CANCOM AG
Germany - IT Services

HAUCK & AUFHÄUSER
INSTITUTIONAL RESEARCH GMBH

Buy (Initiation)

Price target: EUR 11.50

Price:	EUR 6.30	**Next result:**	Q2 2010: 11.08.10
Bloomberg:	COK GR	**Market cap:**	EUR 64.7 m
Reuters:	COKG.DE	**Enterprise Value:**	EUR 64.8 m

06-July-10

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Consolidator of the fragmented IT system house market

It's an exceptional business model: by combining an IT e-Commerce business with a system house network, CANCOM's main assets support two sales-generating business units granting high capital efficiency and putting the company in an excellent position to **enjoy substantial economies of scale** when revenues grow.

With its broad system house network allowing for close customer proximity, CANCOM can well-support a tight **focus** on SMEs as these demand above all rapid on-site service. Widely avoiding competition to manufacturers and large IT system houses – which mainly address big clients due to their centralised structure – CANCOM competes with c. 5,000 regional providers from which it **differentiates** through:

- **Scale advantage**, resulting in strong purchasing power: as the 3rd largest IT system house in Germany, CANCOM is > 5-10x the size of its regional rivals.
- **Broad product range** and **one-stop-shopping** based on a comprehensive range of 50,000 products from more than 300 distributors.

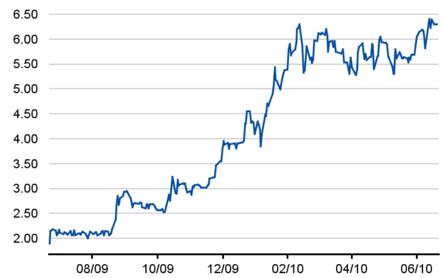
Supported by € 55m external growth, CANCOM looks thus set to grow sales by **11% p.a.** through 2012E driven by market share gains, pent-up demand and a **strong footprint in future markets** like Cloud Computing. A higher service share and acquisition synergies should lift **EBIT** by 24% p.a. through 2012E and boost **ROCE** aided by a **capital-light** business model which makes for a **swift integration of take-over targets**.

No wonder the acquisition of small rivals is the central theme of CANCOM's strategy to extend the regional presence at low prices and reap scale in admin, logistics and procurement. Further acquisitions should boost EBIT and sales beyond our current estimates – e.g. the company aims for € 1bn sales by 2014 – and propel the stock to a whole new level, **thus attracting the attention of institutional investors abroad currently lacking knowledge of the equity story**.

Good Q2 figures and an expected increase in the conservative 2010 consensus' estimates (sales: € 499m / EBIT: € 9m) could serve as a **short-term catalyst**. **Valuation is cheap**: CANCOM trades at a PER 2011E of 8.9 and at a 25% discount to peers based on EV/EBITDA. **BUY**, PT € 11.50 based on DCF and FCFY 2011E.

Y/E 31.12 (EUR m)	2006	2007	2008	2009	2010E	2011E	2012E
Sales	265.0	300.1	364.1	422.5	517.5	546.5	573.2
Sales growth	17 %	13 %	21 %	16 %	22 %	6 %	5 %
EBITDA	5.8	8.0	8.8	10.4	14.1	16.2	18.1
EBIT	4.3	6.2	5.4	7.0	10.3	11.8	13.1
Net income	2.4	4.7	2.7	5.1	7.1	7.3	8.3
Net debt	5.9	6.2	3.9	-3.5	0.1	-4.3	-8.7
Net gearing	18.6 %	17.2 %	9.9 %	-8.0 %	0.2 %	-8.0 %	-14.6 %
Net Debt/EBITDA	1.0	0.8	0.4	0.0	0.0	0.0	0.0
EPS fully diluted	0.24	0.45	0.36	0.49	0.68	0.71	0.80
CPS	-0.23	0.40	1.03	0.71	0.55	0.76	0.76
DPS	0.00	0.00	0.00	0.15	0.24	0.28	0.36
Dividend yield	0.0 %	0.0 %	0.0 %	2.4 %	3.8 %	4.5 %	5.7 %
Gross profit margin	24.7 %	28.8 %	29.1 %	27.5 %	29.3 %	29.8 %	30.4 %
EBITDA margin	2.2 %	2.7 %	2.4 %	2.5 %	2.7 %	3.0 %	3.2 %
EBIT margin	1.6 %	2.1 %	1.5 %	1.6 %	2.0 %	2.2 %	2.3 %
ROCE	8.9 %	10.6 %	8.5 %	10.3 %	14.0 %	15.0 %	15.7 %
EV/sales	0.3	0.2	0.2	0.1	0.1	0.1	0.1
EV/EBITDA	12.4	9.0	7.9	6.0	4.6	3.7	3.1
EV/EBIT	16.8	11.7	13.0	8.9	6.3	5.1	4.3
PER	24.7	13.5	23.8	12.9	9.2	8.9	7.9
Adjusted FCF yield	5.0 %	7.9 %	7.5 %	10.2 %	12.9 %	14.7 %	18.3 %

Source: Company data, Hauck & Aufhäuser Close price as of: 05.07.2010



Source: Company data, Hauck & Aufhäuser

High/low 52 weeks:	6.40 / 1.90
Price/Book Ratio:	1.3
Relative performance (TecDAX):	
3 months	24.0 %
6 months	62.0 %
12 months	213.4 %

Changes in estimates

		Sales	EBIT	EPS
2010	old:	517.5	10.3	0.68
	Δ	-	-	-
2011	old:	546.5	11.8	0.71
	Δ	-	-	-
2012	old:	573.2	13.1	0.80
	Δ	-	-	-

Key share data:

Number of shares: (in m pcs)	10.4
Authorised capital: (in € m)	4.0
Book value per share: (in €)	4.8
Ø trading volume: (12 months)	60,000

Major shareholders:

Free Float	77.9 %
Raymond Kober	8.9 %
Stefan Kober	8.0 %
Klaus Weinmann	5.2 %

Company description:
CANCOM is the 3rd largest independent system house and IT hardware reseller in Germany.

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Introducing CANCOM

CANCOM is the **third largest independent IT system house** in Germany behind Computacenter and Bechtle, focused on planning, building and running clients' IT infrastructure and reselling IT hardware and software.

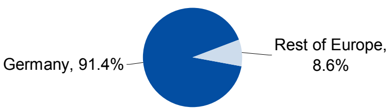
The company is the largest reselling partner of Apple and Adobe in Central Europe and a major distribution partner of Microsoft, HP, IBM and Citrix. In total, CANCOM upholds ties to more than 300 manufacturers and distributors.

The company's 25,000 customers are mainly small and mid-sized enterprises (c. 70% of sales) such as the publishing company DIE ZEIT and the Bavarian radio broadcasting but also include larger clients (c. 20% of sales) like Deutsche Bank and KUKA and private clients (10% of sales). Siemens is CANCOM's biggest customer, accounting for c. 5% of sales.

The company has two segments:

- **IT Solutions** – CANCOM offers customers a comprehensive range of services including IT planning, integration, operation and maintenance. To be able to quickly serve customers, the company upholds a network of 37 system houses in Germany, Austria and England.

- **E-Commerce/trade** – CANCOM resells IT hardware, software, components and periphery via Internet, telesales and catalogue to its customer base. Products are usually shipped within one day.

	e-Commerce / trade	IT solutions	Group
Products			
Sales 09 (€ m)	217.0	205.5	**422.5**
Sales share	51%	49%	
Explanation	CANCOM resells 50,000 products including **IT hardware** (e.g. desktop PCs, laptops, server), **IT software** (e.g. Apple, Windows 7, CAD, CorelDraw), **IT components** (e.g. controllers, hard drives, graphic cards), **periphery** (e.g. PDAs, scanners, printers) and **other products** (e.g. consumables).	CANCOM operates a comprehensive system house network comprising 26 offices in Germany, seven in Austria and four in England. The company needs this network to be everywhere close to its clients. Services offered include help in planning, building, running and outsourcing IT infrastructure.	
Market positions	Third largest independent system house in Germany.		
Customers	CANCOM serves mainly SMEs but also larger clients and private clients (B2C).	Focus lies on SMEs but larger clients are also served especially with services such as outsourcing.	
	On group level, the company has c. 25,000 customers. SMEs are the largest customer group, accounting for 60-70% of sales, followed by big clients (20-30%) and private clients (10%).		
Competitors	Esprinet, Atea, Bechtle AG, Computacenter.	Bechtle AG, Computacenter, Fritz & Macziol, Ratiodata and many more small system houses with sales between € 0.5m and € 100m.	
Raw Materials & Suppliers	The company procures IT hardware and software from more than 300 leading vendors such as Microsoft, Apple, Adobe, HP, IBM and Citrix and whole sells these products to its customer base.		
Sales distribution by region (09)	 Outside Germany, CANCOM is only active in Austria and England.		
Production sites	No own production. Logistics and administration is centralised to reduce capital employed.	37 system house offices in Germany, Austria and England which mainly consist of a sales team and office / computer equipment.	
EBIT 09 (€ m)	3.2	9.0	**7.0**
EBIT-margin	1.5%	4.4%	**1.6%**

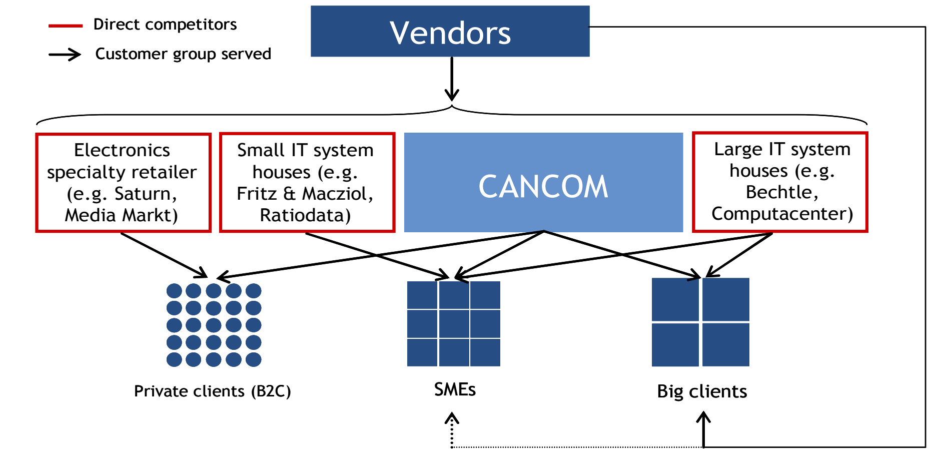
Source: Company data, Hauck & Aufhäuser

Quality

It is simple business: CANCOM procures IT hardware and software from big vendors like Hewlett-Packard, IBM and Microsoft and resells these to its more than 25,000 customers. Afterwards, the company supports its clients in planning, building and running their IT infrastructure.

Hence, CANCOM is active in a commodity-like market: the continuous decline of IT hardware prices forces IT resellers to turn products quickly to avoid inventory write-downs. Also, low capital barriers lead to intense rivalry amongst a vast number of small and large IT system houses (e.g. Bechtle, Computacenter) as well as big manufacturers like Dell.

CANCOM's business in a nutshell



Source: Company data, Hauck & Aufhäuser

In this challenging market environment, **CANCOM sticks out from its competition** due to its superior business model which combines an IT e-Commerce business with an **extensive service network**: with the help of several acquisitions since its inception, the company today operates 37 system houses of which 33 are located in the focus regions Germany and Austria.

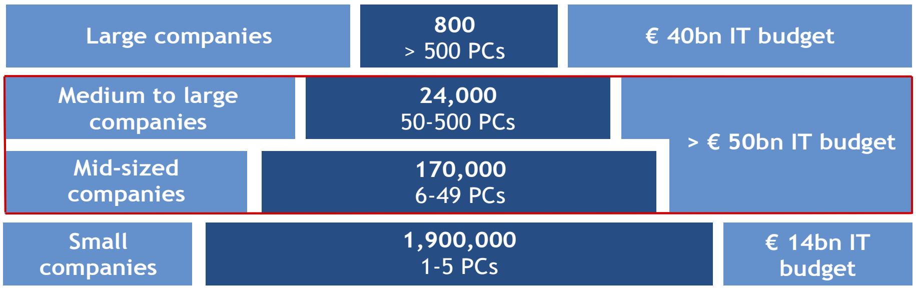
This lays the foundation for CANCOM's **high competitive quality** which is found in the **focus on small and mid sized enterprises** and the **scale advantage** over its primary competitors.

Focus on small and mid sized companies

Accounting for 70% of sales, small and mid sized enterprises (SMEs) are CANCOM's major customer group. Here, Cancom's extensive system house network is paramount as it allows the company to be everywhere close to its clients, **which demand above all rapid on-site service**. The focus on SMEs is a major feature of the company's competitive quality as:

- It is the customer segment with the **highest procurement volume** in Germany (> € 50bn) but **low bargaining power** given its fragmented nature with more than 200,000 active companies.

