19th March 2008

European Small & Mid Cap Conference Review

*** SALES VIEW ONLY, NOT OFFICIAL DB RESEARCH ***

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Crisis, what crisis..?

It seemed like macroeconomic issues affecting the markets were having little if any impact for most of the companies who presented at last week's Small & Mid Cap Conference, with many managements as ambitious and bullish as they had been over the last couple of years, growth prospects certainly being the key theme.

Nonetheless, several have clearly been unable to avoid the somewhat indiscriminate small/mid cap sell-off, with investor confidence far from restored, meaning that some picks will only be worth visiting once the market finally troughs out for good – whenever that may be.

Here are my views on 20 of the companies that presented last week, rating the overall presentation and their defensiveness / resilience to both sector trends and a macro downturn. Presentations from these companies can be viewed at www.conferences.db.com/europe/paneuro08, username peuro08, password peuro2008.

Key Picks

My favourites from the conference were **Symrise**, **Wirecard**, **Playtech**, and **TUI Travel**. Symrise and TUI are in the Small & Mid Cap Sales Team 1st XI for 2008 – published 4th January, these 11 picks are currently outperforming the STOXX 600 by **9.3%** and the DJS Small 200 by **7.9%** YTD. Meanwhile, my main short would be **Medion**.

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Thu
1140

Britvic Plc (BVIC.LN)

UK, Beverages, £680m
Buy, 27% upside
FD John Gibney
Presentation: 6/10
Defensiveness: 4/10

What they do

- A beverage powerhouse, a top (along with Coca Cola) player for UK & Ireland, #1 for stills and #2 for carbonates. Their Robinsons brand is #10 UK of all grocery brands by value, Fruit Shoot the #1 kids drink and J2O the #1 adult soft drink. Popular soft drink brands are Pepsi, 7-UP and Tango.

Performance & Prospects

- A solid financial performance in 2007 (sales +5%, EBIT +8% YoY), despite the worst British summer ever. With mention of summer holidays, Easter, Bank holidays etc, weather obviously has an enormous impact on their trading activity.
- Britvic have been chosen by Pepsi to launch Natural Gatorade (the global #1 sports drink), closing a clear portfolio gap for Britvic in a major growth category, and underlying their commitment with Pepsi.
- Pepsi Raw – first innovation from Pepsi in a decade, with 100% natural cola from sugar cane, apple etc. New non-alcoholic drink targeting pub/bar-going females called Lime Grove coming out.
- New patented dispenser for use in pubs & bars providing absolute consistency on temperature, taste and quality.
- See M&A as an opportunity going forward. Healthy FCF: €49m 08E, €69m 09E.

Q&A

- I asked Mr Gibney how aggressively they are deleveraging their exposure to the weather (eg by ramping up drive into bar drinks), and if they're involved in hedging weather derivatives as a form of insurance. He said it would be too difficult to assess what would be a positive hedge to undertake with these derivatives, and last year they reacted well to the bad conditions by taking costs out, so whilst the topline suffered there wasn't real dilution at the earnings level, so they have confidence they can ride through stormier periods. Nonetheless, their portfolio is becoming less weather-sensitive.

The Bottom Line

- The aforementioned innovations are on the right track, but perhaps a more aggressive pipeline needs to be in place to comfortably ensure any external factors are counterbalanced? Still seems too sensitive to the weather – **going long Britvic partially means expecting a glorious British summer. I wouldn't count on it!**

Wed
0920

Greene King Plc (GNK.LN)

UK, Pubs, £844m
Buy, 114% upside..
CEO Rooney Anand
Presentation: 8/10
Defensiveness: 5/10

What they do

- UK's #1 cask ale brewer and #2 pubs operator. a) Brewing (IPA, Old Speckled Hen), b) Belhaven (acquired in 2005), c) pub partners (1,416 pubs, average £60k EBITDA/pub), d) 798 Greene King retail sites. Lock Fyne acquisition helped with the integration between pub/restaurant retailer and brewer.

Performance & Prospects

- Conservative, modest, regular, consistent, long-term growth – 40 yrs EPS growth, CAGR 13.2% 1968-2007. A strong business model, using freehold ownership & two-way transfers to optimise economic profit per site. Purchasing synergies, flagship distribution.
- Spent considerable time running through the risks: a) Credit crunch / disposable income reduction, clearly hits such a "leisure indulgence", b) health lobbyists in govt & media could put an end to the drinking culture, c) increased attractions of the home such as plasma TVs. However, said that the smoking ban is good in the long-term, making pubs appeal to a broader cross-section (women, older population, rise of 'al fresco' culture), along with their move into the food market (which they've been building up for years ahead of competitors).
- Obsessed with cost-cutting – "Prudence, Flexibility, Efficiency". Fixed charge cover below 3x, 95% debt fixed for 07/08.
- Have not ruled out setting up an internal propco.

Q&A

- I asked Rooney if the health lobbyists issue he mentioned was a particular challenge right now – hasn't it always been an issue? He agreed there's always negative media on UK's binge-drinking culture, but the Labour govt particularly have their eye on it now – with excise duty going up 6% this year and 4%/yr to 2012 announced a few hours later.

The Bottom Line

- A solid as ever presentation, entitled "Thriving in Challenging Times" – clearly business is doing well despite the numerous challenges. My favourite of the pub stocks, trading in line (P/E 7.9x 08E vs Punch 6.4x, Enterprise 8.7x), but with better organic growth prospects. **Great company, top pub pick, shame the market may give it another battering. Good investment in the longer term.**

Thu 0920

Independent News and Media Plc (INM.ID)

Ireland, Newspapers, €1.4bn
Hold, 76% upside
COO Gavin O'Reilly
Presentation: 6.5/10
Defensiveness: 3.5/10

What they do

- Newspapers (180 papers and magazines), online publishing (100 websites), radio (130 stations) and outdoor advertisements (75k panels) in Ireland, UK, South Africa, Australia, New Zealand and India. #1 newspaper publisher in AU, EIRE, NZ, NI and SA, the #1 outdoor ads operator in Africa and Australasia, a leading radio operator in Australasia.

