4,157</b>  |               |
| Aktienanzahl (Mio.)                           | 11            | 11            | 11            | 11            | 11            | 11            | 11            |               |
| <b>= Fair value per share (EUR)</b>           | <b>195.78</b> | <b>214.20</b> | <b>223.95</b> | <b>266.90</b> | <b>295.63</b> | <b>341.77</b> | <b>365.61</b> |               |
| premium (-) / discount (+) in %               |               |               |               |               | -41.7 %       | -32.6 %       | -27.9 %       |               |
| <b>Sensitivity Fair value per Share (EUR)</b> |               |               |               |               |               |               |               |               |
|   | 8.62 %        | 134.63        | 146.64        | 153.00        | 181.00        | 200.82        | 232.43        | 249.58        |
|   | 7.62 %        | 149.66        | 163.25        | 170.44        | 202.12        | 224.12        | 259.31        | 278.11        |
|   | 6.62 %        | 169.24        | 184.88        | 193.16        | 229.62        | 254.48        | 294.31        | 315.25        |
| WACC  | <b>5.62 %</b> | <b>195.78</b> | <b>214.20</b> | <b>223.95</b> | <b>266.90</b> | <b>295.63</b> | <b>341.77</b> | <b>365.61</b> |
|   | 4.62 %        | 233.81        | 256.23        | 268.09        | 320.33        | 354.61        | 409.77        | 437.78        |
|   | 3.62 %        | 292.86        | 321.47        | 336.61        | 403.29        | 446.18        | 515.36        | 549.83        |
|   | 2.62 %        | 397.00        | 436.54        | 457.46        | 549.60        | 607.67        | 701.58        | 747.44        |

- RATIONAL's market share of 54% globally in a niche supplies competitive strengths.
- The below average beta reflects RATIONAL's strong track record, competitive strengths and strong balance sheet.



| <b>Valuation</b>                    |        |        |        |        |        |        |        |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|
|                                     | 2014   | 2015   | 2016   | 2017   | 2018e  | 2019e  | 2020e  |
| Price / Book                        | 8.8 x  | 11.0 x | 12.4 x | 13.3 x | 11.9 x | 10.3 x | 9.0 x  |
| Book value per share ex intangibles | 27.13  | 30.84  | 34.14  | 36.41  | 41.21  | 47.23  | 53.66  |
| EV / Sales                          | 5.1 x  | 6.5 x  | 7.6 x  | 7.7 x  | 7.1 x  | 6.3 x  | 5.6 x  |
| EV / EBITDA                         | 16.6 x | 21.8 x | 26.5 x | 27.2 x | 24.9 x | 21.3 x | 18.9 x |
| EV / EBIT                           | 17.5 x | 23.0 x | 28.1 x | 28.9 x | 26.4 x | 22.5 x | 19.8 x |
| EV / EBIT adj.*                     | 17.5 x | 23.0 x | 28.1 x | 28.9 x | 26.4 x | 22.5 x | 19.8 x |
| P / FCF                             | 28.6 x | 31.7 x | 46.9 x | 59.4 x | 42.5 x | 35.6 x | 32.0 x |
| P / E                               | 24.9 x | 32.2 x | 38.7 x | 39.5 x | 36.2 x | 31.2 x | 27.7 x |
| P / E adj.*                         | 24.9 x | 32.2 x | 38.7 x | 39.5 x | 36.2 x | 31.2 x | 27.7 x |
| Dividend Yield                      | 2.8 %  | 2.2 %  | 2.3 %  | 1.8 %  | 1.9 %  | 2.2 %  | 2.5 %  |
| FCF Potential Yield (on market EV)  | 4.4 %  | 3.4 %  | 2.8 %  | 2.9 %  | 3.2 %  | 3.7 %  | 3.9 %  |

\*Adjustments made for: -

| <b>Company Specific Items</b> |        |        |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|
|                               | 2014   | 2015   | 2016   | 2017   | 2018e  | 2019e  | 2020e  |
| ROCE                          | 44.8 % | 43.8 % | 40.9 % | 42.4 % | 42.8 % | 43.8 % | 40.6 % |