Procurement volume of different customer groups in Germany



Source: Company data, Hauck & Aufhäuser

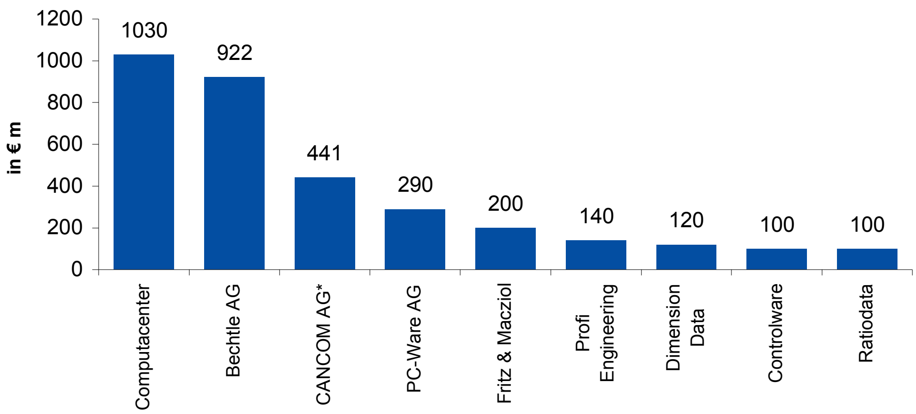
- It allows CANCOM to widely **avoid competition to manufacturers** (like Dell) and large internationally active IT system houses (like Computacenter) as these address mainly larger clients due to their **centralised structure** with limited regional reach.

While CANCOM also deals with large customers (c. 20% of sales) and private clients (c. 10%), these two customer groups account for a much smaller share of group sales.

Scale advantage

Owing to acquisitions but also to its broad system house network which expands the addressable market, **CANCOM has emerged as Germany's third largest IT system house**. In terms of sales, the company is 1.5x bigger than the No.4 and almost 2.5x larger than the No.5. Overall, the market is highly fragmented: a total of c. 5,000 regionally active system houses generate sales of only € 0.5m to € 100m.

Sales of the largest independent system houses in Germany 2009



*Source: Company data, Hauck & Aufhäuser. * Includes sales of Bürotex.*

Its scale advantage provides the basis for CANCOM's **differentiation** from small IT system houses as it allows the company to:

- **Achieve favourable purchasing terms**

  CANCOM acts as a major distributor for all of the big manufacturers like HP, Lenovo and Apple and hence benefits from **sound bargaining power**. This, however, commonly does not result in lower procurement prices but in marketing grants and volume benefits, which amounted to c. € 5m in 2009. This boosted EBIT-margins by c. 1pp in 2009, **contributing c. 60% to group profitability**.

- **Offer the broadest product range and a one-stop-shop**

  With its ties to more than 300 distributors, CANCOM is able to sell 50,000 products via catalogue, internet and telesales and hence offer its customers everything they need from one source.

  This CANCOM can do only because it has the scale **to deal profitably with the large number of products** and because it is large enough to be considered an attractive partner for the big manufacturers – **smaller rivals often do not even have access to all products**.

  CANCOM's **unique and intelligent online platform** is a further advantage in this regard. Each night, the website reads out several million pieces of product information from all of the company's suppliers to find the cheapest price for each product, **guaranteeing lowest procurement costs for its clients**. Ordered goods are generally delivered in less than one day.

The graph below gives a quick-and-dirty summary of the main features differentiating CANCOM from its competitors. It also shows that Bechtle is likely CANCOM's major competitor.

	Manufacturers	Independent, internationally active	Independent, regionally active	CANCOM
Company e.g.	Dell, IBM, Hewlett-Packard	T-Systems, Dimension Data, Computacenter, Bechtle	PC-Ware, Fritz & Macziol, Profi Engineering and many more.	-
Product range	Only own products	Large array of products, large number of IT partners	Limited offer, often focused on few partners only	50,000 products, ties to more than 300 distirbutors, one-stop-shop
Target group	Large clients	Predominantly large clients but also SMEs in the case of Bechtle	Small- and mid sized clients	SMEs (70% of sales)
Local presence	Low due to centralised structure	Several large branches, a broad network of c. 60 system houses in the case of Bechtle	Few small branches	Extensive network of 37 system houses but potential for further improvement through acquisitions
Service quality	Hardly any own service	High for largest clients, generally high in the case of Bechtle	High	High

Source: Company data, Hauck & Aufhäuser

Business Quality

Business quality has yet to fully reflect the high competitive quality: In 2008 and 2009, capital returns did not or just barely earn the cost of capital. However, this is mainly the fault of the cyclical downturn and the ongoing integration of recent take-over targets – already in 2010E CANCOM should reap strong returns of >15%.

The hidden **potential to boost ROCE** becomes evident when comparing CANCOM's EBIT-margin (1.6% in 2009) to that of rival Bechtle (3.1%). The **difference of 1.5pp** can be explained as follows:

- 0.75pp due to Bechtle's stronger purchasing power which results in higher marketing grants from manufacturers.

- 0.75pp owing to better economies of scale in administration, logistics and warehousing given Bechtle's size advantage (c. 3x as big as CANCOM).

Acquisitions are a **vital part of the business model** and the main method to increasingly transfer the high competitive quality into high business quality:

CANCOM operates an integrated business model where the Holding **centrally** performs functions like logistics, warehousing, and administration for both of the company's two segments – a structure which limits capital needs, boosting capital efficiency. But it is also invaluable when acquiring competitors:

CANCOM replaces the target's assets with its more efficient ones, immediately raising the target's efficiency as CANCOM takes care of admin, logistics, procurement and warehousing and the acquired company can focus exclusively on sales and marketing. Thus, CANCOM can reap significant synergies in e.g. purchasing and administration.

The fragmented IT system house market – where many small players are struggling to survive – coupled with CANCOM's strategy to be an active consolidator should allow the company to narrow the profitability gap to Bechtle because:

- **Competitive pressure should be reduced** as more and more small players leave the market or get taken-over by the bigger rivals.

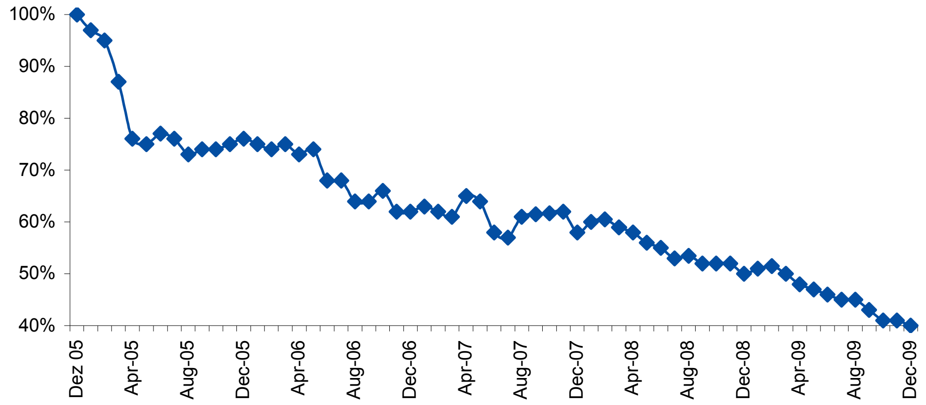
- **Higher economies of scale** in purchasing, administration and logistics should result from any acquisition and help CANCOM further improve profitability.

Growth

IT price declines undermine volume growth

No doubt, the **deflationary** IT hardware market is a challenging place to look for sales growth. Prices for IT hardware like desktop PCs or laptops have declined continuously in the past years, losing c. 60% in total since 2005. In 2009 alone, prices for IT hardware dropped by c. 11.5%.

Price trend in the IT market (exemplified using desktop PC)



Source: BFL IT Index, Destatis, Hauck & Aufhäuser

The regular price declines are driven by **global** IT hardware demand growth, which entails higher output and lower unit production costs, reducing output prices. The snag is that demand in selected **regional**, mature markets like Germany commonly lacks the dynamics to fully offset these price declines.

This implies that IT hardware resellers must expand their volume each year disproportionately to compensate for the negative price effects.

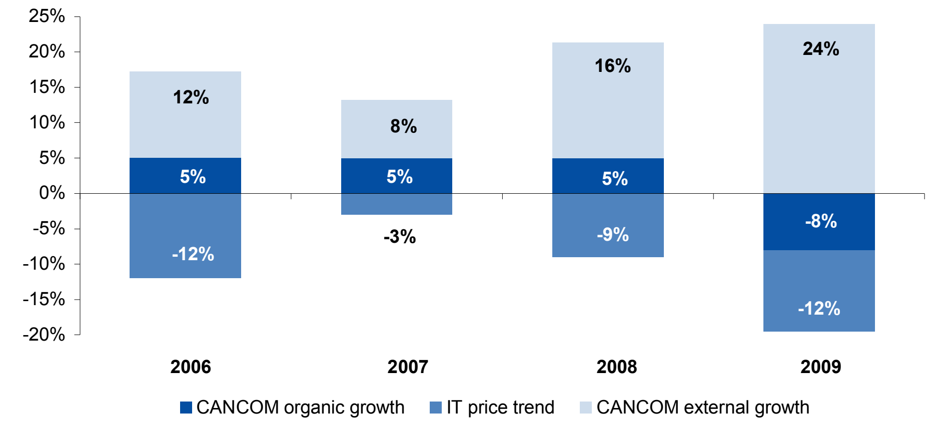
As can be seen from the graph below, CANCOM has an excellent track record of growing its sales despite the price declines due to:

- Combining the sale of IT hardware with a service offering in its system house segment and hence **increasing its focus on IT services** (c. 20% of group sales today / c. 3% in 2004), where differentiation is easier to achieve and prices are more stable.

- **Market share gains** vis-à-vis the large number of smaller suppliers in the market which lack the scale and the strong service quality to compete effectively.

- **Acquisitions** which contributed on average c. 15pp p.a. to growth since 2006.

CANCOM organic and external growth compared to IT price trend



Source: BFL IT Index, Company data, Hauck & Aufhäuser

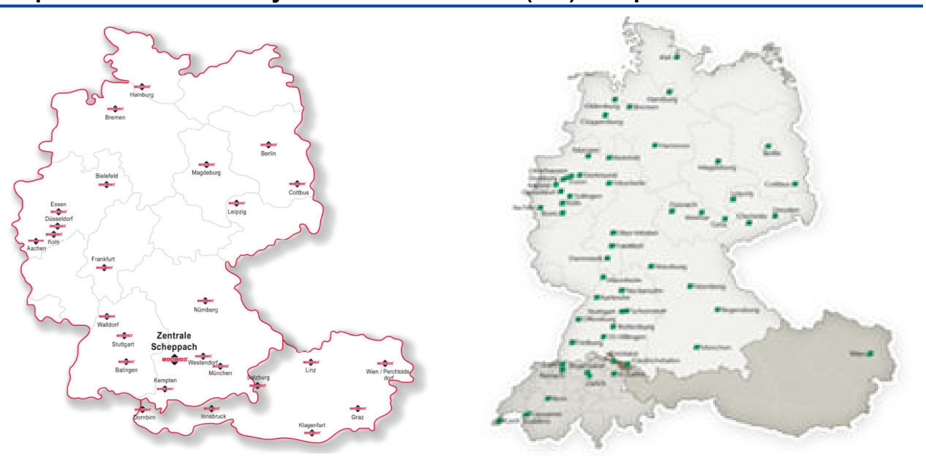
Acquisitions – the core of CANCOM's strategy

The high contribution of external growth in recent years highlights that **acquisitions lie at the core of CANCOM's business model** – in contrast to competitors where take-overs have taken a back seat (e.g. no acquisition for Bechtle in 2009). Hence, CANCOM is set to be the main beneficiary of the fragmented market and execute further acquisitions to:

(1) **Reap synergies in administration, logistics and procurement**. CANCOM's gross margin potential is easily unveiled: In 2009, the company received c. € 5m marketing grants from manufacturers while Bechtle earned c. € 9m. These marketing grants directly benefit the bottom-line as they are pure margin.

(2) **Extend the system house network** at cheap prices. Compared to Bechtle's exhaustive footprint (c. 60 system houses in D/A/CH), CANCOM's system house network is less extensive (c. 33 offices in D/A) and further acquisitions to fill in the "black spots" are very likely.

Comparison: Cancom's system house network (left) compared to Bechtle's



Source: Company data, Bechtle AG, Hauck & Aufhäuser

(3) **Widen the product spectrum**, especially with regard to services offered.

CANCOM: recent acquisitions							
Date	**Company**	**Share**	**Sales (in € m)**	**EBITDA (in € m)**	**Price (in € m)**	**EV**	**EBITDA/EV**
Aug-08	Sysdat GmbH	100%	80.3	1.5	6.0	5.95	25.2%
Dec-08	Home of Hardware	100%	80.0	-1	0.0	n/a	n/a
Dec-09	BIT IT-Systemhaus	100%	55.0	0	4.0	4.0	0.0%

Source: Company data, Hauck & Aufhäuser

The above table depicts CANCOM's recent acquisitions. The take-over of Sysdat in 2008 was **value-accretive** given a c. 25% return on the enterprise value. Unfortunately, the verdict on the other two acquisitions is not as clear-cut as both targets were unprofitable.

However, it is common for CANCOM to acquire unprofitable companies as this assures low acquisition prices (less than 0.1x sales). Synergies are then reaped as follows: following a take-over, CANCOM takes care of administration, procurement, logistics, finance and personnel and the acquired company can re-focus exclusively on sales and marketing.

