Schaffner Holding AG

Switzerland | Industrial Goods & Services

Initiation of Coverage

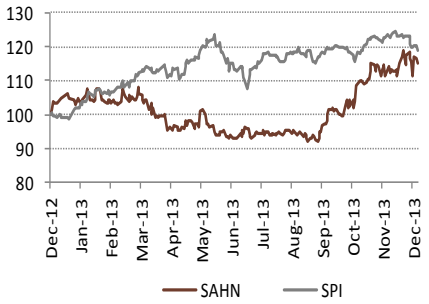
12 December 2013

Company Data

Price:	CHF 253
Market Cap:	CHF 161m
Free Float:	100%
Nr. of shares:	635'940
Avg. traded volume (1 year):	728
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: SIX Swiss Exchange

Share Price Development



Key Financial Data

	2012	2013	2014e	2015e
Sales	176.9	194.9	209.9	227.7
EBITDA %	8.3	8.8	10.4	13.1
EBIT %	4.1	4.8	7.3	9.9
Net Margin %	2.2	3.2	5.5	7.6
Basic EPS	6.2	9.9	18.1	27.3
Diluted EPS	6.0	9.9	18.0	27.2
DPS	3.5	4.5	5.4	8.2
Equity Ratio %	43.0	44.0	50.0	55.0
Capex	4.4	5.2	8.3	9.1
P/E	11.8x	32.2x	12.7x	10.2x
EV/EBITDA	11.8x	12.2x	7.5x	6.3x
EV/EBIT	24.0x	16.6x	10.2x	6.9x

Next Events

AGM	14 Jan 2014
1HY14 results	13 May 2014

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Embarking on profitable growth

Schaffner ('the group') is a market leader in the fields of electromagnetic compatibility (EMC) and power quality. The group's products such as filters, transformers, and chokes help eliminate electrical distortions, thus improving the reliability of electronic equipments and stabilizing power grids. Schaffner also manufactures components for keyless entry antennas used in automobiles. The group recorded sales of CHF195mn and had 2,817 employees as of FY2013 which ended September 30.

- **Demand for Automotive products to spur revenue growth**

  The group has been experiencing robust demand in recent times for its keyless entry antennas (24% CAGR over FY2010-FY2013) in automobiles due to rising demand for advanced technologies and feature-rich cars globally. In addition, Schaffner is also looking to explore opportunities in electric vehicles (EV). With the rise in EVs, there are a variety of electromagnetic interference (EMI) sources and receptors in automobiles and in the environment in which they operate. Over the years, the group has developed advanced EMC filters and specialized power magnetic components for electric vehicles and is also investing substantially in this division. According to the company, the addressable market opportunity per car for Schaffner's products is as much as EUR100 (about CHF120), thus putting the addressable market opportunity at CHF330mn by 2018.

- **Improved utilization coupled with cost rationalization to boost margins**

  Schaffner has undertaken various initiatives over the past few years to boost margins – these include implementation of lean principles, shifting production centers to low-cost countries and improving supply chain management. The group aims to cut its annual production cost by around CHF2.4mn on the back of these initiatives. The improvements in operational excellence were in the past wiped out by the China's rail sector (PM division) crisis. Now, however, with China's improved rail dynamics and shifting of focus to other rail markets, the Shanghai plant utilization has shown considerable improvement. Consequently, we expect Schaffner to record a group operating margin of 9.9% in FY2015 from 4.8% in FY2013.

- **Robust FY2013 results and positive outlook**

  Sales grew by 10% y/y to CHF195mn, with positive growth across all the divisions. At the same time, EBIT margin expanded by 70bps y/y to 4.8% underscoring the benefits of ongoing operational excellence measures. FY2013 results, reported on December 10, indicate that the measures put in place by management are starting to bear fruit and we expect the results to improve further in future.

- **Trading at a significant discount to peers**

  Unlike in the past, currently Schaffner is trading at a discount of around 27% on both EV/EBITDA and EV/EBIT, and 30% on P/E basis to its product peers. Similarly, the group is trading at a discount of 21%, 25% and 23% on EV/EBITDA, EV/EBIT and P/E basis to its industry peers. Given the expected robust growth in sales driven by the Automotive division, and expanding operating margins, we believe a discount to its peers is unwarranted

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INVESTMENT HIGHLIGHTS

PM and AM divisions to drive growth while EMC ensures strong group margins

A balanced portfolio of mature and growth assets

Schaffner's focused expansion strategy has helped the group in creating a balanced portfolio of assets. The group has marked a major presence in high growth Power Magnetics (PM) and Automotive Markets (AM) segments as well as the high margin Electromagnetic Compatibility (EMC) segment. Schaffner derives more than 50% of its revenue from the EMC division, which develops and manufactures standard and customized EMC filters. This is largely a stable business (40% sales from standardized products) where the group commands a dominant position in its focus markets. At the same time, Schaffner's other two divisions – PM and AM – target niche markets such as smart grids, photovoltaics, and keyless entry systems for automobiles that offer strong growth prospects.

