

25 August 2020

Gigaset AG

Rating	Buy
Share price (EUR)	0.24
Target price (EUR)	0.68
Bloomberg Sector	GGS GY Technology

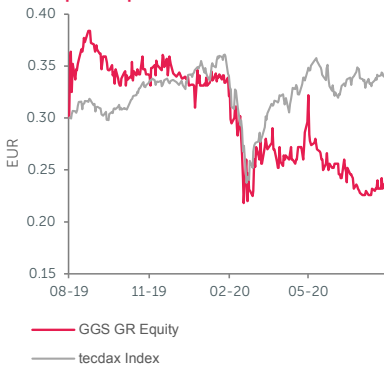
Share data

Shares out (m)	132.5
DPS (EUR)	0.00
Dividend yield (%)	0.0
Payout ratio (%)	0.0

Performance

ytd (%)	-20.0
12 months (%)	-42.0

Share price performance



Source: Bloomberg

Next triggers

24.09.2020: Q2 figures

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Gigaset to seize high opportunities via its innovative segments

Gigaset is an international and market leading end-to-end provider of communication technology with a widely diversified and innovative product portfolio in the fields of phones, smartphones, smart home and professional. With its Phone segment Gigaset is a market leader in Germany and Europe (EU6) with market shares of 48% and 36%, respectively. We view this core segment as cash cow, which generates solid revenues until 2030 despite declining figures (landlines increasingly replaced by cell phones) and thus helps financing the leap into the future. Gigaset offers high quality products, has an excellent market position, strong brand name and loyal customers, which helps to gain further market share in order to slow the decline. Moreover, we believe, the company will be able to more than offset this decline with its three other, more innovative segments, in which Gigaset addresses numerous future trends - such as demographic change with its smart care product portfolio. We also see high growth potential through Gigaset's expansion into the enterprise business with completely new markets, players and order volumes. We initiate coverage with a Buy recommendation and a target price of EUR 0.68 based on our DCF model. We see further strong upside potential as soon as our projected growth rates from the innovative segments start to materialize, so we can lower our risk profile for Gigaset.

Overview of segments

In the phones segment the company sells mainly DECT cordless phones. It accounts for 68% of total revenues. Gigaset is the market leader in Germany and several other EU countries and aims at stabilizing its revenues in this segment by winning further market shares, which seems to work well, in our view. Gigaset has a very strong brand name and an excellent market position here. In the Smartphones segment (8% revenue share) it even sells smartphones "Made in Germany", which we view as unique selling point as Gigaset is the only player in the world that is capable of producing in Germany and Europe. There is no other manufacturer anywhere in Europe. In the Smart Home segment (1% revenue share) the company sells e.g. smart security, comfort, energy and care solutions. This segment offers promising high growth rates. In the Professional segment (22% revenue share), Gigaset offers B2B communication solutions for SMEs as well as Enterprise businesses.

Strategic mid-term Goals

In our view, the management is well on track to develop Gigaset to an integrated provider of hardware, software and services. In addition to stabilizing the core business with phones by squeezing out competitors in important core markets in Europe, the company's existing product range will be further expanded and placed on a broader basis via the product segments smart phones, smart home and professional, all fusing into the managements vision of an unified Eco-System of products and services.

Key figures		2018	2019	2020e	2021e	2022e
Sales	EUR m	280	258	209	267	274
EBITDA	EUR m	22	29	-4	25	27
EBIT	EUR m	9	14	-21	10	14
EPS	EUR	0.03	0.09	-0.16	0.06	0.08
Sales growth	%	n.a.	-8.0	-18.9	27.8	2.6
EBITDA margin	%	7.9	11.1	-2.1	9.2	10.0
EBIT margin	%	3.0	5.3	-10.1	3.9	5.1
Net margin	%	1.2	4.4	-10.2	2.9	3.8
EV/Sales	ratio	0.05	0.10	0.13	0.05	0.00
P/E	ratio	9.8	2.9	-1.6	4.3	3.2

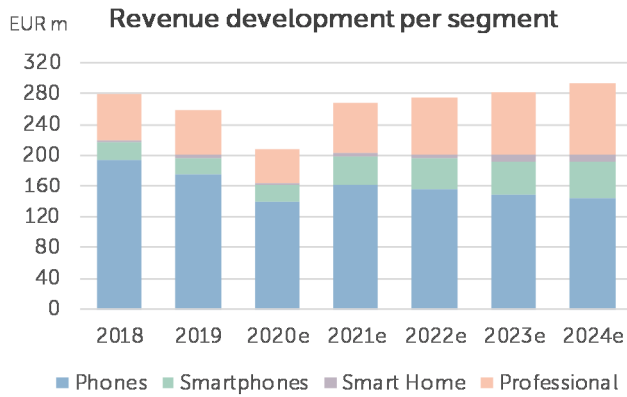
Source: Bloomberg, Company data, Quirin Privatbank estimates

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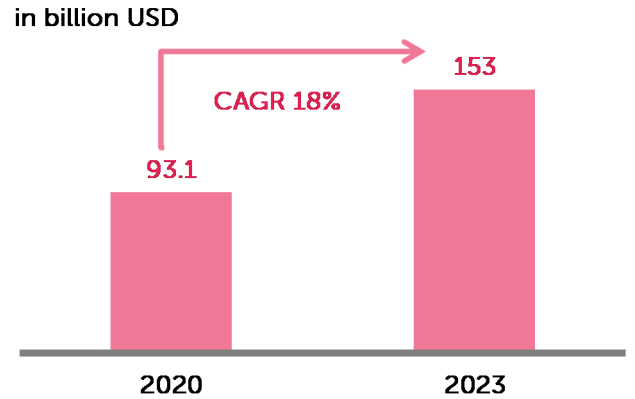
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Investment Case in Charts

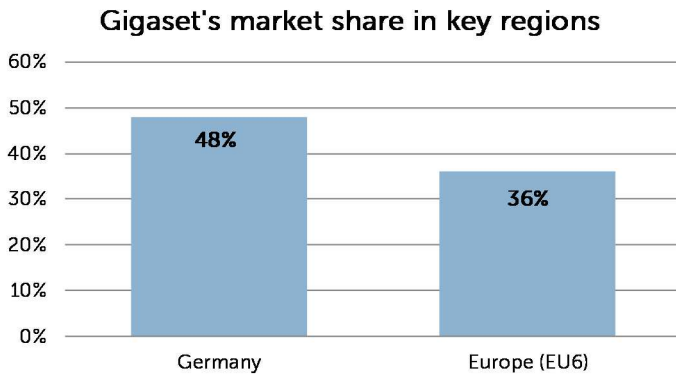
The structural decline in the Phones segment can be offset