Hence, the take-over target loses its fixed cost burden and gets access to CANCOM's highly efficient warehousing, logistics and favourable procurement conditions, **all of which immediately raises its efficiency**.

As an example: CANCOM's usual course of action following an acquisition is to:

- **Centralise logistics**, which releases working capital and reduces other operating expenses and personnel expenses.
- **Cut administrative headcount** given that CANCOM will centrally take care of all management functions. For example, in the recent take-over of Bürotex, CANCOM dismissed 10 employees in admin, saving c. € 0.4m personnel expenses p.a.
- **Introduce a central software system** for accounting, logistics and procurement, raising efficiency of the take-over target.
- **Perform procurement centrally**, improving purchasing power of **both** the target AND CANCOM immediately, which basically results in higher marketing grants (called "back-margins") from manufacturers.

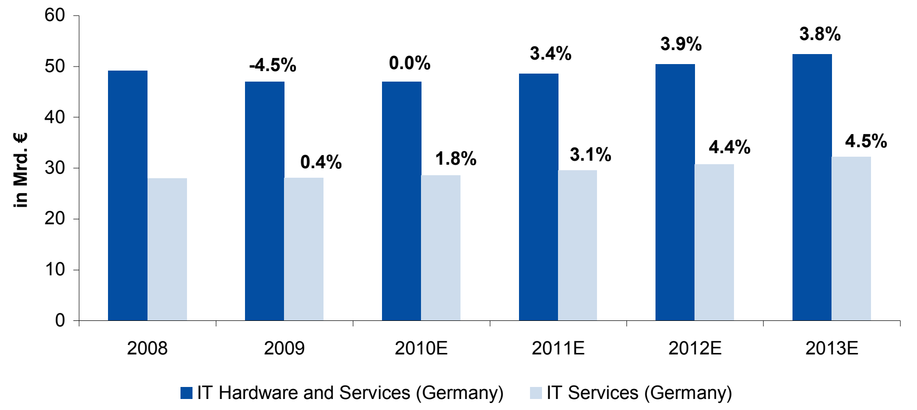
The normal course is for an acquired company to be loss making in the first year, turn profitable in year two and **reach group profitability by the third year**. On top, the acquired company usually experiences additional growth of 10-20% after the take-over as it gets access to a much wider product portfolio which offers the opportunity to cross-sell.

Hence, even in cases when acquisitions seem to add no value at first glance, the target is likely to witness an increase in efficiency and top-line growth once incorporated into CANCOM's capital-light structure, **meaning almost all acquisitions have an extremely favourable risk/reward profile**.

Favourable market outlook for 2010E and beyond

Following a challenging year characterised by strong price declines and a reluctance to invest in IT infrastructure, the outlook for the IT market in 2010E and beyond has brightened up considerably, mainly **driven by pent-up demand** given replacement cycles of two to three years.

IT market growth in Germany 2008-2013E



Source: IDC, Company data, Hauck & Aufhäuser

No doubt, a first look at the graph above suggests that growth should be back-end loaded and remain weak in 2010E. However, the statistics for IT Hardware and Services includes lacklustre sectors like telecommunications. In contrast, **CANCOM is focussed on higher-growth sectors and customer groups**:

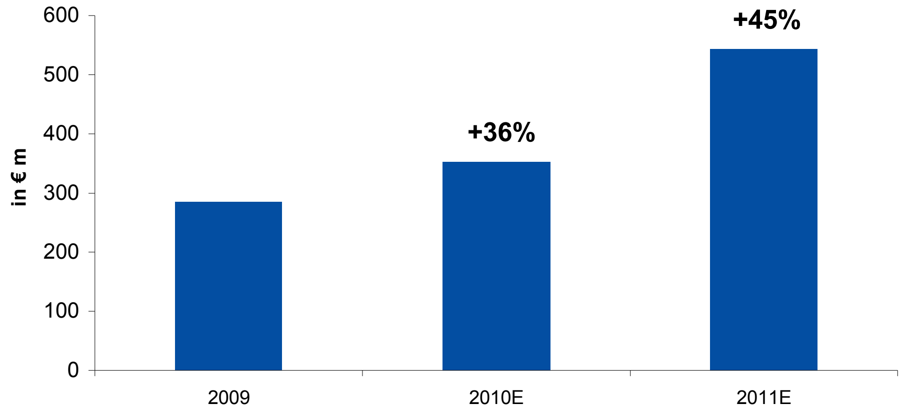
- **IT services** like system integration, maintenance, consulting, application management and outsourcing should grow by **4%** in the D-A-CH region going forward and reach a volume of c. € 50bn in 2010E. Especially **IT outsourcing** is a disproportionate growth driver, with growth expected to amount to **6%** p.a. in Germany.

- IT demand from **small and mid sized companies** is expected to show disproportionate growth of **5%** p.a. going forward – a group where CANCOM can boast a strong footprint (c. 70% of sales).

- The sector **Cloud Computing** is expected to grow by c. 35% in Germany in 2010E. The idea behind this new trend is to offer IT infrastructure and applications **usage-dependent** via a network, which turns IT expenses into variable costs and lowers TCO.

Hence, cloud computing is extremely attractive to CANCOM's customer base as investment decisions are commonly based on TCO and ROI. This explains **why cloud computing is expected to become an attractive growth sector**, which should benefit CANCOM directly as the company has early on put its strategic focus on this sector.

Expected growth in the German market for Cloud Computing



Source: BITKOM, Company data, Hauck & Aufhäuser

Overall, this means that the relevant market for CANCOM should grow by c. 5-10% in 2010E and by c. 5% in 2011E and 2012E.

Growth at CANCOM AG

At company level, growth drivers should reflect the dynamics outlined above.

(1) The **relevant IT market** is expected to grow by 7.5% in 2010E contributing c. € 32m to sales. Included in this is the growth sector **IT outsourcing**, which currently contributes c. € 80m to CANCOM's revenues (95% booked in segment IT Solutions / 5% in e-Commerce / trade). In 2011E and 2012E, the relevant market should grow at c. 5%.

(2) The recent **acquisition** of Bürotex is expected to add c. € 55m to CANCOM's top-line in 2010E (fully booked in segment IT Solutions), equalling c. 13% external growth. Beyond this, no further acquisitions are accounted for in the estimates even though additional take-overs are very likely and could potentially add another c. € 100m in sales.

(3) Contributing the remaining € 8m or c. 2% to top-line growth in 2010E, **market share gains** are very likely as CANCOM's close customer proximity coupled with a unique service offering should help the company win customers from smaller competitors who are forced to leave the market due to declining IT hardware prices.

In sum, group sales should grow at 22.5% in 2010E of which 9.5% should be organic and 13% external. Growth should reach 5.6% in 2011E and 4.9% in 2012E, not accounting for potential external growth.

CANCOM AG: Sales trend 2006-2012E

	2006	2007	2008	2009	2010E	2011E	2012E
Group	**265.0**	**300.1**	**364.1**	**422.5**	**517.5**	**546.5**	**573.2**
y-o-y	*17.2%*	*13.2%*	*21.3%*	*16.0%*	*22.5%*	*5.6%*	*4.9%*
IT Solutions	**n/a**	**n/a**	**166.3**	**205.5**	**292.1**	**311.4**	**328.7**
y-o-y	*n/a*	*n/a*	*n/a*	*23.5%*	*42.2%*	*6.6%*	*5.6%*
e-Commerce / trade	**n/a**	**n/a**	**197.8**	**217.0**	**225.4**	**235.1**	**244.5**
y-o-y	*n/a*	*n/a*	*n/a*	*9.7%*	*3.9%*	*4.3%*	*4.0%*

Source: Company data, Hauck & Aufhäuser

Bottom-line growth

CANCOM's **EBIT** is expected to rise by c. **24%** on average p.a. (2009-12E) and the EBIT-margin to increase by **0.7pp** from 1.6% (2009) to 2.3% (2012E). The expected trend is based on the following drivers:

Higher share of IT Solutions to raise gross margin

The segment IT Solutions currently accounts for c. 49% of sales. This should grow to 57% in 2012E given CANCOM's rising focus on high-margin service revenues. In contrast to the IT hardware segment (c. 15% gross margin), CANCOM reaps gross margins of c. 39% with its service offering. Hence, the material expense ratio should drop by 2.8pp to 69.8% from 2009 to 2012E.

Segment split: e-Commerce / trade and IT Solutions in 2009

	e-Commerce / trade	IT Solutions
Sales*	**220.8**	**224.3**
Gross Profit	32.4	88.0
Gross margin	*14.7%*	*39.2%*
Personnel expenses	17.1	62.6
in % of total sales	*7.7%*	*27.9%*
Other expenses	9.9	15.3
in % of total sales	*4.5%*	*6.8%*
EBIT	**3.2**	**9.0**
EBIT-margin	*1.5%*	*4.0%*

*Source: Company data, Hauck & Aufhäuser. * Sales include inter-segment revenues*

Stronger focus on services to raise personnel expense ratio

CANCOM's rising focus on high-margin services (*see above*) should gradually reduce the capital-intensity of the business model and increase the personnel-intensity: the wholesale of IT hardware requires little personnel (c. 8% personnel expense ratio) whereas personnel expenses stand at c. 28% of sales when it comes to IT services. Result: the personnel expense ratio is expected to rise by 2.5pp from 19.6% (2009) to 22.1% (2012E).

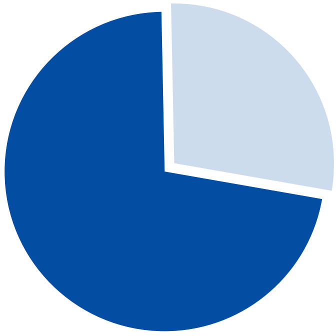
Economies of scale to reduce other operating expenses ratio

The largest fixed or quasi-fixed costs in this position are office space (€ 5.2m), motor vehicles (€ 4.4m), advertising (€ 1.8m) and communication costs (€ 1.7m) while major variable expenses accrue to delivery costs (€ 3.1m), third party services (€ 2.7m) and repair (€ 1.5m). Overall, it is estimated that **c. 70% of positions are fixed** or quasi-fixed **and c. 30% variable**. The ratio should decline by 0.6pp to 5.6% in 2012E on the back of scale effects.

Components of Other operating expenses (€ 26.1m in 2009)

Fixed and quasi fixed c. 70%

Office space € 5.2m
Motor vehicles € 4.4m
Advertising € 1.8m
Communication € 1.7m



Variable c. 30%

Delivery costs € 3.1m
3rd-party services € 2.7m
Repair, leasing € 1.5m

Source: Company data, Hauck & Aufhäuser

EBIT effect of the recent acquisition targets

It is important to note that the recent acquisitions of Sysdat, Home of Hardware and Bürotex are expected to still weigh on CANCOM's profitability in 2010E and 2011E. **The "true" EBIT-margin of the group is thus higher than shown in the P&L statement**.

For example, Bürotex is expected to generate sales of c. € 55m in 2010E yet only break-even on EBIT level. The same should be true for the B2C reseller Home of Hardware despite sales of c. € 60m. This means that c. € 115m sales or c. 20% of group sales in 2010E **should contribute no margin at all**.

Unsurprisingly, the potential to improve EBIT by raising profitability of acquisition targets to group level is appealing: **EBIT could be c. € 3m or 0.6pp higher in 2010E**, **meaning true group profitability is closer to 2.6%**.

CANCOM AG: Earnings trend 2006-2012E

	2006	2007	2008	2009	2010E	2011E	2012E
Material expenses	**199.6**	**214.2**	**258.3**	**306.8**	**366.8**	**384.2**	**399.9**
in % of sales	*75.3%*	*71.4%*	*70.9%*	*72.6%*	*70.9%*	*70.3%*	*69.8%*
Personnel expenses	**42.0**	**59.0**	**73.0**	**82.8**	**110.0**	**118.6**	**126.6**
in % of sales	15.8%	19.7%	20.1%	19.6%	21.3%	21.7%	22.1%
Other operating income	**0.7**	**1.5**	**1.7**	**2.7**	**2.4**	**2.5**	**2.5**
in % of sales	*0.3%*	*0.5%*	*0.5%*	*0.6%*	*0.5%*	*0.5%*	*0.4%*
Other operating expenses	**18.4**	**21.2**	**26.1**	**26.1**	**30.0**	**31.0**	**32.1**
in % of sales	*6.9%*	*7.1%*	*7.2%*	*6.2%*	*5.8%*	*5.7%*	*5.6%*
Depreciation	**1.5**	**1.9**	**3.4**	**3.4**	**3.8**	**4.4**	**5.0**
in % of sales	*0.6%*	*0.6%*	*0.5%*	*0.8%*	*0.7%*	*0.7%*	*0.8%*
EBIT	**4.3**	**6.2**	**5.4**	**7.0**	**10.3**	**11.8**	**13.1**
EBIT-margin	*1.6%*	*2.1%*	*1.5%*	*1.6%*	*2.0%*	*2.2%*	*2.3%*
IT Solutions	**n/a**	**n/a**	**6.5**	**9.0**	**12.9**	**13.9**	**15.0**
EBIT-margin	*n/a*	*n/a*	*3.9%*	*4.4%*	*4.4%*	*4.5%*	*4.6%*
e-Commerce / trade	**n/a**	**n/a**	**3.9**	**3.2**	**3.3**	**3.5**	**3.9**
EBIT-margin	*n/a*	*n/a*	*2.0%*	*1.5%*	*1.5%*	*1.5%*	*1.6%*

Source: Company data, Hauck & Aufhäuser

Valuation

To value CANCOM AG, we have used three different approaches:

- A DCF model
- An adjusted FCF valuation
- A peer group comparison

DCF model

The DCF model assumes a CAGR of 10.7% for the forecast period (2009-12E), a medium-term growth rate of 3.4% (2012E-16E) and a long-term growth rate of 2.0%. The terminal EBIT-margin is modelled at 2.5%.

