Mutares

(Scale All Share, Industrial Goods & Services, MUX GR)

WARBURG RESEARCH

Buy	
EUR 28.00	
Price	EUR 22.80
Upside	**22.8 %**

Value Indicators:	EUR
SotP:	27.95

Warburg ESG Risk Score:	**2.8**
ESG Score (MSCI based):	3.0
Balance Sheet Score:	3.3
Market Liquidity Score:	2.0

Description:

Mutares is a PE group which specializes on turnaround and restructuring cases

Market Snapshot:	EUR m
Market cap:	346
No. of shares (m):	15
EV:	677
Freefloat MC:	211
Ø Trad. Vol. (30d):	824.88 th

Shareholders:	
Freefloat	61.1 %
Robin Laik (CEO)	28.8 %
Elber GmbH	10.1 %

Key Figures (WRe):	2020e
Beta:	1.3
Price / Book:	0.9 x
Equity Ratio:	16 %
Net Fin. Debt / EBITDA:	1.6 x
Net Debt / EBITDA:	2.4 x

Unique access to European small caps in special situations; Initiation with Buy

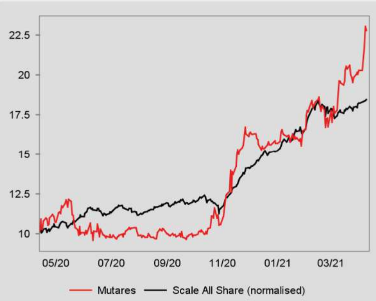
Mutares is a PE manager with a focus on European small-cap companies in special situations. By FY 23, it aims to expand its business activities and company portfolio to a level that allows for the generation of consulting fees, equity distributions and exit gains from its portfolio companies that can sustainably support high returns to shareholders. With a broad-based portfolio and constant deal activity, the income at the Holding level should be comparatively resilient and independent of country or industry-specific economic cycles.

The target of Mutares is to generate sales at Holding level of about EUR 100m by FY 23 and to sustainably generate more than EUR 60m as distributable Holding net income which represents 2% of the targeted EUR 3bn sales at consolidated group level. We regard Mutares as well on track to achieve its goal as Holding net income grew by 50% in FY 20 and stood at 2.1% of group sales. The achievement of the FY 23 target implies a distributable net income of EUR 4.0 per share. Sustainable performance at these levels would put Mutares into the league of listed investment managers. Respective industry PE ratios of >20x would justify a manifold increase in the share price from today's level. Strong upside is likewise implied by the application of the targeted ROIC multiple of 7-10x solely on the EUR 80m funds invested from the bond proceeds. Implied returns (midpoint of range) stand at EUR 680m compared to a market cap of EUR c.350m.

Considering that the company is still in the expansion phase, is diversifying the portfolio, and as the stream of exits could still be volatile, we focus on two arguments for our near-term investment case:

- Mutares "guarantees" a basic dividend payment of EUR 1.0 (c. 4.3% dividend yield). We believe the dividend can be paid for the next years and provides downside protection. Even without exits, we estimate that the consulting fees and equity distributions alone will support a dividend payment of EUR 1.50 by FY 23 (yield of 6.5%). Respective fair value based on the basic dividend stands at EUR 12.2. Based on EUR 1.50, it stands at at EUR 18.3. Note that the EUR 20m consulting income we forecast by FY 23 is independent of the economic environment and could be viewed as a floor to the net income for the Holding.
- Inspired by the rule „the profit is in the purchase", Mutares currently has an extremely good opportunity to acquire interesting targets, in our view, as many larger companies are realigning in the wake of the pandemic. The more than 12 acquisitions of the past 12 months are likely to generate very good returns as economic activity should bounce back post the pandemic.

We base our PT on an SotP valuation that incorporates the profit from consulting, equity distributions, and the exit gains of announced deals. To track the development of the future exit potential, we calculate our own NPV for the portfolio. When the company moves from the current investment phase into a phase of a more steady steam of exits, income streams could be forecast based on average deal activity. Since the start of FY 21, the company has been more active and announced deals have even exceeded the ambitious target ROIC multiples. However, for the time being, we believe our NPV model is a good tool for investors to track the portfolio's progress and its impact on valuation. To avoid double counting, we only apply the excess value of the NPV over the equity distributions in our SotP model. The fair value of our SotP model stands at EUR 28.0 and is the basis for our PT. We initiate Mutares with a Buy rating and a PT of EUR 28.0, offering potential upside of 23%.



Rel. Performance vs Scale All	
1 month:	12.4 %
6 months:	79.3 %
Year to date:	23.7 %
Trailing 12 months:	42.7 %

Company events:	
11.05.21	Q1
20.05.21	AGM
04.08.21	Q2
09.11.21	Q3

FY End: 31.12. in EUR m	CAGR (20-23e)	2017	2018	2019	2020	2021e	2022e	2023e
Sales	17.7 %	900	865	1,016	1,584	2,324	2,528	2,580
Change Sales yoy		38.4 %	-3.8 %	17.4 %	55.9 %	46.7 %	8.8 %	2.1 %
Sales Holding	38.1 %	n.a.	11	19	32	48	64	84
Chg yoy		n.a.	n.a.	83.0 %	65.0 %	49.1 %	35.3 %	30.4 %
Portfolio equity distributions		n.a.	0	3	12	12	18	20
Consulting income		n.a.	-8	-1	4	8	14	20
Exit gains	-	n.a.	68	0	23	30	0	0
Net income holding		n.a.	20	23	33	49	30	38
Net income margin holding		*n.a.*	*189.9 %*	*116.6 %*	*104.7 %*	*102.2 %*	*47.3 %*	*45.3 %*
EBITDA adj.		-28	5	7	-29	-22	54	113
Net income	-39.2 %	44	15	21	27	96	-64	6
Net inc. adj.		n.a.	20	23	33	49	30	38
EPS adj.		n.a.	1.32	1.48	2.20	3.20	2.01	2.51
P / E adj.		n.a.	10.1 x	6.8 x	5.1 x	7.1 x	11.3 x	9.1 x
DPS	0.0 %	1.00	1.00	1.00	1.50	1.50	1.50	1.50
Dividend Yield		7.3 %	7.5 %	10.0 %	13.3 %	6.6 %	6.6 %	6.6 %
EPS		2.85	0.96	1.37	1.79	6.34	-4.23	0.40
P / E		4.8 x	13.9 x	7.3 x	6.3 x	3.6 x	n.a.	57.0 x
Guidance:	Annualized group sales above EUR 2.2bn (including signed acquisitions)							

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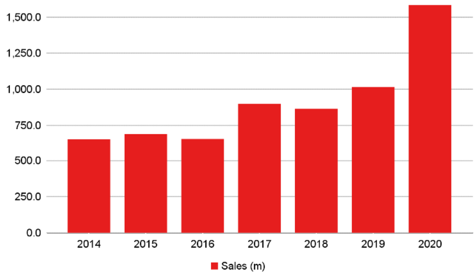
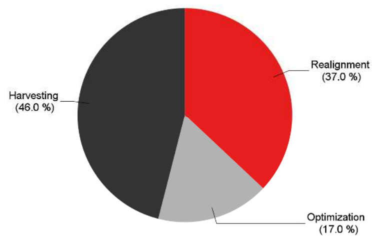
Sales development
in EUR m



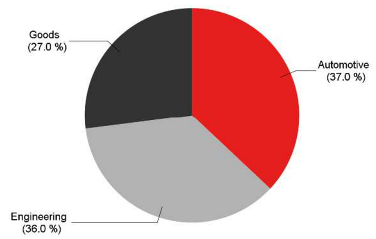
Source: Warburg Research

Sales by cycle phase
2020; in %



Source: Warburg Research

Sales by Segment
2020; %



Source: Warburg Research

Company Background

- Mutares was co-founded in 2008 by CEO Robin Laik.
- Mutares invests in small/midcap (sales 50-500m) companies in special situations and manages the turnaround with its own consultants
- Consolidated sales increased from EUR 60m in 2010 to above EUR 1bn in 2019 as the company made more than 70 transactions
- Mutares has consistently paid a dividend and targets a base dividend of EUR 1.0. The dividend yield has exceeded 5% over the past five years.
- The company issued a bond in 2020 with a nominal value of EUR 80m to accelerate growth as the Covid pandemic gave rise to unique investment opportunities

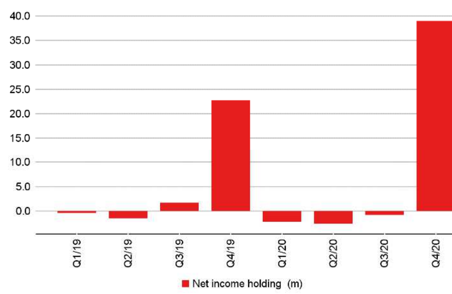
Competitive Quality

- At the end of 2020, Mutares had around 70 consultants, who are turnaround specialists, and an established European network of offices enabling the generation of synergies across its portfolio holdings.
- European small-midcap special situations management is a niche market with limited competition
- Management and board members hold significant stakes of outstanding shares
- For FY 23, Mutares is targeting annual consolidated sales of EUR 3bn, which translates into EUR 100m sales at Mutares Holding level and a Holding profit above EUR 60m including exit gains.

Sales Mutares Holding
in EUR m

Source: Warburg Research

Net income development
in EUR m



Source: Warburg Research

Summary of Investment Case 4

Company Overview 5

Competitive Quality 6

Operating in a niche market 8
Buy-and-build approach – Donges Group as an example 10

Growth / Financials 12

Guidelines of forecasting 12
EUR 3bn is achievable as portfolio grows and diversifies 12
Consulting revenues show gradual growth 14
Impact of recently announced acquistions 14
Sales forecast by divison 16
Portfolio adj. EBITDA and equity distribution potential 16
Exit gains / performance fees: announcements of EUR >50m in Q1 21 17

Valuation 21

Valuation on the basis of an SotP model 21
NPV of portfolio companies 21
Price target at EUR 28.0 – offering more than 20% upside 23
The longer-term potential 24
Risks 24

Company & Products 25

Organisational setup of Mutares SE & CO KGaA **25**
Portfolio companies **27**
Automotive & Mobility 27
Engineering & Technology 29
Goods & Services 32

Management 36

Executive Board Mutares Management SE **36**
Robin Laik - CEO 36
Mark Friedrich - CFO 36
Johannes Laumann - CIO 36
Dr. Kristian Schleede - CRO 37
Supervisory Board Mutares SE & KGaA **37**
Supervisory Board Mutares Management SE **37**

Summary of Investment Case

Investment triggers

- Transformation of Mutares into an asset manager for European special situations small caps. Ramping up consultants and increasing and diversifying portfolio holdings. Target is to achieve sustainable sales of EUR 100m from consulting fees by FY 23 as well as net income of EUR 60m p.a. including exit fees and equity distributions. Following 14 acquistions over the past 14 months, annualised sales of portfolio companies have reached more than EUR 2bn. Exit multiples announced in FY 21 were also above the target ROIC range of 7-10x and Holding net income surpassed the 2% target margin in FY 20 as well. Thus, Mutares is well on track.
- Mutares announced a base dividend of EUR 1.0 and we believe that the company will be able to pay this dividend over the next years and expect a performance dividend of EUR 0.50 in FY 21e. By FY 23e, we expect that the income generated from consulting fees will support the base dividend and even a performance dividend.
- We believe that the current market conditions could be compared to a supercycle with respect to the opportunities to acquire attractive targets to grow the portfolio.

Valuation

- Our valuation is based on an SotP model, discounting our expected income streams for consulting and portfolio equity distributions. Exit gains are included if a profitable sale of a portfolio company is announced. In addition, we calculate an NAV for the portfolio but, in the valuation, we include only the surplus compared to our equity distribution stream.
- The base dividend of EUR 1.0 represents a dividend yield of 4.3%. Applying the same discount rate as in our SotP model, the base dividend would lead to a fair value of EUR 12.2 per share and could be viewed as a floor. Our current forecast of EUR 1.50 dividend per share would support a value of EUR 18.3.
- If Mutares reaches its targets and can sustainably show EUR 100m sales and EUR >60m of distributable income at Holding level, this would propel the company into the league of other major PE/VC managers implying a manifold increase in the share price.

Growth

- We estimate consolidated portfolio sales CAGR of 17% from FY 20 to a level of EUR 2.6bn in FY 23e based on the acquisitions already announced. This is already close to the company's EUR 3bn target but does not include future acquisitions or divestments, which are likely to occur. More importantly, we estimate the sales of Mutares Holding, which are essentially the consulting fees, will show a CAGR of 38% from FY 20 to FY 23e, reaching a level of EUR 84m p.a.
- Exit gains are estimated to have contributed EUR 22.6m to the FY 20 profit from the announced sales of Nexive and Backe Dürr Rothemühle. In FY 21e, we assume that the sale of the STS stake will support the investment income at Mutares Holding level by EUR 30m. We did not model further exits explicitly but nevertheless believe that the current market environment offers good opportunities.
- Our FY 23e forecast for the Holding net income of EUR 38m is 20% higher than in FY 20 but supported by income from consulting and equity distributions alone. With exit gains at a level similar to FY 20 and FY 21e, the EUR 60m target would be reached.

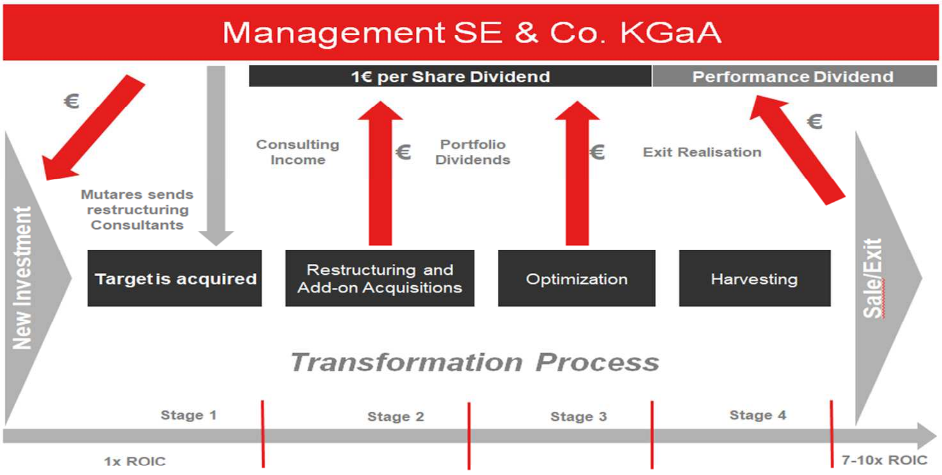
Competitive quality

- Mutares operates in a niche. Its focus on turnaround cases of small and mid-cap companies requires in-house consulting knowledge. By FY 23, the company is aiming to employ 140 specialists, which is roughly double the level at the end of 2020.
- The company operates a network of local country offices across Europe with local expertise for transactions. This increases its attractiveness as an employer and the ability to generate synergies across the portfolio. Further, its network enables Mutares to generate even more opportunities, which enhances its capability to transform holding companies by making add-on acquistions.