Performance & Prospects


THE INDEPENDENT
THE BLAIR YEARS
IRAQ
THE LEGACY

- COO said he doesn't understand why investors have suddenly "fallen out of love" with the newspapers sector, and it does not reflect on performance, citing Indy News' good growth track record (21% CAGR since 1973), and their four pillars to sustainable growth – geographical diversity, low cost operator (net operating margin heading to 20% in the long term), innovation and multimedia platform.
- Their investment strategy to take stakes in high-growth minority markets is working well – they own 20.8% of Indian Jagran Prakashan Ltd, publisher of Dainik Jagran (22m readers/day), who have just signed a JV with Yahoo! making the world's biggest Hindi portal.
- Perhaps surprisingly, Mr O'Reilly was not so bullish on the potential of online advertising. He said the $25bn mkt is 62% dominated by Google and Yahoo!, and suggested that the typical Briton spends their online time emailing, Facebooking, flight booking, price comparing etc, rather than reading Independent.co.uk or news.bbc.co.uk (I think he's being way too bearish on online media readership). Nonetheless, their investment strategy thus is not to try becoming rich through online advertising, so the online segment will never make up a vast proportion of their revenues.
- Bits and pieces of innovation – from giving ownership of the editorial (subbing, photo cropping etc) back to the journalists, rolling out new platforms such as a Polish paper in Ireland (250k Poles now there), to setting up Independent College, Dublin, leveraging their media network.
- Opportunities for 2008 include newsprint prices, pricing power, business re-engineering, education and expansion into new markets.

The Bottom Line

- Mr O'Reilly explicitly said that investors will not be disappointed when the FYs come out (prelims expected 27th March), highlighting that bar loss-making UK they are in strong growth markets (eg India expecting 7% GDP growth this year). He said they were comfortable with consensus EPS growth of 8-12% for 08 – note we have zero factored into our model. Nonetheless, it looks like all of this still won't be enough to silence the media bears, and the stock is not cheap at 9.5x 08E vs 6.1x Trinity, 8.1x DMGT. **Leave for now**.

Wed 1520

Intralot (INLOT.GA)

Greece, Gaming, €1.75bn
Buy, 48% upside
CEO Constantinos Antonopoulos, Elias Athanasiou (IR)
Presentation: 4/10
Defensiveness: 6/10

What they do

- Systems supplier, hardware provider and manager of lottery systems across 5 continents.

Performance & Prospects

- They have taken clients for competitors, but never lost one in their 15yr history.
- Liberalisation is happening, with plenty of US privatisations pending. Seen as a huge opportunity for Intralot, to offer services for these state lotteries. Currently processing Ohio and New Jersey bids.
- Delays galore: Won the South African license for 7 years, which got delayed, delayed in the tender of Turkish and Italian businesses were announced last year, citing bureaucracy in Italy with a lack of police approvals, though business is now progressing well there with high profit margins.
- Similar to the Indy News & Media COO, Mr Antonopoulos played down the role of the internet – they said they have no competitive advantage, but don't wish to step in, as they can run retail profitably with higher margins, more important to him than turnover.

The Bottom Line

- Although operating in a similar space, this presentation was the antithesis of Playtech's (p7); the CEO doesn't seem so excited about the huge growth potential. It also seemed slightly backward for a gaming company to disregard stepping into online territory. Moreover, **you would be too exposed to municipal bureaucracy and other external factors slowing down earnings flow investing in Intralot. I would ignore.**

Wed 1520

Klöckner & Co AG (KCO.GY)

Germany, Steel Distributor, €1.5bn
Hold, 15% upside
CFO Gisbert Ruhl
Presentation: 5/10
Defensiveness: 5/10

What they do

- Steel / metal products distributor.

Performance & Prospects

- Said the price of steel is more driven by raw material costs (ie of iron ore, coking coal), meaning that when the price lowers, additional variable costs mean that you can make losses – the production cost curve is thus much flatter than expected.
- Said there is not and will not be a threat from China, as China is not a low cost producer. China's exports were down ~20% in February, and Herr Ruhl thinks they will be down 40-50% by the end of 08 in this kind of environment.
- Said that acquisitions are the only way for Klöckner to grow in mature markets. 12 acquisitions in 2007 worth €567m, 4 in 06 (€108m), 2 in 05 (€141m). Won't do many in 08, but more sizeable so should expect maybe €500m+volume.
- Targets for STAR Phase I are so far so good – expecting €80m through improvement of distribution network etc.

Q&A

- I asked how affected they are by FX risk – he said only exposure is when translating into the books, there are no cross-country sales, they are hedged when ordering from Europe.

The Bottom Line

- Declining EBITDA margin (7.1% 06 → 5.8% 07), net debt nearly reaching €1bn in mid 07, growth only via acquisitions, high exposure to metal price fluctuations…? **Do not touch for now.**

Wed 0840

May Gurney (MAYG.LN)

UK, Business Services, £183m
Not Rated (consensus 08: 15% upside)
CEO David Sterny
Presentation: 7/10
Defensiveness: 5/10

What they do

- Everything from street lighting, surface dressing, routine maintenance and recycling, to utilities (gas, telcos, water improvements), rail etc, with strong relationships particularly in the public sector - the #2 player for county councils; clients also include Network Rail, United Utilities & National Grid.