The group's ability to consistently launch market relevant products ensures that it generates steady revenues from its EMC division. For instance, revenue from ECOsine active harmonic filters – launched in FY2009 – grew at a CAGR of 50% between FY2009 and FY2011, and clocked CHF5.8mn in FY2012. However, as mentioned earlier, we expect both PM and AM divisions to drive the bulk of the growth over the medium to long-term. In the PM division, with anticipated uptick in new high speed rail track projects in China and increased investments by the Chinese government, the group expects the rail projects in China to again drive its revenue growth. In rail technology, the group has identified opportunities in India, where it started activities in 2010. Apart from Europe where the cycle of replacement of old infrastructure has begun, India currently has a large pipeline of projects and thus represents a big potential. In addition to rail technology projects, China along with Japan also offer large opportunities in photovoltaics. Similarly, Schaffner has been witnessing a robust traction in its AM division in the past few years. Besides the existing market opportunity in antennas for keyless entry, the group expects the EV market to offer multiple incremental opportunities.

Global sales network and extensive expertise in EMC

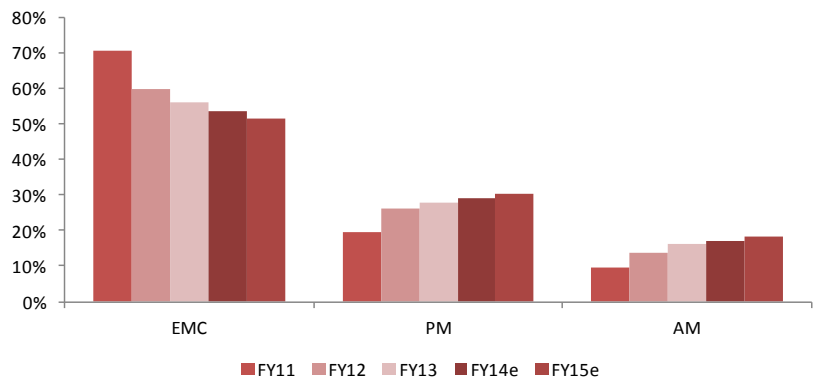
Schaffner has built a network of production sites, sales/application and logistics centers across the globe, stretching from China to the USA. The company also boasts of long-standing relationships with major names such as Nokia, Siemens, Vacon, Otis, Alcatel, General Motors, Audi and Ford among others. Further, the group's vast experience in electromagnetic compatibility (close to half a century experience), and its offering of integrated EMC, power-quality & energy-supply solutions (e.g. filters, chokes) raise the prospects of synergic sales opportunities.

Latest FY2013 result confirms the growth story

Back on track for growth and profitability

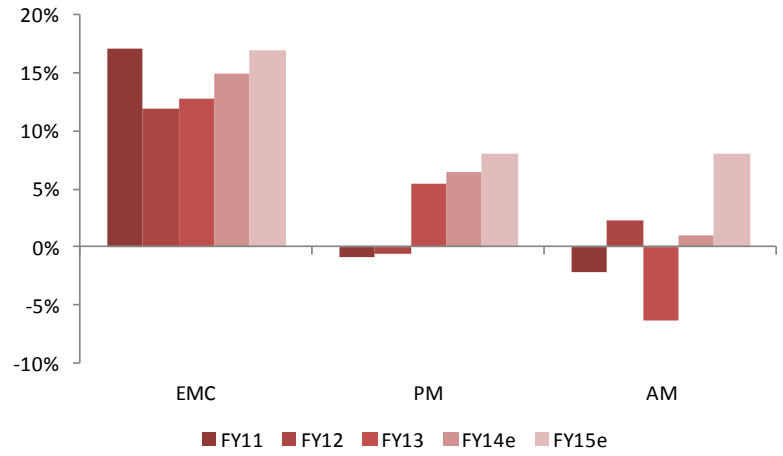
On the basis of the above positions plus the recently reported encouraging set of FY2013 results and outlook, Schaffner's opportunities are further underpinned by the group's near-term guidance; it expects both these high-growth divisions to clock a CAGR of 15% over FY2014-FY2015, and its EMC division to grow at a stable rate of 4% per annum over the same period. On group level, this corresponds to a high single-digit growth rate. As Schaffner makes substantial investments in its PM and AM businesses, these divisions currently post negative to low margins. However, the EMC division has been steady so far, recording a 14% average margin over the last three years. The group's margin guidance also depicts the similar future scenario with EMC's expected margin pegged at 16-20% and for the other two segments, improving to 8-10% by FY2015.

Exhibit 1: Segmental revenue break-up (Historical and Forecast)



Source: Company data, Research Dynamics

Exhibit 2: Segmental profitability (Historical and Forecast)



Source: Company data, Research Dynamics

Structurally well placed on buoyant long term outlook of the two largest end industries

Schaffner hits a sweet spot in energy market

The Schaffner group, with its products and services, plays a key role in promoting technologies that support renewable energies, as well as ensures the reliable functioning of electronic equipment and offers systems that meet the requirements for greater energy efficiency. It is worth noting that 'Energy-efficient drive systems' and 'Renewable energy' are the group's two largest industry verticals, contributing 23% and 18% respectively to its top line in FY2013.

