April 20th, 2021
Research report

SMC Research
Small and Mid Cap Research

THOMSON REUTERS ANALYST AWARDS 2018 WINNER
THOMSON REUTERS ANALYST AWARDS 2017 WINNER

STS Group AG

Entry of Adler Pelzer could spur expansion

Rating: Buy (prev.: Speculative Buy) | **Price:** 7.60 € | **Price target:** 11.60 € (prev.: 10,60 €)

Analyst: Dipl.-Kfm. Holger Steffen
sc-consult GmbH, Alter Steinweg 46, 48143 Münster

Phone: +49 (0) 251-13476-93
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com
Internet: www.sc-consult.com

Please take notice of the disclaimer at the end of the document!

Contents

Snapshot

Basic data

Based in:	Hallbergmoos
Sector:	Automotive supplier
Headcount:	1,601
Accounting:	IFRS
ISIN:	DE000A1TNU68
Ticker:	SF3:GR
Price:	7.60 Euro
Market segment:	General Standard
Number of shares:	6.5 m
Market Cap:	49.4 m Euro
Enterprise Value:	65.9 m Euro
Free Float:	21.8 %
Price high/low (12 M):	8.36 / 1.73 Euro
Øturnover (Xetra, 30 d):	44,600 Euro

Short profile

In the last financial year, the STS Group sold its Acoustics division to the Adler Pelzer Group and thus focused fully on hard trim products. These are plastic components produced by injection moulding or thermocompression and have so far been used mainly in commercial vehicles, but increasingly also in electric and hybrid vehicles. The company has positioned itself as an integrated supplier that also manufactures key basic materials itself and can thus support customers in all important steps of the value chain - from the initial product concept to series production. Production takes place in twelve plants on three continents, and STS also has two research and development centres in France and one in China.

The Chinese market was a major support for STS in the difficult Covid-19 year 2020, with revenues in the world's largest commercial vehicle market expanding by 69 percent to EUR 85 m. The next major expansion step will be the construction of a new plant in the USA, for which STS has already acquired a major order.

FY ends: 31.12.	2018	2019	2020	2021e	2022e	2023e
Sales (m Euro)	401.2	362.8	235.0*	259.7	276.9	292.0
EBIT (m Euro)	-1.3	-6.5	-1.4*	3.0	6.5	8.5
Net profit	-4.8	-12.1	-15.9	-2.3	0.8	2.3
EpS	-1.20	-2.03	-2.60	-0.36	0.12	0.36
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	29.4%	-9.6%	-6.2%*	10.5%	6.6%	5.4%
Profit growth	-	-	-	-	-	199.2%
PSR	0.12	0.14	0.21	0.19	0.18	0.17
PER	-	-	-	-	63.1	21.1
PCR	7.0	1.3	-	4.4	3.7	3.9
EV / EBIT	-	-	-	22.0	10.2	7.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**without the sold Acoustics division*

Executive Summary

- **Integrated provider:** With the sale of the Acoustics division last year, STS has focused on hard trim products manufactured by injection moulding or thermocompression. The company also manufactures key primary materials itself and has positioned itself as an integrated supplier that can accompany the customer's entire process from the initial product idea to series production. STS currently still generates the majority of its revenues in Europe, with a share of around 60 percent, but China (around 36 percent) has recently rapidly gained in importance. Expansion in the USA is also currently being driven forward with the construction of a new plant.

- **Adler Pelzer agrees to purchase shares:** Adler Pelzer Group agreed to buy Mutares' STS stake (73.25 percent) in March, although the deal is still subject to approval by antitrust authorities and Adler Pelzer's financing partners. After completion, STS is to remain as an independent division for hard trim products within the Adler Pelzer Group and is also expected to absorb the existing hard trim activities of the future majority shareholder.

- **Market slump in 2020:** The Corona crisis caused a market collapse in the commercial vehicle sector in spring 2020. Despite a recovery in the second half of the year, new truck registrations fell therefore by 27 percent in Europe and by 22 percent in the USA. In China, on the other hand, a dynamic business cycle led to growth of 35 percent. However, the market is now expected to consolidate in 2021, while Europe and the US are forecast to continue their recovery.

- **High loss:** The market slump had a strong impact on STS's business development, especially in the second quarter of 2020. Thanks to a catch-up process in the further course of the year, the decline in revenues from continuing operations for the entire year was limited to -6.2 percent (to EUR 235 m), and adjusted EBITDA from continuing operations was only EUR 0.2 m below the previous year's figure at EUR 17.7 m. However, including the profit contribution of the sold division, a high net loss of EUR 15.9 m was reported.

- **Growth drivers intact:** In the current year, STS will primarily benefit from the recovery of the industry environment in Europe. Group turnover is expected to increase by around 10 percent and the EBITDA margin is expected to be in the high single-digit range; no special items are expected. The company's growth drivers - in particular the need for weight reduction in truck construction and the rapid development in the field of electromobility - are intact and should enable the emergence of a profitable growth path without external shocks.

- **Milestone US production:** We have depicted this in our model, with the start of US production in 2023 as the central milestone. However, we have not yet factored in the transfer of business activities from Adler Pelzer or acquisitions. Nevertheless, based solely on organic development, we see a price target of EUR 11.60 and thus a potential of more than 50 percent. With the improvement in the economic conditions, the forecast risk has decreased further, so that we are upgrading the share from "Speculative Buy" to "Buy".

SWOT analysis

Strengths

- STS has established itself as a global tier-one truck supplier for plastic parts.
- The company has expertise and flexibility in the application of a wide range of manufacturing techniques (SMC, thermocompression and injection moulding), materials and batch sizes and is increasingly becoming a system supplier.
- Successful international expansion with strong growth in China and the acquisition of a major order from the USA.
- Proven competence in acquisition and integration of acquisitions as well as in the implementation of efficiency enhancement measures.
- With Adler Pelzer, a large strategic partner is about to join the company.

Weaknesses

- STS suffered significant losses in the difficult years of 2019 (industry downturn) and 2020 (Covid-19).
- A high increase in receivables in China has recently weighed on cash flow.
- Despite a broad customer base, sales are heavily dependent on a few buyers. The top 4 customers accounted for almost 70 percent of revenues in 2020.
- Due to the long lead time from order placement to revenue generation, current sales initiatives will only have an impact on Group revenues in the medium term.
- Structural growth dynamics in the still important European commercial vehicle market are low.

Opportunities

- An unexpectedly strong economic recovery could stimulate investments in the commercial vehicle sector; in Europe, there is still significant catch-up potential.
- Electromobility and new emission regulations (Europe, China) act as growth drivers.
- The establishment of a new plant in the USA creates high growth potential in the medium term.
- Adler Pelzer intends to transfer its hard trim activities to STS; further acquisitions to strengthen the market position are conceivable.
- If STS establishes a growth path with rising margins, the share could be revalued.

Threats

- Hopes for an early defusing of the Covid-19 crisis could be disappointed.
- Bottlenecks in semiconductors are currently slowing down the dynamics of the automotive industry.
- The Chinese commercial vehicle market is facing a consolidation that may take longer than expected.
- The rise in commodity prices could weigh on margins and make it more difficult to break even.
- The costs of building the US plant could exceed the budget.