Performance & Prospects

- 8 yrs of continuous, solid revenue and EBITDA growth (revenue 14% & EBITDA16% CAGR 04-09E respectively), strong visibility with a £1bn+ forward order book, steady predictable cash flow (between £10m-12m, 04-07).
- Two key markets for the future are waste (expecting a rapid spend 2010-15 driven by the EU Landfill Directive and UK Landfill Tax) and rail (~£29bn spend expected 10-14E, with an enormous amount of enhancements required in the mid term).
- Growth strategy focussed on understanding client needs to develop long-term relationships – renewal rate on expired contracts presently ~90%. Gaining more contracts by bringing other services into the portfolio.
- Expecting growth to be half organic, half through acquisition (4 acquisitions in 2007), and to improve their low EBIT margin currently 3.3% to 5% on par with peers.

Q&A

- I asked Mr Sterny if contracts were gained/lost between peers competing on price and service quality. He said the utilities market is price-driven, whereas the public sector is service driven. MG identify contracts that are changing over (up to 2 years in advance), and where the government are bringing in more services, rather than offering contracts similar to existing peers' ones.

The Bottom Line

- On paper an appropriate stock to be looking at in these sort of markets, and also a potential takeout candidate with their strong cash flow and business model expanding beyond original realms. Reasonable at ~13x P/E 08E, but volatile liquidity and management disposals mean this is suffering more than other UK small caps. **Leave for now.**

Thu 1000

Medion AG (MDN.GY)

Germany, Retail, €715m
Hold, 26% downside
CFO Christian Eigen
Presentation: 6/10
Defensiveness: 6/10

What they do

- Consumer electronics provider – computers, TVs, SatNavs, etc. See themselves as "selling a BMW 5-series for a VW Golf price", they don't want to have the cheapest PC or notebook in the market, but value-added products giving them better status.

Performance & Prospects

- The CEO ran through the impressive restructuring story, which helped see the stock rocket ~125% last year. Important adjustments to the operating business have been implemented, which had previously given costs and margin pressure.
- There has been a clear shift from hardware- to service-based revenue, providing a superior EBIT contribution.
- Quality process including service and central sourcing in the core business are their perceived core strengths to safeguard themselves from future competitiveness.
- Ran us through some sexy, slick, fancy-coloured, award-winning designs for laptops, widescreen TVs etc. Yes, they look great, and they increased revenues on TVs almost 50% through this new product suite, without significantly increasing the cost of goods. Their top PC was ranked #1 ahead of Dell, HP etc, getting a PC Pro 2007 award.

Q&A

- I asked Herr Eigen if they had the potential to transform to a #1 player (by revenue). He said for Germany, France, Benelux, Spain etc, the #1 position for top-end would be between them and Bang & Olufsen. They can currently sell these for the same price as Sony, Sharp etc counterparts, and want to move more into Sony-style, mass market, high volume distribution.

The Bottom Line

- Overall it was a great decision to clean up and get focussed, and they reaped the rewards over 2007. 2008 is a completely different story though, where they face structural price decline issues coupled with the ever-weakening dollar. **This looks like a good short idea –** they are still positioned too close to Bang & Olufsen (whose shares have tanked 15% in a week on profit warning), far from an ideal place to be in this environment, and their structural repositioning towards mass-market will take a while, and it's uncertain if they'll pull it off. **Extremely expensive at 50.7x P/E & 15x EV/EBIT 08E.**

Wed 1320

MLP AG (MLP.GY)

Germany, Financial Services, €950m
Buy, 26% upside
CEO Dr Uwe Schroeder-Wildberg
Presentation: 6/10
Defensiveness: 4/10

What they do

- Insurance, mortgage loans, broking, asset management and online banking in 6 European states.

Performance & Prospects

- Extensive statutory changes, with new regulatory requirements such as tax incentives and increased cost transparency for life and health insurance policies, are currently happening, and the CEO said that MLP are on track, optimally prepared to meet the requirements for the future, through clear positioning. The German Insurance Contract reform means that companies have to make "far-reaching adjustments" to their structures, processes and tech, which he believes many will fail to be able to do.
- Increasing their market share in pension products, where they see high potential in Germany as (a) the average German starting work age 20 would expect just 40% of gross salary as pension (compared with 88% for Luxembourg), (b) their average customer is young at 39, with income above the average of rival banks.
- Extensive cross-selling with BERAG, JV with Interhyp for residential mortgage brokerage. Steady growth in number of consultants QoQ.
- 2008 outlook: rapid adjustment to the new regulatory environment, gaining market share in old age pension provision, increasing the total income beyond 07's record figure (we estimate sales +6% at €675m, EBIT flat at €110m).
- Finding healthcare insurance tough in 2008, which may decline due to ongoing regulatory uncertainty, but should be solid in the medium term.

Q&A

- I asked Dr Schroeder-Wildberg if this is a good M&A opportunity, if like he says most companies will not succeed and have to step out. He said that first the clear priority of management is organic growth. Due to their specific position and quality target group, they can't cater for everyone, as not all will "fit to our education level and culture". Nonetheless, they will keep their eyes open, but will be precautious.

The Bottom Line

- **Ignore for now –** there's many more exciting picks out there than one we expect flat EBIT(DA) YoY for.

Thu 1440

Morphosys AG (MOR.GY)

Germany, Biotech, €280m
Buy, 73% upside
CFO David Lemus
Presentation: 7/10
Defensiveness: 5/10

What they do

- Biotech company cash-positive since 2003 and profitable since 2004. Main pipeline at the moment is MOR202 (HuCAL antibody for Multiple Myeloma, which accounts for 1% of all cancer, there is a medical need for this product), MOR103 (HuCAL antibody for inflammatory diseases), and enhancing antibody HuCAL Gold to Platinum. Struck gold last year with a Novartis partnership, giving them €600m cash over 10 years, plus milestones and royalties potentially emerging on top.

