

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

2022 Investor Day update

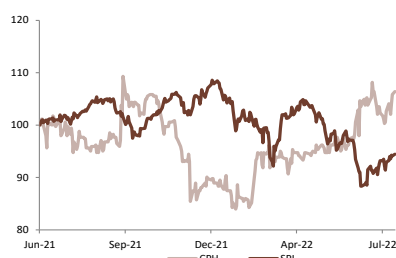
16 September 2022

Company Data

Price:	CHF 71.80
Market Cap:	CHF 430.8mn
Free Float:	39.7%
No. of shares:	6.0mn
Avg. traded volume (30 day):	509
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2020	2021	2022E	2023E
Sales	445.2	496.7	707.4	645.3
EBITDA %	12.4%	5.2%	14.7%	11.9%
EBIT %	5.5%	(0.5%)	11.9%	8.6%
Net Margin %	10.5%	(30.5%)	10.8%	7.0%
Basic EPS	7.82	(25.26)	12.74	7.49
Diluted EPS	7.82	(25.26)	12.74	7.49
DPS	1.80	1.30	1.30	1.80
Equity Ratio %	66.8%	55.2%	58.1%	62.0%
Capex	(13.5)	(19.4)	(51.6)	(28.9)
P/Sales	1.0x	0.9x	0.6x	0.7x
P/E	9.7x	NM	5.9x	10.1x
EV/EBITDA	8.5x	18.3x	4.5x	6.1x

Source: Research Dynamics, Company data

Next Events

Baader Helvea Swiss Equities conference	13 Jan 2023
Annual Results 2022	21 Feb 2023
Ordinary General Meeting	14 Mar 2023

Analysts

Doris Rudischhauser
dru@researchdynamics.ch

Alexandre Müller
amu@researchdynamics.ch

Tel: +41 43 268 3232

www.researchdynamics.ch

Rising demand for products in the Chemistry division to drive future growth

CPH hosted its investor day on 13 September 2022 where CPH highlighted its continued focus on implementing differentiation strategies in its Chemistry and Packaging division, while pursuing the cost leadership strategy in the Paper division to mitigate an unfavourable operating environment. The focus of this year's event was on the Chemistry division, which is a leading global supplier of molecular sieves (zeolites), chromatography gels and deuterated products, all trading under the Zeochem brand. The division is convinced that the demand for molecular sieves for the purification of ethanol, natural and industrial gases, and concentration of industrial oxygen will continue to rise in the future owing to megatrends in Health, Energy and Mobility. As a whole, the Group remains committed on implementing strategic measures such as expanding its footprint outside Europe and trimming down the exposure to the Swiss franc in currency terms by expanding production capacities outside Switzerland. The closure of the Uetikon site has also reduced dependence on the Swiss franc in currency terms.

Chemistry division to provide the next leg of growth

a) Strategy enabled growth: CPH is internationalizing its Chemistry division's operations by strengthening and establishing its distribution channels in Latin America and the Middle East, and developing new markets in Asia and in North and South America in line with its strategy of increasing the proportion of group net sales generated outside Europe. Through investments in distribution and capacities, the company aims to gain further market shares from competitors.

The Chemistry division's net sales have registered a CAGR of 50% over FY2015-FY2021, whereas EBIT margins have increased significantly to 16.1% in FY2021 vs. -2.9% in FY2015, supported by Zeochem's strategic realignment since FY2014.

b) Structural megatrends to drive long-term growth:

- **Healthcare:** The healthcare markets in most countries are growing 7% faster than their GDP, and the value of these markets is expected to quadruple to USD 20bn by FY2030 (vs. FY2010). This trend should provide long-term growth opportunities for Zeochem, which manufactures high-performance molecular sieves for the production of medical oxygen, chromatography gels to purify APIs and neutraceuticals, and methanol- and deuterium-based solvents to optimize the dosages of medications for the human body.
- **Energy:** The rising switch from fossil to sustainable energy sources globally to reduce CO₂ emissions for countering climate change should increase the demand for Zeochem's products especially for molecular sieves, which are used in the purification of natural gas, in oxygen concentration processes and in producing ethanol as an alternative energy source.
- **Mobility:** With the rise of a global mobile culture, changes through new products and services and the future use of transportation, Zeochem's offerings that ensure the transition from oil and coal to renewable energy technologies, and products which are used in vehicle braking systems and interiors of various transport vehicles are in huge demand.