Industries across the world are battling an energy challenge today. Governments, consumers and shareholders are all pressurizing them to reduce energy consumption, lower carbon dioxide emissions and provide secure power supplies. This pressure comes against a background of ever-rising energy prices and the effects climate change is having on the environment. As a result, industry and their consumers are demanding ever more energy-efficient products. In addition, the world's demand for energy is rising steadily. According to the International Energy Agency (IEA), energy demand is set to rise 47% between 2008 and 2035 under current policies, reflecting global economic growth and rising living standards. Electricity demand is expected to grow almost twice as fast, with most of the increases occurring in emerging markets. To add to this, IEA found that industry consumes about 42% of all electricity generated.

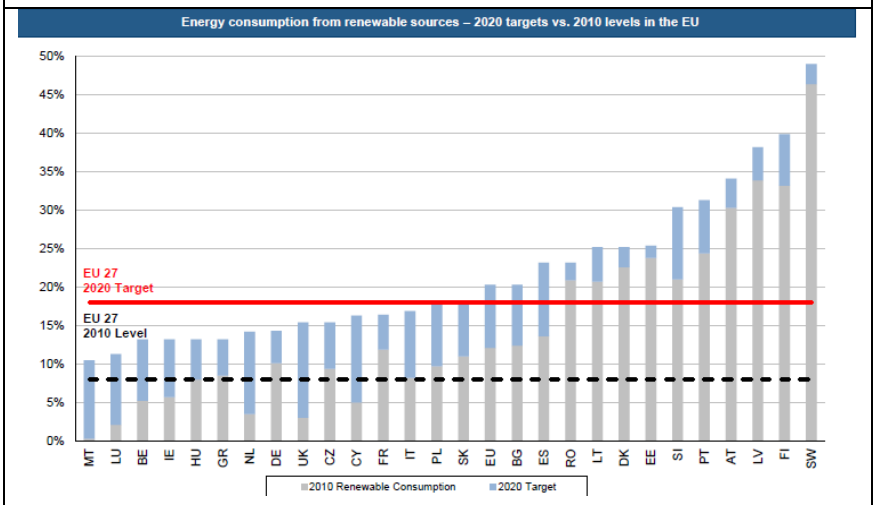
The energy saving potential in industries and utilities is enormous just in motor-driven applications alone. Hundreds of millions of electric motors drive machines, compressors, fans, pumps or conveyors in virtually every sector, which account for about 70% of all the electricity that industry uses. The most immediate, cost-effective and practical way to address the energy challenge is to grasp the opportunities for energy reduction through available and proven technology.

For instance, many industrial systems are still controlled by mechanical variable speed drives today. The motor operates continuously at full power, with up to four-fifths of the electrical power used being lost. An electronic speed control system can ensure that the machinery receives just the amount of energy it actually needs for the process. As a result, the system's energy consumption can often be reduced by more than half. Schaffner components support the interference-free integration of electronic speed control systems and other power electronic components in complete systems and thereby protect the power network and neighboring devices from harmful distortion effects. Schaffner's offering includes the requirements analysis, development, manufacture and delivery of components, and the testing of their steady functioning at the customer's premises or in its own development laboratories.

In the renewable energy industry, enormous technological progress has been made in terms of renewable energy equipment based on photovoltaic technology, wind power in recent years. Thanks to improving efficiency and attractive grant programs, renewable energy has become an important alternative to traditional sources of energy. However, electrical energy from renewable sources cannot be fed directly into the power supply network, as these sources primarily generate direct current (DC) or, in the case of wind power farms, alternating current (AC) which fluctuates heavily depending on the wind speed. Power supply networks and energy users generally require AC with a network frequency used by the corresponding national power network.

With an extensive experience of over 40 years, Schaffner is specialized in providing solutions to interference problems (EMC) encountered in power electronics and frequency converters or inverters that are used in uninterruptible power supply systems or in the generation of renewable energy. With the increasing government push for developing the renewable energy industry along with the improving competitiveness of renewable vis-a-vis the traditional energy sources, we believe, the group is in a sweet spot, given its focus on this industry.

Exhibit 3: Renewable targets in the EU by 2020



Source: European commission, Research Dynamics

All divisions record robust sales growth, PM returns to profitability

REVIEW OF FY2013 RESULTS

Schaffner reported robust results for its fiscal year 2012/13 ending on 30 September (FY2013) on 10 December. FY2013 sales increased by 10% y/y to CHF195mn, with positive growth across all the divisions. By end-markets, sales were led by strong demand from renewable energy markets in China and Japan. At the same time, EBIT margin expanded by 70bps y/y to 4.8% led by operational excellence initiatives.

