

# Ultrasonic AG

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## Basic Report / IPO

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Fair value

€ 20.75

(pre-money valuation)



## Urban Footwear for modern China

Ultrasonic, a well-established player in the Chinese footwear industry, is now striving at capturing a significant share of the upcoming, booming premium quality shoe market in China.

While China is the world's biggest shoe producer with a global production of approx. 61%, the domestic demand for premium quality shoes is still in its infancy and is expected to grow substantially, even outperforming the increase in overall consumption. In 2015, the expected market size of the premium segment will be approx. € 3.3 Bill. translating into a CAGR<sub>2010-2015</sub> of more than 37% (source: Respect Marketing Research, Inc.).

With its branded premium shoes, Ultrasonic is addressing the fast growing Chinese urban middle class. Offering casual, business, and outdoor shoes, the Company satisfies the target group's desire for individual needs and styles.

From 2008 to 2010, sales revenues grew at a CAGR of 43% from ca. € 50 Mill. to € 102 Mill. During the same period, net profit increased from € 8.4 Mill. to € 21.9 Mill., even outperforming the sales growth dynamics with a CAGR of 61%. The net margin gradually improved from 16.9% to 21.4%. In 2010, each of the three segments contributed ca. 1/3 to the top line and showed an operating margin above 25%. H1 and Q3 figures indicate a continuing, significant growth for the current fiscal year.

While soles and sandals & slippers are being produced in Ultrasonic's own production facility, the production of premium shoes is currently being outsourced. Starting to repatriate the production in 2012, the Company aims at increasing its value creation depth and improving margins.

The focus of Ultrasonic's growth strategy is to build a significant market share in the premium urban footwear segment, to become a leading player and to increase brand awareness in this market. To accelerate the timely realization of this strategy, the Company is now entering the German capital market with the goal to raise funds amounting to € 15 Mill. The proceeds are earmarked for expansion of the factory and production lines (72%), as well as for brand building (18%) and working capital (10%).

### Key data / Earnings

| Year  | Sales<br>(Mill. €) | EBITDA<br>(Mill. €) | EBIT<br>(Mill. €) | EBT<br>(Mill. €) | Net Profit<br>(Mill. €) | EPS<br>(€) | DPS<br>(€) | EBIT-<br>Margin | Net-<br>Margin |
|-------|--------------------|---------------------|-------------------|------------------|-------------------------|------------|------------|-----------------|----------------|
| 2010a | 102.1              | 31.1                | 29.7              | 29.4             | 21.9                    | 2.19       | 0.00       | 29.1%           | 21.4%          |
| 2011e | 118.0              | 34.6                | 33.2              | 33.1             | 24.8                    | 2.48       | 0.00       | 28.1%           | 21.0%          |
| 2012e | 134.0              | 36.6                | 35.0              | 35.0             | 26.3                    | 2.63       | 0.00       | 26.1%           | 19.6%          |
| 2013e | 152.0              | 39.8                | 38.0              | 38.1             | 28.5                    | 2.85       | 0.00       | 25.0%           | 18.8%          |
| 2014e | 175.0              | 44.7                | 42.5              | 42.6             | 31.9                    | 3.19       | 0.00       | 24.3%           | 18.3%          |

Source: BankM Research

|                       |                     |
|-----------------------|---------------------|
| Sector                | Clothing & Footwear |
| WKN                   | A1KREX              |
| ISIN                  | DE000A1KREX3        |
| Trading Symbol        | US5 GY              |
| Accounting standard   | IFRS                |
| Financial year        | Dec 31              |
| Market segment        | Regulated Market    |
| Transparency standard | Prime Standard      |

### Financial Ratios at Fair Value

|                 | 2011e | 2012e | 2013e |
|-----------------|-------|-------|-------|
| EV/Sales        | 1.4   | 1.2   | 1.1   |
| EV/EBITDA       | 4.6   | 4.4   | 4.0   |
| EV/EBIT         | 4.8   | 4.6   | 4.2   |
| P/E             | 8.4   | 7.9   | 7.3   |
| Price/Bookvalue | 2.5   | 1.9   | 1.5   |
| Price/FCF       | 8.2   | 8.8   | 8.4   |
| ROE             | 36%   | 27%   | 23%   |

### IPO data

|                                  |                                                                              |
|----------------------------------|------------------------------------------------------------------------------|
| Number of Shares<br>(before IPO) | 10.00 Mill.                                                                  |
| Free float                       | > 10%                                                                        |
| Lead Manager                     | biw AG - BankM                                                               |
| Issue volume                     | up to 1.725 Mill. shares<br>incl. Greenshoe, compl.<br>from capital increase |
| Internat. Roadshow               | Nov 28 - Dec 7, 2011                                                         |
| Bookbuilding range               | € 9.00 - 11.00                                                               |
| Subscription period              | Nov 29 - Dec 7, 2011                                                         |
| First listing                    | Dec 9, 2011                                                                  |
| IPO lock-up                      | 18M for Management /<br>Founder (82% of the stock)                           |

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This document has been prepared due to a service agreement with the respective issuer. BankM – Repräsentanz der biw AG acts as Sole Bookrunner and as Sole Lead Manager for the current IPO, will be the designated sponsor of the company's stock and in its function as a designated sponsor will regularly hold a trading stock or long or short positions in the company's stock. For the public offering, a prospectus has been prepared as the only offering document. This prospectus is available at [www.ultrasonic-ag.de](http://www.ultrasonic-ag.de). Potential investors are strongly recommended to read the prospectus before buying shares of the company. Equity investments generally involve high risks. Potential investors should take into account that share prices may fall and rise and that income from an investment may fluctuate considerably. Investors may lose some or all of the money invested. Investors make their decisions at their own risk. biw Bank für Investments und Wertpapiere AG, Willich, is responsible for the preparation of this document.

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## Investment Criteria

Ultrasonic is a well-established player in the Chinese footwear market. Its premium products address the fast growing Chinese urban middle-class. In order to expand its premium segment and to further enhance the Ultrasonic brand, the Company intends to raise capital in the German capital market.

Following, we highlight the investment criteria which we perceive as relevant for the investor:

- Fast growing company with a sales CAGR<sub>2008-2010</sub> of 43% from ca. € 50 Mill. to € 102 Mill.
- Company is highly profitable with a group-wide net margin above 21% in 2010
- Experienced management with a 28 year expertise in the footwear industry; track record evidenced by established long-term relationships with leading Chinese shoe producers and trading companies
- With its strategic focus on urban footwear, Ultrasonic aims at capitalizing on the huge potential inherent to the booming market for premium casual shoes
- Early mover in building a renowned urban footwear brand; already established a network of 76 tightly controlled mono-labeled stores under the brand name "Ultrasonic"
- Repatriating the production of premium shoes in 2012, the Company will increase its value creation depth and improve margins
- Strong cash position as of June 30, 2011: €51.9 Mill  
→ Albeit internal financing of the expansion strategy is secured, additional IPO-proceeds would allow to ramp up the envisaged investment and to significantly accelerate growth

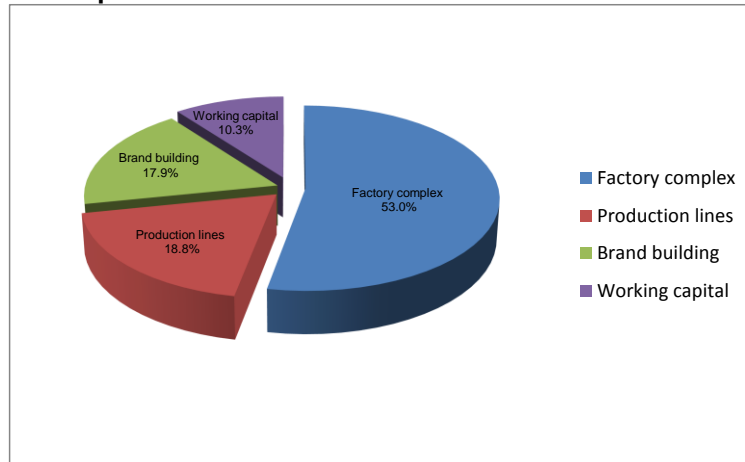
## IPO

Ultrasonic AG, the Germany-based holding of the Ultrasonic group (see below: Group Structure), will enter the Prime Standard at the Frankfurt Stock Exchange. The Company intends to issue up to 1.725 Mill new shares including Greenshoe with a bookbuilding range between € 9.00 – 11.00; a replacement of existing shareholder stock is precluded.

## Use of Proceeds

The Company intends to use the proceeds from the capital increase for accelerating its growth through expanding its factory and production lines, advancing its brand and supplying working capital. The figure below shows the distribution of the total investment.

## Use of proceeds



## Current Shareholder Structure

| Existing Shareholders | Number of Shares  | Percentage of Share Capital (%) |
|-----------------------|-------------------|---------------------------------|
| Mr. WU Qingyong       | 8,200,000         | 82.00%                          |
| Ms YEUNG Sheung Nga   | 500,000           | 5.00%                           |
| Others                | 1,300,000         | 13.00%                          |
| <b>Total</b>          | <b>10,000,000</b> | <b>100.00%</b>                  |

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## Group Structure

Ultrasonic AG, 100% shareholder of a Hong Kong holding with three Chinese operating shoe manufactures



Source: Ultrasonic AG

## Corporate Profile

### Company Description

Ultrasonic is engaged in the design, manufacture and distribution of shoe soles, sandals & slippers, casual shoes and accessories. Shoe soles are sold mainly to PRC footwear manufacturers such as Anta Sports, Xtep China and Unisuper, which utilize Ultrasonic's shoe soles in the production of their footwear products.

Ultrasonic's sandals and slippers are sold mainly to PRC trading companies which export the products to overseas markets such as Europe, Japan, Mexico, North America, South Korea and Taiwan.

Shoe soles and sandals & slippers are manufactured in-house and sold under the end customer's brand labels such as Lotto, Pepsi, Spalding, Dr. Martens, and Deichmann as well as under its own brand.