c) Levers identified for further expansion: The company is also at the forefront of innovation and remained focussed on developing high-value products (Li, binder-free, DMSO, methanol) as well as building new applications for Zeochem products (spacers/Purmol, OLED/DMSO) which should continue to generate higher sales in new markets.

d) Zeochem: Extending the lifespan of OLED displays: With rising consumer preference for OLED displays in TVs (proportion of new televisions featuring OLED screens rose from 25% to 40% over mid-2020 to mid-2021), smartphones, laptops and motor vehicles owing to its technological superiority in the display of colours and efficiency, the demand for deuterated solvents is increasing. The use of deuterated solvents will extend the lifespan of new generation OLEDs (the market is expected to further see 13% per annum growth over the next 5 years) which should benefit CPH since Zeochem has >75 years of experience in the silicate chemistry sector and is one of the three leading providers of such products worldwide.

To meet the growing demand, CPH's Chemistry division is building a further deuterated dimethyl sulfoxide distillation plant at its Rüti site in Switzerland, which should come into operation in 2022.

Broad-based revenue growth across all divisions in 1H2022

For 1H2022, CPH's net sales increased 47.7% YoY to CHF 360mn, driven by growth in all three segments thanks to strong demand, despite the adverse impacts of the Ukraine war, COVID related lockdowns in China and challenges in raw material procurement and transportation logistics. Despite the substantial rise in raw material prices, transport and energy costs, the company's EBIT increased significantly to CHF 51.9mn (1H2021: CHF 5.7mn) and the corresponding margin expanded to 14.4% (1H2021: 2.4%).

The Paper division's revenue growth improved significantly by 78% YoY, mainly thanks to higher paper prices driven by a demand imbalance as a result of lower paper production volumes due to permanent capacity closures and a long strike at one of the Paper division's competitors. The Chemistry and the Packaging divisions registered 18.9% YoY and 27.5% YoY growth, respectively. During 1H2022, the company's Paper and Packaging divisions reversed their EBIT margin declines of the prior-year period, while the Chemistry division's EBIT fell 1.6% YoY to CHF 7.3mn and its corresponding margin contracted to 13% (1H2021: 15.7%).

Outlook

Group: Management expects FY2022 net sales to be substantially higher than in FY2021 in all three divisions. Operating and net result both are expected to be in the high double-digit millions.

Chemistry: With additional capacities in the US coming into operation at its Louisville site, the company expects to report double-digit net sales growth in FY2022. However, due to rise in raw material and transport costs, operating margin is expected to fall somewhat short of its high prior-year level.

Paper: Although net sales are expected to be well above prior year levels for the FY22 thanks to continued high paper prices, European demand for newsprint and magazine papers will continue to decline over time and production volumes will diminish as a result of capacity reductions. Moreover, higher recovered paper and energy prices will put pressure on operating margins in 2H2022.

Packaging: Despite the new coating plant in Brazil commencing its operations and introduction of mono-material PVC blisters in the market in 4Q22, the division's net sales are expected to slow down in 2H2022 as the Brazilian operations are only expected to contribute to revenues in 2023 and beyond. Operating margin is likely to be broadly maintained at its 1H2022 levels.

Reaping benefits from the successful implementation of the long-term strategy

Reduce dependency on the Paper division: Long term structural headwinds, commoditized nature of the business, geographical barriers and high fixed costs have forced CPH to reduce its exposure to the Paper division by focusing on the more profitable Chemistry and Packaging divisions (2021: 54% share of total net sales vs. 2013: 36%). The shift in focus along with consistent execution of cost reduction programs in the Paper division has resulted in delivering substantial improvement in the group's EBIT (1H22: CHF 51.9mn vs. 1H2021: CHF 5.7mn).