Warburg versus consensus

- Our forecast for dividend per share of EUR 1.50 for FY 21e to FY 23e is in line with consensus which, however, consists of one estimate. There are no consensus figures for the key KPIs of Mutares Holding and we feel a comparison on consolidated group level is not meaningful

Company Overview

Income generation and business model			
Targets	**2023:** Stable EUR 1 dividend per share from consulting fees and portfolio dividends; 140 consultants generating EUR 100m consulting revenues; EUR 3bn in consolidated group sales leading to a net income at Holding level; 7-10x avg ROIC at transactions		
Positioning	Mutares is one of just a few private equity companies for special situations. The company has outstanding expertise in investing in and managing special situations or turnaround cases. Special situations account for just 0.5% of the EUR 79bn PE market in 2020.		
Main competitors	Aurelius,Quantum Management, Orlando Management AG, EQT, HG Capital Trust, LGT		
Entry barriers/ competitive advantage	Mutares operates in a special market, with challenging tasks. Players in this field need expertise in strategy, corporate finance and financing and a local network		
Business Units	Automotive & Mobility	Engineering & Technology	Goods & Services
Current Portfolio	inovis, PRIMO TECS, KICO, PLATI, Elastomer Solutions, SFC Solutions	Gemini Rail Group, DONGES GROUP, BALCKE DÜRR, EUPEC Pipe Coatings, LACROIX + KRESS, Royal de Boer, JAPY	terranor, keeeper, TrefilUnion, SABO, BEXITY
Sales 2021e	550 m	814 m	960 m
Sector Overview	Portfolio companies in the Automotive & Mobility segment operate in the commercial vehicle and passenger car supply business. They have plants and employees around the world and supply prominent international commercial vehicle and passenger car manufacturers.	In the Engineering & Technology segment, Mutares brings together companies that enjoy a significant competitive advantage thanks to their excellent construction expertise and experience.	Portfolio companies in the Goods & Services segment stand out thanks to their clearly defined positioning in their home markets.
Shareholder structure & management	CEO **Robin Laik**  Mr. Laik was born in 1972 and is the co-founder and CEO of Mutares since 2008. He studied business Administration at the University of Augsburg and has more than 20 years experience in corporate finance roles as well as private equity	CFO **Mark Friedrich**  Mr. Friedrich was born in 1978 and has been with Mutares since 2012. He worked as a tax advisor and certified public accountant for Ernst & Young GmbH. Mr. Friedrich studied Business Economics at the University of Tuebingen from which he graduated in 2005 with a diploma.	CIO **Johannes Laumann**  Mr. Laumann is with Mutares since 2016. He was appointed to the Executive Board in May 2019. 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

Source: Company data; Warburg Research

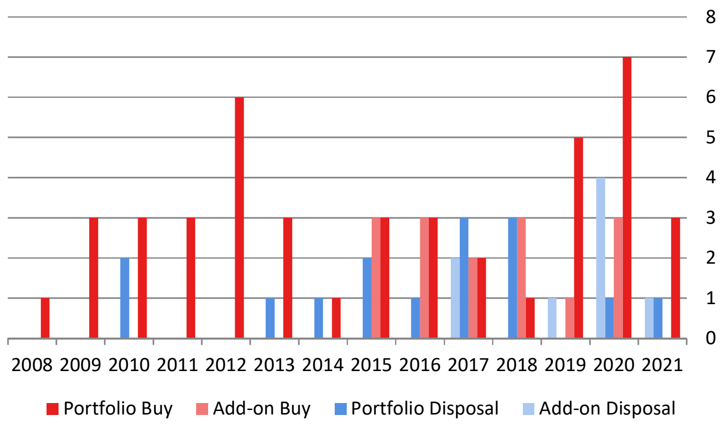
Competitive Quality

- Mutares is transforming from a holding of industrial companies with a restructuring background more to a private equity-type investment company with a focus on special situation small cap companies.
- The company announced a base dividend of EUR 1.0 which is to be supported by consulting fees and portfolio equity distributions. Potential exit gains would likely lead to extra performance payments and, post the EUR 0.50 for FY 20, we expect at least the same amount for FY 21e as well.
- A strong basis for potentially lucrative exits is formed by Mutare's niche position and its European set-up combined with a very good buyers' market. We highlight Donges as a blueprint.

From industrial holding to special situation PE

At the time of its foundation in 2008 Mutares could have been described as a holding company of industrial small caps. It was building up a portfolio, rather than actively buying and selling companies. The focus was on companies in special situations and turnaround cases. Since 2015, the company has become more active in buying and selling businesses and also started to grow portfolio companies by making add-on acquisitions. Since 2017, Mutares also started to exit parts of portfolio companies in the process of realigning them.

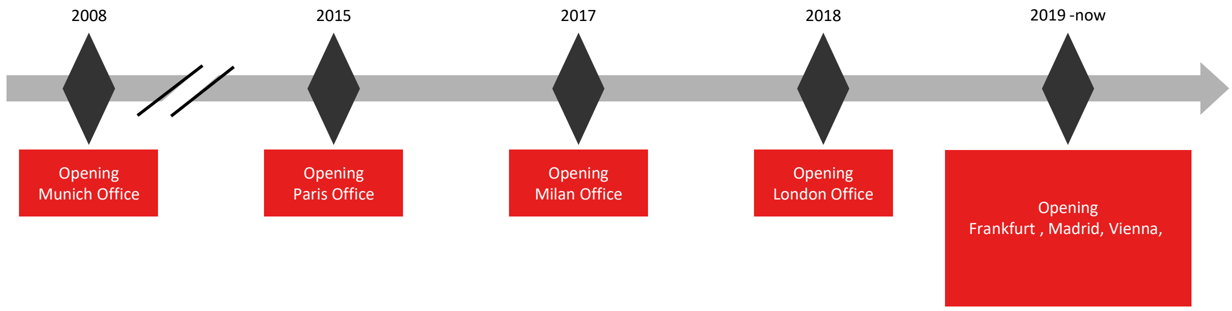
Mutares SE & KGaA (Holding) – Transactions since 2008



Source: Company data; Factset; Warburg Research

This coincided with the setup of the Paris office and the campaign to build up a European network. In the past five years, Mutares gradually expanded geographically and now has nine offices in eight European countries. This widespread office network allows Mutares to gain broader European traction, better insight into nearshore markets, and closer deal monitoring. Each year Mutares' team takes a closer look at about 700 companies from 3500 opportunities and, finally, converts these into transactions.

Timeline of Mutares' European expansion



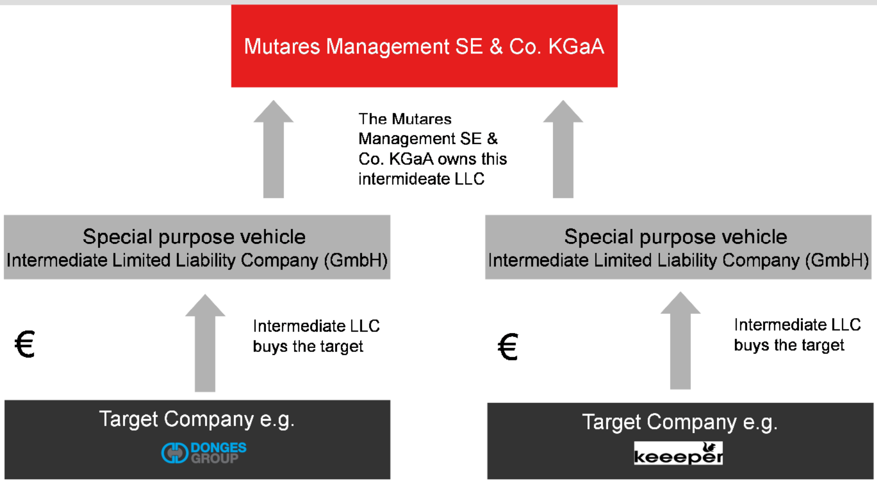
Source: Company data; Warburg Research

Mutares' target is to become more like a private equity business with a sustainable income stream independent of economic cycles. The Covid pandemic has set off a supercycle for the available deal-flow as companies came under pressure to focus on their core business. With its focus on smaller companies in special situations, Mutares is a preferred partner. Global companies are often unwilling to take the necessary steps (e.g. negative side effects, damage to brand) or lack the strategic interest in undertaking the restructuring of smaller non-performing non-core businesses. By 2023, Mutares wants to grow the group's portfolio company sales level to EUR 3bn.

Steady stream of income targeted

Once it has acquired a non-performing and loss-making target, Mutares sends its own restructuring consultants to initiate and supervise the realignment process. Typcially Mutares' targets have a cash dowry from the seller to pay for the restructuring, e.g. layoffs, plant closures, product offering etc. The payment for the consulting activity of Mutares is visible as the sales of the Muatres Holding (Holding). Portfolio companies are usually acquired using a special purpose vehicle.

Mutares Group – organisational setup

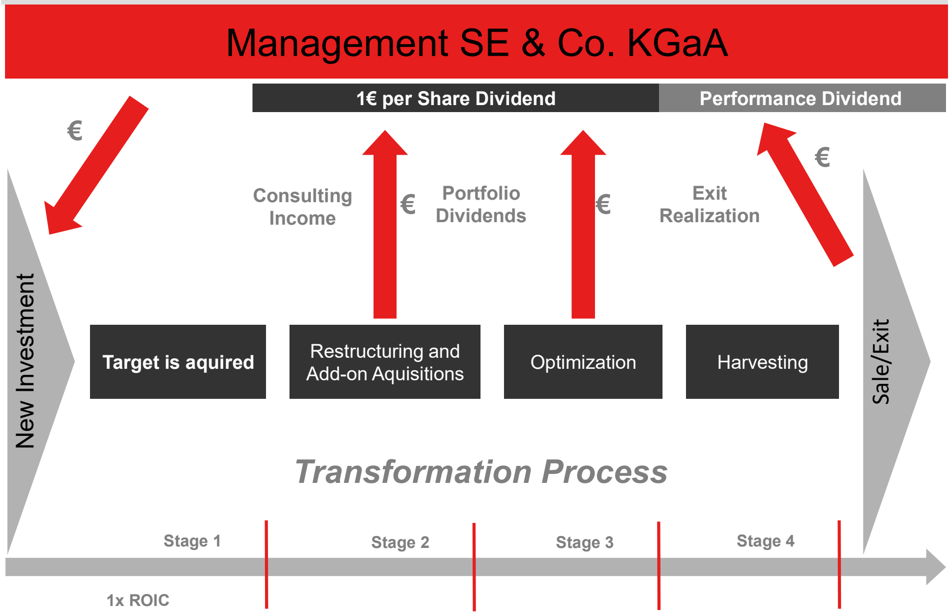


Source: Company data; Warburg Research

During the restructuring / optimisation Mutares may decide to make add-on acquisitions. Once the portfolio company moves into the so-called harvesting phase, it has achieved the turnaround, has become profitable and can distribute portfolio dividends to the Holding. Finally, Mutares seeks a sale of the portfolio company and an exit gain. During the transformation process of the portfolio company, Mutares might sell parts of the business ahead of the final exit.

Once Mutares has built up a broad-based portfolio diversified across stages and industries, the income stream should be sustainable. With respect to the FY 23 targets, the consulting income and equity distributions of the portfolio companies should more than support the EUR 1.0 base dividend announced, while exits would lead to an additional performance dividend.

Business model and income generation



Source: Warburg Research

Such a continuous income stream would put the company into the category of private equity or asset management companies like Partners Group, EQT or Apollo, which all command rich multiples thanks to their income predictability. However, we would like to point to Mutares' somewhat stronger alignment to economic cycles.

An asset manager generates income from a fee paid by the customer. That fee is essentially stable and is paid irrespective of the actual performance of the fund or asset. True, there might be hurdle rates, additional participations and other variable items associated, but the basic element of stability in the income stream stems from the payment as part of the paid-in capital.

While the income from consulting, which the seller usually funds with the cash dowry, is independent of the current economic cycle, equity distributions of portfolio companies are not and a weak economic environment could also endanger exits. Nevertheless, a portfolio diversified across regions and industries could level out industry cycles or country-specific cycles.

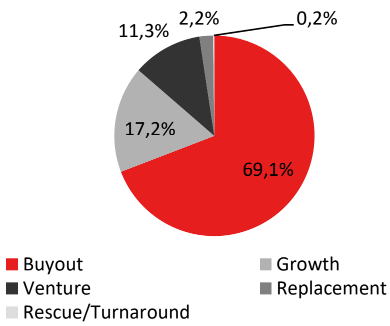
Turnaournd management is a niche

Operating in a niche market

By focusing purely on special situations, Mutares is operating in a niche market. This becomes clear if we look at the transaction market in Germany in 2015. According to the German Venture Capital Association, only 1% of transactions were turnaround investments. While this might increase in light of the impact of Covid-19 on many companies, the market will stay relatively small.

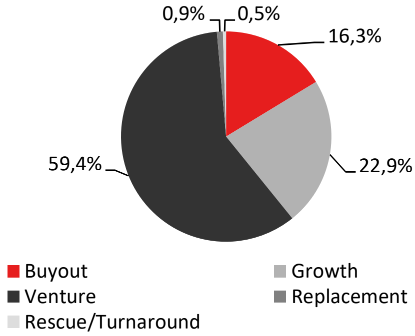
The focus on a niche, which cannot be easily accessed by most traditional investors such as private equity companies, due to the high level of know-how required, reduces competition. When buying 'targets', Mutares competes with companies such as Quantum, Orlando Management AG or Aurelius and, in the case of larger transactions, sometimes also with strategic investors.

2019 investments by stage (amount)



Source: EDC; Warburg Research

2019 investments by stage (number of companies)



Source:EDC; Warburg Research

Extensive internal know-how

To be successful in that niche and to become the "go-to" partner, Mutares has (i) the necessary human resources and (ii) a stringent process to master the turnaround.

At the end of 2020, Mutares employed approx. 70 consultants, which are part of the Muatres SE Holding or active in the different country offices. These employees manage the entire process from acquisition through restructuring to divestment. In addition to the management board, this is based on the:

- approx. 70 turnaround managers, who are typically experienced as consultants (e.g. in restructuring or process optimisation) and in the management of small or medium-sized businesses.
- M&A team, which comprises approx. 14 specialists.

This results in fast and thorough processes when assessing emerging opportunities and initiating restructuring measures. Hence, Mutares is, in most cases, able to make the acquired companies profitable within 18-24 months of the takeover. Furthermore, the European network grants Mutares access to local markets with the ability to create synergies and scope via add-on acquistions.

Risks are minimised

A closer look at the transformation process of a portfolio company reveals a clearly defined four-step management process for each investment to minimise the risks of an investment and optimise the chances of a profitable exit. These steps are:

- Acquisition of platform: After acquisition, Mutares initiates an extensive operational improvement programme within the portfolio companies. The projects jointly defined with the company are implemented by Mutares consultants in close cooperation with the employees on site.
- Turnaround/ optimisation: Mutares develops its company successfully in strategic and operational terms until the long-term reorganisation is achieved. Specialists support optimisation projects on the ground, including investment in the development of innovative products, adapting and reorganising sales and production with a long-term perspective.
- Development/ growth: On completion of the improvement programme, the company will have re-established itself as an independent, profitable company in its respective market. Mutares then defines and implements measures to promote organic growth. Another option for the growth phase involves additional development with the support of focused, strategic acquisitions (buy-and-build approach). Mutares reviews the company for further business opportunities and strengthens its development during the growth phase through focused strategic add-ons to enter new markets, or bring in new products or promising technologies. For these add-on acquisitions, the strategic fit is crucial.
- Sale: The objective of Mutares is to actively promote the realisation of the company's value potential, thereby establishing the basis for a profitable sale of the company to

ensure the sustainable development of the portfolio in the long term.