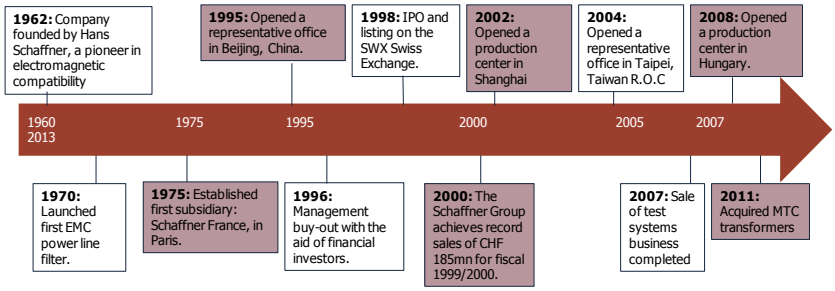
EMC division: Sales were up 4% y/y to CHF110mn driven by significant improvement in business conditions in 2HFY2013 (+7% y/y sales growth vs. -0.2% y/y in 1HFY2013). Better capacity utilization and the ongoing lean manufacturing program buoyed EBIT margins (+100bps y/y to 12.8%). 2HFY2013 witnessed a margin of 16%, in line with its mid-term target of 16%-20%. **PM division:** Sales grew by 16% y/y to CHF54mn on strong demand from the renewable energy market in Japan and rail technology projects in Russia, China as well as Europe. The division posted operating profit of CHF3mn compared to a loss of CHF0.3mn in FY2012, as ongoing operational excellence measures boosted margins to 5.5%. **AM division:** Sales were up 27% y/y to CHF31mn driven by continued strong demand for components used in keyless entry systems. However, operating performance was below expectations (loss of CHF2mn vs. profit of CHF0.6mn in FY2012) mainly due to underutilization of plant and high development costs for two development projects which are scheduled to "go live" in 2014. Thus, the group expects turnaround in FY2014.

Management maintained its mid-term targets for sales and EBIT margins. For FY2013, the group expects high-single digit sales growth and further improvement in margins. Schaffner's robust FY2013 results further underpin our thesis of the group embarking on its growth story.

COMPANY OVERVIEW

Schaffner Holding AG provides electromagnetic compatibility (EMC) and power quality products such as magnetic components, harmonic filters and line reactors. In addition to ensuring the reliable functioning of electronic equipment and systems, these products also promise compliance with all major quality and performance standards. In addition, the group develops and manufactures components for convenience and safety electronics in cars, and for drive trains of vehicles with hybrid or electric drive. Schaffner's components are deployed in energy-efficient drive systems and electronic motor controls, wind power and photovoltaic systems, rail technology, machine tools, and robotics, as well as in power supplies for various electronic devices in medical technology or telecommunications sectors. The group serves original equipment manufacturers (OEMs), equipment manufacturers, and systems integrators. Founded in 1962, Schaffner is headquartered in Luterbach, Switzerland.

Exhibit 4: Events Timeline

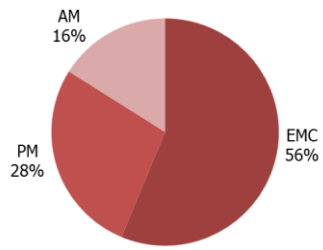


Source: Research Dynamics, Company data

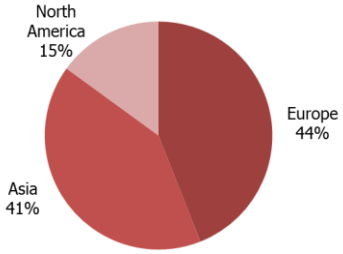
The group operates through three divisions: Electromagnetic compatibility (EMC), Power Magnetics (PM), and Automotive division (AM) and its products are sold globally.

Exhibit 5: Revenue distribution

Segmental revenue break-up



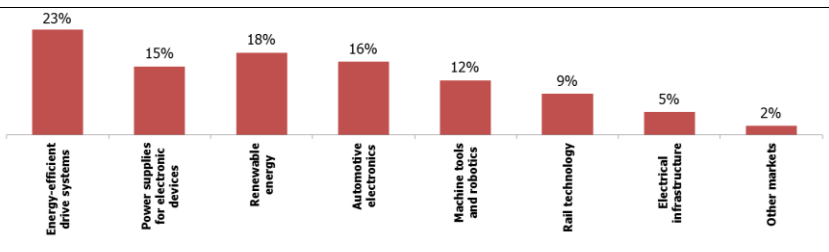
Regional revenue break up



Source: Research Dynamics, Company data

The group's businesses are highly correlated with economic activities around the globe. Its key markets include energy efficient drive systems, power supplies for electronic devices, renewable energy, automotive electronics, machine tools and robotics, rail technology, and electrical infrastructure.

