

ULTRASONIC AG

December 11, 2013



Information Analysis

Analysts

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Evaluation result

BUY

(prev.: BUY)

Fair value

€20.20

(prev.: €20.84)

US5 reaches next Milestone

During the third quarter of 2013, Ultrasonic AG took the next steps to advance its business. The internet sales channel was launched in August and marked an important milestone for the extension of US5's distribution strategy. The Company also acquired two new distributors who grant access to the relatively wealthy and populated regions Beijing and Hebei. The new factory for the production of the children footwear has finally taken shape and is going to start production in 1Q14. These developments console for the relatively weak operative results of the third quarter - revenue growth just amounted to 3.1% (5.9% at constant currency) - and the lowered sales guidance of 10% top line growth.

The internet as a platform for e-commerce is going to become a vital part of US5's sales strategy as it belongs to one of the fastest growing market segments in China and connects the Company directly with its end-customers. Sales from the internet shops amounted to ca. €1m within the first two months since inception.

The key driver for the top line growth again was the Ultrasonic labeled urban footwear segment including accessories (+25.4%). The products are sold domestically through a distributor-based retail network of currently 112 stores which is constantly expanded by both existing and newly acquired distributors. The Sandals & Slippers segment posted a solid growth rate for the 9M period (+13.1%) but is facing increasing competition and a mediocre economic situation in the oversea markets. This was mirrored by the low 3Q sales figures (+4.6%). The shoe sole segment was confronted with the strongest challenges due to the rising capacity within the industry. Accordingly, 9M and 3Q sales slightly decreased by 0.2% and 4.4%, respectively.

The construction of the new factory is making progress. Staff quarters and workshops with production lines for children shoes will be in place from 1Q14 onwards. The children shoe segment opens the door for a long-term cooperation with Walmart China.

We have updated our DCF-model and peer-group analysis. We derive a fair value of €20.20 per share and re-iterate our "Buy" rating.

Key data / Earnings

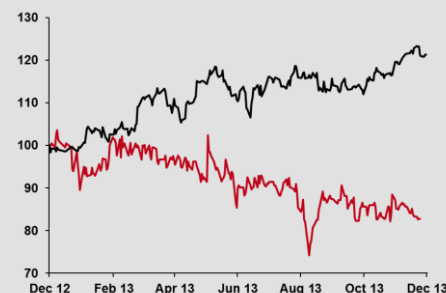
Year	Sales (€ m)	EBITDA (€ m)	EBIT (€ m)	EBT (€ m)	Net Profit (€ m)	EPS* (€)	PDS** up to (€)	EBIT- Margin	Net- Margin
2012a	149.0	43.2	41.8	41.8	30.8	2.48	0.65	28.0%	20.7%
2013e	163.4	44.1	42.4	42.6	31.9	2.57	0.53	25.9%	19.5%
2014e	186.2	46.5	43.6	44.2	33.1	2.54	0.50	23.4%	17.8%
2015e	209.7	52.4	49.0	49.6	37.2	2.75	0.49	23.4%	17.7%
2016e	225.3	55.6	51.7	52.3	39.3	2.80	0.54	22.9%	17.4%

*based on actual (2012, 2013) and forecasted number of shares outstanding (2014ff.)

** Profit distribution / shr.

Source: Ultrasonic AG, BankM Research

Sector	Clothing and Footwear		
WKN	A1KREX		
ISIN	DE000A1KREX3		
Bloomberg/Reuters	US5 GY/US5G.DE		
Accounting standard	IFRS		
Financial year	Dec 31		
Financial reporting FY 2013	tba		
Market segment	Regulated Market		
Transparency standard	Prime Standard		
Financial ratios	2013e	2014e	2015e
EV/Sales	0.0	0.0	0.0
EV/EBITDA	0.1	0.1	0.1
EV/EBIT	0.1	0.1	0.1
P/E adj.	3.3	3.2	2.8
Price/Bookvalue	0.7	0.6	0.5
Price/FCF	4.1	6.3	4.9
ROE (in %)	22.7	18.9	17.9
Dividend yield (in %)	6.3	6.0	6.0
Number of shares outs. (in '000)	12,596		
MarketCap / EV (in € m)	105.52 / 4.92		
Free float (in %)	12.4		
Ø daily trading vol. (3M, in €)	31,562		
12M high/low (in €; XETRA-close)	10.71 / 7.16		
Price Dec 10, 2013 (in €; XETRA-close)	8.31		
Performance	1M	6M	12M
absolute (in %)	-6.5	-4.6	-19.2
relative (in %)	-7.6	-11.6	-33.0
Benchmark index	DAXSubsector Clothing and Footwear		



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

Source: Bloomberg

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Bonus Share and Buyback Program

Ultrasonic conducted its second bonus share program connected with a buyback offer for the previously issued bonus shares. In this round, 604,658 new bonus shares (+5% of total shares) were issued whereby each investor received one bonus share for 20 existing shares. The shareholders had the opportunity to sell their bonus shares to the Company at a fixed price of €9.20 within a certain period. After the buyback period, the bonus shares were converted into normal Ultrasonic shares and since then belong to the shares outstanding. In the aggregate, US5 bought 101,950 bonus shares back.

