# Mutares SE & Co KGaA

**SPONSORED RESEARCH** Industrials

**9 February 2021** **INITIATION OF COVERAGE**

## Buy

**PT: €22.00**

### Key data

| | |
|---|---|
| **Ticker** | **MUX GY** |
| **Price (8 February 2021)** | **€18.40** |
| Upside to Price Target (%) | 19.6 |
| Market Cap (m) | 232 |
| Free Float (%) | 50.0 |
| Daily Value Traded (m) | 0.4 |
| Next Reporting Date | Apr 8 2021 1 |
| No. of Shares (m) | 15.20 |
| 1mth perf (%) | 13.3 |
| 3mth perf (%) | 47.2 |
| 12mth perf (%) | 45.1 |
| 12mth high-low (€) | 18 - 6 |

### Key financials

**(In EUR M)**

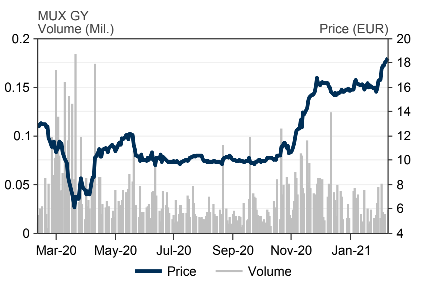
| **Year to Dec** | **2019A** | **2020E** | **2021E** |
|---|---|---|---|
| Group revenue | 1,016 | 1,772 | 2,815 |
| EBITDA (rep.) | 79.1 | 84.6 | (30.2) |
| EBIT (rep.) | 26.1 | (78.16) | (280.77) |
| DPS (c) | 1.00 | 1.50 | 1.50 |
| Net debt/(cash) | 262.9 | 77.5 | (170) |
| ROCE (NOPAT) (%) | 13.3 | 15.9 | 20.0 |
| EPS (adj.) y/y (%) | -- | -- | -- |
| Net debt/EBITDA | 35.1 | (2.1) | 6.76 |
| EV/Sales | 0.5 | 0.2 | 0.0 |
| EV/EBITDA (adj.) | 72.4 | (9.8) | (4.4) |
| EV/EBIT (adj.) | 9.0 | 2.8 | 0.5 |
| P/E (adj.) | -- | -- | -- |
| Dividend yield (%) | 5.4 | 8.2 | 8.2 |
| Free CF yield (%) | (3.8) | 251.4 | 296.2 |
| EV/CE | 1.2 | 0.5 | 0.1 |

*Prices are as of close 8 February 2021*

*Completed: 9 February 2021 12:02EST*
*Disseminated: 9 February 2021 12:02EST*

*All sources unless otherwise stated: Company data, FactSet, Stifel estimates*

### Share price performance (indexed)




# Initiation of coverage: Special situations yield special returns

## Summary


- **We initiate coverage on Mutares with a Buy recommendation and a price target of €22.00, equivalent to a potential TSR of ~28%.**
- **Boasting 11 acquisitions over the past 12 months, Mutares has lived up to its ambition to become a leading private equity firm with a focus on turnaround cases in Europe.**
- **We expect the company to further grow its portfolio rapidly, which, based on our analysis, should lead to a ~30% EBT CAGR at the holding level through FY23E.**
- **Management owns 40% of the company and, in our view, is highly incentivised towards shareholder returns. This is reflected in the commitment to pay a base DPS of ~ €1.00, which we deem feasible. Successful disposals should trigger the payout of extra dividends.**


## Key Points

**Emerging as a leading private equity firm in 'turnaround' space**

Founded in 2008 and based in Munich, Germany, Mutares focuses on the acquisition of companies which exhibit a strategic turnaround phase but are not (yet) distressed assets. The portfolio comprised 19 companies, grouped in three industry clusters, namely 'Automotive' (44% of FY19 revenues), 'Engineering & Technology' (47%) and 'Goods & Services' (9%).

**Sustainable revenues via consulting services and dividend income**

Due to a lack of transparency and high complexity, investment holdings are difficult to value. For Mutares, however, this is different: the company generates, what we believe are sustainable revenue streams via consulting services it offers to its portfolio companies. The number of consultants has grown to ~70 and is budgeted to reach ~100 by the end of FY21E to keep up with underlying portfolio expansion. In addition, Mutares targets a rising dividend income from portfolio companies that are in a 'harvesting stage', i.e. after a few years of successful restructuring. Hence, we believe it is fair to say that Mutares's cash flows resemble those of private equity firms, arguably by investing their own balance sheet, which may be seen as a higher risk profile. At the same time, we contend that the niche of special situations offers superior growth opportunities.

**Rising number of disposals should fuel investor trust**

The success of the business model generally depends heavily on the company's ability to identify attractive targets and execute transactions at reasonable prices, which remain difficult to forecast. Nevertheless, we point to (1) a strong track record under CIO Johannes Laumann and (2) a benign market environment for private equity investments in special situations. We also note that Mutares has expanded its geographical footprint to eight European countries, naturally widening the addressable market. Rather than implementing an evergreen portfolio structure, it intends to step up the number of disposals over the next few quarters, the most relevant of which may be the Donges Group. This should support the share price as investors digest regular updates on the quality of Mutares's portfolio companies.

**Commitment to shareholder returns should result in dividend yield of ~8%**

Management targets to pay out a base dividend of €1.00 per share over the next three years. According to our analysis, this is more than covered by cash flows generated at the holding level. According to management, investors will also participate in successful exits via the payout of extra dividends. We forecast DPS of €1.50 p.a. through FY23E, equivalent to a yield of ~8%.

**Valuation based on private equity peer group and DDM**

Mutares's transformation from an investment holding to a business model resembling a private equity firm provides a more transparent valuation approach, in our view. An equal mix of peer group analysis and dividend discount model yields an equity value of €22.00 per share, which we set as our initial price target.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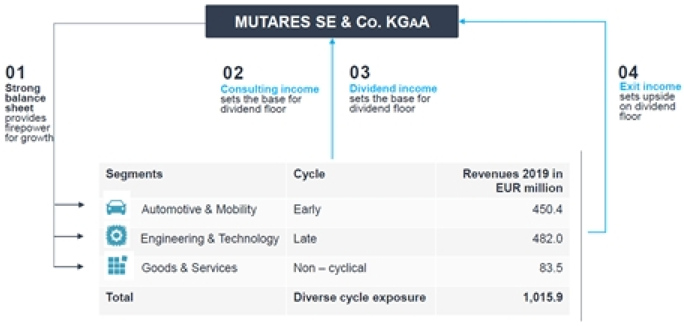
**All relevant disclosures and certifications appear on pages 49 - 52 of this report.**

# KEY FINANCIALS AND RATIOS

| YEAR TO DECEMBER (IN EUR m) | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| **PROFIT & LOSS ACCOUNT** | | | | | | |
| **Group revenue** | **900** | **865** | **1,016** | **1,772** | **2,815** | **2,695** |
| **EBITDA (rep.)** | **67.2** | **49.0** | **79.1** | **84.6** | **(30.2)** | **7.5** |
| **EBIT (rep.)** | **40.1** | **19** | **26.1** | **(78.16)** | **(280.77)** | **(226.96)** |
| Pre-tax results | 35.6 | 14.7 | 16.6 | (96) | (300) | (246) |
| Income tax and other items | (36) | (15) | (17) | 96.3 | 300 | 246 |
| Minorities and other items | 0 | 0 | 0 | 0 | 0 | 0 |
| **EPS, fully diluted (c)** | **2.86** | **0.95** | **1.36** | **(5.71)** | **(17.44)** | **(14.26)** |
| Exceptionals in EBIT | 40.8 | (15) | (34) | (204) | (506) | (474) |
| **Profit and Loss Account (adj)** | | | | | | |
| **EBITDA** | **(28)** | **4.60** | **7.50** | **(37)** | **(25)** | **12.5** |
| **EBIT** | **(1)** | **34.3** | **60.5** | **126** | **225** | **247** |
| **CASH FLOW STATEMENT** | | | | | | |
| EBITDA (rep.) | 67.2 | 49.0 | 79.1 | 84.6 | (30.2) | 7.5 |
| Change in working capital | 38.9 | (24) | 157 | 414 | 408 | (98) |
| Other operating cash flow items | (137) | (36) | (247) | 206 | 453 | (16) |
| **Cash flow before capex** | **(31)** | **(11)** | **(11)** | **705** | **830** | **(107)** |
| Capital expenditure | 0 | 0 | 0 | 0 | 0 | 0 |
| **Free cash flow** | **(31)** | **(11)** | **(11)** | **705** | **830** | **(107)** |
| Acquisitions/Disposals/Financial assets | 21.2 | 2.10 | 18.3 | (131) | (213) | (18) |
| Equity measures, other | (30) | 32.9 | (165) | (388) | (369) | 29.5 |
| Change in net cash | (39) | 23.9 | (157) | 185 | 248 | (96) |
| **Net cash (debt)** | **(130)** | **(106)** | **(263)** | **(78)** | **170** | **75** |
| **BALANCE SHEET** | | | | | | |
| Fixed assets | 228 | 210 | 399 | 696 | 1,131 | 1,149 |
| Current Assets | 444 | 421 | 449 | 1,164 | 1,988 | 1,842 |
| t/o Trade receivables | 1.90 | 147 | 143 | 249 | 239 | 256 |
| t/a Cash and equivalents | 98.9 | 108 | 79.7 | 520 | 1,120 | 983 |
| Group equity | 165 | 208 | 208 | 231 | 144 | (147) |
| t/o Shareholders equity | 165 | 208 | 208 | 231 | 144 | (147) |
| Interest-bearing liabilities | 229 | 214 | 343 | 597 | 949 | 909 |
| Other liabilties and provisions | 279 | 209 | 298 | 1,032 | 2,025 | 2,229 |
| t/o Trade libabilities | 109 | 47.0 | 87.3 | 152 | 242 | 232 |
| **Balance sheet total** | **672** | **631** | **849** | **1,861** | **3,119** | **2,991** |
| Net Working Capital | (107) | 100 | 55.3 | 96.4 | (3) | 24.4 |
| Capital Employed (incl. Goodwill) | 122 | 310 | 455 | 793 | 1,128 | 1,174 |
| **RATIOS** | | | | | | |
| Revenue y/y (%) | 38.4 | (3.8) | 17.4 | 74.4 | 58.9 | (4.3) |
| EBITDA Margin (adj.) (%) | (3) | 0.53 | 0.74 | (2) | (1) | 0.46 |
| EBIT adj margin (%) | (0.1) | 4.0 | 6.0 | 7.1 | 8.0 | 9.2 |
| EPS (adj.) y/y (%) | -- | -- | -- | -- | -- | -- |
| Working capital intensity (%) | (12) | 11.6 | 5.44 | 5.44 | (0) | 0.91 |
| DSOs | 0.77 | 62.0 | 51.2 | 51.2 | 31.0 | 34.7 |
| Inventory turnover (Days) | 0 | 0 | 0 | 0 | 0 | 0 |
| Net debt (cash) / EBITDA (adj.) | (4.7) | 23.0 | 35.1 | (2.1) | 6.76 | (6.0) |
| EBITDA (adj.) / Capex | -- | -- | -- | -- | -- | -- |
| Free CF yield (%) | (10.7) | (3.9) | (3.8) | 251.4 | 296.2 | (38.2) |
| Oper. FCF Yield (%) | (7.4) | (2.9) | (2.0) | 197.0 | 754.3 | (52.0) |

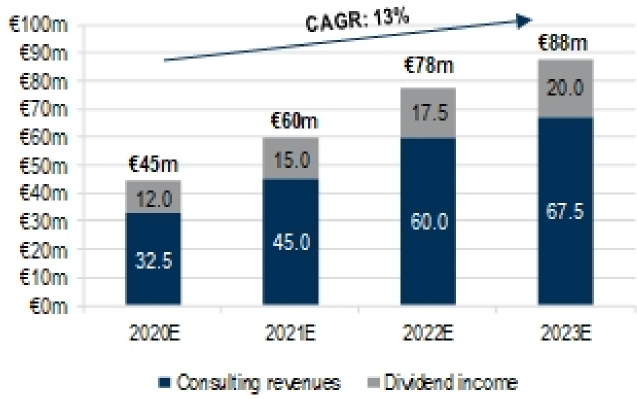
# Case in 6 charts

### Three income streams ...



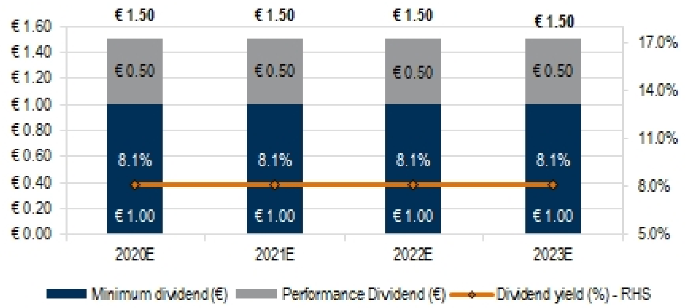

*Source: Company actuals*

### ... should translate into strong holding results




*Source: Stifel Research & estimates*

### Dividend forecasts and dividend yield



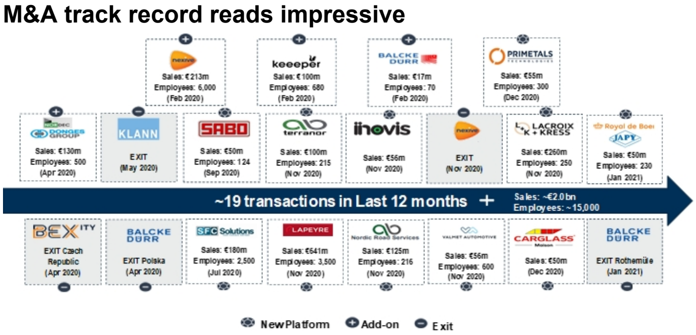

*Source: Stifel Research & estimates*

### High potential for dividend payouts

| In €m, except stated otherwise | 2021E | 2022E | 2023E |
|---|---|---|---|
| Net income from management fees | 15.6 | 19.5 | 21.5 |
| Net income from performance fees | 7.5 | 9.4 | 11.3 |
| **Net income on holding level** | **23.1** | **28.9** | **32.7** |
| Total number of shares | 15.2 | 15.2 | 15.2 |
| Dividend potential per share from management fees (€) | 1.0 | 1.3 | 1.4 |
| Dividend potential per share from performance fees (€) | 0.5 | 0.6 | 0.7 |
| **Total dividend potential per share (€)** | **1.5** | **1.9** | **2.1** |

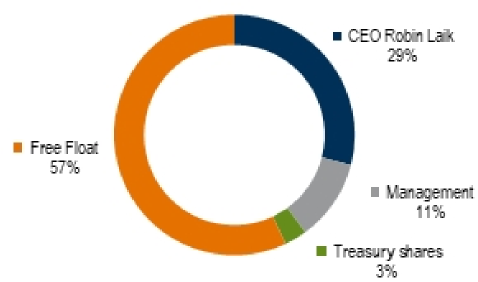
*Source: Stifel Research & estimates*

### M&A track record reads impressive




*Source: Company actuals*

### Management owns 40% stake




*Source: Company actuals*

# Company Snapshot

### Investment case summary

The Mutares equity story is based on the company's transformation from an investment holding to a private equity firm in the niche area of special situations. As a result, earnings streams should become much more transparent and, as such, easier to value for analysts and investors alike. Consequently, we expect a continued rerating of the shares over the next 12 months. Recurring revenues from consulting services to and dividends from its portfolio companies should cover management's ambitions for attractive dividend payouts to shareholders. Mutares also plans to reduce significantly the holding period of portfolio companies. Hence, a higher exit frequency over the next few years should not only strengthen investor trust in the quality of the portfolio companies, but also result in potential performance dividends.

### Target price methodology

Mutares has decided to provide more transparency on the revenue and profit streams at the holding level, which form the basis for our valuation framework. We also take into account that management is highly committed to dividend payments. Our financial forecasts therefore flow into a private equity peer group analysis (FY21E P/E target multiple of 16x) as well as a dividend discount model (DDM). The average of the two implied equity values, result in our price target of €22.00.

### Risk to our valuation and rating

While a larger portfolio is the prerequisite for growth, it will naturally be more complex to manage. This requires more investment professionals, consultants and, as a consequence, higher fixed costs. We could argue that Mutares's holdings are in a restructuring mode for a reason and a longer-than-expected optimisation phase would postpone dividend income. In some cases, the turnaround does not materialise and potentially result in insolvency procedures. This would naturally lead to either a low or even negative selling price, or trigger a costly liquidation process. That said, we note that Mutares has a strong track record since inception and, in addition, has baked in such, probability-weighted, scenarios in its financial guidance.

### Key dates

- FY20 results: 8 April
- Q1 2021 results: 11 May

### Company description

Mutares is an investment holding company, headquartered in Munich, Germany. It was founded in 2008 and went public in the same year. It is currently listed in the SCALE segment of the Frankfurt stock exchange.

### Key products, clients and end markets

Mutares's investments are focused on medium-sized companies located throughout continental Europe. Management claims to have a particular expertise in investing in and managing special situations or turnaround cases, facilitated by its ~70 consultants FTEs. With offices in Munich, Frankfurt am Main, Vienna, Paris, Madrid, Milan, Stockholm, Helsinki, as well as London, and investment activities in Europe, North Africa, North and South America and Asia, Mutares has a global footprint. The current portfolio comprises 19 equity investments. The firm takes a sector-agnostic approach to investment, albeit with a focus on targets which operate in the industrial sector.