Smart Home - tremendous market growth expected



Gigaset is already a market leader in Germany and Europe

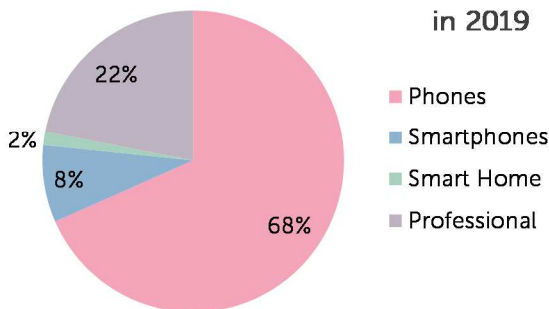


Gigaset's products are characterized by a modern design and high quality



Well diversified product portfolio with innovative segments

Revenue distribution of segments in 2019



Even addressing future issues like demographic change with its smart home products, including smart care & smart security



Source: Gigaset, Statista, Quirin Privatbank

Executive Summary and Investment Case

Decline in the Phones segment to be compensated by other segments

The Phones segment is most important to Gigaset as it accounts for 68% of total revenues. We view this core segment as cash cow, which generates solid revenues until 2030 despite declining figures (landlines increasingly replaced by cell phones) and thus helps financing the leap into the future through Gigaset's other segments. Gigaset seems to be able to defend its market leadership and even increases its market share in this market. In order to counteract, the management entered new and innovative markets during the last years of which its Smart Home segment is developing exceptionally well. In our view, the three innovative segments will more and more offset the decline from Gigaset's core segment.

Covid-19 crisis

In regard to the Covid-19 crisis, Gigaset has to deal with two challenges. First, the company needs to maintain its production capability, meaning they need enough employees and material at the production site. About 70% of the purchasing volume comes from China; however, according to the management, material supplies have stabilized and production is back on track in China. The second and more pressing challenge is the fact that Gigaset's points of sale were largely closed early this year. The company achieved much higher sales via Amazon and other online channels, which, however, could not compensate for 33,000 stores. Now the primary points of sale are open again, but that doesn't necessarily mean that people go shopping again since some might be afraid of an infection or just need to save their money due to short-time work, although a positive trend can be seen. Hence, we expect the normalization of revenues to take some time. But the second half of the year should look much better for Gigaset. As a countermeasure, Gigaset introduced short-time work early April 2020 and a freeze in capital spending.

Promising growth from innovative products

We like the fact, that Gigaset addresses numerous future trends in its three innovative segments - such as demographic change with its Smart Care product portfolio. Those Smart Care security solutions (part of the Smart Home segment) for older family members have become much more relevant and, in our view, will meet more acceptance in the next years. Another example is the Smart Home segment, which is not only about security but also about comfort, which becomes more relevant when you are spending more time at home - for example during the Covid-19 pandemic or just because home office becomes more and more a standard. But also in the phones segment Gigaset is addressing demographic developments since years with its elderly focussed Life Series products that offer special features for persons with age related limitations.

Promising B2B Professional segment

Gigaset also offers professional telecommunications solutions for business customers in its Professional segment. The Professional segment is Gigaset's second largest with 22% of total revenues; therefore, this segment is quite important. In 2019, the Professional segment achieved an increase of 6.6% yoy in revenues in Germany. This segment benefits from the continuous growth trend being driven by the switch from traditional TDM telephony to All-IP and hybrid solutions in Western Europe.

Valuation

We have derived our target price for Gigaset from our DCF model. With a WACC of 8.40% (resulting from a risk free rate of 2.0%, market premium of 5% and a beta of 1.3), a mid-term revenue CAGR 2020-2023 of 10.5% fading to a perpetual growth rate of 1.5% and a sustainable long-term EBIT margin of 6.3%, our DCF model derives a fair value of EUR 0.68 per share. Hence, we initiate Gigaset with a Buy recommendation and a target price of EUR 0.68.

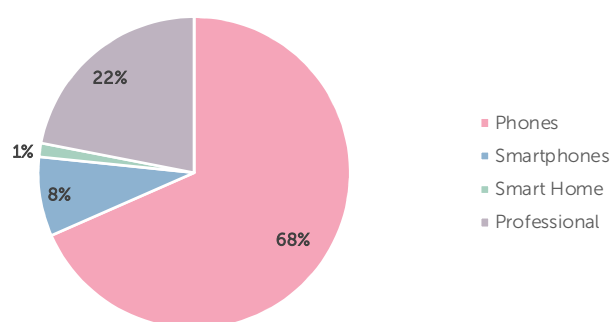
Company profile of Gigaset AG

Business model & segments overview

General company profile

Gigaset focuses its business activities on the fields of phones, smartphones, smart home and professional. The core business is the phones segment (68% of total revenues), for which the company's goal is to maintain its leading role in the mid- and long-term. Gigaset is a market leader in this segment, but the market is in structural decline. The other segments are seen as the growth areas, in which the company tries to further expand its market share in order to offset the decline in its core segment. The company is headquartered in Bocholt, Germany, where also the highly automated manufacturing facility is located. With a dependence in Munich, a software development facility in Wrocław, Poland and sales subsidiaries in 10 more countries, Gigaset employed an average of 887 people in 2019.

Gigaset's revenue by segments as of end 2019



Source: Gigaset, Quirin Privatbank

Segments overview

Revenues in the company's core segment Phones were down -8.7% yoy in 2019. The segments Smartphones and Professional were down -11.3% yoy and -5.5% yoy respectively. However, the Smart Home segment, which stands for about 1% of the company's total revenues, showed a strong growth of 15.6% yoy.

Gigaset's Revenues by segment

Revenues EUR m	2019	2018	% yoy
Phones	176.4	193.3	-8.7%
Smartphones	21.2	23.9	-11.3%
Smart Home	3.7	3.2	15.6%
Professional	56.6	59.9	-5.5%
Gigaset Total	257.9	280.3	-8.0%

Source: Gigaset, Quirin Privatbank

In Q1 of 2020, Gigaset was hit in March by the measures taken against Covid-19, which resulted in the development shown in the table below. The segments Phones, Smartphones and Professional were down -23.3% yoy, -305.6% yoy and -7.7% yoy, respectively. Only the Smart Home segment was up 100% yoy. Overall, the company's revenues declined by -29.3% in Q1 2020. The development for each segment is outlined in each detailed segment section below.

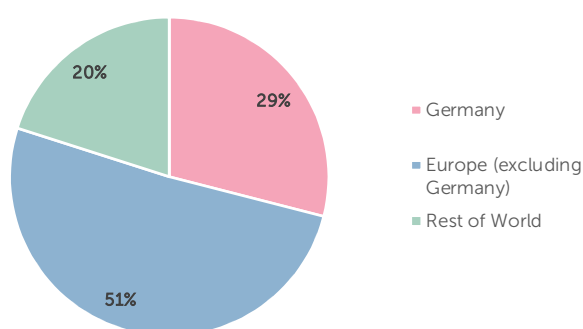
Gigaset's Revenues by segment

Revenues EUR m	Q1 2020	Q1 2019	% yoy
Phones	25.3	33	-23.3%
Smartphones	-3.7	1.8	-305.6%
Smart Home	1.2	0.6	100.0%
Professional	9.6	10.4	-7.7%
Gigaset Total	32.4	45.8	-29.3%

Source: Gigaset , Quirin Privatbank

Regional setup

Gigaset operates in Germany, Europe (excluding Germany) and the rest of the world. The majority of revenues are generated in Europe, particularly in Germany, France, Italy and the Netherlands (EU4), the most important European markets for the company.