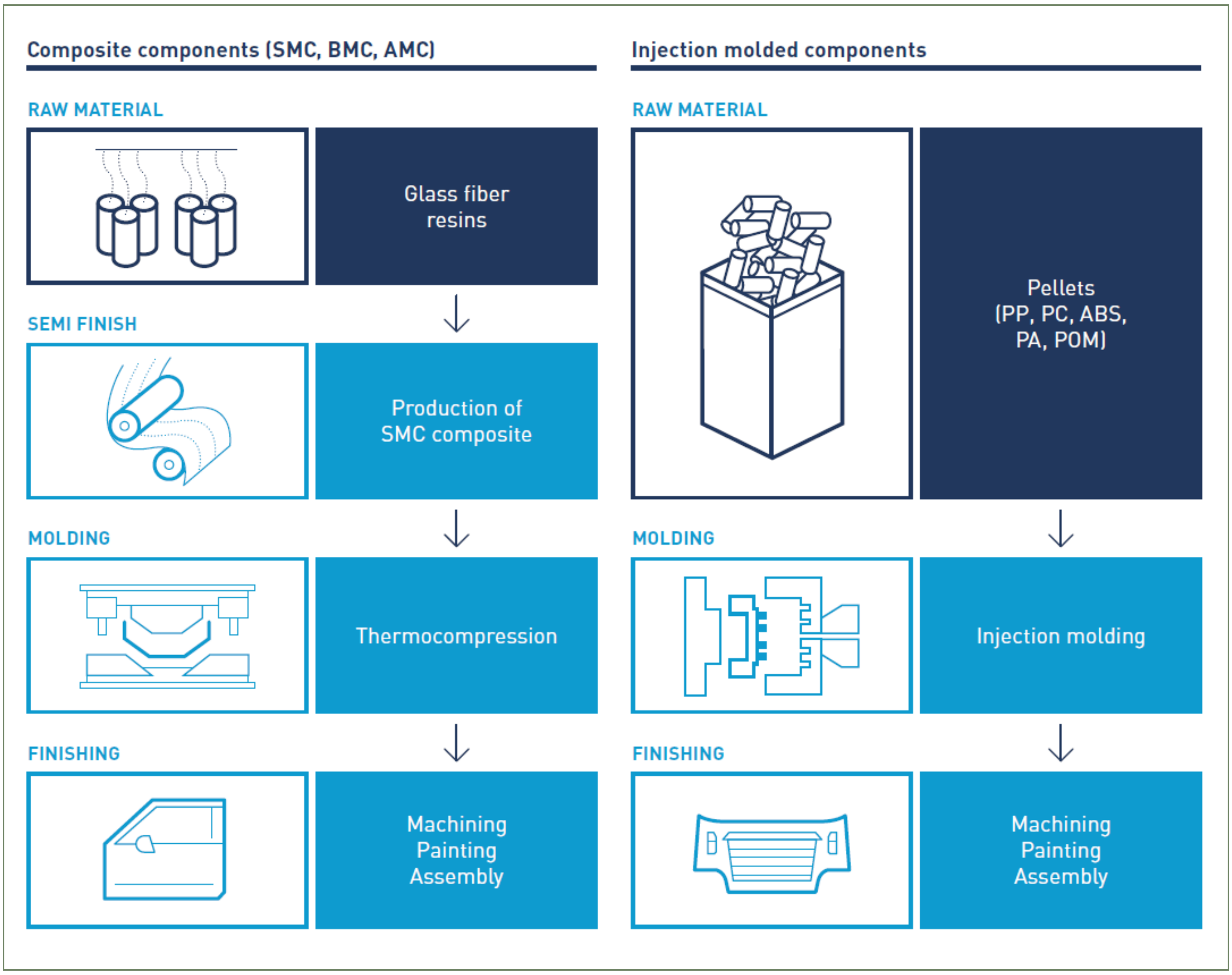
Profile

Globally active automotive supplier

STS Group AG, headquartered in Hallbergmoos near Munich, is a globally active supplier to the automotive industry, with a focus on the production of components and systems for commercial vehicles. The company was formed between 2013 and 2017 by the investment company Mutares as part of a buy-and-build process. Mathieu Purrey, the STS sole director since July 2020, is also formally still an employee of Mutares and has been delegated by the major shareholder. However, his contract as a board member at STS runs until 2023.

Share deal signed

The buy-and-build phase was crowned by an IPO on the German capital market in 2018. Even after the IPO, Mutares remained the majority shareholder of STS, with a current stake of 73.25 percent. However, in March, the investment company signed a sale agreement for all the shares held at a price of EUR 7.00 per share. The buyer is the German-Italian automotive supplier Adler Pelzer Group, which had acquired STS's acoustics business with soft trim products only last November. The closing of the transaction is still subject to approval by the antitrust authorities and Adler Pelzer's financing partners. If the sale



STS manufacturing processes; source: Company is completed, STS will continue to operate as a separate and, based on current information, listed division of the Adler Pelzer Group.

Specialisation in hard trim products

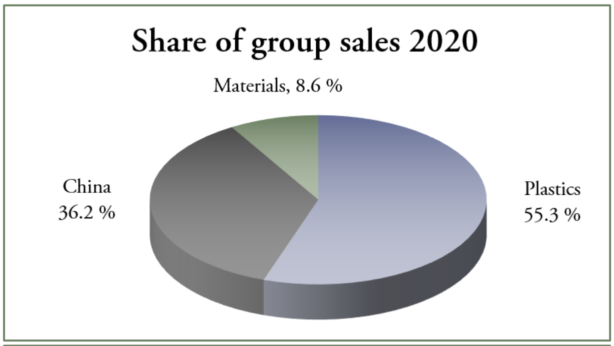
In the newly formed group, STS would be responsible for the so-called hard trim products. These are plastic parts produced by injection moulding or thermocompression and used, for example, for exterior trim and aerodynamic parts or also for storage systems in the cabins of commercial vehicles (see illustration on previous page). Adler Pelzer is already active in the business itself to a lesser extent, and a transfer of these activities to STS is being considered.

Integrated provider

STS has positioned itself as a vertically integrated supplier of hard trim products that can offer customers the complete process from a single source – from product conception to the manufacture of the necessary composite materials and the production of components and systems using injection moulding or thermocompression. The company sees itself as the only supplier in the market that offers both thermosetting and thermoplastic technology (thermoset products can no longer be deformed by the effect of temperature after curing, thermoplastic ones can) and can combine both manufacturing processes as part of system solutions.

Three business areas

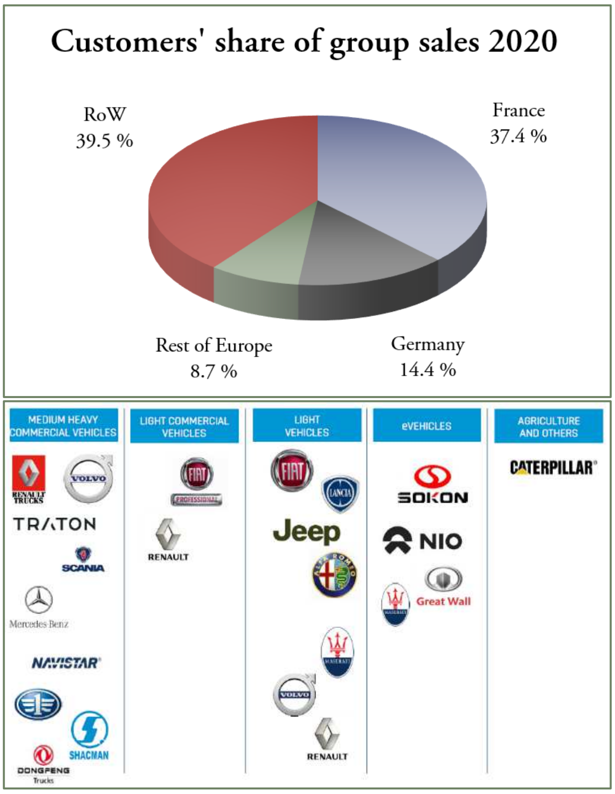
Die Herstellung von Faserformmassen (Bulk Molding
The production of fibre moulding compounds (Bulk Molding Compound – BMC, or, in the "highly developed" variant, Advanced Molding Compound – AMC) as well as fibre-plastic composites (in the SMC process – Sheet Molding Compound) takes place in the "Materials" business unit, which thus provides the semi-finished materials for its own component production, but also supplies third parties. Last year, this segment accounted for EUR 20.2 m, or 8.6 percent of Group revenues (after consolidation). Sales of the finished components and systems are even higher. This business in Europe as well as in Central and North America with sales of EUR 129.9 m (55.3 percent of Group revenues) is represented in the Plastics division. A separate segment was created for China in mid-2018 due to its increasing importance for the Group. The subsidiaries there also offer hard trim products, which are mainly manufactured using the SMC process, but since 2019 also using injection moulding, and, after a sharp increase, most recently contributed already EUR 85 m (36.2 percent) to Group revenue.



Distribution of sales (above); Locations; source: Company

Global positioning

While three production facilities and a R&D centre are operated locally for the business in China, the American market is supplied from a plant in Mexico. However, most of the locations are still in Europe, with – in addition to the group headquarters – a total of six factories and two R&D centres in France and Germany. In total, the group employs around 1,600 of staff. The geographical distribution of sales is closely related to the location distribution. Customers from France and Germany were responsible for EUR 88 m and 33.9 m respectively last year, the rest of Europe accounted for EUR 20.4 m and other countries (mainly China) for EUR 92.9 m.



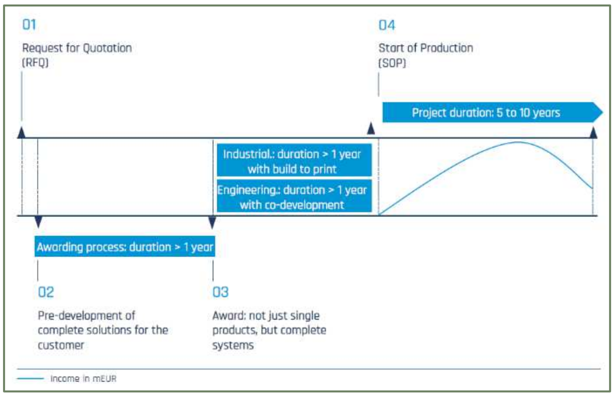
Customers by country (upper illustration) and by business areas; source: Company

Tier 1 supplier

STS has established itself as a Tier 1 supplier, directly supplying various OEMs. The customer base includes numerous leading manufacturers of commercial vehicles, such as Daimler, FAW, Dongfeng, Volvo or Traton. In addition, STS products are also used in light commercial vehicles and automobiles (see illustration). Recently, the company has also gained a foothold in the electric vehicle market, supplying mainly Chinese suppliers such as NIO, Great Wall and Sokon with lightweight and battery components.