The discount factor (WACC) is set at 9.5%, made up of a risk-free rate of 3.5%, a 5% equity risk premium and a beta of 1.2.

The DCF model results in a price target of € 11.2 for CANCOM.

DCF (EUR m) (except per share data and beta)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal value
NOPAT	8.1	8.2	9.2	9.7	10.1	10.4	10.6	10.9	11.9
Depreciation	3.8	4.4	5.0	5.1	5.3	5.5	5.5	5.5	5.5
Increase/decrease in working capital	-1.2	0.6	-0.6	-0.6	-0.5	-0.4	-0.3	-0.3	-0.6
Increase/decrease in long-term provisions and accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capex	-7.8	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5
Acquisitions	-4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	**-1.1**	**7.8**	**4.9**	**8.7**	**9.3**	**9.9**	**10.3**	**10.6**	**11.3**
Present value	-1.1	6.8	6.4	6.3	6.2	6.0	5.7	5.4	71.2
WACC	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%

DCF per share derived from	
Total present value	113
thereof terminal value	63%
Net debt (net cash) at start of year	-4
Financial assets	2
Provisions and off balance sheet debt	4
Equity value	115
No. of shares outstanding	10.3
Discounted cash flow per share	**11.2**
upside/(downside)	**77%**
Share price	**6.30**

DCF avg. growth and earnings assumptions	
Short term growth (2009-2012)	10.7%
Medium term growth (2012 - 2016)	3.4%
Long term growth (2016 - infinity)	2.0%
Terminal year EBIT margin	2.5%

WACC derived from	
Cost of borrowings before taxes	4.5%
Tax rate	30.0%
Cost of borrowings after taxes	4.1%
Required return on invested capital	9.5%
Risk premium	5.0%
Risk-free rate	3.5%
Beta	1.2

Sensitivity analysis DCF

	Long term growth				
WACC	0%	1.0%	2.0%	2.5%	3.0%
11.5%	8.0	8.4	8.9	9.2	9.5
10.5%	8.7	9.3	9.9	10.3	10.7
9.5%	9.6	10.3	11.2	11.7	12.3
8.5%	10.7	11.7	12.9	13.6	14.6
7.5%	12.2	13.5	15.3	16.5	17.9

Sensitivity analysis DCF

	EBIT margin terminal year				
WACC	0.5%	1.5%	2.5%	3.5%	4.5%
11.5%	5.0	6.9	8.9	10.9	12.9
10.5%	5.1	7.5	9.9	12.3	14.7
9.5%	5.3	8.2	11.2	14.1	17.0
8.5%	5.6	9.2	12.9	16.5	20.2
7.5%	6.0	10.6	15.3	20.0	24.6

Source: Company data, Hauck & Aufhäuser

Free Cash Flow Yield

As smaller companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and due to the fact that long-term returns often are flawed by the lack of sufficient visibility, an Adjusted Free Cash Flow analysis (Adjusted FCF) has been conducted.

Main driver of this model is the level of return available to a *controlling* investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company.

Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capex).

Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after tax return equals the model's hurdle rate of 7.5%. Anything less suggests the stock is expensive; anything more suggests the stock is cheap.

The adjusted FCF Yield suggests a PT of € 11.6 for CANCOM based on 2011E with further upside on 2012E figures (€ 13.6).

FCF yield, year end Dec. 31		2009	2010E	2011E	2012E
EBITDA		**10.4**	**14.1**	**16.2**	**18.1**
- Maintenance capex		3.3	4.1	4.6	5.0
- Minorities		0.0	0.1	0.1	0.1
- tax expenses		0.6	1.9	3.2	3.6
= Adjusted Free Cash Flow		**6.4**	**8.0**	**8.3**	**9.5**
Actual Market Cap		**65.1**	**64.7**	**64.7**	**64.7**
+ Net debt (cash)		-3.5	0.1	-4.3	-8.7
+ Pension provisions		0.0	0.0	0.0	0.0
+ Off balance sheet financing		0.0	0.0	0.0	0.0
+ Adjustments prepayments		1.1	1.1	1.1	1.1
- Financial assets		-0.2	-2.4	-2.4	-2.4
- Dividend payment		0.0	-1.6	-2.5	-2.9
EV Reconciliations		*-2.5*	*-2.7*	*-8.1*	*-12.9*
= Actual EV'		**62.6**	**62.0**	**56.6**	**51.8**
Adjusted Free Cash Flow yield		**10.2%**	**12.9%**	**14.7%**	**18.3%**
Sales		**422.5**	**517.5**	**546.5**	**573.2**
Actual EV/sales		0.1x	0.1x	0.1x	0.1x
Hurdle rate		7.5%	7.5%	7.5%	7.5%
FCF margin		1.5%	1.6%	1.5%	1.7%
Fair EV/sales		0.2x	0.2x	0.2x	0.2x
Fair EV		**85.6**	**107.0**	**111.1**	**126.2**
- EV Reconciliations		*-2.5*	*-2.7*	*-8.1*	*-12.9*
Fair Market Cap		**88.1**	**109.7**	**119.2**	**139.1**
No. of shares (million)		10.3	10.3	10.3	10.3
Fair value per share		**8.5**	**10.7**	**11.6**	**13.6**
Premium (-) / discount (+) in %		**35.2%**	**69.6%**	**84.3%**	**115.1%**
Sensitivity analysis fair value					
Hurdle rate	5.0%	12.7	15.9	17.0	19.7
	7.5%	8.5	10.7	11.6	13.6
	10.0%	6.4	8.1	8.9	10.5
	12.5%	5.2	6.5	7.3	8.6

Source: Company data, Hauck & Aufhäuser

Peer Group

The peer group includes:

Bechtle is a leading independent IT system house for SMEs, operating a network of c. 60 sites in Germany, Switzerland and Austria. The company supplies its more than 50,000 customers with everything they need from one source, including IT hardware, software and periphery as well as help in planning, building, running and outsourcing IT.

Computacenter is Europe's leading IT infrastructure services provider. The company develops, implements and operates tailor-made IT solutions for its clients. Through an extensive network of sites, Computacenter is active in Germany, the UK, France and Benelux.

Insight Enterprises is a technology solutions provider with a global footprint. Insight provides software and licensing services in 170 countries worldwide. In addition, the company sells hardware and provides value-added services for its clients in North America and the UK.

Manutan is a leader in B2B distance selling. The product range comprises products for materials handling, lifting, storage, manufacturing supplies, safety, hygiene and packaging products, office and workshop equipment, supplies and consumables. The Group sells c. 200,000 products via paper and online catalogues and is active in 20 countries across Europe.

TAKKT is a global B2B mail order and online wholesaler with a tight focus on durable goods and specialty equipment, such as office, business or foodservice equipment. The company offers a comprehensive range of over 160,000 products from more than 500 different suppliers.

Atea is a leading Nordic and Baltic supplier of IT infrastructure. Active in 72 cities in Norway, Sweden, Denmark, Finland, Lithuania, Latvia and Estonia, the company delivers IT products from leading vendors and assists its customers with specialists' competencies within IT infrastructure services.

The table below gives an overview of the main multiples of each company in the peer group.

CANCOM AG	EV/Sales 10E (x)	EV/Sales 11E (x)	EV/Sales 12E (x)	EV/EBITDA 10E (x)	EV/EBITDA 11E (x)	EV/EBITDA 12E (x)	EV/EBIT 10E (x)	EV/EBIT 11E (x)	EV/EBIT 12E (x)	PER 10E (x)	PER 11E (x)	PER 12E (x)
COMPUTACENTER PLC ORD 6P	0.1	0.1	0.1	4.0	3.8	3.5	6.2	5.5	5.1	9.2	8.5	7.3
BECHTLE AG O.N.	0.2	0.2	0.2	5.6	4.7	4.4	6.9	5.9	5.4	11.6	10.2	9.0
INSIGHT ENTERPRISES I	0.2	0.2	0.2	5.4	5.1	4.4	8.1	7.4	6.4	11.7	10.6	9.2
MANUTAN INTL	0.5	0.5	0.5	5.9	5.0	4.8	7.0	6.0	5.8	12.3	10.7	10.0
TAKKT AG O.N.	0.9	0.9	0.9	8.3	7.3	6.7	10.6	9.1	8.5	13.8	11.3	10.2
ATEA ASA NOK10	0.2	0.2	0.2	5.8	5.1	4.7	7.7	6.7	5.9	8.1	6.8	6.0
CANCOM AG	**0.1**	**0.1**	**0.1**	**4.4**	**3.8**	**3.4**	**6.0**	**5.3**	**4.7**	**9.2**	**8.9**	**7.9**
Average (peer group)	**0.4**	**0.4**	**0.3**	**5.8**	**5.2**	**4.8**	**7.8**	**6.8**	**6.2**	**11.1**	**9.7**	**8.6**
Premium+/discount- in (%)	**-68%**	**-68%**	**-69%**	**-25%**	**-26%**	**-28%**	**-22%**	**-22%**	**-23%**	**-17%**	**-8%**	**-9%**

Source: Factset, Hauck & Aufhäuser

While the PER shows only limited upside, **CANCOM looks clearly undervalued** on EV/EBITDA and EV/EBIT for 2011E, with fair values ranging from € 8.0 to € 8.4.

When looking at fair values, it is important to note that (1) CANCOM is likely to grow stronger than estimated given its role as a market consolidator and (2) the peer group as a whole looks to be valued at fairly low multiples, which may be granted for most peers but not for CANCOM given its **differentiated business model** and **strong external growth prospects**.

Implied FV	EV/EBITDA 10E	EV/EBITDA 11E	EV/EBITDA 12E	EV/EBIT 10E	EV/EBIT 11E	EV/EBIT 12E	PER 10E	PER 11E	PER 12E
Fair EV	82.2	83.4	86.2	79.7	79.7	81.0			
Net debt	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5			
Pensions	0.0	0.0	0.0	0.0	0.0	0.0			
Market Cap	85.6	86.9	89.6	83.2	83.2	84.5			
Nosh	10.4	10.4	10.4	10.4	10.4	10.4			
implied FV	**8.2**	**8.4**	**8.6**	**8.0**	**8.0**	**8.1**	**7.6**	**6.8**	**6.9**

Source: Factset, Hauck & Aufhäuser

Hence, a premium should be justified for CANCOM, **implying the peer group supports our BUY recommendation and our price target**.

Theme

Theme is still dominated by the "box shifter" flavour of the business model: the market looks at CANCOM as a dull IT hardware reseller active in a lacklustre market. This and the fact that the company is still relatively unknown to the capital markets may explain why it trades at low valuation multiples and at a discount to its peers.

However, with this view the market ignores that CANCOM has evolved into a **differentiated** IT system house with a capital-light business model and returns set to far exceed the cost of capital going forward. A wider coverage of the stock and more time spent on the road should raise awareness amongst institutional investors and narrow the valuation gap to peers.

Theme should be positive and be of further help to achieve this driven by:

- **Further value-accretive acquisitions**

In contrast to its main competitors, CANCOM has remained an active consolidator of the system house market in 2009 and still considers the acquisition of small, regionally active IT system houses the core of its strategy.

The fragmented market and the company's solid balance sheet (€ 26m cash, 33% equity ratio) give confidence that CANCOM can thoroughly execute its strategy also in 2010. Acquisitions should be value-accretive:

Though commonly acquiring rivals with low or negative margins, the target immediately gains in profitability by falling back on CANCOM's more efficient assets. Hence, take-overs are CANCOM's best option to reap economies of scale in purchasing, admin and logistics and improve both margins and ROCE as synergies should assure that capital employed is affected as little as possible. Any acquisitions should thus be regarded as a **positive thematic**.

- **Expected solid performance in Q2**

The expected **solid performance in Q2** should grant sound visibility on FY 2010 figures and sound the bell for a return of organic market growth.

Sales in Q2 2010 are expected to rise by c. 25% y-o-y to € 199.6m. External growth of 12.5% or € 12m should be based on the recent acquisition of Bürotex while organic growth of 12.5% or € 12m should be driven by the improved investment climate amongst small and mid-sized enterprises – CANCOM's main customer group.

EBIT is expected to almost triple to € 1.3m mainly helped by the growing share of high-margin services and better purchasing power (gross margin up c. 2pp).