Gigaset's revenue by region as of March 2020

Source: Gigaset, Quirin Privatbank

In 2019, the market as a whole for DECT cordless telephones in the EU6 markets declined by 8% in terms of revenues. This is 1% less than in the previous year. This trend is expected to continue in the market. Gigaset's revenues declined in 2019 slightly in Germany and in the rest of the world by -2.5% yoy and -1.5% yoy, respectively. The decline was more pronounced in Europe, where revenues were down -15.4% yoy.

Gigaset's Revenues by region

Revenues EUR m	2019	2018	% yoy
Germany	121.3	124.4	-2.5%
Europe (excluding Germany)	103.5	122.3	-15.4%
Rest of World	33.1	33.6	-1.5%
Gigaset Total	257.9	280.3	-8.0%

Source: Gigaset , Quirin Privatbank

Detailed segment overview

Phones segment

General overview of the Phones segment

The Phones segment is Gigaset's core business, in which DECT cordless phones and DECT/CAT-iq handsets are developed, manufactured and sold to private customers. DECT is the most successful telecommunications standard for cordless phones and is used in over 100 countries worldwide. Gigaset is the market leader in this area in the most important European markets. Almost all DECT products for the Phones segment are manufactured at the company's own production facility in Bocholt. Gigaset has the most extensive portfolio in the market, with products ranging from the low to the premium price segment. Gigaset is Europe's market leader and also ranks among the top five international producers. This segment stands for 68% of total revenues as of end 2019. We did not state the sales distribution as of Q1 2020 as this quarter was heavily impacted by the Covid-19 crisis which even led to negative revenues in the Smartphone segment and thus cannot be seen as the usual sales distribution. In 2019, this segment was down -8.7% yoy and in Q1 2020 it was down even -23.3% yoy due to the Covid-19 crisis.



Smartphones segment

General overview of the Smartphones segment

Gigaset entered the smartphone market in 2016 and offers its products in the low to mid-price segment, with prices up to EUR 300. Gigaset aims to further increase the market share and awareness of the brand in this segment. The company applies a low-risk approach when trying to gain a foothold in the smartphone segment and slowly expands the business area. The high level of brand awareness, brand trust and the sales-related access to the most important target markets are good preconditions. In 2019, the fourth generation of smartphones was launched, of which two devices carry the seal "Made in Germany". The portfolio has been continuously expanded to meet market requirements. This included the introduction of a hardwearing smartphone that is also suitable for use in B2B environments, enabling Gigaset to address this new business field. Basing production for most smartphones in Germany gives Gigaset a way to set its brand apart from its competition, not only in terms of quality. This approach gives Gigaset logistical advantages due to its physical proximity to customers and can react flexibly to customer requirements. There are many customization possibilities, both for end and business customers. In terms of customer service, Gigaset wants to establish itself as a manufacturer that offers comprehensive manufacturer warranties, customer satisfaction guarantees and especially short repair times. For environmental reasons, the company follows the principle "repairs before exchanges". This segment stands for 8% of total revenues as of end 2019. In 2019, this segment was down -11.3% yoy.



Smart Home segment

General overview of the Smart Home segment

Gigaset also offers products in the field of smart home. This market was entered in 2012. The segment stands for about 1% of total revenues as of end 2019. In 2019, this segment was up 15.6% yoy. The company offers security and alarm solutions as well as other smart home comfort solutions for private households. The solutions from these segments concentrate on the protection of apartments and houses and more comfort at home. Gigaset relies on a modular, sensor-based system that enables users to maintain a constant connection with their home via smartphone and supported by the cloud. The portfolio of sensors is continuously



expanded, while on the software side also third-party systems are integrated. The Smart Home market is currently divided into three parts: Platform providers (gateways, cloud and app), manufacturers of sensors and actuators, suppliers of complete solutions. Gigaset offers complete solutions, which we believe is preferred by customers as sensors, actuators, gateways, the cloud and apps are fully integrated and harmonized with one another. This means that customers do not have to compile their systems using components from individual manufacturers, do not have any interface problems and, in the event of any issues, can turn to just one contact partner.

Professional segment

General overview of the Professional segment

Gigaset also offers professional telecommunications solutions for business customers in its Professional segment. The segment stands for about 22% of total revenues as of end 2019 and sales were down -5.5% yoy. The Professional segment offers products in the areas of multi-cell systems, DECT-based cordless telephones and non-proprietary IP desk telephones on the market for professional telecommunications solutions. These product pillars allow Gigaset to benefit from the continuous growth trend being driven by the switch from traditional TDM telephony to All-IP and hybrid solutions in Western Europe. This trend, which has already taken hold in previous years with cloud-based systems emerging, will now be boosted further with the proactive deactivation of old analogue and ISDN connections from large network operators, such as Deutsche Telekom. Thanks to the newly developed DECT multi-cell system of the N-series, which has increased the maximum number of cordless terminals in a company to up to 20,000, Gigaset has been able to target a wider range of customers since the end of 2019.



In our view, this segment bears high revenue potential as it is addressing an additional customer segment – Small Offices and Home Offices (SOHO) as well as SME customers (small and medium-sized enterprises) and at the same time is favoured by the replacement of older technologies. We also see high growth potential through Gigaset's expansion into the enterprise business with completely new markets, players and order volumes.

Market conditions & segment performance

The Phones segment is most important to Gigaset as it accounts for 68% of total revenues. We view this core segment as cash cow, which generates solid revenues until 2030 despite declining figures (landlines increasingly replaced by cell phones) and thus helps financing the leap into the future. Gigaset seems to be able to defend its market leadership and even increases its market share in this market. In order to counteract, the management entered new and innovative markets during the last years of which its Smart Home segment is developing exceptionally well. In our view, the three innovative segments have the potential to offset the decline from Gigaset's core segment.

In 2019, Gigaset's revenues fell by -8% yoy to EUR 257.9m (prior year: EUR 280.3m). The decrease in revenues can be mainly explained by a decrease of EUR 16.9m or -8.7% in the Phones segment in which market conditions remain difficult. This sales decline mainly occurred in Europe (ex Germany), where revenues were down -15.4% yoy.

