

# ULTRASONIC AG

September 05, 2013



## Information Analysis

### Analysts

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### Evaluation result

**BUY**

(prev.: BUY)

### Fair value

**€ 20.84**

(prev.: € 21.52)

## Solid Growth, delayed Expansion

The half year results of Ultrasonic AG in fiscal year 2013 have substantiated our positive opinion about the Company. In all four product segments, sales volume as well as revenue posted positive growth rates. As both, gross profit and EBIT margin remained constant at around 31% and 28%, respectively, cash flow from operations increased to ca. € 28 mln. This has led to a very solid liquid position of ca. € 105 mln which is quite comfortable to finance the envisaged albeit delayed expansion plan.

The execution of the internet sales strategy proceeded as planned so that customers have been able to buy Ultrasonic branded products via four different e-commerce websites. Management expects that this sales channel is going to generate 2.5 - 3.5 € mln revenues in the remaining half year which have not been incorporated in the guidance yet. However, necessary investments into marketing measures will significantly reduce the result of 2H13. The Company expects that the EBT margin will temporarily decrease to 23 - 26% for the full year from 28% in 1H13. In the mid-term, the penetration of the strongly growing Chinese e-commerce market should lead to operative results which will over-compensate this short-term effect.

In contrast, sales of the new children shoe brand via supermarkets of the Chinese Walmart Group have not gotten under way yet. The delay is mainly caused by the suspension of the construction at the new factory. Because of bad weather conditions during summer, the Chinese local authorities were not able to complete the important access road to the factory so that the Company has decided to postpone the start of operation by several months. As the children shoe brand is going to be produced there, the delay of the construction directly affects the start of the sales activities. According to management, the supplier of Walmart will not declare any claims for compensation from failing to fulfill the existing agreement with ULTRASONIC.

**We have adjusted our DCF-model and have updated the peer-group analysis. We derive a fair value of € 20.84 per share and re-iterate our "Buy" rating.**

### Key data / Earnings

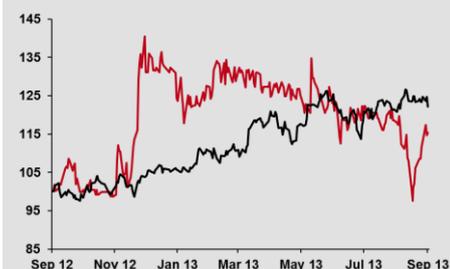
Year	Sales (€ mln)	EBITDA (€ mln)	EBIT (€ mln)	EBT (€ mln)	Net Profit (€ mln)	EPS* (€)	PDS** up to (€)	EBIT- Margin	Net- Margin
2012a	149.0	43.2	41.8	41.8	30.8	2.48	0.65	28.0%	20.7%
2013e	168.2	45.5	43.7	43.8	32.9	2.62	0.53	26.0%	19.5%
2014e	199.8	51.7	48.8	49.1	36.8	2.83	0.51	24.5%	18.4%
2015e	225.6	59.4	56.0	56.3	42.2	3.14	0.55	24.8%	18.7%
2016e	252.7	67.1	63.2	63.6	47.7	3.42	0.61	25.0%	18.9%

\*based on actual (2012) and forecasted number of shares outstanding (2013ff.)

\*\* Profit distribution / shr.

