

September 16, 2015

Europe | Germany | IT & Software

DR. KALLIWODA
RESEARCH GmbH

Update

BUY

Target price: EUR 3.46

Overview

Industry: IT Services & Software
Country: Germany
ISIN: DE0007008906
Reuters: RTCG.DE
Bloomberg: RTC GR
Website: www.realtech.com

Last price:		2,60
	High	Low
Price 52 W.:	3,37	2,33
Market cap. (EURm)		13,91
Number of shares (m)		5,35

Shareholders

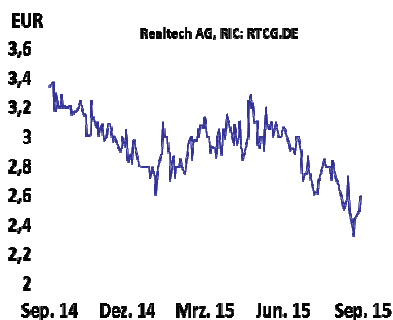
Free Float	51,41%
Daniele Di Croce	16,44%
Peter Stier	13,84%
Rainer Schmidt	12,92%
BW Versorgungsanstalt	5,39%

Performance

4 weeks	-3,49%
13 weeks	-15,31%
26 weeks	-16,40%
52 weeks	-22,25%
YTD	-4,41%

Dividend

	in EUR	in %
2011	0,30	11,54%
2012	0,00	0,00%
2013	0,00	0,00%
2014	0,00	0,00%



Analyst

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BLOOMBERG PAGE: KALL

Realtech AG

Going ahead in a determined pace

- REALTECH reported in 2015 its best H1 since 2010. Nevertheless the relatively current slowdown during the two last quarters alerts as a matter of concern if the Company does not increase its profitability in the second semester jeopardizing targeted profitability for 2015. In any case we rely on our previous estimates confirming a Buy rating for the Company, even though slightly decreasing it.
- Although Software segment reported a decline of 3% y-o-y with a decrease in the number of licenses except 2013 year, in our opinion it might recover profitability in mid-long term due to an optimistic view of the macroeconomic environment in the domestic market, fueled by a scenario of low interest rates and sustained growth.
- Even though the German market accumulates the most of the business revenues its figures declined anew by 8% y-o-y in comparison with the performance of its foreign subsidiaries which recorded increases of 27% y-o-y in the Pacific region or 85% y-o-y in USA. Its performance shows newly an EBIT in negative figures, even though it recovered a 79% increase y-o-y.
- Last year they use to have 342 employees at the end of H1/2014 and it did decrease to 302 employees at the end of H1/2015. While the main reduction of staff is coming about in Germany, where the headcount was reduced a 23% in consulting areas since 2013, we believe that these austerity measures should be enhanced as well as focusing in other areas to may get back to a sustained profitability in 2016.
- Fructiferous changes in the organization and management board, such as the appointment of Peter Weisbach, would start to bear these above-mentioned benefits, as well as recent partnerships with such companies as Atotech or the continuous development and implementation of SAP Hana with a wide range of institutions.

Key Figures

in EURm	2011	2012	2013	2014	2015E	2016E
Net sales	39,18	39,84	39,14	35,94	36,08	37,39
EBITDA	1,41	1,65	-4,95	-0,16	1,20	2,99
EBIT	0,17	0,42	-6,49	-1,31	-0,18	1,57
Net income	0,90	0,04	-7,09	-1,95	-0,33	1,07
EPS	0,17	0,01	-1,32	-0,36	-0,06	0,20
BVPS	4,77	4,40	3,12	2,73	2,67	2,87
RoE	3,59%	0,15%	-34,99%	-12,38%	-2,27%	7,17%
EBIT margin	0,43 %	1,05 %	-16,58 %	-3,65 %	-0,50 %	4,20 %
P/E	21,31x	536,09x	n/a	n/a	-58,34x	17,99x
P/BVPS	0,75x	0,81x	1,15x	1,31x	1,34x	1,25x
EV/EBITDA	12,00x	10,24x	n/a	n/a	14,02x	5,65x

Dr. Kalliwoda Research GmbH | Primary Research

Content

1	Company profile.....	3
2	Stock and shareholder structure.....	3
3	SWOT Analysis	4
4	Valuation.....	5
5	H1/15 results	6
6	Profit and loss statement.....	7
7	Balance sheet.....	8
8	Cash flow statement	9
9	Financial ratios	9
10.	Contact	11
11.	Essential information, disclosures and disclaimer	12

1 Company profile

Realtech AG is a Germany-based information technology (IT) company, specializing in IT consulting and systems management software solutions.