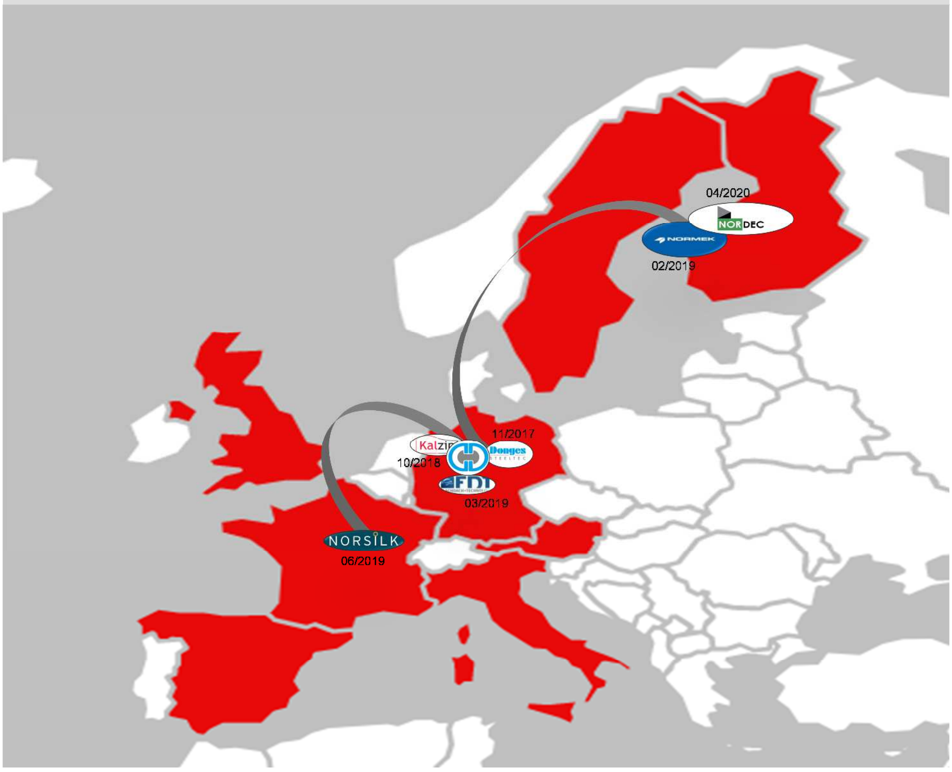
Buy-and-build approach – Donges Group as an example

Donges, which is currently the largest portfolio company and already in the harvesting phase, is a prime example of such an add-on growth strategy that is fueled by the extensive network and expertise of Mutares. As mentioned above, Mutares' offices and presence all over Europe allow it to pursure such a buy-and-build strategy and leverage its presence for business purposes. After the acquisiton of Donges in 2017, Mutares subsequently added other firms to the Donges Group to increase growth and long-term success. The key USP that Mutares was aiming for was a "one-stop-shop" solution for building exteriors comprising frames, façades and roofs. Therefore Mutares added to the original platform of Donges SteelTec which offered design, engineering and construction of steel bridges & steel construction projects:

- Kalzip (10/2018): Customer-specific aluminum roof and facade systems. The company offers roof systems for a wide variety of infrastructures such as industrial buildings, sports halls, traffic structures, stadiums and commercial buildings. This added roofing competence to Donges Group.
- NORDEC: Design, engineering and construction of steel bridges, thermo & glass facade solutions. After the Normek (02/2019) and RBS merger (04/2020), NORDEC added expertise in single-storey frame solutions, as well as a wide variety of frame products, building envelope solutions and frame solutions for steel bridges to the Donges portfolio, further supporting the "one-stop-shop" strategy of Mutares.
- FDT (03/2019): Roofing membranes & lighting solutions for flat roofing systems. FDT further strengthens the roofing expertise of Donges.
- Norsilk (06/2019): Processing of Nordic wood for cladding, decking and structural timber. With the acquisition of Norsilk, which has a long-standing presence in France, the company gains an expert with know-how in the complete range of wood products for the garden, cladding, panelling and much more.

The map below visualises how the European network and add-on strategy was used to build up Donges.

Donges, a buy-and-build approach



Source:Company data; Warburg Research

Donges now generates 45% of its sales from multi-material building envelope solutions such as roofing systems, façade systems and wood buildings products. The other 55% of its sales are generated with structural steel solutions such as building frames and infrastructure. The EBITDA of the Donges Group increased nearly 1000% from 2017 to 2020, from EUR 40m to EUR 384m. Mutares is able to leverage its expertise and positioning in multiple European countries to spot potential targets, analyse them closly and successfully integrate them in the platform investment to create value.

Growth / Financials

- Target is to reach EUR 3bn Group sales by FY 23, which should translate into Holding revenues of EUR 100m p.a. We forecast (ex new transactions) sales of EUR 2.6bn and Holding revenue of EUR 84m by FY 23.
- The number of consultants at the end of FY 20 is set to double by FY 23, driving Holding revenues and consulting fees. By FY 23, we expect the base dividend to be supported by consulting activities alone.
- Given recent exit gains, there is clearly potential for a dividend of EUR 1.50 or even more in FY 21e. We expect consulting income and equity distributions alone to continue to support the EUR 1.50 dividend level in FY 22e and FY 23e.

Guidelines of forecasting

As a preface to our discussion of growth and financials of Mutares we want to outline and explain our self-set guidelines:

- We forecast portfolio development and associated revenues and profit streams excluding any, as yet unannounced, future acquisitions and exits.

From the standpoint of the company as a going concern, one could argue that the company can be expected to continue pursing its main business purpose which, in the case of Mutares, is buying, realigning, and selling companies. However, as already mentioned, Mutares itself is in a transformation process. It is striving to become a far more active company than the industrial holding of its earlier years. However, in our view, the process is not yet finished. The portfolio is still in the build-up phase with many acquisitions announced. Excluding the STS group, four companies are now in the harvesting phase compared to 11 in realignment.

- We analyse the current portfolio.

Single portfolio companies and the current portfolio composition are surely of minor interest to long-term oriented investors. The general set-up of Mutares and the opportunities it presents is likely to be of far greater interest. Nevertheless, the current lopside of the companies in the harvesting phase towards the automotive and engineering industry as well as the scope and importance of Donges to the equity distribution to the Holding demands a closer look. In the near term, it is not so much the continuity and broadness of the portfolio, but single deals and company development that will have a significant impact on the development of the group as well as the net income of Mutares Holding and, in turn, the possible dividend.

EUR 3bn is achievable as portfolio grows and diversifies

Mutares is targeting consolidated group revenues of EUR 3bn by FY 23. First, we view this magnitude as achievable as the company signed contracts to acquire eight companies with a potential of more than EUR 1.0bn sales in the last four months alone. While many of these deals are yet to be closed, we view this as a proof of the capability to generate deals.

In theory, there are two major constraints to the growth of consolidated group revenue: a) the volume of the deal pipeline and b) capacity to send consultants into the acquired targets to reorganise and manage the turnaround.

As we view Mutares as being in the middle of a "supercycle" of opportunities as a consequence of the Covid pandemic and as it is investing heavily in its consultant capacity, these theoretical constraints should not pose a significant headwind to the growth of Mutares in the near term. Still, as outlined above, our predictions exclude the potential for future transactions, that are not yet announced.

A third possible constraint, the capital needed to invest, is of minor importance, in our view, as Mutares often acquires a company in a special situation for a nominal value of

EUR 1 and the target usually also comes with a certain amount of cash that can be used to manage the turnaround. The mechanism would actually be self-feeding if the funds were fungible and there were no contractually-binding determination of their use. However, the deals often include guarantees or additional funding obligations.

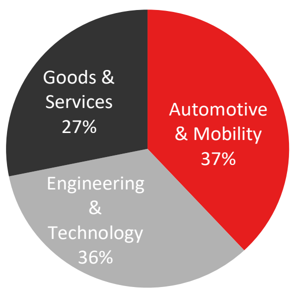
Prices might be higher for add-on acquisitons, which aim to generate economies of scale in an already existing and reorganised company or to achieve synergies. Such add-ons are not necessarily restructuring cases. To enhance its ability to make higher-priced add-on acquisitions, Mutares issued the EUR 80m nominal bond in 2020. This enables the company to avail of as many opportunities as possible in the current outstanding market situation.

Mutares categorises its portfolio in two ways. First, it categorises the portfolio by divison, or the industrial sectors in which the portfolio companies are active. Here the portfolio is split into Automotive & Mobility, Engineering & Technology, and Goods & Services.

Since Q3 2020, Mutares has also been providing categorisation according to the lifecycle phase allocated to the respective portfolio company. There are three phases including the realignment phase, followed by the optimisation phase and the harvesting phase, which are described in more detail in the Competitive Quality section.

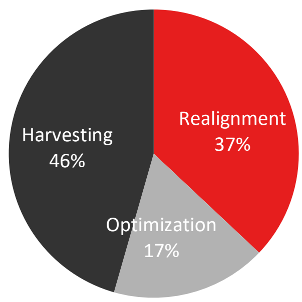
In 2020, the divisional sales split looked evenly spread while, in the lifecycle split, the sales volume in the harvesting phase stands for nearly 50% of the turnover, but note that STS and Donges made up around 85% of the harvesting sales in 2020.

Sales split by division for 2020



Source: Company data; Warburg Research

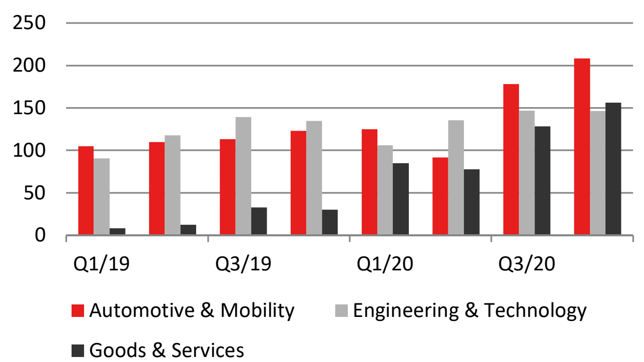
Sales split lifecycle phase for 2020



Source: Company data; Warburg Research

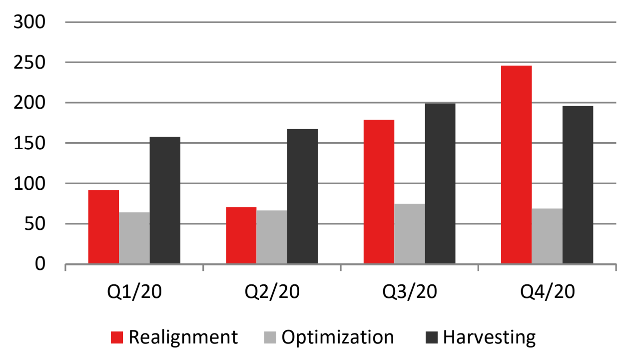
However, if we look at the dynamic of the segmentation, it becomes obvious that it is not a stable, evenly-spread set-up but dependent on deal activity, even though the total portfolio has already gathered significant scope. The closing of SFC Solutions in Q3 provided a boost for Automotive and Mobility as well as the realignment phase.

Sales split by division for 1Q 19 – 4Q 20 (EURm)



Source: Company data; Warburg Research

Sales split lifecycle phase for 1Q 19 – 4Q 20 (EURm)



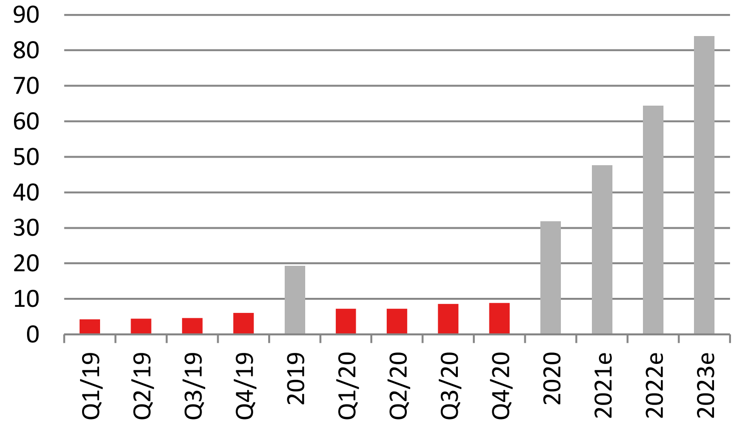
Source: Company data; Warburg Research

We estimate consulting revenues to show 44% CAGR 2019-2023e

Consulting revenues show gradual growth

In addition to the consolidated group revenue lines, we forecast the turnover of Mutares SE & KGaA (the Holding company). The sales volume of the Holding reflects the revenues generated by the consulting activity of the company and this is directly connected to the number of consultants, or the workforce of the operations team at Mutares, which is currently around 70 employees and is targeted to increase to 140 employees by FY 23. We forecast a CAGR of 38% from 2020-2023 as we see sales growing from EUR 32m to EUR 84m.

Mutares SE & KGaA (Holding) – Sales development 2019-2023e (EURm)



Source: Company data; Warburg Research

Recent acquisitions propel annualised sales >2bn

Impact of recently announced acquistions

In Q4 20 and Q1 21, Mutares announced several acquistions. While Terranor and iinovis were closed in Q4 and should be consolidated for part of the year, the others, namely de Boer/Japy,Lapeyre, Carglass Maison, Primetals, La Rochette, and Ericsson Service Italia are not yet closed and will be consolidated from Q1 21 onwards. Combined, these have an annualised sales volume of more than 1bn. This compares to consolidated group revenues of EUR 1bn for the period 9M 20. We quickly want to outline the transactions. Of these, Lapeyre is remarkable for its scope and La Rochette for its price:

Lapeyre

Mutares will strengthen the Goods & Services segment with Lapeyre as a new investment with sales of EUR 610m in 2019. With its 10 factories and 126 shops across France, Lapeyre manufactures and distributes home-improvement products such as windows, exterior and interior doors, or kitchen and bathroom furniture. Lapeyre, acquired it from Saint-Gobain SA, and it will be the biggest investment yet to reinforce the Goods & Services segment. Mutares has made a EUR 15m commitment to the deal closing, which will benefit Lapeyre. The cash position of Lapeyre at the time of acquisition amounted to EUR 245m. In addition, the company has significant assets in the form of real estate, technical equipment, and machinery. A potential risk for Mutares could be the stiff opposition of trade unions that are demanding job security for the employees of Lapeyre and further special terms attached to the aquisition. The acquisition was announced in Q4 but closing and consolidation is expected in H1 2021.

Carglass Maison

Mutares has agreed to aquire Carglass Maison (GCM) together with HomeServe a British multinational home emergency repairs and improvements business, from the holding company D'IM SA. Mutares will hold an 80% stake in GCM and HomeServ will hold the remaining 20% of shares. CGM is a renowned French home repair and emergency specialist with a track record of more than 50 years and two main activities. With around 300 technicians and a significant network of more than 1,200 subcontractors, CGM can rely on a wide array of in-house and external competencies to deliver a multi-service offer in a timely manner. As of 2019, CGM completed more than 88,000 jobs translating into EUR 42.5m in sales.

Primetals

Mutares has agreed to buy Primetals from Mitsubishi Heavy Industries. Primetals is a leading global supplier of high-end steel processing line solutions based in Savigneux, France, and employs around 300 workers. Primetals generated sales of approximately EUR 55m in 2019. The acquisition of Primetals Technologies France would strengthen Mutares' Engineering & Technology segment as a new platform investment, providing services and solutions for steelmaking and metals producers, which are the key suppliers of the automotive, construction, and energy sectors.

La Rochette

Mutares has signed a put option for the purchase of RDM La Rochette S.A.S. from the Italian Reno De Medici (RDM) Group. La Rochette is located near Lyon, France and is a producer of folding boxboard based on virgin fibers for the pharma and food industry among others. La Rochette puts a strong focus on the natural aspect of its packaging, as market demand for more sustainable and eco-friendly packaging increases. For the year 2019, the company reported sales of EUR 111.9m, EBITDA of EUR 5.8m and a net loss of EUR 6.7m, with net financial debt of EUR 12.9m. La Rochette was valued at EUR 28.8m, which means cash-out of EUR 15.9m by Muatres for the acquisition. In this respect, the transaction is a deviation from the usual transactions. RDM is to receive an earn-out of 25% on the EBITDA exceeding EUR 7.2m in each of fiscal years 2021, 2022 and 2023. In the event that the EBITDA threshold of EUR 7.2m is not exceeded in any of the three years mentioned above, the earnout would extend to fiscal 2024.