The production of casual shoes and accessories has been outsourced due to a limitation of in-house capacity; these products are distributed under Ultrasonic's own brand name in dedicated, tightly controlled shops.

Since inception, Ultrasonic PRC has established good working relationships with its customers. In FY 2010, more than 95% of Ultrasonic's revenues were generated with repeat customers from the previous two years. To maintain the well-established relationship, Ultrasonic regularly invites existing and potential customers to the production facilities.

**Production capacity at its limit with need for outsourcing**

Ultrasonic has over the years obtained several awards which we consider as a proof for the Company's quality products and brand name.

Ultrasonic's production facilities are located in Jinjiang City, Fujian Province, PRC. As of June 30, 2011, the Company employed 1,372 people.

## Products and Development

Ultrasonic is operating in the following segments of the footwear sector:

- highly specified sport shoe soles for renowned national brand manufacturers (e.g. Anta Sports, Xtep China and Unisuper)
- sandals & slippers sold to domestic trading companies for national and international distribution for brands like Deichmann, Lotto, and Spalding
- premium quality urban footwear designed under the proprietary "Ultrasonic" label and being mainly sold in currently 76 distributor-operated, tightly controlled mono-label stores

### 1. General

Currently, Ultrasonic's production facilities have a combined built-in-area of ca. 18,500 m<sup>2</sup> with machinery and equipment to produce the feed stock for the production of shoe soles (polymeric rubber foam), 18 shoe sole moulding machines, seven assembly lines, and 238 sewing machines, amongst others.

All products are designed and developed by a dedicated design and development department to ensure that the Company keeps up with the latest fashion trends. The experienced team of 15 employees (2010) uses state-of-the-art computer design software and is continuously testing various raw materials and combinations thereof. The creation of a prototype generally takes ca. three to four weeks. The main objective in product design and development is to develop a wide array of high-quality and trendy shoe soles, sandals and slippers as well as casual shoes for each season to meet the client's specific needs. Therefore, the Company is actively seeking feedback from its customers and takes their specification into consideration when developing new designs and products.

It is Ultrasonic's quality management, which substantially contributes to its growth and success. The Company has implemented stringent quality control measures at different stages of its production process. The internal quality control measures, from the sourcing and procurement of raw materials to the delivery of finished goods, adhere closely to ISO guidelines. Some of Ultrasonic's customers also carry out audits each year on various aspects of the manufacturing and quality assurance capabilities to ensure that the products meet their standards and requirements.

### 2. Ordinary Products

Pertaining to its in-house production (shoe soles and sandals & slippers), the Company enjoys a vertically integrated manufacturing process, comprising the production of certain raw materials, the assembly of finished goods, and packaging. Below we show the process of the in-house manufactured products and the vertically integrated production process:

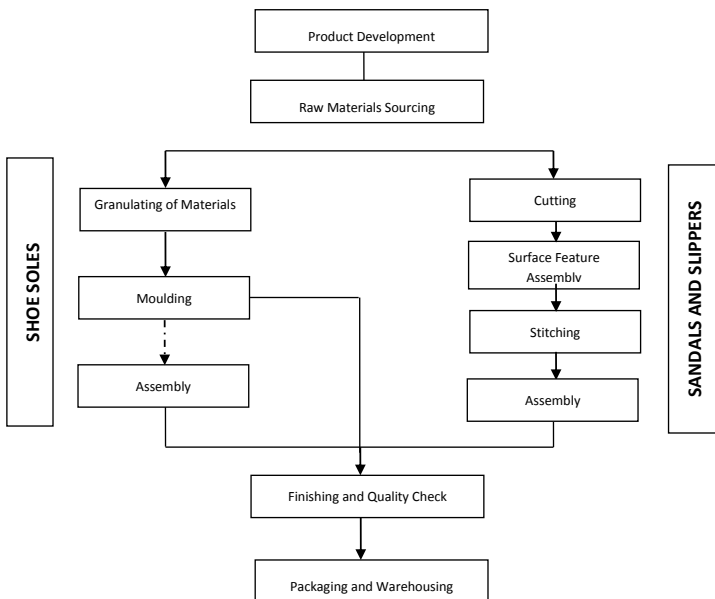
**Up-to-date with latest fashion trends ...**

**... and stringent quality control**

**Vertically integrated production process**

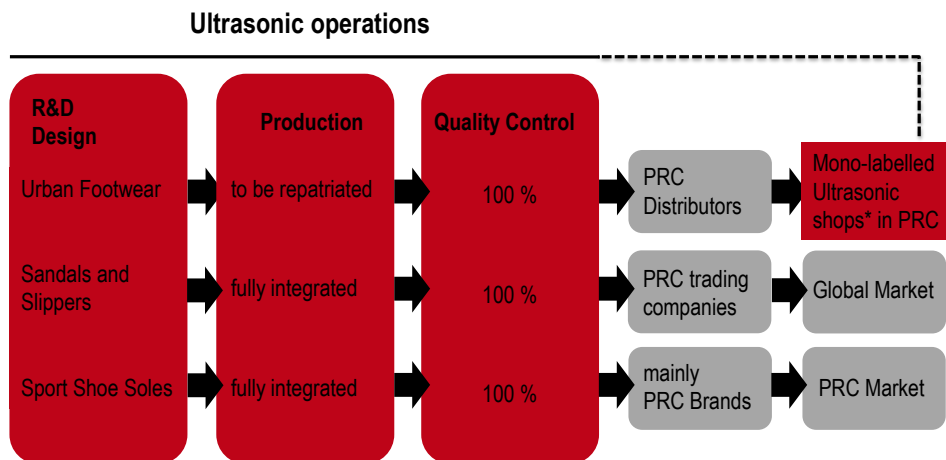
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## Manufacturing Process



Source: Ultrasonic AG

## Vertically integrated production process



\* Closely controlled by Ultrasonic

Source: Ultrasonic AG

### 3. Premium Quality Footwear

With its branded premium casual leather shoes as a strategic focus, Ultrasonic is addressing the fast growing Chinese urban middle class. Offering casual, business, and outdoor shoes, the Company aims at satisfying the target group's desire for individual needs and styles.

Since introduction of the new product line in 2008, the manufacturing has been outsourced to third parties due to limited in-house capacity. The premium products are sold in dedicated, mono-labeled Ultrasonic shops all over the PRC (currently 76).

**Target group for premium shoes: urban middle class**

Compared to the domestic sport shoe market with some leading brands, the Chinese consumer market for casual leather shoes is still in an early stage without any dominant brands. Considering the increasing brand awareness within the target group, the demand for high quality urban footwear is expected to grow significantly.

## **Expansion of in-house capacity and repatriating production of premium shoes**

### **Business Model and Strategy**

In order to satisfy the increasing demand for its products, Ultrasonic intends to further invest in its shoe soles production capacities as well as in additional production and assembly lines for sandals and slippers. In addition, the Company strives at repatriating the currently out-sourced production of premium urban footwear by acquiring new production and assembly lines for casual shoes.

Further, Ultrasonic intends to construct a new 6-storey factory located in Jinjiang City, Fujian Province, PRC by the end of 2011 on the newly acquired premises. Also, a new 7-storey factory complex including standard workshop, warehouse, office premises and dormitory located in Zhangzhou, Fujian Province, PRC in 2013 to provide sufficient space for the aforesaid new installed production facilities.

The investments planned reflect the Company's goal

- to expand on its generic in-house production of shoe soles and sandals & slippers
- to repatriate the out-sourced production of premium urban footwear
- to increase market share and to further develop brand awareness

## **Strategic focus: brand building**

Being a strategic focus, the Company intends to strengthen the Ultrasonic brand and to further develop its distribution network. Brand building will largely depend on the success of the envisaged marketing and advertising activities: strong market presence and increasing brand awareness are key for the future growth of the Company.

## **Major growth driver: premium urban footwear**

The main mover of growth will be the premium urban footwear products which are being sold in tightly controlled, mono-labeled Ultrasonic stores. This collection is designed and priced for the fast growing consumer group in the PRC, i.e. the fashion-orientated urban professionals which high purchasing power.

Repatriating the production of premium urban footwear, will improve the segment's margins and hence profitability on the corporate level. According to Company information, the outsourcing costs amount to ca. 70% of the selling price to distributors - costs which are likely to be reduced due to unfolding synergy potential in the repatriating process.



## Company History

- 2011** Opening of the 75th Ultrasonic shop in June 2011 Incorporation of Ultrasonic AG. The Group in its current structure was established in the course of a capital increase of the Company by way of a contribution in kind pursuant to which all the shares in Ultrasonic HK were transferred to the Company against issuance of 10 Mill. new shares
- 2009** In May, Ultrasonic Xiamen held its first open-house exhibition in its premise, during which it extended invitation to its existing and potential customers and distributors to visit its facilities and latest product exhibition  
Opening of the first Ultrasonic Shop in the Heilongjiang province (Northern PRC)
- 2008** Start of the production of casual shoes  
Ultrasonic Xiamen was founded in Xiamen, Fujian Province, PRC, by Ultrasonic Shoes
- 2007** Ultrasonic trademark was affirmed as a "Well-known Trademark of China" by the Hunan Province Huaihua City Intermediate People's Court  
Commencing of the production of sandals and slippers for the end customer in Mexico under the "Spalding" brand  
Ultrasonic HK was incorporated in Hong Kong
- 2006** Commencing of the production of PU dual color and dual density shoe soles  
Ultrasonic Shoes received the ISO 9001:2000 certification for its quality control standards and production capabilities  
Shenghui Footwear was awarded "Advanced Enterprise in Famous Brand Creation" for the years 2003-2005 as a testimonial for its growing brand equity
- 2005** Shenghui Footwear was named a "Trustworthy and Creditworthy Enterprise" for the years 2003-2004  
Shenghui Footwear was named as a "Class A Creditworthy Tax Paying Enterprise"
- 2004** Shenghui Footwear received the ISO 9001:2000 certification for its quality control standards and production capabilities  
Start of the production of sandals and slippers under its own Ultrasonic brand  
"Ultrasonic Shoes" was awarded "Famous Trademark of Fujian Province"
- 2003** Commencing of the production of EVA sandals and slippers  
Shenghui Footwear was named as "One of the Top 10 Enterprises in the Major Industry of Fujian Province and Class AA Creditworthy Tax Paying Enterprise"  
Commencing of the production of sandals and slippers for end customers in Italy under the "Lotto" brand
- 2002** Ultrasonic Shoes was awarded "Famous Brand of Fujian Province"