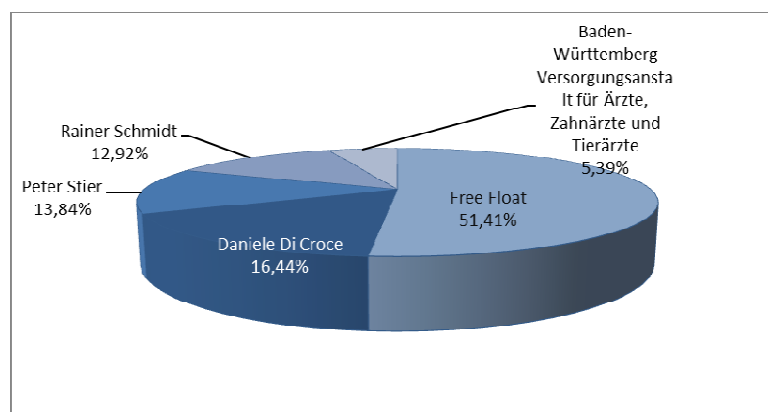
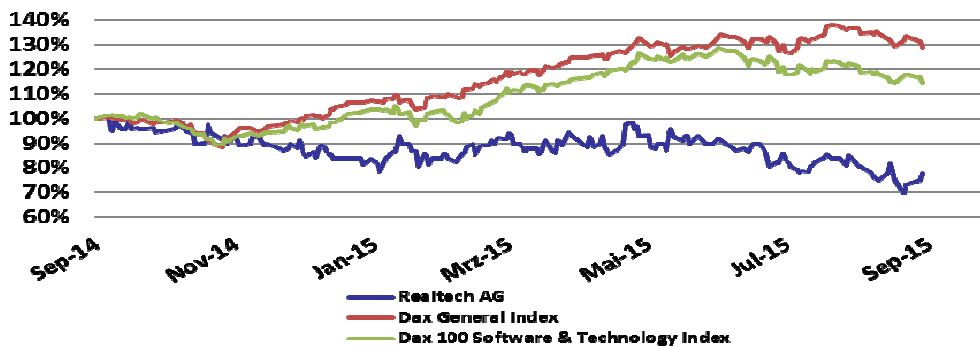
The company was founded in 1994 in Walldorf, nearby Heidelberg, and is listed on the Frankfurt stock exchange since 1999. Apart from Germany, REALTECH also has operations in other European countries, Asia/Pacific and North America. At the end of June 2014, it had 341 employees, thereof 261 in Germany.

The fast progress of IT technology resulted in a high number of enterprise application systems, as well as in a diverse and heterogenic landscape. Especially, non-integrated standalone systems, proprietary software and isolated applications have led to significant integration deficits, which at company level have limited cross-functional work processes and complicated information supply for disposition tasks.

REALTECH's IT consulting services can facilitate an instant integration of customers and suppliers into the value chain, which in turn can prevent media disruption and redundancies and allow new forms of intercompany collaboration.

REALTECHs' products allow IT departments or IT outsourcers to run a variety of applications and IT systems securely and efficiently and reduce IT costs significantly. Moreover REALTECH's Software segment develops and sells theGuard!, a software portfolio for enterprise-wide IT management and secure business processes. Among its range of solutions are included theGuard! Smartchange for adapting and enhancing complex SAP systems to new and evolving requirements; theGuard! Business Service Manager to monitor heterogeneous IT landscapes, and theGuard! ServiceDesk for improving IT service process.