Ericsson Services Italia

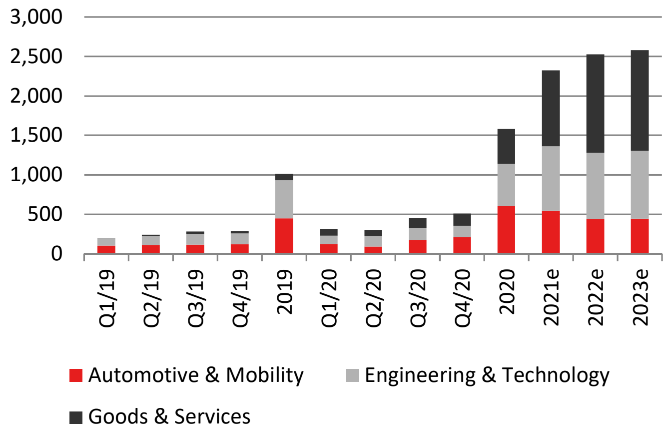
Mutares has signed an agreement for the acquisition of Ericsson Services Italia from Ericsson Telecomunicazioni. The company is a leading provider of information and communication technology services to service providers. Ericsson Services Italia operates telecommunication services throughout Italy. It is headquartered in Rome and employs more than 260 people. The company is a dedicated service company for network rollout and on-site maintenance services. The main clients are the Italian mobile operators. In 2019, the company generated revenues of approx. EUR 45m.

Portfolio to diversify

Sales forecast by divison

At its CMD in October 2020, management guided for an annualised sales volume of EUR 1.8bn for FY20. We expect consolidated revenues of around EUR 1.65bn. Annualised sales including the transactions announced so far should sum up to more than EUR 2.2bn.

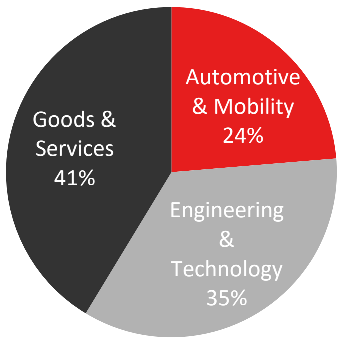
Mutares group – Sales development 2019-2022e



Source: Company data; Warburg Research

The highest growth will be seen in the Goods & Services division with the consolidation of Lapeyre, by far the biggest contributor to growth. For FY 20 we expect revenue in the Automotive and Engineering division to be at nearly the same level of around 36% of sales, while Goods & Services would account for 27%. By FY 21e these should change significantly with the newly consolidated companies while Goods and Services will become the largest division with a revenue share of 41%

Mutares Group – Sales by divison FY 21e



Source: Warburg Research

No causality between group adj. EBITA and equity distribution

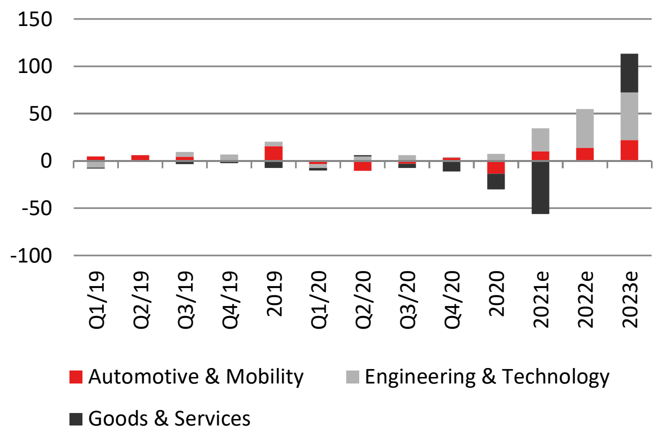
Portfolio adj. EBITDA and equity distribution potential

To model the adjusted EBITDA forecast and especially the equity distribution capability, we use a bottom-up methodology. The company's segmentation by lifecycle enables the identification of the companies considered to be in the harvesting phase, which we interpret as those possibly able to make a distribution. New acquistions, or the companies in the realignment phase, tend to be highly loss-making.

Forecasting the operational EBITDA is already a very difficult task in light of the change in the scope of consolidation. Forecasting EBITDA including bargain purchases and restructuring is even more so. We therefore put the emphasis on the operational EBITDA and development of the companies which we expect to be equity distributors.

By division, adj. EBITDA is set to improve for the Automotive and the Engineering division mainly with the development of Donges and the sale of STS Group. The sale of the loss-making STS acoustic division announced in Q3 20 as well as the good Q4 for the automotive industry paired with successful restructuring should boost profitability in Q4 20. We regard Donges' development as the main contributor to the Engineering division. The Goods and Services divison should see a vast drop in adj. EBITDA, which is mainly due to the expected consolidation of Lapeyre in FY 21e. The company is expected to be highly loss-making in its first year.

Mutares group – adj. EBITDA development 2019-2022e (EURm)



Source: Company data; Warburg Research

For FY 21e we expect a significant improvement at Donges, which we believe will be the main driver behind our equity distribution forecast. By FY 22e and beyond, we view our forecast as cautious as many of the portfolio companies should have managed the turnaround and companies from the optimisation phase, like Keeeper, should also be able to generate equity dividends and distribute these to Mutares Holding. For FY 21e we expect EUR 12m, growing to EUR 20m for FY 23.

Performance-related pay-out to pick up in FY 21

Exit gains / performance fees: announcements of EUR >50m in Q1 21

We assume that the exits communitacted in 2020 did not lead to the ability to distribute exit gains from the SPV of the portfolio companies to Mutares Holding. Inflows from the sale of Bexity Czechia and Balcke Dürr Poland brought cash contributions to the respective companies but we are assuming that these companies were not yet in the position to distribute to the parent company. While Klann was sold at the beginning of the year for a positive selling price, Mutares previously had to write down loans and probably needed to contribute cash for the sale. Effectively, until 9M 20 there was no income for financial assets at Mutares Holding level and any gains from Klann should have been recognised here already.

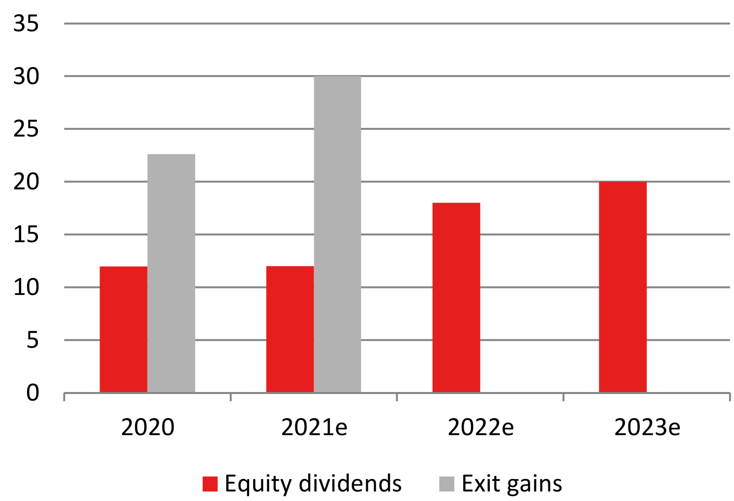
Nevertheless, at the very beginning of 2021, two exits were announced, which we expect to have led to gains and these gains could be attributed to FY 20. Management indicated that the sale of Balcke Dürr Rothemühle led to cash inflow of a high single-digit million and a portion of that should be available for distribution as the prior sale of the Poland activities should have bolstered equity at Balcke Dürr. However, an even higher impact should have been possible with the sale of Nexive.

In one of the quickest transactions, Mutares used a special opportunity in Italy to provide the Italian postal service with an ability to consolidate the market. The Italian Post stated an EV for Nexive of EUR 50m including EUR 15.6m in debt. Minority partner of Mutares, the Netherlands Post (20% stake) announced cash-in of EUR 35m with the transaction and an equity gain of EUR 30m. We assume that the Netherlands Post was the major financier of the transaction and that the initial investment from the side of Mutares was very low, namely EUR 1m or lower. However, assuming a channeling-through of debt from the Italian Post to the Netherlands Post, this leaves room for more than EUR 15m in payment for the 80% equity stake of Mutares.

In March, Mutares announced the sale of its majority stake in STS group. STS will be sold for EUR 7.0 per share to its closest industrial peer Adler Pelzer, which already bought the STS Acoustics business in 2020. Mutares stated that its share in STS was 73.25% versus c. 65% stated in Q1 2020 report. We conclude that Mutares acquired roughly 850k shares since June 2020, 500k of which were part of an equity increase. Total cash-in from the sale, which is pending antitrust and Adler board approval, will be EUR 40.3m as, besides shares, Mutares receives EUR 7m for an outstanding shareholder loan. Post some write-downs in FY 2019, we assume that the book value of STS was very small as, at the beginning of 2020, STS could only be secured as a going concern by granting the loan and receiving state-backed financing. Thus, we estimate the exit gain from STS at EUR 30m. Mutares expects the deal to be finalised in H1 2021.

In FY 20, investment income, which includes portfolio company equity distributions and exit gains, stood at EUR 34.6m. From the sale of Nexive and Balcke Dürr Rothemühle, we estimate a total of EUR 22.6m in exit gains, leaving EUR 12m for equity distributions. Note that if we deduct the STS Group, the adj. EBITDA of the portfolio companies in the harvesting phase stands at EUR 17.2m. In turn, we assume that FY 20 equity distributions include components other than distributable net income only.

Estimated equity distributions and exit gains (EURm) 2020-23e



Source: Company data; Warburg Research

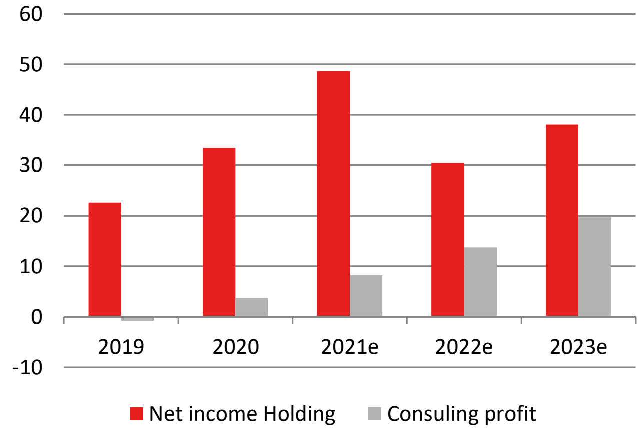
Base dividend to be solely supported by Consulting until FY 23

Profit contribution from Consulting

As outlined, the sales volume of Mutares SE Holding reflects the consulting fees that the company charges the portfolio companies for the consultants. In FY 20e these are estimated at EUR 31.9m. We further assume that the direct costs for the activity are the personnel costs visible at Holding level. However, these personnel costs are only for the consultants employed directly by the Mutares SE & CO KGaA. Wages for consultants that are employed by the local country entities are accounted for under “other operating costs”. By FY 19, there was roughly the same number of consultants employed in Mutares SE & CO KGaA in Munich as in the local country entities. Going forward we keep this ratio stable and thus double the personnel costs at Holding level. The positive aspect is that Mutares is able to support and finance the Holding management activities and general business operations but the absolute consulting profit, an estimated EUR

8.2m at EBITDA level (17% EBITDA margin), leads to just a small profit for the Holding at EBITDA level. However, with plans to hire more consultants for the added portfolio companies, we believe that the profits will be scalable. As a result, we expect EBITDA oft EUR 19.7m from the consulting activities in FY 23e, which is an adj. EBITDA margin of 23%.

Mutares Holing – Consulting profits and net income 2019-2023e (EURm)



Source: Company data; Warburg Research

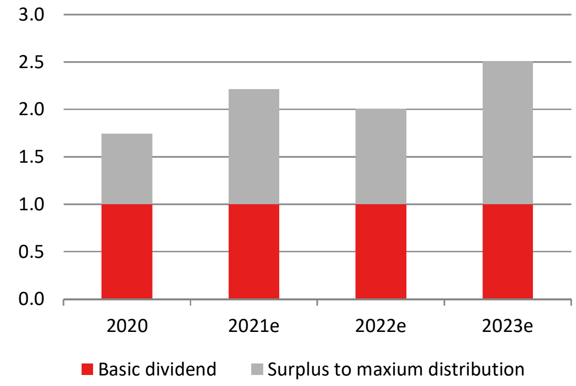
We expect EUR 1.5 dividend in FY 21e and beyond

Base dividend secure; performance dividend likely for FY 21 and beyond

A main pillar of the Mutares investment case is the dividend payment, which the company set at a minimum of EUR 1.0, possibly bolstered by an extra dividend in case of exits. However there are some restrictions on the pay-out of the dividend due to the details of the bond issued in 2020. To our understanding, under the terms of the bond Mutares has agreed to i) minimum liquidity of EUR 10m which needs to be available at the level of Mutares SE KGaA and ii) 50% of the proceeds from exits need to be reinvested in the acquisitions of companies or other business undertakings. Cash acquired from the bond proceedings cannot be used for equity distribution but must be used for general business purposes.

Looking at FY 20, net income of Mutares Holding of EUR 33.4m comfortably supports the roughly EUR 15m payment for the base dividend. Including STS group, exit gains would rise to EUR 52.6m and cash proceeds to around EUR 60m at Holding level. Mutares has not specified its policy for paying performance dividends. In light of the FY 20 and FY21 exits gains and respective cash flow generated, Mutares can comfortably afford to pay an extra dividend. For FY 21e, the sale of STS group would already support a performance dividend of, again, EUR 0.50. Our calculated maximum pay-out would be EUR 1.70 for FY 20 and EUR 2.10 for FY 21e based on our forecast and exits already announced. Even without exits, we estimate that the base dividend could be raised to EUR 1.50 in FY 22e and FY 23e as that level would be supported by our estimates for consulting profits and equity distributions.

Maximum dividend payments derived from Holding results (EUR)



Source: Warburg Research

The estimates for FY 22e and FY 23e could be seen as an absolute minimum and, of the many acquisitons made in FY 20e, it is very likely that there will be profitable exits, which would lead to a higher distributable income.

Mutares – Key P&L items 2018-2023e.

	2018	2019	2020	2021e	2022e	2023e
Group sales	865.1	1015.9	1584	2324	2528	2580
yoy		*17.4%*	*55.9%*	*46.7%*	*8.8%*	*2.1%*
Automotive & Mobility	437	450.4	602	550	439	447
Engineering & Technology	298.6	482	535	814	845	859
Goods & Services	48.7	83.5	447	960	1244	1274
Adj. EBITDA Automotive	17.5	15.6	-13.3	10.2	14.0	22.2
Adj. EBITDA Engineering	-1	4.7	7.6	24.2	40.9	50.2
Adj. EBITDA Goods & Services	3.3	-7.3	-17.0	-56.0	-1.0	41.0
Adj. EBITDA Mutares group	4.5	7.5	-22.7	-21.6	53.9	113.4
Mutares Holding sales	10.6	19.3	31.9	47.6	64.4	83.9
yoy		*83.0%*	*65.0%*	*49.1%*	*35.3%*	*30.4%*
Consulting Income	-7.6	-0.8	3.7	8.2	13.8	19.7
Equity distributions	n.a.	3.0	12.0	12.0	18.0	20.0
Exit gains	67.9	0.0	22.6	30.0	0.0	0.0
Mutares Holding net imcome	20.1	22.5	33.4	48.6	30.5	38.0
Dividend	1.00	1.00	1.50	1.50	1.50	1.50

Source:Company data; Warburg Research

Valuation

- We base our PT on a special SotP model with separate valuation of the consultant revenues, equity distribution potential, and potential exits. In addition, we calculate an NAV of the portfolio holdings to offer a tool to track changes at portfolio level.
- Based on Group figures, an FCF value potential model, DCF or peer group do not adequately reflect the economic situation

Valuation on the basis of an SotP model

To calculate a fair value for Mutares and derive our PT, we use a special SotP approach, which values the income/cash streams from consulting and equity distributions of portfolio companies to the Holding. Our model is set up to value the firm, which means that we discount income streams before interest and deduct debt levels. As the basic set-up of the valuation models assumes business continuity, it has considerable flaws (like any other valuation method) in reflecting the transactional business model and the potential exits. To take this into account, we add a third element to our SotP model in the trial to provide a proper valuation tool for Mutares. Our idea is to calculate an NPV of the portfolio companies using potential exit transaction values and probabilities.