Source: BankM Research

Sector	Clothing and Footwear		
WKN	A1KREX		
ISIN	DE000A1KREX3		
Bloomberg/Reuters	US5 GY/US5G.DE		
Accounting standard	IFRS		
Financial year	Dec 31		
Financial reporting Q3 2013	November 28, 2013		
Market segment	Regulated Market		
Transparency standard	Prime Standard		
<b>Financial ratios</b>	<b>2013e</b>	<b>2014e</b>	<b>2015e</b>
EV/Sales	0.3	0.2	0.2
EV/EBITDA	0.9	0.8	0.7
EV/EBIT	1.0	0.9	0.8
P/E adj.	3.4	3.0	2.6
Price/Bookvalue	0.7	0.6	0.5
Price/FCF	4.9	6.4	4.4
ROE (in %)	23.3	20.8	19.7
Dividend yield (in %)	6.0	5.8	6.3
<b>Number of shares outs.</b> (in ths)	12,698		
<b>MarketCap / EV</b> (in € mln)	111.74 / 42.63		
<b>Free float</b> (in %)	12.4		
<b>Ø daily trading vol.</b> (3M, in €)	34,031		
<b>12M high/low</b> (in €; XETRA-close)	10.71 / 7.16		
<b>Price Sept 04, 2013</b> (in €; XETRA-close)	8.80		
<b>Performance</b>	<b>1M</b>	<b>6M</b>	<b>12M</b>
absolute (in %)	-2.7	-12.2	10.4
relative (in %)	1.4	-19.3	-8.9
<b>Benchmark index</b>	DAXSubsector Clothing and Footwear		



ULTRASONIC AG (red/grey), Performance since IPO vs. DAXsubsec. Clothing & Footwear (black)

Source: Bloomberg

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## Bonus Share and Buyback Program

On August 27<sup>th</sup>, ULTRASONIC has announced the implementation of its second bonus share program. In this round, 604,658 new bonus shares (+5% of total shares) were issued whereby each investor received one bonus share for 20 existing shares. The bonus shares can be sold back to the Company at a guaranteed price which has still to be determined. The CEO and controlling shareholder, Mr. Wu, has legally committed himself not to offer his shares. Bonus shares which are not sold back to the Company will be converted into ordinary ULTRASONIC shares, once the buyback period is over.

The bonus share program reflects the policy of the Company to satisfy - on the one hand - the demand of the investment community for a profit participation and to take into account - on the other hand - the anticipated cash outflows for planned investments. While we perceive this program as a positive signal sent into the capital market, the resulting dilution, which selling investors will experience, is a clear drawback. Indeed, shareholders who had opted for the quasi-dividend in the first round have experienced a slightly lower performance than those who have kept the bonus share, as the share price increased above the past share buyback price.

Another (potential) argument against the program is related to the capital increase in May 2013. On first sight it appears counterintuitive whether it is a good idea to start this program shortly after collecting funds from the capital market. However, we see the capital increase as a trial balloon to test the accessibility of and support from the German capital market.

## ULTRASONIC's Stock and Valuation

The performance of the stock since IPO slightly varies depending on the shareholder's decision whether having accepted the rebuy offer in the first round of the Company or not. At a price of € 8.80 (XETRA close September 04, 2013), the performance since IPO (issue price € 9.00) ranges between 9.8% (in case the investor sold all his bonus share) and 10.6% (in case the investor did not sell any bonus shares). The performance since beginning of the year amounts to -11.96%. Based on daily stock price returns since beginning of the year, the annualized volatility is at 36.90% with a mean daily trading volume of ca. 4,900 pieces.

With total liquid assets of € 105 mln and bank loans of ca. € 3.5 mln, the Company's current market capitalization equals a 1x net cash.

**We have adjusted our previous forecasts as published in our basic research update from June 18, 2013. We reiterate our "Buy" rating at a fair value of € 20.84 per share.**