2 Stock and shareholder structure



3 SWOT Analysis

Strength	Weaknesses
<ul style="list-style-type: none"> • Due to the long-standing co-operation with and proximity to SAP REALTECH has a know-how edge when it comes to SAP applications. • A unique selling point in the area of Consulting is the combination of SAP knowledge as well as supplemental business and strategic consulting. Thus, REALTECH can provide a fast and long-term project success. Due to the partnership, which is also valid in foreign markets, it is also possible to integrate international locations into a comprehensive IT landscape. • theGuard! product family is an internationally unique software portfolio for the monitoring and the secure operation of IT systems for company-wide use. In Europe, REALTECH is the largest manufacturer of IT service management solutions. Unique selling points are the close connection of all disciplines, the centralized storage according to standards such as ITIL as well as the application in small companies, simultaneously guaranteeing future scalability of product use. 	<ul style="list-style-type: none"> • Concentration on SAP solutions means a high dependence on market acceptance and SAP's existing customers. Thus, there is high business risk. However, a wide geographic diversification with branches in Europe, Asia and the US and cross-industry product distribution in over 25 countries reduce the above-mentioned risk. • There is strong competition in the area of Consulting.
Opportunities	Threats
<ul style="list-style-type: none"> • The OEM contract with SAP in the area of IT infrastructure management as well as expansion of SAP solutions should all contribute to internationalization and growth of high-margin sales. • Due to standardization of the consulting portfolio. product sales in new countries and third-party sales of the enterprise solution for SAP ByDesign, there is an opportunity to generate high scale effects. • A higher demand for change management support, driven by the trend to use external suppliers in order to further develop SAP software should lead to additional sales. • IT systems increasingly constitute the basis for cross-departmental business processes, which lead to a higher level of complexity. Thus, there is higher demand for REALTECH's solutions for flexible, automated and failsafe systems. 	<ul style="list-style-type: none"> • The ongoing consolidation within the IT industry can intensify competition through new or stronger competitors. This would result in a loss of revenues or lower prices. • A lack of qualified personnel caused by a structural shortage of supply in the industry would make it more difficult for the company to become aware of its opportunities. This is being counteracted by REALTECH's reputation as an attractive training provider, which stems from the company's SAP know-how.

4 Valuation

In order to value REALTECH, we have used our DCF model, which derives a 12-months price target for the stock of €3.46. Compared to the current market level, this corresponds to a downside of 3.1%.

DCF model

Discounted Cash Flow Model (Basis 8/2014)

in EURm	Phase 1								
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	35,94	36,08	37,39	40,08	40,30	40,44	40,72	41,59	42,60
(y-o-y change)	-8,2%	0,4%	3,6%	7,2%	0,5%	0,4%	0,7%	2,1%	2,4%
EBIT	-1,31	-0,18	1,57	2,53	2,70	2,71	2,73	2,79	2,85
(EBIT margin)	-3,7%	-0,5%	4,2%	6,3%	6,7%	6,7%	6,7%	6,7%	6,7%
NOPLAT	-1,56	-0,13	1,10	1,77	1,89	1,90	1,91	1,95	4,85
+ Depreciation	1,15	1,38	1,42	1,50	1,49	1,47	1,46	1,47	1,49
= Net operating cash flow	-0,41	1,26	2,52	3,27	3,38	3,37	3,37	3,42	6,34
- Total investments (Capex and WC)	-1,76	-0,38	-1,15	-2,09	-1,62	-1,59	-1,53	-1,68	-1,65
Capital expenditure	-0,48	-1,46	-1,55	-1,64	-1,61	-1,59	-1,59	-1,60	-1,62
Working capital	-1,28	1,08	0,39	-0,45	-0,01	0,01	0,06	-0,08	-0,03
= Free cash flow (FCF)	-2,17	0,88	1,36	1,17	1,76	1,78	1,84	1,74	4,69
PV of FCF's	0,00	0,79	1,13	0,89	1,24	1,16	1,10	0,96	2,39
PV of FCFs in explicit period	9,67								
PV of FCFs in terminal period	5,98								
Enterprise value (EV)	15,64								
+ Net cash / - net debt	2,35								
+ Investments / - Minorities	-0,81								
Shareholder value	17,18								
Number of shares outstanding (m)	5,39								
WACC	8,4%								
Equity costs	8,4%								
Debt costs before tax	6,0%								
Tax rate	30,0%								
Debt costs after tax	4,2%								
Equity ratio	100,0%								
Debt ratio	0,0%								
Fair value per share in € (today)	3,19								
Fair value per share in € (in 12 months)	3,46								