### Key shareholders

- Robin Laik (founder and CEO): 29%
- Mutares management: 11%
- Treasury shares: 3%

### Senior management

- Robin Laik: CEO
- Johannes Laumann: CIO
- Mark Friedrich: CFO
- Dr. Kristian Schleede is CRO

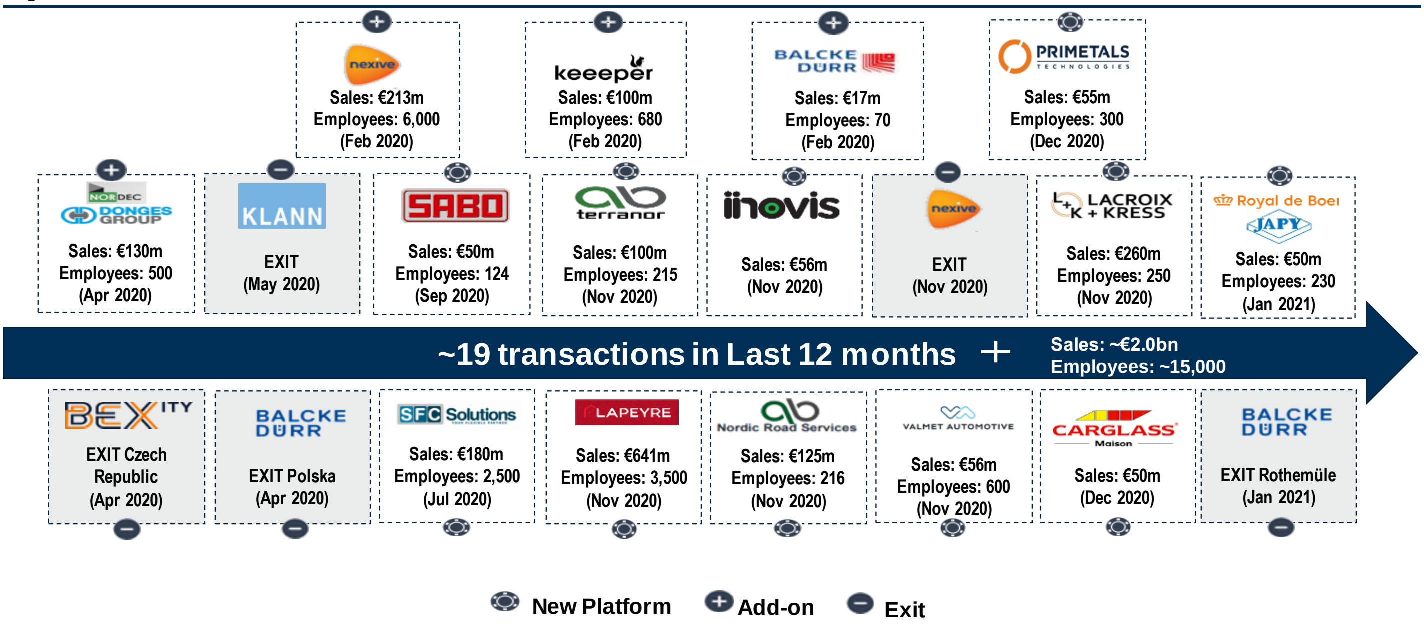
# Executive summary

**Mutares SE & Co. KGaA** (Mutares) is a German investment holding, based in Munich. Its investments are focused on European small and medium-sized companies, which are in a turnaround or even restructuring mode. The firm takes a sector-agnostic approach to investment, albeit with a focus on targets which operate in the industrials, automotives and increasingly the services industry. The Mutares equity story is based on the company's transformation from an investment holding to a private equity firm in the niche area of special situations. As a result, earnings streams should become much more transparent and, as such, easier to value for analysts and investors alike. Consequently, we expect a continued rerating of the shares over the next 12 months. Recurring revenues from consulting services to and dividends from its portfolio companies should cover management's ambitions for attractive dividend payouts to shareholders. Mutares also plans to reduce significantly the holding period of portfolio companies. Hence, a higher exit frequency over the next few years should not only strengthen investors' trust in the quality of the portfolio companies, but also result in potential performance dividends. We conclude that Mutares shares offer value for investors, based on a dividend discount model and a multiple-based analysis across a peer group of private equity company. **We initiate coverage with a Buy recommendation and a price target of €22.00, which implies a total shareholder return of ~28%.**

**Significant step up in Investment activity in 2020 …**

Execution on its financial targets naturally depends on the quality and performance of Mutares's current (and future) portfolio companies. In other words, trust in Mutares's qualities as an investment manager as well as restructuring expert are key to the investment case, in our view. It also requires a larger portfolio size. Not surprisingly, management has significantly stepped up its Investment activity in 2020. On the one hand, the company concluded four exits which were part of the portfolio streamlining process. On the other hand, Mutares acquired 11 companies, of which seven are classified as platform investments.

**Figure 1: Mutares's investment track record in 2020**




*Note: The acquisitions of Carglass, Lapeyre and Primetals have not yet been closed.*
*Source: Mutares*

**… which we expect to stay at elevated levels**

We expect the group's investment activity to remain at elevated levels in 2021 and beyond. While we concede that the timing and magnitude of future transactions remains difficult to predict, we are of the view that Mutares, under the stewardship of CIO Johannes Laumann, has built an impressive track record over the past three years. In addition, we point out that Mutares, similar to other private equity firms, may emerge as beneficiary of the COVID-19 pandemic, especially given its focus on special situations.

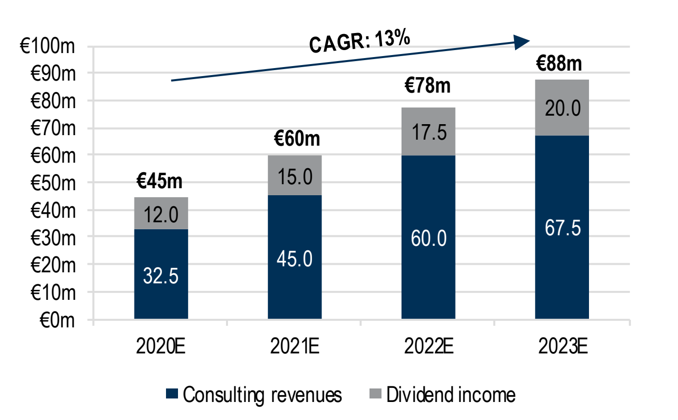
The company's growth ambitions, in our view, are underpinned by its geographical expansion (Mutares now has eight offices across Europe). This is paired with investments in its team of consultants, which has expanded to ~70 FTEs, up from ~40 at the beginning of 2020. We understand that management targets its workforce to reach ~100 and ~170 FTEs by the end of 2021 and 2023, respectively. Future investments will likely be larger and across new geographies, which, we believe, should help in terms of portfolio diversification. We model Mutares adding ~€400-500m in consolidated group revenues p.a. via M&A – net of disposals – over the next three years. This should result in total consolidated group revenues of ~€2.8bn in FY23E, which compares to management's target of ~€3.0bn, a significant increase versus ~€1.0bn reported in FY19, which, in our view, signals a strong investment pipeline. The company follows a diverse investment strategy across all economic cycles, targeting early, late and non-cyclical end markets in order to deliver superior risk adjusted returns over the investment cycle.

**New financial targets signal a high level of confidence in the growth strategy**

The new investment strategy is also reflected in the group's new mid-term financial targets at the **holding level**, the most relevant KPIs for valuing the business, in our view. Management guides for (1) a holding income of ~€100m and (2) a holding EBT of ~€60m by FY23E, consisting of consulting fees, dividend payments from holding companies, and exit gains (measured as a cash, rather than book value). This should translate into a return on invested capital (ROIC), defined as cash-on-cash multiplier, of 7-10x across those three components. This, we believe, signals a high level of confidence in the success of the consultants' turnaround efforts. Mutares also provided a maiden FY20E guidance at the holding level, which calls for total income of €40-50m and an EBT of > €20m. In our view, this looks achievable.

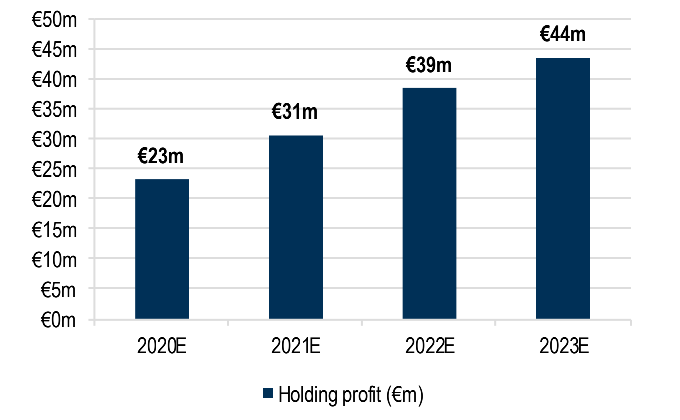
We model a FY19-23E CAGR of ~47% for total income on the group's holding level, consisting of €68m of consulting revenues and €20m of dividend income in FY23E, up from €33m and €12m in FY20E, respectively. EBT should follow, as we expect performance fees, cash gains from successful exits, to increase from an estimated ~€5m in FY19 to ~€15m in FY23E. The reason we stay shy of management's €30m target is simply the lack of visibility on future portfolio transactions.

**Figure 2: Total income on holding level**




*Source: Stifel Research & estimates*

**Figure 3: Profit on holding level***

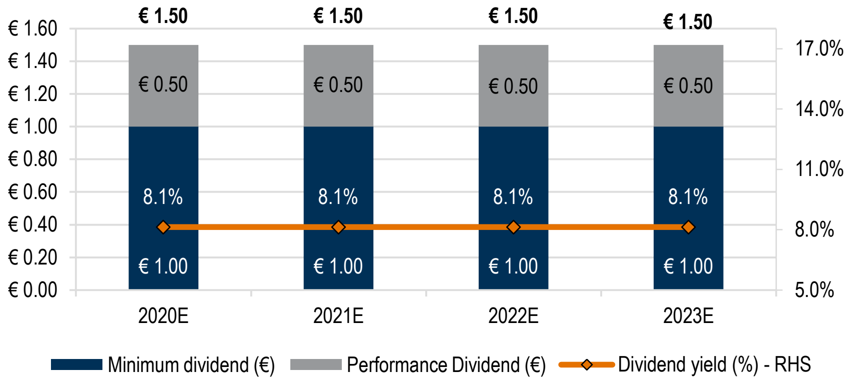



**Defined as a combination of income (e.g. consulting services) and cash income (e.g. dividend income).*
*Source: Stifel Research & estimates*

**Success at the holding level means a dividend yield of ~5-10% is feasible**

While we concede that Mutares is still in portfolio ramp-up mode, we feel comfortable with our forecasts for income from consulting fees, which are largely backed by potential cash injections from the seller. Dividend payments from portfolio companies, on the other hand, depend on the speed and success of the restructuring process, which determines the payout potential. Our model suggests that Mutares should be able to generate sufficient holding profits from, largely recurring, **management fees** to execute on its target to pay out a **base dividend of €1.00** per share to shareholders. This would be equivalent to a yield of ~5.4%, based on a closing price of €18.40 as of 8 February 2021. In this context, we note that Mutares has already distributed a total dividend of ~€45m over the past three years.

**Figure 4: Dividend forecasts and dividend yield***




*Note: Based on closing price of €18.45 on 8 February 2021.*
*Source: Stifel Research & estimates*

From our conversations with management, we understand that average holding period will be shorter in the future, which implies more frequent exits. This should not only boost investors' trust in the value of portfolio constituents but also trigger performance dividend payments. We also note that, owning ~40% of total shares outstanding, management is highly incentivised to drive shareholder return. This likely explains why Mutares seems committed to pay out **performance dividends**, based on successful exits.

First indications of a tighter portfolio management approach are the planned disposal of Nexive Group to Poste Italiane, which the company announced on 16 November 2020 and which, according the CEO Robin Laik, should trigger an extra payout for FY20 (SFe €0.50). Hence, investors may be increasingly willing to discount exit gains as the company continues to build a track record. At its recent Capital Markets Day, Mutares's CIO presented **Donges Group** as a potential exit candidate. As we will show, Donges could be worth an estimated ~€135m. Any potential disposal of a company of that size could prove a significant short-term trigger for the Mutares share price. While the company targets a total cash return of ~€30m by FY23E from successful trade sales, we stay cautious at this stage due to limited visibility, modelling exit-based DPS of €0.50 p.a. for FY21E-23E.

**Valuation is centred on recurring revenue streams at the holding level**

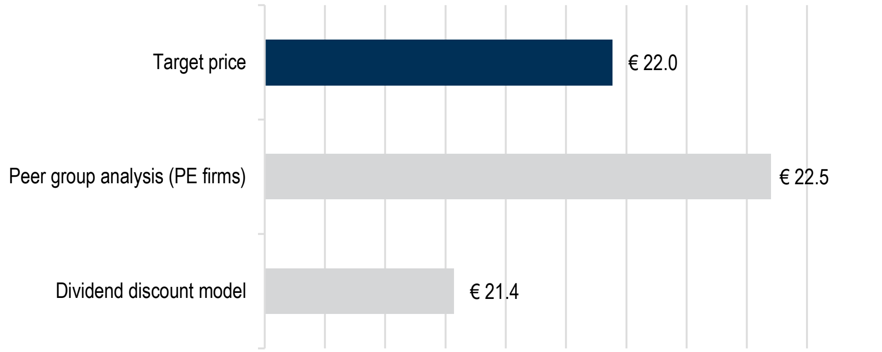
We appreciate the strategic reorientation to transform the business to a private equity firm (as publicly listed investment holdings historically had a difficult standing among investors). This is reflected in the discount that shares of such companies usually trade compared to the last reported net asset value (NAV) of the respective portfolios. Other investment holdings like, for instance, Aurelius, GESCO, Indus or MBB are no suitable peers, in our view, as they act as pure investment holdings without recurring revenue streams from consulting services.

Our valuation framework therefore focuses on Mutares's recurring revenue streams at the holding level. We benchmark Mutares's financial performance at the holding level against other publicly listed private equity companies, such as Deutsche Beteiligungs-AG, Partners Group and EQT in Europe, conceding that those companies only partially invest their own balance sheet but manage external investor money significantly reducing their risk profile, in our view. At the same time, we note that Mutares's focus on special situations will likely translate in a superior growth profile over the next three to five years, which should be increasingly be reflected in the stock's valuation.

Given management's commitment to an attractive dividend payout, including a minimum dividend of €1.00 per share, we back-test the result with a dividend discount model (DDM), assuming a DPS of €1.50, cost of equity of 8.5% and a perpetual growth of 2.0%.

The average of the two valuation approaches results in an equity value of €22.00 per share, which we set as our initiation price target.

**Figure 5: Valuation overview**




*Source: Stifel Research & estimates*

**Equity story also bears a number of risks**

While our valuation framework signals significant upside potential, the growth strategy bears a number of risks. First, the company's more active investment strategy only has a short track record. On past investments, Mutares achieved a ROIC of ~2.2x, which is now targeted to expand to ~7-10x, successfully demonstrated in the recent disposals of Balcke-Dürr, Nexive and BEXity. While a larger portfolio is the prerequisite for growth, it will naturally be more complex to manage. This requires more investment professionals, consultants and, as a consequence, higher fixed costs. We could argue that Mutares's holdings are in a restructuring mode for a reason and a longer-than-expected optimisation phase would postpone dividend income. In some cases, the turnaround does not materialise and potentially result in insolvency procedures. This would naturally lead to either a low or even negative selling price, or trigger a costly liquidation process. That said, we note that Mutares can show a strong track record since inception and has baked in such, probability-weighted, scenarios in its financial guidance.

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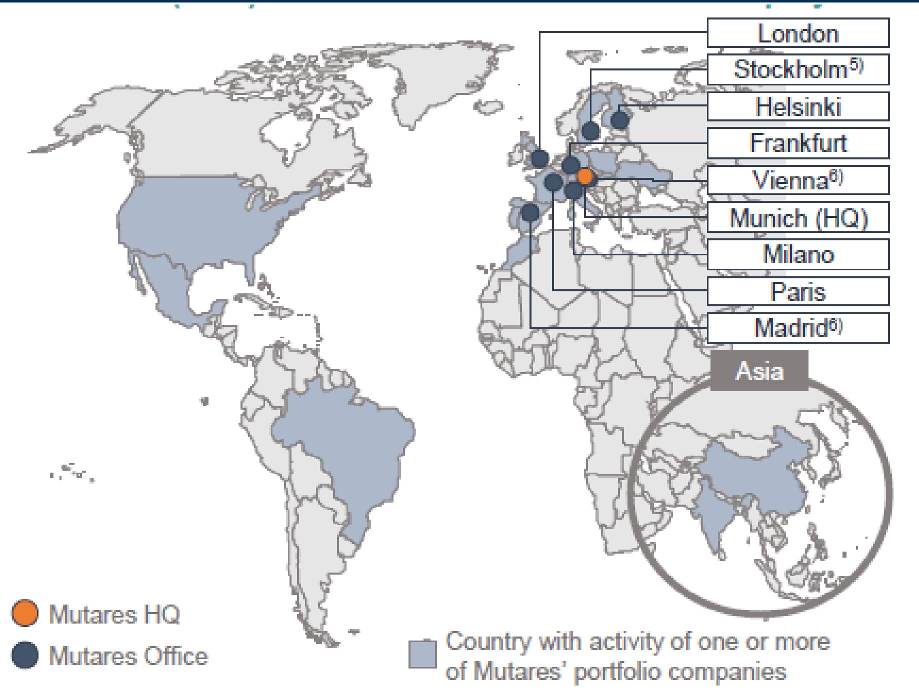
# Contents

# Transformation has just begun

Mutares is an investment holding company, headquartered in Munich, Germany. Founded in 2008, it went public in the same year. It is currently listed in the SCALE segment of the Frankfurt stock exchange. Mutares's investments are focused on small- and medium-sized companies located throughout continental Europe. Management claims to have a particular expertise in investing in and managing turnaround cases, facilitated by its ~70 consultants FTEs. With offices in Munich, Frankfurt am Main, Vienna, Paris, Madrid, Milan, Stockholm, Helsinki, as well as London, and investment activities in Europe, North Africa, North and South America and Asia, Mutares has a global footprint. The current portfolio comprises 19 equity investments.

**Figure 6: Mutares's geographical footprint**




*Source: Mutares*

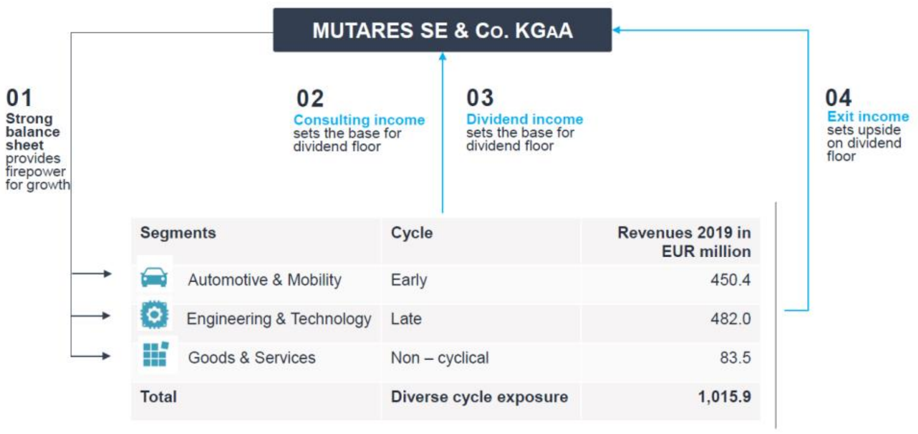
## Moving from an investment holding to a private equity asset manager

Management has stepped up its efforts to drive the transformation of Mutares's growth strategy, not least fuelled by the appointment of Johannes Laumann as Chief Investment Officer (CIO) to the board. Management will put an increased **strategic focus on the investment holding** rather than on the individual portfolio companies. This, in our view, clearly facilitates the evaluation of the group's financial performance for external analysts and investors. That said, the portfolio remains complex and valuation depends on management's ability to execute on successful restructuring measures and subsequent exits. However, revenue visibility and as such operating profit for investors from the holding allows for greater transparency and forecasting for investors.

The economics of the business model will be centred on three pillars. First, **consulting fees**, which Mutares charges its portfolio companies for support in the restructuring and strategic re-alignment process. In addition, the **portfolio companies may pay a dividend** within the holding period, usually starting in the (later part) of the so-called optimisation stage. Last but not least, the company will generate cash when **exiting holdings**. In aggregate, management expects these three income streams to translate into a ROIC of 7-10x across the portfolio.