Exhibit 6: Revenue by end industry (FY2013)



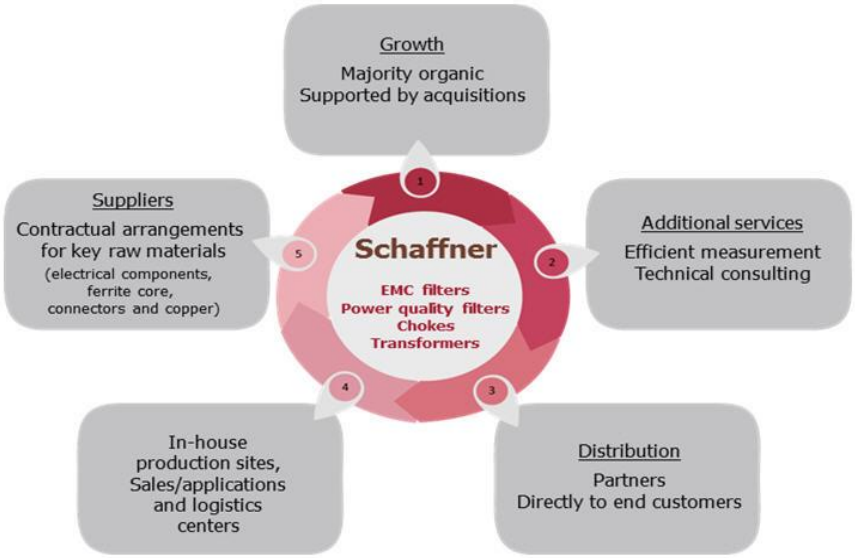
Source: Research Dynamics, Company data

BUSINESS MODEL

Schaffner manufactures products and solutions that improve efficiency and prevent disruption in the operation of electronic systems. The group's products include EMC filters, power quality filters, power magnetic products (chokes, transformers), and components for keyless entry systems and antennas that are used in automobiles. Schaffner has its own centers for production, sales/application and logistics spread across the globe. The group's products and services are delivered through a worldwide network of distribution partners or directly sold to end-customers, which include OEMs, equipment manufacturers and system integrators.

Schaffner has contractual arrangements with its long-term suppliers for sourcing key raw materials (electrical components, ferrite core, connectors and copper). In addition to standard product development, the group also provides services such as efficient measurement, technical consulting and customized solutions directly or through a network of distribution partners. The group's business model is depicted in Exhibit 2.

Exhibit 7: Business model



Source: Research Dynamics

The Schaffner Group is a global player with a local presence in all key markets. Production facilities in Asia, Europe and North America as well as 18 customer service and application centers ensure rapid turnaround times, relevant consulting and responsive customer oriented engineering

Exhibit 8: Global Footprint

Headquarters	Development and production centers	Customer service and application centers	
Switzerland	China	China	Switzerland
	Germany	Germany	Singapore
	Thailand	Finland	Spain
	Hungary	France	Taiwan
	USA	Italy	Thailand
		Japan	UK
		Sweden	USA

Source: Research Dynamics, Company data

Historically, Schaffner has grown through acquisitions. Over the years, the group has executed about 10 transactions, acquiring six companies and disposing off a few of its assets. For instance, in a bid to strengthen its technological base and combine its EMC, power quality and energy supply solutions, the group acquired Jacke Transformatoren GMBH in 2006. In the same year, the group divested its EMC test systems business in order to refocus the group on the dynamic market for components and modules for ensuring the proper functioning of electrical and electronic devices. The table below summarizes the transactions.

Schaffner intends to further develop through M&A. The group has communicated that it targets an acquisition that could add as much as CHF20-23 mn by FY2015. However, management has also clearly defined criteria. First, the target has to provide a good fit and must be close to the core business, i.e. there is no intention to add a 4th business line. Valuation has to be reasonable, with payback expected in the 2nd year (non-dilutive to EPS and accretive in year 3), and the integration has to be manageable. The group targets an acquisition every 1-2 years and expects to take an opportunistic approach especially in the AM and PM divisions. In terms of regions, there is no intention to acquire in Russia, India or Brazil, but rather in the regions currently served by the divisions

Exhibit 9: Mergers and Acquisitions

Deal Type	Announced Date	Target Name	Acquirer Name	Seller Name	Announced Value (mn)
ACQ	1-Feb-99	MEB Messelektronik Berlin	Schaffner		0.63
DIV	27-Sep-00	Schaffner Altrac AG	FORTEC Elektronik	Schaffner	NA
ACQ	28-Jun-01	ElectroFERRUM Oy	Schaffner		NA
ACQ	8-Jan-02	WEE Electrotest	Schaffner		NA
DIV	28-Jan-06	EMC test system business line	Management Grou	Schaffner	NA
DIV	5-Apr-06	Schaffner Ltd	Intepro America	Schaffner	NA
ACQ	19-Oct-06	Jacke Tranformatoren Gn	Schaffner		NA
DIV	27-Mar-07	Multiple targets[1]	Management Grou	Schaffner	NA
ACQ	5-Jan-09	Betec-Engineering GmbH	Schaffner		NA
ACQ	1-Sep-11	MTC Transformers, Wytheville	Schaffner	MTC Transformers	NA