Sensitivity analysis		Terminal EBIT margin						
		0,2%	1,2%	2,2%	3,2%	4,2%	5,2%	6,2%
WACC	5,4%	2,48	3,36	4,25	5,13	6,01	6,90	7,78
	6,4%	2,39	3,05	3,72	4,39	5,05	5,72	6,38
	7,4%	2,30	2,82	3,34	3,86	4,38	4,90	5,42
	8,4%	2,21	2,62	3,04	3,46	3,87	4,29	4,71
	9,4%	2,12	2,46	2,80	3,14	3,48	3,82	4,16
	10,4%	2,04	2,32	2,61	2,89	3,17	3,45	3,73

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* H1 group revenue of 17.8 million euros (\$19.48 million), which was 5 pct higher than in previous year (H1 2014: 16.9 million euros)

* H1 net loss narrowed from 1.5 million euros to loss of 0.6 million euros compared with first six months of previous year

* H1 operating loss (EBIT) narrowed from 1.3 million euros to loss of 0.3 million euros and EBITDA improved from loss of 0.7 million euros to profit of 0.1 million euros

* Continues to expect operating profit (EBIT) for 2015 fiscal year to improve in a range between 0.0 million euros and 1.0 million euros Source text for Eikon: Further company coverage: (\$1 = 0.9138 euros) (Gdynia Newsroom)

5 H1/15 results

Revenues

In H1/2015, REALTECH generated total sales which were 5% higher compared to last year (vs H1/2014 €16.9m). Despite many efforts through transformation and restructuring are yet to be done, H1/2015 has been marked as the best since H1/10.

Revenues of the Software division remained quite flat q/q as it reached €2.6m for the second 3 months out of the year matching the same figure for the same period in 2014. In contrast to stable revenues in the Software segment, the Consulting division's revenue decreased a 6% going down to €6.1m from €6.5m q/q for the second 3 months of 2015. As a consequence EBIT experience a slight reduction moving this figure to a negative field for Q2/15. In any case, the Company has been able to maintain its profitability through a thorough reduction in the number of consultants, implying a further comprehensive optimization of its capacity. Nevertheless REALTECH needs to further implement changes in its headcount, re-staffing such areas as Consulting to may maintain a long-term sustained growth, as well as change the trend in the attrition rate to reduce employment costs in such other areas as administration or other related services.

H1/15 vs. previous year

in EURm	H1 2015	H1 2014	H1/15 vs H1/14
Net sales	17,83	16,93	5,3%
EBIT	-0,27	-1,30	-79,1%
<i>EBIT margin</i>	-1,5%	-7,7%	
Net income	-1,20	-1,38	-13,2%
<i>Net margin</i>	-6,7%	-8,1%	

Source: Company information, Dr. Kalliwoda Research GmbH © Copyright 2015

Sales and Gross margins according to segments

Sales and Gross margins according to segments H1/15 vs. H1/14					
	H1/15	H1/14		H1/15	H1/14
Consulting			Group		
Sales €m	12,58	11,51	Total sales	17,83	16,93
share in total sales	70,5%	68,0%	change y-o-y	5,3%	
Gross margin	65,3%	63,7%			
Software					
Sales €m	5,26	5,42			
share in total sales	29,5%	32,0%			
Gross margin	17,0%	22,9%			
Germany			USA		
Sales €m	10,98	11,94	Sales €m	2,20	1,20
share in total sales	61,6%	70,5%	share in total sales	12,3%	7,1%
Portugal			Asia/Pacific		
Sales €m	0,20	0,30	Sales €m	4,40	3,50
share in total sales	1,1%	1,8%	share in total sales	24,7%	20,7%