- Ultrasonic Shoes was awarded "Fujian Province Customer Satisfaction Products Award" for 2001
- Extension of the production to TPR sandals and slippers
- 2001** Ultrasonic Shoes was founded in Jinjiang City, Fujian Province, China, as a wholly foreign-owned enterprise ("WFOE") by Mr. WU Qingyong through Chin Lung Holdings Limited, a company incorporated in Hong Kong
- Commencing of the production of EVA shoe soles and EVA pellets
- 1999** Commencing of the production of PU shoe soles
- Shenghui Footwear was awarded the "Gold Prize in Products at the 1st Jinjiang Footwear (International) Exposition" in recognition of the quality of products
- 1998** Shenghui Footwear was founded in Jinjiang City, Fujian Province, China as a wholly foreign-owned enterprise ("WFOE") by Mr. WU Qingyong through Chin Lung Holdings Limited, a company incorporated in Hong Kong
- Commencing of the production of TPR shoe soles and TPR pellets at the end of the year

## Management

### Mr. WU Qingyong CEO (Chief Executive Officer)

Mr. WU Qingyong is Ultrasonic's founder and Chairman and Chief Executive Officer, in charge of the business operations, strategic planning and development of Ultrasonic. Since founding Ultrasonic in 1998, he has played an instrumental role in managing, formulating and executing the business and strategic direction of Ultrasonic. He is also involved in the day-to-day operations of Ultrasonic. He possesses substantial experience and knowledge of the footwear industry, having been involved in the footwear business for almost 26 years. Prior to this, between 1982 and 1994, Mr. WU was a factory director of Jinjiang Shanqian Factory, a company engaged in, inter alia, the production of shoe accessories. From 1994 to 1998, he was running Shenghui Hardware which was primarily engaged in the business of producing and trading of shoe materials at that time. Since January 2006, he has been the vice-chairman of the Council Committee of Quanzhou City Shoe Industry Association. He has been a congress member of the People's Congress of Jinjiang City, Fujian Province, PRC since 2004. In November 2007, he was appointed as a councilor of the Fourth Council of Association of Foreign-Investment Enterprise of Fujian Province and in December 2007, Mr. WU was appointed as a councilor of the Second Council of General Charity Association of Jinjiang City.

### Mr. CHAN Chi Kwong, CFO (Chief Finance Officer)

Mr. CHAN Chi Kwong, is the Company's Chief Financial Officer and is responsible for the financial department of the Group. He has over 11 years working experience in the financial services sector in Hong Kong and the PRC. Prior to joining Ultrasonic, Mr. CHAN was an auditor in a Hong Kong audit firm from May 2000 to August 2008. Mr. CHAN was a Chief Finance Officer in a related company of the Group since September 2008. Mr. Chan joined Ultrasonic in 2011. He graduated from California State University, Fullerton in 1997 with a bachelor degree in art and business administration. He was admitted as a

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member of the American Institute of Certified Public Accountants of the United States in January 2003 and as a member of Hong Kong Institute of Certified Public Accountants in July 2003.

## **Mr. WU Minghong, COO (Chief Operating Officer)**

Mr. WU Minghong is the Company's Chief Operating Officer. He graduated from Jimei University in 2008. After his graduation he worked as an assistant in Suoli (Xiamen) Industrial Co., Ltd and then became the COO in 2010. His job duty in Ultrasonic is guiding and following-up the work of new Ultrasonic shops, maintaining a win-win relationship with customers and building an efficient work team. He is also responsible for Ultrasonic's marketing strategy, brand promotion, brand culture marketing, advertising strategies, and marketing policy.

## **Marketing and Distribution**

In its history, Ultrasonic has established well working relationships with its customers in the PRC such as Anta Sports, Unisuper and Xtep China as well as with the PRC trading companies through which Ultrasonic distributes its products to end customers and to international footwear manufacturers such as Lotto and Spalding.

Ultrasonic's major customers, namely Anta Sports, Xtep China and Unisuper, have been clients since 1998 and 2000 respectively. In FY 2010, more than 95% of Ultrasonic's revenue was from repeat customers from the previous 2 years. Ultrasonic intends to continue and to even enhance its close relationship with existing customers.

Ultrasonic has an established track record of more than 10 years and the management believes that the Company has successfully established its reputation as a manufacturer of quality shoe soles in the PRC footwear industry. The production facilities of Ultrasonic are located in Jinjiang City, Fujian Province, PRC, which is renowned as one of the largest shoe manufacturing regions in the world. This enables Ultrasonic to have access to a large pool of raw materials suppliers and contract manufacturers.

The Group has received various awards in respect of its brands, such as Famous Brand of Fujian Province and has been affirmed as a Well-known Trademark of China (for the Chinese version of the Ultrasonic brand), which reflects the strong public recognition Ultrasonic has gained for the high quality of its products, services and operations. In addition, the awareness of its brand has enabled Ultrasonic to leverage on such branding to create more brand equity and recognition for its sandals, slippers and casual shoes among the Company's PRC and overseas customers. The market presence of Ultrasonic is also strengthened through the continuous opening of new Ultrasonic shops in different provinces of the PRC.

Major customers include PRC manufacturers of footwear and PRC trading companies which distribute Ultrasonic's products to overseas markets such as Europe, Japan, Mexico, North America, South Korea and Taiwan for being sold under Ultrasonic's own brand or under the end customer's brand labels (OEM). While sport shoe soles are sold to domestic sport shoe manufacturers directly, sandals and slippers are indirectly distributed via domestic trading companies for national and international sale. In order to reduce the bulk risk, the Company was able to broaden its customer base during the past three financial years.

**Well-established relationships**

**Strategically well located**

**Ultrasonic on its way to being a brand**

## Mono-labeled shops strengthen the brand

The premium urban footwear is being distributed exclusively via dedicated Ultrasonic shops either in department stores or in mono-labeled shops. Albeit these shops are not run by the Company itself, they are tightly controlled by Ultrasonic. Currently, the Company has opened 76 mono-labeled Ultrasonic shops in various provinces in China.

## Market and Competition

### Chinese Economic Outlook

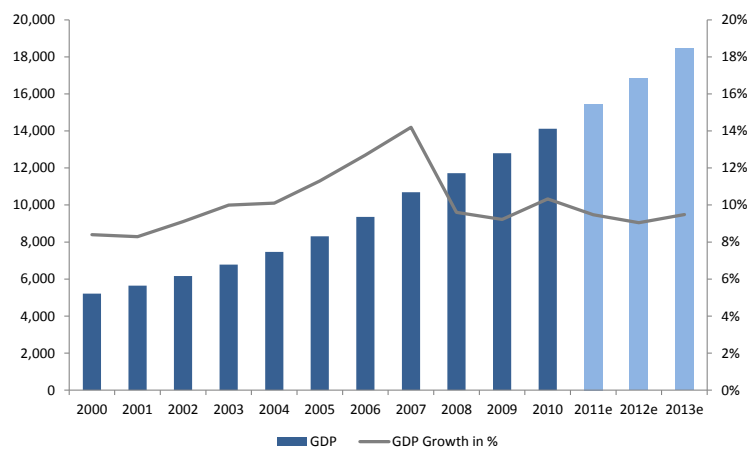
## Chinese private consumption still at a low level

China has experienced a sustained economic growth in the past thirty years which is attributable to the Chinese economic reform started in December 1978. During the past ten years, GDP increased with a CAGR of 10.5%. In addition, China outpaced Japan as the world's second-largest economy in 2010. Despite the strong economic growth, private consumption is still at a relatively low level, accounting for 33% of the country's GDP in 2010. For comparison, consumption ratio is 71% in the US, and 67% in the UK, suggesting that the Chinese are likely to increase their consumption spending, additionally fueled by the gradually improving social security environment. According to McKinsey (2011 Annual Chinese Consumer Study, "The new frontiers of growth", October 2011) real consumption in China will double from USD 2.4 Trill. in 2010 to USD 4.8 Trill. in 2020.

## Sustained economic growth despite financial/debt crisis

While most of the world's major economies were heavily affected by the global recession, caused by the financial crisis 2008/09, China kept growing by heavily investing in infrastructure accompanied by proactive fiscal and monetary policies. Again, during the current debt crisis, China seems to be more resistant compared to most Western Countries.

The Figure below shows the dynamics of the Chinese GDP growth:



Source: International Monetary Fund (IMF)

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Based on the experience regarding the fragile nature of the global economy, Chinese government has realized that, in order to ensure sustainable growth through the medium and the long-term, the economy has to be rebalanced from government spending and heavy reliance on exports toward domestic consumption. This idea dominates the new 5-year plan, i.e. that consumption shall become the most important driver for future economic growth as incomes grow, retail spending increases and people find themselves with more wealth.

**Increasing domestic consumption is a political objective**

## Chinese Footwear Industry

Currently, China is the largest shoe producer, worldwide. In 2010, the output of the footwear industry amounted to 12.3 Bill. pairs, representing ca. 60% of the world total production. In the same year, 81% of the total production was destined for export. Given a domestic per capita consumption of 1.9 pairs of shoes p.a., and comparing it to 7.3 for the US and 4.8 for Europe, there is a huge growth potential considering both, the ca. 1.3 Bill. Chinese and their increasing income.