Phones

Phones market

Gigaset is most dependent on the phones market as its biggest segment is active in this market and accounts for 68% of total revenues. The key European market for cordless telephones (EU6: Germany, France, Italy, the Netherlands, the United Kingdom, and Spain) decreased in 2019 by -11% yoy in terms of unit volume and by -8% yoy in terms of revenues. In comparison, Gigaset's Phones segment was down -7% yoy in terms of unit volume and by -8.7% yoy in terms of revenues. Hence, Gigaset performed better than the market in the EU6 area in terms of unit sales. This way the company increased its market share to 36% according to the market research institute GfK. However, in our view, the market for phones is in decline and does seem to continue so. More and more landlines are being replaced by cell phone connections, depending on the rate plans offered by network operators. The increased use of multifunctional smartphones is also leading to a change in consumer behaviour. Due to the falling market trend of DECT telephones in some target markets, there is a risk of general price decline for the product as well as decreasing market volume. These risks are being countered with consistent cost management, the crowding out of smaller competitors with an innovative product portfolio and the further development of existing segments such as Professional segment.

Performance of the Phones segment in 2019

As outlined above, the market environment for the Phones segment remains persistently difficult. Hence, revenues in this segment were down -8.7% yoy at EUR 176.4m. Products from the low-end price category continued to be the main growth drivers. The most successful product family in the Gigaset Phones portfolio was the Gigaset A415 family. In the Italian market for cordless telephones, Gigaset managed to replace competitor Panasonic from first place in 2019 and increased its unit volume by +2% to 40% and revenues by 3% to 45%. In Germany, Gigaset increased its market share by 2% to 48%, while the main competitor Panasonic recorded a slight decline (-1%) and competitor AVM remained unchanged.

Impact of the Covid-19 crisis

According to the management, unit sales and revenues in the already strained market environment for DECT cordless telephones reached the planned levels until mid-March when European governments began to declare restrictions in order to counter Covid-19. The store closures and dampened consumption climate in Germany and Europe had a negative impact on revenues in the first quarter of 2020, beyond the expected and market-driven revenue decline in this segment. However, Gigaset used other sales channels (e-commerce) but those were not able to offset the decline. Hence, revenues in this segment were down -23.3% yoy in Q1 2020.

Smartphone

Smartphone market

Global sales of smartphones amounted to approximately 1.37 billion units in 2019 (Statista), which results in a slight decline of 2.1% yoy compared to the previous year (2018: approximately 1.4 billion units). Gigaset counteracted this trend by adding new products in the area of feature phones – for example a GSM cell phone that also features a camera, radio receiver, organizer and MP3 player as well as simple games and a web browser and can be controlled via a graphic user interface.

Market research institutes expect global sales of Smartphones to perform positively over the coming years due to new technical innovations, such as the 5G transmission standard, which is expected to boost the use of mobile devices thanks to its quick possibilities of transmission. By 2023, market researchers forecast an increase to around 1.49 billion devices compared to around 1.37 billion smartphones sold in 2019 (Statista). In our view, the market prospects look favourable for the Smartphones segment and therefore we expect higher growth rates in the future.

Performance of the Smartphones segment in 2019

In the Smartphones segment, unit sales were up 18.4% yoy. However, revenues were below the previous year's level with -11.3% yoy, due to a lower average price following the addition of new, lower-priced products from the area of feature phones. Gigaset launched five new smartphone models in 2019, receiving positive feedback from the media, as shown by the "Good" seal of approval awarded for the GS290 by trade magazine CHIP. Business continued to develop positively in Germany, where unit sales were up 34.4% yoy and revenues were up 18.1% yoy. In Eastern Europe, unit sales improved by 13.8% yoy, while revenues were up by 22.5% yoy. However, revenues were down overall mainly due to a decline in France and Europe (ex Germany and France).

Impact of the Covid-19 crisis

Especially the Smartphones segment was hit very hard by the Covid-19 crisis. Many distributors exercised their contractually allowed option of returning smartphones due to the forced closure on a magnitude of roughly 30,000 point of sales in Europe. Customers made extensive use of this option due to the uncertainty caused by the coronavirus crisis since the second half of March. Therefore, this segment even had negative sales with revenues in Q1 2020 down -305.6% yoy.

Smart Home

Smart Home market

Gigaset entered the Smart Home market in 2012. In Germany the market potential for Smart Home amounts to ca. EUR 19 billion, of which EUR 2.95 billion are classified as spending on smart home applications for new build projects, EUR 7.52 billion as spending on possible initial smart home investments and EUR 8.52 billion as spending on expanding existing smart home installations (Splendid Research study). The smart home market can be divided into the following five categories. Gigaset offers products in all of these core areas and thus serves the entire Smart Home market:

- Energy management (thermostat and climate)
- Entertainment and communication (smart speakers)
- Building security (windows, doors, motion, sirens, cameras, water and smoke)
- Home automation and comfort (smart speakers and plugs)
- Health / ambient assisted living (smart care)

The Smart Home market has one of the largest growth rates, even though growth forecasts have been a bit exaggerated in the past. In our view, Gigaset is well prepared to grow in this market by incorporating more sensors, gateways and apps as well as cloud connections.

Performance of the Smart Home segment in 2019

The Smart Home segment was up 15.6% yoy, with the core markets of Germany, Austria, Switzerland and the Netherlands achieving solid revenue growth. New smart home bundles tested in 2018 were rolled out to the European market. These bundles offer

entry-level solutions for key issues in smart homes. In addition, Gigaset added intelligent thermostats and climate sensors to its smart home system in order to generate additional revenue potential in the area of energy management and helping to save energy. Gigaset also entered into important cooperative agreements with telecommunications companies and energy providers. This will enable Gigaset to present itself as a capable partner on the B2B market for smart homes.

Impact of the Covid-19 crisis

The Smart Home segment did pretty well in the first quarter. Gigaset achieved a significant increase in revenues by 100% yoy thanks to a long-prepared strategic partnership with a leading European telecommunications company.

Professional

Professional market

The Professional segment is Gigaset's second largest; therefore, this market is quite important. In 2019, The Professional market achieved an increase of 6.6% yoy in revenues in Germany. Germany is in the lead in terms of market share with 53%, followed by France with 12.5% and the Netherlands with 10.2%. Overall, Europe is responsible for 97% of global revenues in this market, which gives Gigaset a huge advantage.

In the area of business customer telephony, the significance of IP telephony is expected to increase, in particular in Europe. This is a favourable trend for Gigaset as it specializes in small and medium-sized enterprises (SME) with its business customer solutions. Therefore, in our view, this segment has great potential to help offset the decline from the core segment.

Performance of the Professional segment in 2019

The Professional segment was down -5.5% yoy with an increase in Germany by 6.6% yoy but France and the rest of Europe were down, which resulted in an overall decline.

The most successful product in this segment is the multi-cell system of the N-series, which was up 4.4% yoy. Gigaset also sold more multi-cell DECT cordless telephones than all other competitors in Western Europe, thus achieving the largest market share in the first half of 2019 (28%).

In order to better meet the needs of smaller customers, Gigaset launched a new single-cell solution in 2019. With this solution, Gigaset should generate new revenue potential in the segment of growing small- and medium-sized companies.

However, there also was an increased aggressive competition from players in the Far East who have enforced their dominance in the IP desk telephone market led to a more difficult environment.