Source: Company information, Dr. Kalliwoda Research GmbH © Copyright 2015

6 Profit and loss statement

Profit and loss statement - Realtech AG						
in EURm	Fiscal year					
	2011	2012	2013	2014	2015E	2016E
Sales split						
Consulting	26,43	27,56	25,68	24,25	23,73	24,62
Software	12,74	12,28	13,46	11,69	12,35	12,77
Net sales	39,18	39,84	39,14	35,94	36,08	37,39
Change in inventories	0,00	0,00	0,00	0,00	0,00	0,00
Total Output	39,18	39,84	39,14	35,94	36,08	37,39
Cost of goods sold	-20,99	-20,52	-22,25	-18,88	-16,06	-16,45
Gross profit	18,18	19,32	16,89	17,06	20,03	20,94
Other operating income	1,05	1,32	1,07	1,91	1,95	1,99
Distribution costs	-7,61	-8,22	-11,05	-7,85	-8,66	-8,84
Depreciation & Amortization	-1,24	-1,23	-1,54	-1,15	-1,38	-1,42
Administration costs	-4,97	-5,44	-5,73	-6,06	-5,07	-5,14
R&D costs	-4,30	-4,36	-5,11	-4,54	-4,71	-4,88
Other operating expenses	-0,94	-0,97	-1,01	-0,69	-2,33	-1,08
EBIT	0,17	0,42	-6,49	-1,31	-0,18	1,57
Net financial results	-0,21	0,09	-0,23	-0,24	-0,23	-0,22
EBT	-0,04	0,51	-6,72	-1,56	-0,41	1,35
Income taxes	-0,17	-0,47	0,15	-0,29	0,12	-0,40
Minority interests	-0,09	-0,24	-0,12	-0,15	-0,04	0,13
Net income / loss	-0,30	-0,21	-6,69	-2,00	-0,33	1,07
EPS	0,17	0,01	-1,32	-0,36	-0,06	0,20
DPS	0,30	0,00	0,00	0,00	0,00	0,00
Change y-o-y						
Net sales	n.a	1,68%	-1,74%	-8,18%	0,39%	3,61%
Total Output	n.a	1,68%	-1,74%	-8,18%	0,39%	3,61%
Cost of goods sold	n.a	-2,27%	8,44%	-15,15%	-14,95%	2,45%
Gross profit	n.a	6,25%	-12,56%	1,01%	17,37%	4,54%
Other operating income	n.a	26,61%	-19,18%	79,02%	2,00%	2,00%
Distribution costs	n.a	7,98%	34,42%	-29,00%	10,35%	2,10%
Depreciation & Amortization	n.a	-0,71%	25,33%	-25,47%	20,54%	2,26%
Administration costs	n.a	9,33%	5,45%	5,75%	-16,40%	1,40%
R&D costs	n.a	1,53%	17,13%	-11,09%	3,68%	3,61%
Other operating expenses	n.a	3,89%	4,13%	-32,08%	239,71%	-53,80%
EBIT	n.a	148,79%	-1651,46%	-79,76%	-86,26%	-970,33%
Net financial results	n.a	-144,79%	-350,07%	6,36%	-4,09%	-4,26%
EBT	n.a	-1474,92%	-1416,97%	-76,81%	-73,37%	-424,35%
Income taxes	n.a	174,83%	-130,79%	-301,82%	-142,23%	-424,35%
Minority interests	n.a	161,28%	-51,01%	23,92%	-73,37%	-424,35%
Net income / loss	n.a	-31,81%	3145,70%	-70,11%	-83,52%	-424,35%
EPS	n.a	-96,02%	-19854,84%	-72,50%	-83,09%	-424,35%
DPS	n.a	-100,00%	n.a	n.a	n.a	n.a
Share in total sales						
Share in total sales						
Net sales	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %
Total Output	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %
Cost of goods sold	-53,59 %	-51,50 %	-56,84 %	-52,53 %	-44,50 %	-44,00 %
Gross profit	46,41 %	48,50 %	43,16 %	47,47 %	55,50 %	56,00 %
Other operating income	2,67 %	3,32 %	2,73 %	5,33 %	5,41 %	5,33 %
Distribution costs	-19,44 %	-20,64 %	-28,24 %	-21,83 %	-24,00 %	-23,65 %
Depreciation & Amortization	-3,16 %	-3,09 %	-3,94 %	-3,20 %	-3,84 %	-3,79 %
Administration costs	-12,70 %	-13,65 %	-14,65 %	-16,87 %	-14,05 %	-13,75 %
R&D costs	-10,97 %	-10,95 %	-13,06 %	-12,64 %	-13,06 %	-13,06 %
Other operating expenses	-2,39 %	-2,44 %	-2,58 %	-1,91 %	-6,47 %	-2,88 %
EBIT	0,43 %	1,05 %	-16,58 %	-3,65 %	-0,50 %	4,20 %
Net financial results	-0,52 %	0,23 %	-0,59 %	-0,68 %	-0,65 %	-0,60 %
EBT	-0,09 %	1,28 %	-17,16 %	-4,33 %	-1,15 %	3,60 %
Income taxes	-0,44 %	-1,19 %	0,37 %	-0,82 %	0,34 %	-1,08 %
Minority interests	-0,24 %	-0,61 %	-0,30 %	-0,41 %	-0,11 %	0,34 %
Net income / loss	-0,77 %	-0,52 %	-17,09 %	-5,56 %	-0,91 %	2,86 %