The outstanding investment opportunity currently enjoyed by Mutares puts the company in an intense acquisition phase and will result a portfolio that will be dominated by realignment cases for the next years. As a consequence, we focus more on the matured holdings in the portfolio when estimating the equity distribution capability, which are Donges and Gemini to name the largest. We stop detailed forecasting from FY 23 on and use a perpetual annuity thereafter.

Valuation consulting and equity distribution

	2020	2021e	2022e	2023e
(EURm)				
Consulting revenues	31.9	47.6	64.4	83.9
Consulting profit (EBITDA)	3.7	8.2	13.8	19.7
			WACC	8.4%
			TV	235
Equity distributions	12.0	12.0	18.0	20.0
WACC			WACC	8.4%
			TV	239

Source: Company data; Warburg Research

However to reflect the potential of the companies in the realignment phase, we add an NPV calculation for the total portfolio.

A tool to track development

NPV of portfolio companies

To gain a better understanding of the potential from exits of portfolio companies, we decided to calculate these individually. Admittedly, the calculation of possible exit values is rather a helicopter view with little granularity. First, we take a holding period of around five years and model unchanged sales for the implied exit year. At the exit date, we apply EBITDA margins which seem appropriate to us using industry benchmarks. We deviate from this general rule if we have more information, e.g. in the case of Donges, where management gave an individual forecast. Further, we use rough EBITDA transaction multiples, which we deem appropriate for the respective industries. Generally, we omit debt levels from the calculations as we do not account for the cash dowries either and calculate the enterprise value using the target EV/EBITDA multiple.

In a next step, we apply probabilities for each portfolio company. We use the differentiation that Mutares provides with respect to the lifecycle phase assigned to the respective portfolio company. For companies in the reorangisation phase, we apply a 10% probability of reaching our targeted exit enterprise value. Those that are in the optimisation phase have entered the next stage, matured, and have averted the near-term risk of a failure of the turnaround. We therefore raise the probability to 25%. If the companies move into the harvesting phase, we increase to 35%. This might look low, but note that these companies have just completed an operational turnaround and are still vulnerable to adverse economic development or crisis, and reserves have not yet been built up.

Nevertheless, if we are more optimistic for certain companies, we raise the probability accordingly. Donges is such a case. We apply a 60% probability, considering that the company has already distributed equity in the past and has transformed into a new company with the support of the add-on acquisitions. Furthermore, its general end-market, broadly the construction industry, has not been particularly negatively impacted by Covid-19 effects and should generally benefit from investments on the horizon in the scope of many infrastructure programmes.

The transactions already announced but not yet closed are shown in italics in the table below but are not included in the NPV of the portfolio companies. Their inclusion in the table below gives the investor a quick idea regarding changes to the NPV with the finalisation of the transaction.

Until finalisation and antitrust approval, STS continues to be part of the NAV using the EUR 7.0 price per share for NPV calculation.

NPV calculation portfolio companies

		all Warburg Research estimates						
Company	**exit date**	**sales Wre**	**EBITDA margin**	**EBITDA / EBIT**	**Exit mutiple**	**EV**	**probability**	**NPV**
Balcke-Dürr Group	2024	110	6%	6.6	6.0	40	25%	7.8
BEXity	2025	200	3%	6.2	9.0	56	10%	4.0
Carglas Maison (CGM)	2026	42	7%	2.9	7.0	21	10%	1.1
Cenpa	2024	27	7%	1.9	6.0	11	25%	2.2
Donges Group	2023	400	8%	30.0	7.0	210	60%	107.3
Elastomer Solutions Group	2023	36	7%	2.5	6.0	15	35%	4.5
Exi (Ericcson Services Italia)	2026	45	6%	2.7	8.0	22	10%	1.4
EUPEC	2023	12	7%	0.8	6.0	5	35%	1.5
Gemini Rail Group	2024	70	8%	5.6	8.0	45	35%	12.3
iinovis group (Valmet Automotive)	2026	55	5%	2.8	5.0	14	10%	0.9
keeeper	2024	140	12%	16.8	9.0	151	25%	29.7
Kico Group	2026	100	8%	8.0	6.0	48	10%	3.2
La Rochette	*2026*	*120*	*10%*	*12.0*	*7.0*	*84*	*10%*	*5.6*
Lacroix & Kress / Plati	2026	160	8%	13.0	7.0	91	25%	15.2
Lapyere	*2026*	*600*	*7%*	*42.0*	*6.0*	*252*	*10%*	*16.8*
Clecim (Primetals)	2026	55	9%	5.0	7.0	35	10%	2.3
Primo TECS (Tekfor)	2026	120	7%	8.4	6.0	50	10%	3.4
Royal de Boer / Japy Tech	2026	50	10%	5.0	7.0	35	10%	2.3
Sabo	2026	25	10%	2.5	8.0	20	10%	1.3
SFC Solutions	2026	180	8%	14.4	6.0	86	10%	5.8
Terranor (Nordic Road Services)	2026	100	8%	8.0	6.0	48	10%	3.2
Trefil Union	2026	40	7%	2.8	7.0	20	10%	1.3
					# shares	Mutares stake	Price	
STS Group					6.5	73.3%	7.00	33.3
								244.2

Source:company data, Factset, Warburg Research

As the probability-weighted EV would be realised at a future point in time, we discount the EV to the current year, using the same WACC as for the other income streams.

Our aim with this generic approach is less about achieving superior methodology or greater granularity but rather to provide a transparent tool to quickly outline and measure the impact of changes to individual portfolio companies as well as to reflect the maturing of the restructuring cases.

Price target at EUR 28.0 – offering more than 20% upside

To derive the price target for Mutares, we add the the consulting and equity distribution but, to avoid double counting, we use only the value of the NPV in excess of our estimated equity distribution terminal value for valuation purposes. This means we discount the TV of the equity distributions to FY 2021 and then subtract that value from the calculated NPV of the portfolio. We know that this is not an absolutely clear-cut distinction of the two income streams but we feel that the advantages in handling and transparency outweigh the flaws.

We also include the announced and finalised disposals with their estimated exit gains in the valuation. Our SotP model calculates a fair value of EUR 24.0 which we set as our price target.

Valuation SotP

	2020	2021e	2022e	2023e
Sum of the Parts				
Consulting revenues	31.9	47.6	64.4	83.9
Consulting profit (EBITDA)	3.7	8.2	13.8	19.7
WACC				8.4%
			TV	235
Equity distributions	12	12.0	18.0	20.0
WACC				8.4%
			TV	239
(+) NPV portfolio		244		
(-) Discounted TV equity distributions		203		
NPV portfolio surplus		41.1		
Exits				
Balcke Dürr Rothemühle	5.6			
Nexive	17			
Enterprise Value / CF	22.6	61.3	31.8	**473.7**
Discounted values	22.6	61.3	29.3	403.3
Discounted sum EV/CF		**516.5**		
Debt		80		
Cash		26.5		
Other debt like items		29.8		
Equity Value		433		
Number of shares outstanding		15.5		
Fair value per share		**28.0**		

Source: Warburg Research

From the sum of the discounted cash streams, we subtract the level of debt. In the case of Mutares Holding, this is the outstanding bond with a nominal value of EUR 80m. We do not include cash or debt of the portfolio companies in our group valuation. The cash is most often a dowry for restructuring and debt is rather low as the credit risk of portfolio companies is high. If we look at bank debt and cash only, the group had a net cash position over the last years. Factoring, leasing, and other types of financing are more common but we regard the risk for the Holding as comparatively small as the special purpose vehicles should protect from most risks from insolvencies. Nevertheless, when we can specify guarantees given by the Holding, we subtract these as debt from the calculated enterprise value as a risk consideration.

To discount values, we calculate a WACC using 6% cost after tax, which we derive from the outstanding bond that has a coupon of 600bsp over Euribor and essentially a tax rate of zero as almost all profits at Holding level are tax-free. The cost of equity stands at 8.65% using an equity risk premium of 5.5%, a risk-free rate of 1.5% and a beta of 1.3x. We calculate the WACC using a target debt rate of 10%, leading to a discount rate of 8.39% which we use to discount income streams and NAVs.

The longer-term potential

The potential would increase substantially if Mutares were to reach its FY 23e targets and sustainably generate EUR 60m net income at Holding level, which would translate into EPS of EUR 4.0. Screening selected private equity asset managers and respective multiples shows that the combination of track record, growth, and predictability of earnings grant high forward PE multiples. If Mutares were to live up to these expectations, our current PT of EUR 28 would be way too conservative.

Selected private equity company multiples

Company	LC	Price	MC	EV	P / E			EV / Sales			EV / EBITDA			EV / EBIT		
		in LC	in LC m	in LC m	21e	22e	23e	21e	22e	23e	21e	22e	23e	21e	22e	23e
Private Equity companies																
EQT AB	SEK	295	281035	273296	46 x	41x	27 x	23 x	20 x	15 x	38 x	35 x	23 x	40 x	36 x	24 x
Partners Group Holding AG	CHF	1301	34284	34122	35 x	32 x	29 x	19 x	17 x	16 x	30 x	26 x	24 x	31x	28 x	25 x
Apollo Global Management Inc. Cla	USD	47	19054	27459	17 x	14 x	12 x	13 x	12 x	10 x	22 x	20 x	13 x	24 x	22 x	17 x
Average					33 x	29 x	23 x	18 x	16 x	14 x	30 x	27 x	20 x	32 x	29 x	22 x
Median					35 x	32 x	27 x	19 x	17 x	15 x	30 x	26 x	23 x	31x	28 x	24 x

Source:Factset, Warburg Research

An additional way to look at the longer-term potential is the targeted ROIC of 7-10x for the capital invested by Mutares. If we assume the EUR 80m bond as the available capital that was invested since its issue in February 2020, this would result in returns of EUR 560m to EUR 800m. This excludes reinvestment of proceeds. Considering the current market cap of Mutares of EUR 350m, this would result in considerable upside potential to our target price of EUR 28.

Risks

It is in the nature of Mutares' business model that efforts do not always succeed, despite the expertise and thorough process that the company has built up. Therefore one should note the risk of insolvencies of portfolio holdings, especially in France, where the strong positioning of workers councils and unions makes it tough to avoid all rights of recourse.

In general we would still cite the risk to our estimates for equity distributions of an economic downturn at this point, especially in the engineering and automotive sectors. While the Goods & Service segment is on the rise, the dominant companies in the harvesting phase are active in Engineering and Technology.

Company & Products

Mutares was established and co-founded in 2008 by Robin Laik and focuses on the acquisition of small and medium-sized companies that are loss-making or face financial distress and adversity. The company aims to lead these companies to stable and profitable growth through intensive operational measures. After Mutares aquires a company, its dedicated operational team, together with the management of the portfolio companies, develops a comprehensive improvement programme spanning the entire value chain and its implementation. The objective is to return the company to sustainable and long-term success and to subsequently support its value, including the implementation of strategic add-on acquisitions. In this section, the organisational structures as well as the current portfolio companies of Mutares are examined.

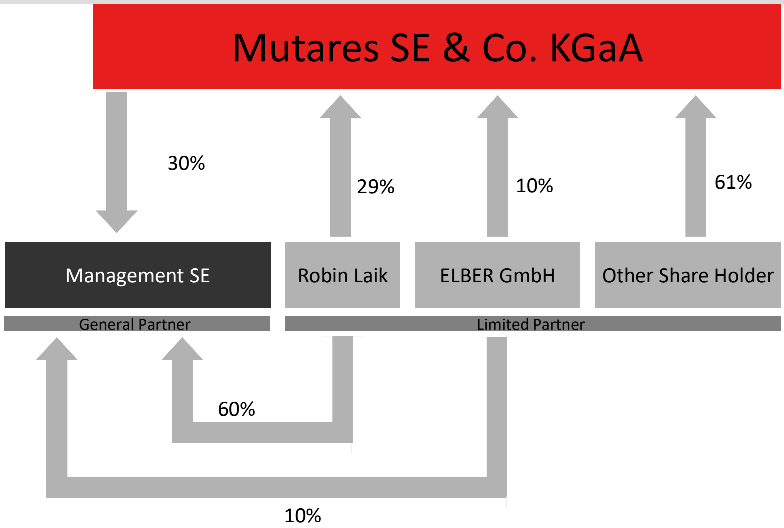
Organisational setup of Mutares SE & CO KGaA

The German Kommanditgesellschaft auf Aktien (KGaA) is a partnership by shares and combines elements of a stock corporation and a limited partnership. It consists of a personal liable partner (general partner) instead of a management board and a limited partner. The limited partner in the case of Mutares is the shareholders of the Mutares SE & Co. KGaA. The personal liable partner is the Mutares Management SE (a corporation), bypassing the personal liability, since the Management SE is only liable with its assets.

Typically the general partners have a stronger position than the management board in the AG. Their consent is generally required for all extraordinary management measures and fundamental transactions, i.e. such measures cannot be carried out against the will of the general partners.

Compared to the AG, there is extensive freedom in the design of the articles of association.

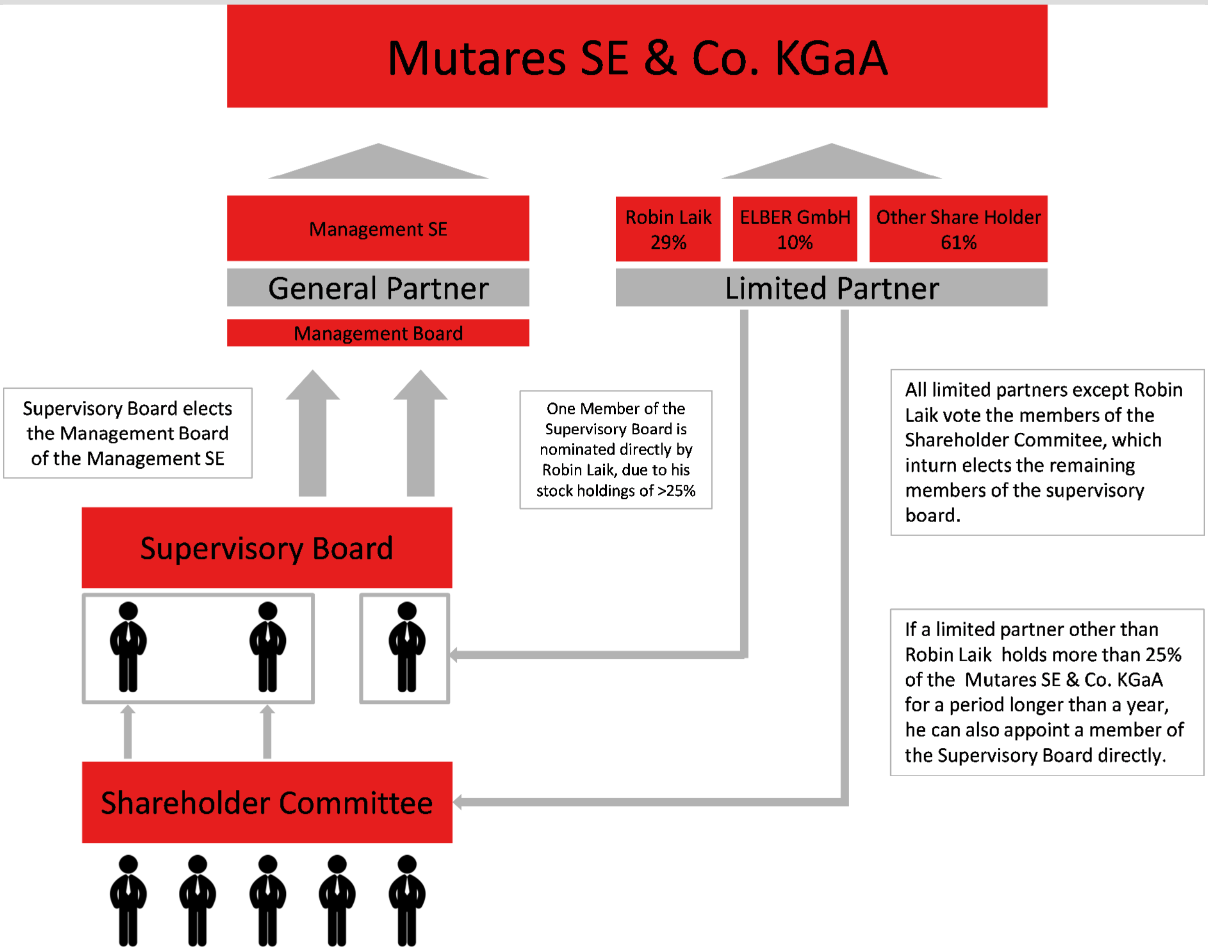
Mutares SE & Co.KGaA and Management SE shareholder structure



Source: company data, Warburg Research

In some cases, the limited liability shareholders have more far-reaching powers (e.g. the passing of resolutions on the annual financial statements, approval of extraordinary management measures). In others, they have less influence than the shareholders in the AG. They lack the indirect personnel competence for the management, as the supervisory board cannot appoint or dismiss the general partners; § 84 AktG does not apply. Admission of new general partners and withdrawal of management or representation authority generally requires the consent of all shareholders - including the person concerned.