Albeit export rates are on a high level, China has a large and increasing market demand which continuously pulls the supply of different kinds of shoes into the PRC. In general, shoes consumed in China are mostly middle-end and low-end products. However, the strong growing urban middle class continuously increases the demand for higher quality and even premium footwear.

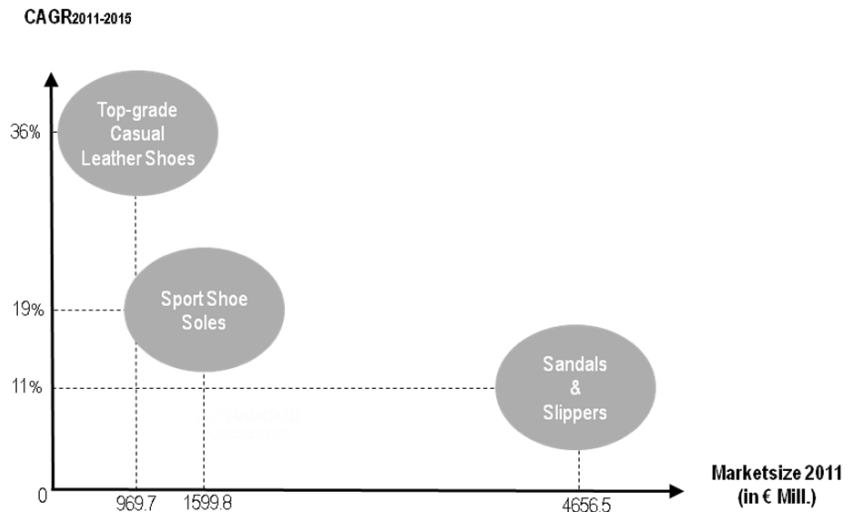
**Growing urban middle class more and more demands for premium footwear**

## Ultrasonic's relevant market

According to Ultrasonic's product portfolio, the company addresses three defined market segments:

1. Sport shoe soles
2. Sandals and slippers
3. Premium grade urban footwear

Based on a market study by Respect Marketing Research, Inc. ("Research report on China sport shoe sole, slipper & sandal and casual shoe industry", October, 2011) the relevant market sizes for the years 2011 till 2015 are forecasted as follows:



Source: Respect Marketing Research, BankM Research (figures rounded for convenience)

## Ultrasonic ranks top 5

In 2010, considering the five largest producers in China, Ultrasonic's market share ranked # 2 in the sport soles market and # 5 in the sandals & slippers market. For the premium urban footwear market, no specific data are available; however, according to the classification of the National Bureau of Statistics, Ultrasonic falls into category 2 out of 4, with a turnover of casual shoes between RMB 200 – 500 Mill.

The retail price is an important indicator in identifying the casual leather shoe product quality and grade. In the current market, casual leather shoes fall into three grades by price: casual shoes with the price higher than RMB 600/pair belong to top-grade leather shoes, with the price between RMB 300-600/pair medium-grade leather shoes and with the price lower than RMB 300/pair belong to low-grade leather shoes.

Top-grade casual leather shoe brands include Louis Vuitton, ECCO, Ultrasonic, Clarks and Hush Puppies. These brands see the mean price above RMB 600/pair and some of them even more than RMB 1200/pair. Top grade casual leather shoes are mainly foreign brands. Domestic brands as represented by Ultrasonic are striving for occupying some market in the top-grade casual leather shoe market. Top-grade casual leather shoe products place emphasis on fashionable elements and guide the development trend of casual shoes in China. They also emphasize brand promotion and sales network cultivation.

## Competitive Environment

Fujian is the leading shoe producing province in the PRC, occupying 1/3rd of market space in the PRC and 20% of the world's total. Fujian is particularly known for athletic and casual shoes.

There are many shoe producers in the Fujian province. The most distinguished producers and developed brands are companies such as Anta, Xtep and Erke. Those brands are now dominating the national PRC market and are expected to continuously increase their sales volume in line with the market growth. Several of the leading producers are long standing clients of Ultrasonic in the shoe sole market.

## Fujian province as one of the major shoe manufacturer regions

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# Ultrasonic AG

November 28, 2011

Market and Competition - 15/27 -

Regarding the sandals and slippers market, there is an intense competition for branded and OEM product manufacturers. It is expected that only cost efficient players with sizeable production volumes will be able to sustain attractive margins in this market.

By far, most of the producers of casual shoes are selling their shoes to PRC trading companies, with increasing margin pressure from international markets and increasing raw material and labor costs. The Company's management considers Ultrasonic as one of the early movers in the market for branded domestic casual shoes, and develops the market under the assumption, that branded casual shoes should be a very attractive market, if this market follows the development pattern of the athletic shoe market. Due to lacking expertise, only, a few other companies are aiming at building a casual shoe brand with tightly controlled sales channels and can therefore be seen as direct competitors. As a result, the Company's management believes that a market analysis is difficult at this stage of the market development.

Ultrasonic operates in a competitive market with an increasing number of local and international brands. Although there are many different brands in the footwear market, not all brands are in direct competition due to different market segmentation. Based on the experience and industry knowledge of Ultrasonic's PRC-located management, the Company believes that Ultrasonic's competitors belong to the mid-tier market segment.

The Company considers Quanzhou Baofeng Shoes Co., Ltd, Jinjiang Hengren Shoes Co., Ltd and Fujian Fengzhu Group Co., Ltd to be Ultrasonic's competitors in the sandals and slippers segment, Qingmei Group Holdings Limited and Taiya (Quanzhou) Shoes Co., Ltd to be Ultrasonic's closest competitors in the shoe sole segment and Shishi Fusheng Shoes Co., Ltd and Shishi Haomai Shoes Co., Ltd to be Ultrasonic's closest competitors in the casual shoes segment.

Although Ultrasonic operates in a highly competitive environment, the Company believes that its competitive strengths will distinguish it from its competitors.

**Highly competitive environment ...**

**... challenges Ultrasonic to design distinctive products**

## Financial Analysis

In this chapter we discuss Ultrasonic's operating results, cash flow as well as the balance sheet and present a short term forecast until 2014. These forecasts are based on the analysis of the relevant markets and in-depth discussion with the Company's management. The forecasts consider a base case scenario, i.e. without any additional proceeds from the IPO.

### Profit and Loss Account

In 2010, the Company generated revenues amounting to € 102 Mill. translating into a net profit of € 22 Mill. Compared to 2009, these figures represent a growth of 54% and 76%, respectively. High EBIT and net margins are the result of a relatively slim cost structure. Sales revenues in 2010 are composed of 37% shoe soles, 34% sandals & slippers, and 29% urban footwear and accessories. From 2008 to 2010, the total sales fraction of the segment "urban footwear and accessories" quadrupled from 7% to 29%, reflecting the Company's increasing focus on this segment.

Our forecast considers sales growth based on the Company's strategy to continuously extend its market share. This strategy is accompanied by increasing expenditures for Selling and Distribution in order to promote the top line growth and to advance the Ultrasonic brand. As a result, operating margins will come down in the short to mid-term but are still on a rather satisfactory level.

**High top line growth and high operating margins**

### Profit & Loss Account

| Fiscal Year 31/12 • IFRS<br>in T€ | 10a              | 11e              | 12e              | 13e              | 14e              | 10a               | 11e         | 12e         | 13e         | 14e         | 5y - CAGR   |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------|-------------|-------------|-------------|-------------|
|                                   |                  |                  |                  |                  |                  | y-o-y changes (%) |             |             |             |             |             |
| <b>Total Sales</b>                | <b>102,121.0</b> | <b>118,000.0</b> | <b>134,000.0</b> | <b>152,000.0</b> | <b>175,000.0</b> | <b>54.4</b>       | <b>15.5</b> | <b>13.6</b> | <b>13.4</b> | <b>15.1</b> | <b>21.5</b> |
| Cost of Sales                     | 69,919.0         | 81,085.8         | 92,415.5         | 105,209.6        | 121,566.9        | 50.1              | 16.0        | 14.0        | 13.8        | 15.5        | 21.1        |
| % of Sales                        | 68.5             | 68.7             | 69.0             | 69.2             | 69.5             |                   |             |             |             |             |             |
| <b>Gross Profit</b>               | <b>32,202.0</b>  | <b>36,914.2</b>  | <b>41,584.5</b>  | <b>46,790.4</b>  | <b>53,433.1</b>  | <b>64.6</b>       | <b>14.6</b> | <b>12.7</b> | <b>12.5</b> | <b>14.2</b> | <b>22.3</b> |
| Selling and Distribution Expenses | 1,043.0          | 1,357.0          | 4,261.4          | 6,080.0          | 7,787.5          | 11.6              | 30.1        | 214.0       | 42.7        | 28.1        | 52.8        |
| % of Sales                        | 1.0              | 1.2              | 3.2              | 4.0              | 4.5              |                   |             |             |             |             |             |
| Admin. Expenses                   | 1,447.0          | 2,395.4          | 2,285.4          | 2,707.4          | 3,189.0          | 22.1              | 65.5        | -4.6        | 18.5        | 17.8        | 21.9        |
| % of Sales                        | 1.4              | 2.0              | 1.7              | 1.8              | 1.8              |                   |             |             |             |             |             |
| Other Income                      | 2.0              | 0.0              | 0.0              | 0.0              | 0.0              |                   |             |             |             |             |             |
| Other Expenses                    | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |                   |             |             |             |             |             |
| <b>EBIT</b>                       | <b>29,714.00</b> | <b>33,161.75</b> | <b>35,037.61</b> | <b>38,003.03</b> | <b>42,456.56</b> | <b>69.1</b>       | <b>11.6</b> | <b>5.7</b>  | <b>8.5</b>  | <b>11.7</b> | <b>19.3</b> |
| % of Sales                        | 29.1             | 28.1             | 26.1             | 25.0             | 24.3             |                   |             |             |             |             |             |
| Interest Income                   | 132.0            | 189.00           | 247.00           | 323.0            | 403.0            |                   |             |             |             |             |             |
| Interest Expenses                 | 437.0            | 263.0            | 262.0            | 262.0            | 262.0            |                   |             |             |             |             |             |
| <b>EBT</b>                        | <b>29,409.00</b> | <b>33,087.75</b> | <b>35,022.61</b> | <b>38,064.03</b> | <b>42,597.56</b> | <b>73.9</b>       | <b>12.5</b> | <b>5.8</b>  | <b>8.7</b>  | <b>11.9</b> | <b>20.3</b> |
| Taxes on Income (Exp./Inc.)       | 7,515.0          | 8,271.9          | 8,755.7          | 9,516.0          | 10,649.4         |                   |             |             |             |             |             |
| t/o deferred taxes (Exp./Inc.)    | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |                   |             |             |             |             |             |
| <b>Net Profit</b>                 | <b>21,894.0</b>  | <b>24,815.8</b>  | <b>26,267.0</b>  | <b>28,548.0</b>  | <b>31,948.2</b>  | <b>75.9</b>       | <b>13.3</b> | <b>5.8</b>  | <b>8.7</b>  | <b>11.9</b> | <b>20.8</b> |
| % of Sales                        | 21.4             | 21.0             | 19.6             | 18.8             | 18.3             |                   |             |             |             |             |             |
| <i>For Information purposes</i>   |                  |                  |                  |                  |                  |                   |             |             |             |             |             |
| Depreciation & Amortization       | 1,413.00         | 1,455.32         | 1,594.50         | 1,827.92         | 2,208.19         | -71.1             | 3.0         | 9.6         | 14.6        | 20.8        | -14.7       |
| % of Sales                        | 1.4              | 1.2              | 3.0              | 3.0              | 3.0              |                   |             |             |             |             |             |
| <b>EBITDA</b>                     | <b>31,127.0</b>  | <b>34,617.1</b>  | <b>36,632.1</b>  | <b>39,831.0</b>  | <b>44,664.8</b>  | <b>38.6</b>       | <b>11.2</b> | <b>5.8</b>  | <b>8.7</b>  | <b>12.1</b> | <b>14.7</b> |
| No. of Shares (∅ outstanding)*    | 10,000.00        | 10,000.00        | 10,000.00        | 10,000.00        | 10,000.00        | 0.0               | 0.0         | 0.0         | 0.0         | 0.0         | n.a.        |
| <b>Net Profit/Share (EPS)</b>     | <b>2.19</b>      | <b>2.48</b>      | <b>2.63</b>      | <b>2.85</b>      | <b>3.19</b>      | <b>0.0</b>        | <b>13.3</b> | <b>5.8</b>  | <b>8.7</b>  | <b>11.9</b> | <b>9.9</b>  |
| *for 2010: pro forma              |                  |                  |                  |                  |                  |                   |             |             |             |             |             |