Performance & Prospects

- €100m cash, have been proftiable since 04, cash positive since 03, in Novartis deal they will get €600m cash over 10 yrs, with milestones and royalties potentially emerging.
- Novartis deal realistically worth $1bn - €600m committed funding, plus ~€400m milestones (probability-weighted assessment, could be even more) + royalties. Around half of the €600m goes to technology licensing fees (pure profit for Morphosys), half in team research funding. A 10 year deal, which Novartis can extend to 12, or terminate after 7.
- The project pipeline right now is disappointing, with nothing on the verge of approval in PIII. MOR103 is expected to file for PII in 2009, MOR202 expects PI to start in 2010. Roche partnership on Alzheimer's currently in PI, plenty of projects still pre-clinical.
- Guiding for €73-77m revenues and €9-11m operating profit in 2008, we are slightly more bullish.

Q&A

- I ask Mr Lemus if the MOR202/103 guidelines are conservative or aggressive. He says the beauty of Morphosys' business model is that they create value outside of proprietary drug development, and are not a binary bet on one product, so they don't need to make the timeline aggressive, and have been conservative in the past.

The Bottom Line

- There's little doubt there'll be some positive development(s) from the Novartis deal over the next decade. Are you able to wait? **Good call for extremely long-term investors, of little relevance to the rest for now.**

Wed 1220

Gruppo MutuiOnline SpA (MOL.IM)

Italy, Mortgage Broker, €165m
Buy, 69% upside
CEO Alessandro Fracassi, Stefano Rossini (IR)
Presentation: 6/10
Defensiveness: 4/10

What they do

- 2 divisions – Broking: MutuiOnline (internet & phone), PrestitiOnline (consumer loans), CreditPanel. BPOs – back-office processing of mortgage applications, secured loans etc.

Performance & Prospects

- Based a lot of their sales pitch on how far behind Italy is vs Europe (eg outstanding mortgages as % of GDP: 80% UK, 49% EU, 17% Italy; 50% of mortgages outsourced in Netherlands, 2% Italy), citing that there is no structural reason why Italy shouldn't catch up with Europe.
- Entirely independent from lenders – important in these turbulent markets. Able to leverage the distribution from lender partners, unlike Interhyp they state had to develop a branch network to tap into people not interested in doing everything online.
- Impressive financials – revenues +72%, EBIT +106% 06-07, EBIT margin 39 to 47%. Group revenues +69% CAGR 04-07. Tax rate down from 33% to 27.5%. Expecting ~60% top and bottom line growth 07-09E.
- Migrated activities offshore to company bought in Romania to counterbalance labour cost pressure.

Q&A

- I challenged the CEO's argument that there's no structural reason why Italy shouldn't catch up with Europe, suggesting that there are different attitudes regarding credit/mortgages. Mr Fracassi said that the cultural issues have now gone away – Spain had a close culture with Italy regarding this market, and the cultural barriers have been washed away with the market growth.

The Bottom Line

- Credit, secured loans, mortgages… all the buzzwords to put off investors over the last 9mths (along with their name, Mutui meaning mortgage). Trading at a slight premium to peer Interhyp (MOL 12.4x P/E 08E vs IYP 11.4x). Despite management seemingly frustrated with tired misconceptions, the bottom line is that this is a stock unable to defend itself against any bearish macro events, despite the rapid growth rate. **Leave for now.**

Wed
1440

Playtech Ltd

UK, Gaming, £905m
Buy, 17% upside
CEO Mor Weizer
Presentation: 7.5/10
Defensiveness: 7/10

What they do

- With management in the Isle of Man, development centres in Estonia and India, graphics departments in the Philippines and a marketing company in Israel, Playtech are a truly global gaming software maker, with the world's largest poker network and a royalties-based business model. Major licensees include Bet365, PartyGaming, Blue Square and Paddy Power. Casino 72%, poker 27%, other 1% at present.

Performance & Prospects

- Market growth factors: increased internet penetration, internet as a lifestyle, increased eCommerce confidence, increased media publicity.
- No direct or indirect competition with licensees – au contraire, they work with them driven by licensee needs – Playtech bring the IT expertise, the licensee the gaming expertise.
- Strong pipeline with Asian P2P in Q1, Poker Flash Q2, Mahjong Q408. Converting to Flash technology – no need to download software to play games.
- Remarkable US recovery story – the ban cut their profits in half, and just 1 year later they were back to where they had been in 06 (vs SportingBet, PartyGaming still in recovery). The Asian opportunities and positive effect of regulatory changes will more than counterbalance the US loss.

Q&A

- I ask if peers can aggressively try to home in on their licensees offering a cheaper/better product. Mr Weizer says they've not really seen any competition, as the real barrier to entry is the fact that the players only see a small part of the system – the management tools provided to the licensees are Playtech's best-kept secret.
- I (generically) ask if any macro downturns (= users with less disposable income) would impact them. He said they've seen none of this so far – the biz is based on lots of players placing small stakes, so the impact should be limited, and in fact psychologically a downturn could want them to play more to win the jackpot!

