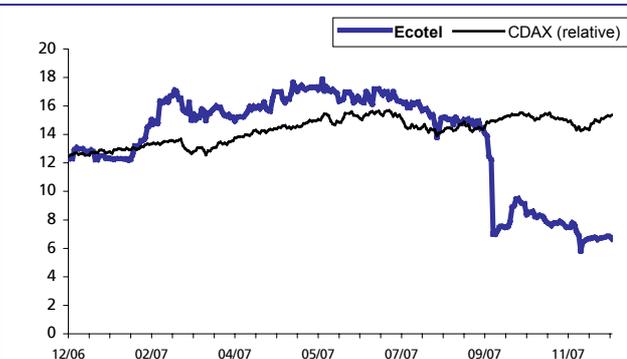


**Hold** Risk: Price target: **EUR 8.30**  
(prev.: Hold) high

## Expected turnaround in 2008 bears risks

Bloomberg: E4C GY Share price: EUR 6.64  
Reuters: E4CG.DE CDAX: 715.92  
ISIN: DE0005854343  
Internet: www.ecotel.de  
Segment: Regulated Unofficial Market  
Sector: Telecommunications service provider



Share data: Bloomberg 12.12.2007 / Closing price

Share price high / low 52 weeks: EUR 17.86 / EUR 5.61  
Market capitalisation: EUR 23.24 m  
Number of shares: 3.50 m

Shareholders: Free float 40.79%  
Peter Zils 31.05%  
Absolut Activists 22.42%  
AvW Gruppe 5.74%

Calendar:

### Analysis: SES Research

Date of publication: 13.12.2007  
Jochen Reichert (Analyst) +49-(0)40 309537-13  
Alexander Braun (Analyst) +49-(0)40 309537-29

### Institutional Client Contact: M.M.Warburg & CO

Barbara C. Effler (Head of Equities) +49-(0)40 3282-2636  
**Institutional Equity Sales**  
Christian Alisch +49-(0)40 3282-2667  
Thomas Dinges +49-(0)40 3282-2635  
Matthias Fritsch +49-(0)40 3282-2696  
Dr. James F. Jackson +49-(0)40 3282-2664  
Oliver Jürgens +49-(0)40 3282-2666  
Benjamin Kassen +49-(0)40 3282-2630  
Marina Konzog +49-(0)40 3282-2669  
Linn Lenné +49-(0)40 3282-2695  
Dirk Rosenfelder +49-(0)40 3282-2692  
Marco Schumann +49-(0)40 3282-2665  
Andreas Wessel +49-(0)40 3282-2663  
**Sales Trading**  
Oliver Merckel +49-(0)40 3282-2634  
Thekla Struve +49-(0)40 3282-2668  
Gudrun Bolsen +49-(0)40 3282-2679  
Nils Carstens +49-(0)40 3282-2701  
Jörg Treptow +49-(0)40 3282-2658  
Patrick Schepelmann +49-(0)40 3282-2700  
**Sales Assistance**  
Wiebke Möller +49-(0)40 3282-2703

ecotel provides integrated TC and data solutions. At the end of September the company was forced to announce a sales and profit warning. Financial figures which were the basis for the 2007 forecast, proved to be too high within the scope of the acquisition of nacamar GmbH. As a result ecotel had to subsequently correct nacamar's earnings contribution in H1 by EUR 0.8 m and also had to adjust information concerning the earnings power of existing customer business for H2.

Initially a detailed analysis of company performances based on the sales and profit warning was hardly possible. The 9M figures now give a better insight into the company situation. From SES point of view the following developments can be identified:

- The q-o-q growth (Q3/07 v Q2/07) can be mainly attributed to growth in the segments resellers and other sales.
- The reduction in the sales guidance for 2007 is based not only on nacamar's performance but also on postponed projects as well as declining customer contracts (in figures) in the segment SMB.
- According to SES calculations, ecotel sales have not grown organically in the first 9 months 2007 y-o-y excluding acquisitions.
- Despite the difficult competitive conditions ecotel was able to increase the ARPU from EUR 78 in 2006 to EUR 84 in 2007 in the SMB segment.

ecotel is counteracting with a series of measures. Thus they will begin to market unbundled subscriber connections in February 2008. Furthermore, entry into marketing mobile telephony solutions should contribute to returning to an organic growth course in 2008.