Source: BankM Research

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## Cash Flow Statement

At balance sheet date 2010 liquid funds are at ca. € 43 Mill. (H1/2011: €51.9 Mill.). The Company enjoys a strong cash flow mainly resulting from outstanding operating results.

From 2012 onwards, the company plans to invest into additional production capacities and brand building by means of enhanced marketing activities.

## Cash Flow Statement

| Fiscal Year 31/12 - IFRS                     | 10a             | 11e             | 12e             | 13e             | 14e             | 10a               | 11e         | 12e         | 13e         | 14e         | 5y - CAGR   |
|----------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|-------------|-------------|-------------|-------------|-------------|
| in T€                                        |                 |                 |                 |                 |                 | y-o-y changes (%) |             |             |             |             |             |
| <b>Net Profit</b>                            | <b>21,894.0</b> | <b>24,815.8</b> | <b>26,267.0</b> | <b>28,548.0</b> | <b>31,948.2</b> | <b>75.9</b>       | <b>13.3</b> | <b>5.8</b>  | <b>8.7</b>  | <b>11.9</b> | <b>20.8</b> |
| + Depreciation & Amortisation                | 1,415.0         | 1,455.3         | 1,594.5         | 1,827.9         | 2,208.2         | -71.1             | 2.8         | 9.6         | 14.6        | 20.8        | -14.7       |
| + Chg. in long-term Provisions               | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |                   |             |             |             |             |             |
| <b>= Cash Earnings</b>                       | <b>23,309.0</b> | <b>26,271.1</b> | <b>27,861.5</b> | <b>30,375.9</b> | <b>34,156.4</b> | <b>34.5</b>       | <b>12.7</b> | <b>6.1</b>  | <b>9.0</b>  | <b>12.4</b> | <b>14.5</b> |
| - other non-cash items                       | 3,779.0         | 2,068.0         | 2,188.9         | 2,379.0         | 2,662.3         |                   |             |             |             |             |             |
| - Chg. in Net Working Capital                | 2,958.0         | 2,776.3         | 2,295.0         | 1,558.0         | 1,732.9         |                   |             |             |             |             |             |
| <b>= Operating Cash Flow</b>                 | <b>24,130.0</b> | <b>25,562.8</b> | <b>27,755.4</b> | <b>31,197.0</b> | <b>35,085.9</b> | <b>109.2</b>      | <b>5.9</b>  | <b>8.6</b>  | <b>12.4</b> | <b>12.5</b> | <b>24.9</b> |
| - Capex                                      | 177.0           | 374.8           | 4,070.1         | 6,555.5         | 4,097.5         | -290.3            | 111.7       | 986.0       | 61.1        | -37.5       | 119.3       |
| <b>= Free Cash Flow</b>                      | <b>23,953.0</b> | <b>25,188.0</b> | <b>23,685.3</b> | <b>24,641.4</b> | <b>30,988.4</b> | <b>106.0</b>      | <b>n.a.</b> | <b>n.a.</b> | <b>4.0</b>  | <b>25.8</b> | <b>21.7</b> |
| + Net Other Items                            | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | n.a.              | 0.0         | 0.0         | 0.0         | 0.0         | n.a.        |
| - Dividends (Previous Year)                  | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |                   |             |             |             |             |             |
| + Increase in Share Capital                  | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |                   |             |             |             |             |             |
| +/- Bank Loans                               | -3,394.0        | -406.0          | -106.0          | 0.0             | 0.0             |                   |             |             |             |             |             |
| <b>= Incr. in Cash (+)/Decr. in Cash (-)</b> | <b>20,559.0</b> | <b>24,782.0</b> | <b>23,579.3</b> | <b>24,641.4</b> | <b>30,988.4</b> | <b>n.a.</b>       | <b>n.a.</b> | <b>n.a.</b> | <b>4.5</b>  | <b>25.8</b> | <b>55.9</b> |

Source: BankM Research

## High balance sheet quality

### Balance Sheet

The balance sheet shows a healthy equity ratio of >70%; due to our positive earnings estimates, we expect the equity ratio to exceed 80% already in 2012. Compared to balance sheet total, bank loans almost carry no weight; however, we perceive the maintenance of a small fraction of debt as a measure to cultivate a good relationship with their banks.