Source: Research Dynamics, Bloomberg
Note: [1]Schaffner Electrotest GmbH, Schaffner Electrotest BV, Schaffner Electrotest Srl,Luterbach

BUSINESS UNIT OVERVIEW

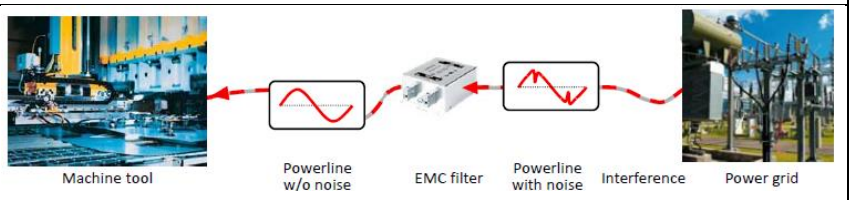
Schaffner has categorized its business into three divisions: Electromagnetic Compatibility (EMC), Power Magnetics (PM) and Automotive (AM).

Business Unit	FY13 sales (CHF mn)	% of group sales	EBIT margin (%)	FY15 Guidance	
				Sales (CHF mn)	EBIT margin
EMC	110	56%	13%	119	16% - 20%
PM	54	28%	5%	71	8% - 10%
AM	31	16%	(6%)	38	8% - 10%

Electromagnetic Compatibility (56% of FY2013 revenue)

Electromagnetic Compatibility (EMC) is the largest division of the group, which contributes 56% to the top-line. The division develops EMC filters that prevent interference from neighboring electrical devices, eliminate electrical noise to ensure proper operation of electronic equipment and help in increasing the life of power electronic systems. It also develops power quality filters that improve the reliability of electricity grids through continuous monitoring of changes in the grid and addressing issues such as grid overload, equipment downtime, and electricity waste. Additionally, it also offers pre and post-sales services such as efficient measurement, expert technical consulting, and provide customized solutions.

Exhibit 10: EMC filters eliminate electrical noise



Source: Research Dynamics, Company data

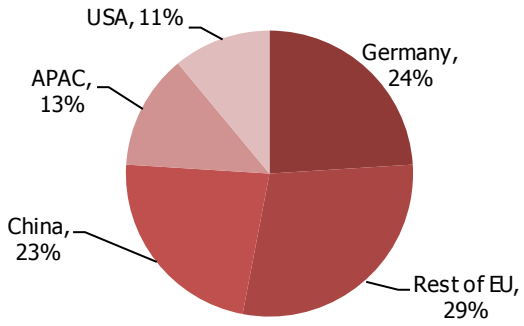
Exhibit 11: EMC products

ECOsine harmonic filter	Filter module FN 9280
	

Source: Research Dynamics, Company data
Note: ECOsine harmonic filter is a power quality filter used in electrical grids
Module FN 9280 is an EMC plug used in medical technology

The division's key sales markets include energy-efficient drive systems, renewable energy, power supplies for electronic devices, and machine tools and robotics. Geographically, the division's revenues are skewed toward matured markets with Europe and US collectively accounting for 64%.

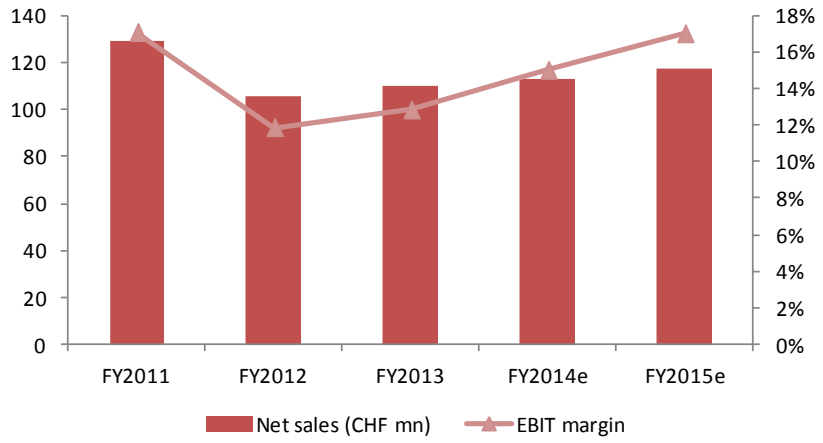
Exhibit 12: EMC revenue by region (FY2012)



Source: Research Dynamics, Company data

EMC is largely a stable business (with 40% standardized products) where the group commands a dominant position in its focus markets. Schaffner expects the EMC division to grow at a rate of 4% per annum in the next two years (lower than its other divisions). However, on the margin front, EMC scores ahead of the other two divisions and is expected to drive the profitability growth over the near term. The group has taken a number of margin improvement initiatives such as local sourcing of raw materials, automation of manufacturing processes, and adopting cost-optimized product designs (design-to-cost) approach. Schaffner targets the division to earn an EBIT margin of 16-20% in the medium term (by FY2015e) from 12.8% currently.