EUR		Q2 10 est	Q2 09	yoy	H1 10 est	H1 09	yoy
Sales		**119.6**	**95.5**	25.2%	**234.2**	**201.2**	16.4%
Gross profit		**34.5**	**25.7**	34.3%	**69.3**	**54.7**	26.6%
	Gross margin	28.8%	26.9%	*+ 2.0 pp*	29.6%	27.2%	*+ 2.4 pp*
EBIT		**1.3**	**0.5**	156.4%	**3.5**	**1.6**	119.4%
	EBIT margin	1.1%	0.5%	*+ 0.6 pp*	1.5%	0.8%	*+ 0.7 pp*
Net profit		**0.7**	**0.4**	65.9%	**2.1**	**0.9**	127.5%
	Net margin	0.6%	0.4%	*+ 0.1 pp*	0.9%	0.5%	*+ 0.4 pp*
EPS		**0.07**	**0.04**	67.0%	**0.20**	**0.09**	129.1%

Source: Company data, Hauck & Aufhäuser

- **Upgrade of conservative consensus' estimates**

In our view, consensus' estimates for 2010 onwards are too conservative, reflecting neither fully the revival of demand nor the potential to improve profitability on the back of synergies and the shift to high-margin services.

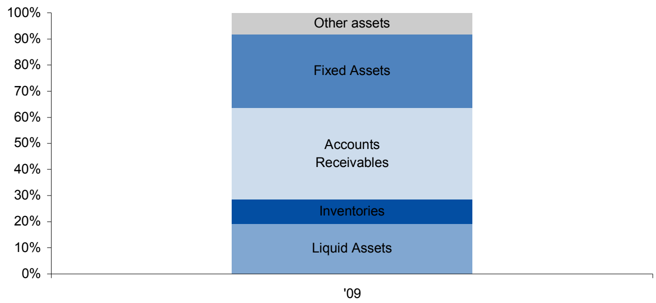
Our 2010E estimates lie 4% above consensus with regard to sales and 12% above consensus with regard to EBIT. Hence, **consensus' upgrades could supply positive news flow** for the shares, potentially already after the sound Q2 results.

Consensus-Overview	2008	2009	2010E	2011E	2012E
Sales (consensus)	**364.1**	**422.5**	**499.0**	**525.0**	**546.0**
yoy in %			18.1%	5.2%	4.0%
Sales (Hauck&Aufhäuser)	**364.1**	**422.5**	**517.5**	**546.5**	**573.2**
yoy in %			22.5%	5.6%	4.9%
delta H&A estimates (total)			*-18.5*	*-21.5*	*-27.2*
delta H&A estimates (%)			*-4%*	*-4%*	*-5%*
EBIT (consensus)	**5.4**	**7.0**	**9.0**	**11.0**	**12.0**
yoy in %			29.4%	22.2%	9.1%
margin in %			1.8%	2.1%	2.2%
EBIT (Hauck&Aufhäuser)	**5.4**	**7.0**	**10.3**	**11.8**	**13.1**
yoy in %			47.8%	14.4%	11.7%
margin in %			2.0%	2.2%	2.3%
delta H&A estimates (total)			*-1.3*	*-0.8*	*-1.1*
delta H&A estimates (%)			*-12%*	*-6%*	*-9%*
EPS (consensus)	**0.27**	**0.49**	**0.59**	**0.65**	**0.78**
yoy in %			21.0%	10.2%	20.0%
EPS (Hauck&Aufhäuser)	**0.27**	**0.49**	**0.68**	**0.71**	**0.80**
yoy in %			40.6%	3.0%	13.4%
delta H&A estimates (total)			*-0.09*	*-0.06*	*-0.02*
delta H&A estimates (%)			*-14%*	*-8%*	*-2%*

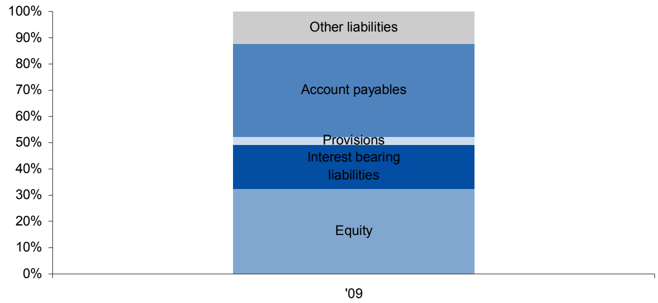
Source: Company data, Hauck & Aufhäuser, Factset

Returns analysis

Balance sheet - Assets



Balance sheet - Liabilities



Source: Company data, Hauck & Aufhäuser

Balance sheet structure

Fixed Assets of € 38m or 28% of Total Assets are made up mainly of intangible assets (c. € 32m or 83% of Fixed Assets) and to a lesser degree of property, plant and equipment (€ 6.5m or 17%).

Given the acquisitive history of CANCOM, it is no surprise that intangibles comprise mainly goodwill (€ 24.8m) from CANCOM Deutschland (€ 11.4m), Sysdat (€ 4.5m) and CANCOM IT Solutions (€ 3.4m). Still, the relatively low nature of goodwill despite more than 20 acquisitions since inception speaks of **favourable acquisition prices**. Next to goodwill, intangibles include customer lists (€ 3.3m) and trademarks (€ 1.8m).

As an IT distributor and system house, CANCOM naturally requires little fixed assets other than for logistics, admin and the regional offices. CANCOM minimises capital needs by centralising logistics and admin, thus reaping synergies between its two segments. The regional system house offices consist solely of sales and service personnel and office / computer equipment.

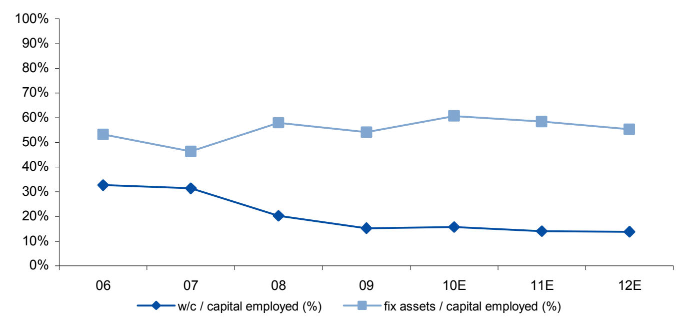
Hence, PP&E represent equipment for CANCOM's logistics centre (€ 0.8m) and the IT data centre (€ 0.4m) as well as other computer and office equipment.

The centralised logistics further helps CANCOM keep inventory levels (c. € 13m or 9% of Total Assets) in check, as does the fulfilment principle, where 55% of all orders are shipped directly from the manufacturer to the customer. Hence, working capital stands at a modest € 11m or 2.6% of sales, helped by accounts payable of c. € 48m (36% of Total Liabilities) which fully compensate for accounts receivable of c. € 47m or 35% of Total Assets.

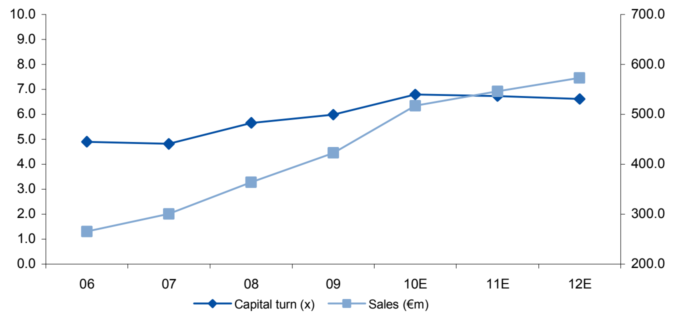
Next to the small amount of other assets (deferred charges and taxes), cash of c. € 26m (19% of Total Assets) explains the remaining share of Total Assets.

CANCOM's equity of c. € 44m equals an equity ratio of 32.5%. Interest-bearing liabilities total c. € 22m or 17% of Total Liabilities while only a moderate amount of provisions (warranty, severance payments) and other (mainly tax) liabilities can be found on CANCOM's balance sheet.

Capital employed



Capital employed turnover and sales



Source: Company data, Hauck & Aufhäuser

Capital employed and operational efficiency

As can be seen from the above left graph, 50% of CANCOM's capital is employed in fixed assets (mostly goodwill), 15% in working capital and the rest is largely sitting in cash.

For a wholesaler, one could expect a much larger share of capital to be tied up in working capital. **Not so for CANCOM**: as laid out above, the company's centralised logistics and the fulfilment principle keeps inventory low at c. € 13m and hence working capital in check.

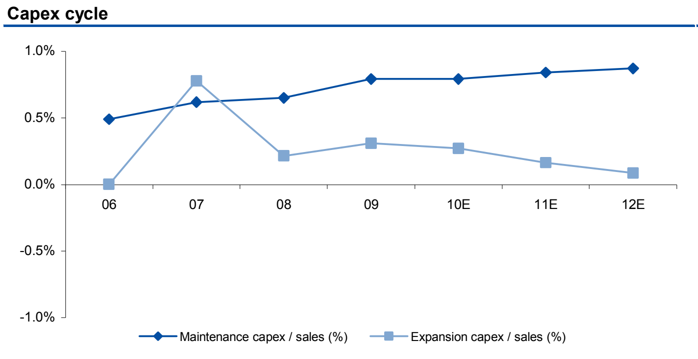
Given the low amount of capital needed to run the business, capital entry barriers are moderate at best. While capital employed does not constitute a competitive edge by itself, CANCOM's **scale advantage** over the large number of small competitors allows the company to **differentiate** by:

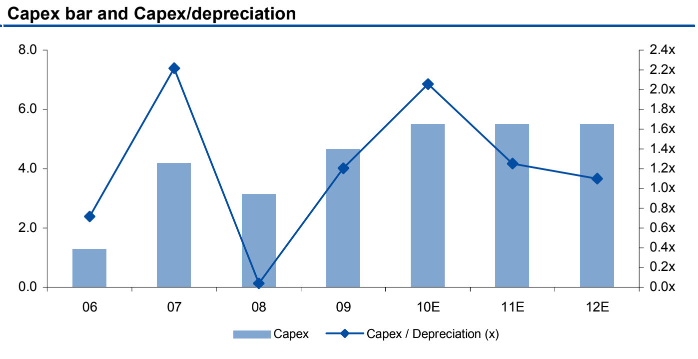
- Offering a broad product spectrum of 50,000 products from 300 distributors and acting as a one-stop-shop.
- Upholding a dense system house network with 37 sites in Germany, Austria and England enabling rapid on-site service.
- Receiving "pure margin" marketing grants from its suppliers thanks to the significant purchasing clout.

…all of which erects "**success barriers**" as new entrants would lack the scale to compete profitably AND to become a major partner of large manufacturers which do not consider small players an attractive distribution platform.

CANCOM's high capital efficiency of 6 (*see right graph*) is better than that of rival Bechtle (c. 4) and a direct result of the company's capital-light business model. Capital efficiency should be sustainable going forward as CANCOM…

- …requires little investments for growth. Capex total only c. € 5m p.a.
- …will finish centralising logistics and warehousing for recent take-over targets HoH and Sysdat in Q2 2010, giving an immediate boost to efficiency.
- …has recently initiated dividend payments and aims at a payout ratio of 50% in the mid-term, reducing idle cash and capital employed.





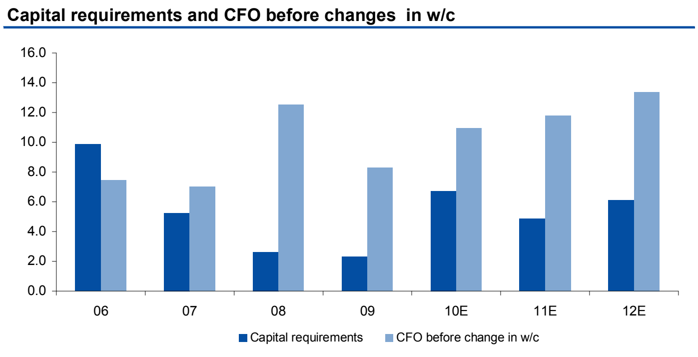
Source: Company data, Hauck & Aufhäuser

Capex cycle and net capex

CANCOM does not need to spend much to grow and maintenance needs of € 4-5m p.a. are limited as well given its small asset base. In 2010, regular capital expenditures should amount to c. € 5.5m, of which € 1.5m should accrue to intangibles (software) and € 4m to fixed assets (mainly for the purchase of company cars to reduce other operating expenses). Hence, **the "normal" capex cycle is as good as it gets**.

However, CANCOM is set to be a market consolidator. In December 2009, the company acquired Bürotex for c. € 4m. In 2010E, further acquisitions are likely which could add sales of c. € 100m and cost up to € 10m (*both not included in model*). Acquisitions are a central element of CANCOM's strategy to:

- **Reap economies of scale** in administration and logistics.
- Further **improve purchasing power**.
- **Extend the system house network** at cheap prices.