The Bottom Line

- **<u>TOP PICK</u>. Easily our top long-term gaming pick – solid organic growth, benefiting best from the Asia expansion, and 50% of net profit as dividend.** Quite expensive vs peers at 17.7x P/E 08E, but none offer such growth potential (21% revenue CAGR 07-09E, net income 66%. **Consider buying particularly if/when it goes back below £4 level.**

Wed
1100

Qiagen NV (QIA.GY)

Germany, Biomedical, €2.4bn / $3.6bn
Buy, 2% upside
CFO Roland Sackers
Presentation: 7.5/10
Defensiveness: 7/10

What they do

- 500+ consumable products for collecting, separating, purifying, isolating, stabilising and storing DNA, RNA, proteins etc – a great niche area, very defensive and stable. 400k+ customers – academics, pharma/biotechs, applied testing & diagnostics. #1 player for sample & assay technologies, #1 for molecular diagnostics, with unparalleled assay tech breadth (real-time PCR assays, and multiplexing leader QIAplex).

Performance & Prospects

- Solid QoQ performance, Qiagen have set a standard in this market for the last 2 decades, analysts estimating they own 60-80% of the commercial market. Revenues 22% CAGR 04-07, sales growth 40% 06-07 (inc acquisition), net income growth 31%. 15% organic growth rate outperforms all peers.
- USA 46% of sales, Europe 41%, Asia 11%. Expecting significant growth in Asia, given they're yet to enter key markets such as India.
- Able to grow prices every year..though FX has had an impact (~6% for 07).
- Significant untapped potential for HPV testing – a $1.1bn market. There's been increased awareness of the link between HPV and cervical cancer; still in public education phase with vaccine campaigns (penetration rate 22% USA, 3% Asia/LatAm at present).

Q&A

- I asked how easy it was to enter a new market. Herr Sackers said there were different strategies to enter – often in Asia they styled themselves as a distributor before buying the company out. There's endless opportunities to add additional growth – from Spain and Eastern Europe to India.
- I asked if their ability to grow prices QoQ would be hindered by a macro downturn, particularly at academic institutions where cost-cutting could be in place. He side-stepped this, referring to how no customer accounts for more than 5% of revenues, and price increases are always a win-win situation with new applications to products in return.

The Bottom Line

- I'm new to Qiagen but it all seems quite solid, with a good niche end-market product… **could be a good buy on weakness play** right now below the €12 / $18 levels.

Wed 1400

Smartrac NV (SM7.GY)

Germany, IT Security, €473m
Buy, 32% upside
CEO Dr Christian Fischer
Presentation: 7/10
Defensiveness: 8/10

What they do

- RFID (Radio Frequency Identification) – transponders such as electronic passports, ePayment, mass transit and access control. Now entered into non-card products – tags, smart labels, tickets etc. Core technology is antenna tech:1) wire embedding, 2) etching, 3) coil winding.

Performance & Prospects

- 1st November saw dozens of countries (UK, France, Germany) all with new electronic passports in place. USA is now the big project, where Smartrac are 100% supplier.
- Acquisitions since IPO have strengthened Smartrac's position as a leading RFID component supplier - eg Multitape GmbH, Xytec Solutions for in-house machinery. Expected 100% CAGR 2007-12 in the RFID market. Herr Fischer believes that in the longer term, all barcodes will be replaced by RFIDs (which cost 10-15c more).
- Disappointed they missed their December 07 target for animal ID, pushing this backlog over to H108.
- Plan to further strengthen their position, ramping up additional business, finalising the integration of 07 acquisitions, and focussing on efficiency of global operations in 2008.
- A strongly growing market driven by the tightening regulatory environment.

Q&A

- I asked why they missed their December 07 target – Dr Fischer said they were too focussed on ramping up their ePassport business so slightly neglected biologistics, a production process they are new to and took place in Q108 instead.

The Bottom Line

- I always compare Smartrac with Wirecard – both are riding on the crest of an electronic bubble with strong mid-term growth prospects. Smartrac's potential is not quite as exciting arguably, but is nonetheless another **appropriate buy for a ~2 year horizon**.

Wed 1600

Symrise AG (SY1.GY)

Germany, Fragrances, €2bn
Buy, 51% upside
Alexander Kleinke (Head of IR)
Presentation: 8/10
Defensiveness: 6.5/10

What they do

- 2 divisions: Scent & Care (fragrances, cosmetics, aroma molecules, mint) and Flavour & Nutrition. The 4th of 4 main global players in the flavours and fragrances business (Givaudan is #1), with 10% mkt share. By 4pm, we'd apparently been in contact with Symrise products 800-1,200 times on Wednesday.

Performance & Prospects

- Group strategy: Made back in 2005 and still dedicated to 3 pillars: 1) The Power of "And" – products and technologies. 2) Indispensable: Core lists (multinational clients they're underexposed to) and EM (strong at and want to leverage). 3) Bold: Bottom line emphasis. Leads to above-average sales growth, good profit impact (EBITDA margin 16.9% 05 to 21.3% 07).
- Acquisition strategy: like to pick up small companies, which can do certain things very well – eg strong R&D, technical skills, highly specialised etc.
- Says they are good at 'killing' projects before discovering there is no end-market, allocating resources in an efficient way.
- Transparently showed in depth how top line growth converts to bottom line performance without leakage – minimising price erosion, raw material effects, managing personnel costs and generally minimising "noise".
- Net debt reduced to €76m; 2-2.5x net debt/EBITDA deemed an appropriate leverage at this stage.

Q&A

- I asked how selection against peers worked, and if there were ways of controlling expenditure in testing. Mr Kleinke said that once they agree they will commercialise a product, it won't be 'killed', and it could get out of control how many times samples are sent back and forth before being kicked out. Often 2-3 companies are initially invited to develop a product, eventually the one with "the best grip on things" wins.