Impact of the Covid-19 crisis

The Covid-19 crisis also had a negative impact on the Professional segment in Q1 2020. Revenues were down -7.7% yoy. Most business partners put their projects and investments in this area on hold. However, we believe they are just postponed and should come back when the crisis comes to an end.

Financial analysis

Balance sheet

When Gigaset released its interim balance sheet as of March 31, 2020, the company had total assets of EUR 184.8m, which was significantly lower than at the end of 2019 when it was at EUR 222.6m. Non-current assets increased by EUR 2.9m to EUR 81.3m. Current assets account for 56% of total assets and decreased by EUR 40.7m to EUR 103.5m. The biggest drivers of the decrease were trade payables, which declined by EUR 18.4 million, and cash and cash equivalents, which declined by EUR 16.6 million and are now at EUR 20m. Total liabilities amounted to EUR 174.1m, down from EUR 204.1m, of which 34.6 % are current liabilities. Equity amounted to EUR 10.7m as of March 31, 2020 and was EUR -7.9m lower than at the beginning of the year. This corresponds to an equity ratio of 5.8 %, as compared to 8.3 % as of December 31, 2019. Noncurrent liabilities were mainly composed of pension obligations and financial liabilities. Noncurrent liabilities were up EUR 4.6m and amounted to EUR 113.9m as of March 31, 2020. The increase resulted mainly from a EUR 3.0m increase in noncurrent financial liabilities and a EUR 1.3m increase in pension obligations. The current liabilities of EUR 60.2m were about 36.5% less than as of December 31, 2019. The decrease resulted mainly from the reduction of trade payables, which declined from EUR 51.2m to EUR 31.3m as of March 31, 2020. Other contributing factors were the EUR 6.4m decrease in current provisions, the EUR 4.3m decrease in other liabilities, and the EUR 3.6m decrease in current financial liabilities.

Liquidity & financial risk

In April 2018, Gigaset entered into a loan agreement over EUR 20.0m in order to finance capital expenditures in new lines of business. As of December 31, 2019, EUR 15.9m of this amount had been drawn down. It seems like for 2020 as well as for 2021, the Company has sufficient liquid funds at its disposal based on its internal budgeting. However, the loan agreement specifies various contractual terms that Gigaset must adhere to and if violated could lead to termination of the loan agreement and the lender has the right to call in the loan principal, which would lead to an uncovered need for liquidity. One of those contractual terms is the change in control at Gigaset AG in which the current majority shareholder Goldin Fund Pte. Ltd., Singapore, transfers 50% or more of its interest in the company to one or more third parties. Such a change in control can entail a termination of the loan agreement for cause. This cannot be influenced by the executive board of Gigaset and bears a high liquidity and financial risk.

Another liquidity risk could emerge in case the newer segments Professional, Smart Home, and Smartphones do not develop as planned and cannot offset the decline in the biggest segment Phones. In this case operating cash flow might not be sufficient in the mid to long-term to cover Gigaset's liquidity needs.

DCF Valuation

We have derived our target price for Gigaset from our DCF model. With a WACC of 8.40% (resulting from a risk free rate of 2.0%, market premium of 5% and a beta of 1.3), a mid-term revenue CAGR 2020-2023 of 10.5% fading to a perpetual growth rate of 1.5% and a sustainable long-term EBIT margin of 6.3%, our DCF model derives a fair value of EUR 0.68 per share. Hence, we initiate Gigaset with a Buy recommendation and a target price of EUR 0.68.

Phones segment

As outlined above, the Phones segment as the cash cow that is financing the leap into the future, is in decline since landlines are being more and more replaced by mobile phones, customer behavior is changing in this regard. For 2020, we expect revenues at EUR 139m (-21.2% yoy) due to the covid-19 crisis and the usual 30,000 classical retail stores as point of sales being closed for some time, which had not been offset by higher e-commerce sales. For 2021, we expect revenues to pick up to a more usual level and project a growth rate at 16.5% yoy due to the low basis from 2020. From then on, we expect only negative growth rates in the low- to mid-single digit area. However, we expect this decline to slow down as we believe Gigaset will win higher market shares. All in all, we expect the company to post a mid-term revenue CAGR 2020-2023 of 2.3% for this segment.

Smartphones segment

The Smartphones segment was hit very hard by the Covid-19 crisis. Many distributors exercised their contractually allowed option of returning smartphones due to the forced closure on a magnitude of roughly 30,000 point of sales in Europe. Customers made extensive use of this option due to the uncertainty caused by the coronavirus crisis since the second half of March. Therefore, this segment even had negative sales with revenues in Q1 2020 down 305.6% yoy. We expect revenues in this segment to recover in the second half of the year and forecasts revenues to be up 3.8% yoy for the whole year. For 2021, we expect a strong revival to a more normal level and estimate revenues at EUR 36m (63.6% yoy). Market research institutes expect global sales of Smartphones to perform positively over the coming years due to new technical innovations, such as the 5G transmission standard, which is expected to boost the use of mobile devices thanks to its quick possibilities of transmission. All in all, we expect the company to post a mid-term revenue CAGR 2020-2023 of 26% for this segment, which looks high due to the very low basis in 2020.

Smart Home segment

The Smart Home segment is the only segment that showed a positive growth rate in Q1 2020, even higher than usual with 100% yoy due to a strategic partnership with a leading European telecommunications company and also probably because the demand for Smart Home solutions has been higher since people spent more time at home. Gigaset serves the entire Smart Home market with its wide product range that stand for high quality. Therefore, we believe Gigaset will be a winner in this market and continuously gain market share. We estimate a 2020 growth rate at -18.9% yoy justified by the special situation this year. Thereafter, we forecast high growth rates as the market potential is big and Gigaset's revenue level still rather low. All in all, we expect the company to post a mid-term revenue CAGR 2020-2023 of 38.7% for this segment.

Professional segment

We project a sales decline of -20.5% yoy for 2020 in the Professional segment and a rather strong revival in 2021 with growth at 42.2% yoy. Thereafter, we estimate growth rates around 12%. In the area of business customer telephony, the significance of IP telephony is expected to increase. This is a favourable trend for Gigaset. Therefore, in our view, this segment has great potential to help offset the decline from the core segment. All in all, we expect the company to post a mid-term revenue CAGR 2020-2023 of 21.6% for this segment.