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7 Balance sheet

Balance sheet - Realtech AG						
in EURm	Fiscal year					
	2011	2012	2013	2014	2015E	2016E
Assets						
Cash and cash equivalents	13,22	11,26	7,35	4,90	4,95	6,11
Securities	0,00	4,28	0,14	0,03	0,00	0,00
Trade accounts and notes receivables	9,88	9,04	5,81	7,90	5,35	5,55
Other current assets	4,93	1,19	2,80	0,93	2,70	2,31
Current assets	28,04	25,77	16,10	13,76	13,00	13,97
Property, plant and equipment	13,64	13,29	12,79	12,09	12,21	12,34
Other intangible assets	0,44	0,47	0,27	0,30	0,25	0,26
Goodwill	4,33	4,33	4,33	4,33	4,33	4,33
Other financial assets	0,66	0,30	0,22	0,21	0,20	0,21
Deferred tax assets	2,91	3,10	0,32	0,30	0,40	0,08
Non-current assets	21,98	21,50	17,93	17,24	17,40	17,22
Total assets	50,02	47,28	34,03	31,00	30,40	31,19
Liabilities						
Trade payables	1,36	1,95	1,17	1,48	0,85	0,87
Other liabilities	10,25	3,09	5,53	4,18	5,10	5,28
Short-term leasing debt	1,82	8,40	3,09	3,08	3,09	3,10
Provisions	3,05	2,67	1,70	2,18	1,57	1,63
Current liabilities	16,48	16,12	11,50	10,92	10,61	10,88
Long-term leasing debt	5,14	4,69	4,67	4,23	4,13	4,03
Deferred tax liabilities	1,84	1,88	0,36	0,30	0,40	0,08
Long-term liabilities	6,99	6,57	5,03	4,53	4,53	4,11
Total liabilities	23,47	22,69	16,53	15,45	15,14	14,99
Shareholders equity	25,61	23,71	16,79	14,70	14,37	15,44
Minority interests	0,93	0,87	0,71	0,85	0,89	0,77
Total equity and liabilities	50,02	47,28	34,03	31,00	30,40	31,19