Exhibit 13: EMC sales and margin development (FY2011-FY2015e)



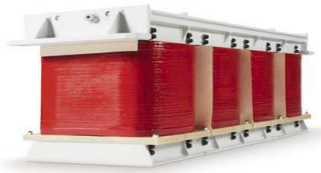
Source: Research Dynamics, Company data

Power Magnetics (28% of FY2013 revenue)

Power Magnetics (PM) is the group's second fastest growing (16% y/y growth in FY2013) as well as the second largest division (28% of sales in FY2013). It manufactures inductors that help in reliable operation of power electronic systems by safeguarding power supply. The division also develops customized transformers that are used in demanding applications such as photovoltaic inverters, wind turbine converters, etc. They help in protecting electrical equipment from high-frequency currents, interference and malfunctions.

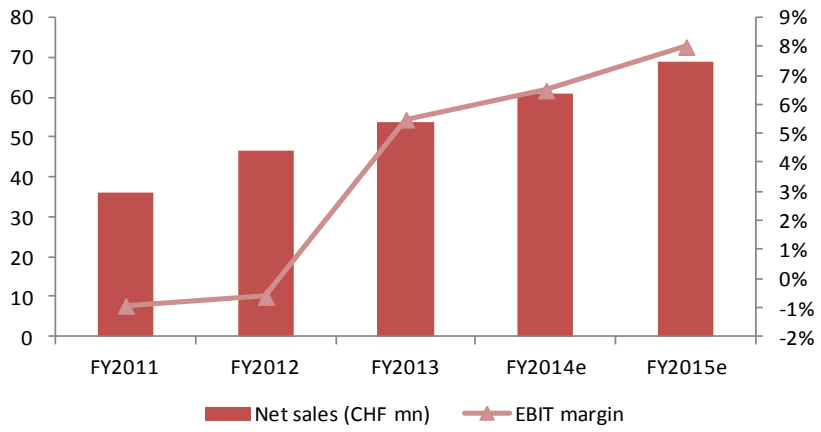
The PM division is set apart as a niche-market focused division. Its key end-markets include rail technology, wind turbine and photovoltaic markets. Recently, the group has identified new niche markets such as energy storage (mainly in connection with rail technology & alternative energy generation), data centers and mobile power generation systems. In addition, Schaffner is also eyeing the growing photovoltaic market in China and huge rail technology market in Japan. The group is also targeting other important rail markets such as Russia and South Africa. Consequently, the group expects its PM division's sales to grow at 15% per annum over the next two years and contribute significantly to the overall revenue. On the margin, the group has initiated several operating excellence measures and targets EBIT margin in the range of 8%-10% (by FY2015e).

Exhibit 14: PM products

High-quality magnetic components	**Combination of Transformer and Inductor[1]**
	

Source: Research Dynamics, Company data
Note: [1]For compliant grid connection of photovoltaic systems

Exhibit 15: PM sales and margin development (FY2011-FY2015e)

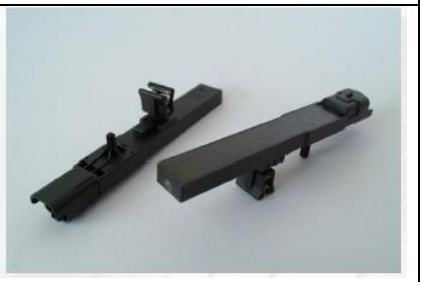


Source: Research Dynamics, Company data

Automotive (16% of FY2013 revenue)

Automotive (AM) is currently the group's fastest growing division (CAGR of 33% between FY2011 and FY2013). It develops components that are used in convenience and safety electronics in cars such as 'keyless entry antennas'. Its offerings also include EMC filters for electric vehicles (EV) and hybrid/electric vehicles (HEV). Schaffner's move in the recent past to focus on the automotive division and expand its operations globally has benefitted the group, which is also evident in the latest figures. Its end-customers include the major international automotive players such as BMW, Audi, General Motors, Ford, Mercedes, Hyundai and others.

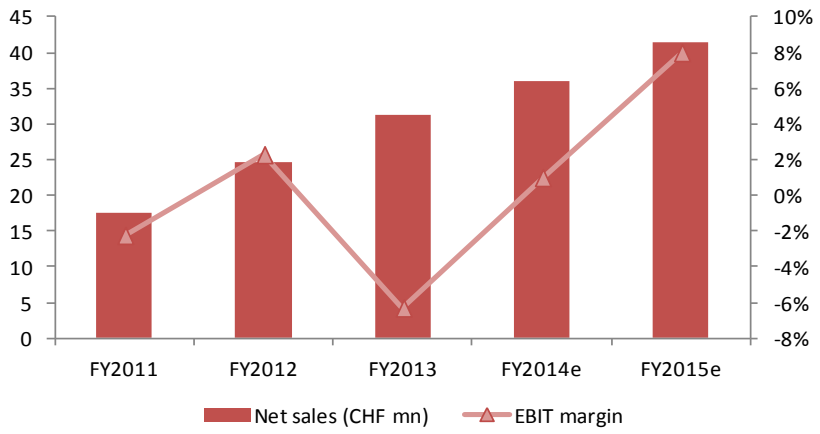
Exhibit 16: Keyless Entry: Antenna and Sensors