**Consolidated profit and loss**

| In EUR m   | 2014          | 2015          | 2016          | 2017          | 2018e         | 2019e         | 2020e         |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Sales</b>                                     | <b>497</b>    | <b>564</b>    | <b>613</b>    | <b>702</b>    | <b>771</b>    | <b>861</b>    | <b>965</b>    |
| Change Sales yoy                                 | 7.7 %         | 13.6 %        | 8.6 %         | 14.5 %        | 9.8 %         | 11.7 %        | 12.0 %        |
| COGS   | 193           | 215           | 234           | 274           | 299           | 324           | 362           |
| <b>Gross profit</b>                              | <b>304</b>    | <b>349</b>    | <b>379</b>    | <b>428</b>    | <b>472</b>    | <b>537</b>    | <b>602</b>    |
| <i>Gross margin</i>                              | <i>61.2 %</i> | <i>61.9 %</i> | <i>61.8 %</i> | <i>61.0 %</i> | <i>61.2 %</i> | <i>62.3 %</i> | <i>62.4 %</i> |
| Research and development                         | 19            | 24            | 29            | 31            | 34            | 38            | 42            |
| Sales and marketing                              | 122           | 140           | 156           | 179           | 197           | 220           | 246           |
| Administration expenses                          | 23            | 25            | 26            | 30            | 33            | 37            | 41            |
| Other operating expenses                         | 7             | 13            | 14            | 14            | 15            | 17            | 19            |
| Other operating income                           | 12            | 13            | 12            | 14            | 15            | 17            | 19            |
| Unfrequent items                                 | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| <b>EBITDA</b>                                    | <b>154</b>    | <b>169</b>    | <b>176</b>    | <b>199</b>    | <b>221</b>    | <b>256</b>    | <b>286</b>    |
| <i>Margin</i>                                    | <i>30.9 %</i> | <i>29.9 %</i> | <i>28.8 %</i> | <i>28.4 %</i> | <i>28.7 %</i> | <i>29.7 %</i> | <i>29.6 %</i> |
| Depreciation of fixed assets                     | 7             | 8             | 8             | 10            | 11            | 12            | 13            |
| <b>EBITA</b>                                     | <b>146</b>    | <b>161</b>    | <b>168</b>    | <b>190</b>    | <b>210</b>    | <b>244</b>    | <b>272</b>    |
| Amortisation of intangible assets                | 1             | 1             | 2             | 2             | 2             | 2             | 0             |
| Goodwill amortisation                            | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| <b>EBIT</b>                                      | <b>145</b>    | <b>160</b>    | <b>167</b>    | <b>188</b>    | <b>208</b>    | <b>242</b>    | <b>272</b>    |
| <i>Margin</i>                                    | <i>29.2 %</i> | <i>28.4 %</i> | <i>27.2 %</i> | <i>26.8 %</i> | <i>27.0 %</i> | <i>28.1 %</i> | <i>28.2 %</i> |
| <b>EBIT adj.</b>                                 | <b>145</b>    | <b>160</b>    | <b>167</b>    | <b>188</b>    | <b>208</b>    | <b>242</b>    | <b>272</b>    |
| Interest income                                  | 1             | 1             | 0             | 0             | 0             | 0             | 0             |
| Interest expenses                                | 1             | 1             | 1             | 1             | 1             | 1             | 1             |
| Other financial income (loss)                    | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| <b>EBT</b>                                       | <b>145</b>    | <b>160</b>    | <b>166</b>    | <b>187</b>    | <b>208</b>    | <b>242</b>    | <b>272</b>    |
| <i>Margin</i>                                    | <i>29.1 %</i> | <i>28.3 %</i> | <i>27.1 %</i> | <i>26.7 %</i> | <i>27.0 %</i> | <i>28.1 %</i> | <i>28.2 %</i> |
| Total taxes                                      | 35            | 38            | 39            | 44            | 49            | 57            | 64            |
| <b>Net income from continuing operations</b>     | <b>110</b>    | <b>122</b>    | <b>127</b>    | <b>143</b>    | <b>159</b>    | <b>185</b>    | <b>208</b>    |
| Income from discontinued operations (net of tax) | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| <b>Net income before minorities</b>              | <b>110</b>    | <b>122</b>    | <b>127</b>    | <b>143</b>    | <b>159</b>    | <b>185</b>    | <b>208</b>    |
| Minority interest                                | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| <b>Net income</b>                                | <b>110</b>    | <b>122</b>    | <b>127</b>    | <b>143</b>    | <b>159</b>    | <b>185</b>    | <b>208</b>    |
| <i>Margin</i>                                    | <i>22.2 %</i> | <i>21.6 %</i> | <i>20.7 %</i> | <i>20.4 %</i> | <i>20.6 %</i> | <i>21.5 %</i> | <i>21.6 %</i> |
| Number of shares, average                        | 11            | 11            | 11            | 11            | 11            | 11            | 11            |
| <b>EPS</b>                                       | <b>9.68</b>   | <b>10.71</b>  | <b>11.18</b>  | <b>12.60</b>  | <b>13.99</b>  | <b>16.26</b>  | <b>18.29</b>  |
| EPS adj.   | 9.68          | 10.71         | 11.18         | 12.60         | 13.99         | 16.26         | 18.29         |