Overall

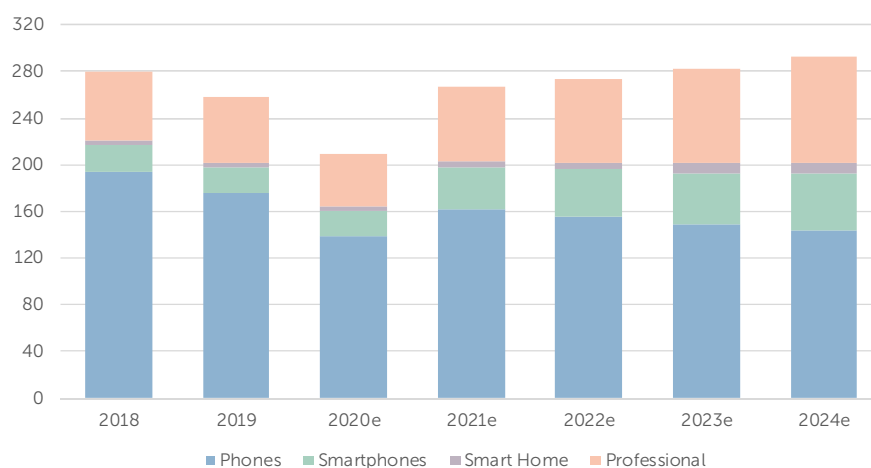
As can be seen in the table and graph below, we expect the decline in the Phones segment to be offset by the growth in the other, more innovative segments. But overall, we stick to a rather low terminal growth rate of 1.5% in our DCF model. We have chosen a beta of 1.3 as, in our view, Gigaset's risk profile is higher than the average company's risk profile due to the uncertainties associated with the core segment being in structural decline. This decline could become more pronounced than anticipated in our projections. Moreover, the growth rates we forecasted for the other segments are at risk in case competition becomes stronger or the addressed products fail to meet the projected demand. Gigaset is in those product fields a rather new player; therefore, in our view, those segments are associated with higher uncertainties than average. We see high upside potential in case the projected growth rates begin to materialize so that we can reduce the beta.

Gigaset's projected revenues by segment

Revenues EUR m	2018	2019	2020e	2021e	2022e	2023e	2024e
Phones	193.3	176.4	139.0	162.0	156.0	149.0	144.0
Smartphones	23.9	21.2	22.0	36.0	40.0	44.0	48.0
Smart Home	3.2	3.7	3.0	5.0	6.0	8.0	10.0
Professional	59.9	56.6	45.0	64.0	72.0	81.0	91.0
Gigaset Total	280.3	257.9	209.0	267.0	274.0	282.0	293.0

Source: Gigaset, Quirin Privatbank

Gigaset's projected revenues by segment



Source: Gigaset, Quirin Privatbank

DCF Model for Gigaset

(EUR m)	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	TV
Sales	209	267	274	282	293	307	323	343	360	375	
growth yoy	-18.9%	27.8%	2.6%	2.9%	3.9%	4.8%	5.3%	6.1%	5.0%	4.0%	
EBIT	-21	10	14	17	19	20	21	22	23	24	
EBIT margin	-10.1%	3.9%	5.1%	5.9%	6.4%	6.4%	6.4%	6.4%	6.3%	6.3%	
Taxes	0.0	-2.1	-3.5	-5.0	-5.7	-5.9	-6.2	-6.5	-6.8	-7.1	
Tax rate	0%	20%	25%	30%	30%	30%	30%	30%	30%	30%	
Depreciation	16.7	14.1	13.3	13.1	13.4	14.8	16.1	17.3	18.2	19.1	
% of sales	8.0%	5.3%	4.9%	4.6%	4.6%	4.8%	5.0%	5.0%	5.1%	5.1%	
Capex	-7.3	-11.2	-12.3	-14.1	-14.7	-15.5	-16.4	-17.5	-18.3	-19.1	
% of sales	3.5%	4.2%	4.5%	5.0%	5.0%	5.1%	5.1%	5.1%	5.1%	5.1%	
Δ NWC	5.6	-6.6	-0.8	-0.9	-1.3	-1.3	-1.4	-1.5	-1.5	-1.6	
% of sales	-2.7%	2.5%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	
FCF	-6.1	4.7	10.8	9.6	10.7	11.8	12.7	13.6	14.3	14.9	219.4
growth yoy	nm	nm	nm	-10.4%	10.6%	10.6%	7.8%	7.1%	5.2%	4.2%	1.5%
PV FCF	-6.0	4.2	8.9	7.4	7.5	7.7	7.6	7.5	7.3	7.0	103.2

PV Forecast Period	59
PV Terminal Value	103

Enterprise value	162
- Net Debt / Net Cash	-21
- Pension Provisions	93
Equity value	90
Number of shares	132.5
Value per share (€)	0.68

Sensitivity Analysis	Terminal growth rate				
	0.5%	1.0%	1.5%	2.0%	2.5%
7.56%	0.74	0.80	0.88	0.97	1.08
7.98%	0.65	0.71	0.77	0.85	0.94
WACC 8.40%	0.58	0.63	0.68	0.75	0.82
8.82%	0.51	0.55	0.60	0.66	0.72
9.24%	0.45	0.49	0.53	0.58	0.63

Risk free rate	2.00%	Equity ratio	100%
Cost of debt	3.00%	Company beta	1.3
Market Premium	5.00%	WACC	8.40%

Source: Quirin Privatbank

Peer Group Valuation for Gigaset AG

Peer Group Overview

We also performed a pro forma peer group valuation on Gigaset for which we included its closest peers or at least companies that come close to Gigaset's business model such as Deutsche Telekom AG, Orange SA, Siemens AG, Telecom Italia, Panasonic and Cisco Systems. There are not many pure plays on phone developers like Gigaset; therefore, we included companies, which operate in the same market but also have a wider product range.

- ◆ **Deutsche Telekom AG** offers telecommunications services. The Company offers a full range of fixed-line telephone services, mobile communications services, Internet access, and combined information technology and telecommunications services for businesses.
- ◆ **Orange SA** provides telecommunications services to residential, professional, and large business customers. The Company offers public fixed-line telephone, leased lines and data transmission, mobile telecommunications, cable television, Internet and wireless applications, and broadcasting services, as well as telecommunications equipment sales and rentals.
- ◆ **Siemens AG** is an engineering and manufacturing company. The Company focuses on areas of electrification, automation, and digitalization. Siemens also provides engineering solutions in automation and control, power, transportation, and medical diagnosis.
- **Telecom Italia S.p.A.**, through subsidiaries, offers fixed line and mobile telephone and data transmission services in Italy and abroad. The Company offers local and long-distance telephone, satellite communications, Internet access, and teleconferencing services.
- **Panasonic Corporation** manufactures electric and electronic products. The Company produces home appliances, car navigation systems, digital devices, computer peripherals, telecommunications, industrial equipment, and electronic parts. Panasonic has associated companies around the world.
- **Cisco Systems, Inc.** designs, manufactures, and sells Internet Protocol (IP)-based networking and other products related to the communications and information technology (IT) industry and provide services associated with these products and their use. The Company provides products for transporting data, voice, and video within buildings, across campuses, and globally.