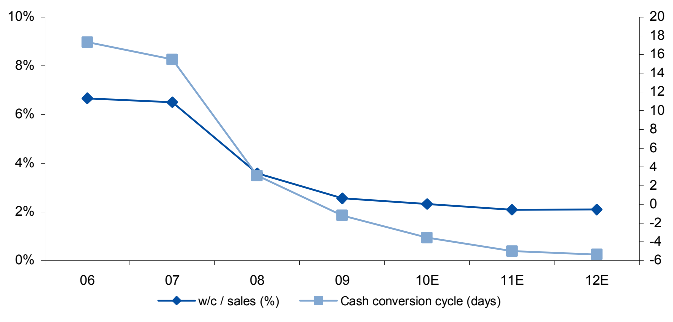


Source: Company data, Hauck & Aufhäuser

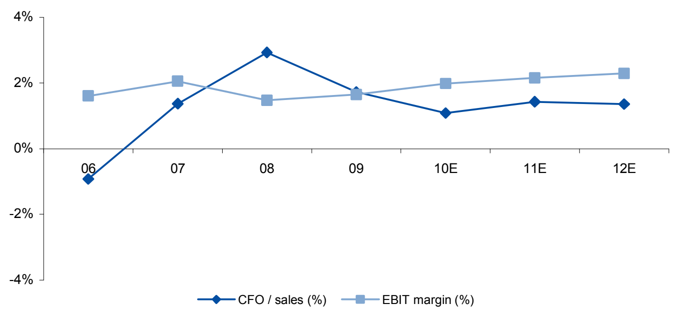
Operational funding of capital needs and Cash Flow Analysis

CANCOM commonly generates enough cash to finance its little capital requirements. While this should also hold true in 2010E with regard to "common" capital needs, CANCOM will need to pay c. € 6m over and above the common capex needs (€ 5.5m) for the acquisitions of Bürotex and the 20.5% stake in the software company Plaut. Hence, FCF in 2010E should be negative but turn positive again in 2011/12E (c. € 7m FCF in each year).

Cash flow analysis



CFO/sales and EBIT margin



Source: Company data, Hauck & Aufhäuser

The **continuous decline in the w/c ratio** can be mainly attributed to a more or less stable trend in inventory despite strong top-line growth based on **highly efficient warehousing**:

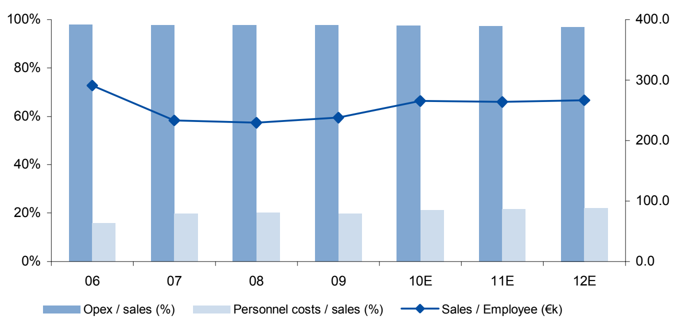
- **Centralised logistics** reduces inventory needs as the product range of the different subsidiaries overlap.
- The **fulfilment principle** ensures that 55% of orders are shipped directly from the manufacturer to the end-customer without being stored in CANCOM's logistics centre first.
- A **quick inventory processing period** of 15 days (comparable to that of Bechtle) is extremely important given the continuous price decline of IT hardware.

Hence, CANCOM has only c. € 10m in inventory at any time. Of this, c. 50% is sold and waits for shipment while **70-80% of the remaining half is secured in price**. Hence, only € 3.5m to € 4.0m of inventory is in danger of losing value at any point in time.

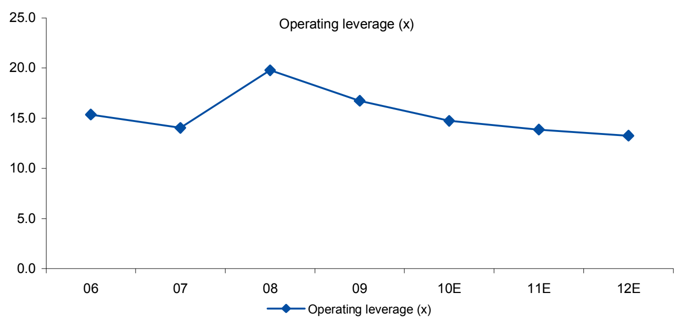
Going forward, w/c should decline further on the back of the efficient logistics system and the ongoing optimisation of the logistics of recent take-over targets Home of Hardware and Sysdat, which should be finalised by Q2 2010.

Usually CANCOM pays its suppliers in 28 days and receives payment from its customers after 35 days. Thus, the **cash conversion cycle is low but positive**. The above left graph shows a negative cash conversion cycle due to end-of-period effects.

Cost base and leverage



Operating leverage



Source: Company data, Hauck & Aufhäuser

Cost base and operational gearing

Gearing is low given the high share of variable costs: material expenses alone account for 73% of total operating expenses. Further, c. 30% of other operating expenses are variable, meaning total costs are 75% variable and 25% fixed.

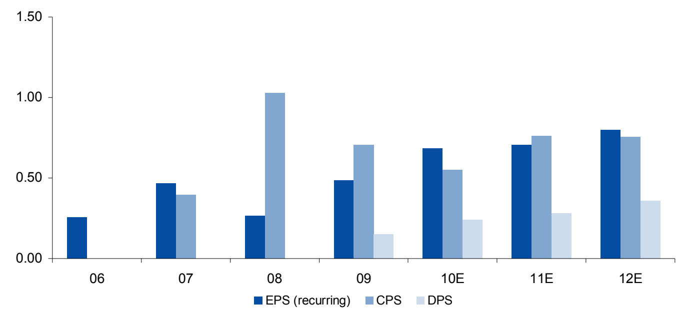
The company should nevertheless benefit from an operating leverage of slightly above 10 going forward given **synergies from acquisitions** and **improving gross margins** due to higher purchasing power and an increasing sales share of high-margin services.

Control over input prices is mixed: given that CANCOM's suppliers are the big manufacturers the company has little room to negotiate prices – usually, all distributors have to pay the same prices for IT hardware products. CANCOM's scale advantage is rather reflected in the marketing grants the company receives from the manufacturers (c. € 5m in 2009) which depend on the product volume sold each year.

Looking at personnel expenses, CANCOM does not rely on temps to a significant extent and hence can only fall back on short-term work to quickly and cheaply reduce personnel expenses if demand slumps.

Control over output prices is equally mixed: the company focuses on small and mid sized enterprises, which are large in number but small in size and hence suffer from low buying power. But hardware prices decline each year which makes it necessary to increase unit sales disproportionately to compensate for the negative price effects.

DPS/CPS/EPS

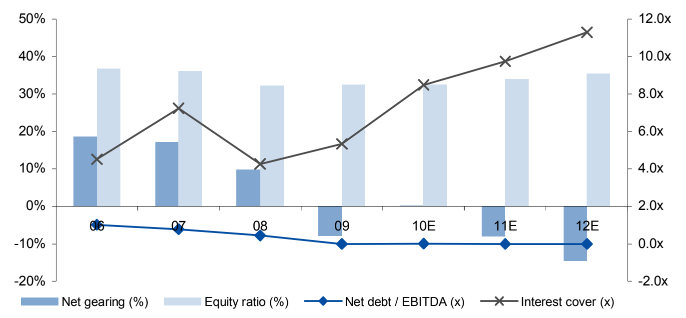


Source: Company data, Hauck & Aufhäuser

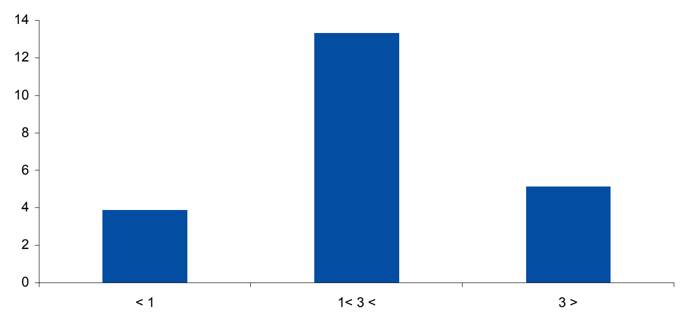
Dividend distribution

CANCOM initiated a first-time dividend payment of € 0.15 in 2009 (payout ratio of 30%) and will increase its payout ratio gradually to 50% with dividends expected to amount to € 0.24 in 2010E, € 0.28 in 2011E and € 0.36 in 2012E. Given its cash generative nature, little capex needs and the low prices usually paid for acquisitions, **the dividend distribution is not seen to jeopardize the company's growth prospects**.

Solvency



Debt maturity

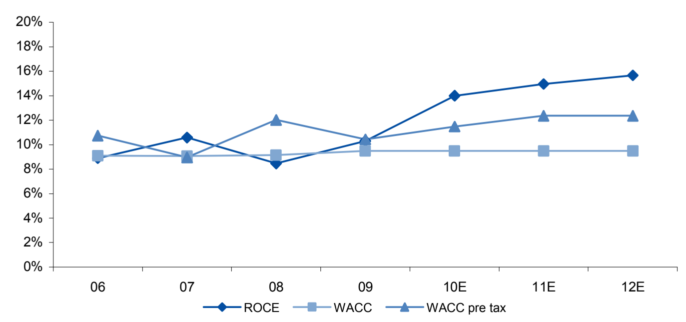


Source: Company data, Hauck & Aufhäuser

Solvency

CANCOM carries debt of c. € 22m on its balance sheet but also holds some € 26m in liquid assets. Hence, **the company is net cash positive** and expected to remain so going forward given its sound FCF generation. Acquisitions are usually low-priced and are thus not expected to require the issue of additional debt. The current ratio of 1.3 also gives confidence that solvency is not a concern for CANCOM.

Returns



Source: Company data, Hauck & Aufhäuser

Value creation and cyclicality of returns

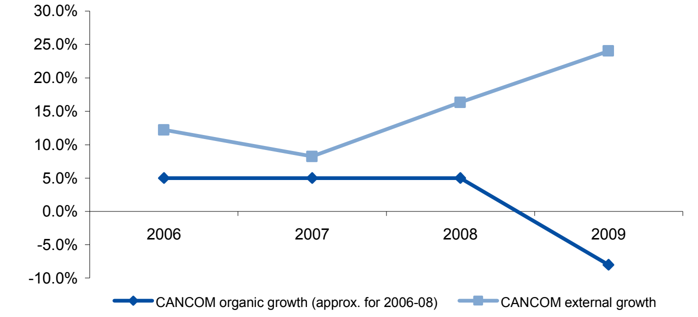
Despite the low EBIT-margins – which are common for the industry – ROCE has earned the cost of capital already in 2009 and is expected to rise to strong levels of **15% plus** going forward driven by growing profitability and high capital efficiency.

In particular, the value hidden in the yet to be restructured recent take-over targets (c. 0.6pp EBIT-margin or € 3m EBIT) and higher economies of scale in logistics, admin and procurement stemming from further acquisitions offer ample opportunity to boost EBIT-margins and narrow the profitability gap to Bechtle. **This potential is not yet adequately reflected in the share price**.

In general, **CANCOM's business is cyclical** but dynamics differ in the two segments: performance in the e-Commerce / trade segment is related to the semiconductor cycle and hence very cyclical. In contrast, demand for the services offered in the segment IT Solutions is more stable especially when it comes to services designed to reduce TCO like Managed Services.

Cyclicality in 2009 was masked by the acquisition of Home of Hardware and Sysdat. Hence, while sales declined by c. 8% organically, external growth of c. 24% led to total sales growth of 16%. From 2006 to 2008, CANCOM grew organically by 5% p.a. and externally by 12% p.a. on average.

CANCOM organic and external growth 2006-2010E



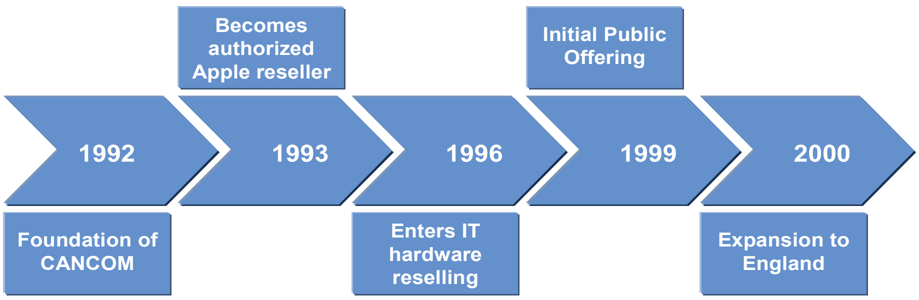
Source: Company data, Hauck & Aufhäuser

Company Background

History

CANCOM was founded in 1992 as a pure IT system house. The company became an authorised Apple reseller the next year and entered the IT hardware distribution business in 1996. After its IPO in 1999, CANCOM expanded operations to England in 2000. Owing to more than 20 acquisitions since 1999, CANCOM today ranks amongst the **top three independent IT system houses** in Germany.

CANCOM history



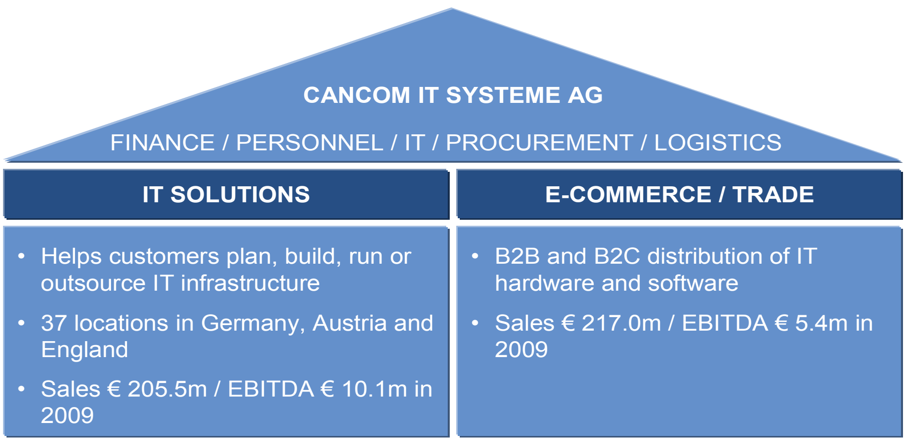
Source: Company data, Hauck & Aufhäuser

Business model

CANCOM operates a network of 26 system houses in Germany, seven houses in Austria and four houses in England. As a **one-stop-shop**, the company offers everything its clients' need, including IT hardware, software and periphery (from mouse devices to servers and computing centres) as well as help in planning, building, running and outsourcing IT.