Directors Dealing

On October 18, 2013, the CEO of the Company announced, that he sold 2.625m shares at a price of €7.00. At the same time, he has agreed to a lock-up period until September 30, 2015 for his remaining shares, amounting to 52.3% of ULTRASONIC's stock.

ULTRASONIC's Stock and Valuation

The performance of the stock since IPO slightly varies depending on the shareholder's decision whether having accepted the buyback offers of the Company or not. At a price of €8.31 (XETRA close December 10, 2013), the performance since IPO (issue price €9.00) ranges between 4.8% (in case the investor sold all his bonus share) and 4.4% (in case the investor did not sell any bonus shares). The performance since beginning of the year amounts to -16.9%. Based on daily stock price returns since beginning of the year, the annualized volatility is at 34.50% with a mean daily trading volume of ca. 4,500 pieces.

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

We have adjusted our previous forecasts as published in our information analysis from September 05, 2013. We reiterate our "Buy" rating at a fair value of €20.20 per share.

ULTRASONIC AG

December 11, 2013

Tables - 3/7 -

Tables

Profit & Loss Account

Fiscal Year 31.12 (IFRS) in T€	2012a	2013e	2014e	2015e	2016e	12a	13e	14e	15e	16e	4y - CAGR
						y-o-y changes in %					
Total Sales	149,011	163,439	186,155	209,691	225,318	24.8	9.7	13.9	12.6	7.5	10.9
Cost of sales	102,917	114,737	133,340	151,275	163,844	24.7	11.5	16.2	13.5	8.3	12.3
Gross Profit	46,094	48,703	52,815	58,416	61,473	25.0	5.7	8.4	10.6	5.2	7.5
Gross Profit margin in %	30.9	29.8	28.4	27.9	27.3						
Selling and distribution expenses	1,552	3,189	5,475	5,871	6,309	33.3	105.5	71.7	7.2	7.5	42.0
Administration expenses	2,771	3,139	3,692	3,500	3,500	13.3	13.3	17.6	-5.2	0.0	6.0
Other income	7	0	0	0	0						
Other expenses	0	0	0	0	0						
EBIT	41,778	42,374	43,648	49,044	51,664	25.6	1.4	3.0	12.4	5.3	5.5
EBIT margin in %	28.0	25.9	23.4	23.4	22.9						
Interest income	360	373	512	573	671						
Interest expense	307	149	0	0	0						
EBT	41,831	42,597	44,160	49,617	52,336	25.8	1.8	3.7	12.4	5.5	5.8
EBT margin in %	28.1	26.1	23.7	23.7	23.2						
Taxes on Income (Exp./Inc.-)	11,022	10,649	11,040	12,404	13,084						
Net profit	30,809	31,948	33,120	37,213	39,252	23.6	3.7	3.7	12.4	5.5	6.2
Net Profit margin in %	20.7	19.5	17.8	17.7	17.4						
<i>For information purposes</i>											
Depreciation and amortization	1,375	1,738	2,889	3,374	3,959	6.8	26.4	66.2	16.8	17.3	30.3
EBITDA	43,153	44,112	46,537	52,418	55,624	24.9	2.2	5.5	12.6	6.1	6.6
No. of shares (Ø outstanding)	11,475	12,432	13,056	13,532	14,026						
Net profit / share (EPS)	2.68	2.57	2.54	2.75	2.80	8.3	-4.3	-1.3	8.4	1.8	1.0