In our view, the economics are not dissimilar to those of an investment fund or **private equity management business** with a recurring income component in the form of a management fee, in this particular case consisting of consulting fees and dividends – the latter arguably with a higher risk. In addition, Mutares may enjoy exit gains in case of a potential sale of portfolio companies above the purchase price. As management intends to pay out exit gains to shareholders, it resembles a performance dividend. Nevertheless, we acknowledge the fact that Mutares does not manage external investor money but invests from its own balance sheet, which comes with a higher risk profile, in our view. In addition, future dividends from companies in turnaround situations are harder to predict.

**Figure 7: Mutares's business model in one chart**




*Source: Company actuals*

Other key elements of the new investment approach are the following:

- The **average holding period of the investments will be significantly shorter** in the future. This is in contrast to the (often) evergreen structure which management pursued in the past. The plan is to exit a portfolio company after three to five years following the acquisition. We agree with management that an actively managed portfolio comes with better visibility regarding returns. As noted above, regular exits should also strengthen investor trust in management's ability to identify and execute on acquisitions (and subsequent disposals).

- While the company's investment focus on special situations in Europe remains unchanged, we understand the **ticket sizes will likely expand**. In the future, Mutares's targets investments generating revenues of ~€150-200m, up significantly from ~€30-50m in the past, which demonstrates the company's ambitions to grow the business over the next three years. For instance, LapPeyre, one of Mutares's most recent transactions, generates annual revenues of ~€640m.

- Mutares will continue to acquire only **majority stakes** in its portfolio companies, usually 100%.

- Due to its focus on restructuring cases, Mutares usually acquires companies at a **negative purchase price or bargain purchases**. The money is then used to fund the initial restructuring process and lift the company to optimisation and, ultimately, harvesting phase.

- In-line with other private equity firms, Mutares pursues a **classic buy-and-build strategy** for the platform companies in its portfolio. Add-on acquisitions are usually healthy businesses, which are highly complementary to the platform investment. In order to increase its financial flexibility on doing such deals, Mutares issued a €70m bond in 2020 to finance these acquisitions.

## Target of 7-10x ROIC consists of three components

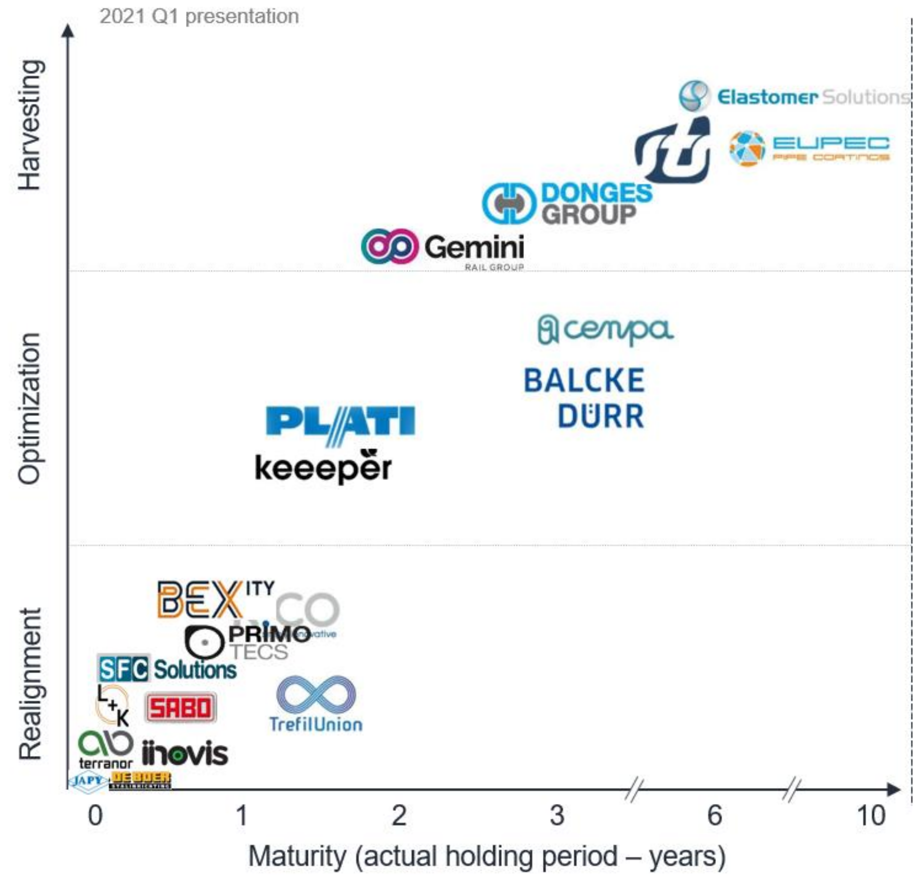
Mutares management splits the lifetime of a holding into four phases: (1) **acquisition**, (2) **realignment**, (3) **optimisation** and (4) **harvesting**, which we describe in detail below. The restructuring starts with the implementation of measures, such as cost cutting. At the same time, investments are made in a strategic re-positioning and / or modernisation of production equipment. This is largely driven by Mutares's consultant workforce. In return for its services, Mutares charges a consulting fee, which is recorded at the holding level. Mutares may decide to strengthen selected portfolio companies with complementary add-on acquisitions, financed with cash on the holding level, which, at this stage, consists of the proceeds from the recent bond issue. In the event that operating performance improves, portfolio companies should be able to generate sufficient cash flow to pay a dividend to Mutares over the course of their three to five years as investment portfolio constituents. The sum of consulting revenues, dividend income and, ultimately, exit gains, should translate into an ROIC of ~8.5x – the mid-point of management's target for the next three years.

**Figure 8: Overview of the business model**


**Average estimate over time, which may vary on individual cases.*
*Source: Mutares*

As of mid-October 2020, the portfolio comprised 19 companies, of which five are grouped in the harvesting phase, i.e. in an operational and financial position to start paying dividends to Mutares or even exit the portfolio if management can find a suitable buyer for the asset or consider an IPO. While not depicted in Figure 9, we note that Mutares reported the sale of Nexive to Poste Italiane in November 2020, with a successful closing on 29 January 2021.

**Figure 9: Three stages of a portfolio company***




*As of February 2021.*
*Source: Mutares*

## Focus on special situations …

Mutares's investment approach includes the acquisition, the restructuring, strategic repositioning and development and, eventually, the sale of medium-sized companies in turnaround situations. While the company historically had a long-term commitment to its portfolio companies, management outlined that the average holding period will be significantly shorter in order to emphasise the group's role as an asset manager rather than an industrial holding company. Mutares has transaction experience from around 55 transactions, which is impressive, in our view. In order to reach its operational and financial targets, management plans to expand its in-house consultancy capacities to ~140 FTEs by 2023, up from ~70 in FY20. Mutares's team has extensive in-house operational industrial and restructuring experience. Investments run through four different stages in their three to five years portfolio lifecycle.

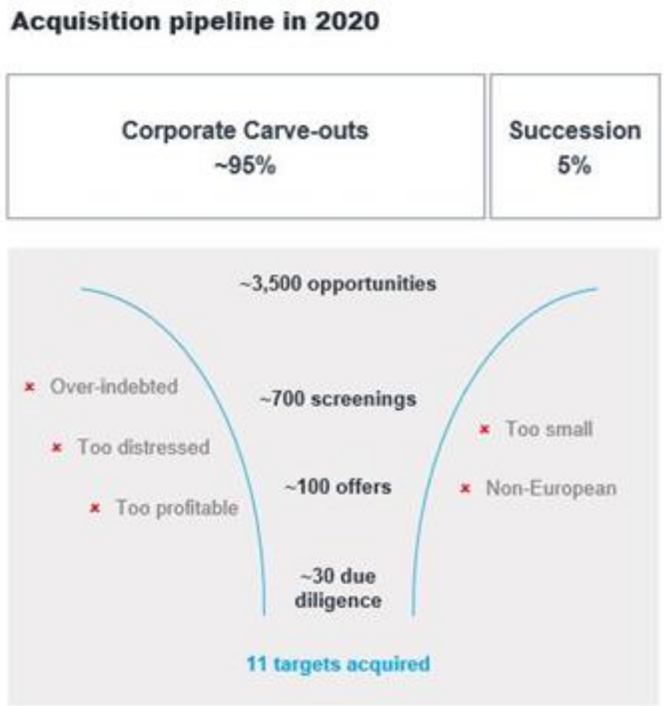
**Acquisition phase:** According to the recent CMD presentation, the company had ~4,500 potential investment opportunities in 2019. It entered into ~600 screenings and made ~150 offers. Ultimately, Mutares's investment professionals entered into 25 due diligence processes, which resulted in ten acquisitions. As we outline below, the main investment criteria are as follows:

- Small and **medium-sized companies**, which are in need for a (strategic) repositioning or are even in **restructuring mode**. On average, the targets generate annual revenues of €50-500m but, as indicated, ticket sizes are expected to grow in the future. Targets usually generate low or negative EBITDA margins.

- While **generally industry agnostic**, the average target runs an industrial business model, many of which being located in the automotive supplier space. Others are grouped in segments, labelled 'Engineering & Technology' and 'Goods & Services', which are arguably quite broad. According to the company, in order to drive diversification of the portfolio, there will be no investments in the automotive sector for the foreseeable future.
- From a **geographic point of view**, Mutares was historically focused on the DACH region but expanded its scope to other central European regions as well as the Nordics, which we understand are a key growth region for the company. Mutares targets its Nordic portfolio to grow to three to six companies over the next two years. At the same time, we note that management successfully executed three (large) transactions in France, namely the acquisitions of LapPeyre, Primetals Technologies and Car Glass Maison.
- Mutares usually has limited financial exposure to investments in so-called platform companies, as it incurs only negligible purchase prices; the target company may even receive cash from the seller to finance the turnaround.

Typical for private equity companies, Mutares enters selected markets with so-called platform investments. Management may then decide to engage in further add-on transactions to strengthen their respective positons. In 2019, for instance, Mutares executed three add-on deals, namely one for Donges Group, one for Balcke-Dürr and one for The Keeeper Group.

**Figure 10: Diligent investment process**




*Source: Company actuals*

**Realignment / Optimisation phase:** Given that Mutares invests in companies, which are in (deep) restructuring mode, the group's management launches a realignment phase shortly after the closing of the acquisition.

Mutares pursues an active investment management policy and sends in its consultants, who support the management of the portfolio companies, both strategically as well as operationally. The range of services includes operational support and assistance with strategic acquisitions, up to the point of the sale of the company. In some cases, Mutares's consultants even move to the management board of their investments. With its long-standing expertise as an investment company, Mutares also supports its platform companies in their buy-and-build strategy for its platform investments.

Mutares had 58 FTE consultants at the end of 1H20, up from ~40 at the end of 2019. Provided management can execute on its investment strategy as planned and communicated to the capital markets, the number is expected to grow to ~70 by year-end and reach up to 140 by the end of 2023, representing an ambitious growth plan, in our view.

**Figure 11: Mutares's consulting team**

8 turnaround workstreams within Mutares Consulting

| Team | # of people | Description | Background |
|---|---|---|---|
| Senior management | 11 | Pool of experienced managers which take over management responsibility as CROs[1)] | Team with mix of relevant industry backgrounds, consulting expertise, seasoned professionals as well as young employees |
| 1 PMO[2)] | 13 | Co-ordinates and oversees turnaround projects | |
| 2 Sales & Marketing | 5 | Optimisation of go-to-market strategies and stabilization of sales | Illustrative backgrounds: |
| 3 Purchasing | 6 | Optimisation of procurement or establishment of purchasing team from scratch (carve-out situation) | McKinsey & Company, BCG, BAIN & COMPANY |
| 4 Supply chain | 6 | Optimisation of supply chain or establishment of supply chain organisation in carve-out situation | KPMG, Roland Berger |
| 5 Production | 9 | Achieving maximum efficiency on the shop floor and in production – strategic support on make or buy decisions, site locations and productivity improvements on the shop floor | EY, Deloitte., Porsche Consulting |
| 6 Finance | 10 | Support portfolio companies with an initial emphasis on optimization of liquidity and costs | pwc, DRAXLMAIER, ZF |
| 7 HR[3)] | 2 | Providing general HR support in carve-out situations and input as well as help with social plans if necessary | SIEMENS, TRW Automotive, Webasto, FEDERAL MOGUL |
| 8 IT | 6 | Support functions to bring new unit up to speed especially in carve-out situations | TRATON, DAIMLER |
| Total | 68 | | |

1) Chief restructuring officer, 2) Project management office, 3) Human resources

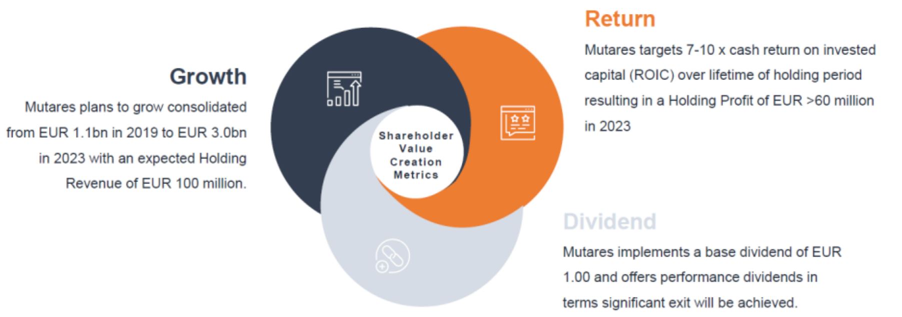
*Source: Mutares*

**Harvesting phase:** Once the realignment and optimisation have been successfully completed, the companies move into the harvesting phase, in which they are actively put up for sale. According to the company, the average holding period of an investment is three to five years.

## … triggers an increasing share of recurring revenues …

Mutares has a strategy of being an active investor with a focus on companies in restructuring mode. This generates different revenue streams, the majority of which are of a recurring nature. First, the financial performance on the holding level depends on the underlying quality of its holding companies. Second, management needs to execute on identifying suitable targets and manage to acquire them at an attractive price. Third, it needs a smooth and fast restructuring process, which is the responsibility of its consultant workforce. In combination, these core competencies have the ability to trigger significant shareholder value creation.

**Figure 12: Mutares's core competencies**




*Source: Company actuals*

Based on the aggregated financial performance of the group, we forecast **total income on the company's holding level** to grow at a FY19-23E CAGR of ~30% to ~€88m.

- Within that position, consulting fees should grow to €68m in FY23E, up from €33m in FY20 We model **consulting revenues** based on the number of consultants on Mutares's payroll, which we expect to expand to ~135 FTEs in FY23E, up from ~40 FTEs in FY19.
- Dividends from portfolio companies are clearly more difficult to predict. Based on our assumption that the number of companies, which are in their early harvesting stage, will likely remain constant, we assume a broadly stable **'regular' dividend income** of ~€5.0m.
- Lastly, we model an increase in **performance dividends**, which Mutares generates via the successful exit of portfolio companies, mainly driven by the increased average size of companies in the portfolio and shorter average holding periods. It is important to note, in our view, that we define this income stream as cash income rather than book gains on the transaction. Hence, these funds are fully available for distribution to shareholders.

**Figure 13: Total income on the Holding level (€m)**

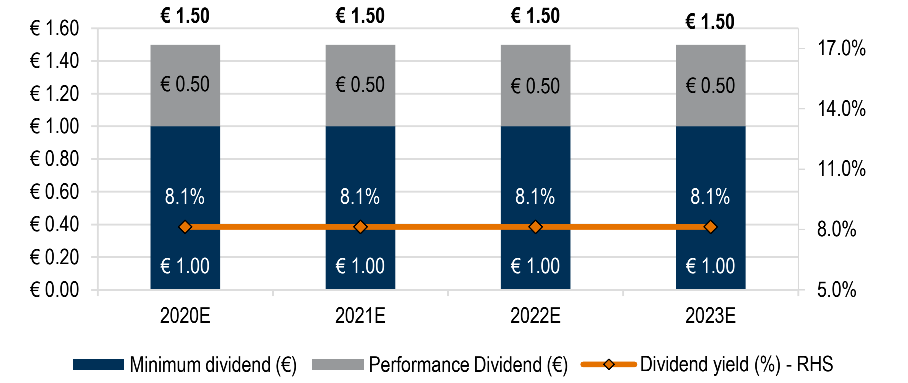
| Recurring revenues | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Consulting revenues | 32.5 | 45.0 | 60.0 | 67.5 |
| % growth, y/y | | 38.5% | 33.3% | 12.5% |
| Total dividend income* | 12.0 | 15.0 | 17.5 | 20.0 |
| % growth, y/y | | 25.0% | 16.7% | 14.3% |
| **Total income, Holding** | **44.5** | **60.0** | **77.5** | **87.5** |
| % growth, y/y | | 34.8% | 29.2% | 12.9% |

**Regular dividend and performance dividend.*
*Source: Stifel Research & estimates*

## … and sets the base for an attractive dividend

Management intends to position Mutares as attractive dividend stock. We note that management holds ~40% of the outstanding shares and, as such, directly benefits from high dividend payouts. Dividends will be closely linked to management fees, which, to our understanding, will be completely paid out to shareholders, with a **dividend floor of €1.00**. In addition, any potential future exit gains will be distributed to the shareholders of the SE & Co. KGaA as a performance dividend. While arguably difficult to model, we factor in ~€0.50 p.a. to reflect management's strong track record and well-filled investment pipeline. This translates into a DPS forecast of ~1.50 over the next three years, equivalent to a yield of ~8%, based on the closing price on 8 February 2021.

**Figure 14: Dividend forecasts and dividend yield***




**Based on closing price of €18.45 on 8 February 2021.*
*Source: Stifel Research*

From our conversations with management, we understand that average holding periods will be shorter in the future, which implies more frequent exits. This should not only boost investor trust in the value of portfolio constituents but also trigger performance dividend payments. We also note that, owning ~40% of total shares outstanding, management is highly incentivised to drive shareholder return, which likely explains, why Mutares seems committed to pay out **performance dividends**, based on successful exits.

First indications of a tighter portfolio management approach are the disposal of Nexive Group to Poste Italiane, which the company announced on 16 November 2020 and which, according the CEO Robin Laik, should trigger an extra payout for FY20 (SFe €0.50). Hence, investors may be increasingly willing to discount exit gains as the company continues to build a track record. At its recent Capital Markets Day, Mutares's CIO presented **Donges Group** as a potential exit candidate. As we will show, Donges could be worth up to ~€220m (EV). Any potential disposal of a company of that size could prove a significant short-term trigger for the Mutares share price, in our view. While the company targets a total cash return of ~€30m by FY23E, we stay cautious at this stage due to limited visibility and model exit-based DPS of €0.50 p.a. for FY20E – FY23E

Our analysis of the overall dividend payout potential that Mutares's investment portfolio may offer, shows, that our current DPS forecasts may even prove conservative.