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8 Cash flow statement

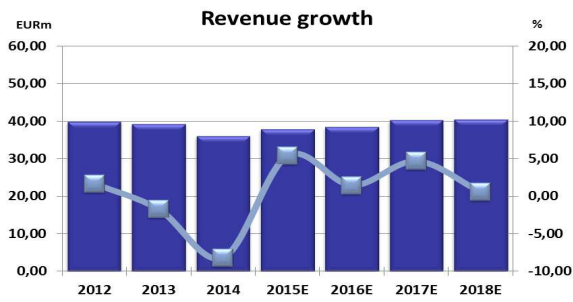
Cash flow statement - Realtech AG						
in EURm	Fiscal year					
	2011	2012	2013	2014	2015E	2016E
Net income / loss	0,90	0,04	-7,09	-1,95	-0,33	1,07
Depreciation & Amortization	1,24	1,23	1,54	1,15	1,38	1,42
Change of working capital	6,73	-0,97	2,60	-1,28	1,08	0,39
Others	-6,32	0,50	2,17	0,44	-0,61	0,06
Net operating cash flow	2,54	0,79	-0,77	-1,64	1,52	2,93
Cash flow from investment	4,33	-0,52	-2,40	-0,48	-1,46	-1,55
Free cash flow	6,88	0,27	-3,17	-2,11	0,06	1,39
Cash flow from financing	-0,05	-2,08	-0,22	-0,33	-0,02	-0,22
Change of cash	6,86	-1,96	-3,91	-2,45	0,04	1,16
Cash at the beginning of the period	6,36	13,22	11,26	7,35	4,90	4,95
Cash at the end of the period	13,22	11,26	7,35	4,90	4,95	6,11

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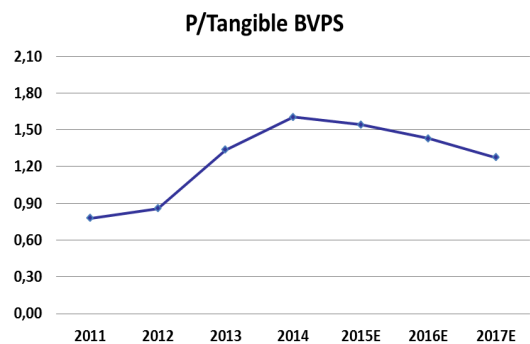
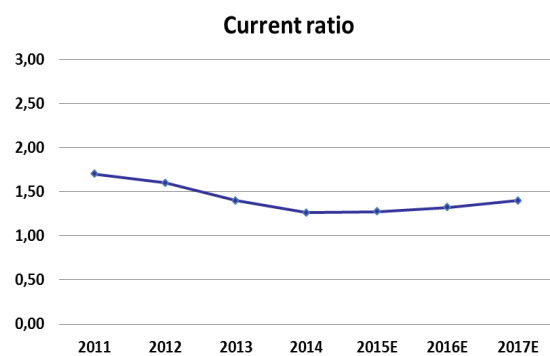
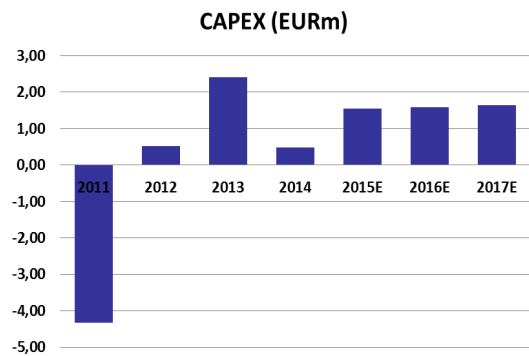
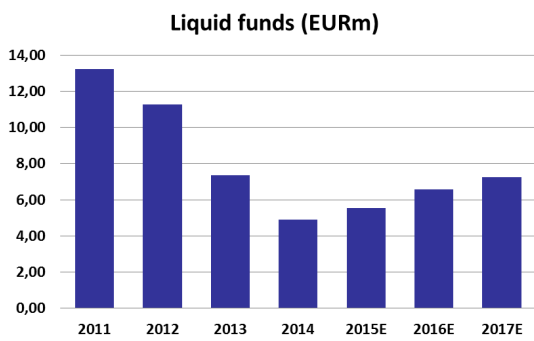
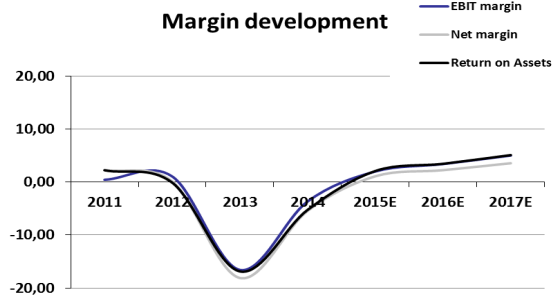
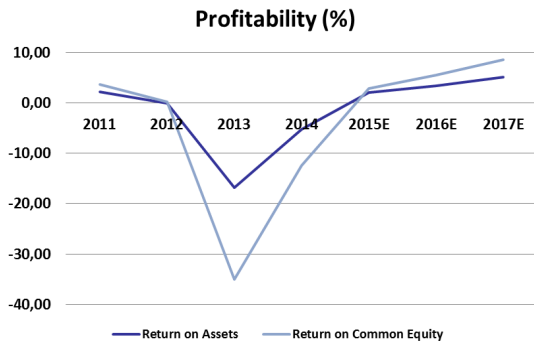
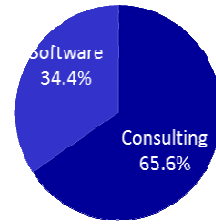
9 Financial ratios