(Continued on page 2)

End of fiscal year	12/05	12/06	12/07e	12/08e	12/09e
Per share figures in EUR, all other figures in million EUR, share price: EUR 6.64					
<b>Sales</b>	34.8	56.3	88.4	98.9	106.5
<i>Gross margin</i>	33.5%	28.4%	32.2%	33.0%	32.5%
<b>EBITDA</b>	2.5	4.5	8.1	10.4	11.7
<i>EBITDA margin</i>	7.1%	8.0%	9.2%	10.5%	11.0%
<b>EBIT</b>	2.1	3.8	6.0	8.1	9.2
<i>EBIT margin</i>	6.1%	6.7%	6.8%	8.2%	8.7%
<b>Net income</b>	1.4	2.4	4.2	5.9	6.8
<b>Earnings per share</b>	0.53	0.72	1.07	1.51	1.75
<b>Dividend per share</b>	0.00	0.00	0.00	0.00	0.00
<i>Dividend yield</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<b>EV/Sales</b>	1.20	0.74	0.47	0.42	0.39
<b>EV/EBITDA</b>	17.03	9.27	5.15	4.04	3.60
<b>EV/EBIT</b>	19.87	11.04	6.95	5.16	4.54
<b>PER</b>	12.53	9.22	6.21	4.40	3.79
<b>ROCE</b>	102.7%	33.1%	18.3%	17.2%	17.9%
<b>Adj. Free Cash Flow Yield</b>	10.4%	25.7%	14.5%	19.9%	22.7%

### Performance of the individual segments

Looking at the sales performance of the individual segments it is visible **that ecotel had to register a decline in sales in the core division business customers in the quarterly comparison**. The result is a sales decline amounting to around 10% compared to Q2/07 when adjusted by ADTG, consolidated from July 1, 2007 (approx. EUR 1.4 m sales in Q3).

The y-o-y growth (9M 07 v 9M 06) of more than 60% (or EUR 9.5 m) results mainly from the takeover of nacamar (Q3sales: approx. EUR 4.7 m) as well as sales increase in the segments resellers (+ EUR 1.5 m) and other sales revenues (+ EUR 2.5 m through acquisitions of PPRO GmbH and easybell GmbH).

The table below shows the sales performance in the first nine months 2007:

Sales by segments ecotel (in m. EUR)	Q1	Q2	Q3
Reseller	4.7	4.5	6
Business customers (incl. nacamar)	15.6	17.4	16.9*
Other sales	0.2	0.1	2.6

\* ADTG from 01.07.2007 consolidated

Source: SES Research

### Nacamar had little influence on the sales warning

At the end of September ecotel reduced its own guidance within the scope of a sales and profit warning. For 2007 the company now expects sales of EUR 90 m with an EBIT of EUR 6 m (previous: sales EUR 100 m; EBIT EUR 10 m). Until now SES had presumed that besides postponements for introducing new products to the market, nacamar must be mainly responsible for missing sales targets. As a result forecasts for FY 2007 have been significantly reduced (by approx. EUR 4 m).

SES sales estimates nacamar (in Mio. EUR)	2006	2007
Estimates before profit warning of 09/07	21.0	23.1
Current estimates	19.0	19.4

Source: SES Research

In the first nine months nacamar achieved sales of EUR 15.7 m. This indicates that its **original target** (assuming the planning basis of a 10% sales increase to EUR 23.1 m) will not quite be reached, however, the missing sales appear to be in the region of good EUR 2 m (based on expected sales of approx. EUR 5 m in Q4/07). SES considers that EUR 8 m of the EUR 10 m reduction in guidance can thus be attributed to missing sales targets in the core business SMBs.

### Declining number of customer orders and stagnating sales performance

SES considers that missing the original sales and earnings targets is mainly attributable to the decline in the core business with SMBs. The number of customer orders declined: the 9M average (45.600) was below the value of Q3 2006 (45,812) despite the ac-

quisition of ADTG (approx. 5,500 customer orders, consolidation from Q3/2007). This has an immediate effect on sales. Q3 sales rose year-on-year (Q3 2006: EUR 10.8 m) by approx. 13% to EUR 12.2 m. Due to the fact that these figures include ADTG sales (SESe: approx. EUR 1.4 m), ecotel was not able to show **any growth** when adjusted by consolidation effects. (SESe: sales adjusted by consolidation effects in Q3/07: SESe: EUR 10.8 m).