### Balance Sheet

| Fiscal Year 31/12 • IFRS<br>in T€         | 10a             | 11e              | 12e              | 13e              | 14e              | 10a                             | 11e         | 12e         | 13e         | 14e         |
|-------------------------------------------|-----------------|------------------|------------------|------------------|------------------|---------------------------------|-------------|-------------|-------------|-------------|
| <b>Assets</b>                             |                 |                  |                  |                  |                  | <b>% of Balance Sheet Total</b> |             |             |             |             |
| Tangible Assets                           | 7,205.0         | 6,135.3          | 8,586.1          | 13,332.0         | 15,243.4         | 9%                              | 6%          | 6%          | 8%          | 7%          |
| Intangible Assets                         | 152.0           | 141.2            | 800.0            | 781.7            | 759.6            | 0%                              | 0%          | 1%          | 0%          | 0%          |
| Other Fixed Assets / Deferred Tax         | 205.0           | 166.6            | 122.7            | 77.8             | 32.9             | 0%                              | 0%          | 0%          | 0%          | 0%          |
| <b>Total Fixed Assets</b>                 | <b>7,562.0</b>  | <b>6,443.0</b>   | <b>9,508.8</b>   | <b>14,191.5</b>  | <b>16,035.9</b>  | <b>10%</b>                      | <b>6%</b>   | <b>7%</b>   | <b>8%</b>   | <b>8%</b>   |
| Inventories                               | 534.0           | 1,065.2          | 1,114.5          | 1,226.3          | 1,248.2          | 1%                              | 1%          | 1%          | 1%          | 1%          |
| Accounts Receivable                       | 26,267.0        | 28,393.1         | 32,414.9         | 35,142.6         | 38,563.9         | 34%                             | 27%         | 24%         | 21%         | 19%         |
| Total Liquid Funds                        | 43,382.0        | 69,469.8         | 93,049.1         | 117,690.6        | 148,678.9        | 56%                             | 66%         | 68%         | 70%         | 73%         |
| Other Current Assets                      | 0.0             | 0.0              | 0.0              | 0.0              | 0.0              | 0%                              | 0%          | 0%          | 0%          | 0%          |
| <b>Total Current Assets</b>               | <b>70,183.0</b> | <b>98,928.1</b>  | <b>126,578.6</b> | <b>154,059.4</b> | <b>188,491.0</b> | <b>90%</b>                      | <b>94%</b>  | <b>93%</b>  | <b>92%</b>  | <b>92%</b>  |
| <b>Balance Sheet Total</b>                | <b>77,745.0</b> | <b>105,371.1</b> | <b>136,087.4</b> | <b>168,250.9</b> | <b>204,526.9</b> | <b>100%</b>                     | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |
| <b>Shareholder's Equity / Liabilities</b> |                 |                  |                  |                  |                  | <b>% of Balance Sheet Total</b> |             |             |             |             |
| Subscribed Capital                        | 4,564.0         | 4,564.0          | 4,564.0          | 4,564.0          | 4,564.0          | 6%                              | 4%          | 3%          | 3%          | 2%          |
| Share Premium                             | 178.0           | 195.1            | 195.1            | 195.1            | 195.1            | 0%                              | 0%          | 0%          | 0%          | 0%          |
| Retained Earnings & Other Reserves        | 51,648.0        | 77,938.8         | 104,205.7        | 132,753.7        | 164,701.9        | 66%                             | 74%         | 77%         | 79%         | 81%         |
| <b>Shareholders Equity</b>                | <b>56,390.0</b> | <b>82,697.8</b>  | <b>108,964.8</b> | <b>137,512.8</b> | <b>169,461.0</b> | <b>73%</b>                      | <b>78%</b>  | <b>80%</b>  | <b>82%</b>  | <b>83%</b>  |
| LT Liabilities                            | 0.0             | 0.0              | 0.0              | 0.0              | 0.0              | 0%                              | 0%          | 0%          | 0%          | 0%          |
| Provisions                                | 0.0             | 0.0              | 0.0              | 0.0              | 0.0              | 0%                              | 0%          | 0%          | 0%          | 0%          |
| <i>t/o Pension Provisions</i>             | <i>0.0</i>      | <i>0.0</i>       | <i>0.0</i>       | <i>0.0</i>       | <i>0.0</i>       | <i>0%</i>                       | <i>0%</i>   | <i>0%</i>   | <i>0%</i>   | <i>0%</i>   |
| ST Liab. <1Y                              | <b>21,355.0</b> | <b>20,537.0</b>  | <b>22,247.0</b>  | <b>23,636.0</b>  | <b>25,450.0</b>  | <b>27%</b>                      | <b>19%</b>  | <b>16%</b>  | <b>14%</b>  | <b>12%</b>  |
| <i>t/o Acc Payable &amp; Adv. Paymts.</i> | <i>14,273.0</i> | <i>14,194.0</i>  | <i>15,849.2</i>  | <i>16,940.6</i>  | <i>18,367.6</i>  | <i>18%</i>                      | <i>13%</i>  | <i>12%</i>  | <i>10%</i>  | <i>9%</i>   |
| <i>t/o Tax Payable</i>                    | <i>2,108.0</i>  | <i>2,068.0</i>   | <i>2,188.9</i>   | <i>2,379.0</i>   | <i>2,662.3</i>   | <i>3%</i>                       | <i>2%</i>   | <i>2%</i>   | <i>1%</i>   | <i>1%</i>   |
| <i>t/o Bank Loans</i>                     | <i>4,974.0</i>  | <i>4,682.7</i>   | <i>4,565.4</i>   | <i>4,565.4</i>   | <i>4,565.4</i>   | <i>6%</i>                       | <i>4%</i>   | <i>3%</i>   | <i>3%</i>   | <i>2%</i>   |
| <b>Total Liabilities</b>                  | <b>21,355.0</b> | <b>22,673.3</b>  | <b>27,122.6</b>  | <b>30,738.1</b>  | <b>35,065.9</b>  | <b>27%</b>                      | <b>22%</b>  | <b>20%</b>  | <b>18%</b>  | <b>17%</b>  |
| <b>Balance Sheet Total</b>                | <b>77,745.0</b> | <b>105,371.1</b> | <b>136,087.4</b> | <b>168,250.9</b> | <b>204,526.9</b> | <b>100%</b>                     | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

Source: BankM Research

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## Valuation

### DCF Analysis

Our analysis of future free cash flows considers the base case scenario without any proceeds from the IPO. The forecasts are based on:

- In-depth discussion with management
- Market study "Research report on China sports shoe sole, slipper & sandal and casual shoe industry" (Respect Marketing Research, Inc., October, 2011)
- On-site visit of Ultrasonic's premises in February, 2011

|                                  | 2010a                   | Forecast         |                  |                  |                  |                  |                  |                  |                  | Terminal Value<br>2019+ |
|----------------------------------|-------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------|
|                                  |                         | Phase 1          |                  |                  |                  | Phase 2          |                  |                  |                  |                         |
|                                  |                         | 2011e            | 2012e            | 2013e            | 2014e            | 2015e            | 2016e            | 2017e            | 2018e            |                         |
| in T€                            |                         |                  |                  |                  |                  |                  |                  |                  |                  |                         |
|                                  | Growth                  | 54%              | 16%              | 14%              | 13%              | 15%              | 10%              | 5%               | 2%               | 1%                      |
| <b>Revenues</b>                  |                         | <b>102,121.0</b> | <b>118,000.0</b> | <b>134,000.0</b> | <b>152,000.0</b> | <b>175,000.0</b> | <b>192,500.0</b> | <b>202,125.0</b> | <b>206,167.5</b> | <b>208,229.2</b>        |
| <b>EBIT</b>                      |                         | <b>29,714.0</b>  | <b>33,161.8</b>  | <b>35,037.6</b>  | <b>38,003.0</b>  | <b>42,456.6</b>  | <b>46,702.2</b>  | <b>49,037.3</b>  | <b>50,018.1</b>  | <b>50,518.3</b>         |
| - Tax                            |                         | 7,515.0          | 8,271.9          | 8,755.7          | 9,516.0          | 10,649.4         | 11,675.6         | 12,259.3         | 12,504.5         | 12,629.6                |
| + Depreciation                   |                         | 1,413.0          | 1,455.3          | 1,594.5          | 1,827.9          | 2,208.2          | 2,344.9          | 2,462.1          | 2,511.3          | 2,536.5                 |
| + change in long-term provisions |                         | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0                     |
| - changes in net working capital |                         | 2,958.0          | 2,776.3          | 2,295.0          | 1,558.0          | 1,732.9          | 1,878.2          | 1,033.0          | 433.9            | 221.3                   |
| - other non-cash items           |                         | 3,779.0          | 2,068.0          | 2,188.9          | 2,379.0          | 2,662.3          | 0.0              | 0.0              | 0.0              | 0.0                     |
| - Capex                          |                         | 177.0            | 374.8            | 4,070.1          | 6,555.5          | 4,097.5          | 6,218.8          | 6,529.7          | 6,660.3          | 6,726.9                 |
| <b>= Free Cash Flow</b>          |                         | <b>16,698.0</b>  | <b>21,126.0</b>  | <b>19,322.5</b>  | <b>19,822.4</b>  | <b>25,522.7</b>  | <b>29,274.5</b>  | <b>31,677.3</b>  | <b>32,930.7</b>  | <b>33,476.9</b>         |
| Terminal Value                   |                         |                  |                  |                  |                  |                  |                  |                  |                  | 291,480.2               |
| Discount factor                  |                         |                  | 0.99             | 0.88             | 0.78             | 0.69             | 0.61             | 0.55             | 0.48             | 0.43                    |
| <b>NPVs of Free Cash Flows</b>   |                         |                  | <b>20,865.1</b>  | <b>16,936.3</b>  | <b>15,419.3</b>  | <b>17,619.3</b>  | <b>17,982.1</b>  | <b>17,279.4</b>  | <b>15,951.8</b>  | <b>14,400.8</b>         |
| <b>NPV of Terminal Value</b>     |                         |                  |                  |                  |                  |                  |                  |                  |                  | <b>112,445.1</b>        |
| <b>Valuation</b>                 | <b>Proportion of EV</b> |                  |                  |                  |                  |                  |                  |                  |                  |                         |
| Result of Future Cash Flows      |                         | <b>136,454.1</b> |                  |                  |                  |                  |                  |                  |                  | <b>55%</b>              |
| + Result of Terminal Value       |                         | 112,445.1        |                  |                  |                  |                  |                  |                  |                  | <b>45%</b>              |
| <b>= Value of the Entity</b>     |                         | <b>248,899.2</b> |                  |                  |                  |                  |                  |                  |                  |                         |
| + Cash (as of June 30, 2011)     |                         | 51,857.0         |                  |                  |                  |                  |                  |                  |                  |                         |
| - LT Debt (as of June 30, 2011)  |                         | 4,358.0          |                  |                  |                  |                  |                  |                  |                  |                         |
| <b>Value of Equity</b>           |                         | <b>296,398.2</b> |                  |                  |                  |                  |                  |                  |                  |                         |
| Price per Share                  |                         | 29.64            |                  |                  |                  |                  |                  |                  |                  |                         |

Source: BankM Research

**Our DCF analysis returns a value of € 29.64 per share.**

## Sensitivity analysis NPV Terminal Value (TV)

|                       |       | Discount rate of TV |       |       |        |       |       |       |                                                     |                              |               |
|-----------------------|-------|---------------------|-------|-------|--------|-------|-------|-------|-----------------------------------------------------|------------------------------|---------------|
|                       |       | 10%                 | 11%   | 12%   | 12.60% | 14%   | 15%   | 16%   | Phase I                                             | Phase II                     |               |
| Growth Terminal Value | 0.00% | 31.31               | 30.14 | 29.16 | 28.64  | 27.62 | 27.00 | 26.47 |                                                     |                              |               |
|                       | 0.50% | 32.06               | 30.76 | 29.68 | 29.12  | 28.01 | 27.35 | 26.77 |                                                     |                              |               |
|                       | 1.00% | 32.89               | 31.44 | 30.25 | 29.64  | 28.43 | 27.71 | 27.09 |                                                     |                              |               |
|                       | 1.50% | 33.82               | 32.19 | 30.88 | 30.20  | 28.88 | 28.11 | 27.44 |                                                     |                              |               |
|                       | 2.00% | 34.86               | 33.03 | 31.57 | 30.82  | 29.37 | 28.53 | 27.80 |                                                     |                              |               |
|                       |       |                     |       |       |        |       |       |       |                                                     | <b>Key Model Assumptions</b> |               |
|                       |       |                     |       |       |        |       |       |       | Riskfree Return                                     | 1.84%                        | 1.84%         |
|                       |       |                     |       |       |        |       |       |       | 10 y Government Bond (D)                            |                              |               |
|                       |       |                     |       |       |        |       |       |       | Sector Beta* (12M, vs. MSCI World)                  | 1.04                         | 0.96          |
|                       |       |                     |       |       |        |       |       |       | Beta im Terminal Value = 1                          |                              |               |
|                       |       |                     |       |       |        |       |       |       | Market Return                                       | 10.00%                       | 10.00%        |
|                       |       |                     |       |       |        |       |       |       | Country Risk Premium China                          | 1.00%                        | 1.00%         |
|                       |       |                     |       |       |        |       |       |       | Company-specific risk                               | 2.00%                        | 2.00%         |
|                       |       |                     |       |       |        |       |       |       | <b>Cost of Equity</b>                               | <b>13.34%</b>                | <b>12.61%</b> |
|                       |       |                     |       |       |        |       |       |       | Target weight                                       | 90%                          | 100%          |
|                       |       |                     |       |       |        |       |       |       | <b>Cost of Debt</b>                                 | <b>9.00%</b>                 | <b>9.00%</b>  |
|                       |       |                     |       |       |        |       |       |       | Target weight                                       | 10%                          | 0%            |
|                       |       |                     |       |       |        |       |       |       | Tax shield                                          | 25.00%                       | 25%           |
|                       |       |                     |       |       |        |       |       |       | <b>WACC</b>                                         | <b>12.68%</b>                | <b>12.61%</b> |
|                       |       |                     |       |       |        |       |       |       | Growth Rate Terminal Value                          |                              |               |
|                       |       |                     |       |       |        |       |       |       |                                                     |                              | <b>TV</b>     |
|                       |       |                     |       |       |        |       |       |       |                                                     |                              | 1.00%         |
|                       |       |                     |       |       |        |       |       |       | *DAXsubsector All Clothing & Footwear (Performance) |                              |               |