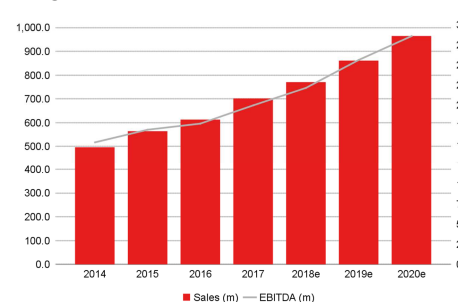
\*Adjustments made for:

**Guidance: 2017: Sales growth of 11-13% and EBIT margin of 26-27%**

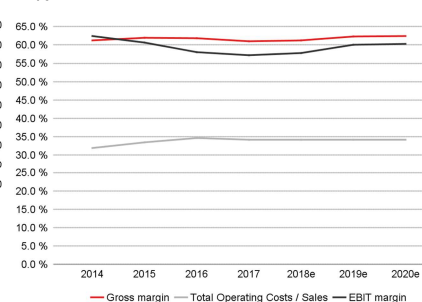
**Financial Ratios**

|                               | 2014    | 2015    | 2016    | 2017    | 2018e   | 2019e   | 2020e   |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Total Operating Costs / Sales | 32.0 %  | 33.5 %  | 34.6 %  | 34.2 %  | 34.2 %  | 34.2 %  | 34.2 %  |
| Operating Leverage            | 1.7 x   | 0.8 x   | 0.5 x   | 0.9 x   | 1.1 x   | 1.4 x   | 1.0 x   |
| EBITDA / Interest expenses    | 127.2 x | 143.1 x | 169.5 x | 199.5 x | 221.1 x | 256.0 x | 285.9 x |
| Tax rate (EBT)                | 23.9 %  | 23.7 %  | 23.4 %  | 23.5 %  | 23.5 %  | 23.5 %  | 23.5 %  |
| Dividend Payout Ratio         | 70.2 %  | 70.0 %  | 89.5 %  | 69.9 %  | 70.1 %  | 68.9 %  | 69.7 %  |
| Sales per Employee            | 363,329 | 377,862 | 392,976 | 408,695 | 425,043 | 442,045 | 459,727 |