CANCOM operates an **integrated** business model which centralises functions like procurement, finance, personnel and logistics and thus allows the two company segments, IT solutions and e-Commerce/trade, to focus exclusively on operations. The resulting synergies provide CANCOM with **strong purchasing power** and **high capital efficiency**.

CANCOM's integrated business model



Source: Company data, Hauck & Aufhäuser

The company has two segments:

- **IT Solutions** – CANCOM offers its customers a comprehensive range of professional services including IT planning, integration, operation and maintenance. To be able to quickly serve customers, the company upholds a network of 37 system houses in Germany, Austria and England. In 2009, segment sales reached € 205.5m while segment EBITDA came in at € 10.1m.

- **E-Commerce/trade** – CANCOM resells IT hardware, software, components, periphery and other products (e.g. consumables) via Internet, telesales and catalogue to its customer base, which mainly comprises small and mid sized enterprises. The company upholds ties to more than 300 distributors. In 2009, segment sales were € 217m, EBITDA reached € 5.4m.

Customers

In sum, CANCOM has more than 25,000 customers. The most important customer group is small and mid-sized enterprises (SMEs), which account for c. 70% of CANCOM's total sales. These include e.g. Zeitverlag and Bayerischer Rundfunk.

However, CANCOM also has exposure to larger clients (c. 20% of sales), including Commerzbank, KUKA, Deutsche Bank, and government authorities, because these larger clients have a strong interest in CANCOM's high-margin outsourcing services. The most important customer is Siemens with c. 5% of sales.

Due to the acquisition of Home of Hardware in 2008, CANCOM has recently started serving private clients (B2C) through its Homepage www.hoh.de but may divest the business due to persistently low profitability.

Selected customers

Source: Company data, Hauck & Aufhäuser

Suppliers

On the supplier side, CANCOM has ties to more than 300 manufacturers and distributors. The company is a major distribution partner of Microsoft, HP, IBM, Fujitsu and Lenovo and is the largest reselling partner of Apple and Adobe in Central Europe.

Selected partners and suppliers

Source: Company data, Hauck & Aufhäuser

Management

Management

Klaus Weinmann, CEO and founder of CANCOM, is responsible for Finance / Controlling / Legal, IR & PR, Marketing, M&A, Corporate Strategy, Human Capital, Purchasing / Logistics, UK and Home of Hardware.

Rudolf Hotter, part of the management board since 2006, is in charge of Sales, Consulting, Service, Corporate Information Systems and Austria.

Source: Company data, Hauck & Aufhäuser

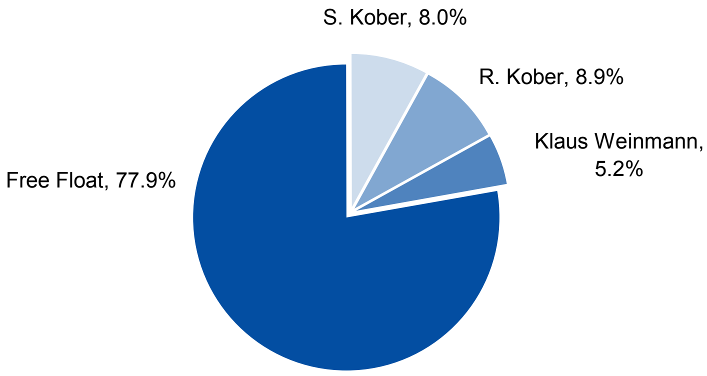
Shareholders' structure

As of July 2010, some 10,387,139 shares were issued. CANCOM holds 74,329 own shares.

Major shareholders include Raymond Kober (8.86%) and Stefan Kober (7.95%), two of the co-founders of CANCOM AG and members of the supervisory board, as well as the CEO and co-founder Klaus Weinmann (5.23%).

Included in the free float are major shareholders Rudolf Hotter (member of the management board; 1.68%), BW Invest (the investment fund of the LBBW and W&W AG; 3.37%) and the Bayerische Beteiligungsgesellschaft (BayBG; 2.96%) and DWS (1.44%).

Shareholders' structure CANCOM as of July 2010



Source: Company data

Financials

Profit and loss (EUR m)	2006	2007	2008	2009	2010E	2011E	2012E
Net sales	**265.0**	**300.1**	**364.1**	**422.5**	**517.5**	**546.5**	**573.2**
Sales growth	*17.2 %*	*13.2 %*	*21.3 %*	*16.0 %*	*22.5 %*	*5.6 %*	*4.9 %*
Increase/decrease in finished goods and work-in-process	0.0	0.9	0.3	1.0	1.0	1.0	1.0
Total sales	**265.1**	**301.0**	**364.5**	**423.4**	**518.5**	**547.5**	**574.2**
Other operating income	0.7	1.5	1.7	2.7	2.4	2.5	2.5
Material expenses	199.6	214.2	258.3	306.8	366.8	384.2	399.9
Personnel expenses	42.0	59.0	73.0	82.8	110.0	118.6	126.6
Other operating expenses	18.4	21.2	26.1	26.1	30.0	31.0	32.1
Total operating expenses	259.3	293.0	355.7	413.1	504.4	531.3	556.1
EBITDA	**5.8**	**8.0**	**8.8**	**10.4**	**14.1**	**16.2**	**18.1**
Depreciation	1.2	1.4	1.4	2.4	2.7	3.1	3.5
EBITA	**4.6**	**6.6**	**7.4**	**7.9**	**11.4**	**13.1**	**14.6**
Amortisation of goodwill	0.0	0.0	1.0	0.1	0.0	0.0	0.0
Amortisation of intangible assets	0.3	0.5	1.0	0.9	1.1	1.3	1.5
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**4.3**	**6.2**	**5.4**	**7.0**	**10.3**	**11.8**	**13.1**
Interest income	0.1	0.2	0.3	0.2	0.2	0.2	0.3
Interest expenses	1.1	1.0	1.6	1.5	1.5	1.5	1.5
Other financial result	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Financial result	-0.9	-0.9	-1.3	-1.3	-1.2	-1.2	-1.2
Recurring pretax income from continuing operations	**3.4**	**5.3**	**4.0**	**5.7**	**9.1**	**10.5**	**12.0**
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	**3.4**	**5.3**	**4.0**	**5.7**	**9.1**	**10.5**	**12.0**
Taxes	0.6	-0.1	1.3	0.6	1.9	3.2	3.6
Net income from continuing operations	**2.8**	**5.4**	**2.8**	**5.1**	**7.2**	**7.4**	**8.4**
Result from discontinued operations (net of tax)	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Net income	**2.6**	**5.2**	**2.7**	**5.1**	**7.2**	**7.4**	**8.4**
Minority interest	0.2	0.5	0.0	0.0	0.1	0.1	0.1
Net income (net of minority interest)	**2.4**	**4.7**	**2.7**	**5.1**	**7.1**	**7.3**	**8.3**
Average number of shares	9.9	10.4	10.4	10.4	10.4	10.4	10.4
EPS reported	**0.24**	**0.45**	**0.26**	**0.49**	**0.68**	**0.71**	**0.80**

Profit and loss (common size)	2006	2007	2008	2009	2010E	2011E	2012E
Net sales	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Increase/decrease in finished goods and work-in-process	0.0 %	0.3 %	0.1 %	0.2 %	0.2 %	0.2 %	0.2 %
Total sales	**100.0 %**	**100.3 %**	**100.1 %**	**100.2 %**	**100.2 %**	**100.2 %**	**100.2 %**
Other operating income	0.3 %	0.5 %	0.5 %	0.6 %	0.5 %	0.5 %	0.4 %
Material expenses	75.3 %	71.4 %	70.9 %	72.6 %	70.9 %	70.3 %	69.8 %
Personnel expenses	15.8 %	19.7 %	20.1 %	19.6 %	21.3 %	21.7 %	22.1 %
Other operating expenses	6.9 %	7.1 %	7.2 %	6.2 %	5.8 %	5.7 %	5.6 %
Total operating expenses	97.8 %	97.6 %	97.7 %	97.8 %	97.5 %	97.2 %	97.0 %
EBITDA	**2.2 %**	**2.7 %**	**2.4 %**	**2.5 %**	**2.7 %**	**3.0 %**	**3.2 %**
Depreciation	0.5 %	0.5 %	0.4 %	0.6 %	0.5 %	0.6 %	0.6 %
EBITA	**1.7 %**	**2.2 %**	**2.0 %**	**1.9 %**	**2.2 %**	**2.4 %**	**2.6 %**
Amortisation of goodwill	0.0 %	0.0 %	0.3 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	0.1 %	0.2 %	0.3 %	0.2 %	0.2 %	0.2 %	0.3 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBIT	**1.6 %**	**2.1 %**	**1.5 %**	**1.6 %**	**2.0 %**	**2.2 %**	**2.3 %**
Interest income	0.1 %	0.1 %	0.1 %	0.0 %	0.0 %	0.0 %	0.1 %
Interest expenses	0.4 %	0.3 %	0.4 %	0.3 %	0.3 %	0.3 %	0.3 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	-0.3 %	-0.3 %	-0.4 %	-0.3 %	-0.2 %	-0.2 %	-0.2 %
Recurring pretax income from continuing operations	**1.3 %**	**1.8 %**	**1.1 %**	**1.3 %**	**1.8 %**	**1.9 %**	**2.1 %**
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings before taxes	**1.3 %**	**1.8 %**	**1.1 %**	**1.3 %**	**1.8 %**	**1.9 %**	**2.1 %**
Tax rate	18.1 %	-1.1 %	31.4 %	9.8 %	21.0 %	30.0 %	30.0 %
Net income from continuing operations	**1.0 %**	**1.8 %**	**0.8 %**	**1.2 %**	**1.4 %**	**1.4 %**	**1.5 %**
Income from discontinued operations (net of tax)	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income	**1.0 %**	**1.7 %**	**0.7 %**	**1.2 %**	**1.4 %**	**1.4 %**	**1.5 %**
Minority interest	0.1 %	0.2 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income (net of minority interest)	**0.9 %**	**1.6 %**	**0.7 %**	**1.2 %**	**1.4 %**	**1.3 %**	**1.4 %**

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2006	2007	2008	2009	2010E	2011E	2012E
Intangible assets	**20.2**	**25.7**	**28.3**	**31.5**	**35.9**	**36.1**	**36.1**
Property, plant and equipment	8.6	3.0	5.4	6.5	7.8	8.7	9.2
Financial assets	0.0	0.2	3.5	0.2	2.4	2.4	2.4
FIXED ASSETS	**28.8**	**28.9**	**37.3**	**38.2**	**46.2**	**47.3**	**47.8**
Inventories	8.7	8.6	10.1	12.6	14.6	14.8	15.5
Accounts receivable	35.8	39.3	44.2	47.2	57.4	59.9	62.8
Other current assets	0.5	1.5	6.3	5.1	5.1	5.1	5.1
Liquid assets	7.3	11.8	18.3	25.8	22.2	26.7	31.0
Deferred taxes	2.2	3.1	2.5	2.6	2.6	2.6	2.6
Deferred charges and prepaid expenses	3.2	7.4	2.1	3.4	3.4	3.4	3.4
CURRENT ASSETS	57.7	71.5	83.4	96.7	105.3	112.4	120.4
TOTAL ASSETS	**86.5**	**100.4**	**120.7**	**134.9**	**151.5**	**159.7**	**168.2**
SHAREHOLDERS EQUITY	31.7	36.3	38.9	43.9	49.4	54.3	59.7
MINORITY INTEREST	1.7	0.0	0.0	0.0	0.1	0.1	0.2
Long-term debt	12.7	16.1	20.3	21.6	21.6	21.6	21.6
Provisions for pensions and similar obligations	0.2	0.2	0.2	0.0	0.0	0.0	0.0
Other provisions	7.3	7.9	3.2	4.3	4.3	4.3	4.3
Non-current liabilities	**20.2**	**24.1**	**23.6**	**26.0**	**26.0**	**26.0**	**26.0**
short-term liabilities to banks	0.5	1.9	1.8	0.7	0.7	0.7	0.7
Accounts payable	26.2	27.5	39.3	47.9	58.8	62.1	65.2
Advance payments received on orders	0.6	0.8	2.0	1.1	1.1	1.1	1.1
Other liabilities (incl. from lease and rental contracts)	4.8	6.6	12.6	10.7	10.7	10.7	10.7
Deferred taxes	0.4	0.7	1.3	2.0	2.0	2.0	2.0
Deferred income	0.4	2.5	1.2	2.7	2.7	2.7	2.7
Current liabilities	**32.9**	**40.0**	**58.1**	**65.0**	**76.0**	**79.3**	**82.4**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**86.5**	**100.4**	**120.7**	**134.9**	**151.5**	**159.7**	**168.2**