**Figure 15: Dividend potential analysis (€m*)**

| *Except where stated otherwise | 2021E | 2022E | 2023E |
|---|---|---|---|
| Net income from management fees | 15.6 | 19.5 | 21.5 |
| Net income from performance fees | 7.5 | 9.4 | 11.3 |
| **Net income on holding level** | **23.1** | **28.9** | **32.7** |
| Total number of shares (m) | 15.2 | 15.2 | 15.2 |
| Dividend potential per share from management fees (€) | 1.0 | 1.3 | 1.4 |
| Dividend potential per share from performance fees (€) | 0.5 | 0.6 | 0.7 |
| **Total dividend potential per share (€)** | **1.5** | **1.9** | **2.1** |

*Source: Stifel Research & estimates*

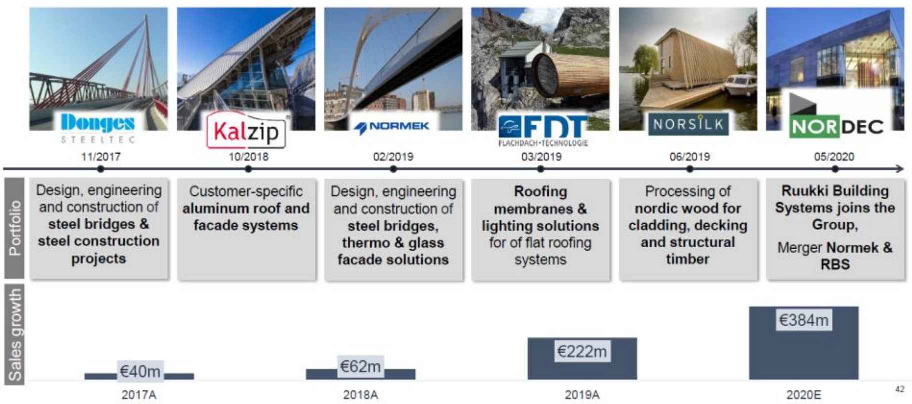
## Donges Group as a blueprint for a successful investment

At its recent CMD, management highlighted the **Donges Group** as a blueprint for Mutares's investment approach. Based in Frankfurt, Germany, the Donges Group is a leading full-service provider for steel bridge and steel construction, as well as roof and facade systems in Europe. It operates through five subsidiaries, namely Donges Steeltec, Kalzip, NORDEC, FDT and Norsilk.

- **Donges SteelTec**, the traditional steel construction company with headquarters in Darmstadt, is one of the leading steel bridge and steel building construction companies in Germany. The company currently employs 180 people and offers all services for steel construction projects. This ranges from project planning, static calculation and design to production and assembly, all from a single source. At its Darmstadt site, Donges SteelTec has a capacity of up to 20,000 tons per year including its own production facilities and technical office.
- **Kalzip,** based in Koblenz, Germany, is a leading international manufacturer of aluminium roof and façade systems. The Kalzip Group employs approximately 170 people worldwide and has locations in the UK, France, Spain, Dubai and India. The company produces on modern roll forming lines, and is therefore able to offer high-quality, customer-specific roof systems for stadiums, sports halls, traffic structures, industrial buildings, commercial buildings and residential areas.
- **NORDEC** combines the strengths of predecessors, Normek and Ruukki Building Systems. Nordec is the leading designer, manufacturer and installer of steel structures in the Nordic countries. Its product portfolio encompasses multi- and single-storey frame solutions, as well as a big variety of frame products and building envelope solutions, to steel bridges.
- **FDT** is an established supplier of flat roofing systems to the European market. The company employs approximately 230 people at its production sites in Mannheim and Hemsbach, at the sales sites in France and Belgium, and at a further 30 locations worldwide.
- **Norsilk** is one of the major French providers of northern wood with the highest quality for professionals: industrial, professional distributors and DIY superstores. With a recognised know-how in Nordic wood processing and a long-standing presence in France, the company develops a complete range of wood products for the garden, cladding, panelling and much more. Norsilk's headquarters and production site are in Boulleville, Normandy. The distribution centre is in Honfleur. Norsilk employs more than 150 people and generates revenues of c.€45m.

The company, in its current form, was created through a number of bolt-on acquisitions, executed by the Mutares team. These followed the acquisition of the mother company in 2017 (Figure 16). Following this strategy, revenues grew from ~€40m in 2017, to an expected €384m in FY20E.

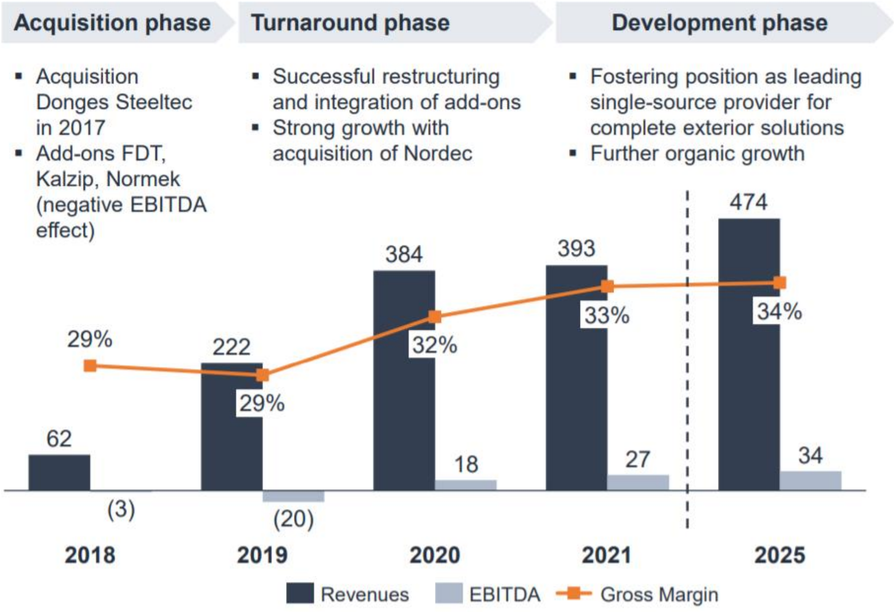
**Figure 16: Development of Donges via buy-and-build**




*Source: Mutares*

The restructuring measures implemented by Mutares also triggered a material improvement of profitability. According to the company, EBITDA margins expanded from a negative 3% to a reported 32% in FY19. Going forwarded, management targets a further improvement to ~34%.

**Figure 17: Financial performance of Donges Group**



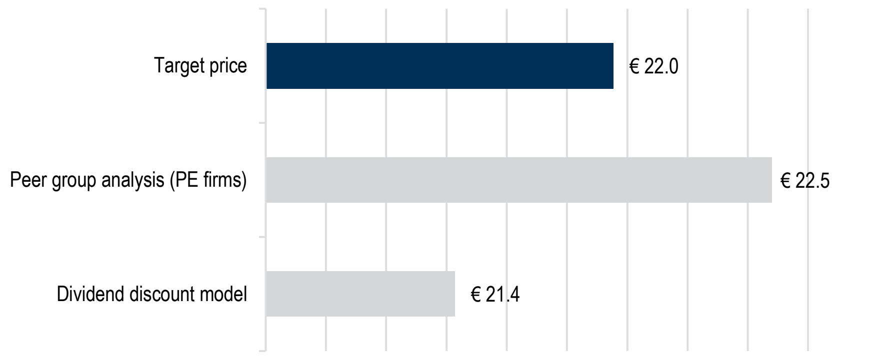

*Source: Mutares*

## We derive an equity value of €22.00 per share

The valuation of investment holdings is typically correlated to the net asset values (NAV) of their portfolio companies. In other words, analysis would normally be performed using a detailed sum-of-the-parts (SOTP) analysis, comparing the outcome with the current equity value. Publicly listed investment holdings tend to trade at material discounts to their NAV. The reasons are easy to understand: holding costs, low transparency in the portfolio companies, and uncertainty around any potential future disposal prices. In response to these shortcomings, the company ceased to provide a NAV breakdown at the beginning of 2020.

Instead, Mutares provided more transparency on the revenue and profit streams at the holding level, which form the basis for our valuation framework. We also take into account that management is highly committed to dividend payments. Our financial forecasts therefore flow into a private equity peer group analysis as well as a dividend discount model (DDM). The average of the two implied equity values, result in our price target of €22.00, which provides 20% upside potential or total shareholder return of ~28%

**Figure 18: Valuation overview**




**Rounded to nearest integer.*
*Source: Stifel Research*

We also identified the potential sale of the **Donges Group** as a potential share price trigger in the short to medium term. Based on the financial targets that management provided at its CMD presentation, we derive an enterprise value range of ~€54m-216m for the portfolio company, based on a 2x-8x 1-year forward EV/EBITDA multiple.

This would likely flow through to the distribution of a special dividend in the region of ~€1.00 per share. This is on top of the minimum DPS of €1.00.

**Figure 19: Donges valuation**

| Sensitivity analysis – FY21 EBITDA vs. 1yr forward multiples | | | | | | | |
|---|---|---|---|---|---|---|---|
| Donges - FY21 EBITDA (€m) | 27 | 27 | 27 | 27 | 27 | 27 | 27 |
| 1yr forward EV/EBITDA multiples | 2x | 3x | 4x | 5x | 6x | 7x | 8x |
| **Implied enterprise value (€m)** | **54** | **81** | **108** | **135** | **162** | **189** | **216** |

**Rounded to nearest integer.*
*Source: Stifel Research*

## Peer group valuation – benchmarked against private equity

We believe that investors traditionally used to value Mutares on a sum-of-the-parts analysis, using publicly peers that include Indus Holding, MBB and Aurelius. This is misleading, in our view, as it does not account for the significant differences in the investment strategies. Most importantly, such a peer group does not take into account for the fact that Mutares (1) generates consulting income, (2) starts to encourage its holding companies to pay dividends and (3) has a relatively short holding period, resulting in more frequent exists and, potentially, exit gains. As the company is focused on restructuring cases, the capital requirements for M&A are comparably low.

Rather than benchmarking Mutares against other investment holdings, we see it as more appropriate to compare to a peer group of private equity firms, venture capital fund operators and hybrid business models, such as Deutsche Beteiligungs-AG., EQT and Partners Group. Importantly, we apply our peer group-derived target multiples to our forecasts for Mutares's holding income and profits. We focus on P/E multiples, which are most widely used in the industry.

The approach translates into an implied equity value of €22.50 (Figure 20). Any potential exit gains above our current estimates (e.g. Donges Group) provide upside, in our view.

**Figure 20: Peer group valuation**

| Mutares SE & Co. KGaA: Peer group multiple valuation – Private Equity firms | FY21E | FY22E | Comment |
|---|---|---|---|
| Holding revenues | 60.0 | 77.5 | Total income on holding level |
| Holding EBT | 30.8 | 38.5 | Moderate assumptions on exit gains |
| Holding net income | 23.1 | 32.7 | 25% tax rate |
| **Target multiple - EV sales** | **8.7** | **6.8** | |
| **Target multiple - EV/EBITDA** | **12.9** | **10.3** | |
| **Target multiple - P/E** | **16.5** | **10.3** | |
| Net debt / (cash), end FY20e | 20.0 | 20.0 | Net debt on the Mutares's SE holding level, according to CFO |
| Equity value - EV/sales* | 447.3 | 452.6 | |
| Equity value - EV/EBITDA | 378.0 | 376.1 | |
| Equity value - P/E | 380.5 | 336.6 | |
| **Discount to core peer group median** | **10%** | **10%** | **Mutares does not run third-party money but invests its own balance sheet; the focus on special situations bears more risks but also offers higher growth opportunities; income streams on the holding level are non-IFRS figures and, hence, less transparent** |
| Shares outstanding | 15.2 | 15.2 | |
| **Equity value per share - EV/sales** | **264** | **27** | **Post discount** |
| **Equity value per share - EV/EBITDA** | **22.3** | **22** | **Post discount** |
| **Equity value per share - P/E** | **22.5** | **20** | **Post discount, based total net income on the holding level** |

**Applied to total income on the holding level.*
*Source: Stifel Research*

Figure 21 displays our peer group in detail.

**Figure 21: Peer group – private equity business models**

| Private equity firms | Ticker | Price | Mkt Cap | P/E | | | EV/Sales | | | EV/EBITDA | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (LC) | (LC m) | 2020 | 2021E | 2022E | 2020 | 2021E | 2022E | 2020 | 2021E | 2022E |
| 3i Group | III LN | £11.6 | 11,289 | - | 6.6x | 6.6x | - | 8.7x | 6.8x | - | 7.1x | 7.0x |
| Altamir | LTA FP | €23.1 | 843 | 48.1x | 44.4x | 41.3x | - | - | - | - | - | - |
| Apollo | APO US | $50.9 | 22,052 | 28.1x | 18.9x | 15.6x | 13.9x | 10.9x | 9.5x | 26.1x | 18.1x | 15.9x |
| Deutsche Beteiligungs AG | DBAN GR | €38.6 | 580 | - | 13.4x | 9.5x | - | 7.2x | 5.7x | - | 12.9x | 10.3x |
| Draper Esprit | GROW LN | £7.7 | 1,071 | - | 9.1x | 7.5x | 53.8x | 8.5x | 6.6x | - | 9.6x | 7.3x |
| EQT | EQT SS | €26.6 | 25,555 | - | 44.4x | 38.3x | 37.0x | 21.8x | 19.3x | - | 36.9x | 32.3x |
| Eurazeo | RF FP | €61.7 | 4,871 | 31.0x | 12.2x | 8.6x | 2.3x | 2.2x | 2.1x | 13.3x | 8.9x | 8.6x |
| Partners Group | PGHN SW | CHF1110.0 | 29,637 | 42.2x | 31.8x | 27.8x | 22.2x | 17.8x | 15.6x | 33.7x | 27.5x | 24.1x |
| **Mean** | | | | **37.4x** | **22.6x** | **19.4x** | **25.9x** | **11.0x** | **9.4x** | **24.4x** | **17.3x** | **15.1x** |
| **Median** | | | | **36.6x** | **16.5x** | **12.5x** | **22.2x** | **8.7x** | **6.8x** | **26.1x** | **12.9x** | **10.3x** |
| **Mutares AG** | **MUX GY** | **€18.4** | **285** | **3.5x** | **0.7x** | **76.7x** | **0.3x** | **0.2x** | **0.2x** | **3.9x** | **1.8x** | **6.6x** |

*LC = local currency.*
*Source: Bloomberg*

## Dividend Discount Model (DDM) supports our peer group analysis

Management is committed to pay out a significant proportion of its holding profits as dividends. Hence, we find it appropriate to run a classic dividend discount model to determine the company's equity value.

Based on our dividend forecasts, which we explain in the report, we derive an equity value of €21.40. We apply a cost of equity of 8.5%. We note that the beta is high to reflect the material risks involved in running a portfolio of distressed assets, even though management has a solid track record.

**Figure 22: Dividend discount model**

Dividend discount model with sensitivity analysis

| | | | | | Base Case | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Dividend per share (€) | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.60 | 1.70 | 1.80 | 1.90 |
| Growth rate in perpetuity (%) | 0.5% | 0.8% | 1.0% | 1.3% | 1.5% | 1.8% | 2.0% | 2.3% | 2.5% |
| Implied value per share (€) | **13.8** | **15.5** | **17.3** | **19.3** | **21.4** | **23.7** | **26.2** | **28.8** | **31.7** |

Sensitivity of Ke and terminal growth rate at base case

| Cost of equity (Ke) | Terminal growth rate 0.8% | 1.0% | 1.3% | 1.5% | 1.8% | 2.0% | 2.3% |
|---|---|---|---|---|---|---|---|
| 7.0% | 24.0 | 25.0 | 26.1 | 27.3 | 28.6 | 30.0 | 31.6 |
| 7.5% | 22.2 | 23.1 | 24.0 | 25.0 | 26.1 | 27.3 | 28.6 |
| 8.0% | 20.7 | 21.4 | 22.2 | 23.1 | 24.0 | 25.0 | 26.1 |
| 8.5% | 19.4 | 20.0 | 20.7 | **21.4** | 22.2 | 23.1 | 24.0 |
| 9.0% | 18.2 | 18.8 | 19.4 | 20.0 | 20.7 | 21.4 | 22.2 |
| 9.5% | 17.1 | 17.6 | 18.2 | 18.8 | 19.4 | 20.0 | 20.7 |
| 10.0% | 16.2 | 16.7 | 17.1 | 17.6 | 18.2 | 18.8 | 19.4 |

*Source: Stifel Research*

## Be mindful of the risks of investing in restructuring cases

Despite shifting investor focus towards the (recurring) revenue streams at the holding level, the success of the business model ultimately depends on the performance of the portfolio companies. The starting point for such a development is the management's ability to identify a sufficient number of targets. These must meet the company's investment criteria and the deal must ultimately be closed at attractive terms and conditions. Despite an arguably solid track record, projection of investment success into the future is difficult, in particular around timing of the transaction. This makes forecasting the portfolio performance and subsequently the financial performance of the holding company, in our view, prone to error.

The focus on assets in distressed situations may require the injection of additional cash into some of the portfolio companies. This could be in form of further restructuring measures or, in a worse-case scenario, management of the insolvency procedure.

On the other end of the portfolio lifecycle, the timing and valuation of future exits are difficult to project. However, from the modelling perspective, we do not see this risk as pronounced as we neither include book gains nor cash inflows from disposals. Neither do we include subsequent performance dividend payouts in our valuation framework. We rather see this as providing upside optionality to investors.

In order to meet its dividend targets, Mutares needs to grow its investment portfolio. Hence, there may be an inherent incentive for adverse selection, which may lead to an inflated portfolio with inferior operating performance. In case exits may not materialise, investors may become concerned about the underlying quality of the portfolio assets and Mutares's ability to maintain its dividend payout strategy.

Furthermore, it may prove difficult to recruit a sufficient number of consultants, who are specialised in the implementation of turnaround strategies. Fierce competition in a highly fragmented market, paired with ambitious growth plans (i.e. the expansion of the workforce to up to 140 FTEs by 2023) may force Mutares to pay significantly higher salaries to its consultants.

Mutares invests in companies with cyclical but also non-cyclical business models. For instance, in FY19, 44% of group revenues were derived from the 'Automotive' segment, with another 47% from 'Engineering & Technologies'. That said, Mutares management will likely step up efforts to drive diversification of its portfolio, namely by a focus on acquiring companies in the 'Goods & Services' segment.

Unsuccessful management and turnaround of companies in a distressed situation could also trigger reputational risks should Mutares be forced to file for insolvency at one of its portfolio holdings.

Last but not least, Mutares has entered into a put option agreement with STS Group (one of its portfolio companies) to acquire a STS business segment at a purchase price in the low double-digit million euro range. Any potential exercise of this option would lead to pressure on liquidity at the holding level.