Increasing sales proportion from outside Europe: CPH has been reducing its concentration in Europe by expanding in high growth regions (2021: 33% of net sales were made from outside Europe vs. 2003: 16%).

Limiting currency volatility: During 2009-2015, the appreciation in the Swiss franc by ~40% against the Euro impacted the group's net sales and earnings. To mitigate this, the company has been expanding production capacities outside Switzerland. Accordingly, the proportion of costs incurred in Swiss francs has come down to 34% in FY21 (FY13: 70%).

Other Highlights

CPH concluded its supply agreement with waste incinerator company Renergia Zentralschweiz AG in 2015 for the provision of low-pressure steam to the Perlen paper factory. With 60% of the steam used in Perlen in FY2021 obtained from the Renergia waste incinerator facility and the rest was generated by CPH's own biomass plant, CPH has been able to reduce its dependency on gas which is aiding in reducing its carbon footprint, thereby reinforcing its competitiveness.

Implementation of the sustainability strategy:

Environment:

- Only 8% of the energy used at the end of FY2021 is derived from fossil fuels
- Own production of renewable energy is now at 205GWh per year, with further expansion potential
- Raw materials used consists largely of biomass (waste paper and wood)
- CO2 emissions per tonne of paper produced are 75% below peer group levels

Social:

- 50 apprentices in 10 professions underlines CPH's social commitment
- CPH boasts about having high diversity with employees from 35 nations
- Regular staff surveys and high proportion of long-serving employees (21% of staff have over 20 years of service) confirms CPH's attractiveness as an employer

Governance:

- Board of Directors: most of the members are independent with growing proportion of women
- CPH has a stable shareholder base with 34% of equity held by main founding family shareholders, adding a long-term perspective on sustainable and solid business development
- Committed anchor shareholder as Chairman of the Board

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 97.7 implies an upside of ~36.1% from current levels. For relative valuation, since the Group operates in three entirely different divisions, we compare each of CPH's divisions with different sets of relevant industry peers. We have employed three parameters – EV/EBITDA, P/S, and P/E – to analyse the relative valuation of the Group. CPH currently trades at a EV/EBITDA multiple of 6.1x (FY2023E), a significant 22% discount to the weighted average multiple of division peers.

The global economy is expected to recover only gradually, with the IMF slashing 2022e and 2023e forecast to 3.6%. In the short term, we thus believe ongoing inflationary headwinds and prospects of a slowdown may weigh on the company's prospects. On a positive note, the company was able to pass on the higher raw material and energy costs to the most extent. In the same line, the current shortages of raw materials like recovered paper are expected to stay on a high level over the next few months with the respective impact on costs. Although in the last couple of years the performance of the Paper division was not encouraging, the supply side squeeze should keep the division's profitability at an acceptable level. Moreover, the operating results of the Packaging and Chemistry divisions are expected to improve. A better bottom-line at Group level along with net sales increases and the cost optimisation efforts are expected to offer a required boost to the company's stock price.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E
CPH Chemie & Paper 69.40	6.1x	4.5x	6.1x	0.8x	0.6x	0.7x	10.5x	5.9x	10.1x
Paper peers:									
Holmen	19.4x	11.5x	14.7x	3.4x	3.3x	3.4x	18.7x	17.3x	24.4x
Stora Enso	10.1x	5.7x	6.6x	1.2x	1.0x	1.0x	13.5x	8.7x	10.5x
Altri	9.9x	5.4x	7.6x	1.2x	1.1x	1.3x	13.3x	6.3x	9.8x
Metsa Board	9.8x	5.6x	6.7x	1.4x	1.3x	1.3x	14.5x	8.4x	10.6x
UPM-Kymmene	9.7x	10.0x	9.0x	1.7x	1.6x	1.5x	17.5x	15.2x	14.0x
Norskse Scogindustrier	4.4x	NA	NA	0.3x	NA	NA	24.5x	NA	NA
James Cropper	16.9x	0.1x	0.1x	1.2x	0.0x	0.0x	42.4x	17.0x	12.3x
OJI Holdings	7.4x	6.2x	NA	0.4x	0.3x	0.3x	10.8x	6.9x	6.4x
Chemistry peers:									
Honeywell Int.	15.7x	14.5x	13.2x	3.8x	3.3x	3.1x	25.1x	20.1x	17.9x
Clariant	12.3x	NM	NM	1.5x	NA	27.1x	44.3x	NM	NM
Arkema	6.4x	3.9x	4.4x	0.9x	0.5x	0.5x	14.1x	6.1x	7.0x
Packaging peers:									
MacFarlane Group	8.4x	0.1x	0.1x	0.7x	0.0x	0.0x	16.2x	9.3x	9.1x
Gerresheimer	11.9x	7.1x	6.2x	1.8x	0.9x	0.9x	22.7x	10.6x	8.8x
West Pharmaceutical Services	36.0x	20.2x	18.1x	9.2x	6.6x	6.2x	56.9x	29.4x	26.8x
Conveitdora Industrial	3.5x	NA	NA	0.2x	NA	NA	5.9x	NA	NA
PSB Industries	4.1x	NA	NA	0.3x	NA	NA	13.2x	NA	NA
Bicare Ltd	48.4x	NA	NA	0.1x	NA	NA	16.3x	NA	NA
Median	9.9x	5.9x	6.7x	1.2x	1.1x	1.3x	16.3x	9.9x	10.6x
High	48.4x	20.2x	18.1x	9.2x	6.6x	27.1x	56.9x	29.4x	26.8x
Low	3.5x	0.1x	0.1x	0.1x	0.0x	0.0x	5.9x	6.1x	6.4x
Premium (disc) to peers	(39%)	(24%)	(8%)	(28%)	(40%)	(47%)	(36%)	(40%)	(5%)