Mutares structural overview



Source:Company data; Warburg Research

Mutares SE & Co. KGaA has a 30% stake in the Mutares Management SE in order to grant some influence to the limited liability shareholders. The other shareholders are Robin Laik with 60%, and the Elber GmbH with 10%. The exercise of voting rights of Mutares SE & Co. KGaA at Mutares Management SE general meeting is on the authority of a shareholders' committee, which is exclusively elected by limited shareholders of Mutares SE & Co. KGaA at the shareholders meeting. This committee then elects the supervisory board of the Mutares Management SE, which in turn appoints its management. Although CEO Robin Laik has no voting rights to appoint members of the shareholder committee he can directly appoint one member of the supervisory board due to his 29% stake in the limited capital of the Management SE & Co. KGaA. Besides Laik, every other investor that holds more than 25% of the limited share capital for more than 12 months can directly appoint one member of the supervisory board of Mutares Management SE. This mechanism enables the shareholders of Mutares Management SE & Co. KGaA to participate in the selection of the management board of Mutares Management SE which controls the company. Nevertheless, we note that the supervisory board of Mutares Management SE and the supervisory board of Mutares SE & KgaA have the same composition and that one member, Dr. Lothar Koniarski also exerts the rights of Elber GmbH.

Portfolio companies

The 19 portfolio companies of Mutares are separated into three divisions; Automotive & Mobility, Engineering &Technology and Goods & Services.

Companies in the Automotive & Mobility segment operate in the commercial vehicle and passenger car supply business. They have plants and employees around the world and supply prominent international commercial vehicle and passenger car manufacturers.

In the Engineering & Technology segment, Mutares brings together companies that enjoy a significant competitive advantage thanks to their excellent construction expertise and experience.

The portfolio companies in the Goods & Services segment stand out with their clearly defined positioning in their home markets.

Companies that are still in the transaction process are not listed below but are described in the Financial / Growth section of the report.

Automotive & Mobility

iinovis

iinovis

Iinovis is an automotive engineering service provider with expertise in growth areas such as simulation, testing, electrical/ electronics and vehicle development (cars & motorcycles). The company sells engineering services, produces wire harnesses and is active in prototype & small series production. Iinovis headquarters is located in Munich (Germany). In addition, the company has four other sites as well as a test track in Spain. Its main customers include OEMs as well as tier-one car manufacturers like VW, Audi, BWM or Seat. Iinovis's market advantage is its highly qualified and well-trained engineers and technicians. It is pursuing a growth strategy.

In November 2020, Valmet Automotive Inc. sold Iinovis to Mutares. With the acquisition, Mutares gained further technical know-how and synergy potential. The objective is to strengthen the Automotive & Mobility segment.

Iinovis generated around EUR 56m sales in 2019 and we regard the automotive production the main driver of the business. In our view, larger parts of the business are comparable to the German-listed Bertrand, EDAG Engineering or unlisted firms such as IAV and FEERCHAU.

Iinovis is pursuing a strategy of growth which involves broadening the customer base and benefiting from the trend among OEMs to outsource standard engineering services.

SFC Solutions

SFC Solutions

SFC Solutions is a Polish manufacturer of fluid transfer systems and sealing solutions for the automotive industry. The company offers diverse products in four different areas: Sealing, Fluid Transfer Systems and Fuel & Brake Delivery Systems, Compound, and finally, Solutions. In view of the current automotive industry trend towards battery electric and hybrid vehicles, the demands on cooling systems are increasing. SFC Solutions works closely with OEMs to develop new technologies, keeping a particular focus on weight and component size reduction. The company has sites in Poland, Czestochowa (headquaters), Spain, Morocco, Italy and India.

In 2019 SFC Solution generated around EUR 180m in sales and we consider automotive production to be the main driver of the business. The customer base includes local OEMs as well as several tier-one car manufacturers, for example Renault, Mercedes-Benz, Porsche, Ford, Jaguar-Land Rover, BMW, Nissan, Honda, John Deere, KIA, Opel, Mahindra, General Motors, FCA VW, Tesla, and PSA. With a market share of 5%, the company is a top-seven player for fluoride transfer systems and a top-two player for integrated starter generators in Europe. SFC Solutions' strategy is to focus on further development of the automotive sector and to enter further cooperation agreements with OEMs.

In July 2020, Cooper Standard sold SFC Solutions to Mutares. The product portfolio as well as the customer environment offer enormous synergy potential with the Elastomer Solutions Group.

Primo TECS

Primo TECS provides steel solutions for mobility. The company is a well-known Italian manufacturer of automotive components with 114 years of experience. Annually PRIMO TECS delivers 70,000,000 parts to its customers. Consumers include local OEMs as well as tier-one and tier-two car manufacturers in the automotive industry. Primo Tecs products are used in a vehicle's driveline (e.g. drive-wheel inner ring or fastener), engine (e.g. conrod or pulley), e-mobility (e.g. rotor-shaft) and transmission (e.g. inputshaft gearbox engine side or speed gear).

Primo TECS has two production plants in northern Italy. In 2019, the company generated EUR 120m in sales. It is characterised by its long-term relationships with customers, who also became partners, as well as by the production of diverse components and competitive prices. Strategically, Primo TECS is focusing on further development of its current business, using the know-how it has acquired and intensifying cooperation with customers. We regard the main driver of the business as automotive production (electric, hybrid, and conventional vehicles).

In 2020 the Tekfor Group sold the company to Mutares. After the acquisition the company was named Primo TECS.

KICO Group

KICO manufactures safety components for the passenger car market. Its products include locking systems (e.g. door locking brackets), hinges, connecting elements and mechatronic systems. KICO is a tier-one supplier and mainly serves automotive OEMs (such as VW, Skoda, Seat, Porsche, Lamborghini, Bugatti, Bentley) and commercial vehicle manufacturers (e.g. Mercedes, VW, MAN) as well as system suppliers (e.g. MAGNA, Bosch, Tenneco, SAG). High customer satisfaction is the company's top priority.

In 2019, Kico had sales of EUR 90m. The German-based company created a market advantage with high-quality product and delivery, comprehensive know-how, high flexibility and its ability to offer customised solutions to its clients. As a methodical helper, KICO is striving to further expand its market position in the areas of closure systems and hinges, as well as to consolidate the market position already achieved in the still nascent product area of aerodynamic systems.

In July 2019, Mutares acquired KICO (Kirchhoff GmbH & Co. KG) from its owning family. With the acquisition, Mutares gains a traditional family-owned company for its Automotive & Mobility segment. Significant value potential is created by the company's innovative strength and long-standing relationships with automotive manufacturers and suppliers.

PLATI Group

PLATI Group is an established and internationally active supplier of wire harnesses, special cables and connectors. The Italian-based company is active in various industries (e.g. automotive, healthcare, consumer goods, electronic devices and telecommunication). Plati is based in Italy and has two production sites in Poland and Ukraine. Its broad international customer base includes Continental, Bosch, Saeco, Fideltronik, Lovato, Lacroix Electronics, Flextronics, and Philips. The company holds an excellent position, especially in the field of vehicle wiring and medical electronics.

Additionally, PLATI offers products at competitive prices, high quality levels and low lead-times. Strategically the company is focusing on a growth and its development in the Asian market.

In 2019, Plati generated around EUR 30m in sales. As well as industrial production, we regard car production, trade, e-commerce, technology, and automation as key drivers for the business. We also consider parts of the business to be comparable to Nexans, BorgWarner, Furukawa Electric Co. Ltd., Lear Corporation, Leoni AG, Mothreson Group and YURA Corporation.

In June 2019, Mutares acquired PLATI from the Deren Group (China). The transaction is an acquisition that benefits from synergies between PLATI and Elastomer Solutions.

Elastomer Solutions

Elastomer Solutions is a leading provider of rubber, thermoplastic and rubber-to-plastic components for the automotive industry. The company is known as a specialist for complex technical parts and covers the entire value chain from development to final production.

Its products include wiring systems, heating and air conditioning, pedal covers, powertrains and engines, bodies, decoupling and bumper systems. Elastomer Solutions actively delivers in 40 countries and supplies several tier-one and tier-two suppliers as well as OEMs. Its customers include Aston Martin, Audi, Bentley, BMW, Citroen, Ferrari, Ford, General Motors, Porsche, Renault, Tesla, Toyota, and VW. Elastomer Solutions pursues a sustainable and organic growth strategy. Its production sites in Morocco and Mexico have been expanded in the form of greenfield projects.

Besides the headquaters in Germany, Elastomer Solutions has product sites in Portugal, Slovakia, Morocco and Mexico. In 2019, ElastomerSolutions generated EUR 36m in sales. We regard car production and the transformation of the automobile industry as the key growth drivers for the business. Possible peers in some business segments include Simoldes Plastic Division, Groupe Renault, FICOSA, and Lear Corporation.

In 2009, Mutares acquired Elastomer Solutions from the Diehl Group (Nürnberg). Elastomer Solutions has a high level of technological expertise and thus offers attractive economic potential, which Mutares intends to develop further.

Engineering & Technology

LACROIX + KRESS

Lacroix + Kress is a leading manufacturer of oxygen-free copper wire. Its products are sold with bare, tinned, silver-plated and nickel-plated finishes. The German company has the largest installed OF-Cu production capacity in Europe with a capacity of 68k tons per year and a large plating capacity for nickel plating, tin plating and silver plating. Lacroix + Kress generated around EUR 120m in sales in 2019. Its products are used in the cable, automotive, food, aircraft, medical and infrastructure industries. However, the main end-markets are wire-copper manufacturers and the automotive industry. Its customers are mainly from Europe. We see copper wire consumption, automotive production and the development of the market for electric vehicles as the main drivers of the business.

Lacroix + Kress's strengths lie in the variety of specialty wires, owing to its diverse customer base in different industries, and a long-term positioning in Germany and Europe. The company is currently focusing on future growth. This is to be achieved by optimising the product-mix, increasing overall efficiency and reducing costs in the supply chain.

In November 2020, Mutares acquired Lacroix + Kress from Nexans. As a new platform investment, Lacroix + Kress promotes the existing portfolio company Plati. Significant cross-segment synergies have been created, enabling both companies to accelerate their growth potential and profitability.

Gemini Rail Group

Gemini Rail Group offers solutions for train refurbishment and modernisation as well as external project management. In 2019, the Birmingham-based company generated around EUR 80m in sales. In the UK, Gemini Rail Group is the second largest OEM-independent supplier. In addition, the company has established itself under the GemECO brand as the leading technological retrofitter for hybrid drive systems for rail vehicles.

We see train production and usage as the main drivers of the business. Customers include UK rail operating- and owning companies as well as rail OEMs (e.g. abellio, ALSTOM, Bombardier, CAF, East Midlands Trains, ElectroMotive, Eversholt, Freightliner, GTW, Hitachi, and Siemens.

Strategically, the Gemini Rail Group is in the optimisation phase and is focusing on the further development of the product portfolio and the implementation of a newly defined market strategy. The GemECO area in particular (conversion to hybrid drive systems) is to be expanded.

In 2018, Knorr-Bremse RailServices UK and Kiepe Electric UK sold Gemini Rail Group to Mutares. With its already established position in the UK and Ireland, the company is strengthening the Engineering & Technology segment. After the acquisition, a comprehensive programme of change was implemented by operational experts from Mutares and the local management.

Donges Group

The Donges Group, headquartered in Frankfurt am Main (Germany) is a leading full-service provider for bridge and steel construction as well as roof and facade systems and wood cladding. The product range includes building products, roof systems, facade solutions, timber structures, steel bridges and steel structures. Donges Group delivers building products on time and meets the highest quality and safety requirements. An experienced team offers its customers tailor-made solutions for the most demanding tasks. Customers are mainly active in the construction and engineering industries.

The Donges group includes five companies: steel construction and bridge building company Donges SteelTec GmbH; manufacturer of aluminium roofing and facade systems Kalzip Group (since October 2017); manufacturer of flat roof systems FDT FlachdachTechnologie (since March 2019); manufacturer of steel construction and facade solutions NORDEC (since February 2019/ April 2020); and finally, Norsilk, a manufacturer of wood cladding and flooring (since June 19). Norsilk's innovation is the processing of wood without the use of chemicals.

The Donges Group has 14 production sites in Germany, France, Spain, Italy, England, Finland, Sweden, Singapore, India and Dubai and operates sales offices worldwide. In total, the Donges Group employs over 1400 people and generates around EUR 365m in annual group sales.

In October 2017, Donges was sold to Mutares by Mitsubishi Hitachi and Tata Steel Europe. Now, with its fifth add-on acquisition, Donges aims to achieve further growth and consolidate its excellent positioning in the European market. The cornerstones of this strategy are the realisation of synergies through the joint processing of the existing customer portfolio and sales channels as well as the development of the Northern European markets in the areas of facade solutions and steel construction.

BALCKE DÜRR

Balcke-Dürr, headquartered in Düsseldorf (Germany) is one of the leading manufacturers of components to increase energy efficiency and reduce emissions for industry. It is active in the fields of industrial services, industrial plant & machinery and ventilation, heating & air conditioning. With more than 130 years of experience, Balcke-Dürr operates in the areas of energy (coal, combined cycle, concentrated solar power, geothermal, nuclear, biomass), industrial (chemistry, waste-to-energy) as well as oil and gas. Balcke-Dürr's products range from stationary heat exchangers, air intake filters, boilers and cooling towers to pool equipment and pumps. Additionally, the company offers a broad range of services for stationary heat exchangers, cooling towers and boilers as well as nuclear de-commissioning, nuclear dismantling and finally, radiation safety & clearance. Balcke-Dürr's experienced engineers specialise in solutions that meet the highest safety and sustainability requirements. Furthermore, the company offers customer specific solutions and has an innovative focus orientation.

The Group has production sites in Germany, Italy and China as well as seven service, engineering and sales centers in Germany, Italy, Poland, India and France. It is thus able to offer its customers global services and aftermarket support. In 2019, the Group employed around 650 people and generated approximately EUR 16m in consolidated sales.