The Bottom Line

- **TOP PICK**. Consumers are getting more and more demanding. As Mr Kleinke says, a decade ago we were happy with aftershave that didn't completely burn, now many use it with moisturiser / sun protection built in. Mr Kleinke said all the right things you don't see in a generic presentation, with innovative ways of maximising shareholder value. Products won't really be hurt by a downturn (as Givaudan also suggested last month) – aftershaves etc are more seen as a necessity than a luxury? **A solid long-term pick, cheap at 12.8x P/E 08E** (vs Givaudan 18.3x).

Thu 1100

TUI Travel Plc (TT/.LN)

UK, Travel, £2.9bn
Buy, 41% upside
CFO Paul Bowtell
Presentation: 8/10
Defensiveness: 7/10

What they do

- The merger of First Choice and TUI in 2007 results in this one-stop-shop for travel, offering flights, hotels, tours and rental, long- and short-haul, catering for business and personal passengers.

Performance & Prospects

- The CFO (again) ran through the strategy, knowing that whilst there is the opportunity to now create one of the world's leading leisure & travel groups, 90% of mergers historically fail.
- Huge synergy opportunities with (a) UK, £125m synergy potential: too many low-yielding aircraft were flying to "irrelevant places", a recipe for disaster, (b) Germany: leveraging the market-leading brand position, (c) France – huge cost efficiency and capacity reduction work needed to turn around Nouvelles Frontieres and Corsair. More capacity to come out of UK in 09 and 08, and first cut in Germany this summer. Synergies reviewed on a fortnightly basis.
- Targeting 20% ROI acquisitions by the end of year 3, developing/leveraging EM opportunities with positions in Russia and China. Have the single largest order book for Boeing 787s.
- Capital structure: Net debt to EBITDA 1x FY07, ROIC vs WACC spread 0.63x; wanting 5.5% ROIC 07 to double by 2010.

Q&A

- I (cheekily) asked Mr Bowtell why it took a huge merger for them to figure out that sending an empty 580-capacity jumbo to a random destination (in his words) is unprofitable. He said they had started to tackle such issues before the merger, the French ops being executed from pre-merger, when they transferred an aircraft to the Nordics, took capacity out of the French market, and TUI have now been able to influence the tour operating side, getting them to be more focussed on current goals.

The Bottom Line

- **TOP PICK.** Yesterday's Q1 numbers were very promising in showing everything is on track – operating losses reduced by £51m, and we are comfortable with our 08E EBIT forecast with the merger synergies due to come through. Rising fuel costs obviously an issue that hampered Western Europe performance, but there's huge scope for margin improvement that should counteract that.
- They're not seeing any shortening of duration (eg 7 nights instead of 11-12), or trading down from long to short haul, in this environment. They are defying what other consumer industries are seeing – Mr Bowtell's argument that in a recession a family will cut going out, eating out, home improvement etc, but will always have the family holiday, is compelling and proven historically.
- If they can reach 4.7% EBIT margin by 2010E, the stock would trade on just **7.3x** earnings. **Despite DB's push this year, still a relatively undiscovered story. Buy.**

Wed 1140

Utimaco Safeware AG (USA.GY)

Germany, IT Security, €150m
Buy, 44% upside
CFO Christian Bohne
Presentation: 6/10
Defensiveness: 8/10

What they do

- 2 segments: a) Data Protection (85% of business) and b) LIMS (Lawful Interception & Monitoring, 15%). In a fragmented market, Utimaco is the key player for endpoint, file & folder, and email encryption, and content monitoring / filtering.

Performance & Prospects

- Gartner Dataquest rate Utimaco as the #1 player for completeness of vision, and #3 for ability to execute.
- Loss & theft of data is clearly a huge theme in this day and age in Western Europe and the USA, particularly in UK with the government's recent high-profile data losses.
- Their 'SafeGuard Enterprise' product, with a central management centre with data exchange, file & folder and device encryption, data exchange and configuration protection, is integral – they want to leverage the success of this product to increase the company's profile, aligning the channel to the needs of customers, and adding new functionalities.
- Expecting double-digit figures across the group in H208, stating that a global economic slowdown should have little impact on their market.

Q&A

- I ask which European nations are their main targets right now. Herr Bohne said UK is the most important right now, with the government data leakage headlines proving very good for business. Additionally they remain focussed on home market Germany, where they now have 60%+ mkt share.

The Bottom Line

- Too illiquid and too focussed around a single product for most, despite recent major upgrade.

Thu
1600

Vossloh AG (VOS.GY)

Germany, Railroads, €1.3bn
Buy (1% upside)
Lucia Mathee, Head of IR
Presentation: 7.5/10
Defensiveness: 8/10

What they do

- One-stop-shop for railroads. 5 business units: Infrastructure (Fastening Systems, Switch Systems, Infrastructure Systems) and Motive Power & Components (Locomotives & Electrical Systems).

Performance & Prospects

- The financials are solid, with sustainable, profitable growth. Huge EBIT growth for North & Latin America, particularly for rail infrastructure. Net debt dragged down from €87m 08E to €32m 09E.
- 2008 outlook: Sales driven mainly by demand from projects across Europe. Earnings benefiting from economies of scale and increasingly intensified cost containment. Acquisitions in switch systems and components are still targeted – only the economically viable projects will be realised. A strategic partnership for Vossloh Locomotives is on the 2008 agenda. Sales and earnings targets for 07 are confirmed and revised up for 08. Expecting further topline growth and steady margins for 09.

Q&A

- I asked which new markets they are entering. Ms Mathee said they are active in India now for Switch Systems – jafter years of slower-than-expected development, it seems we are now advancing faster there. Indian fastening systems would require a production plant over there, that is something they are currently negotiating. There are other regions in Asia that Vossloh look at, but it is too early to mention specific names – Ms Mathee iterated that it takes them years of track testing, approvals etc before entering new markets.