Long-term supply contracts

Despite a broad customer base, a large part of the business is accounted for by a few customers. Last year, the largest customer accounted for EUR 66 m, or about 28 percent of the group's revenues, while the top four accounted for 69 percent in total. However, there is also a close customer relationship, as STS products are used in series production, which is usually secured by long-term supply contracts. These cover the lifetime of a vehicle model from 5 to 10 years, with the specific order take-up figures depending on the market success of the provider. However, such contracts also have a long lead time; the time span from the first enquiry to the start of production is usually two to three years (see figure).



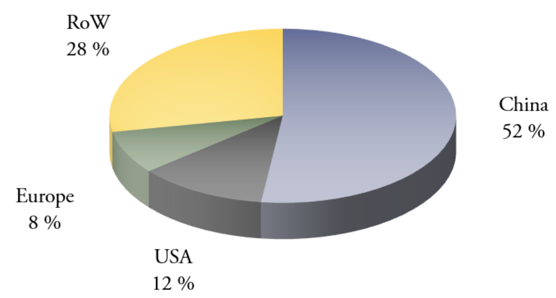
Time from request to production; source: Company

Market environment

China dominates world market

As a systems supplier of interior and exterior parts for motor vehicles, the business success of the STS Group is directly linked to the demand for passenger cars and trucks in general, and medium and heavy commercial vehicles in particular. The world's most important commercial vehicle market by far is China. According to VDA data, 1.78 million vehicles were sold there last year, which corresponded to a world market share of 52 percent. The USA followed far behind with 410,000 units or 12 percent, while Europe accounted for 272,000 trucks or 8 percent.

Global truck market 2020

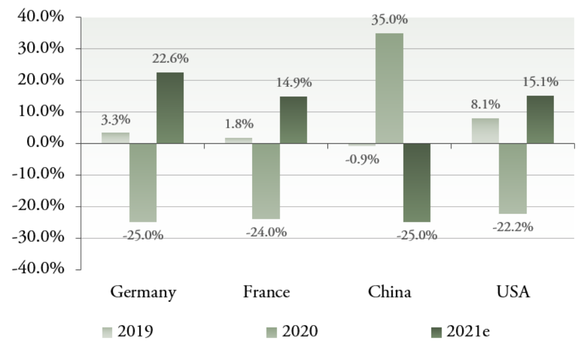


Source: VDA

High losses in Europe and the USA

However, the market figures from 2020 are distorted by the extreme framework conditions and special effects and China's share is therefore overstated. The outbreak of the Covid-19 pandemic was a turning point for the industry, leading to a massive slump in demand for commercial vehicles in the spring, which, despite the recovery trends from mid-year onwards in Europe and the USA, could no longer be made up for in the further course of the year. For the entire year, truck registrations in Europe fell by 27 percent, although the decline in the markets that are particularly important for STS, France and Germany, was somewhat below average at -24 and -25 percent respectively. In the USA, the decline was at a similar level of -22 percent (data source: VDA).

Change in new registrations of trucks



Source: VDA data and estimates, exception: Germany and France 2021e derived from IHS production estimate

China with dynamic business cycle

Sales in China also came under pressure for a short time, but then the expansionary drivers quickly prevailed. Against the global trend, commercial vehicle registrations increased by 35 percent in the entire year, which led to the high global market share mentioned at the beginning. The strong growth resulted from the interplay of several factors. In 2019, the authorities significantly intensified their monitoring of transported volumes in order to prevent the widespread practice of overloading. Together with a tightening of emission standards and a government programme for fleet renewal that ran until the end of 2020, this resulted in high investment in new trucks. In addition, the demand for transport services has also increased significantly, as the Covid-19 crisis has caused significant growth in e-commerce.

Reversed indicators for 2021

In the current year, the boom in China will come to an end, which, according to an assessment by the VDA, will cause a significant market contraction. The industry association expects a decline of 25 percent.

On the other hand, the recovery in Europe and the USA is likely to continue, so that the two markets could each grow by 15 percent. However, this would still be well below the pre-crisis level.

Sector under pressure

Even before Covid-19, many German automotive suppliers were under pressure as the industry is undergoing a comprehensive transformation phase outlined by the catchwords electrification, digitisation and autonomous driving. With the market collapse in the USA and Europe, this pressure has once again increased significantly, resulting in numerous insolvencies in the sector − in the first half of 2020 alone, 31 companies with sales of more than EUR 10 m became insolvent, which was more than in the entire 2019 (30). However, the great wave of bankruptcies that had been temporarily predicted − in June 2020, the management consultancy Berylls Strategy Advisors had forecast 120 insolvencies of German automotive suppliers for the period March 2020 to mid-2021 − has (so far) failed to materialise. This was likely helped by government aid loans, generous short-time working rules as well as the suspension of the obligation to file for insolvency, but also the recovery of business activities from the third quarter of 2020.

Trend towards lightweight construction...

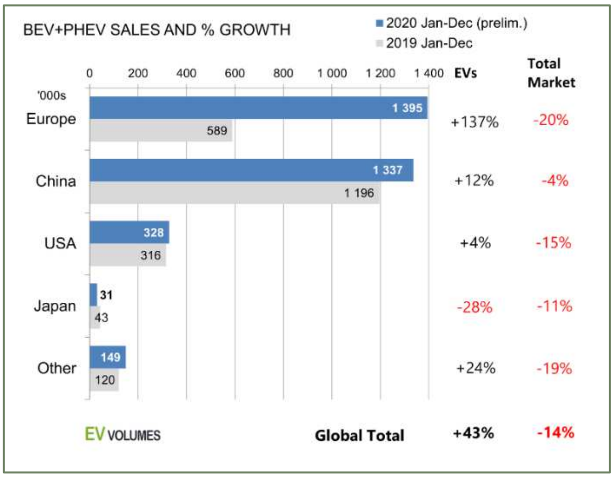
Beyond the recent extreme economic fluctuations due to the pandemic, there are several longer-term trends in the commercial vehicle business that are supportive of STS's sales opportunities. From our point of view, the continuous tightening of emission standards is of particular importance, as it creates a high pressure to innovate. In Europe, for example, the development of the Euro 7 standard has already begun, which will bring a further significant reduction in emission limits in the future. One of the most important instruments for reducing the fuel consumption of commercial vehicles and thus also emissions is a lighter design. Here, the substitution of heavy metal parts with fibre-reinforced plastics is one of the best options. With its high level of material competence and expertise, especially in the SMC area, STS offers custom-fit solutions for this sector. The company names as main competitors in this business and in the addressed segment of small to medium-sized batches the Polytec Group, also listed on the stock exchange, Georg Fritzmeier GmbH & Co. KG from Grosshelfendorf near Munich, IMR Automotive from Italy, CSP Continental Structural Plastics from the USA and numerous smaller family-owned companies in China.

...and towards electrification

Another megatrend in the automotive industry is the electrification of the powertrain. However, for large commercial vehicles, the most important sales market for STS, there are currently no signs of a rapid substitution of the diesel engine. The costs and the range of batteries are the core problems here, and larger storage solutions are also problematic with regard to a necessary further weight reduction. Nevertheless, many companies are already working on the electrified truck, with high hopes are being set on fuel cell technology and the use of hydrogen. However, industry experts at PWC do not expect the new drive forms to take a larger share of the heavy commercial vehicle market until the end of this decade.

Boom in Europe

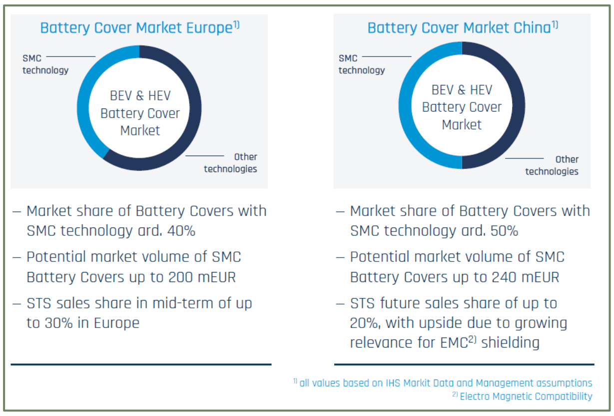
By contrast, electrification in the passenger car sector has already gained considerable momentum. After China initially led the way in the sector, Europe replaced it as the largest market last year with sales growth of 137 percent to almost 1.4 million units. Significantly improved state subsidies, the expansion of the model range, intensified marketing efforts by manufacturers and the increase in the numbers of charging stations were the main drivers of the positive development. Thanks mainly to the jump in sales in Europe, global sales figures have increased by 43 percent to 3.2 million, while overall global car sales have slumped by 14 percent (data source for this paragraph: ev-volumes.com).