The Group set three strategic goals for 2020. It plans to strengthen its market position in nuclear energy, further expand its business with services for the dismantling of nuclear power plants in Germany and to expand its activities in the chemical industry. The expansion of the product portfolio was also being examined, as was inorganic growth through acquisitions.

In December 2016, Blacke-Dürr was sold to Mutares by SPX Coporation. Since then, the company has made four add-on investments and a partial exit. The add-on investments were KSS-Consulting (in August 2018), STF (in October 2018), La Meusienne (in December 2019) and Loterios Srl (in February 2020). There was a partial exit in April 2020, with the sale of Balcke-Dürr Polska.

EUPEC PIPE COATINGS

EUPEC

Eupec is a leading global specialty manufacturer of pipe coatings. The company provides solutions for the “end-to-end” protection of steel pipelines for the Oil, Gas & Water industries for on-shore and off-shore pipelines. In 2019, the French company with 50 years of experience generated sales of EUR 14m with 67 employees.

Eupec is one of the world's leading companies in the application of polyolefin-based multilayer corrosion protection coating systems. It is the only coating company in the world capable of covering the entire range of coating from line pipe to field joint (also including bends). Eupec serves a diversified customer base, but mainly global oil and gas companies from Western and Central Europe for projects in the North Sea, Africa and the Middle East.

In January 2012 Korindo-Konzern sold Eupec to Mutares. After the acquisition, the company successfully completed a turnaround programme with the support of Mutares. In Febuary 2017 the German subsidiary was sold at a 17x capital multiple for Mutares. Since then, Eupec has been pursuing a growth strategy, which has already shown significant success.

Royal de Boer and Japy Tech

The companies Royal de Boer and Japy Tech are manufacturers of stable equipment and cooling tanks. Netherlands-based Royal De Boer is a leading manufacturer of barn equipment. The product portfolio includes feed fences, cabins, ventilation and manure systems. France-based Japy Tech is a leading manufacturer of cooling tanks with different sizes, designs and applications. The two companies supply customers in Europe and worldwide. Many customers are active in the milk cooling industry. In 2019, Royal de Boer and Japy Tech generated a turnover of EUR 50m. We regard milk consumption and livestock farming as the main drivers of the business.

Strategically, Royal de Boer and Japy Tech are currently undergoing a realignment process followed by a focus on future growth. Important steps in this process include establishing contact with the end customer, which should lead, for example, to an optimisation of the product mix and to cross-selling opportunities.

In 2021, GEA Farm Technologies sold Royal de Boer and Japy Tech to Mutares. Both companies will remain in their units and be placed under the control of a newly established intermediate Holding company. In this way, the significant synergy potential of the transaction can be efficiently exploited, and value can be added.

Goods & Services

Terranor Group

Terranor is a merger of Nordic Road Services AB (Sweden) and Nordic Road Services Oy (Finland). The majority of the business is managed from the head office in Stockholm and a presence in Helsinki. The company is a provider of operation and maintenance services for state, municipal and public road infrastructure. It offers a wide range of services: winter services such as snow removal and sanding/salting, summer services such as road repairs and green space management, complemented by road monitoring, regular road maintenance, wildlife fencing and road markings.

Terranor is the second-largest supplier in Sweden and Finland and is constantly striving to grow its business in both countries with an expanded service offering and high-quality contracts. The company has an excellent reputation, placing great emphasis on timely and high-quality execution. Terranor is committed to creating an expanded service offering to develop additional revenue streams in Sweden and Finland. It also focuses on efficiency and productivity to further increase profitability and expand regional coverage in neighbouring areas. In 2019, the company generated approximately EUR 100m in sales. We see the main drivers for the business in road construction, road wear and weather conditions. Terranor competes mainly with the public sector. Services offered by Terranor are often provided directly by state or local governments.

In November 2020, Mutares acquired Terranor from NCC. The company serves to strengthen the Goods & Services segment. With its expansion into the Nordic countries, Mutares is pursuing a strategy of continuous growth and expansion.

SABO

SABO is one of the leading European manufacturers of lawn mowers and other electric outdoor products, like gasoline-, cordless- and electric lawn mowers as well as brush cutters, lawn trimmers, hedge trimmers and leaf vacuums. The company serves customers in six countries, with around 90% of sales coming from the German market. The products are distributed to companies and private customers by more than 1,100 specialised distributors as well as their own web store. Due to the high quality of the products, the long-standing company tradition since 1932 and the high level of awareness of the SABO brand, the company has a strong market position. The company's operational focus is on expanding to new markets and tapping into the growth market for battery-powered lawnmowers and garden tools. Furthermore, since March 2020, SABO has been focusing on the direct sale of its products via the company's own website as a supplement to stationary trade. SABO generated around EUR 50m in sales in 2019 and we see the main driver of the business in lawn mower production and planting/maintenance of green areas. Possible peers of SABO are Gardena, Rotenbach, Bosch, Einhell, Hecht and Ryobi.

In September 2020, John Deere sold SABO to Mutares. The acquisition strengthens the Goods & Services segment.

BEXity

BEXity is the market leader for cross-border transport and logistics services in the Austrian market. The company is active in the general cargo, charter and warehousing sectors. BEXity works from 16 sites in Austria and delivers to 35 different target countries. Many years of experience, highly qualified employees, sustainable transports and finally a good partner network is what gives BEXity a competitive advantage. The company has a diversified portfolio of well-known customers in the food, pharmaceutical and fast-moving consumer goods sectors.

BEXity's strategy aims to strengthen its transport logistics network by entering partnerships in Europe. Based on its unique selling points of high delivery quality and ecological transport, BEXity is implementing a market offensive and wants to push individual customer and industry solutions, such as white goods, building materials, food and fast-moving consumer goods. The company was Austria's first logistics provider to establish next-day delivery (i.e. delivery time of 24 hours from pick-up) in general cargo logistics and still sets the industry benchmark in terms of delivery quality. In the area of general cargo, customers can choose between four solutions: BEXregular (delivery within 24 hours), BEXexpress (guaranteed delivery by 10am, 12pm or 5pm the following day), BEXfix (delivery on a specific date) and BEXsolution (individual industry solutions made-to-measure). The company is also authorised to transport hazardous goods like explosive substances or radioactive materials. Moreover, part of its service offering is made up by the BEXgreen line, which offers sustainable solutions through e-mobility & rail, allowing for lower emission and zero-pollution transport. BEXity generated around EUR 250m in sales in 2019, and we see consumption and transportation as the market driver. Peers in some business segments are Raben Group and EC Logistics s.r.o.

In December 2019, the Austrian railway company, the Österreichische Bundesbahnen – Holding AG (ÖBB) sold BEXity to Mutares. In April 2020 Mutares sold BEXity Tschechien.

TréfilUnion

TréfilUnion is an established and recognised expert in the processing and finishing of highly specialised steel wire applications (e.g. shopping trolleys, wire mesh, steel feathers). The French company has a 100-year operating history, efficient production methods, strategically relevant certifications and high quality thanks to stringent internal and external controls. TréfilUnion generated around EUR 29m in sales in 2019 and we see consumption as the main driver of the production.

TréfilUnion is mainly active in the field of Automotive, Agriculture, Construction and Industry. The company has a production volume of 30,000 tons per year and offers 56 different production lines. TréfilUnions products include spring steel wire, iron steel wire as well as prestressing steel. Additionally, the company offers different services like custom work (e.g. chemical pickling, mechanical pickling, straightening/cutting, packaging, warehousing), trading (e.g. raw material supply, 'Second Choice' material negotiation, 'Scrap' negotiation) and other services (e.g. technical support, product development).

TréfilUnions strategy is an optimisation programme that includes both modernisation and sales initiatives. The programme is intended to help the company improve its positioning. One of the strategic goals is the "Green Wire" policy, which aims to provide more sustainability.

In April 2019, the Luxembourg-based ArcelorMittal Group sold TréfilUnion to Mutares. The acquisition strengthens the portfolio segment Goods & Services. We see larger parts of the business as comparable to Trefilacao. Uniao de Metais S/A., W&O Trefilacao Industrial Ltda., Acos Trefita, Acos F. Sacchelli, Grupo Acotubo and Gerdau.

cenpa

Cenpa is one of the leading independent core paper mills in Western Europe. The French company has a history of more than 140 years and produces sleeve cartons for the European packaging and hygiene market. The product portfolio includes cartons made from virgin pulp as well as from recycled waste paper. Cenpa generated around EUR 27m in sales in 2019 and we see paper consumption as the main driver for the production.

Cenpa works very closely with its customers, offering customised product solutions from development to testing. The company is also characterised by its central location in Europe and its multilingual workforce. This is probably one of the reasons why Cenpa delivers its products all over Europe. However, the majority of the products are delivered within a radius of 1000km. Cenpa's customers are mainly from Central Europe and are active in the tissue market, the industrial cores market and the packaging industry.

Strategically, Cenpa focuses on two core pillars: sales and innovation. On the sales side, partnerships are forged with customers and the company is expanding into new regions. On the innovation side, Cenpa is developing new, technically advanced products. The company is currently exploring opportunities around green energy generation.

In 2016, Sonoco Group sold Cenpa to Mutares.

keeeper

Keeeper Group is one of Europe's largest suppliers of innovative and high-quality plastic and paper household products. The company takes into account regional characteristics and meets global standards. The headquarters is located in Stemwede (Germany). Keeeper has two production sites in Germany and Poland and a sales office in Belgium. The company sells four product series: Kitchen (e.g. mixing bowls), Household (e.g. laundry baskets and bins), Storage (e.g. clip boxes and folding boxes) and Children (e.g. baby baths, toilet seats), as well as the new Keeeper eco line. All products in the eco line are particularly resource-friendly, consisting of 100% recycled plastic. Keeeper Group sells its products to well-known customers in about 35 countries. Still, the majority of its sales are generated by German and Polish customers. Customers are generally in the DIY, food retail, wholesale and furniture sectors. The products are sold in B2B and B2C channels (e.g. Amazon).

The company is strategically expanding its product portfolio. The operational focus is thus on new product developments as well as the development of new sales markets and distribution channels, such as online retailing. Keeeper generated around EUR 100m in sales in 2019 and we see consumption and basic household needs as the main driver for the production. We see larger parts of the business as comparable to plast team, Plast 1 and Orplast.

Management

Executive Board Mutares Management SE

Robin Laik - CEO

Mr. Laik studied Business Administration at the University of Augsburg, from which he graduated in 1995.

He began his professional career at ELA Medical GmbH and Porges GmbH (formerly L'Oreal Group). In 2004 he entered the Bavaria Industries Group AG where he became a member of the executive board in July 2006. He held the position of CFO until July 2007. Mr. Laik also had several management positions in the finance department within ESCADA AG, including head of M&A.

In 2008 he co-founded Mutares and between 2018 and 2020 Mr. Laik held the position of Chairman of the Supervisory Board of the STS Group.

Mark Friedrich - CFO

Mr. Friedrich studied Business Economics at the University of Tuebingen from which he graduated in 2005. Prior to this he studied Business Administration at the Europe University in Frankfurt and the Free University in Berlin.

Mr. Friedrich became a tax advisor in 2009 and is a certified public accountant. Prior to leaving Ernst & Young GmbH, he worked as an authorised officer.

Mr. Friedrich has been with Mutares since 2012. He entered as Head of Finance and was appointed CFO of the Mutares in April 2015.

Johannes Laumann - CIO

Mr. Laumann studied business law and international management at the University of Applied Sciences in Pforzheim and the Business School in Copenhagen.

Before joining Mutares SE & Co. KGaA, he held various management positions at Ernst & Young GmbH, Porsche Consulting GmbH and in the Oil & Gas Division of Atlas Copco.

Mr. Laumann has been with Mutares since 2016. He was appointed to the Executive Board in May 2019. As Chief Investment Officer, he is responsible for M&A and Investor Relations.

Dr. Kristian Schleede - CRO

After studying mechanical engineering at the renowned RWTH Aachen University, Dr. Schleede was conferred with a Ph.D. in the field of plastics processing. Additionally, he graduated as an IFRS/IAS Accountant at the Controller Academy / Ernst & Young in Zurich.

He started his career in consulting at McKinsey & Company. Prior to his current position, he held several top-line management roles in industrial and service companies.

Dr. Schleede joined Mutares as member of the executive board. After serving as CFO until 2015, he took over the position as CRO (Chief Restructuring Officer). His focus lies in the optimisation and strategic development of portfolio companies.

Supervisory Board Mutares SE & KGaA

- Volker Rofalski was elected Cairman of the Supervisory Board in 2018. He graduated in 1996 from University of Augsburg with a degree in Business Administration and Management. He is active in the private equity and venture capital sector.
- Dr. Axel Müller has been a member of the Supervisory Board since 2018. Dr. Axel Müller is a licensed pharmacist and completed his studies at the Johannes-Gutenberg University in Mainz in 1980. Dr. Müller held numerous management positions at STADA Arzneimittel AG.
- Dr. Lothar Koniarski, born in 1955, has been a member of the Mutares SE & Co. KGaA Supervisory Board since 2018. He studied Business Administration in Regensburg. Dr. Koniarski held several management positions in various industrial enterprises.
- Prof. Dr. Micha Bloching has been a member of the Supervisory Board of Mutares SE & Co. KGaA since 2008. Prof. Dr. Bloching completed his law studies and examinations in Heidelberg and holds a Ph.D. (“Dr. uir.”) of the University of Heidelberg. He was partner in an international law firm and now runs his own business in Munich.

Supervisory Board Mutares Management SE

The superivisory board of Mutares Management SE and Mutares Se & KGaA has the same composition.