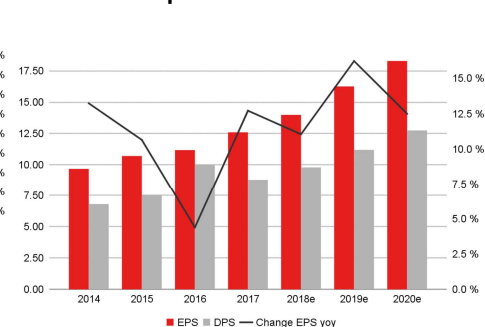
**Sales, EBITDA**  
in EUR m



**Operating Performance**  
in %



**Performance per Share**



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

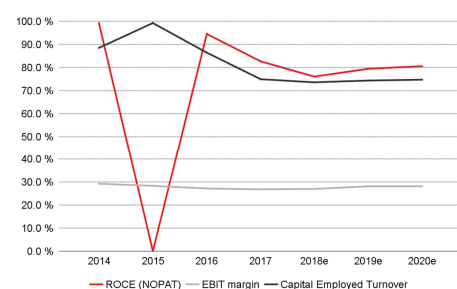
**Consolidated balance sheet**

| In EUR m  | 2014       | 2015       | 2016       | 2017       | 2018e      | 2019e      | 2020e      |
|---|------------|------------|------------|------------|------------|------------|------------|
| <b>Assets</b>   |            |            |            |            |            |            |            |
| Goodwill and other intangible assets                    | 2          | 5          | 9          | 12         | 17         | 22         | 29         |
| thereof other intangible assets                         | 1          | 4          | 8          | 11         | 16         | 21         | 28         |
| thereof Goodwill  | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Property, plant and equipment                           | 67         | 74         | 85         | 112        | 118        | 119        | 120        |
| Financial assets  | 0          | 0          | 8          | 8          | 8          | 8          | 8          |
| Other long-term assets                                  | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| <b>Fixed assets</b>                                     | <b>69</b>  | <b>79</b>  | <b>102</b> | <b>132</b> | <b>143</b> | <b>149</b> | <b>157</b> |
| Inventories   | 30         | 31         | 39         | 38         | 42         | 47         | 52         |
| Accounts receivable                                     | 83         | 90         | 100        | 112        | 123        | 137        | 153        |
| Liquid assets   | 225        | 267        | 278        | 260        | 295        | 345        | 398        |
| Other short-term assets                                 | 16         | 16         | 20         | 20         | 20         | 20         | 20         |
| <b>Current assets</b>                                   | <b>354</b> | <b>404</b> | <b>438</b> | <b>430</b> | <b>480</b> | <b>549</b> | <b>624</b> |
| <b>Total Assets</b>                                     | <b>423</b> | <b>483</b> | <b>540</b> | <b>562</b> | <b>623</b> | <b>698</b> | <b>781</b> |
| <b>Liabilities and shareholders' equity</b>             |            |            |            |            |            |            |            |
| Subscribed capital                                      | 11         | 11         | 11         | 11         | 11         | 11         | 11         |
| Capital reserve   | 28         | 28         | 28         | 28         | 28         | 28         | 28         |
| Retained earnings                                       | 274        | 318        | 360        | 390        | 449        | 522        | 603        |
| Other equity components                                 | -3         | -2         | -3         | -3         | -3         | -3         | -3         |
| Shareholders' equity                                    | 311        | 356        | 397        | 426        | 485        | 559        | 639        |
| Minority interest                                       | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| <b>Total equity</b>                                     | <b>311</b> | <b>356</b> | <b>397</b> | <b>426</b> | <b>485</b> | <b>559</b> | <b>639</b> |
| Provisions  | 36         | 46         | 51         | 51         | 51         | 51         | 51         |
| thereof provisions for pensions and similar obligations | 1          | 3          | 3          | 3          | 3          | 3          | 3          |
| Financial liabilities (total)                           | 33         | 28         | 28         | 28         | 28         | 28         | 28         |
| thereof short-term financial liabilities                | 6          | 7          | 7          | 7          | 7          | 7          | 7          |
| Accounts payable  | 12         | 15         | 25         | 18         | 19         | 22         | 24         |
| Other liabilities                                       | 32         | 37         | 39         | 39         | 39         | 39         | 39         |
| <b>Liabilities</b>                                      | <b>113</b> | <b>127</b> | <b>143</b> | <b>135</b> | <b>137</b> | <b>139</b> | <b>142</b> |
| <b>Total liabilities and shareholders' equity</b>       | <b>423</b> | <b>483</b> | <b>540</b> | <b>562</b> | <b>623</b> | <b>698</b> | <b>781</b> |