# ESG Assessment Framework – Environmental

| Standards | Description/Definition | Assessment | Rating | | | | Reference |
|---|---|---|---|---|---|---|---|
| | | | - | | | N/A | |
| **Air** | | | - | | | | |
| | **Has company acknowledged a role in improving the climate?** | Yes. Mutares has acknowledged its role in improving climate. However, given that the Mutares is a holding company, it does not have a direct impact on the environment. | | | | | |
| | If so does it have a stated area of focus (CO2/GHG)? | In climate protection, Mutares follows a holistic approach by adopting Green technologies, incorporating resource-saving production methods, and using renewable sources for energy. The company also ensure that its portfolio companies also comply with the environmental standards while doing their business.<br>Mutares is also committed towards reducing its carbon footprint by compensating the carbon emissions by supporting projects for renewable energies, alternative power generation and forest reforestation. | | | | | |
| | A timeline/goals established. What is our overall assessment? | Although Mutares acknowledges its roles in preventing environmental damage, it does not specifically disclose any timeline/goals around its efforts towards climate protection. | | | | | |
| **Water** | | | | | | | |
| | **Is the company:** | | | | | | |
| | A user of water in a process | NO | | | | N/A | |
| | If a user, does it have stated goals to reduce, improve the use and/or the discharge of water? | | | | | N/A | |
| | A timeline/goals established. What is our overall assessment? | | | | | N/A | |
| | Or a provider of service/equipment that impacts the quality of the water used and or discharged from a process. | | | | | N/A | |
| | If a provider of service/equipment, does it have stated goals to improve the performance, utility and outcome of customer/society use, discharge and reuse of water? | | | | | N/A | |
| | A timeline/goals established. What is our overall assessment? | | | | | N/A | |
| **Land** | | | | | | | |
| | **Does the company's business model depend on:** | | | | | N/A | |
| | A use of land | NO | | | | N/A | |

| Standards | Description/Definition | Assessment | Rating | | | | Reference |
|---|---|---|---|---|---|---|---|
| | | | - | | | N/A | |
| | If a user, does it have stated goals to reduce, improve the use of the land once activity is completed? | | | | | N/A | |
| | A timeline/goals established. What is our overall assessment? | | | | | N/A | |
| | Or a provider of service/equipment that impacts the quality of the land used during a process/activity. | | | | | N/A | |
| | If a provider of service/equipment, does it have stated goals to improve the performance, utility and outcome of customer/society use and reuse of land? | | | | | N/A | |
| | A timeline/goals established. What is our overall assessment? | | | | | N/A | |
| **Environmental Summary** | | | | | | | |
| | Strengths/Opportunities/Weaknesses/Risks | Being an investment holding company, Mutares has limited impact of its operations on the climate. Nonetheless, the company is committed towards reducing its carbon footprint and energy consumption. The company also pays attention to compliance and implementation of ecological standards in its standards. As of 2019, ~36% of its portfolio companies are ISO 14001:2015 certified, the highest standard for preventing environmental damage. | | | | | |

| | |
|---|---|
| - | Clearly stated and published goals/plans to improve standard; once in place, making positive progress on these goals over the last 12 months. We view company performance in this area as potentially positive for investment returns and/or risk. |
| | Company has goals/plans to improve standard but not stated publicly or in published materials; and/or may not be showing evidence of progress against goals over last 12 months. We view company performance in this area as potentially neutral for investment returns and/or risk. |
| | No disclosure and/or no plan to improve standard. We view company performance in this area as potentially negative for investment returns and/or risk. |
| N/A | Not applicable to this company |

# ESG Assessment Framework – Social

| Standards | Description/Definition | Assessment | Rating | | | | Reference |
|---|---|---|---|---|---|---|---|
| | | | - | | | N/A | |
| **Promote diversity & upward mobility within the workforce** | | | - | | | | |
| Policies, procedures and programs which promote diversity and upward mobility within the workforce | Provide an overview of the company's attention to diversity and achievements in instilling diversity within the workforce. Any commentary on the organisational wide promotion of diversity, training, educational, apprentice programs and a focus on upward mobility. | Mutares is committed towards creating a socially fair environment for its employees. The company pays a close attention to regulated working hours, adequate wages, fair conditions at workplace and diversity as well as training and other educational opportunities. | | | | | |
| **Employee Health and Safety** | | | | | | | |
| *Policy, Procedures, Training and reportable incidents* | Provide any details of the group's focus on Health and Safety standards. This could encompass other programs such as counselling and mentoring programs. Please provide any details on training and support of such policies. In addition, any targets, improvements to policy, frequency or review would be beneficial to include. Please note any reportable incidents. | Mutares ensures health and safety of its employees as well as other stakeholders by introducing 'zero accident' safety policy. The company further ensures the compliance with the occupational health and safety protection measures. These efforts are evident from the fact that Kalzip GmbH, a portfolio company, set an internal company record of more than 1,000 accident-free days. | | | | | |
| **Customer privacy, Data security** | | | | | | | |
| *Policy, Procedures, Training and reportable incidents* | Provide any commentary on the group policy and procedures covering data protection, customer privacy and other matters on cyber security. Please include any relevant data on local regulations, or regulations/legislation in operating countries to underscore (non)/compliance or more stringent standards. Also any commentary on new systems, testing, and outsourcing to provide context to commentary should aim to be included. Include any relevant reportable incidents. | The company's code of conduct sets individual guidelines on data protection and customer privacy. The company offers protection of informants through an anonymous e-mail service that is available to all employees. | | | | | |
| **Product Quality & Safety** | | | | | | | |
| *Ethical sourcing and Modern slavery practices policy and training* | Provide any commentary on the group's commitment, policy and training in relation to ethical sourcing either for corporate purposes or in the manufacturing/production of its products or | | | | | N/A | |

| Standards | Description/Definition | Assessment | Rating | | | | Reference |
|---|---|---|---|---|---|---|---|
| | | | - | | | N/A | |
| | services and modern slavery. Note any relevant legislation/regulation compliance, non-compliance or incidents. In addition, any commentary on anonymous reporting and whistleblowing should be included to provide context if relevant. | | | | | | |
| **Selling, advertising and product labelling practices** | | | | | | | |
| *Policy, procedure and to ensure high standards for Selling, Advertising and product labelling practices* | Provide any commentary on the group's commitment, policy and training in relation to its selling, advertising and/or product labelling practices. Note any regulatory compliance, non-compliance or incidents. (SFO investigates, Office for fair practice reviews, breach of sanction, money laundering, etc.). In addition, any commentary on anonymous reporting and whistleblowing should be included to provide context. | | | | | N/A | |
| **Social Summary** | | | | | | | |
| | Strengths/Opportunities/Weaknesses/Risks | Mutares strives for maintaining the fair and socially inclusive work culture. In addition, the company undertakes various social initiatives outside its business operations for social cause. However, the company has limited disclosures around its activities in social dimension. | | (yellow) | | | |

| | |
|---|---|
| - (green) | Clearly stated and published goals/plans to improve standard; once in place, making positive progress on these goals over the last 12 months. We view company performance in this area as potentially positive for investment returns and/or risk. |
| (yellow) | Company has goals/plans to improve standard but not stated publicly or in published materials; and/or may not be showing evidence of progress against goals over last 12 months. We view company performance in this area as potentially neutral for investment returns and/or risk. |
| (red) | No disclosure and/or no plan to improve standard. We view company performance in this area as potentially negative for investment returns and/or risk. |
| N/A | Not applicable to this company |

# ESG Assessment Framework – Governance

| Standards | Description/Definition | Assessment | Rating | | | | Reference |
|---|---|---|---|---|---|---|---|
| | | | - | | | N/A | |
| **Ethics & Transparency** | | | - | | | | |
| *Financial Reporting* | Offer a view of the company's financial reporting practices, especially vs. other companies in the sector. This could include Non-GAAP vs. GAAP reporting (where applicable), management's priority metrics, and transparency of the company's financials. While ALL public companies have to file Qs/Ks with the SEC, there are many items management teams either "promote" or "hide" during earnings releases and earnings calls. Our job is to expose that nuance. | The shares of Mutares are traded on the open market (subsegment: Scale). Therefore, Murates is not required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, to meet its growing international presence and the information needs of German and international investors, the company voluntarily prepares its consolidated financial statements in accordance with IFRS as adopted by the European Union in addition to the requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB). | | | | | |
| *Culture* | Offer an objective opinion of a company's ethical culture. Does the management team and board promote a culture of integrity, truthfulness and sincerity? Does the company promote a culture of fairness and impartiality regarding employee advancement and promotion? | Mutares's workplace culture supports people's well-being, work-life balance, and organisational health. The management is committed towards creating a socially fair environment for its employees. The company pays a close attention to regulated working hours, adequate wages, fair conditions at workplace and diversity as well as training and other educational opportunities. | | | | | |
| *Diversity* | Provide an assessment of the company's approach to measuring and reporting on diversity (gender, race, geographic, and economic) among their suppliers, employees and leadership. What does the company measure? Does it affirmatively set diversity goals? Does it report diversity numbers publicly and regularly? | Mutares is committed towards ensuring an open and equal-opportunity environment for its employees irrespective of any discrimination based on gender, race or geographic, economic and political orientation. However, no specific details are provided by the company on management's policies ensuring diversity. | | | | | |
| **Shareholder Protection** | | | | | | | |
| *Ownership Structure* | Provide details about the company's ownership balance, including any potential asymmetric dynamics. Do any shareholders (including officers or founders of the company) hold outsized influence over decisions? Are rights associated with various share classes consistent with standard shareholder protections? | The company has ~15.5m share outstanding with a free float of ~58%. The ownership structure is dominated by management. CEO Robin Laik alone holds ~29% of the total shares outstanding, followed by the other management team which owns ~11% shares. In addition, the company has ~2% shares in the treasury. | | | | | |
| *Capital Discipline* | Describe management's approach to capital allocation. Describe any extraordinary or unusual expenses. Do capital investment decisions reflect a balanced approach to maximizing shareholder returns? Does the company effectively and regularly communicate its capital management decisions and rationale? | Mutares is a German investment holding company and primarily invests in medium-sized companies, especially the companies which are in turnaround or restructuring mode. Although the investment holdings are sector agnostic, the portfolio is mainly dominated by the investments in industrial and automotive sector. In addition, the company also offers an attractive dividend yield, with a floor of minimum dividend of €1.00 per share. The company also targets an impressive ROIC potential of ~7-8x on its investments as compared to ~2.2x realised on past few investments | | | | | |
| *Risk Management* | Assess the company's risk exposure by considering its ability to anticipate and respond to disruptions of any kind, | Being an investment holding company, Mutares is subject to inherent risk of slower optimisation of its private equity assets. This, in turn, may lead to higher | | | | | |

| Standards | Description/Definition | Assessment | Rating | | | | Reference |
|---|---|---|---|---|---|---|---|
| | | | - | | | N/A | |
| | with an emphasis on distributed and diverse operations as a potential mitigating factor. For example: is the company materially dependent on one region, supplier or customer? What level of conservativism does management exhibit in evaluating potential risk and how well does the company communicate these calculations and decisions? | fixed costs. In some cases, the turnaround does not materialise and potentially result in insolvency procedures. This would naturally lead to either a low or even negative selling price, or trigger a costly liquidation process. | | | | | |
| **Board Oversight** | | | | | | | |
| *Independence* | Assess and describe the nature of board members' relationship (including emotional, financial, professional, or personal) to management. Are there any circumstances or affiliations that would impact objectivity or create a situation in which insiders or executives could exercise control or influence over board decisions? | The Supervisory Board of Mutares currently comprises four members. Mr. Volker Rofalski is the Chairman of the Supervisory Board of Mutares. Other three members are: Dr. Lothar Koniarski, Dr. Axel Müller and Prof. Dr. Micha Bloching.<br>Separately, the Supervisory Board of Mutares Management SE, a general partner of Mutares, comprises the same four members; however, the Board is chaired by Prof. Dr. Micha Bloching. | | | | | https://mutares.de/en/team/ |
| *Business Relevance* | Assess and describe the degree to which board members possess skills experience, relationships, or expertise relevant to the current needs of the business and/or potential areas of expansion. This may include legal expertise, accounting, marketing, industry-specific knowledge or analogous experience in other industries. | The Supervisory Board of Mutares is made up of individuals who actively support the development of the company with their wide-ranging expertise and practical experience. Mr. Volker Rofalski brings in his profound expertise in private equity and capital markets. | | | | | |
| *Track Record* | Describe the reputation and track record of board members in other contexts, including their own professional resume, experience on other boards, or contributions to significant decisions or actions by the company in question. Additionally, describe the board's record of decision-making on executive hiring or replacements; are there any notable misjudgments or examples of failure to act or address known executive management team issues? | The members of the Supervisory Board of Mutares have highly credible backgrounds and come with varied experiences in the areas of private equity, capital markets, M&A, industrial operations, marketing and M&A among others.<br>Mr. Volker Rofalski, Chairman of the Supervisory Board of Mutares, is active in private equity and capital market sector. He has been a member of Supervisory Board since 2008 and elected Chairman of the Supervisory Board in 2018. Other board members also bring the valuable and relevant expertise to the table. | | | | | |
| **Management Accountability** | | | | | | | |
| *Track Record* | Does the management team articulate a clear vision that balances company and shareholder interests? Has the team effectively established and executed a strategy to realize that vision? Are there accountability mechanisms in place if the management team falls short of its goals? | The Executive Board of Mutares Management SE comprises four members, all of whom possess years of international experience in various industries. Each member of the Executive Board has successfully occupied leadership roles in the past.<br>The company targets total group revenue of €3.0bn in FY23, as compared with €1.0bn in FY19, implying an annual run rate of €400-500m. In addition, management has guided for a holding income of ~€100m and a holding EBT of ~€60m by FY23E. | | | | | |
| *Tenure* | Describe the management team's reputation, years of experience, and previous successes or relevant experience. Use your own experience as an analyst and familiarity with management teams to qualify the impact of | Mr. Robin Laik is the Chief Executive Officer (CEO) of the company. He has co-founded Mutares and has been associated with the company as CEO since 2008. In 2018, the Supervisory Board has extended his contract prematurely until 31 December 2022 and re-appointed him as a member of the Management Board for | | | | | |

| Standards | Description/Definition | Assessment | Rating | | | | Reference |
|---|---|---|---|---|---|---|---|
| | | | - | | | N/A | |
| | management team tenure on the company. | this period. | | | | | |
| *Compensation* | Assess management team compensation alignment with shareholder returns. Does the company tie management compensation to shareholder value? Are performance metrics clearly and publicly defined and linked to management compensation? Are there accountability structures in place that impact executive compensation? | The compensation of management board comprises fixed component as well as variable component, in addition to share-based compensations. In 2018, the Executive Board was entitled for a remuneration of €5.0m. Except share-based compensation, all the remuneration is classified as short-term benefits in accordance with IAS 24.17a. No payments were made in connection with the defined contribution plans for the members of the Executive Board. | | | | | |
| **Governance Summary** | | | | | | | |
| | Strengths/Opportunities/Weaknesses/Risks | In Governance dimension, Mutares appears to be well positioned with the highly credible executives and relevant expertise appointed on the Supervisory Board as well as the Executive Board. However, both these bodies lack the gender diversity. | | | | | |

| | |
|---|---|
| - | Clearly stated and published goals/plans to improve standard; once in place, making positive progress on these goals over the last 12 months. We view company performance in this area as potentially positive for investment returns and/or risk. |
| | Company has goals/plans to improve standard but not stated publicly or in published materials; and/or may not be showing evidence of progress against goals over last 12 months. We view company performance in this area as potentially neutral for investment returns and/or risk. |
| | No disclosure and/or no plan to improve standard. We view company performance in this area as potentially negative for investment returns and/or risk. |
| N/A | Not applicable to this company |

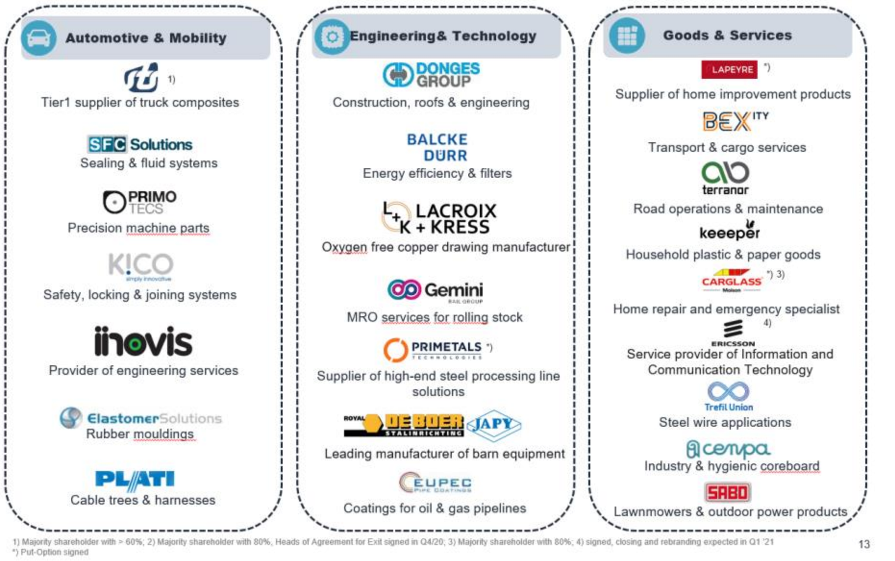
# ESG Assessment Framework – Reports

| Sustainability Report | | Website | Yes | No | Reference |
|---|---|---|---|---|---|
| | Company has a published report | https://mutares.de/wp-content/uploads/2020/06/Annual-Financial-Report-2019-of-Mutares-SE-Co.-KGaA-1.pdf | | ✓ | No. The company does not publish a sustainability / integrated report separately. The disclosures around sustainability and ESG parameters are disclosed in annual report. |
| | And the report is updated at least annually | Yes | | ✓ | |
| **Reporting Frameworks** | | | | | |
| | Company submits data to CDP (Carbon Disclosure Project) | www.cdp.net | | ✓ | |
| | Company submits data to GRI (Global Reporting Initiative) | www.globalreporting.org | | ✓ | |
| | Company submits data to SASB (Sustainable Accounting Standards Board) | www.sasb.org | | ✓ | |
| | Other providers such as TCFD / CDSB / UN PRI etc. | | | ✓ | |
| **Score** | | | | | |
| | Company has a Bloomberg ESG score | www.bloomberg.com/professional/solution/sustainable-finance | | ✓ | |
| | Company has an ISS Quality score | | | ✓ | |
| | Company has a Refinitiv ESG score | | | ✓ | |
| | Company has a RobecoSam score | | | ✓ | |
| | Company has a Sustainalytics score | | | ✓ | |
| | Other scores such as MSCI, DowJones Sustainability, etc. | | | ✓ | |
| **UN 17-SDG** | | | | | |
| | | | | | |
| | | | | | |

# Portfolio forms the basis for success

Mutares's management is clearly walking the talk, in our view. Under Johannes Laumann as CIO, the company has shown a significant step up in investment activities. Since the beginning of 2020, Mutares concluded three exits, namely the Polish part of Balcke-Dürr Group, the Czeck activities of BEXity, and the subsidiary KLANN Packaging GmbH. On the acquisition side of the equation, Mutares recorded 11 deals, seven of which were new platform investments. As of February 2021, the investment portfolio consisted of 23 companies, grouped in the three, arguably broad, thematic clusters of (1) Automotive, (2) Engineering & Technology and (3) Goods & Services.