Fiscal year	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Gross margin	46,41%	48,50%	43,16%	47,47%	55,50%	56,00%	56,50%	57,00%
EBITDA margin	3,59%	4,14%	-12,64%	-0,46%	3,34%	7,99%	10,04%	10,39%
EBIT margin	0,43%	1,05%	-16,58%	-3,65%	-0,50%	4,20%	6,30%	6,70%
Net margin	2,29%	0,09%	-18,10%	-5,42%	-0,91%	2,86%	4,58%	4,92%
Return on equity (ROE)	3,59%	0,15%	-34,99%	-12,38%	-2,27%	7,17%	11,22%	10,85%
Return on assets (ROA)	2,22%	-0,12%	-16,86%	-5,24%	-0,31%	4,20%	6,41%	6,57%
Return on capital employed (ROCE)	2,83%	0,09%	-28,17%	-7,78%	-0,64%	5,41%	8,31%	8,46%
Net debt (in EURm)	-6,25	-2,45	0,27	2,38	2,27	1,02	-0,10	-1,73
Net gearing	-24,41%	-10,32%	1,63%	16,19%	15,81%	6,60%	-0,60%	-8,98%
Equity ratio	51,21%	50,16%	49,32%	47,42%	47,27%	49,50%	52,80%	56,95%
Current ratio	1,70	1,60	1,40	1,26	1,23	1,28	1,39	1,52
Quick ratio	1,40	1,52	1,16	1,18	0,97	1,07	1,14	1,28
Net interest cover	0,82	-4,55	-28,23	-5,37	-0,77	6,99	11,77	13,20
Net debt/EBITDA	-4,45	-1,48	-0,06	-14,43	1,89	0,34	-0,03	-0,41
Tangible BVPS	3,97	3,60	2,31	1,92	1,86	2,06	2,40	2,77
Capex/Sales	-0,96%	-2,30%	-2,14%	-1,33%	-4,04%	-4,14%	-4,09%	-4,00%
Working capital/Sales	8,19%	13,03%	4,86%	8,84%	5,83%	4,57%	5,40%	5,39%
EV/Sales	0,43	0,42	0,43	0,47	0,47	0,45	0,42	0,42
EV/EBITDA	12,00	10,24	n/a	n/a	14,02	5,65	4,20	4,03
EV/EBIT	100,43	40,37	n/a	n/a	-93,57	10,75	6,69	6,25
P/Tangible BVPS	0,90	0,99	1,54	1,85	1,92	1,73	1,49	1,29
P/E	21,31	536,09	n/a	n/a	-58,34	17,99	10,48	9,70
P/FCF	2,76	69,64	n/a	n/a	309,04	13,70	14,01	10,21

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Sales split 2014



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