Source: Bloomberg and Refinitiv (as on 15 Sep 2022)

Exhibit 2: CPH – Comparison with weighted average of division peers

	EV/EBITDA			P/S			P/E		
	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E
Weighted peer multiples	13.8x	7.5x	7.9x	1.7x	1.7x	3.6x	21.8x	12.9x	13.1x
CPH	6.1x	4.5x	6.1x	0.8x	0.6x	0.7x	10.5x	5.9x	10.1x
Premium (disc) to peers	(56%)	(40%)	(22%)	(51%)	(62%)	(80%)	(52%)	(54%)	(23%)

Source: Bloomberg and Refinitiv (as on 15 Sep 2022)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Chemistry sales	75	79	78	73	95	113	115
Paper sales	264	301	293	210	231	374	320
Packaging sales	130	153	153	162	171	220	210
Net Sales	470	534	525	445	497	707	645
Cost of Sales	(309)	(311)	(298)	(255)	(336)	(442)	(403)
Gross profit	161	222	227	190	161	265	243
Personnel cost	(84)	(92)	(93)	(93)	(92)	(101)	(105)
Outsourced maintenance/repairs	(17)	(19)	(20)	(17)	(18)	(25)	(26)
Other operating expense	(26)	(28)	(26)	(25)	(25)	(35)	(35)
Total operating costs	(127)	(139)	(139)	(135)	(135)	(162)	(166)
EBITDA	34	83	88	55	26	104	77
Depreciation	(30)	(30)	(30)	(29)	(27)	(18)	(20)
Amortisation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	3	52	57	25	(3)	84	55
Impairment	0	0	0	0	(150)	0	0
Operating profit (EBIT)	3	52	57	25	(153)	84	55
Finance costs	(8)	(7)	(6)	(5)	(5)	(2)	(2)
Finance income	2	1	0	0	1	0	0
Total financial income (expenses)	(7)	(6)	(6)	(5)	(4)	(2)	(2)
Profit before taxes (before exceptional items)	(4)	46	51	20	(157)	82	53
Non-operating items	23	0	1	19	7	0	0
Income taxes	(3)	(3)	(3)	8	(2)	(5)	(8)
Profit attributable to the parent	16	42	48	47	(152)	76	45
Basic EPS	2.7	7.1	8.1	7.8	(25.3)	12.7	7.5
Diluted EPS	2.7	7.1	8.1	7.8	(25.3)	12.7	7.5
DPS	0.7	1.8	1.8	1.8	1.3	1.3	1.8