**Figure 23: Mutares's investment portfolio as February 2021**




*Source: Mutares*

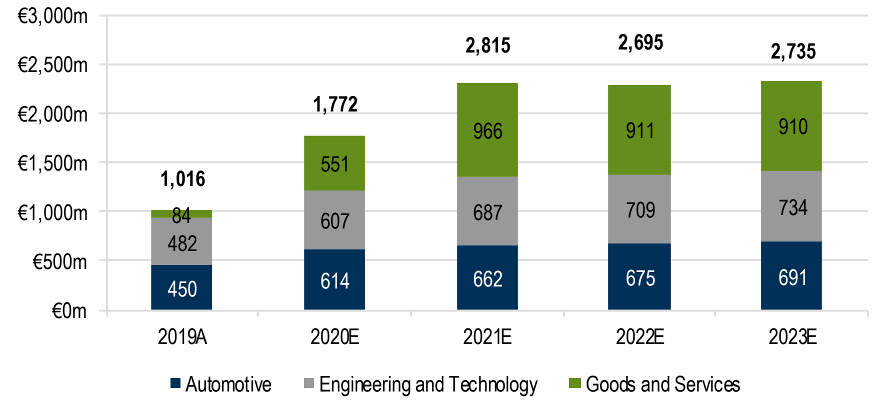
## Mutares targets group revenues of €3bn in FY23

Mutares provides quarterly financial reports which are based on IFRS accounting standards. In addition, the company provides an indication of annualised revenues of its portfolio constituents. This provides a helpful starting point for a financial analysis. However, management does not strip out organic versus in-organic growth, which makes a thorough analysis of the performance of the portfolio companies difficult, especially as Mutares supports the growth of existing portfolio companies via bolt-on acquisitions. Our forecasts are based on the assumption that Mutares will be able to acquire an additional €400-500m in revenues in FY21E, FY22E and FY23E, either through new platform investments or add-on transactions. To put this into perspective, Mutares management guides for ~€3bn of revenues in FY23E, which implies a total of €400m per annum in newly acquired revenues – all under the assumption that existing portfolio companies do not show any significant organic growth.

### Revenue forecasts

Due to the highly acquisitive goals outlined above, we expect consolidated revenues in FY20E to grow to €1.8bn which is in line with the recent company guidance. We note that in the year after turnaround of portfolio companies, they typically see a reduction in revenues. This is the consequence of a deliberate decision by management to kick off the optimisation process.

**Figure 24: Group revenues per segment (EUR m)**

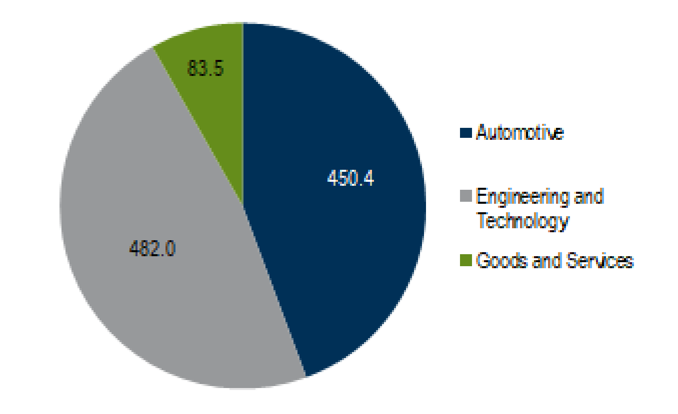



*Source: Mutares, Stifel Research & estimates*

## Segmental breakdown in more detail

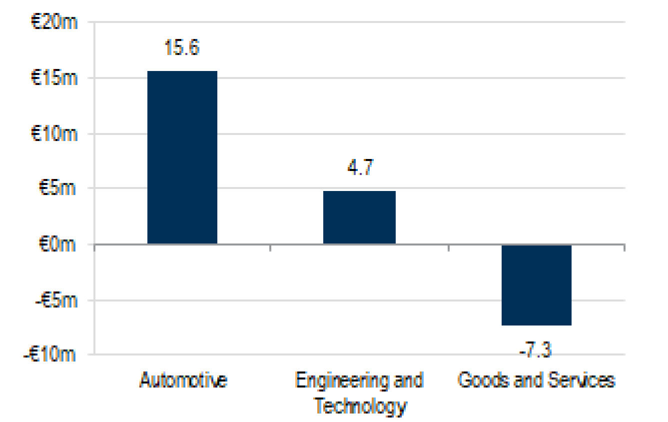
Mutares typically takes an investment approach which is industry agnostic. Nevertheless, due to the company's investment strategy and the focus on restructuring cases, targets usually run industrial business models. While Mutares historically showed a bias towards companies in the European engineering and automotive supplier sectors, more recent investments were conducted in the areas of consumer goods (e.g. SABO or The keeeper Group). We understand that management will refrain from any further acquisitions in automotive space in order to reduce the overall cyclicality of its portfolio. Mutares reports across three segments, namely **'Automotive & Mobility'**, **'Engineering & Technology'** and **'Goods & Services'**.

**Figure 25: FY19 revenue split by segment**




*Source: Stifel Research & estimates*

**FY19 adj. EBITDA split by segment**




*Source: Stifel Research & estimates*

## Automotive & Mobility – 44% of FY19 group revenues

Investments in the Automotive & Mobility segment focus on global automotive suppliers for commercial vehicles and passenger cars. In line with the group's strategy, growth in the segment has so far been achieved through both organic growth as well as through strategic acquisitions. The segment consists of six companies. These generated aggregated revenues of €450.4m in FY19, up 3.0% yoy. Reported EBITDA came in at €13.6m or €15.6m on an adjusted basis. In 2018, the segment recorded the first IPO of a Mutares portfolio company, namely STS Group. See Figure 26 for our segment forecasts.

**Figure 26: Automotive – revenue and EBITDA forecasts (€m)**

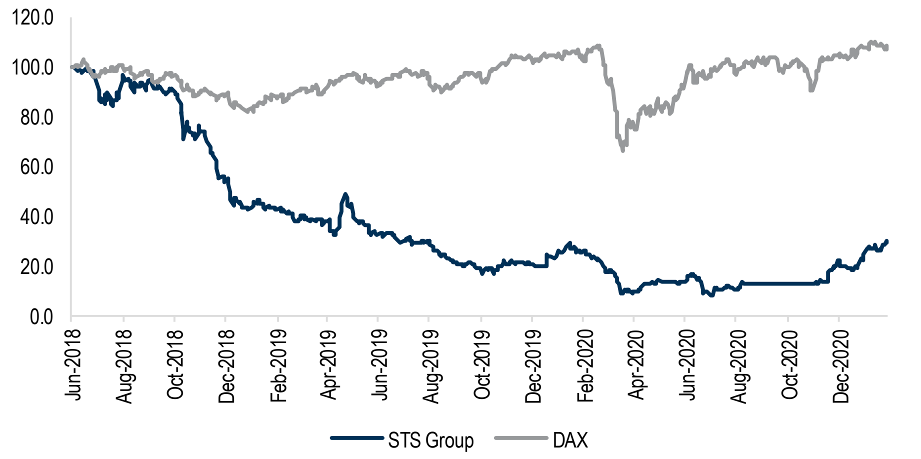
| Automotive (in EUR m) | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Revenue | 613.8 | 662.2 | 674.8 | 690.6 |
| % growth, y/y | 36.3% | 7.9% | 1.9% | 2.3% |
| Adj. EBITDA | -27.8 | -26.5 | -6.7 | 6.9 |
| % margin | -4.5% | -4.0% | -1.0% | 1.0% |

*Source: Stifel Research & estimates*

We provide a brief overview of the segment holdings below.

**STS Group** was founded in 1934 and today operates 17 plants and four development centres in seven countries in Europe, North and South America, and China. The company is a system supplier of solutions for acoustics, thermal, structure and cladding for interior and exterior use in the commercial vehicle and automotive industries. STS Group covers the entire value chain from semi-finished products to the assembled and painted system, i.e. is vertically integrated along the entire value chain, from the idea to the deliverable product system, and can control the entire manufacturing process. The established customer base includes truck and automotive OEMs from Europe, the USA and China. The company, which is based in Frankfurt, has around 2,500 employees worldwide and achieved consolidated sales of approximately €360m in 2019. STS Group is publicly listed with a market capitalisation of c.€50m. Mutares remains the majority shareholder with a strategic stake of over 60%.

**Figure 27: STS Group, share price performance since IPO**




*Source: Bloomberg*

**Elastomer Solutions Group**, founded in 1974, is a 100% holding of Mutares. The company is a leading manufacturer of rubber and thermoplastic components based in Germany. With production sites in Slovakia, Portugal, Morocco, and Mexico the company produces elastomer 1k and 2k parts in rubber and thermoplastic materials. These include products such as door eyes, tailgates, dashboards, pass-throughs, pedal covers, battery covers, gaskets and bumpers. The group supplies customers in the automotive industry worldwide and has established itself as a specialist for complex technical parts. Elastomer covers the entire process from development to distribution of the finished parts and covers the entire value chain. In 2019, the company had c.450 employees and achieved a turnover of ~€36m.

**Plati Group** is an international supplier of cable harnesses, special cables and connectors. It is headquartered in Italy and runs two production sites in Poland and Ukraine. The company serves a broad customer base that includes manufacturers of household and consumer electronics, as well as customers from the automotive, healthcare and telecommunications industries. With the most important industry-specific certifications, such as ISO 9001:2015 and IATF 16949:2016, Plati provides customer-specific and often safety-relevant products for electronic applications safety relevant products for electronic applications. In 2019, Plati achieved annualised sales of ~€30m.

**KICO** is a traditional supplier for the international automotive industry. In addition to its headquarters in Germany, KICO operates two production sites in Poland and Mexico. The company develops market-driven safety components for the passenger car market. Products range from active and passive hinges, active aerodynamics and active safety components, to safety components for the automotive industry, locking and mechatronic systems such as electric seat backrest adjustment and canopy interlocks, right down to fasteners. Kico mainly serves as a Tier 1 automotive supplier for OEMs. KICO employs around 800 people and has annual revenues of ~€90m.

**PrimoTECS** has been part of the Mutares portfolio as a 100% holding since 2020. The company manufactures components for use in electric, hybrid and conventional drives at two production sites in Northern Italy. PrimoTECS has established itself as a supplier to the automotive sector as well as the truck industry and related sectors. The system supplier generates annualised sales of ~€120m with its ~670 employees.

**SFC Solutions** is part of the Mutares portfolio as a 100% holding since July 2020. The company is active in the area of fluid transfer systems and sealing solutions for the automotive industry. According to company information, its Fluid Transfer System are highly competitive. The company also has a presence in India, where the seven plants deliver sealing solutions and brake systems, placing the company in top spot for sealing solutions in India. Revenues in 2019 stood at ~€180m across its workforce of over 2,500 employees.

**Iinovis** is a leading German engineering service provider for the automotive industry. The company has profound expertise in the important growth areas of simulation, testing, electrics/electronics and vehicle development (cars & motorcycles). In addition to engineering services for OEMs and Tier 1 suppliers, the company is also involved in the production of prototypes, wiring harnesses as well as small series production. Headquartered in Munich, the company operates at five locations in Germany and has a test track in Spain. In 2019, the company generated total revenues of €56m.

## Engineering & Technology – 47% of FY19 group revenues

The segment currently consists of four holdings, namely Balcke-Dürr Group, Donges Group, Eupec Pipe Coatings, and Gemini Rail Group. The segment recorded FY19 revenues of €482m, up 151% yoy. Figure 28 displays our segment forecasts.

**Figure 28: Engineering & Technology – revenue and EBITDA forecasts (€m)**

| Engineering & Technology | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Revenue | 606.7 | 687.2 | 708.6 | 734.3 |
| % growth, y/y | 25.9% | 13.3% | 3.1% | 3.6% |
| Adj. EBITDA | 10.9 | 20.6 | 28.3 | 36.7 |
| % margin | 1.8% | 3.0% | 4.0% | 5.0% |

*Source: Stifel Research & estimates*

We provide a brief overview of the segment holdings below.

**Balcke-Dürr Group – ~€165m sales in FY19**

With more than 130 years of experience, the **Balcke-Dürr Group** offers solutions to increase energy efficiency and reduce emissions for utilities and companies operating in the chemical industry. Products range from standard modules to complete thermal systems. Balcke-Dürr solutions meet the highest security and sustainability requirements in the industry. The product portfolio includes heat exchangers and filter systems for flue gas cleaning and maintenance services. At its production sites in Germany, Italy and China, as well as the seven service, engineering and sales centres in Germany, Italy, Poland, India and France, the group has 650 employees with consolidated sales of ~€165m in 2019. In December 2019, the Balcke-Dürr Group initiated the vertical integration of the formerly independent Mutares participation La Meusienne, with the aim of raising cost, revenue and quality synergies.

**Donges Group – the largest contributor the segment with ~€365m sales in FY19**

Following five strategic acquisitions, the Donges Group is now one of Europe's leading full-service providers of steel bridges, structural steel engineering, and roof and facade systems. Together with its subsidiaries, Donges SteelTec, FDT, Kalzip, Normek, Norsilk1 and Nordec2, the group supplies solutions for the construction of individual and sustainably designed buildings worldwide. Today, the product portfolio of Mutares's 100% holding includes steel structures, roof and facade solutions for a wide range of requirements, as well as wood products for building cladding. Donges serves architects, planners, building developers, general contractors and builders. This includes the public sector, artisans and manufacturing companies. The Donges Group employs over 8,003 people at 14 production sites in Europe, as well as sales offices worldwide. The company had annualised group sales of ~€365m in FY19.

**Eupec Pipe Coatings – FY19 sales of ~€14m**

Eupec is one of the world's leading specialist manufacturers of pipeline coatings. The company, headquartered in Northern France, is a 100% subsidiary of Mutares. The product portfolio includes line pipe coatings, concrete weight coatings, solutions for field joints, reel-to-reel pipe coatings and customised solutions. Eupec is a full service provider as well as specialist for pipeline coatings. It serves a wide range of customers active in the oil and gas industry. Eupec offers the entire range of coatings from the line pipe to the field connection, including arches. Eupec employs around 70 people and generated revenues of ~€14m in FY19.

**Gemini Rail Group – FY19 sales of ~€80m**

Gemini Rail Group has been a 100% subsidiary of Mutares since 2018. Gemini Rail specialises in the modernisation, conversion and wheelset overhaul of rail vehicles. With its in-house team of specialist engineers, Gemini Rail provides turnkey solutions for train refurbishment, modernisation and external project management. In addition, the company's GemECO brand runs a retrofitter for hybrid drive systems from rail vehicles. According to company information, Gemini Rail is the second-largest OEM-independent supplier in the UK. In 2019, the company generated sales of ~€80m with a workforce of around 260 employees.

**Royal de Boer and Japy Tech – FY19 sales of ~€50m**

Headquartered in Leeuwarden, the Netherlands, Royal de Boer is a leading manufacturer of barn equipment including feed fences, cubicles, ventilation and manure systems. The company operates through a production plant in Leeuwarden and has a large international installed base. The company employees around 115 employees and generated total revenues of €30m in 2019. Japy Tech is a French-based high-quality producer of milk-cooling tanks with varying sizes, designs and applications. Headquartered in Dijon, France, the company caters to the customers in the European as well as the global milk-cooling industry. In 2019, the company had around 115 employees and generated €20m in revenues.

**Lacroix + Kress – FY20e sales of ~€120m**

Lacroix + Kress is a German manufacturer of high-quality oxygen-free copper-wire and primarily caters to wire-copper manufacturers and automotive industry. The company is the single largest capacity of OF-Cu production installed in Europe with a dip-forming rod mill capacity of 68k tons per year and a large plating capacity for nickel, tin and silver plating. Lacroix + Kress refers to the former German Metallurgie Business of Nexans and currently operates through locations in Germany at Bramsche and Neunburg under the new name. With around 250 employees, the company's estimated revenue in 2020 was €120m.

## Goods & Services – 8% of FY19 group revenues

Goods & Services consists of six holdings, namely KLANN, Cenpa, TréfilUnion, The keeeper Group, BEXity, Nexive and Terranor. The segment recorded FY19 revenues of €83.5m, up 72% yoy. Goods & Services is the newest segment of the group. See Figure 29 for our segment forecasts.

**Figure 29: Goods & Services – revenue and EBITDA forecasts (€m)**

| Goods & Services | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Revenue | 551.0 | 966.1 | 911.3 | 910.3 |
| % growth, y/y | 559.9% | 75.3% | -5.7% | -0.1% |
| Adj. EBITDA | -19.0 | -19.3 | -9.1 | 9.1 |
| % margin | -3.5% | -2.0% | -1.0% | 1.0% |

*Source: Stifel Research*

**KLANN – FY19 sales of ~€11m**

KLANN develops and produces high-quality promotion and sales packaging made of printed tinplate at its headquarters in Landshut, in south-east Germany. The company is 100%owned by Mutares. KLANN specialises in the development and production of high-quality and visually appealing packaging in special colour intensities with bespoke embossing techniques. Its customer base includes manufacturers of branded goods and trading companies from various sectors, such as the spirits and food industries. In 2019, the company generated sales of ~€11m and employed around 90 people.

**Cenpa – FY19 sales of ~€27m**

The Cenpa paper mill operates core paper mills in Western Europe and is a 100% subsidiary of Mutares. The company produces core boxes for the European packaging and hygiene market. With two paper machines, the product portfolio includes coreboard made from virgin pulp and recycled paper. Cenpa serves customers both in the tissue market as well as in the market for industrial coreboard and the packaging industry, mainly in Central Europe.

**TréfilUnion – FY19 sales of ~€29m**

TréfilUnion is an established expert in the processing and refining of highly specialised steel wire applications. The company is a 100% subsidiary of Mutares. The product portfolio includes high and low carbon wire, spring steel wire, enamelled and galvanised wire, pre-stressing steel wire and tension strands. With its ~100 employees. TréfilUnion serves customers in the engineering, packaging, automotive and construction industries. At two locations in France, the company generated 2019 sales of ~€29m.

**keeeper – FY19 sales of ~100m**

The keeeper Group is a leading European suppliers of high-quality household products from plastic and paper. The group serves customers in the DIY store sector, food retailing, wholesale and furniture retail in 35 countries. At the end of 2019 The keeeper Group signed an agreement to acquire Metsä Tissue's German business, which produces and distributes high-quality paper napkins. This strategically expanded its portfolio of household products. The company generated revenues of ~€100m in FY19.

**BEXity – FY19 sales of ~€210m**

BEXity operates in cross-border transport and logistics services in the Austrian market. It has been a 100% holding of the Mutares Group since the end of 2019. The company is characterised by its nationwide network in Austria and is mainly active in the general cargo, charter and warehousing sectors. BEXity serves a diversified portfolio of customers from the food, pharmaceutical and fast-moving consumer goods industries. BEXity employs around 600 people and achieved sales of ~€210m in 2019.