Peer Group Valuation

As can be seen in the table below, Gigaset trades at a discount in regard to EV/EBITDA multiples in 2021/2022e which seems justified as its peers have on average a better margin profile. The median EBITDA margin is at about 32-33%, while Gigaset's EBITDA margin lies between 9-10%. This is due to the different business models as those peers do not match Gigaset very well. In regard to its growth profile, the peer group is showing a CAGR 2019-2022 of -2.5% whereas Gigaset shows an expected CAGR 2019-2022 of 2.0%. Based on the equally-weighted mean of EV/EBITDA multiples (for 2021e/2022e) of Gigaset's peers and leaving the different margin profiles aside, our peer group valuation yields an implied value per share in the range of EUR 1.23 to EUR 1.29. However, we consider the DCF valuation to be more accurate and rely solely on our DCF model for the determination of Gigaset's fair value. Therefore, as stated above, this is just a pro forma peer group valuation.

Peer Group Valuation for GIGASET AG

Company	Ticker	EV/EBITDA 20e	EV/EBITDA 21e	EV/EBITDA 22e	EBITDA margin 20e	EBITDA margin 21e	EBITDA margin 22e	Sales CAGR 19- 22e
DEUTSCHE TELEKOM AG-REG	DTE GY	5.6x	5.2x	5.2x	30.9%	33.5%	33.5%	7.5%
ORANGE	ORA FP	4.8x	4.7x	4.5x	30.8%	30.2%	30.7%	0.7%
SIEMENS AG-REG	SIE GY	15.4x	13.0x	11.7x	11.5%	13.5%	15.1%	-8.6%
TELECOM ITALIA SPA	TIT IM	4.8x	4.6x	4.6x	42.7%	41.9%	42.2%	-4.0%
PANASONIC CORP	6752 JT	4.4x	6.4x	5.0x	8.3%	8.2%	6.5%	-5.5%
CISCO SYSTEMS INC	CSCO US	9.1x	9.2x	8.6x	35.8%	37.4%	36.6%	-1.1%
Median		5.2x	5.8x	5.1x	30.9%	31.9%	32.1%	-2.5%
GIGASET AG	GGG GR	n.m.	0.4x	0.4x	-2.1%	9.2%	10.0%	2.0%
Relative to median		n.m.	-93%	-93%	-107%	-71%	-69%	-182%
Implied Fair Value (EUR m)		n.m.	1.23	1.29				

Source: Quirin Privatbank, Bloomberg

Management overview

CEO: Klaus Weßing

Klaus Weßing is CEO of Gigaset AG since December 16, 2015. He is looking back on a long-lasting track record with more than 30 years management experience in the communications industry. He held various operational and strategic positions while always focusing on new products and product solutions, customer-oriented processes and redesigning corporate structures. For the last years Mr. Weßing acted as COO of Gigaset, shaping Gigaset products as technically excellent ones with sustainable product quality and creating operationally lean and flexible value added processes with integrated international networking.

CFO: Thomas Schuchardt

Thomas Schuchardt is CFO of Gigaset AG since August 13, 2019. He is looking back on a long-lasting track record with several years of management experience in various industries. He joined Gigaset in 2017 as SVP Controlling. In January 2019 he was appointed Financial Director of the Gigaset Communications GmbH, with de facto overall responsibility of the financial department. On August 13, 2019 the Supervisory Board appointed Mr. Schuchardt as new CFO of Gigaset AG. Before joining Gigaset, Mr. Schuchardt held executive positions at E.ON, Hochtief and Saint-Gobain, bringing his many years of extensive financial experience to his new role as CFO.

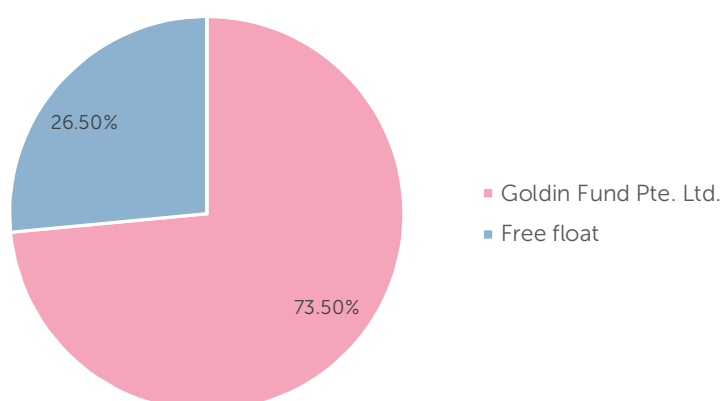
Company history

- 1941** Opening of the Siemens subsidiary in Bocholt
- 1948** Start of telephone production
- 1959** Start of transmission equipment production
- 1982** Creation of R&D unit in Bocholt
- 1993** Start of cordless telephone (DECT standard) production
- 1997** Erection of new production facility (10,000 m²)
- 2000** Start of production for GSM products
- 2001** Start of voice and data production
- 2005** Start of production for WIMAX, IP phones
- 2007** Production of 100 millionth Gigaset phone
- 2011** Production of 150 millionth Gigaset phone
- 2014** Installation of new U-shaped line for lean manufacturing of complex products like the Maxwell 10
- 2016** First use of HRC (human-robot collaboration) for assembly purposes
- 2016** Gigaset entered the smartphone market
- 2017** Production of 200 millionth Gigaset phone
- 2018** Gigaset entered the smart care market
- 2019** Gigaset presents the first smart speaker (a combination of a VPA and a phone)
- 2020** Gigaset finalizes a major renovation in Bocholt

Shareholder structure

Gigaset's largest single shareholder since the end of 2017 is Goldin Fund Pte. Ltd. of Singapore which holds an interest of 73.5%. As of the end of the reporting period, the free float amounted to 26.5%. These shares are held by a wide spectrum of private and institutional investors in Germany and abroad.

Gigaset's shareholder structure



Source: Gigaset, Quirin Privatbank

SWOT analysis

Strengths

- Excellent market position
- High growth potential through positioning in growth markets and future technologies
- Strong brand name
- Distinct sales presence
- High quality products
- Innovative product portfolio
- Loyal customer base
- Widely diversified product portfolio
- Addressing numerous future trends - such as demographic change
- Striving to make their products and supply chains more sustainable and environmentally friendly
- Production in Germany

Weaknesses

- Core segment Phones is in decline
- Low free float
- Low equity ratio

Opportunities

- Additional customer segments are addressed in the Professional segment
- Innovative products in the segments Professional, Smart Home, and Smartphones could grow stronger than expected.
- The decline in the Phones segment could unexpectedly slow down.

Threats

- Termination of the loan agreement for cause in case of change in control of Gigaset, which would lead to an uncovered need for liquidity.
- There is a risk that the segments Professional, Smart Home, and Smartphones do not develop as planned to offset the decline in the Phones segment.
- There is a risk that the new products will not achieve the desired level of acceptance on the market.
- Due to the falling market trend of DECT telephones in some target markets, there is a basic risk of general price decline.
- The DECT standard used by Gigaset in its products could be replaced by other technologies for speech or data transmission. As a result of the integration of functions from DECT telephones in other devices, demand for DECT telephones could fall.
- Entry into the business with mobile consumer devices. This entry bears risks, as Gigaset is a new competitor in an existing market.