The Bottom Line

- The #1 MDAX performer for 08. **Nearly all the upside fully priced in for now, but an appropriate pick for long-onlys needing somewhere defensive during these turbulent times.**

Thu
0840

Focused Cancer Therapies

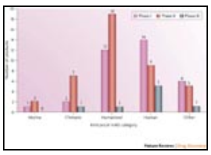
Wilex AG (WL6.GY)

Germany, Biopharma, €66m
Not Rated (WestLB: 205% upside..)
CFO Peter Llewellyn-Davies
Presentation: 7.5/10
Defensiveness: 5/10

What they do

- Munich-based biopharma founded 1997. Focussed on high medical need areas within oncology, providing for the full cancer disease life cycle – 1) diagnosis of tumour malignancy, 2) prevention of metastasis after surgery, and 3) treatment of metastatic disease.

Performance & Prospects



- 2 products in Phase III development (Rencarex and CA9-SCAN), 1 in Phase II (WX-671).
- Rencarex: International double-blind placebo, with 160+ sites in Europe and Americas initiated. Positive interim analysis and low drop-out rate so far, patient enrolment in Europe completed with Americas to be done later this year.
- CA9-SCAN: Radioactive labelled antibody for Positive Emission Tomography, state-of-the-art molecular imaging of cancer. Phase III approved by FDA, cooperating with IBA on registration trial, starting patient enrolment in Q208.
- WX-671: Currently in Phase II studies for both pancreatic and breast cancer. Approval for PII trial in patients with pancreatic cancer, beginning soon – recruitment complete. Breast cancer filed and approved, starting enrolment shortly.
- Use of cash lower than expected, EPS -€1.86 (negative typical for a small cap biopharma). R&D 87% of operating expenses.
- Expecting plenty of newsflow in 2008 – expecting to complete patient recruitment for Rencarex, start PIII enrolment for CA9-SCAN, get prelims for pancreatic cancer with WX-671, and gain partnerships.

Q&A

- I said to the CFO that time and time again (particularly in recent times), small cap biopharma/techs with ambitious plans have failed to meet their deadlines, as we recently saw with Arpida (and even worse fail to get final approval, like Basilea yesterday) – Wilex's targets for 2008 are plentiful, how cautious were they regarding downside risk? Mr Llewellyn-Davies mentioned how he was unhappy with the current situation of biopharma / techs having their reputations battered due to GPC et al, even though Wilex have thus far met all their milestones. He admitted there was indeed the chance Wilex could miss something, with a trial not meeting its endpoints, but iterated that they are not a one-trick pony, with three products currently in PII/III.

The Bottom Line

- A crystal-clear presentation – they have a multi-drug product portfolio and value-driven strategy. Nonetheless, many of you will have had your fingers burnt in the past when a biopharma fails to deliver. However, risk mitigation through the multi-drug portfolio and the recent slump mean that if you can afford to, **taking a small position on this binary call could be worth it** – broker FVs suggest **Wilex could more than triple from current levels (€17 vs €5.5) if all (miraculously?) goes to plan.**

Thu 1520

Wincor Nixdorf (WIN.GY)

Germany, Computers, €1.6bn
Hold, 27% upside
CFO Dr Jurgen Wunram
Presentation: 6/10
Defensiveness: 4/10

What they do

- Banking: End-to-end branch and self service solutions. Hardware: cash withdrawal, check processing. Software: Multi vendor, monitoring. Professional Services: Project management, consulting. Services: IT operations, transaction processing. Customers in 90 countries, legal entity in 36 to provide services as well as products. Clients include Deutsche Bank, UBS and Tesco, 70%+ of sales are outside Germany.

Performance & Prospects

- #1 in Germany, #2 in Europe, #3 global generally; main peers are NCR and Diebold on Banking, IBM and DigiPOS on Retail.
- Cash handling is currently an issue – the yearly spend on cash logistics is €13bn in the European retail market alone. Trying to bring this down by 20%.
- Financial track record is great – grown net sales every year since 96/7 bar the bubble burst, EBITA consistently up whilst net debt heads down – gearing 65.4% 07 -> 17.2% 09E.
- Stressed desire to give back to investors, through 50% dividend policy. Spent €88m in dividend payout in 07/08, + €44m share buyback programme.
- Organic growth strategy – do not go for big acquisitions, but will go for smaller ones such as niche hi-tech players. If the spending lend by strategic considerations would lead to the net debt going down significantly, they will pay back even more.
- Highlighted that whilst the risk of slowdown in growth from US/subprime means banks could cut their budgets for WN's services, they have thus far failed to see it, and identified opportunities stemming from a higher need to rationalise, process improvements etc.

Q&A

- I asked if they would be losing client ABN Amro post the acquisition, Dr Wunram said yes possibly.

The Bottom Line

- **Sensible management with a great shareholder focus. Worth revisiting once the current storm is over.**

Wed 1000

Wirecard AG (WDI.GY)

Germany, ePayment, €863m
Buy, 28% upside
CEO Markus Braun
Presentation: 6/10
Defensiveness: 8/10

What they do

- 2 platforms: B2B (corporate services, 90% of business – online payment solutions, taking a classical bank product (ie Visa/Mastercard), enriching it with innovative technology, and B2C (Virtual Mastercard product). Paypal, Wirecard and Cybersource are the big 3 players.

Performance & Prospects

- Outstanding growth prospects – sales CAGR 33% 06-09E, EBITDA 41%. Steady EBITDA margin growth from 24% 06 – 30.4% 09E.
- 3 growth drivers: 1) stable growth of European eCommerce (expecting 25%/yr growth over the next 4 years), 2) a shift from offline to cheaper, more convenient, online transactions, and 3) an increased outsourcing ratio of large merchants.
- 'Virtual Mastercard' product, easy to understand, got nods of approval in the presentation. Great for anti-fraud protection not exposing the merchant to your 'real' bank details, and millions of acceptance points across the net. Ideal for teens without a credit card.