**The stagnating performance on quarterly level equally can be seen by comparing the figures for the first nine months 2007.**

Sales in the segment of business customer solutions were approx. EUR 32.25 m in the first nine months 2006. Sales after nine months in 2007 were 55% above prior year value at EUR 50 m. However this value includes the sales contributions of nacamar (approx. EUR 15.7 m) and ADTG (approx. EUR 1.4 m in Q3) and thus is almost at the same level as prior year when adjusted by consolidation effects. The dynamic growth of ecotel AG can thus be primarily attributed to the acquisitions.

#### **Conclusion: Hold rating reiterated**

The current difficult conditions on the German TC market are reflected in the Q3 figures. Sales growth was primarily achieved through acquisitions. According to SES calculations ecotel has lost approx. 2,500 customer orders in the SMB segment. EBIT was burdened by revising the H1 figures as well as higher reserves and was only slightly above the six-month figure at EUR 4.6 m (EUR 4.5 m).

Organic growth in 2008 should be strengthened by the measures to introduce mobile telephony products and the measure already started to takeover connections. Thus, in 2008 SES expects an increase of 33% in EBIT to EUR 8.1 m. This presumes that the problems at nacamar can be solved, order numbers in SMB segment can be stabilised and new products (mobile telephony, data) will lead to a significant ARPU increase.

Nevertheless, we reduce our long-term assumptions in the DCF valuation due to a much more intense competition on the TC market as well as insecurities in the core business SMB and nacamar: The average steady state sales growth from 2010 from 4% to 2.5% as well as the average steady state EBIT margin from 6% to 5%. In addition the increased risk concerning a higher WACC (9.4% vs. previous: 8.7%) has been taken into consideration. Therefore a new DCF based share price target of EUR 8.30 results. The rating continues to be Hold.