Source: ev-volumes.com

Potential in the hundreds of millions

STS has already positioned itself as a supplier in this attractive market. Orders for battery covers based on SMC technology were won, initially from several suppliers in China, but subsequently also in Europe and the USA. In China, SMC solutions are used for about 50 percent of battery covers, in Europe it is about 40 percent. The company puts the market potential in this area at up to EUR 240 m (China) and EUR 200 m (Europe). The sales growth with STS's existing customers alone should ensure a further significant increase in revenues in the business. In addition, the company is working on acquiring new customers and on further products for this market.

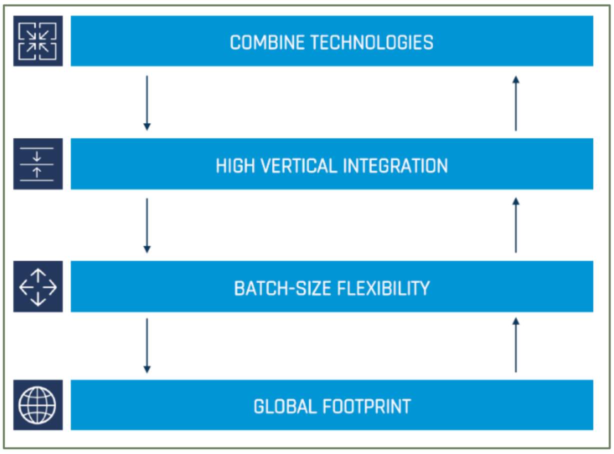


Source: Company

Strategy and competitive advantages

Strategy adjustment in 2020

Until the outbreak of the Covid-19 crisis, STS had taken the approach of offering its customers a broad product range that included both hard trim and soft trim products. In the latter area, which was covered by the Acoustics segment, there were already profitability problems before the outbreak of the pandemic, which were exacerbated by the market slump. The CEO Mathieu Purrey, newly appointed in July last year, made therefore a cut with the sale of the Acoustics business and positioned STS as a specialist for hard trim products. In addition, the Group headquarters was greatly reduced in size and several functional divisions were anchored in the operating subsidiaries.



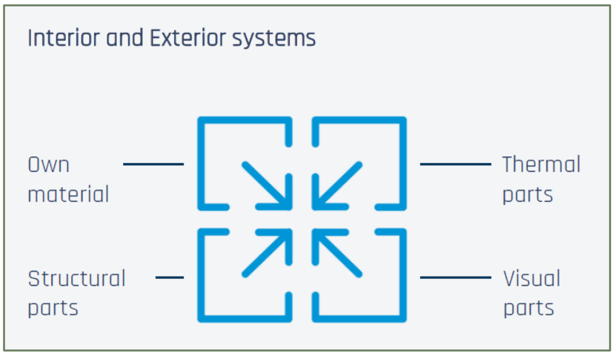
Competitive advantages of STS; Source: Company

Four key competitive advantages

In the hard trim business, the company claims four key competitive advantages that are to secure the group's further expansion: its overarching technological know-how, vertical integration, high flexibility in terms of order size and global positioning.

Wide range

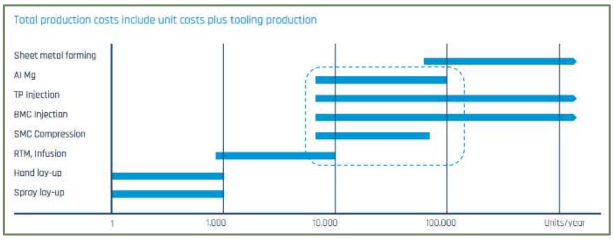
With the SMC process, injection moulding and thermocompression, STS masters three essential production methods for the plastic parts of vehicles and can thus manufacture a wide range of products, from structural parts to components for aerodynamics and optics to parts with specific thermal properties. These can be flexibly combined into systems if required. Flexibility is further increased by the fact that STS also creates key primary materials itself and thus masters the essential elements of the entire value creation process. This makes it much easier to adapt to customer requirements. In addition, customers can be accompanied throughout the entire cycle, from the initial product idea to series production.



Product range; Source: Company

Flexible and global

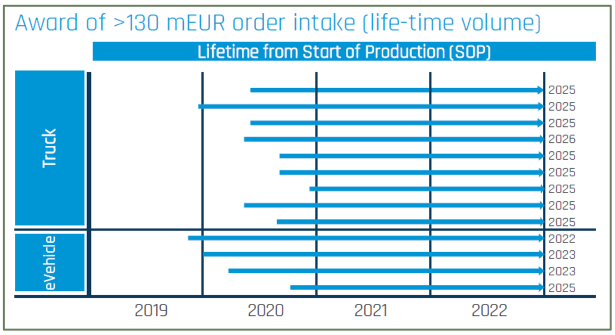
The production of the components themselves is also variably designed for small and medium batches with an annual quantity of approx. 10 to 100 thousand units. STS can address a wide range of customers with its high flexibility in terms of batch sizes while at the same time distinguishing itself from larger automotive and truck parts suppliers that only focus on serving customers with high-volume orders. STS's manufacturing facilities are located in the immediate vicinity of customers, which facilitates integration into their development processes and production workflows, but is also an important cost factor for large, bulky parts. In addition, the company also benefits from favourable labour costs in countries such as Mexico and China.



Production methods / batch sizes; source: Company

Further internationalisation

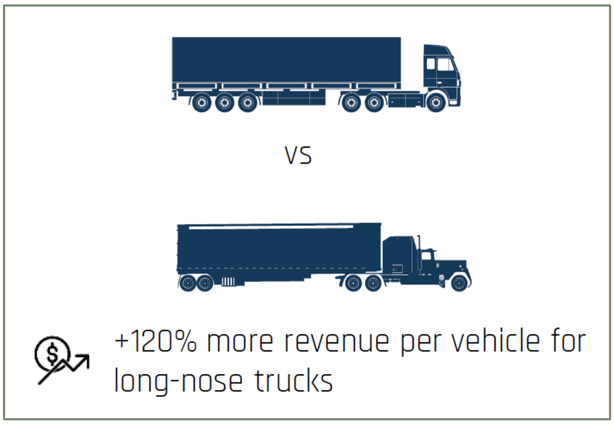
Building on this good foundation, the further expansion of international business is at the top of the management's agenda, with a particular focus still on the Chinese market. In China, the company has already been very successful in order acquisition, with the result that numerous new launches in both trucks and electric vehicles took place last year (see illustration). By now, all major Chinese commercial vehicle manufacturers are customers of STS. The management is pushing for further market penetration, and the company's own high quality standard and development competence with the local R&D centre are important USPs in competition with the numerous small family-owned companies that characterise the structure of the supply side in China.



Order structure in China; Source: Company

Sights on USA

The next major step in internationalisation will be the establishment of a plant in the USA, for which the subsidiary STS Group North America Inc. was founded last year. From the perspective of a producer of plastic components and systems, North America offers great potential, as the tractors of the usual "long nose trucks" require significantly more and larger parts than the European variant. STS puts the additional revenue potential per unit at 120 percent (see illustration). The company has already acquired a major order for the US market in 2019 for the supply of a complete truck roof system made of fibre-reinforced plastic (SMC). The order has a volume of EUR 230 m over a term of ten years and forms the basis for the construction of the new plant in Virginia. The project was delayed by Covid-19, but now the construction is being prepared and should take place next year. Production could then start in 2023. For financing, STS will fall back on subsidised loans and leasing, plus a mid-single-digit million amount of own funds, spread over the period up to 2023.



Comparison of truck types Europe and USA; Source: Company

R&D as a core competence

The range of SMC products, which will initially also be the main driver for the US market, serves a megatrend: the replacement of metal components with robust and lightweight plastic materials. This can significantly reduce the weight of commercial vehicles, which has a positive effect on fuel consumption and emissions. As the ever stricter emission regulations require continuous improvement in this regard, this is also a focus of STS's R&D activities, which are currently advanced by 60 employees in the three development centres. Research and development is thus one of the company's core competencies in order to open up new business areas. For example, the company is currently working on the development of "green" SMC compounds with bio-based or recycled materials and, as part of a co-development project with an engineering firm, on the use of high-performance composite parts in shipbuilding.

Targeting the market for electric vehicles

Thanks to its own R&D expertise, the company has already tapped into a particularly high-potential market with electric vehicles in recent years. STS has developed innovative battery covers for the vehicles based on SMC technology and has already won several customers in China, Europe and the USA. The growth in the e-mobility sector has recently gained a lot of momentum, which is likely to be accompanied by a significant increase in order take-ups at STS. At the same time, the company is working to win more OEMs as customers.