Q&A

- I asked if the Virtual Mastercard product was exclusive, and what was to stop the likes of Cybersource coming out with a 'Virtual Visa'. Herr Braun said the rule is that anyone can do what they've done, but the differentiator is the technology – the banks aren't experts with software. Cybersource don't have the PSP tech capabilities either, but Paypal do – but they wouldn't cannibalise their own business for this alternative.

The Bottom Line

- **TOP PICK.** Somewhat dull presentation for such a growth company, maybe I'd heard it all before. Nonetheless, a simple story of enviable growth potential, riding on the back of the ePayment boom…15% premium to peers (22.4x P/E 08E) is reasonable given enormous growth potential; all brokers suggesting FV is between €13-14.3. **A perfect long-term (2+ yrs) pick** (strong institutional client base), could start paying dividends soon. **BUY**.

Presentation Reviews from other DB Salespeople / Analysts

GO-AHEAD GROUP (UK, Travel) ***Lynn Hazelwood, Leisure & Travel Sales***
They gave an upbeat presentation and reiterated the view that bus business is defensive. Fuel is around £50m of their £2bn cost base so they made the point that even if they had been hedged it would only have saved around £6m (obviously worth having but in context of £2bn cost base not huge). On the positive side high fuel widens the gap further between using your own transport vs public transport. On Rail saying February passenger growth higher than in 1st 6 months of the year (their financial year stars 1 July). They are not seeing a slowdown in Rail. On Ground Handling they are still in process of turning the business around. Go West Midlands bus business has now been disposed of – this was an area of disappointment for us at the time of results, hence now positive. Overall, sounds as if business doing well and reiterated defensive nature of Bus/Rail businesses. We have a Hold on this stock but it is trading on a 5.4% yield to June 2009 and on P/E of 9.6x (vs Arriva 10.3x, National Express 10.1x, Stagecoach 12.7x and Firstgroup 10.1x).

INFORMA (UK, Media) ***Mark Braley, Analyst***
Main points: 1) still not seeing anything concerning in current trading, 2) argue much more diverse biz than old-Informa was in 20013 (was very telecoms dependent), 3) re Datamonitor (the expensive 2007 acqn), they believe they can get to 6000 subs, £200m of revenue and £100m of op profit. This compares to £50m profit in our model for 2010. In fairness to management in 2007 at least Datamonitor has performed ahead of plan. 4) in response to question, they said that they see no reason why the rationale for combining their books and journals ops with those of Springer Scientific would have changed (Cinven/Candover, owners of Springer, were the bidders in Nov-06 at 630p / share in cash).

REZIDOR (Sweden, Hotels) ***Hans Derninger, Analyst***
Presentation contained no big surprises. Management is more cautious but reiterated that they see continued RevPAR growth in 2008 (2007: 6.7%). Corporate contracts have resulted in rate increase 5-7% for 2008 (normally representing ~30% of turnover). Official hotel stats so far for Jan-Feb shows on growing RevPAR for EMEA (off course with regional variations), however visibility is low only 2-3 months. 1Q is seasonally weak especially as Easter is in 1Q this year, and fx; the dollar and pound have moved in adverse directions in 1Q. Our view on valuation is that a very negative scenario is currently priced in and the 12% EBITDA margin target (2006:11%) is not viable long term, we feel this is overly pessimistic.

SOFTWARE AG (Germany) ***Uwe Schupp, Analyst***
Fairly confident presentation by Ottmar Winzig/Head of IR. The company continue to believe that their business model is fairly defensive with ~65% of their revenue being recurring in nature. US is 1/3 of sales. Of that 2/3 is enterprise and half of that is license rev, so 10% of group is at risk. Also, 15% of revs comes from banks, more than half of which is maintenance. Current $ weakness would take away ~4% percentage points of their constant currency guidance (they guide for 24-27% ex FX rev growth). Noteworthy the 24% margin target (we are at 23.5%) is independent of FX development. M&A: Software AG keep looking for targets, but instead of larger deals they currently focus on <E100m revenue targets, primarily in Europe and the US. Dividend proposal is E1, below our E1.2 forecast. Summing up: SOW has become really cheap even if earnings are a touch too high. Shares are at 9x 2009 PE (based on consensus) vs SAP on 14x and Dassault on 15.3x. Problem could be that this is a consensus-Buy stock and incremental buyers may be tough to find in current markets.

STOCKMANN (Sweden, Retail) ***Max von Doetinchem, Small & Mid Cap Sales***
The CFO was very upbeat about plans to expand department stores, Lindex and Seppala formats in Russia and the Baltics. They also finally received the building permit for their flagship store in St Petersburg at the end of Feb and the CFO said, that through the grant of that permit, the value of the real estate (absolute prime real estate) doubled over night. They also expect to conclude their legal problems with the landlord of one of their Department store in Moscow in the near future. If clients are looking for a play on Russia, they don't have to look much further than Stockmann.

VISCOFAN (Spain, Packaging) ***Phil Taylor, Small & Mid Cap Sales***
World leader in meat casings market, or sausage skins to you and me. Probably not a lot new as they highlighted 5th consecutive quarter of margin improvement to +20% at EBITDA. Reiterated the effect that consolidation has had in their core sector since 2006 with their mkt share at c.60% and prices rising for last 3 years after 10 years of declines. The end market dynamics are attractive with above GDP growth helped by emerging markets. Financials strong with +20% EBITDA margins, 10x EV/EBIT, 13x P/E. buying back stock, FCF7.5%.

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