|                       |       | EBIT margin in TV |        |        |        |        |        |        |
|-----------------------|-------|-------------------|--------|--------|--------|--------|--------|--------|
|                       |       | 23.00%            | 23.50% | 24.00% | 24.26% | 24.50% | 25.00% | 25.50% |
| Growth Terminal Value | 0.00% | 28.04             | 28.28  | 28.52  | 28.64  | 28.76  | 29.00  | 29.24  |
|                       | 0.50% | 28.50             | 28.75  | 29.00  | 29.13  | 29.25  | 29.50  | 29.75  |
|                       | 1.00% | 28.99             | 29.26  | 29.52  | 29.64  | 29.78  | 30.04  | 30.30  |
|                       | 1.50% | 29.53             | 29.81  | 30.08  | 30.23  | 30.36  | 30.63  | 30.91  |
|                       | 2.00% | 30.12             | 30.41  | 30.70  | 30.85  | 30.99  | 31.28  | 31.57  |

## Peer Group Analysis

For the purposes of our multiple analysis, we have compiled a Peer group consisting of international companies operating in the footwear industry.

### Daphne International Holdings Ltd.

The Chinese company is an integrated footwear group. The group, through its subsidiaries, manufactures, markets and distributes footwear products of its own brands (Daphne and Shoebox), its licensed sportswear brands (Nike and adidas) and its licensed international footwear brands in Mainland China and Taiwan (Arezzo, Sofft and Born). The Group also has production facilities in various provinces of the PRC for the manufacturing and worldwide exporting of footwear. DAPHNE is one of the leading ladies' footwear brands in the PRC with over 3,000 points-of-sale in Mainland China and Taiwan. In the fiscal year 2010, the company generated revenues of € 635.1. The company is listed on the Hong Kong Stock Exchange.

Market Capitalization as of Nov 23, 2011: € 1.3 Bill.

### Taiya Shoes Co. Ltd.

Taiya Footwear Stock Co. Ltd. is a Sino-foreign joint venture, which is located in Quanzhou Economic and Technical Development Area.

The Chinese company develops, manufactures and retails sports shoes soles. The major products are EVA soles, PH soles and sole accessories. Taiya Shoes Co Ltd. is a professional supplier of Nike Shoes in China. The Company also provides other textiles like T-Shirts, polo T-Shirts. The Company also exports its products. In the fiscal year 2010, the company generated revenues of € 39.4 Mill.

Market Capitalization as of Nov 23, 2011: € 199 Mill.

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## **Brown Shoe Company Inc.**

The company is based in St. Louis, Missouri, and operates more than 1,300 Famous Footwear retail stores across the United States, Canada and China.

The company produces and sells a wide range of branded footwear for women, men and children through its retail shops. Brown Shoe maintains global operations in St. Louis, New York, Canada, China and Italy. In the fiscal year 2010, the company generated revenues of € 1,602.2 Mill.

Market Capitalization as of Nov 23, 2011: € 252 Mill.

## **Lacrosse Footwear Inc.**

Lacrosse Footwear Inc. designs, develops, manufactures footwear and rainwear. The company's products are sold to the sporting and outdoor, farm and general utility, occupational, and children's markets. Lacrosse sells its products of its own brands (LaCrosse, Danner, Red Ball, Rainfair, and Lake). In the fiscal year 2010, the company generated revenues of € 113.71 Mill.

Market Capitalization as of Nov 23, 2011: € 62 Mill.

## **Rocky Brands Inc.**

Rocky Brands Inc. designs, develops, manufactures, and markets quality rugged outdoor occupational, and casual men's and women's footwear and apparel and accessories. The company sells its products through its owned brands (ROCKY, EJ Footwear, Georgia Boot, LEHIGH, Durango, and the licensed brand DICKIES as well as MICHELIN Footwear and ZUMFOOT.

In the fiscal year 2010, the company generated revenues of Mill. 190.94.

Market Capitalization as of Nov 23, 2011: € 52 Mill.

## **R.G. Barry Corp.**

RG Barry Corporation is a leading developer and marketer of great accessories brands and fashionable, solution-oriented products that make life better. The Company offers products in three distinct segments of the accessory universe - footwear, handbags and foot care.

The products are sold through national chains, mass merchants, warehouse clubs, better and mid-tier department stores, non-promotional independent and specialty retailers, boutiques, catalogs, home shopping networks and online retailers.

In the fiscal year 2010, the company generated revenues of € 89.39 Mill.

Market Capitalization as of Nov 23, 2011: € 102 Mill.

## **Skechers USA Inc.**

Skechers USA Inc. designs and markets branded contemporary casual, active, rugged, and lifestyle footwear. With more than 3,000 styles, SKECHERS meets the needs of male and female consumers across every age and demographic.

The company sells its products to department stores and specialty retailers. Skechers products are also sold worldwide through distributors and directly to consumers through its own retail shops. In the fiscal year 2010, the company generated revenues of € 1,515.86 Mill.

Market Capitalization as of Nov 23, 2011: € 497 Mill.

## **Crocs, Inc.**

A world leader in innovative casual footwear for men, women and children, Crocs, Inc. (NASDAQ: CROX), offers several distinct shoe collections with more than 250 styles to suit every lifestyle. The company produces soft, lightweight, non-marking, slip- and odor resistant shoes made of closed-cell resin material. Crocs manufactures men`s, women`s, and children`s shoes and retails its shoes under the Crocs brand. The products are sold in more than 125 countries and come in a wide array of colours and styles. In the fiscal year 2010, the company generated revenues of € 573.39 Mill.

Market Capitalization as of Nov 23, 2011: € 1.1 Bill.

## **Geox, S.p.A**

Geox, creates, produces, promotes and distributes innovative, patented products all over the world. It operates in the men`s, women`s and children`s classic, casual, sports and fashion sectors.

The company has been listed on the Italian stock exchange since December 2004. In the fiscal year 2010, the company generated revenues of € 822.13 Mill.

Market Capitalization as of Nov 23, 2011: € 653 Mill.

## **Flyke International Holdings**

Flyke International Holdings is a Chinese company, which manufactures athletic footwear. The Company and its subsidiaries are engaged in design, production and sales of sports shoes, sportswear and sports accessories. The Company operates in three segments: the design, production and sales of sports shoes, sportswear and sports accessories with the Flyke brand. The sportswear and sports accessories with the Flyke brand are produced by the Company's independent contract manufacturers. All Export ODM Business sports shoes were sold to overseas markets.

In the fiscal year 2010, the company generated revenues of € 140.16 Mill.

Market Capitalization as of Nov 23, 2011: € 74.4 Mill.

# Ultrasonic AG

November 28, 2011

Valuation - 23/27 -

| Peer Group                     | Mkt Cap | EV      | Revenues      |               |               |               | EBITDA       |              |              |              | Net Profit   |              |              |              |
|--------------------------------|---------|---------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                | (curr.) | (curr.) | 2010a         | 2011          | 2012          | 2013          | 2010a        | 2011         | 2012         | 2013         | 2010a        | 2011         | 2012         | 2013         |
| <b>EUR (Mill.)</b>             |         |         |               |               |               |               |              |              |              |              |              |              |              |              |
| Daphne International Holdings  | 1365.89 | 1244.62 | 643.97        | 780.13        | 934.23        | 1108.16       | 103.22       | 135.42       | 165.49       | 195.43       | 57.90        | 84.36        | 104.19       | 123.37       |
| Taiya Shoes Co Ltd             | 191.24  | 158.82  | 39.43         | -             | -             | -             | 6.82         | -            | -            | -            | 4.23         | -            | -            | -            |
| Brown Shoe Co Inc              | 238.62  | 506.68  | 1602.20       | 1901.38       | 1932.70       | 1882.73       | 67.57        | 99.39        | 97.23        | 114.76       | 6.79         | 28.27        | 23.10        | 32.39        |
| Lacrosse Footwear Inc          | 62.24   | 81.06   | 113.71        | 103.65        | 108.83        | -             | 10.91        | -            | -            | -            | 5.20         | 3.31         | 4.42         | -            |
| Rocky Brands Inc               | 53.28   | 95.46   | 190.94        | 179.17        | 189.53        | 195.95        | 17.15        | 17.32        | -            | -            | 5.80         | 8.51         | 9.70         | 10.70        |
| RG Barry Corp                  | 97.01   | 118.66  | 89.39         | 96.38         | -             | -             | 11.27        | 10.09        | -            | -            | 6.79         | 5.59         | -            | -            |
| Skechers U.S.A. Inc            | 460.24  | 407.16  | 1515.86       | 1208.76       | 1177.92       | 1234.64       | 168.54       | -6.02        | 44.37        | 96.17        | 102.84       | -11.47       | 28.13        | 39.77        |
| Crocs Inc                      | 1001.30 | 864.69  | 596.48        | 740.95        | 862.96        | 958.39        | 90.01        | 128.64       | 160.41       | 179.33       | 51.16        | 82.03        | 98.76        | 110.64       |
| Geox SpA                       | 585.81  | 530.13  | 850.08        | 882.31        | 912.00        | 959.55        | 132.31       | 117.15       | 131.62       | 146.00       | 58.00        | 45.79        | 53.62        | 61.86        |
| Flyke International Holdings L | 71.29   | 36.38   | 143.96        | -             | -             | -             | 26.42        | -            | -            | -            | 19.27        | -            | -            | -            |
| <b>Ultrasonic*</b>             |         |         | <b>102.12</b> | <b>118.00</b> | <b>134.00</b> | <b>152.00</b> | <b>31.13</b> | <b>34.62</b> | <b>36.63</b> | <b>39.83</b> | <b>21.89</b> | <b>24.82</b> | <b>26.27</b> | <b>28.55</b> |