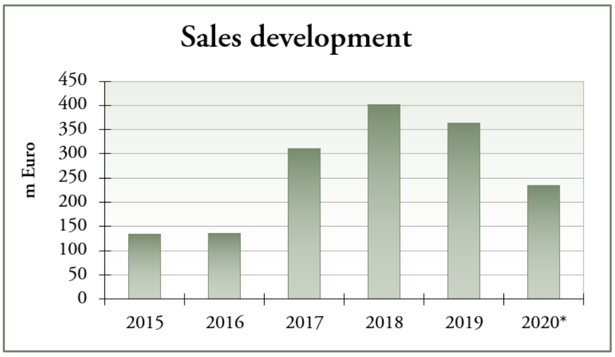
Expansion of market position

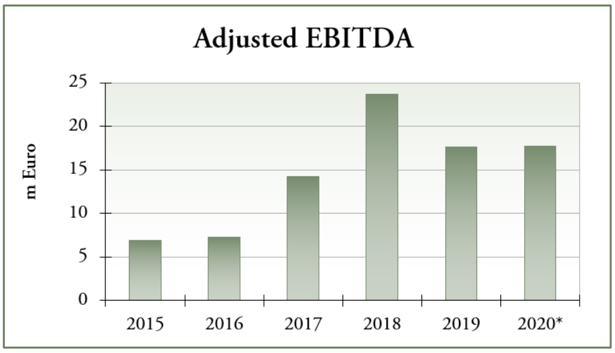
Although the last two financial years were accompanied by significant losses in a difficult industry environment, STS is strategically well positioned to establish a profitable expansion path in the future due to the factors outlined. The planned entry of a strategic investor from the industry, who is expected to invest as much as EUR 33 m, supports this impression. And with the Adler Pelzer Group as a major shareholder, the market position could be expanded even further. On the one hand, it is envisaged that STS will take over Adler Pelzer's previous hard trim activities shortly after the transaction is completed. On the other hand, the group is pushing ahead with industry consolidation through acquisitions − and this path could also be continued with STS as a new platform.

Figures

Strong growth, low margin

With the implementation of the buy-and-build process initiated by the investment company Mutares, the STS Group has grown strongly. From 2016 to 2018, sales almost tripled from EUR 136 m to EUR 401 m thanks to the acquisitions. However, the profitability of the group remained low: Adjusted for special factors, EBITDA amounted to EUR 23.7 m in 2018, equivalent to a margin of 5.9 percent. This was mainly due to the business with soft trim products in the Acoustics division, which generated a slightly negative adjusted EBITDA of EUR -1.2 m on revenues of EUR 124.4 m.





**2020 from continuing operations; source: Company*

The industry downturn...

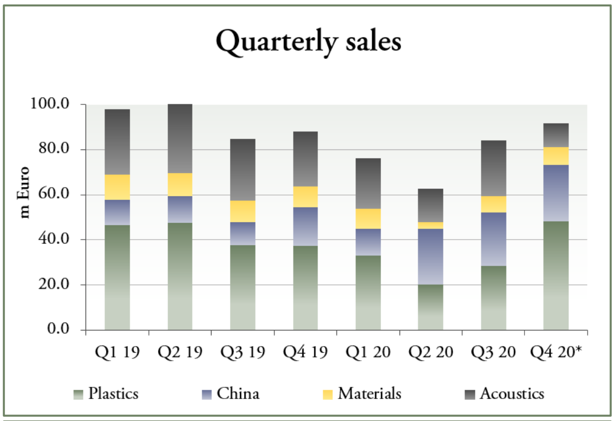
Additional pressure was exerted in the course of 2019 by the significant deterioration in the economic environment, which was reflected in a cyclical downturn in the automotive industry. As a result, the Plastics (-14.9 percent) and Acoustics (-9.9 percent) divisions recorded significant declines in sales, while the China business (+3.6 percent) continued to grow even in a more difficult terrain. Overall, however, the group had to accept a decline in revenue of 9.6 percent to EUR 362.8 m. The cost of materials fell to a similar extent, whereas personnel costs remained largely at the previous year's level and were thus a decisive factor in the 26 percent decline in adjusted EBITDA to EUR 17.6 m. Reported EBITDA nevertheless increased from EUR 11.9 m to EUR 14.6 m due to lower extraordinary expenses (which were relatively high in 2018 due to the IPO). Nevertheless, significantly higher depreciation (from EUR 13.2 m to EUR 21.1 m), a negative financial result (EUR -3.4 m) and tax expenses of EUR 2.2 m resulted in a consolidated loss of EUR -12.1 m.

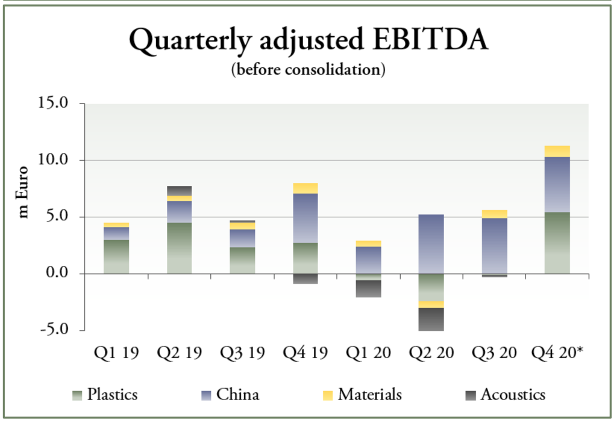
...followed by the Covid-19 crisis

With the outbreak of the Covid-19 crisis, the industry downturn turned into a crash. In the second quarter of 2020, the slump in demand and the politically imposed lockdown in numerous countries led to temporary plant closures and sharply reduced order take-up figures for STS as well. This was particularly noticeable in the revenues of the Plastics and Acoustics divisions, which – from April to June 2020 – were 57.4 and 51.8 percent below the previous year's figures, at EUR 20.3 m and EUR 15.0 m respectively. It was partially offset at the Group level by the strong expansion in China, where, thanks to the ramp-up of numerous new orders, revenues increased by 3.5 percent year-on-year to EUR 11.7 m already in the first quarter of 2020, when parts of the country were also in lockdown. When the situation eased in the second quarter, sales in China even increased by around 113 percent to EUR 24.7 m.

Slump in sales and operating loss

At the group level, Q2 sales were, at EUR 61.7 m, nevertheless 37.2 percent below the 2019 reference figure. This led – despite a positive contribution of EUR 5.2 m from the China business – to a negative Group EBITDA of EUR -2.6 m, after EUR +5.8 m in the previous year.





**Acoustics deconsolidated at the end of October 2020; adj. EBITDA of Acoustics no longer considered in Q4 2020; source: Company*

Restructuring

In response to the strong negative effects of the Covid-19 crisis, a restructuring and streamlining of the Group's headquarters was initiated during the second quarter, in the course of which operational functions were transferred to the subsidiaries. The main task of the holding company remained the strategic management of the group, for which a new board member, Mathieu Purrey, was installed. Subsequently, the decision was made to divest the loss-making Acoustics division, which was implemented by agreeing a purchase contract with the Adler Pelzer Group in August. The modalities of the transaction (with a negative purchase price) resulted in value adjustments to the book value of the investment, as well as write-downs on loans and receivables. As a result, the STS Group AG had to report a loss of more than half of its equity in accordance with Section 92 (1) AktG. Subsequently, a capital increase of 0.5 million shares at a price of EUR 3.00 per share was carried out, which was subscribed by the major shareholder Mutares.

Increasing recovery

In a brightening economic environment, the very difficult second quarter was followed by a gradual recovery. Between July and September, sales in Plastics (-24.0 percent), Acoustics (-8.8 percent) and Materials (-24.2 percent) were still below the previous year's figures, but thanks to the very strong business in China (+128.2 percent), group sales were already at the previous year's level. As a result, adjusted EBITDA was clearly positive again at EUR 4.1 m and was even slightly above the previous year (EUR 4.0 m). The positive trend solidified further in the final quarter, in which the sold Acoustics division was still included with one month. In the Plastics segment in particular, there were – with revenues of EUR 48.0 m, equalling an increase of 68.4 percent on the previous quarter and 28.3 percent on the previous year – strong catch-up effects and one-off revenues from the sale of tools for new orders, but the China business (+6.8 percent on Q3 and +46.8 percent on Q4 2019) also continued to grow at a high level. This was accompanied by a significant improvement in operating profitability, which, however, was still overshadowed in the final figures by the numerous special items in connection with the sale of the Acoustics division. This is because, unlike in the nine-month report, the Acoustics figures are now only listed as discontinued operations in the annual financial statements.