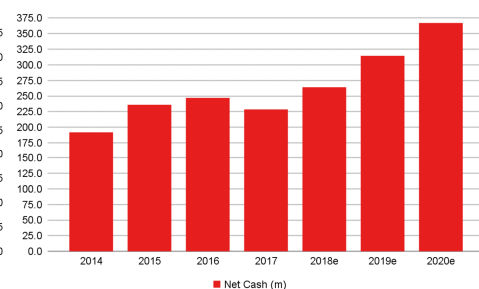
**Financial Ratios**

|   | 2014    | 2015    | 2016    | 2017    | 2018e   | 2019e   | 2020e   |
|---|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency of Capital Employment</b> |         |         |         |         |         |         |         |
| Operating Assets Turnover               | 3.0 x   | 3.1 x   | 3.1 x   | 2.9 x   | 2.9 x   | 3.1 x   | 3.2 x   |
| Capital Employed Turnover               | 4.2 x   | 4.7 x   | 4.1 x   | 3.5 x   | 3.5 x   | 3.5 x   | 3.5 x   |
| ROA                                     | 159.6 % | 153.9 % | 124.8 % | 108.3 % | 111.5 % | 124.2 % | 132.1 % |
| <b>Return on Capital</b>                |         |         |         |         |         |         |         |
| ROCE (NOPAT)                            | 99.3 %  | n.a.    | 94.5 %  | 82.6 %  | 76.1 %  | 79.5 %  | 80.6 %  |
| ROE                                     | 38.0 %  | 36.5 %  | 33.8 %  | 34.8 %  | 34.9 %  | 35.4 %  | 34.7 %  |
| Adj. ROE                                | 38.0 %  | 36.5 %  | 33.8 %  | 34.8 %  | 34.9 %  | 35.4 %  | 34.7 %  |
| <b>Balance sheet quality</b>            |         |         |         |         |         |         |         |
| Net Debt                                | -192    | -236    | -247    | -229    | -264    | -314    | -367    |
| Net Financial Debt                      | -193    | -239    | -250    | -232    | -267    | -318    | -370    |
| Net Gearing                             | -61.8 % | -66.3 % | -62.3 % | -53.6 % | -54.4 % | -56.3 % | -57.4 % |
| Net Fin. Debt / EBITDA                  | n.a.    | n.a.    | n.a.    | n.a.    | n.a.    | n.a.    | n.a.    |
| Book Value / Share                      | 27.3    | 31.3    | 34.9    | 37.5    | 42.7    | 49.1    | 56.2    |
| Book value per share ex intangibles     | 27.1    | 30.8    | 34.1    | 36.4    | 41.2    | 47.2    | 53.7    |