# ULTRASONIC AG

September 05, 2013

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## Tables

### Profit & Loss Account

Fiscal Year 31.12 (IFRS) in T€	2012a	2013e	2014e	2015e	2016e	12a	13e	14e	15e	16e	4y - CAGR
						y-o-y changes in %					
<b>Total Sales</b>	<b>149,011</b>	<b>168,214</b>	<b>199,764</b>	<b>225,576</b>	<b>252,748</b>	<b>24.8</b>	<b>12.9</b>	<b>18.8</b>	<b>12.9</b>	<b>12.0</b>	<b>14.1</b>
Cost of sales	102,917	117,726	140,729	158,716	177,681	24.7	14.4	19.5	12.8	11.9	14.6
<b>Gross Profit</b>	<b>46,094</b>	<b>50,488</b>	<b>59,035</b>	<b>66,860</b>	<b>75,067</b>	<b>25.0</b>	<b>9.5</b>	<b>16.9</b>	<b>13.3</b>	<b>12.3</b>	<b>13.0</b>
<i>Gross Profit margin in %</i>	30.9	30.0	29.6	29.6	29.7						
Selling and distribution expenses	1,552	3,247	5,593	6,316	7,077	33.3	109.2	72.3	12.9	12.0	46.1
Administration expenses	2,771	3,497	4,595	4,512	4,802	13.3	26.2	31.4	-1.8	6.4	14.7
Net Other income	7	0	0	0	0						
<b>EBIT</b>	<b>41,778</b>	<b>43,745</b>	<b>48,847</b>	<b>56,032</b>	<b>63,187</b>	<b>25.6</b>	<b>4.7</b>	<b>11.7</b>	<b>14.7</b>	<b>12.8</b>	<b>10.9</b>
<i>EBIT margin in %</i>	28.0	26.0	24.5	24.8	25.0						
Interest income	360	373	507	586	705						
Interest expense	307	298	298	298	298						
<b>EBT</b>	<b>41,831</b>	<b>43,820</b>	<b>49,057</b>	<b>56,321</b>	<b>63,595</b>	<b>25.8</b>	<b>4.8</b>	<b>12.0</b>	<b>14.8</b>	<b>12.9</b>	<b>11.0</b>
<i>EBT margin in %</i>	28.1	26.1	24.6	25.0	25.2						
Taxes on Income (Exp./Inc.-) t/o deferred taxes (Exp./Inc.-)	11,022 0.0	10,955 0.0	12,264 0.0	14,080 0.0	15,899 0.0						
<b>Net profit</b>	<b>30,809</b>	<b>32,865</b>	<b>36,793</b>	<b>42,241</b>	<b>47,696</b>	<b>23.6</b>	<b>6.7</b>	<b>12.0</b>	<b>14.8</b>	<b>12.9</b>	<b>11.5</b>
<i>Net Profit margin in %</i>	20.7	19.5	18.4	18.7	18.9						
<i>For information purposes</i>											
Depreciation and amortization	1,375	1,738	2,889	3,374	3,959	6.8	26.4	66.2	16.8	17.3	30.3
EBITDA	43,153	45,483	51,736	59,406	67,147	24.9	5.4	13.7	14.8	13.0	11.7
No. of shares (Ø outstanding)	11,475	12,535	12,992	13,466	13,958						
<b>Net profit / share (EPS)</b>	<b>2.68</b>	<b>2.62</b>	<b>2.83</b>	<b>3.14</b>	<b>3.42</b>	<b>8.3</b>	<b>-2.3</b>	<b>8.0</b>	<b>10.8</b>	<b>8.9</b>	<b>6.2</b>