EBITDA decreases only slightly

Thanks to the successful recovery, Group revenue from continuing operations for the entire year was, at EUR 235.0 m, ultimately only 6.2 percent below the comparable figure for the previous year, while the decline in total operating revenue was somewhat greater at minus 8.2 percent due to a reduction in inventories. However, the cost-saving measures implemented during the year led to an even greater percentage drop in personnel costs (-12 percent to EUR 61.8 m), and the cost of materials (-7.5 percent to EUR 129 m) and other operating expenses (-5.4 percent to EUR 31.8 m) decreased as well. As a result, the decline in reported EBITDA was contained to -4 percent (to EUR 14.7 m).

Business figures	2019	2020	*Change*
Sales (incl. Acoustics)	362.8	308.1	*-15.1%*
Sales (w/o Acoustics)	250.7	235.0	*-6.2%*
- Plastics	*169.0*	*129.9*	*-23.1%*
- China	*50.4*	*85.0*	*+68.7%*
- Materials	*39.8*	*26.7*	*-32.9%*
Adj. EBITDA (w/o Ac)	17.9	17.7	*-1.1%*
- Plastics	*12.6*	*2.3*	*-81.7%*
- China	*9.0*	*17.4*	*+93.3%*
- Materials	*2.4*	*1.6*	*-33.3%*
EBITDA (reported)	15.3	14.7	*-3.9%*
EBIT (cont. activities)	-0.5	-1.4	-
Net profit	-12.1	-15.9	-

In m Euro and percent; source: Company

China business very profitable

If the special expenses of EUR 3.0 m (mainly for the restructuring) are deducted, the adjusted EBITDA of EUR 17.7 m was even almost at the previous year's level (EUR 17.9 m). However, the contributions of the individual divisions shifted considerably over the course of the year. While the Plastics segment, which in the previous year still had the largest share of adjusted EBITDA with an operating surplus of EUR 12.6 m, recorded a decline to EUR 2.3 m, China's contribution almost doubled from EUR 9.0 m to EUR 17.4 m. This was the main factor behind the improvement in the Group-wide adjusted EBITDA margin from 7.1 to 7.5 percent (based on Group sales) in 2020.

Overall result clearly negative

Taking into account depreciation and amortisation of EUR 16.1 m, the reported EBITDA resulted in a slightly negative EBIT of EUR -1.4 m (previous year on a comparable basis: EUR -0.5 m). Together with the financial result (EUR -2.2 m) and the tax expenses (EUR -3.0 m), this led to a result from continuing operations of EUR -6.6 m (previous year: EUR -4.5 m). Added to this is the deficit from discontinued operations of EUR -9.3 m, so that the year 2020 closed with a consolidated loss of EUR -15.9 m (previous year: EUR -12.1 m).

Debt declining rapidly

The separation from the Acoustics business had a significant positive impact on the balance sheet. After net financial debt still amounted to EUR 48.9 m at the end of September, it was reduced to EUR 22.9 m by the end of the financial year. Liquidity of EUR 20 m was offset by loan and leasing liabilities of EUR 42.9 m as of the reporting date. The multiple of net financial debt to last year's adjusted EBITDA is now only 1.3. Thanks to a significant balance sheet reduction (from EUR 256.5 m to EUR 185.7 m), the Group's equity ratio is also still solid at 27.5 percent, despite a decrease in equity from EUR 68.6 m to EUR 51.1 m.

Return to growth path

This gives the Group a good basis for a return to the expansion path in the current year. Management is planning for revenue growth of around 10 percent, driven by a recovery in business in Europe. In China, on the other hand, the boom is slowly coming to an end and the market volume is likely to decline significantly, which STS believes will be felt more strongly in the second half of the year. Nevertheless, the Executive Board expects continued successful order acquisition and aims to maintain sales in the country at about the previous year's level. With regard to the expected profitability at Group level, the forecast announcing an adjusted EBITDA margin in the high single-digit percentage range is still vague. As there are no extraordinary expenses according to current information, this will also correspond to the reported EBITDA margin.

Equity-story

Emerging stronger from the crisis

In 2020, an extremely difficult year for the industry, STS initiated a major course correction. The company has streamlined its corporate headquarters, sold the Acoustics division, and focused on the larger and significantly higher-margin business with hard trim products. This had a positive impact on the margin, so that the adjusted EBITDA from continuing operations in the crisis year 2020 was kept almost constant despite a 6.2 percent decline in sales. In addition, the balance sheet structure has also been significantly improved: After net financial debt still stood at EUR 48.9 m at the end of September, it was only EUR 22.9 m at the end of the year.

Drivers: lightweight construction and electromobility

This created a good basis for a return to the expansion path. In the current year, the company is likely to benefit in particular from the recovery of the industry in Europe. In the important Chinese market, a significant overall decline in market volume is to be expected as a special economic situation comes to an end, but STS wants to gain further market share and thus keep revenues there constant. Basically, several trends are playing into the company's hands, of which the replacement of metal parts with robust plastic components to reduce weight and emissions is presumably the most important. But electromobility is also a growth driver for STS, as the company can launch new products in this segment. For example, the plastic cover for batteries offered by STS is meeting with brisk demand.

USA in the focus

Based on an attractive product portfolio, STS is preparing to conquer the next big market. After Europe and China, a plant is now also to be built in the USA. The existing production facility in Mexico represents a bridgehead for this project, as the US market can initially be supplied from there. The expansion in North America has already been secured by a new major order, which will be rolled out successively over the next few years and thus already ensures the basic capacity utilisation of the plant. The company also sees itself in a good position to acquire further large orders from the USA.

New options

In the future, it could have a strong partner from the industry at its side. Adler Pelzer, itself with sales of almost EUR 2 billion, intends to take over the majority stake in STS from Mutares. Provided the transaction is completed as planned, STS is to remain as an independent division of Adler Pelzer and be given sole responsibility for hard trim products within the group, which would also include the transfer of the major shareholder's existing activities in this area to STS. With the big partner behind it, the expansion of the market position could also be pushed even further through acquisitions, so as to actively shape the market consolidation fuelled by the Covid-19 crisis.

High valuation leverage

Overall, there are thus good opportunities for sustainable growth at STS, which should also have a positive impact on margins due to learning curve and fixed cost degression effects. This in turn could exert strong valuation leverage on the share price. With a current market capitalisation of almost EUR 50 m, STS is valued very low in terms of sales: the PSR is only about 0.2. The ratio of enterprise value to EBITDA is also not high at 3.5. This is presumably due to the difficult industry conditions on the one hand, but also to the low profitability at EBIT and net profit level on the other. If this can be significantly improved - and we see good chances of this on the basis of the drivers outlined - the company should also be valued with considerably higher multiples, which would significantly strengthen the valuation effect of the earnings improvement.

DCF model

After a difficult year...

The year 2020 was exceptionally difficult for automotive suppliers. The industry downturn, already underway since 2019, was massively exacerbated by the Covid-19 pandemic, culminating in high double-digit production declines in Europe and the US in the second quarter. During this time, however, the Chinese market has already recovered dynamically from the effects of the pandemic, which occurred earlier than in Europe and the USA, and has been a great support for STS.

...diverging market trends

However, the special boom in the form of extensive fleet renewal and expansion, brought about by stricter controls on truck loading and a local tightening of emission standards, will come to an end in the current year, with likely negative consequences for industry sales. However, thanks to the successful order acquisition, STS still wants to keep its own revenues in China at about the previous year's level. In Europe, on the other hand, the market is expected to recover at a double-digit rate from the low base of 2020, but not yet to pre-crisis levels. This is likely to translate into significant sales growth, especially in the STS Plastics segment. Overall, the group is targeting a revenue increase of 10 percent for 2020 and aims to generate an EBITDA margin in the high single-digit percentage range on this basis.

Estimate for 2021 adjusted

So far, we have assumed that the company will be able to generate sales of EUR 270 m in the current year. In contrast to management, we had assumed a decline in revenue in China and a much stronger recovery in Europe. In response to the forecast and the current reports on the market outlook, we are adjusting this estimate somewhat. We now expect Chinese sales to decline by only 5 percent to EUR 80.8 m (previously: -18 percent) and anticipate growth of 19 percent to a combined EUR 179 m for the other two divisions (previously: +33 percent to EUR 200 m), so that we expect a 10.5 percent increase in sales across the group to EUR 259.7 m. The EBITDA margin is now slightly higher at 7.2 percent (previously 7.0 percent), as we had expected moderate extraordinary expenses, which are no longer expected to be incurred. At the same time, the depreciation and amortisation remaining after the divestment of the Acoustics business is significantly higher than we had previously expected, so that we now expect EBIT of EUR 3.0 m (previously EUR 6.0 m) for 2020.