Valuation

	2017	2018	2019	2020	2021e	2022e	2023e
Price / Book	1.3 x	1.1 x	0.8 x	0.9 x	1.3 x	2.0 x	2.2 x
Book value per share ex intangibles	8.43	8.99	8.17	7.38	12.12	6.50	5.43
EV / Sales	0.4 x	0.3 x	0.4 x	0.3 x	0.3 x	0.3 x	0.3 x
EV / EBITDA	5.6 x	5.5 x	4.6 x	3.6 x	3.8 x	14.4 x	7.0 x
EV / EBIT	9.4 x	14.0 x	14.0 x	12.5 x	13.5 x	n.a.	34.6 x
EV / EBIT adj.*	9.4 x	14.0 x	14.0 x	n.a.	n.a.	n.a.	34.6 x
P / FCF	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P / E	4.8 x	13.9 x	7.3 x	6.3 x	3.6 x	n.a.	57.0 x
P / E adj.*	n.a.	10.1 x	6.8 x	5.1 x	7.1 x	11.3 x	9.1 x
Dividend Yield	7.3 %	7.5 %	10.0 %	13.3 %	6.6 %	6.6 %	6.6 %
FCF Potential Yield (on market EV)	20.1 %	17.1 %	21.5 %	28.2 %	26.1 %	6.9 %	14.2 %

*Adjustments made for: -

Consolidated profit & loss

In EUR m	2017	2018	2019	2020	2021e	2022e	2023e
Sales	**900**	**865**	**1,016**	**1,584**	**2,324**	**2,528**	**2,580**
Change Sales yoy	38.4 %	-3.8 %	17.4 %	55.9 %	46.7 %	8.8 %	2.1 %
Increase / decrease in inventory	-4	0	-4	-23	0	0	0
Own work capitalised	0	0	0	0	0	0	0
Total Sales	**896**	**865**	**1,012**	**1,561**	**2,324**	**2,528**	**2,580**
Material expenses	570	532	623	975	1,464	1,643	1,651
Gross profit	**326**	**333**	**389**	**586**	**860**	**885**	**929**
Gross profit margin	*36.2 %*	*38.5 %*	*38.3 %*	*37.0 %*	*37.0 %*	*35.0 %*	*36.0 %*
Personnel expenses	252	245	292	424	674	758	748
Other operating income	156	107	119	241	272	296	302
Other operating expenses	164	146	138	261	280	369	370
Unfrequent items	0	0	0	0	0	0	0
EBITDA	**67**	**49**	**79**	**143**	**178**	**54**	**113**
Margin	*7.5 %*	*5.7 %*	*7.8 %*	*9.0 %*	*7.7 %*	*2.1 %*	*4.4 %*
Depreciation of fixed assets	27	30	53	102	128	101	90
EBITA	**40**	**19**	**26**	**41**	**51**	**-47**	**23**
Amortisation of intangible assets	0	0	0	0	0	0	0
Goodwill amortisation	0	0	0	0	0	0	0
EBIT	**40**	**19**	**26**	**41**	**51**	**-47**	**23**
Margin	*4.4 %*	*2.2 %*	*2.6 %*	*2.6 %*	*2.2 %*	*-1.9 %*	*0.9 %*
EBIT adj.	**40**	**19**	**26**	**-130**	**-99**	**-47**	**23**
Interest income	3	1	2	4	1	1	1
Interest expenses	8	5	11	28	18	18	18
Other financial income (loss)	0	0	0	0	63	0	0
EBT	**35**	**15**	**17**	**17**	**96**	**-64**	**6**
Margin	*3.9 %*	*1.7 %*	*1.6 %*	*1.1 %*	*4.1 %*	*-2.5 %*	*0.2 %*
Total taxes	-8	3	0	-3	0	0	0
Net income from continuing operations	**44**	**12**	**17**	**20**	**96**	**-64**	**6**
Income from discontinued operations (net of tax)	0	0	0	0	0	0	0
Net income before minorities	**44**	**12**	**17**	**20**	**96**	**-64**	**6**
Minority interest	0	-3	-4	-7	0	0	0
Net income	**44**	**15**	**21**	**27**	**96**	**-64**	**6**
Margin	*4.9 %*	*1.7 %*	*2.0 %*	*1.7 %*	*4.1 %*	*-2.5 %*	*0.2 %*
Number of shares, average	15	15	15	15	15	15	15
EPS	**2.85**	**0.96**	**1.37**	**1.79**	**6.34**	**-4.23**	**0.40**
EPS adj.	n.a.	1.32	1.48	2.20	3.20	2.01	2.51

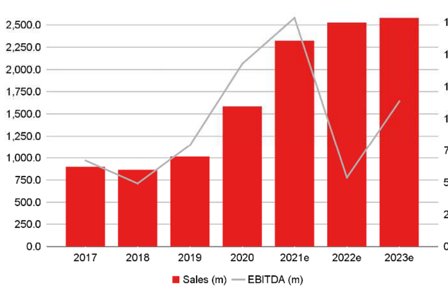
*Adjustments made for:

Guidance: Annualized group sales above EUR 2.2bn (including signed acquisitions)

Financial Ratios

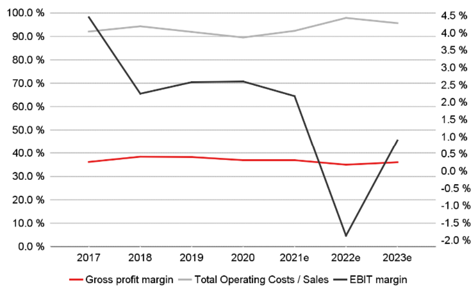
	2017	2018	2019	2020	2021e	2022e	2023e
Total Operating Costs / Sales	92.1 %	94.3 %	91.8 %	89.5 %	92.3 %	97.9 %	95.6 %
Operating Leverage	0.4 x	13.4 x	2.0 x	1.0 x	0.5 x	n.a.	n.a.
EBITDA / Interest expenses	8.5 x	9.6 x	7.2 x	5.1 x	9.9 x	3.0 x	6.3 x
Tax rate (EBT)	-23.7 %	18.9 %	0.0 %	-16.6 %	0.0 %	0.0 %	0.0 %
Dividend Payout Ratio	35.3 %	127.0 %	91.2 %	115.6 %	23.7 %	n.m.	374.5 %
Sales per Employee	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sales, EBITDA
in EUR m



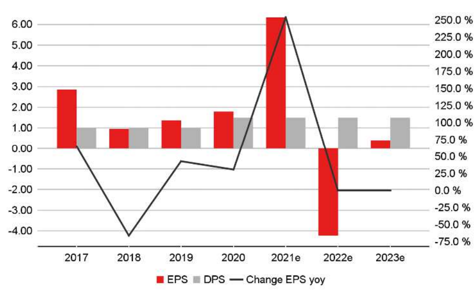
Source: Warburg Research

Operating Performance
in %



Source: Warburg Research

Performance per Share



Source: Warburg Research

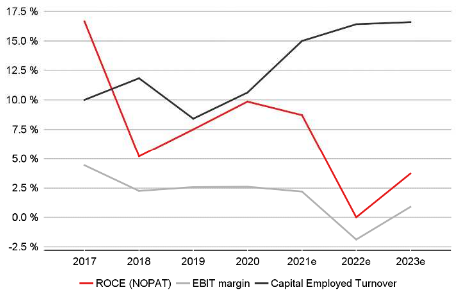
Consolidated balance sheet

In EUR m	2017	2018	2019	2020	2021e	2022e	2023e
Assets							
Goodwill and other intangible assets	36	41	59	76	76	76	76
thereof other intangible assets	36	41	59	76	76	76	76
thereof Goodwill	0	0	0	0	0	0	0
Property, plant and equipment	171	133	176	243	335	254	183
Financial assets	6	17	17	9	9	9	9
Other long-term assets	4	5	123	150	150	150	150
Fixed assets	**216**	**196**	**375**	**478**	**570**	**489**	**418**
Inventories	131	101	134	204	332	361	369
Accounts receivable	183	163	172	295	433	471	481
Liquid assets	99	108	80	145	219	127	104
Other short-term assets	44	62	88	206	206	206	206
Current assets	**457**	**435**	**474**	**850**	**1,190**	**1,165**	**1,159**
Total Assets	**673**	**631**	**849**	**1,327**	**1,760**	**1,654**	**1,578**
Liabilities and shareholders' equity							
Subscribed capital	16	15	15	15	15	15	15
Capital reserve	37	37	37	38	38	38	38
Retained earnings	111	129	135	144	217	130	114
Other equity components	3	-1	-2	-7	-7	-7	-7
Shareholders' equity	166	181	185	190	264	177	160
Minority interest	-1	27	23	17	17	17	17
Total equity	**166**	**208**	**208**	**207**	**281**	**194**	**177**
Provisions	147	97	138	210	410	350	280
thereof provisions for pensions and similar obligations	103	47	87	116	166	166	166
Financial liabilities (total)	160	129	208	374	384	384	384
thereof short-term financial liabilities	36	26	41	57	57	57	57
Accounts payable	122	144	195	319	468	509	520
Other liabilities	79	53	100	217	217	217	217
Liabilities	**507**	**423**	**640**	**1,120**	**1,479**	**1,460**	**1,401**
Total liabilities and shareholders' equity	**673**	**631**	**849**	**1,327**	**1,760**	**1,654**	**1,578**

Financial Ratios

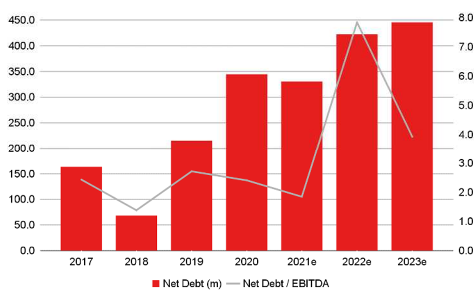
	2017	2018	2019	2020	2021e	2022e	2023e
Efficiency of Capital Employment							
Operating Assets Turnover	2.5 x	3.4 x	3.5 x	3.8 x	3.7 x	4.4 x	5.0 x
Capital Employed Turnover	2.7 x	3.1 x	2.4 x	2.9 x	3.8 x	4.1 x	4.1 x
ROA	20.4 %	7.5 %	5.5 %	5.7 %	16.9 %	-13.1 %	1.5 %
Return on Capital							
ROCE (NOPAT)	16.6 %	5.2 %	7.5 %	9.8 %	8.7 %	n.a.	3.7 %
ROE	30.9 %	8.5 %	11.4 %	14.4 %	42.4 %	-29.2 %	3.6 %
Adj. ROE	n.a.	11.6 %	12.3 %	17.8 %	21.4 %	13.8 %	22.6 %
Balance sheet quality							
Net Debt	164	68	215	345	331	423	446
Net Financial Debt	61	21	128	228	165	256	279
Net Gearing	98.8 %	32.8 %	103.5 %	166.3 %	117.8 %	218.2 %	251.8 %
Net Fin. Debt / EBITDA	90.6 %	43.2 %	161.7 %	160.1 %	92.2 %	475.8 %	246.5 %
Book Value / Share	10.7	11.7	12.0	12.3	17.0	11.4	10.3
Book value per share ex intangibles	8.4	9.0	8.2	7.4	12.1	6.5	5.4

ROCE Development



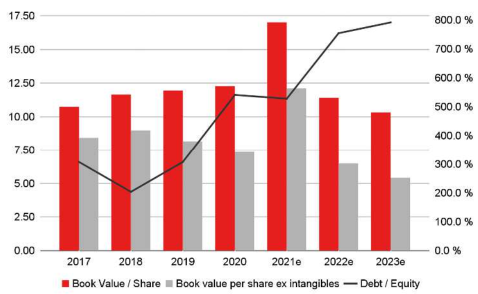
Source: Warburg Research

Net debt
in EUR m



Source: Warburg Research

Book Value per Share
in EUR



Source: Warburg Research

Consolidated cash flow statement

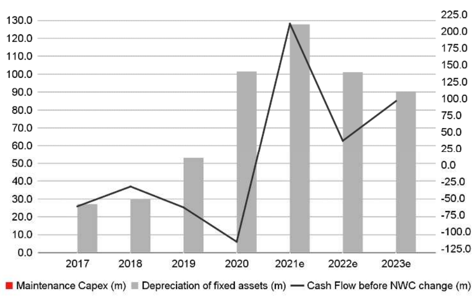
In EUR m	2017	2018	2019	2020	2021e	2022e	2023e
Net income	44	12	17	20	96	-64	6
Depreciation of fixed assets	27	30	53	102	128	101	90
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0	0	0
Increase/decrease in long-term provisions	19	-9	-15	29	50	0	0
Other non-cash income and expenses	-152	-65	-118	-265	-63	0	0
Cash Flow before NWC change	**-62**	**-32**	**-63**	**-115**	**211**	**37**	**96**
Increase / decrease in inventory	34	13	20	17	-129	-29	-8
Increase / decrease in accounts receivable	-2	39	34	7	-138	-38	-10
Increase / decrease in accounts payable	0	-31	-2	48	149	41	10
Increase / decrease in other working capital positions	0	0	0	0	-250	-60	-70
Increase / decrease in working capital (total)	33	21	53	72	-367	-86	-77
Net cash provided by operating activities [1]	**-29**	**-11**	**-11**	**-43**	**-156**	**-49**	**20**
Investments in intangible assets	0	0	0	0	0	0	0
Investments in property, plant and equipment	0	0	0	-29	-20	-20	-20
Payments for acquisitions	2	19	33	79	200	0	0
Financial investments	0	0	0	1	0	0	0
Income from asset disposals	25	-3	23	1	63	0	0
Net cash provided by investing activities [2]	**24**	**-3**	**44**	**51**	**243**	**-20**	**-20**
Change in financial liabilities	12	0	0	104	10	0	0
Dividends paid	-5	-15	-15	-15	-23	-23	-23
Purchase of own shares	0	-3	0	-3	0	0	0
Capital measures	0	0	0	0	0	0	0
Other	28	42	-47	-29	0	0	0
Net cash provided by financing activities [3]	**35**	**23**	**-62**	**58**	**-13**	**-23**	**-23**
Change in liquid funds [1]+[2]+[3]	**29**	**9**	**-29**	**66**	**74**	**-92**	**-23**
Effects of exchange-rate changes on cash	0	0	0	-1	0	0	0
Cash and cash equivalent at end of period	99	108	80	145	219	127	104

Financial Ratios

	2017	2018	2019	2020	2021e	2022e	2023e
Cash Flow							
FCF	-33	-31	-21	-73	-176	-69	0
Free Cash Flow / Sales	-3.6 %	-3.6 %	-2.1 %	-4.6 %	-7.6 %	-2.7 %	0.0 %
Free Cash Flow Potential	75	46	79	146	178	54	113
Free Cash Flow / Net Profit	-74.2 %	-212.2 %	-102.9 %	-269.0 %	-182.8 %	107.6 %	-5.2 %
Interest Received / Avg. Cash	4.0 %	0.5 %	1.6 %	3.5 %	0.5 %	0.6 %	0.9 %
Interest Paid / Avg. Debt	5.9 %	3.5 %	6.5 %	9.7 %	4.8 %	4.7 %	4.7 %
Management of Funds							
Investment ratio	0.0 %	0.0 %	0.0 %	1.8 %	0.9 %	0.8 %	0.8 %
Maint. Capex / Sales	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Capex / Dep	0.0 %	0.0 %	0.0 %	28.3 %	15.6 %	19.8 %	22.1 %
Avg. Working Capital / Sales	21.6 %	18.0 %	11.4 %	9.2 %	10.3 %	12.3 %	12.6 %
Trade Debtors / Trade Creditors	149.4 %	113.3 %	88.5 %	92.5 %	92.5 %	92.5 %	92.5 %
Inventory Turnover	4.3 x	5.3 x	4.6 x	4.8 x	4.4 x	4.6 x	4.5 x
Receivables collection period (days)	74	69	62	68	68	68	68
Payables payment period (days)	78	99	114	119	117	113	115
Cash conversion cycle (Days)	80	39	26	25	34	35	35

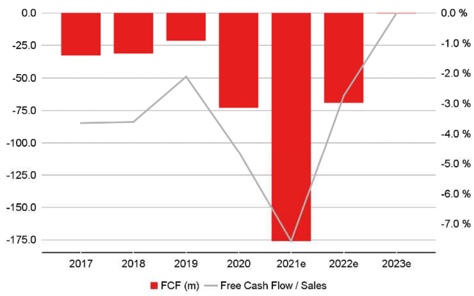
CAPEX and Cash Flow

in EUR m



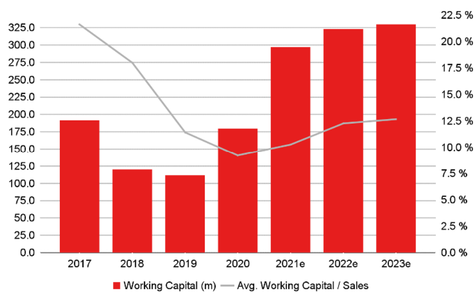
Source: Warburg Research

Free Cash Flow Generation



Source: Warburg Research

Working Capital



Source: Warburg Research

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SOURCES

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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
Mutares	5	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE000A2NB650.htm

INVESTMENT RECOMMENDATION

Investment recommendation: expected direction of the share price development of the financial instrument up to the given price target in the opinion of the analyst who covers this financial instrument.

-B-	**Buy:**	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	**Hold:**	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	**Sell:**	The price of the analysed financial instrument is expected to fall over the next 12 months.
"-"	**Rating suspended:**	The available information currently does not permit an evaluation of the company.

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING

Rating	Number of stocks	% of Universe
Buy	135	65
Hold	62	30
Sell	5	2
Rating suspended	5	2
Total	**207**	**100**

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING …

… taking into account only those companies which were provided with major investment services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	38	79
Hold	7	15
Sell	0	0
Rating suspended	3	6
Total	**48**	**100**

PRICE AND RATING HISTORY MUTARES AS OF 12.04.2021

Markings in the chart show rating changes by Warburg Research GmbH in the last 12 months. Every marking details the date and closing price on the day of the rating change.

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