Source: BankM Research

### Cash Flow Statement

Fiscal Year 31.12 (IFRS) in T€	2012a	2013e	2014e	2015e	2016e	12a	13e	14e	15e	16e	4y - CAGR
						y-o-y changes in %					
<b>Earnings before Taxes</b>	<b>41,831</b>	<b>43,820</b>	<b>49,057</b>	<b>56,321</b>	<b>63,595</b>	<b>25.8</b>	<b>4.8</b>	<b>12.0</b>	<b>14.8</b>	<b>12.9</b>	<b>11.0</b>
+ Depreciation and amortization	1,375	1,738	2,889	3,374	3,959	6.8	26.4	66.2	16.8	17.3	30.3
<b>= Cash Earnings</b>	<b>43,206</b>	<b>45,558</b>	<b>51,946</b>	<b>59,695</b>	<b>67,554</b>	<b>25.1</b>	<b>5.4</b>	<b>14.0</b>	<b>14.9</b>	<b>13.2</b>	<b>14.4</b>
+/- Other non-cash items	-2,290	0	0	0	0						
- Chg. in net working capital	13,431	5,938	11,471	7,745	8,387						
- taxes paid	10,360	11,164	11,937	13,626	15,444						
<b>= Operating Cash Flow</b>	<b>17,125</b>	<b>28,456</b>	<b>28,538</b>	<b>38,323</b>	<b>43,723</b>	<b>-41.6</b>	<b>66.2</b>	<b>0.3</b>	<b>34.3</b>	<b>14.1</b>	<b>26.4</b>
- Capex	19,702	5,780	11,000	12,700	8,300						
<b>= Free Cash Flow</b>	<b>-2,577</b>	<b>22,676</b>	<b>17,538</b>	<b>25,623</b>	<b>35,423</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-22.7</b>	<b>46.1</b>	<b>38.2</b>	<b>16.0</b>
+ Net other items	-6	0	0	0	0						
+ Increase in share capital	495	6,000	0	0	0						
- Outflow from share buybacks	381	1,714	1,777	1,842	1,909						
+ Proceeds from sale of repurchased shares	187	0	0	0	0						
+/- Bank loans	-713	0	0	0	0						
<b>= Incr. in Cash (+)/Decr. in Cash (-)</b>	<b>-2,995</b>	<b>26,962</b>	<b>15,762</b>	<b>23,782</b>	<b>33,514</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-41.5</b>	<b>50.9</b>	<b>40.9</b>	<b>7.5</b>

Source: BankM Research

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## Balance Sheet

Fiscal Year 31.12 (IFRS) in T€	2012a	2013e	2014e	2015e	2016e	12a	13e	14e	15e	16e
<b>Assets</b>						<b>In % of Balance Sheet Total</b>				
Tangible assets	15,489	18,144	25,258	34,601	38,955	10.4	9.6	11.1	12.7	12.1
Intangible assets incl. land use rights	2,119	3,361	4,282	4,204	4,126	1.4	1.8	1.9	1.5	1.3
Deferred tax & Other fixed assets	356	402	477	539	604	0.2	0.2	0.2	0.2	0.2
<b>Total Fixed Assets</b>	<b>17,964</b>	<b>21,907</b>	<b>30,018</b>	<b>39,344</b>	<b>43,685</b>	<b>12.0</b>	<b>11.6</b>	<b>13.2</b>	<b>14.5</b>	<b>13.6</b>
Inventories	748	1,844	5,361	6,599	8,135	0.5	1.0	2.3	2.4	2.5
Accounts receivable	56,330	63,589	75,516	85,273	95,545	37.7	33.7	33.1	31.3	29.7
Total liquid funds	74,525	101,486	117,248	141,030	174,544	49.8	53.7	51.4	51.8	54.2
<b>Total Current Assets</b>	<b>131,603</b>	<b>166,920</b>	<b>198,125</b>	<b>232,902</b>	<b>278,224</b>	<b>88.0</b>	<b>88.4</b>	<b>86.8</b>	<b>85.5</b>	<b>86.4</b>
<b>Balance Sheet Total</b>	<b>149,567</b>	<b>188,827</b>	<b>228,143</b>	<b>272,246</b>	<b>321,909</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Shareholder's Equity / Liabilities</b>										
Subscribed capital	11,475	12,698	13,325	13,974	14,647	7.7	6.7	5.8	5.1	4.6
Treasury stock	-27	-163	-332	-508	-690	0.0	-0.1	-0.1	-0.2	-0.2
Share premium	4,456	9,233	8,606	7,956	7,283	3.0	4.9	3.8	2.9	2.3
Retained earnings & Other reserves	106,417	137,731	172,916	213,491	259,460	71.2	72.9	75.8	78.4	80.6
<b>Shareholders Equity</b>	<b>122,321</b>	<b>159,498</b>	<b>194,514</b>	<b>234,913</b>	<b>280,701</b>	<b>81.8</b>	<b>84.5</b>	<b>85.3</b>	<b>86.3</b>	<b>87.2</b>
<b>Long term liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>ST Liab. &lt; 1 year</b>	<b>27,246</b>	<b>29,329</b>	<b>33,628</b>	<b>37,332</b>	<b>41,208</b>	<b>18.2</b>	<b>15.5</b>	<b>14.7</b>	<b>13.7</b>	<b>12.8</b>
<i>t/o Acc. payable &amp; pre-paymts.</i>	18,762	21,180	25,152	28,402	31,824	12.5	11.2	11.0	10.4	9.9
<i>t/o Tax payable</i>	2,948	2,739	3,066	3,520	3,975	2.0	1.5	1.3	1.3	1.2
<i>t/o Bank loans</i>	5,410	5,410	5,410	5,410	5,410	3.6	2.9	2.4	2.0	1.7
<i>t/o other current liabilities</i>	126	0	0	0	0	0.1	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>27,246</b>	<b>29,329</b>	<b>33,628</b>	<b>37,332</b>	<b>41,208</b>	<b>18.2</b>	<b>15.5</b>	<b>14.7</b>	<b>13.7</b>	<b>12.8</b>
<b>Balance Sheet Total</b>	<b>149,567</b>	<b>188,827</b>	<b>228,143</b>	<b>272,246</b>	<b>321,909</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: BankM Research