Adler-Pelzer entry: upside potential

We have not yet included any effects from the agreed but not yet completed acquisition of shares by Adler Pelzer. However, the potential new major shareholder has held out the prospect of handing over its own hard trim business to STS. This would further strengthen the market position in the core area. We will only integrate this into our model when the data on the business to be transferred and the conditions are available. Currently, we consider this to be an additional upside potential for the model result. Furthermore, we assume that Adler Pelzer has a high interest in STS successfully continuing its international expansion. Therefore, we expect that both the expansion of the China business and the establishment in the US market with a new production facility will be given a high priority.

Multiple growth drivers

These continue to be the cornerstones of our estimation model, which we have revised somewhat in detail. For the Plastics and Materials segments, after the strong recovery in 2021, we expect moderate revenue growth in the following years (subsequent CAGR by 2028: 3.3 percent), which mainly reflects the low market dynamics in Europe. It is possible that STS can significantly outperform the overall market through a growing business with components and systems for electric and hybrid vehicles, but this will first have to be supported by further figures. After normalisation in 2021, growth in China is likely to be disproportionately high compared to Europe from next year (CAGR by 2028: 5.7 percent). And as before, we expect an initial contribution from the new US business from 2023 onwards, which we still expect to grow to around EUR 38 m by the end of the detailed forecast period. The average growth rate of Group revenues from 2022 to 2028 is thus 5.6 percent.

Cautious margin calculation

The steady growth should go hand in hand with a continuous improvement in margins thanks to the associated learning curve and fixed cost degression effects. We have factored these in very cautiously so far and have only allowed the EBITDA margin to rise to 8.5 percent in 2028. We maintain this approach for the time being, which corresponds to a target EBIT margin of 4.9 percent. The slow margin increase also covers possible start-up losses in the new US business. By the end of the detailed forecast period, however, this business should already be clearly profitable and even make a disproportionately high contribution to earnings due to the advantageous market conditions (long-nose trucks, lower competition intensity for SMC components). However, we have not yet included this in our estimates, as we first want to wait for the next steps to develop the market, and we see it as further upside potential for the model.

Initially high tax rate

STS's tax rate at group level is initially fairly high: for 2021, we have even estimated it at 100 percent of EBIT. This is due to the still uneven distribution of profitability in the group. The tax payments result primarily from the very profitable business in China, while the activities in Europe depress group profitability, which leads to a high ratio in terms of figures. This effect loses significance over time with the assumed improvement in the margin in the Plastics and Materials segments.

Organic development

We have modelled an organic development and assume that STS can finance this without raising equity. The funds for the new US plant are to be raised primarily through leasing and subsidised loans. Therefore, we calculate with the current number of shares. We consider another share issue conceivable if the

m Euro	**12 2021**	**12 2022**	**12 2023**	**12 2024**	**12 2025**	**12 2026**	**12 2027**	**12 2028**
Sales	259.7	276.9	292.0	317.5	334.4	350.9	367.5	381.5
Sales growth		6.6%	5.4%	8.7%	5.3%	4.9%	4.7%	3.8%
EBIT margin	1.2%	2.3%	2.9%	3.2%	3.7%	4.1%	4.6%	4.9%
EBIT	**3.0**	**6.5**	**8.5**	**10.1**	**12.3**	**14.5**	**16.8**	**18.6**
Tax rate	100.0%	50.0%	40.0%	35.0%	32.0%	29.0%	29.0%	29.0%
Adjusted tax payments	3.0	3.2	3.4	3.6	3.9	4.2	4.9	5.4
NOPAT	**0.0**	**3.2**	**5.1**	**6.6**	**8.3**	**10.3**	**11.9**	**13.2**
+ Depreciation & Amortisation	15.7	14.9	14.9	15.6	15.1	14.6	14.1	13.8
+ Increase long-term accruals	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	16.1	18.5	20.4	22.6	23.9	25.3	26.4	27.5
- Increase Net Working Capital	-5.2	-5.5	-7.6	-7.6	-6.0	-5.6	-5.1	-4.6
- Investments in fixed assets	-11.3	-14.7	-18.3	-13.3	-12.2	-12.0	-12.5	-12.9
Free cash flow	**-0.3**	**-1.7**	**-5.5**	**1.7**	**5.7**	**7.7**	**8.8**	**10.0**

SMC estimation model

company takes over competitors to strengthen its market position, which is not an unlikely option with the entry of Adler Pelzer. However, since we have not factored in any effects from acquisitions, we do not calculate with financing measures for them. The table on the previous page shows the development of the most important cash flow data resulting from these premises in the detailed forecast period until 2028. Further details on the balance sheet, income statement and cash flow statement can be found in the Annex.

Safety margin 25 percent

Following the detailed forecast period, we continue to apply a 25 percent safety margin to the target EBIT margin to determine the terminal value and, on this basis, calculate with a "perpetual" cash flow growth of 1 percent.

Discount rate 7.1 percent

We discount the free cash flow resulting from these assumptions with unchanged WACC (Weighted Average Cost of Capital) of 7.1 percent using an interest rate on borrowed capital of 7.5 percent. The cost of equity is determined using the Capital Asset Pricing Model (CAPM). Our risk-free interest rate is − at 1.0 percent − the long-term average of the German current yield and for the market risk premium we use the average value for Germany, which is currently 5.8 percent (source: Survey: Market Risk Premium and Risk-Free Rate used for 81 countries in 2020). In combination with a beta of 1.5, this results in a cost of equity of 9.7 percent. With a target capital structure of 60 percent debt and a tax shield with a tax rate of 29 percent, this results in the WACC rate.

Price target: EUR 11.60 per share

In our favoured scenario (WACC of 7.1 percent and perpetual growth of 1.0 percent), our assumptions result in a market value of equity of EUR 75.4 m. Converted to 6.5 million shares, this corresponds to EUR 11.60 per share, which we set as a new price target. The increase over our last estimate (EUR 10.60) results from updating the model to the 2020 closing figures and management's forecast. Thus, we currently see a price potential of more than 50 percent.

Forecast risk reduced

In addition to the fundamental fair value calculation, we assess the estimation risk on a scale from 1 point (very low) to 6 points (very high). The Covid-19 crisis has caused a temporary increase in estimation uncertainty, but the latest - very positive - economic data suggest that the economy has emancipated itself from the pandemic problems. In principle, the fairly good calculation basis in the form of long-term contracts for series production should now come to the fore again at STS. We therefore reduce the forecast risk from 5 to 4 and thus now see it as only slightly above average (due to the fluctuation intensity of the order take-up figures).

Sensitivity analysis	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
6.1%	20.71	18.12	16.04	14.33	12.90
6.6%	17.27	15.26	13.61	12.24	11.07
7.1%	14.52	12.93	**11.60**	10.48	9.51
7.6%	12.27	10.99	9.91	8.97	8.16
8.1%	10.40	9.36	8.46	7.68	6.99

Sensitivity analysis

For our sensitivity analysis, we have varied the input parameters WACC and perpetual growth. The calculated fair value lies between EUR 6.99 per share in the most restrictive case (WACC of 8.1 percent and perpetual growth of 0 percent) and EUR 20.71 in the most optimistic case.

Conclusion

The Covid-19 year 2020 was very difficult for the automotive industry, which came under heavy pressure, especially in the second quarter. The slump in sales has led to extensive adjustment measures at STS. With a new management board at the helm, the corporate headquarters was streamlined, a number of functions were transferred to the operating subsidiaries, and, above all, the Acoustics division, suffering from poor profitability even before the Covid-19 crisis, was sold. The benefits of these measures were already reaped in the final quarter of 2020 with a significant business recovery. For the entire year, the decline in sales (from continuing operations) was thus contained to 6.2 percent, and the adjusted EBITDA of EUR 17.7 m was even close to the previous year's level.

The company has focused on the larger hard trim business and is targeting the Chinese market for future growth, where it has already established a strong position, as well as the US market, which it plans to tap into with a new plant. Electromobility also promises positive stimuli, as the Group is encountering brisk demand with products such as its own battery cover solution.

The positioning is apparently also considered promising by the Adler Pelzer Group, which has agreed to purchase the 73.3 percent stake in STS from the investment company Mutares at a price of EUR 7.00 per share. However, the transaction is still subject to the approval of the antitrust authorities and Adler Pelzer's financing partners.

Nevertheless, we see these plans as confirming our positive assessment of STS. Although we have not yet factored in the positive effects that may result from the addition of a major shareholder from the industry, we see the fair value of STS at EUR 11.60 per share as significantly above the current price, and also above the price of the transaction, which is likely to be associated with a significant price discount, also due to the still uncertain industry situation.

In view of a price potential of more than 50 percent and a now lower forecast risk, we upgrade the share from "Speculative Buy" to "Buy".