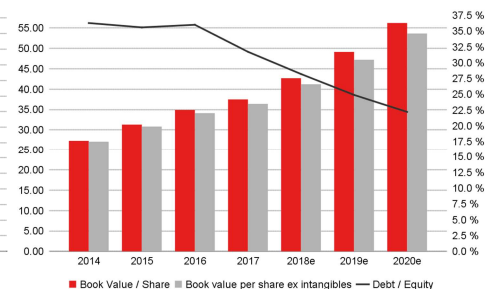
**ROCE Development**



**Net cash in EUR m**



**Book Value per Share in EUR**



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

**Consolidated cash flow statement**

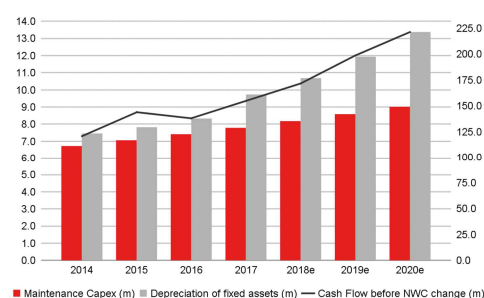
| In EUR m   | 2014       | 2015       | 2016       | 2017        | 2018e       | 2019e       | 2020e       |
|--|------------|------------|------------|-------------|-------------|-------------|-------------|
| Net income   | 110        | 122        | 127        | 143         | 159         | 185         | 208         |
| Depreciation of fixed assets                           | 7          | 8          | 8          | 10          | 11          | 12          | 13          |
| Amortisation of goodwill                               | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| Amortisation of intangible assets                      | 1          | 1          | 2          | 2           | 2           | 2           | 0           |
| Increase/decrease in long-term provisions              | 0          | 2          | 1          | 0           | 0           | 0           | 0           |
| Other non-cash income and expenses                     | 3          | 12         | 0          | 0           | 0           | 0           | 0           |
| <b>Cash Flow before NWC change</b>                     | <b>121</b> | <b>144</b> | <b>138</b> | <b>155</b>  | <b>172</b>  | <b>199</b>  | <b>221</b>  |
| Increase / decrease in inventory                       | -3         | -1         | -8         | 1           | -4          | -5          | -6          |
| Increase / decrease in accounts receivable             | -8         | -7         | -11        | -11         | -11         | -14         | -17         |
| Increase / decrease in accounts payable                | 3          | 6          | 10         | -8          | 2           | 2           | 3           |
| Increase / decrease in other working capital positions | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| Increase / decrease in working capital (total)         | -8         | -1         | -9         | -18         | -13         | -17         | -20         |
| <b>Net cash provided by operating activities [1]</b>   | <b>112</b> | <b>143</b> | <b>129</b> | <b>137</b>  | <b>159</b>  | <b>182</b>  | <b>202</b>  |
| Investments in intangible assets                       | -1         | -4         | -5         | -6          | -6          | -7          | -8          |
| Investments in property, plant and equipment           | -15        | -15        | -20        | -36         | -17         | -13         | -14         |
| Payments for acquisitions                              | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| Financial investments                                  | 22         | -9         | 72         | 0           | 0           | 0           | 0           |
| Income from asset disposals                            | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| <b>Net cash provided by investing activities [2]</b>   | <b>-39</b> | <b>-11</b> | <b>-97</b> | <b>-42</b>  | <b>-23</b>  | <b>-20</b>  | <b>-22</b>  |
| Change in financial liabilities                        | -2         | -4         | -1         | 0           | 0           | 0           | 0           |
| Dividends paid   | -68        | -77        | -85        | -114        | -100        | -111        | -127        |
| Purchase of own shares                                 | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| Capital measures                                       | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| Other  | -1         | -1         | -1         | 0           | 0           | 0           | 0           |
| <b>Net cash provided by financing activities [3]</b>   | <b>-71</b> | <b>-83</b> | <b>-87</b> | <b>-114</b> | <b>-100</b> | <b>-111</b> | <b>-127</b> |
| <b>Change in liquid funds [1]+[2]+[3]</b>              | <b>3</b>   | <b>50</b>  | <b>-54</b> | <b>-19</b>  | <b>35</b>   | <b>50</b>   | <b>53</b>   |
| Effects of exchange-rate changes on cash               | 0          | 0          | 0          | 0           | 0           | 0           | 0           |
| <b>Cash and cash equivalent at end of period</b>       | <b>106</b> | <b>156</b> | <b>102</b> | <b>84</b>   | <b>119</b>  | <b>170</b>  | <b>222</b>  |

**Financial Ratios**

|                                      | 2014    | 2015    | 2016    | 2017    | 2018e   | 2019e   | 2020e   |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| <b>Cash Flow</b>                     |         |         |         |         |         |         |         |
| FCF                                  | 96      | 124     | 105     | 95      | 136     | 162     | 180     |
| Free Cash Flow / Sales               | 19.3 %  | 21.9 %  | 17.1 %  | 13.6 %  | 17.6 %  | 18.8 %  | 18.6 %  |
| Free Cash Flow Potential             | 112     | 124     | 130     | 158     | 174     | 201     | 213     |
| Free Cash Flow / Net Profit          | 86.9 %  | 101.4 % | 82.5 %  | 66.4 %  | 85.2 %  | 87.5 %  | 86.5 %  |
| Interest Received / Avg. Cash        | 0.3 %   | 0.3 %   | 0.1 %   | 0.1 %   | 0.1 %   | 0.1 %   | 0.1 %   |
| Interest Paid / Avg. Debt            | 3.6 %   | 3.9 %   | 3.7 %   | 3.6 %   | 3.6 %   | 3.6 %   | 3.6 %   |
| <b>Management of Funds</b>           |         |         |         |         |         |         |         |
| Investment ratio                     | 3.4 %   | 3.4 %   | 4.0 %   | 6.0 %   | 3.0 %   | 2.3 %   | 2.3 %   |
| Maint. Capex / Sales                 | 1.4 %   | 1.3 %   | 1.2 %   | 1.1 %   | 1.1 %   | 1.0 %   | 0.9 %   |
| Capex / Dep                          | 202.6 % | 221.7 % | 248.4 % | 360.9 % | 182.7 % | 144.5 % | 164.5 % |
| Avg. Working Capital / Sales         | 19.3 %  | 18.3 %  | 18.0 %  | 17.6 %  | 18.0 %  | 17.8 %  | 17.8 %  |
| Trade Debtors / Trade Creditors      | 668.4 % | 610.4 % | 400.7 % | 637.1 % | 638.0 % | 636.3 % | 636.1 % |
| Inventory Turnover                   | 6.4 x   | 6.9 x   | 6.0 x   | 7.2 x   | 7.1 x   | 6.9 x   | 6.9 x   |
| Receivables collection period (days) | 61      | 58      | 60      | 58      | 58      | 58      | 58      |
| Payables payment period (days)       | 23      | 25      | 39      | 23      | 23      | 24      | 24      |
| Cash conversion cycle (Days)         | 43      | 36      | 32      | 35      | 36      | 37      | 37      |