\* Own forecasts for Revenues, EBITDA, and Earnings

| Peer Group                            | Mkt Cap       | EV            | EV/Revenues |             |             |             | EV/EBITDA   |             |             |             | P/E          |              |              |             |
|---------------------------------------|---------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|-------------|
|                                       | (curr.)       | (curr.)       | 2010a       | 2011        | 2012        | 2013        | 2010a       | 2011        | 2012        | 2013        | 2010a        | 2011         | 2012         | 2013        |
| <b>Multiples</b>                      |               |               |             |             |             |             |             |             |             |             |              |              |              |             |
| Daphne International Holdings         | 1365.89       | 1244.62       | 1.93        | 1.60        | 1.33        | 1.12        | 12.06       | 9.19        | 7.52        | 6.37        | 205.95       | 16.19        | 13.11        | 11.07       |
| Taiya Shoes Co Ltd                    | 191.24        | 158.82        | 4.03        | -           | -           | -           | 23.27       | -           | -           | -           | 560.13       | -            | -            | -           |
| Brown Shoe Co Inc                     | 238.62        | 506.68        | 0.32        | 0.27        | 0.26        | 0.27        | 7.50        | 5.10        | 5.21        | 4.42        | 90.01        | 8.90         | 10.90        | 7.77        |
| Lacrosse Footwear Inc                 | 62.24         | 81.06         | 0.71        | 0.78        | 0.74        | -           | 7.43        | -           | -           | -           | 20.37        | 18.81        | 14.08        | -           |
| Rocky Brands Inc                      | 53.28         | 95.46         | 0.50        | 0.53        | 0.50        | 0.49        | 5.57        | 5.51        | -           | -           | 12.81        | 6.14         | 5.39         | 4.89        |
| RG Barry Corp                         | 97.01         | 118.66        | 1.33        | 1.23        | -           | -           | 10.53       | 11.76       | -           | -           | 18.00        | 18.30        | -            | -           |
| Skechers U.S.A. Inc                   | 460.24        | 407.16        | 0.27        | 0.34        | 0.35        | 0.33        | 2.42        | neg.        | 9.18        | 4.23        | 9.28         | neg.         | 17.65        | 12.49       |
| Crocs Inc                             | 1001.30       | 864.69        | 1.45        | 1.17        | 1.00        | 0.90        | 9.61        | 6.72        | 5.39        | 4.82        | 29.20        | 13.55        | 11.25        | 10.04       |
| Geox SpA                              | 585.81        | 530.13        | 0.62        | 0.60        | 0.58        | 0.55        | 4.01        | 4.53        | 4.03        | 3.63        | 15.29        | 12.79        | 10.93        | 9.47        |
| Flyke International Holdings L        | 71.29         | 36.38         | 0.25        | -           | -           | -           | 1.38        | -           | -           | -           | 70.17        | -            | -            | -           |
| <b>Median</b>                         | <b>191.24</b> | <b>282.99</b> | <b>0.67</b> | <b>0.69</b> | <b>0.58</b> | <b>0.52</b> | <b>7.46</b> | <b>6.12</b> | <b>5.39</b> | <b>4.42</b> | <b>24.78</b> | <b>13.55</b> | <b>11.25</b> | <b>9.76</b> |
| Mean (for information purposes, only) | 412.69        | 404.37        | 1.14        | 0.81        | 0.68        | 0.61        | 8.38        | 7.13        | 6.27        | 4.69        | 103.12       | 13.53        | 11.90        | 9.29        |

|                                    |      |               |               |               |      |               |               |               |
|------------------------------------|------|---------------|---------------|---------------|------|---------------|---------------|---------------|
| <b>Enterprise Value Ultrasonic</b> | n.a. | <b>81.59</b>  | <b>77.89</b>  | <b>79.01</b>  | n.a. | <b>211.72</b> | <b>197.46</b> | <b>175.87</b> |
| <b>- net debt</b>                  | n.a. | <b>-47.50</b> | <b>-47.50</b> | <b>-47.50</b> | n.a. | <b>-47.50</b> | <b>-47.50</b> | <b>-47.50</b> |
| <b>Value of the Equity</b>         | n.a. | <b>129.09</b> | <b>125.39</b> | <b>126.51</b> | n.a. | <b>259.22</b> | <b>244.96</b> | <b>223.36</b> |

| Year                                               | 2012e        | 2013e        |
|----------------------------------------------------|--------------|--------------|
| <b>Implicit Price</b>                              | <b>22.20</b> | <b>20.95</b> |
| <b>Equity value based on EV/Revenues (€ Mill.)</b> | 125.39       | 126.51       |
| <b>Equity value based on EV/EBITDA (€ Mill.)</b>   | 244.96       | 223.36       |
| <b>Equity value based on P/E (€ Mill.)</b>         | 295.54       | 278.53       |
| <b>Mean</b>                                        | 221.96       | 209.47       |
| <b>No. of shares ('000)</b>                        | 10,000       | 10,000       |
| <b>Price/share (€)</b>                             | 22.20        | 20.95        |

On the basis of the peer group's equally weighted market multiples for 2012 [median for EV/Revenues, EV/EBITDA and P/E] we derive an implicit price for Ultrasonic's share of € 22.20; based on the multiples for 2013 (not considered in our valuation), we derive an implicit price/share of € 20.95.

## Valuation Summary

Equally weighted, the results from our DCF and Peer group analysis indicate a fair value of the share of € 25.92.

Currently, we observe a cautious sentiment in the capital markets regarding Chinese companies in general. While we perceive Ultrasonic's business model as solid and reliable, we - for conservative reasons - take into account the inherent risks (political, legal, economic) and apply a discount of 20% on our valuation, resulting in a fair value of € 20.75 per share.

**Fair value per share:**  
**€ 20.75**

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## SWOT Analysis

### Strengths

- Trendy, individual product designs with short development cycles and short time-to-market
- Experienced executive board with long-lasting expertise in the shoe industry
- One of the few Chinese shoe companies enjoying a vertically integrated production process
- Well-established relationship to renowned customers; repeating contracts with existing clients as a proof for quality
- Well-established market presence under the label „Ultrasonic“
- Strategically well positioned within the Fujian Province → feasible access to providers and customers

### Weaknesses

- Highly competitive environment
- Low market entry barriers for new competitors
- In China, labor costs are currently rising with potential negative effects on margins
- Regarding margins within the premium segment, price increases in raw materials - in our opinion - cannot be passed on to consumer indefinitely

### Opportunities

- Increasing market share through up-scaling production and enhancing brand building measures
- Fast growing Chinese consumer base with an increasing *per capita* income in combination with the current low shoe consumption implies a significant growth potential
- Ultrasonic's premium segment is likely to benefit from the booming demand for high-quality urban footwear
- Aggressive expansion of tightly controlled, mono-labeled shops will accelerate the brand building process and increase brand awareness

### Threats

- Although the exposure to bulk risk has been reduced during the last three years, loss of major clients will impact financial figures significantly
- Operations are highly depend on short-lived fashion trends; while the Company frequently updates its collection and designs, stylish mistakes may dilute reputation and image
- While there exist no pronounced brands in China, competitors also may enhance their brand building activities with a potential negative impact on Ultrasonic's margins

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## Important information, disclosures and disclaimer

### A. Important information

Equity investments generally involve high risks. Investors may lose some or all of the money invested. Potential investors should take into account that share prices may fall and rise and that income from an investment may fluctuate considerably. Past performance is no guarantee for future results. Investors make their decisions at their own risk.

### B. Disclosures according to Section 34b of the German Securities Trading Act (WpHG) and the Ordinance on the Analysis of Financial Instruments (FinAnV):

I. Information about author, company held accountable, regulatory authority:

**Responsible for the content of this document: biw Bank für Investments und Wertpapiere AG, Willich, Germany.**

**Author: Dr. Roger Becker, CEFA**

Regulatory authority for biw Bank für Investments und Wertpapiere AG is the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Straße 108, 53117 Bonn, Germany and Lurgiallee 12, 60439 Frankfurt am Main, Germany.

Issuer of the analysed instruments is Ultrasonic AG.

Notice according to sec. 4 §. 4 N<sup>o</sup> 4 FinAnV (previous publications regarding the issuer within the last 12 months):

No previous publications. Initiation of Coverage

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/some textual changes.

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

BankM – Repräsentanz der biw Bank für Investments und Wertpapiere AG uses a 3-tier absolute rating model. The ratings are the evaluation results and refer to a fair value pricing reflecting a time-horizon of up to 12 months.

**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.

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3. Date of first publication of this document:

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

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# Ultrasonic AG

November 28, 2011

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