Annex I: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
ASSETS									
I. Total non-current	86.2	81.8	81.6	85.0	82.7	79.8	77.2	75.6	74.7
1. Intangible assets	21.0	19.7	18.7	17.8	17.1	16.4	15.9	15.5	15.1
2. Tangible assets	61.2	58.1	58.9	63.2	61.7	59.4	57.3	56.1	55.6
II. Total current assets	99.5	104.6	111.1	116.1	124.9	134.4	144.7	155.6	167.0
LIABILITIES									
I. Equity	51.1	48.8	49.5	51.9	55.6	61.3	69.0	78.7	90.4
II. Accruals	19.4	19.8	20.3	20.7	21.2	21.6	22.0	22.5	22.9
III. Liabilities									
1. Long-term liabilities	23.1	23.1	24.3	25.9	25.4	23.8	21.6	19.1	16.1
2. Short-term liabilities	92.1	94.7	98.5	102.6	105.4	107.5	109.3	110.9	112.4
TOTAL	**185.7**	**186.4**	**192.6**	**201.1**	**207.6**	**214.2**	**222.0**	**231.2**	**241.7**

P&L estimation

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
Sales	235.0*	259.7	276.9	292.0	317.5	334.4	350.9	367.5	381.5
Total operating revenues	233.3*	259.7	276.9	292.0	317.5	334.4	350.9	367.5	381.5
Gross profit	104.3*	116.9	125.2	132.3	143.8	151.5	159.0	166.5	172.8
EBITDA	14.7*	18.7	21.3	23.4	25.7	27.4	29.1	30.9	32.4
EBIT	-1.4*	3.0	6.5	8.5	10.1	12.3	14.5	16.8	18.6
EBT	-12.9	0.5	3.9	5.9	7.4	9.5	11.9	14.3	16.4
EAT (before minorities)	-15.9	-2.3	0.8	2.3	3.7	5.7	7.7	9.7	11.6
EAT	-15.9	-2.3	0.8	2.3	3.7	5.7	7.7	9.7	11.6
EPS	-2.60	-0.36	0.12	0.36	0.57	0.88	1.19	1.50	1.79

**without the sold Acoustics division*

Annex II: Cash flows estimation and key figures

Cash flows estimation

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
CF operating	-1.6	11.2	13.2	12.8	14.9	18.1	19.8	21.6	23.6
CF from investments	-23.7	-11.3	-14.7	-18.3	-13.3	-12.2	-12.0	-12.5	-12.9
CF financing	28.1	-2.6	-0.4	0.0	-3.6	-5.7	-6.6	-7.1	-7.7
Liquidity beginning of year	17.2	20.0	17.3	15.5	10.0	8.0	8.1	9.3	11.4
Liquidity end of year	20.0	17.3	15.5	10.0	8.0	8.1	9.3	11.4	14.4

Key figures

percent	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
Sales growth	-6.2%*	10.5%	6.6%	5.4%	8.7%	5.3%	4.9%	4.7%	3.8%
Gross margin	44.4%*	45.0%	45.2%	45.3%	45.3%	45.3%	45.3%	45.3%	45.3%
EBITDA margin	6.3%*	7.2%	7.7%	8.0%	8.1%	8.2%	8.3%	8.4%	8.5%
EBIT margin	-0.6%*	1.2%	2.3%	2.9%	3.2%	3.7%	4.1%	4.6%	4.9%
EBT margin	-5.5%	0.2%	1.4%	2.0%	2.3%	2.8%	3.4%	3.9%	4.3%
Net margin (after minorities)	-6.8%	-0.9%	0.3%	0.8%	1.2%	1.7%	2.2%	2.6%	3.0%

**without the sold Acoustics division*

Disclaimer

Editor
sc-consult GmbH
Alter Steinweg 46
48143 Münster
Internet: www.sc-consult.com

Phone: +49 (0) 251-13476-94
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com

Responsible analyst
Dipl.-Kfm. Holger Steffen

Charts
The charts were made with Tai-Pan (www.lp-software.de).

Disclaimer

Legal disclosures (§85 of the German Securities Trading Act (WHPG), MAR, Commission Delegated Regulation (EU) 2016/958 supplementing Regulation (EU) No 596/2014)

The company responsible for the preparation of the financial analysis is sc-consult GmbH based in Münster, currently represented by its managing directors Dr. Adam Jakubowski and Holger Steffen, Dipl.-Kfm. The sc-consult GmbH is subject to supervision and regulation by Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), Lurgiallee 12, D-60439 Frankfurt and Graurheindorfer Strasse 108, D-53117 Bonn.

I) Conflicts of interests

Conflicts of interests, which can arise during the preparation of a financial analysis, are presented in detail below:

1) sc-consult GmbH has prepared this report against payment on behalf of the company

2) sc-consult GmbH has prepared this report against payment on behalf of a third party

3) sc-consult GmbH has submitted this report to the customer or the company before publishing

4) sc-consult GmbH has altered the content of the report before publication due to a suggestion of the customer or the company (with sc-consult GmbH being prepared to carry out such an alteration only in case of reasoned objections concerning the quality of the report)

5) sc-consult GmbH maintains business relationships other than research with the analysed company (e.g., investor-relations services)

6) sc-consult GmbH or persons involved in the preparation of the report hold shares of the company or derivatives directly related

7) At the time of the publication of the report, sc-consult GmbH or persons involved in the preparation of the report are in the possession of a net short position exceeding a threshold 0.5% of the total issued share capital of the issuer, which was calculated in accordance with the article 3 of the regulation (EU) No. 236/2012 and with chapters III and IV of the Commission Delegated Regulation (EU) No. 918/2012 (6).

8) At the time of the publication of the report, sc-consult GmbH or persons involved in the preparation of the report are in the possession of a net long position exceeding a threshold 0.5% of the total issued share capital of the issuer, which was calculated in accordance with the article 3 of the regulation (EU) No. 236/2012 and with chapters III and IV of the Commission Delegated Regulation (EU) No. 918/2012 (6).

9) At the time of the publication of the report, the issuer holds holdings exceeding 5 % of its total issued share capital in the sc-consult GmbH

10) sc-consult GmbH has included the company's shares in a virtual portfolio managed by sc-consult GmbH

Following conflicts of interests occurred in this report: 1), 3), 4), 10)

Within the framework of compliance regulations, sc-consult GmbH has established structures and processes for the identification and disclosure of conflicts of interests. The responsible compliance representative is currently managing director Dipl.-Kfm. Holger Steffen (e-mail: holger.steffen@sc-consult.com).

II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 20.04.2021 at 8:35 and published on 20.04.2021 at 9:30.

For the preparation of its financial analyses, the sc-consult GmbH uses a five-tier rating scheme with regard to price expectation in the next twelve months. Additionally, estimation risk is quantified on a scale from 1 (low) to 6 (high). The ratings are as follows:

Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).
Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the

	rating. The rating "hold" is also used in cases where we perceive a price potential of more than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:
http://www.smc-research.com/impressum/modellerlaeuterungen

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: http://www.smc-research.com/publikationsuebersicht

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Rating	Target price	Conflict of interests
17.03.2021	Speculative Buy	10.60 Euro	1), 3), 4)
23.11.2020	Speculative Buy	7.20 Euro	1), 3), 4)
10.11.2020	Speculative Buy	5.70 Euro	1), 3), 4)
14.08.2020	Hold	4.30 Euro	1), 3), 4)
14.05.2020	Speculative Buy	7.00 Euro	1), 3), 4)
04.05.2020	Speculative Buy	7.00 Euro	1), 3), 4)
12.03.2020	Speculative Buy	7.50 Euro	1), 3), 4)
13.01.2020	Speculative Buy	10.00 Euro	1), 3), 4)
19.11.2019	Speculative Buy	10.00 Euro	1), 3), 4)
10.10.2019	Speculative Buy	10.00 Euro	1), 3), 4)
14.08.2019	Speculative Buy	10.00 Euro	1), 3), 4)
21.05.2019	Speculative Buy	14.10 Euro	1), 3)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: two updates and three comments.

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

Publisher of this report is sc-consult GmbH. The publisher does not represent that the information and data contained herein is accurate, complete and correct and does not take the responsibility for it. This report has been prepared under compliance of the German capital market rules and is therefore exclusively destined for German market participants; foreign capital market rules were not considered and are in no way relevant. Furthermore, this report is only for the reader's independent and autonomous information and does not constitute or form part of an offer or invitation to purchase or sale of the discussed share. Neither this publication nor any part of it form the basis for any contract or commitment whatsoever with respect to an offering or otherwise. Investing in shares, bonds or options always involves a risk. If necessary, seek professional advice.

This report has been prepared using sources believed to be reliable and accurate. However, the publisher does not represent that the information and data contained herein is accurate, complete and correct and does not take the responsibility for it. The opinions and projections contained in this document are entirely the personal opinions of the author at a specific time and are subject to change at any time without prior notice. Neither the author nor publisher accept any responsibility whatsoever for any loss however arising from any use of this report or its contents. By accepting this document, you agree to being bound by the foregoing instructions.

Copyright