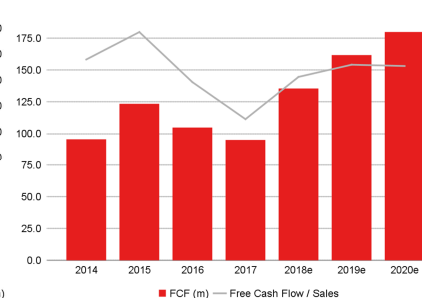
**CAPEX and Cash Flow**

in EUR m



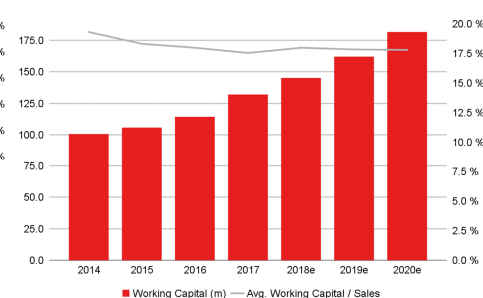
**Free Cash Flow Generation**

in EUR m



**Working Capital**

in EUR m



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

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| Company  | Disclosure | Link to the historical price targets and rating changes (last 12 months)  |
|----------|------------|---|
| Rational | –          | <a href="http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0007010803.htm">http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0007010803.htm</a> |

**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- | <b>Buy:</b>              | The price of the analysed financial instrument is expected to rise over the next 12 months.               |
| -H- | <b>Hold:</b>             | The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months. |
| -S- | <b>Sell:</b>             | The price of the analysed financial instrument is expected to fall over the next 12 months.               |
| “-“ | <b>Rating suspended:</b> | The available information currently does not permit an evaluation of the company.                         |

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

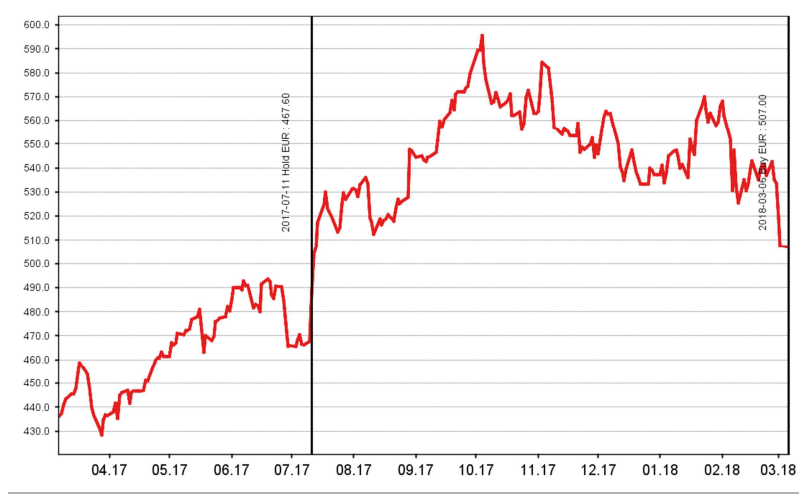
| Rating           | Number of stocks | % of Universe |
|------------------|------------------|---------------|
| Buy              | 111              | 54            |
| Hold             | 90               | 44            |
| Sell             | 5                | 2             |
| Rating suspended | 0                | 0             |
| <b>Total</b>     | <b>206</b>       | <b>100</b>    |

**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               | 78            |
| Hold             | 9                | 22            |
| Sell             | 0                | 0             |
| Rating suspended | 0                | 0             |
| <b>Total</b>     | <b>41</b>        | <b>100</b>    |

**PRICE AND RATING HISTORY RATIONAL AS OF 06.03.2018**



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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