Balance sheet (common size)	2006	2007	2008	2009	2010E	2011E	2012E
Intangible assets	**23.3 %**	**25.6 %**	**23.5 %**	**23.4 %**	**23.7 %**	**22.6 %**	**21.5 %**
Property, plant and equipment	9.9 %	3.0 %	4.5 %	4.8 %	5.2 %	5.5 %	5.5 %
Financial assets	0.0 %	0.2 %	2.9 %	0.1 %	1.6 %	1.5 %	1.5 %
FIXED ASSETS	**33.3 %**	**28.8 %**	**30.9 %**	**28.3 %**	**30.5 %**	**29.6 %**	**28.4 %**
Inventories	10.1 %	8.5 %	8.4 %	9.3 %	9.6 %	9.2 %	9.2 %
Accounts receivable	41.4 %	39.1 %	36.6 %	35.0 %	37.9 %	37.5 %	37.3 %
Other current assets	0.5 %	1.5 %	5.2 %	3.8 %	3.4 %	3.2 %	3.0 %
Liquid assets	8.4 %	11.7 %	15.1 %	19.2 %	14.7 %	16.7 %	18.5 %
Deferred taxes	2.6 %	3.1 %	2.1 %	1.9 %	1.7 %	1.6 %	1.5 %
Deferred charges and prepaid expenses	3.7 %	7.3 %	1.7 %	2.5 %	2.2 %	2.1 %	2.0 %
CURRENT ASSETS	66.7 %	71.2 %	69.1 %	71.7 %	69.5 %	70.4 %	71.6 %
TOTAL ASSETS	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
SHAREHOLDERS EQUITY	36.7 %	36.1 %	32.3 %	32.5 %	32.6 %	34.0 %	35.5 %
MINORITY INTEREST	1.9 %	0.0 %	0.0 %	0.0 %	0.0 %	0.1 %	0.1 %
Long-term debt	14.7 %	16.0 %	16.9 %	16.0 %	14.3 %	13.5 %	12.9 %
Provisions for pensions and similar obligations	0.2 %	0.2 %	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %
Other provisions	8.4 %	7.9 %	2.6 %	3.2 %	2.9 %	2.7 %	2.6 %
Non-current liabilities	**23.3 %**	**24.0 %**	**19.6 %**	**19.3 %**	**17.2 %**	**16.3 %**	**15.5 %**
short-term liabilities to banks	0.6 %	1.9 %	1.5 %	0.5 %	0.5 %	0.4 %	0.4 %
Accounts payable	30.3 %	27.4 %	32.5 %	35.5 %	38.8 %	38.9 %	38.7 %
Advance payments received on orders	0.7 %	0.8 %	1.6 %	0.8 %	0.8 %	0.7 %	0.7 %
Other liabilities (incl. from lease and rental contracts)	5.5 %	6.6 %	10.4 %	7.9 %	7.1 %	6.7 %	6.4 %
Deferred taxes	0.5 %	0.7 %	1.1 %	1.5 %	1.3 %	1.2 %	1.2 %
Deferred income	0.4 %	2.5 %	1.0 %	2.0 %	1.8 %	1.7 %	1.6 %
Current liabilities	**38.0 %**	**39.9 %**	**48.2 %**	**48.2 %**	**50.2 %**	**49.7 %**	**49.0 %**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2006	2007	2008	2009	2010E	2011E	2012E
Net profit/loss	2.6	5.2	2.7	5.1	7.2	7.4	8.4
Depreciation of fixed assets (incl. leases)	1.2	1.4	1.4	2.4	2.7	3.1	3.5
Amortisation of goodwill	0.0	0.0	1.0	0.1	0.0	0.0	0.0
Amortisation of intangible assets	0.3	0.5	1.0	0.9	1.1	1.3	1.5
Others	3.3	0.0	6.4	-0.2	0.0	0.0	0.0
Cash flow from operations before changes in w/c	7.4	7.0	12.5	8.3	11.0	11.8	13.4
Increase/decrease in inventory	1.0	0.2	-4.0	1.3	-2.0	-0.2	-0.7
Increase/decrease in accounts receivable	-16.3	-3.5	-4.8	1.1	-10.2	-2.5	-2.9
Increase/decrease in accounts payable	3.3	1.3	-0.1	-1.1	11.0	3.3	3.0
Increase/decrease in other working capital positions	3.4	1.0	9.5	1.1	0.0	0.0	0.0
Increase/decrease in working capital	-8.6	-1.1	0.5	2.4	-1.2	0.6	-0.6
Cash flow from operating activities	**-1.1**	**6.0**	**13.1**	**10.7**	**9.7**	**12.4**	**12.8**
CAPEX	1.3	4.2	3.2	4.7	5.5	5.5	5.5
Payments for acquisitions	3.8	4.7	3.0	-1.4	4.0	0.0	0.0
Financial investments	-0.2	-0.1	-3.0	-0.6	2.3	0.0	0.0
Income from asset disposals	-0.2	3.5	2.0	0.1	0.0	0.0	0.0
Cash flow from investing activities	**-5.0**	**-5.4**	**-1.2**	**-2.6**	**-11.8**	**-5.5**	**-5.5**
Cash flow before financing	-6.2	0.6	11.9	8.0	-2.1	6.9	2.9
Increase/decrease in debt position	-0.3	4.8	-4.4	0.3	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Capital measures	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	1.6	2.5	2.9
Others	-0.6	-0.8	-0.1	-1.2	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	-0.2	-0.3	0.0	0.0	0.0	0.0
Cash flow from financing activities	**1.6**	**4.0**	**-4.5**	**-1.1**	**-1.6**	**-2.5**	**-2.9**
Increase/decrease in liquid assets	-4.6	4.5	7.1	7.0	-3.6	4.5	n/a
Liquid assets at end of period	**7.3**	**11.8**	**18.9**	**25.8**	**22.2**	**26.7**	**31.0**

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2006	2007	2008	2009	2010E	2011E	2012E
Domestic	0.0	0.0	322.2	386.1	478.8	506.1	531.4
yoy change	n/a	n/a	n/a	19.8 %	24.0 %	5.7 %	5.0 %
Rest of Europe	0.0	0.0	0.0	36.4	38.7	40.4	41.8
yoy change	n/a	n/a	n/a	n/a	6.3 %	4.3 %	3.7 %
NAFTA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TTL	**0.0**	**0.0**	**322.2**	**422.5**	**517.5**	**546.5**	**573.2**
yoy change	n/a	n/a	n/a	31.1 %	22.5 %	5.6 %	4.9 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2006	2007	2008	2009	2010E	2011E	2012E
P&L growth analysis							
Sales growth	17.2 %	13.2 %	21.3 %	16.0 %	22.5 %	5.6 %	4.9 %
EBITDA growth	51.8 %	38.7 %	9.1 %	18.4 %	35.9 %	14.8 %	12.2 %
EBIT growth	80.4 %	44.7 %	-13.0 %	29.8 %	47.8 %	14.4 %	11.7 %
EPS growth	129.3 %	85.5 %	-42.5 %	87.9 %	40.6 %	3.0 %	13.4 %
Efficiency							
Total operating costs / sales	97.8 %	97.6 %	97.7 %	97.8 %	97.5 %	97.2 %	97.0 %
Sales per employee	291.1	233.3	229.3	237.7	265.4	264.0	266.6
EBITDA per employee	6.4	6.2	5.5	5.8	7.2	7.8	8.4
Balance sheet analysis							
Avg. working capital / sales	4.5 %	6.2 %	4.5 %	2.8 %	2.2 %	2.1 %	2.0 %
Inventory turnover (sales/inventory)	30.4	35.1	36.1	33.6	35.5	37.0	37.0
Trade debtors in days of sales	49.3	47.8	44.3	40.8	40.5	40.0	40.0
A/P turnover [(A/P*365)/sales]	36.1	33.5	39.3	41.3	41.5	41.5	41.5
Cash conversion cycle (days)	17.3	15.5	3.1	-1.2	-3.5	-5.0	-5.3
Cash flow analysis							
Free cash flow	-2.4	1.8	9.9	6.0	4.2	6.9	7.3
Free cash flow/sales	-0.9 %	0.6 %	2.7 %	1.4 %	0.8 %	1.3 %	1.3 %
FCF / net profit	-101.2 %	38.0 %	367.4 %	118.4 %	59.5 %	94.5 %	87.5 %
FCF yield	-3.7 %	2.7 %	15.1 %	9.2 %	6.5 %	10.7 %	11.2 %
Capex / depn	71.7 %	221.5 %	4.0 %	120.4 %	205.4 %	125.0 %	110.0 %
Capex / maintenance capex	74.8 %	84.3 %	105.9 %	98.6 %	97.6 %	87.0 %	80.0 %
Capex / sales	0.4 %	1.4 %	0.0 %	1.0 %	1.5 %	1.0 %	n/a
Security							
Net debt	5.9	6.2	3.9	-3.5	0.1	-4.3	-8.7
Net Debt/EBITDA	1.0	0.8	0.4	0.0	0.0	0.0	0.0
Net debt / equity	0.2	0.2	0.1	-0.1	0.0	-0.1	-0.1
Interest cover	3.9	6.0	3.4	4.7	7.1	8.1	9.0
Dividend payout ratio	0.0 %	0.0 %	0.0 %	30.7 %	34.6 %	39.5 %	44.5 %
Asset utilisation							
Capital employed turnover	4.9	4.8	5.7	6.0	6.8	6.7	6.6
Operating assets turnover	10.1	13.3	19.7	24.4	26.1	27.2	27.0
Plant turnover	30.9	99.4	67.4	64.7	66.1	62.6	62.1
Inventory turnover (sales/inventory)	30.4	35.1	36.1	33.6	35.5	37.0	37.0
Returns							
ROCE	8.9 %	10.6 %	8.5 %	10.3 %	14.0 %	15.0 %	15.7 %
ROE	7.6 %	12.9 %	6.9 %	11.5 %	14.4 %	13.5 %	13.9 %
Other							
Interest paid / avg. debt	8.6 %	6.6 %	7.8 %	6.6 %	6.5 %	6.5 %	6.5 %
No. employees (average)	911	1287	1588	1777	1950	2070	2150
Number of shares	9.9	10.4	10.4	10.4	10.4	10.4	10.4
DPS	0.0	0.0	0.0	0.2	0.2	0.3	0.4
EPS reported	0.24	0.45	0.26	0.49	0.68	0.71	0.80
Valuation ratios							
P/BV	2.0	1.8	1.7	1.5	1.3	1.2	1.1
EV/sales	0.3	0.2	0.2	0.1	0.1	0.1	0.1
EV/EBITDA	12.4	9.0	7.9	6.0	4.6	3.7	3.1
EV/EBITA	15.6	10.8	9.4	7.8	5.7	4.6	3.8
EV/EBIT	16.8	11.7	13.0	8.9	6.3	5.1	4.3
EV/FCF	-29.3	40.4	7.0	10.3	15.3	8.7	7.7
Dividend yield	0.0 %	0.0 %	0.0 %	2.4 %	3.8 %	4.5 %	5.7 %

Source: Company data, Hauck & Aufhäuser

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Company	Disclosure
CANCOM AG	2, 8

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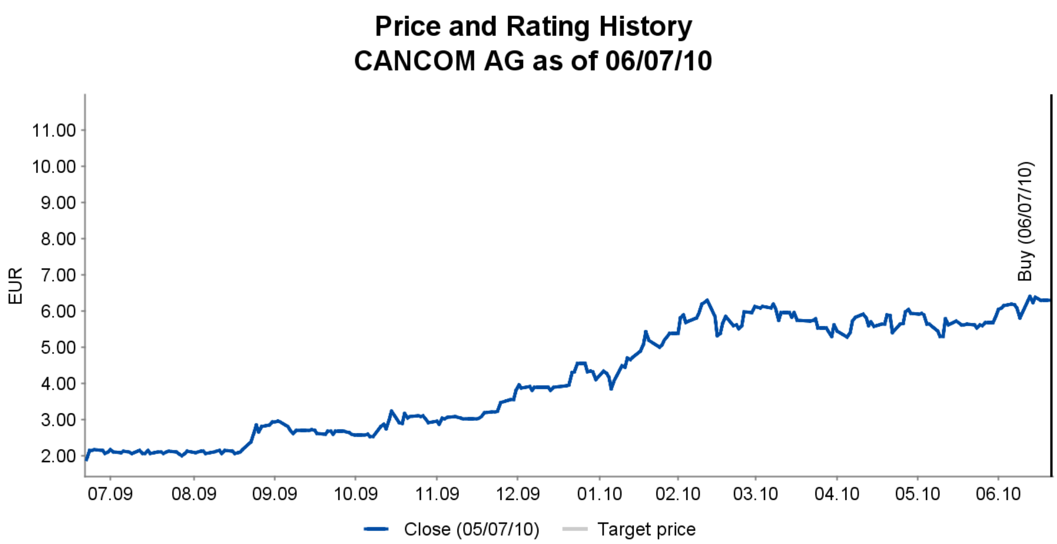
Historical target price and rating changes for CANCOM AG in the last 12 months



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06-July-10

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Competent supervisory authority

Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin – (Federal Financial Supervisory Authority), Graurheindorfer Straße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt am Main, Germany

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