**Nexive – FY19 sales of ~210m**

Nexive is the second-largest operator in the Italian postal market, providing mail services to 80% of Italian households. Mutares has owned 80% since July 2020. The company operates through 11 sorting hubs for the mail business, 11 sorting hubs for the parcel business, 23 direct branches, c.500 indirect branches and 1,500 retail points. Nexive generated ~€210m in revenues in 2019. In November 2020, Mutares announced the disposal of the company to Poste Italiane, with the deal expected to close in Q1-21.

**Terranor – FY19 sales of ~€100m**

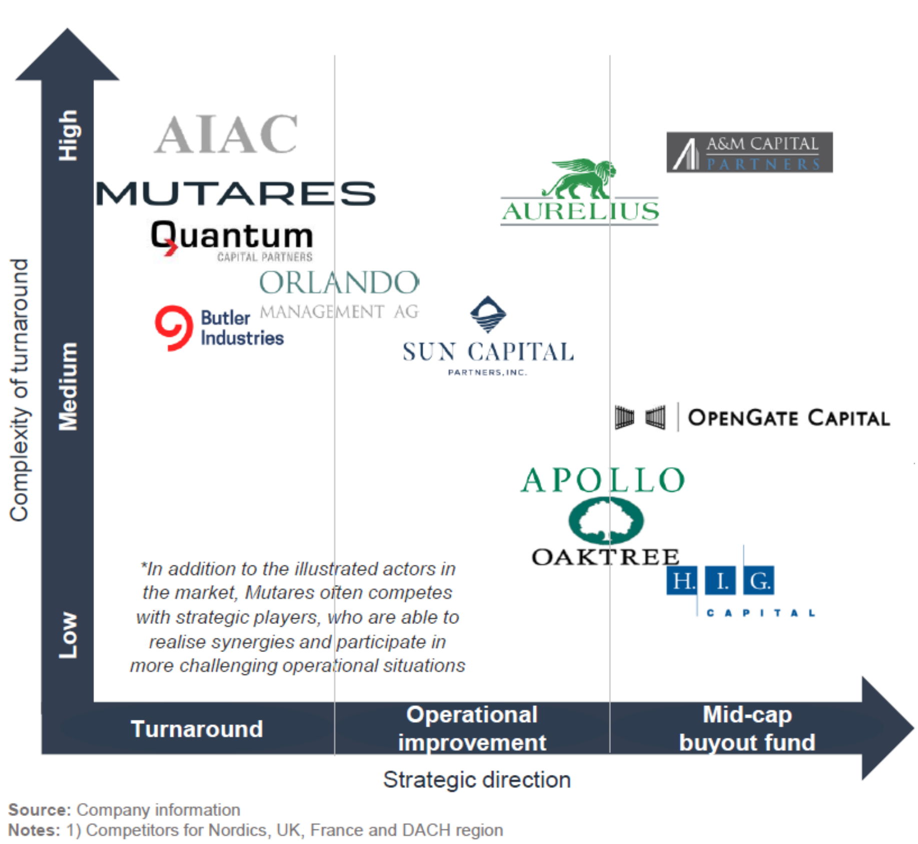
Headquartered in Stockholm, Sweden, Terranor is an operations and maintenance provider for state, municipal and public road infrastructure. The company's services include snow handling, road supervision, road maintenance and road markings. In addition to state and municipal entities, the company also servers some private customers. The company operates in Sweden and Finland through its local presence in the form of Terranor AB and Terranor Oy respectively. While most of the business is handled by the Stockholm headquarters, the company also has an established presence in Helsinki, Finland. Collectively, Terranor employees around 215 employees and generates annual revenue of ~€100m.

## Broad-based competition

Mutares is striving to become the leading private equity firm with a focus on companies which are in need of a strategic repositioning and have significant turnaround potential. The market for investment holdings and private equity firms with a focus on special situations is highly fragmented and, as outlined in the valuation section, very few of the competitors are publicly listed. Figure 30 categorises selected competitors into clusters depending on the complexity of the turnaround and the strategic direction.

We note that Mutares also often competes with strategic operators and, on the turnaround consulting side of the business, with specialist departments of large strategy consulting firms or consulting arms of auditing firms like KPMG or Deloitte.

**Figure 30: Competitive landscape in key locations**




*Source: Mutares*

# Appendix

We provide an overview of the company's segments and short descriptions of the current company holdings. We also discuss the legal structure, the shareholder structure of the KGaA, its company history, featuring the most relevant milestones, as well as the share price performance since its initial public offering.

## Mutares's legal structure as SE & Co. KGaA

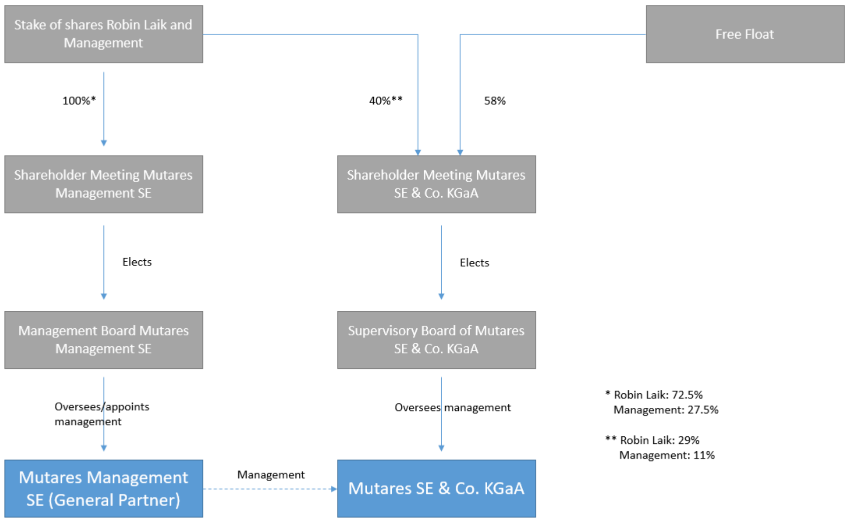
Shareholders in the Mutares SE & Co. KGaA are so-called *Kommanditaktionäre*. They have voting rights, elect the company's supervisory board and are entitled to a dividend. Similar to an 'AG' or 'SE' (ordinary shares), the liability of shareholders is limited to their investment.

The main difference to the legal form of an 'AG' or 'SE' lies in the fact that the publicly listed SE & Co. KGaA does not have its own management board, but is run by a so-called *Komplementär* or 'General Partner', i.e. the Mutares Management SE, represented by the members of the management board, which we list below.

The General Partner has extensive rights, regardless of the size of its shareholding in the SE & Co. KGaA. In the case of Mutares, the group's CEO, Robin Laik, and other members of the management board hold 100% of the 'General Partner' and, hence, fully control the GmbH & Co KGaA, even though their direct shareholding is "only" 40%.

Although the supervisory board of the KGaA supervises the management board of the General Partner, which includes information rights, it has no consent rights regarding extraordinary management action and, as such, has limited power.

**Figure 31: Mutares's legal structure as SE & Co. KGA**

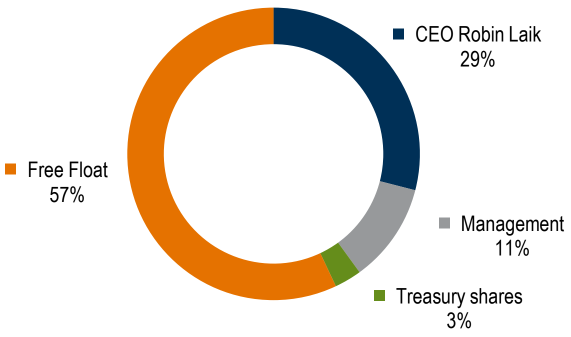



*Source: Company actuals*

## Shareholder structure – dominated by management

Mutares SE & Co. KGaA shares are listed in the SCALE segment of the Frankfurt stock exchange. The shareholder structure is characterised by substantial holdings of the company's management and particularly its founder and CEO, Robin Laik, who holds around 29% of the shares. Other members of the management board account for further 11% of ownership in the company. Separately, the company holds around 472,475 treasury shares, equivalent to ~3% of the company. The remaining 58% is free float, which results in reasonably high trading liquidity, putting Mutares within the top five of the index with an average daily trading volume of around 34,000 shares.

**Figure 32: Shareholder structure of Mutares SE & Co. KGaA**




*Source: Stifel Research & estimates*

## Company history

We summarise the most relevant corporate milestones below.

- Mutares was founded in 2008 by Axel Geuer and Robin Laik in Munich, Germany. Of the companies or groups of companies acquired by Mutares since the start of operations in 2008, 14 continue to be part of the portfolio (as of May 2020). In addition, there are several so-called add-on acquisitions, i.e. new acquisitions that were added to existing investments.
- Several holdings were restructured and sold again, including Klann Packaging, a manufacturer of metal packaging in Landshut; Fertigungstechnik Weißenfels, a supplier to the machine tool industry; Geesinknorba, a manufacturer of waste collection vehicles and waste presses in Erkrath, the packaging machine manufacturer A+F Automation+Fördertechnik in Kirchlengern; the French online electronics retailers Grosbill and Pixmania; the pharmaceutical company Suir Pharma Ireland (formerly Stada Production Ireland); the French logistics company SN CGVL, and HIB Trim Parts Solutions, a manufacturer of trim parts for automotive interiors in Bruchsal (formerly the Dräxlmaier Group's Decorative Design division).
- In 2015, 2017, 2018 and 2019, the company established branches in Paris, Milan, London and Helsinki, accompanied by the establishment of subsidiaries in the respective countries. In 2020, Mutares opened an office in Frankfurt am Main.
- The change of the legal form to SE & Co. KGaA was announced in 2019. Since then, the general partner has been Mutares Management SE, founded in 2018.

## Management and supervisory board

Below we provide short CVs of Mutares's management as well as supervisory board.

**Management Board of Mutares SE & Co. KGaA**

**Robin Laik** is CEO and founder of Mutares. He began his professional career at ELA Medical GmbH and Porges GmbH (formerly L'Oréal Group). In 2004, he moved to Bavaria Industries Group AG, where he became a member of the Management Board in July 2006. Until July 2007, he was CFO of the company. Prior to this, he held various management positions within ESCADA AG, including Head of M&A. Since January 2018, Robin Laik has also been Chairman of the Supervisory Board of the STS Group. Robin Laik studied business administration at the University of Augsburg, graduating in 1995.

**Dr. Kristian Schleede** is CRO of Mutares. Born in 1958, he joined Mutares in 2010 as a member of the Executive Board. After serving as CFO until March 2015, he assumed the position of CRO (Chief Restructuring Officer), with a current focus on the optimisation and strategic development of portfolio companies. Prior to his current position, he held several management positions in industrial and services companies such as Danzas, Dussmann KGaA, Swisslog Management AG and Kienle+Spiess Group. Prior to this, he worked for several years in consulting at McKinsey & Company. Dr. Kristian Schleede has been a member of the Supervisory Board of the STS Group since 2018. After studying mechanical engineering at the renowned RWTH Aachen, Dr. Kristian Schleede received his doctorate in the field of plastics processing.

**Mark Friedrich** is CFO of Mutares. He was born in 1978 and has been with Mutares since 2012. He joined as Head of Finance and was appointed CFO in April 2015. Mark Friedrich was admitted as a tax consultant in 2009 and as an auditor in 2011. When he left, he worked as an authorised signatory at Ernst & Young GmbH. Mark Friedrich studied business administration at the University of Tübingen, graduating in 2005. Prior to this, he studied business administration at the European University of Frankfurt/Oder and the Free University of Berlin.

**Johannes Laumann** is CIO of Mutares. He was born in 1983 and has been with Mutares since 2016. In May 2019, he was appointed member of the Executive Board. As Chief Investment Officer he is responsible for M&A and Investor Relations. Before joining Mutares, he held various management positions at Ernst & Young GmbH, Porsche Consulting GmbH and in the Oil & Gas Division of Atlas Copco. Johannes Laumann studied business law and international management at the University of Applied Sciences in Pforzheim and the Business School in Copenhagen.

**Supervisory Board of Mutares SE & Co. KGaA**

**Volker Rofalski.** Born in 1970, he has been a member of the Supervisory Board since 2008. In 2018 he was appointed Chairman of the Supervisory Board of Mutares SE & Co. KGaA in 2018 and has also been a member of the Supervisory Board of Mutares Management SE since July 2019. He is active in private equity and venture capital. He is shareholder and managing director of Only Natural Munich GmbH. Previously, he was founder and member of the board of the trading platform TradeCross AG in Munich. He was also co-founder of the first internet-based capital market platform in Germany, Webstock AG. He graduated from the University of Augsburg in 1996 with a degree in Business Administration and Management.

**Dr. Axel Müller.** Born in 1957, he has been a member of the Supervisory Board since 2018. Since April 8, 2019, he has been Deputy Chairman of the Supervisory Board of Mutares SE & Co. KGaA. From 1985 to 2010, Dr. Axel Müller held numerous management positions at STADA Arzneimittel AG in the areas of marketing and communication, strategy and M&A as well as operations. Most recently he was responsible for production and development as member of the Executive Board since 2010. Since 2014, Dr. Axel Müller has been an independent management consultant. After several years as Senior Advisor at Arthur D. Little, he has been Associate Partner at Fidelio Healthcare Partners since 2018. Dr. Axel Müller is a licensed pharmacist; after completing his pharmaceutical studies at the Johannes-Gutenberg University in Mainz in 1980, he was a research assistant there for several years and received his doctorate in Pharmaceutical technology.

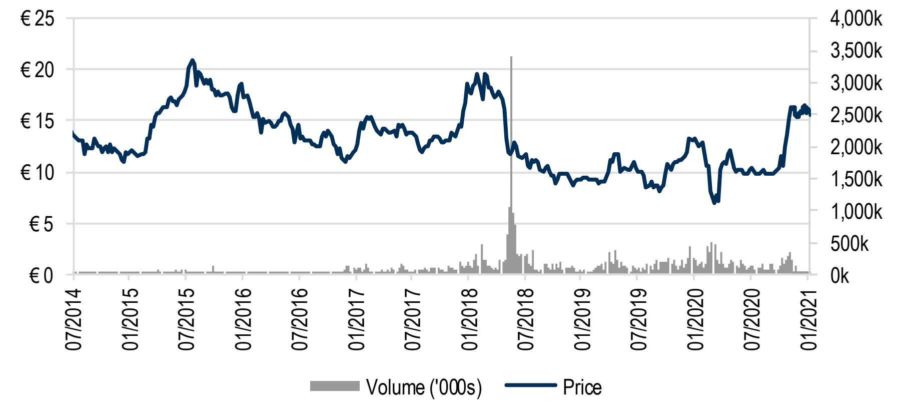
**Prof. Dr. Micha Bloching.** Born 1968, he has been a member of the Supervisory Board of Mutares SE & Co. KGaA. Since July 2019 he has also been chairman of the supervisory board of Mutares Management SE. Prof. Dr. Micha Bloching worked as an attorney and tax consultant in various Munich law firms. He was a partner in a major international law firm and now runs his own office in Munich. He also teaches business law at the University of Applied Sciences in Augsburg. Prof. Dr. Micha Bloching studied in Heidelberg and passed the state exams and received his doctorate in Law from the University of Heidelberg.

**Dr. Lothar Koniarsk.** Born in 1955, he has been a member of the Supervisory Board of Mutares SE & Co. KGaA since 2018 and of Mutares Management SE since July 2019. He is Managing Director of ELBER GmbH and was Managing Director of DV Immobiliengruppe from 1995 to 2017. Prior to this, he held several management positions in various industrial companies. From 2005 to 2013 Dr. Lothar Koniarski was a member of the Finance and Tax Committee of the DIHK in Berlin. Since 2003, he has been chairman of the Finance and Tax Committee of the Chamber of Industry and Commerce in Regensburg. Since 2013, he has been a member of the Supervisory Board of CANCOM SE, where he was appointed Chairman in 2016. He is also Chairman of the Supervisory Board of SBF AG and a member of the Administrative Board of Alfmeier SE. Dr. Lothar Koniarski studied business administration at the University of Regensburg. After graduation he worked as a research assistant at the University of Regensburg.

## Share price development

Mutares went public in 2008 in the Open Market. Since 14 May 2014, the stock has been listed in the Entry Standard of the Frankfurt Stock Exchange, which was re-labelled SCALE as of 1 March 2017.