## Key figures (ecotel)

<u>P&amp;L (EURm)</u>	<u>2006</u>	<u>2007e</u>	<u>2008e</u>	<u>2009e</u>	<u>Price Data</u>	
Sales	56.3	88.4	98.9	106.5	Share Price (EUR)	6.64
Total Sales	56.3	88.4	98.9	106.5	Market Cap. (EURm)	26
COGS	40.3	59.9	66.3	71.9	Enterprise Value (EURm)	42
Gross Profit	16.0	28.5	32.6	34.6		
Personnel Expenses	5.0	10.6	11.6	11.8	<u>Share Key Data</u>	
Other Operating Expenses	6.8	10.0	10.9	11.4	Earnings per Share (EUR)	0.72 1.07 1.51 1.75
EBITDA	4.5	8.1	10.4	11.7	Sales per Share (EUR)	17.01 22.66 25.35 27.31
Depreciation and Amortisation	0.7	2.1	2.3	2.4	Free Cash Flow per Share (EUR)	0.23 -0.58 1.36 1.62
- thereof Goodwill Amortisation	0.0	0.0	0.0	0.0	Dividend per Share (EUR)	0.00 0.00 0.00 0.00
EBIT	3.8	6.0	8.1	9.2	<u>Valuation Key Data</u>	
Financial Result	0.0	-0.8	-0.8	-0.7	P/E	9.18 6.18 4.39 3.79
Extraordinary Result	0.0	0.0	0.0	0.0	P/Sales	0.39 0.29 0.26 0.24
EBT	3.8	5.2	7.4	8.5	EV/Sales	0.74 0.47 0.42 0.39
Taxes	1.5	1.0	1.5	1.7	EV/EBITDA	9.27 5.15 4.04 3.60
Net Profit before Minorities	2.3	4.2	5.9	6.8	EV/EBIT	11.04 6.95 5.16 4.54
Net Profit	2.4	4.2	5.9	6.8	P/Book	1.30 1.07 0.86 0.70
Dividend Payout	0.0	0.0	0.0	0.0	Dividend Yield	0.0% 0.0% 0.0% 0.0%
<u>Cash-Flow</u>	<u>2006</u>	<u>2007e</u>	<u>2008e</u>	<u>2009e</u>	<u>No. of shares (million)</u>	<u>2006</u> <u>2007e</u> <u>2008e</u> <u>2009e</u>
Cash Flow from Operations	3.1	6.3	8.2	9.3	Ordinary shares out	3.31 3.90 3.90 3.90
Free Cash Flow	0.8	-2.2	5.3	6.3		
Capex	10.8	28.4	2.6	2.7		
<u>Balance sheet (EURm)</u>	<u>2006</u>	<u>2007e</u>	<u>2008e</u>	<u>2009e</u>	<u>Profitability</u>	<u>2006</u> <u>2007e</u> <u>2008e</u> <u>2009e</u>
Fixed Assets	1.6	3.4	4.2	5.0	EBITDA-margin	8.0% 9.2% 10.5% 11.0%
Intangible Assets	8.9	33.1	32.6	32.2	EBIT-margin	6.7% 6.8% 8.2% 8.7%
Net Working Capital	-0.2	2.4	2.7	2.9	EBT-margin	6.8% 5.9% 7.5% 8.0%
Current Assets	17.2	23.9	29.1	34.8	Net Profit-margin	4.3% 4.7% 6.0% 6.4%
Cash and Cash Equivalents	9.4	2.6	5.9	10.2	ROE	12.0% 17.4% 19.7% 18.5%
Equity	19.9	24.1	30.0	36.9	ROA	8.6% 8.9% 10.5% 10.8%
Provisions	0.4	0.9	0.9	0.9	ROCE	33.1% 18.3% 17.2% 17.9%
Financial Liabilities	0.0	18.0	16.0	14.0		
Net Cash	9.3	-15.5	-10.1	-3.8	<u>Company profile</u>	
Total	27.8	60.9	66.4	72.4	ecotel is a provider of integrated telecommunication and data solutions (voice solutions, access, mobile telephony, VOIP, etc.) focussing on SMEs in Germany. The core elements of its strategy are positioning as an operator of virtual networks (network independence), its own switching technology and billing systems, operating as a wholesaler of telephone minutes to obtain more favourable purchasing terms as well as broadening the value chain. At the same time, this forms the basis of its growth strategy, which is geared to increasing sales per customer order estimated at between EUR 934 in 2006 to EUR 1,150 in 2008.	
Reporting standard	IFRS	IFRS	IFRS	IFRS		
Fiscal year ending	31.12.2006	31.12.2007	31.12.2008	31.12.2009		
<u>Growth rates</u>	<u>2006</u>	<u>2007e</u>	<u>2008e</u>	<u>2009e</u>	<u>Management</u>	
Sales	61.8%	56.9%	11.9%	7.7%	Peter Zils (CEO), Achim Theis (Marketing and Sales), Bernhard Seidl (CFO, IR)	
EBITDA	83.7%	79.9%	27.6%	12.3%		
EBIT	79.9%	58.9%	34.7%	13.7%		
EBT	83.3%	36.4%	41.0%	15.7%		
Net profit	74.8%	74.8%	41.0%	15.7%		
Dividend	n.a.	n.a.	n.a.	n.a.		
<u>Cost intensities</u>	<u>2006</u>	<u>2007e</u>	<u>2008e</u>	<u>2009e</u>	<u>Shareholders</u>	
COGS / Sales	71.6%	67.8%	67.0%	67.5%	Streubesitz	40.79%
Personnel Expenses / Sales	8.9%	12.0%	11.7%	11.1%	P. Zils	31.05%
					Absolut Activists	22.42%
					AvW Gruppe	5.74%

Source: Company (reported figures), SES Research (estimates and key figures), Bloomberg (share data)

**Disclaimer:** The legal disclaimer as well as updated disclosures according to Section 34b of the German Securities Trading Act and German FinAnV on the security/securities analysed in this report can be found on internet pages at: <http://www.mmwarburg.com/disclaimer/disclaimer.htm> The disclaimer and disclosures provided are considered a part of this report and should be taken into account when making investment decisions based on this report.

**Copyright:** This work including all its parts is protected by copyright. Any use beyond the limits provided by copyright law without permission is prohibited and punishable. This applies, in particular, to reproductions, translations, microfilming, and storage and processing on electronic media of the entire content or parts thereof.