- With Gigaset's business with products for home networking, the company has entered a market whose future development is still very uncertain.
- Risks may arise because of the pace of technological change, competitors' innovations or the appearance of new players in the market.

Profit & loss statement

Profit & loss statement (EUR m)	2018	YOY	2019	YOY	2020e	YOY	2021e	YOY	2022e	YOY
Sales	280.3		257.9	-8.0 %	209.0	-18.9 %	267.0	27.8 %	274.0	2.6 %
Other own work capitalized	31.4		30.6		6.3		32.0		32.9	
Cost of goods	-146.7		-130.9		-106.1		-135.0		-138.0	
Gross profit	311.7		288.5		215.3		299.0		306.9	
Personnel expenses	-60.6		-59.4		-37.6		-56.1		-57.3	
Depreciation	-13.6		-14.8		-16.7		-14.1		-13.3	
Other operating expenses	-82.4		-69.7		-75.9		-83.4		-84.2	
EBITDA	22.1		28.5	28.8 %	-4.4	-115.4 %	24.6	-659.7 %	27.4	11.5 %
EBITDA margin (%)	7.89		11.05		-2.10		9.20		10.00	
EBIT	8.5		13.7	61.1 %	-21.1	-253.6 %	10.4	-149.4 %	14.1	34.9 %
EBIT margin (%)	3.04		5.32		-10.09		3.90		5.13	
Net financial result	-1.1		0.8		-0.2		-0.8		-0.2	
Pretax profit	7.5		14.5	94.6 %	-21.3	-246.4 %	9.7	-145.5 %	13.9	43.4 %
Pretax margin (%)	2.66		5.63		-10.17		3.62		5.06	
Taxes	-4.1		-3.2		0.0		-1.9		-3.5	
Tax rate (%)	54.49		22.11		0.00		20.00		25.00	
Earnings after taxes	11.5		17.7		-21.3		11.6		17.3	
Group attributable income	3.4		11.3	233.1 %	-21.3	-288.0 %	7.7	-136.4 %	10.4	34.5 %
No. of shares (m)	132.5		132.5		132.5		132.5		132.5	
Earnings per share (EUR)	0.03		0.09	233.1 %	-0.16	-288.0 %	0.06	-136.4 %	0.08	34.5 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2018	YOY	2019	YOY	2020e	YOY	2021e	YOY	2022e	YOY
Assets										
Cash and cash equivalents	36.9		36.6		21.8		35.9		47.7	
Accounts receivables	40.8		45.4		36.8		47.0		48.3	
Inventories	32.7		35.2		28.6		36.5		37.5	
Other current assets	29.5		27.0		27.0		27.0		27.0	
Tax claims	10.2		9.4		9.4		9.4		9.4	
Total current assets	140.0		144.2	3.0 %	114.2	-20.8 %	146.4	28.2 %	160.4	9.6 %
Fixed assets	23.3		23.3		13.9		11.0		9.9	
Other intangible assets	31.0		38.1		38.1		38.1		38.1	
Financial assets	8.7		7.7		7.7		7.7		7.7	
Deferred taxes	10.2		9.4		9.4		9.4		9.4	
Total fixed assets	73.1		78.4	7.3 %	69.0	-12.0 %	66.1	-4.2 %	65.1	-1.5 %
Total assets	213.1		222.6	4.5 %	183.2	-17.7 %	212.5	16.0 %	225.5	6.1 %
Equity & Liabilities										
Subscribed capital	132.5		132.5		132.5		132.5		132.5	
Reserves & other	86.1		86.1		86.1		86.1		86.1	
Revenue reserves	69.0		69.0		47.7		55.5		65.9	
Accumulated other comprehensive	-262.5		-269.0		-269.0		-269.0		-269.0	
Shareholder's equity	25.0		18.5	-25.9 %	-2.7	-114.6 %	5.0	-285.1 %	15.4	207.1 %
Shareholder's equity incl. minorities	25.0		18.5	-25.9 %	-2.7	-114.6 %	5.0	-285.1 %	15.4	207.1 %
Long-term liabilities										
Pension provisions	73.5		92.5		92.5		92.5		92.5	
Financial liabilities	13.5		15.9		15.9		15.9		15.9	
Tax liabilities	15.0		4.9		4.0		5.1		5.3	
Other liabilities	5.2		6.6		5.3		6.8		7.0	
Total long-term debt	107.2		119.9	11.9 %	117.7	-1.8 %	120.3	2.2 %	120.6	0.3 %
Short-term debt										
Other provisions	18.4		14.8		12.0		15.3		15.7	
Trade payables	47.4		51.2		41.5		53.1		54.5	
Other liabilities	30.2		23.1		18.7		23.9		24.5	
Total short-term debt	95.9		89.1	-7.1 %	72.2	-18.9 %	92.3	27.8 %	94.7	2.6 %
Total equity & liabilities	213.1		222.6	4.5 %	183.2	-17.7 %	212.5	16.0 %	225.5	6.1 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2018	2019	2020e	2021e	2022e
Per share data (EUR)					
EPS	0.03	0.09	-0.16	0.06	0.08
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
P/E	9.8	2.9	-1.6	4.3	3.2
P/B	0.2	0.1	0.0	0.0	0.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Profitability ratios					
EBITDA margin (%)	7.9	11.1	-2.1	9.2	10.0
EBIT margin (%)	3.0	5.3	-10.1	3.9	5.1
Net margin (%)	1.2	4.4	-10.2	2.9	3.8
Financial ratios					
Total equity (EUR m)	25.0	18.5	-2.7	5.0	15.4
Equity ratio (%)	11.7	8.3	-1.5	2.4	6.8
Net financial debt (EUR m)	50.0	71.8	86.6	72.5	60.7
Net debt/Equity	0.1	0.1	0.0	0.0	0.1
Interest cover	6.9	8.8	-13.0	6.4	8.6
Net debt/EBITDA	2.3	2.5	-19.7	3.0	2.2
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	26.2	29.4	23.8	30.5	31.3
Working capital/Sales	0.09	0.11	0.11	0.11	0.11

Source: Company data, Quirin Privatbank estimates

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7. The Bank and/or its affiliate(s) effected an agreement with the analyzed company for the preparation of the financial analysis
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The rating in this report are based on the analyst's expectation of the absolute change in stock price over a period of 6 to 12 months and reflect the analyst's view of the potential for change in stock price as a percentage. The BUY and SELL ratings reflect the analyst's expected high change in the value of the stock.

The levels of change expressed in each rating categories are:

BUY > +10%

HOLD <=-10% and < = +10%

SELL > -10%.

Analyst certification

Sebastian Droste, financial analyst, hereby certifies that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities or issuers discussed herein. In addition, I hereby certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report, nor is it tied to any specific investment banking transaction performed by the Bank or its affiliates.

Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
25.08.2020	0.68	Buy	25.08.2020

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