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Assets							
Non-current assets							
PPE	384.1	376.1	366.4	352.6	196.5	228.5	235.9
Intangible assets	4.8	5.8	5.6	5.6	5.8	6.0	6.1
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current assets	56.4	55.3	54.0	64.8	58.4	58.4	58.4
Total non-current assets	455.3	447.2	436.0	432.9	270.7	302.8	310.4
Current assets							
Inventories	59.2	69.6	78.5	78.3	87.5	102.1	95.8
Trade accounts receivable	77.8	72.1	72.4	52.9	69.3	75.6	70.7
Other receivables	18.0	13.1	14.0	17.2	28.5	28.5	28.5
Prepaid expenses and accrued income	7.0	9.2	8.6	6.7	9.2	9.2	9.2
Short-term financial receivables	0.0	100.3	0.0	0.0	0.1	0.1	0.1
Liquid funds and Securities	80.2	89.0	93.1	116.3	95.1	131.4	149.9
Total assets	697.6	800.5	702.7	704.2	560.4	649.7	664.6
Shareholders' Equity and Liabilities							
Share capital	30.0	12.0	12.0	1.2	1.2	1.2	1.2
Capital reserves	0.8	15.0	4.2	4.2	(0.1)	(0.1)	(0.1)
Profit reserves	346.4	336.2	375.2	418.5	459.5	300.2	365.8
Net result for the year	16.0	42.3	48.3	46.9	(151.6)	76.4	45.0
Non-current liabilities							
Long-term financial liabilities	143.5	120.5	116.8	109.7	106.6	102.7	98.8
Pension scheme liabilities	0.6	1.3	0.7	1.2	1.4	1.4	1.4
Other long-term liabilities	0.0	0.8	0.6	0.4	0.3	0.3	0.3
Long-term provisions	51.8	50.0	47.5	31.5	24.1	24.1	24.1
Current liabilities							
Trade accounts payable	69.5	69.7	66.3	56.8	84.8	109.3	93.9
Other payables	3.3	4.1	3.6	4.6	3.9	3.9	3.9
Accrued liabilities and deferred income	17.2	20.0	16.3	16.8	18.3	18.3	18.3
Short-term financial liabilities	9.8	125.8	5.9	8.1	3.2	3.1	3.0
Short-term provisions	5.6	1.2	3.8	3.3	7.4	7.4	7.4
Total liabilities	301.3	393.3	261.4	232.4	249.9	270.4	251.0
Total equity and liab.	697.6	800.5	702.7	704.2	560.4	649.7	664.6

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net profit for the period	16.2	42.3	48.5	47.0	(151.4)	76.6	45.1
Non-cash adjustments:	(1.5)	26.3	31.2	(2.2)	169.5	19.4	21.4
Change in CA and CL:							
(Increase)/ decrease in inventories	13.6	(8.6)	(10.2)	(4.1)	(9.6)	(14.5)	6.3
Decrease in trade accounts receivable	(7.7)	5.0	(1.3)	20.5	(15.5)	(6.3)	4.9
Increase/ (decrease) in trade accounts payable	15.8	(1.1)	(2.8)	(9.0)	30.7	24.5	(15.4)
Other changes in working capital	(4.2)	0.4	(4.3)	2.8	(7.9)	0.0	0.0
CFO	32.2	64.3	61.0	55.0	15.8	99.6	62.2
Investments in tangible fixed assets	(32.3)	(22.3)	(21.9)	(17.5)	(23.0)	(50.1)	(27.4)
Disposals of tangible fixed assets	15.4	6.3	0.8	5.2	5.2	0.0	0.0
Investments in intangible assets	(2.4)	(2.2)	(1.0)	(1.3)	(1.6)	(1.5)	(1.5)
Sale of subsidiary/ Divestiture of interests	0.0	0.0	0.0	0.1	0.2	0.0	0.0
Investments in business activities	0.0	(27.9)	0.0	(1.6)	0.0	0.0	0.0
Repayment of long-term financial receivables	0.0	0.0	100.9	(0.3)	(0.1)	0.0	0.0
CFI	(19.3)	(46.0)	78.9	(15.3)	(19.2)	(51.6)	(28.9)
Increase/ (Decrease) in short-term financial liabilities and receivables	1.0	(4.3)	(123.4)	(4.4)	(6.9)	(0.1)	(0.1)
Increase/ (Decrease) in long-term financial liabilities	(0.6)	(3.0)	(1.1)	0.0	0.0	(3.9)	(3.9)
Increase in other long-term liabilities	0.2	2.1	(0.2)	(0.4)	(0.3)	0.0	0.0
Dividends to shareholders	(3.9)	(3.9)	(10.9)	(10.8)	(10.8)	(7.8)	(10.8)
CFF	(3.3)	(9.1)	(135.6)	(15.6)	(18.0)	(11.8)	(14.8)
Exchange (losses)/gains	0.2	(0.3)	(0.2)	(0.9)	0.2	0.0	0.0
Net change in cash	9.8	8.9	4.1	23.2	(21.2)	36.3	18.5
Opening cash balance	70.3	80.1	89.0	93.1	116.3	95.1	131.4
Closing cash balance	80.1	89.0	93.1	116.3	95.1	131.4	149.9

Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Growth Ratios							
Sales Growth	8%	14%	(2%)	(15%)	12%	42%	(9%)
Chemistry division	9%	5%	(2%)	(6%)	30%	19%	2%
Paper division	7%	14%	(3%)	(29%)	10%	62%	(14%)
Packaging division	9%	17%	0%	6%	5%	29%	(5%)
Operating Profit Growth	(51%)	NM	10%	(56%)	NM	NM	(34%)
Net Income Growth	NM	165%	14%	(3%)	NM	NM	(41%)
Profitability Ratios (%)							
Operating margin	1%	10%	11%	6%	(1%)	12%	9%
Chemistry division	5%	8%	6%	6%	16%	11%	15%
Paper division	(5%)	10%	12%	(1%)	(11%)	14%	5%
Packaging division	7%	10%	11%	13%	3%	9%	10%
EBITDA Margin %	7%	16%	17%	12%	5%	15%	12%
Net Margin (%)	3%	8%	9%	11%	(31%)	11%	7%
Return Ratios							
Profit Margin	3%	8%	9%	11%	(31%)	11%	7%
Asset Turnover	0.7x	0.7x	0.7x	0.6x	0.8x	1.2x	1.0x
Financial Leverage	1.8x	1.9x	1.8x	1.5x	1.6x	1.8x	1.7x
Dupont ROE (%)	4%	11%	11%	10%	(39%)	22%	11%
ROCE (%)	1%	10%	10%	4%	(1%)	17%	11%
ROA (%)	2%	6%	6%	7%	(24%)	13%	7%
Leverage Ratios							
Debt - Equity Ratio	0.4x	0.6x	0.3x	0.2x	0.4x	0.3x	0.2x
Net Debt - Equity Ratio	0.2x	0.4x	0.1x	0.0x	0.0x	(0.1x)	(0.1x)
Interest Coverage	0.7x	11.8x	9.1x	9.1x	(1.1x)	35.2x	23.9x
Liquidity Ratios							
Current Ratio	2.3x	1.6x	2.8x	3.0x	2.5x	2.4x	2.8x
Quick Ratio	1.7x	1.3x	2.0x	2.2x	1.7x	1.7x	2.0x
Valuation Ratios							
EV/EBITDA	13.9x	5.7x	5.3x	8.5x	18.3x	4.5x	6.1x
P/E	28.4x	10.7x	9.4x	9.7x	NM	5.9x	10.1x

Source: Research Dynamics, Bloomberg, Company data

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Dynamics Group AG

Utoquai 43
CH-8008 Zürich
Tel. +41 43 268 32 32
Fax +41 43 268 32 39

Zeughausgasse 22
CH-3011 Bern
Tel. +41 31 312 28 41
Fax +41 31 312 28 49

21, rue des Caroubiers
CH-1227 Carouge/GE
Tel. +41 22 308 62 20
Fax +41 22 308 62 36

contact@dynamicsgroup.ch

www.dynamicsgroup.ch