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**Authors: Dr. Roger Becker, CEFA and David Szabadvari, Analysts**

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Issuer of the analysed instruments is ULTRASONIC AG.

Notice according to sec. 4 §. 4 No 4 FinAnV (previous publications regarding the issuer within the last 12 months):

Analyst	Date	Evaluation result	Fair value
Dr. Roger Becker	November 28, 2011	Not rated (IPO)	€ 20.75
Dr. Roger Becker, David Szabadvari	June 27, 2012	Buy	€ 23.12
Dr. Roger Becker, David Szabadvari	September 10, 2012	Buy	€ 20.78
Dr. Roger Becker, David Szabadvari	November 9, 2012	Buy	€ 21.50
Dr. Roger Becker, David Szabadvari	February 20, 2013	Buy	€ 23.44
Dr. Roger Becker, David Szabadvari	April 30, 2013	Buy	€ 21.55
Dr. Roger Becker, David Szabadvari	June 18, 2013	Buy	€ 21.52

### II. Additional Information:

#### 1. Sources of information:

Main sources of information for the compilation of this document are publications in national and international media and information services (e.g. Reuters, VWD, Bloomberg, dpa-AFX and others), financial newspapers and magazines (e.g. Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times and others), specialist media, published statistics, rating agencies as well as publications by peer group companies and the company itself. Furthermore talks with the management of the issuer have been held. This document was made available to the issuer before publication to ensure the accuracy of the information provided. This resulted in no textual changes.

#### 2. Summary of the valuation principles and methods used to prepare this document:

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**BUY:** The calculated fair value of the company's stock is at least 15 % higher than the current market price at the time of the compilation of this document.

**NEUTRAL:** The calculated fair value of the company's stock lies between –15% and +15 % of the current market price at the time of the compilation of this document.

**SELL:** The calculated fair value of the company's stock is at least 15 % lower than the current market price at the time of the compilation of this document.

The following valuation methods are being used: Multiple-based models (Price/Earnings, Price/Cash-flow, Price/Book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DDM), break-up value and sum-of-the-parts-approaches, asset-based evaluation methods or a combination of the above. The used valuation models depend on macroeconomic factors, such as interest rates, exchange rates, raw materials and on basic assumptions about the economy. Additionally, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Rendered evaluation results and fair values derived from the models might therefore change respectively. The evaluation results in general relate to a 12-month horizon. However, evaluation results are subject to changing market conditions and represent only the situation at a given point of time. The evaluation results and fair value prices may in fact be achieved more quickly or slowly than expected by the analysts. Also, the evaluation results and fair value prices might need to be revised upward or downward.

#### 3. Date of first publication of this document:

**September 05, 2013**

#### 4. Date and time of prices of the instruments quoted in this document:

**Closing prices of September 04, 2013**

#### 5. Updates:

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# ULTRASONIC AG

September 05, 2013

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