**Figure 33: Share price performance**




*Source: Bloomberg*

# Financial estimates

**Figure 34 – Holding P&L (€m)**

| Year end December, IFRS | FY 2019 | FY 2020E | FY 2021E | FY 2022E | FY 2023E |
|---|---|---|---|---|---|
| **Holding revenues (total management & performance fees)** | **19.0** | **44.5** | **60.0** | **77.5** | **87.5** |
| Change, yoy | NM | 134.2% | 34.8% | 29.2% | 12.9% |
| As % of total revenues | 1.9% | 2.5% | 2.1% | 2.9% | 3.2% |
| o/w consulting fees | | 32.5 | 45.0 | 60.0 | 67.5 |
| Change, yoy | | NM | 38.5% | 33.3% | 12.5% |
| As % of total holding revenues | | 73.0% | 75.0% | 77.4% | 77.1% |
| o/w dividends from portfolio companies (regular divis and exit gains) | | 12.0 | 15.0 | 17.5 | 20.0 |
| Change, yoy | | NM | 25.0% | 16.7% | 14.3% |
| As % of total holding revenues | | 27.0% | 25.0% | 22.6% | 22.9% |
| **Holding profit (EBT)** | **15.2** | **23.4** | **30.8** | **38.5** | **43.6** |
| Change, yoy | NM | 53.4% | 31.6% | 25.2% | 13.3% |
| Margin on holding revenues | 80.2% | 52.5% | 51.3% | 49.7% | 49.9% |
| Margin of group revenues | 1.5% | 1.3% | 1.1% | 1.4% | 1.6% |
| **Management fees** | **10.2** | **16.4** | **20.8** | **26.0** | **28.6** |
| Change, yoy | NM | 61.2% | 26.7% | 25.3% | 10.1% |
| Margin as % of holding revenues | 53.5% | 36.8% | 34.6% | 33.5% | 32.7% |
| Margin as % of group revenues | 1.0% | 0.9% | 0.7% | 1.0% | 1.0% |
| o/w consulting fees | | 11.4 | 15.8 | 21.0 | 23.6 |
| Change, yoy | | NM | 38.5% | 33.3% | 12.5% |
| Margin on consulting revenues | | 35.0% | 35.0% | 35.0% | 35.0% |
| o/w dividends from portfolio companies | | 5.0 | 5.0 | 5.0 | 5.0 |
| Change, yoy | | NM | 0.0% | 0.0% | 0.0% |
| Margin on dividend income | | 41.7% | 33.3% | 28.6% | 25.0% |
| **Performance fees (exit gains)** | **5.1** | **7.0** | **10.0** | **12.5** | **15.0** |
| Change, yoy | NM | 37.8% | 42.9% | 25.0% | 20.0% |
| Margin as % of holding revenues | 26.7% | 15.7% | 16.7% | 16.1% | 17.1% |
| Margin as % of group revenues | 0.5% | 0.4% | 0.4% | 0.5% | 0.5% |

*Source: Company accounts, Stifel estimates*

**Figure 35 – Group P&L (€m)**

| Year end December, IFRS | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020E | FY 2021E | FY 2022E | FY 2023E |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | **650.1** | **899.8** | **865.3** | **1015.9** | **1771.6** | **2815.5** | **2694.7** | **2735.1** |
| Change y/y | NM | 38.4% | -3.8% | 17.4% | 74.4% | 58.9% | -4.3% | 1.5% |
| Change in inventories | -3.0 | -4.1 | 0.1 | 1.5 | -3.0 | -2.0 | -2.0 | -2.0 |
| Other income | 94.2 | 156.4 | 107.4 | 119.1 | 207.1 | 120.0 | 120.0 | 120.0 |
| Cost of Material | -430.6 | -569.7 | -368.9 | -622.7 | -1,110.9 | -1,429.8 | -1,415.3 | -1,441.6 |
| **Gross Profit** | **310.7** | **482.4** | **603.9** | **513.8** | **863.1** | **1,503.7** | **1,397.4** | **1,411.5** |
| Gross margin | 47.8% | 53.6% | 69.8% | 50.6% | 48.7% | 53.4% | 51.9% | 51.6% |
| Personnel expenses | -160.0 | 330.1 | -235.4 | -291.7 | -483.3 | -760.2 | -722.2 | -730.3 |
| As % of total revenue | 24.6% | -36.7% | 27.2% | 28.7% | 27.3% | 27.0% | 26.8% | 26.7% |
| Other expenses | -100.2 | -193.4 | -207.8 | -137.5 | -295.2 | -773.7 | -667.8 | -630.5 |
| As % of total revenue | 15.4% | 21.5% | 24.0% | 13.5% | 16.7% | 27.5% | 24.8% | 23.1% |
| **EBITDA** | **50.5** | **67.2** | **49.0** | **79.1** | **84.6** | **-30.2** | **7.5** | **50.7** |
| EBITDA margin | 7.8% | 7.5% | 5.7% | 7.8% | 4.8% | -1.1% | 0.3% | 1.9% |
| Non-recurring items | 0.0 | -95.0 | -44.4 | -71.6 | -121.3 | 5.0 | 5.0 | 2.0 |
| **EBITDA, adjusted** | **50.5** | **-27.8** | **4.6** | **7.5** | **-36.7** | **-25.2** | **12.5** | **52.7** |
| EBITDA margin, adjusted | 7.8% | -3.1% | 0.5% | 0.7% | -2.1% | -0.9% | 0.5% | 1.9% |
| Depreciation and amortisation | -15.9 | -27.1 | -29.7 | -53.0 | -162.8 | -250.6 | -234.4 | -232.5 |
| As % of sales | 2.4% | 3.0% | 3.4% | 5.2% | 9.2% | 8.9% | 8.7% | 8.5% |
| **EBIT** | **34.6** | **40.1** | **19.3** | **26.1** | **-78.2** | **-280.8** | **-227.0** | **-181.8** |
| EBIT margin | 5.3% | 4.5% | 2.2% | 2.6% | -4.4% | -10.0% | -8.4% | -6.6% |
| Total financial result | -6.1 | -4.5 | -4.6 | -9.5 | -18.1 | -19.0 | -19.0 | -19.0 |
| **Pre-tax profit** | **28.5** | **35.6** | **14.7** | **16.6** | **-96.3** | **-299.8** | **-246.0** | **-200.8** |
| Change y/y | NM | 24.9% | -58.7% | 12.9% | -337.7% | -1905.9% | 155.5% | -33.0% |
| Pre-tax margin | 4.4% | 4.0% | 1.7% | 1.6% | -5.4% | -10.6% | -9.1% | -7.3% |
| Income tax | -2.1 | 8.4 | -2.8 | 0.0 | -3.1 | 30.0 | 24.6 | 20.1 |
| Tax rate | 7.4% | -23.6% | 19.0% | 0.0% | 10.0% | 10.0% | 10.0% | 10.0% |
| **Net income, pre minorities** | **26.4** | **44.0** | **11.9** | **16.6** | **-87.0** | **-269.8** | **-221.4** | **-180.7** |
| Change y/y | NM | 66.7% | -73.0% | 39.5% | -337.7% | -1725.3% | 154.5% | -33.0% |
| Minority Interest | -0.4 | -0.3 | -2.7 | -4.1 | -4.1 | -4.1 | -4.1 | -4.1 |
| **Net income, post minorities** | **26.8** | **44.3** | **14.6** | **20.7** | **-87.0** | **-265.7** | **-217.3** | **-176.6** |
| Change y/y | NM | 65.3% | -67.0% | 41.8% | -332.6% | -1383.6% | 149.8% | -33.5% |
| Net income margin, post minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 |
| Weighted average number of shares (m) | 15.5 | 15.5 | 15.3 | 15.2 | 15.2 | 15.2 | 15.2 | 15.2 |
| **EPS (€)** | **1.73** | **2.86** | **0.95** | **1.36** | **-5.71** | **-17.44** | **-14.26** | **-11.59** |
| Change y/y | NM | 65.3% | -66.7% | 42.8% | -334.2% | -1383.6% | 149.8% | -33.5% |
| **DPS (€)** | **0.60** | **0.35** | **1.00** | **1.00** | **1.50** | **1.50** | **1.50** | **1.50** |
| Change, yoy | NM | -41.7% | 185.7% | 0.0% | 50.0% | 0.0% | 0.0% | 0.0% |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% | 8.6% | 8.6% | 8.6% | 8.6% |

*Source: Company accounts, Stifel estimates*

**Figure 36 – Balance Sheet (€m)**

| Year end December, IFRS | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020E | FY 2021E | FY 2022E |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 69.5 | 98.9 | 108.1 | 79.7 | 519.9 | 1,119.7 | 983.4 |
| Inventories | 156.6 | 131.0 | 100.8 | 134.0 | 233.7 | 371.4 | 355.4 |
| Current contract assets | 0.0 | 0.0 | 15.7 | 29.1 | 50.7 | 80.6 | 77.2 |
| Trade and other receivables | 133.4 | 181.9 | 8.5 | 39.3 | 68.5 | 108.9 | 104.2 |
| Other financial assets | 10.2 | 15.0 | 3.1 | 2.1 | 3.7 | 5.8 | 5.6 |
| Income tax receivables | 2.4 | 2.9 | 17.8 | 22.2 | 38.7 | 61.5 | 58.9 |
| Other non-financial assets | 12.1 | 13.1 | 19.6 | 0.3 | 0.5 | 0.8 | 0.8 |
| Assets held for sale | 2.0 | 1.9 | 147.0 | 142.6 | 248.7 | 239.3 | 256.0 |
| **TOTAL CURRENT ASSETS** | **386.2** | **444.7** | **420.6** | **449.3** | **1,164.4** | **1,988.1** | **1,841.6** |
| Intangible assets | 20.0 | 35.7 | 41.4 | 58.7 | 102.4 | 154.9 | 175.2 |
| PPE | 110.9 | 170.6 | 133.3 | 176.4 | 307.6 | 520.9 | 538.9 |
| Rights of Use assets | 0.0 | 0.0 | 0.0 | 119.8 | 208.9 | 332.0 | 317.8 |
| Income tax receivables | 0.8 | 2.1 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other non-financial assets | 2.4 | 2.2 | 4.1 | 3.5 | 6.1 | 9.7 | 9.3 |
| Other financial assets | 7.8 | 5.7 | 16.9 | 16.6 | 28.9 | 46.0 | 44.0 |
| Deferred taxes | 2.7 | 11.1 | 13.3 | 23.8 | 41.5 | 66.0 | 63.1 |
| Trade and other receivables | 1.4 | 0.7 | 0.6 | 0.4 | 0.7 | 1.1 | 1.1 |
| Other non-current contract assets | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| **TOTAL NON-CURRENT ASSETS** | **146.0** | **228.1** | **210.2** | **399.2** | **696.1** | **1,130.5** | **1,149.4** |
| **TOTAL ASSETS** | **532.2** | **672.8** | **630.8** | **848.5** | **1,860.6** | **3,118.7** | **2,991.0** |
| Subscribed capital | 15.5 | 15.5 | 15.2 | 15.2 | 15.2 | 15.2 | 15.2 |
| Capital reserve | 36.2 | 36.5 | 36.8 | 37.3 | 37.3 | 37.3 | 37.3 |
| Retained earnings | 72.8 | 111.3 | 129.4 | 134.9 | 140.4 | 30.5 | -258.0 |
| Other equity components | -6.2 | 2.2 | -0.7 | -2.1 | -2.1 | -2.1 | -2.1 |
| **SHARE OF EQUITY ATTRIBUTABLE TO PARENT** | **118.3** | **165.5** | **180.7** | **185.3** | **190.8** | **80.9** | **-207.6** |
| Non-controlling interest | -1.0 | -0.9 | 27.4 | 22.9 | 39.9 | 63.5 | 60.7 |
| **TOTAL SHAREHOLDER'S EQUITY** | **117.3** | **164.6** | **208.1** | **208.2** | **230.7** | **144.4** | **-146.9** |
| Trade payables | 93.3 | 121.2 | 110.9 | 157.7 | 275.0 | 437.1 | 418.3 |
| Other financial liabilities | 74.6 | 121.7 | 100.7 | 94.8 | 165.3 | 262.7 | 251.5 |
| Lease liabilities | 0.0 | 0.0 | 4.8 | 23.7 | 41.3 | 65.7 | 62.9 |
| Provisions | 29.2 | 36.2 | 33.5 | 35.7 | 62.3 | 98.9 | 94.7 |
| Income tax liabilities | 3.0 | 2.2 | 2.9 | 2.6 | 4.5 | 7.2 | 6.9 |
| Other liabilities | 42.4 | 68.6 | 46.2 | 58.9 | 102.7 | 163.2 | 156.2 |
| Current contract liabilities | 0.0 | 0.0 | 30.6 | 31.5 | 54.9 | 87.3 | 83.6 |
| **TOTAL CURRENT LIABILITIES** | **242.5** | **349.9** | **329.6** | **404.9** | **706.1** | **1,122.2** | **1,074.0** |
| Trade payables | 0.7 | 1.0 | 1.0 | 2.2 | 3.8 | 6.1 | 5.8 |
| Other financial liabilities | 33.3 | 38.0 | 21.7 | 20.3 | 35.4 | 56.3 | 53.8 |
| Lease liabilities | 0.0 | 0.0 | 2.1 | 95.2 | 166.0 | 263.8 | 252.5 |
| Provisions | 117.5 | 108.5 | 47.0 | 87.3 | 152.2 | 241.9 | 231.6 |
| Income tax liabilities | 9.7 | 9.4 | 13.3 | 12.2 | 21.3 | 33.8 | 32.4 |
| Other liabilities | 10.2 | 0.5 | 6.4 | 15.1 | 26.3 | 41.8 | 40.1 |
| Deferred income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Difference resulting from capital deconsolidation | 0.0 | 0.0 | 0.0 | 0.0 | 513.3 | 1,199.7 | 1,439.4 |
| Non-Current contract liabilities | 0.0 | 0.0 | 1.6 | 3.1 | 5.4 | 8.6 | 8.2 |
| **TOTAL NON-CURRENT LIABILITIES** | **171.4** | **157.4** | **93.1** | **235.4** | **923.8** | **1,852.1** | **2,063.8** |
| **TOTAL EQUITY & LIABILITIES** | **532.2** | **672.8** | **630.8** | **848.5** | **1,860.6** | **3,118.7** | **2,991.0** |

*Source: Company accounts, Stifel estimates*

**Figure 37 – Cash Flow Statement (€m)**

| Year end December, IFRS | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020E | FY 2021E | FY 2022E |
|---|---|---|---|---|---|---|---|
| **Net Income, pre minorities** | **26.4** | **43.9** | **12.0** | **16.7** | **-99.3** | **-269.8** | **-221.4** |
| Change, y/y | NM | 66.3% | -72.7% | 39.2% | -694.9% | 171.6% | -18.0% |
| Bargain purchase gains from business combinations | -73.3 | -86.4 | -32.3 | -102.6 | 0.0 | 0.0 | 0.0 |
| Gains from deconsolidation | 0.0 | -30.9 | -40.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation and amortisation of intangibles and non-current assets | 15.9 | 27.1 | 29.7 | 53.0 | 162.8 | 250.6 | 234.4 |
| Gains from the disposal of non-current assets | -6.4 | -7.1 | -0.1 | -0.5 | 0.0 | 0.0 | 0.0 |
| Other non-cash expenses/income | -6.7 | 14.6 | -2.1 | 3.2 | 2.3 | 2.3 | 2.3 |
| Interest expense/income | 4.6 | 4.4 | 4.6 | 9.5 | 5.8 | 5.8 | 5.8 |
| Income tax expense/income | -2.1 | 8.4 | 2.8 | 0.0 | 3.1 | -30.0 | -24.6 |
| Income tax payments | -1.4 | -2.2 | -5.7 | -1.6 | -1.6 | -1.6 | -1.6 |
| Increase/decrease in inventories | 3.5 | 34.3 | 13.0 | 20.1 | 99.7 | 137.7 | -15.9 |
| Increase/decrease in trade receivables | -0.9 | -1.7 | 39.0 | 34.4 | 29.5 | 40.8 | -4.7 |
| Increase/decrease in trade payables | -26.8 | -0.1 | -31.2 | -1.9 | 118.9 | 164.3 | -19.0 |
| **Variations in trade working capital** | -24.2 | 32.5 | 20.8 | 52.6 | 248.1 | 342.8 | -39.7 |
| Increase/ decrease in contract assets | 0.0 | 0.0 | -15.8 | -9.2 | 21.6 | 29.9 | -3.5 |
| Increase/ decrease in other receivables | 11.9 | -15.0 | -3.3 | 2.9 | 16.5 | 22.8 | -2.6 |
| Increase/ decrease in provisions | 2.6 | -18.9 | -6.1 | -15.2 | 91.5 | 126.4 | -14.6 |
| Increase/ decrease in contract liabilities | 0.0 | 0.0 | 30.6 | 0.9 | 25.7 | 35.6 | -4.1 |
| Increase/ decrease in other liabilities | 18.3 | -0.1 | -2.3 | -19.5 | 229.1 | 316.5 | -36.6 |
| **Variations in other working capital** | 32.8 | -34.0 | 3.1 | -40.1 | 384.5 | 531.2 | -61.4 |
| Currency translation effects | 0.3 | 0.6 | 0.0 | -0.8 | -0.8 | -0.8 | -0.8 |
| **Cash Flow from operating activities** | **-25.5** | **-30.6** | **-11.1** | **-10.6** | **704.8** | **830.4** | **-107.0** |
| Proceeds from disposal of PPE | 2.1 | 21.2 | 3.3 | 20.7 | -131.2 | -213.3 | -18.1 |
| Disbursements for investment in PPE | -11.6 | -19.1 | -18.0 | -26.2 | 0.0 | 0.0 | 0.0 |
| Proceeds from disposal of intangibles | 0.0 | 0.4 | 0.3 | 0.0 | -43.7 | -52.5 | -20.3 |
| Disbursements from investment in intangibles | -3.4 | -6.2 | -5.7 | -5.2 | 0.0 | 0.0 | 0.0 |
| Proceeds from disposal of assets held for sale | -1.5 | 0.0 | 0.0 | 19.6 | -106.1 | 9.4 | -16.7 |
| Payments for additions to the consolidation group | 0.0 | 0.0 | -1.2 | -2.4 | 0.0 | 0.0 | 0.0 |
| Proceeds from additions to the consolidation group | 25.7 | 2.1 | 20.6 | 35.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from disposal from the consolidation group | 0.0 | 25.3 | 6.0 | 2.9 | 0.0 | 0.0 | 0.0 |
| Payments for disposals from the consolidation group | 0.0 | 0.0 | -8.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest received | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Cash Flow from investing activities** | **11.6** | **23.9** | **-3.1** | **44.4** | **-280.9** | **-256.4** | **-55.1** |
| Proceeds from equity contributions by non-controlling shareholders | 0.0 | 0.0 | 52.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disbursements from payments received from equity contributions from NC shareholders | 0.0 | 0.0 | -5.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid to shareholders of the parent | -9.3 | -5.4 | -15.2 | -15.2 | 15.2 | 22.9 | 22.9 |
| Proceeds from financial loans | 25.9 | 14.6 | 27.1 | 22.4 | 16.1 | 16.1 | 16.1 |
| Repayment of financial loans | -3.1 | -3.0 | -27.0 | -22.5 | -9.2 | -9.2 | -9.2 |
| Derecognition of financial loans from changes in consolidated group | 0.0 | -4.1 | 0.0 | -15.9 | -2.4 | -2.4 | -2.4 |
| Proceeds / payments from factoring | -0.2 | 36.3 | -3.4 | -24.1 | 1.7 | 1.7 | 1.7 |
| Interest paid | -2.5 | -3.9 | -2.0 | -7.1 | -2.3 | -2.3 | -2.3 |
| Disbursements for the acquisition of treasury shares to non-controlling interest | 0.0 | 0.0 | -3.0 | 0.0 | -0.9 | -0.9 | -0.9 |
| **Cash flow from financing activities** | **10.8** | **34.5** | **23.4** | **-62.4** | **18.2** | **25.8** | **25.8** |
| Net increase / decrease in cash and cash equivalents | -3.1 | 27.8 | 9.2 | -28.6 | 442.0 | 599.8 | -136.3 |
| Cash and cash equivalents at the beginning of period | 81.2 | 69.5 | 97.3 | 106.5 | 77.9 | 519.9 | 1,119.7 |
| **Cash and cash equivalents at the end of period** | **78.1** | **97.3** | **106.5** | **77.9** | **519.9** | **1,119.7** | **983.4** |

*Source: Company accounts, Stifel estimates*

## Model development process and alternative approaches

## Model theory

Consolidated group revenues are a function of the aggregated revenues of the portfolio constituents. Hence, the number of portfolio companies and the business model they operate are the main top-line drivers. Profitability depends, again, on the business models, the stage in the restructuring process and success of restructuring measures.

**Data sources**

Our main data sources are company information, Bloomberg, information provided by Mutares's peers.

**Processing steps**

Group revenues and EBITDA margins are calculated on a segment basis. We add up segment revenues and EBITDA to derive group revenues. In addition, we derive holding revenues and holding profits, based on assumptions on the performance of the company's consulting business and the dividend income from portfolio companies.

**Assumptions**

We assume Mutares will acquire ~€400-500 of revenues (net of disposals) per annum. We further believe that consulting revenues and dividend income will grow in proportion to the aggregated consolidated revenues of the portfolio companies. Revenues are likely to decline in the first year post acquisition to reflect the strategic re-alignment. Operating profitability should gradually improve over the holding period.

**Limitations**

Limitations to our model are set out in more detail in the risk section. In particular, any future acquisitions and disposals of portfolio companies are difficult to forecasts. As a result, forecasts for revenues and profits on the holding level may be prone to error.

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**Mutares SE & Co KGaA (MUX GY) as of February 08, 2021 (in EUR)**


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