Source: ULTRASONIC AG, BankM Research

Cash Flow Statement

Fiscal Year 31.12 (IFRS) in T€	2012a	2013e	2014e	2015e	2016e	12a	13e	14e	15e	16e	4y - CAGR
						y-o-y changes in %					
Earnings before Taxes	41,831	42,597	44,160	49,617	52,336	25.8	1.8	3.7	12.4	5.5	5.8
+ Depreciation and amortization	1,375	1,738	2,889	3,374	3,959	6.8	26.4	66.2	16.8	17.3	30.3
= Cash Earnings	43,206	44,335	47,049	52,992	56,295	25.1	2.6	6.1	12.6	6.2	10.3
+/- Other non-cash items	-2,290	0	0	0	0						
- Chg. in net working capital	13,431	4,110	8,384	6,735	4,866						
- taxes paid	10,360	10,935	10,942	12,063	12,914						
= Operating Cash Flow	17,125	29,290	27,722	34,193	38,515	-41.6	71.0	-5.4	23.3	12.6	22.5
- Capex	19,702	3,780	11,000	12,700	10,300						
= Free Cash Flow	-2,577	25,510	16,722	21,493	28,215	n.a.	n.a.	-34.4	28.5	31.3	3.4
+ Net other items	-6	0	0	0	0						
+ Increase in share capital	495	6,000	0	0	0						
- Outflow from share buybacks	381	938	1,785	1,851	1,918						
+ Proceeds from sale of repurchased shares	187	0	0	0	0						
+/- Bank loans	-713	-2,700	-2,710	0	0						
= Incr. in Cash (+)/Decr. in Cash (-)	-2,995	27,872	12,227	19,642	26,297	n.a.	n.a.	-56.1	60.6	33.9	-1.9

Source: ULTRASONIC AG, BankM Research

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Balance Sheet

Fiscal Year 31.12 (IFRS) in T€	2012a	2013e	2014e	2015e	2016e	12a	13e	14e	15e	16e
Assets						In % of Balance Sheet Total				
Tangible assets	15,489	16,023	23,158	32,506	38,888	10.4	8.7	10.7	12.7	13.2
Intangible assets incl. land use rights	2,119	3,361	4,282	4,204	4,126	1.4	1.8	2.0	1.6	1.4
Deferred tax & Other fixed assets	356	390	445	501	538	0.2	0.2	0.2	0.2	0.2
Total Fixed Assets	17,964	19,774	27,885	37,211	43,552	12.0	10.7	12.9	14.6	14.8
Inventories	748	1,220	3,878	4,679	5,606	0.5	0.7	1.8	1.8	1.9
Accounts receivable	56,330	61,784	70,371	79,269	85,176	37.7	33.4	32.5	31.0	28.9
Total liquid funds	74,525	102,397	114,624	134,266	160,563	49.8	55.3	52.9	52.6	54.4
Total Current Assets	131,603	165,402	188,873	218,214	251,344	88.0	89.3	87.1	85.4	85.2
Balance Sheet Total	149,567	185,176	216,759	255,425	294,897	100.0	100.0	100.0	100.0	100.0
Shareholder's Equity / Liabilities										
Subscribed capital	11,475	12,698	13,328	13,980	14,657	7.7	6.9	6.1	5.5	5.0
Treasury stock	-27	-102	-272	-448	-631	0.0	-0.1	-0.1	-0.2	-0.2
Share premium	4,456	9,233	8,603	7,950	7,274	3.0	5.0	4.0	3.1	2.5
Retained earnings & Other reserves	106,417	137,396	168,901	204,440	241,956	71.2	74.2	77.9	80.0	82.0
Shareholders Equity	122,321	159,225	190,560	225,922	263,256	81.8	86.0	87.9	88.4	89.3
Long term liabilities	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
ST Liab. < 1 year	27,246	25,951	26,199	29,503	31,641	18.2	14.0	12.1	11.6	10.7
t/o Acc. payable & pre-paymts.	18,762	20,579	23,439	26,402	28,370	12.5	11.1	10.8	10.3	9.6
t/o Tax payable	2,948	2,662	2,760	3,101	3,271	2.0	1.4	1.3	1.2	1.1
t/o Bank loans	5,410	2,710	0	0	0	3.6	1.5	0.0	0.0	0.0
t/o other current liabilities	126	0	0	0	0	0.1	0.0	0.0	0.0	0.0
Total Liabilities	27,246	25,951	26,199	29,503	31,641	18.2	14.0	12.1	11.6	10.7
Balance Sheet Total	149,567	185,176	216,759	255,425	294,897	100.0	100.0	100.0	100.0	100.0

Source: ULTRASONIC AG, BankM Research

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

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Analysts	Date	Evaluation result	Fair value
Dr. Roger Becker, David Szabadvari	September 10, 2012	Buy	€20.78
Dr. Roger Becker, David Szabadvari	November 9, 2012	Buy	€21.50
Dr. Roger Becker, David Szabadvari	February 20, 2013	Buy	€23.44
Dr. Roger Becker, David Szabadvari	April 30, 2013	Buy	€21.55
Dr. Roger Becker, David Szabadvari	June 18, 2013	Buy	€21.52
Dr. Roger Becker, David Szabadvari	September 5, 2013	Buy	€20.84

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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:

Closing prices of December 10, 2013

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December 11, 2013

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