Source: Research Dynamics, Company data

Currently, keyless entry antennas contribute the majority of revenues and are expected to do so over the next 3 to 4 years. In keyless entry systems, Schaffner is among the top three global players with a market share of around 25%. According to the group, the keyless entry system is a booming market and is projected to grow strongly at 15% per annum over the next five years. At the same time, the group has increased its R&D investments in EMC filters used in EV and HEV, as it plans to capture the huge long-term growth prospects that EV/HEV products offer Schaffner is very optimistic about the automotive division and expects its sales to grow at 15% per annum over the next two years and targets an EBIT margin in the range of 8%-10% by FY2015e.

Exhibit 17: AM sales and margin development (FY2011-2015e)



Source: Research Dynamics, Company data

SCHAFFNER PRODUCTS IN THE END-USER INDUSTRY

Schaffner derives a major portion of its revenues from the energy-efficient drive systems market (23%), followed by power supplies for electronic devices (15%), and renewable energy (18%)[1].

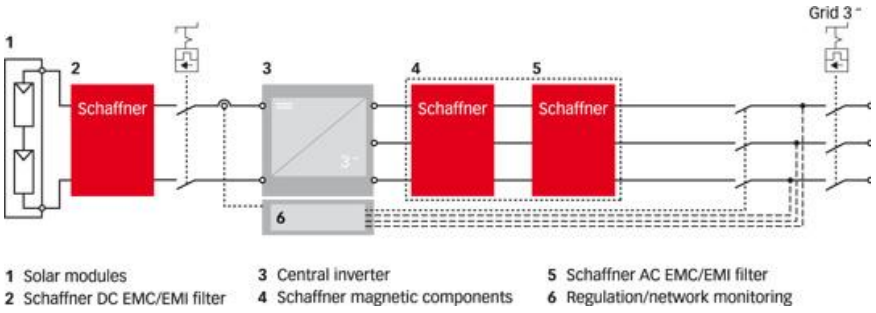
The following sections describe how Schaffner's products are used in the value chain of the group's focus markets

Use of Schaffner Products in Photovoltaic Industry

A high-speed semiconductor switch-mode technique is used in the photovoltaic system in order to achieve high efficiency levels. However, this creates a broad spectrum of interference, ranging from low frequency harmonics to conducted and radiated electromagnetic interference (EMI) emissions in the Megahertz range. These interferences affect the functionality of the electronic equipments in the vicinity or equipments connected to the same branch of the grid. Furthermore, the PV systems also need to meet power quality standards and adhere to local utility codes, in addition to ensuring quality and durability.

Schaffner's products help tackle interference and compliance problems associated with different power electronic devices used in renewable energy systems, particularly in PV inverters.

Exhibit 18: Schaffner products in Photovoltaic System



Source: Research Dynamics, Company data

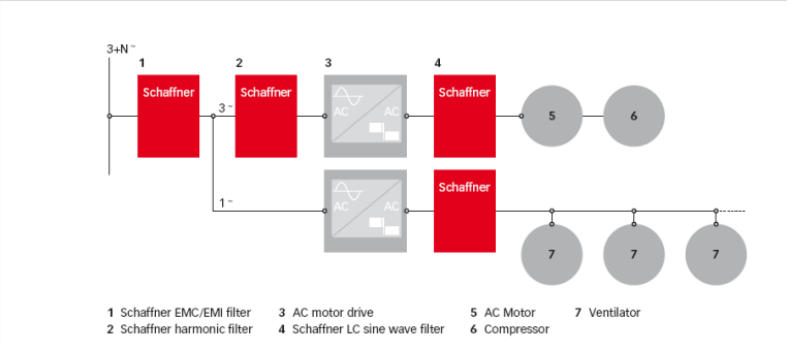
[2]DC EMC filter: The DC EMC filter decouples the solar module and takes care of the suppression of high-frequency, conducted interferences from the inverter. If the DC filter is not used in the network, these interferences can have a negative effect on the functioning, reliability and efficiency of the solar cells.

[4,5]Magnetics: A solar inverter converts the variable direct current (DC) output of a photovoltaic (PV) solar panel into a utility frequency alternating current (AC) that can be fed into a commercial electrical grid or used by a local, off-grid electrical network. Using a method called 'Pulse Width Modulation' (PWM), an inverter controls the output with a variable equivalent voltage and draws an approximated sine wave shape. The role of the magnetic components (transformers, inductors) is to smoothen and change the magnitude of the approximated sine wave. These magnetic components filter the wave shapes that result from the PWM switching, smoothening out the sine waves and bring the AC voltages to match the level for a grid connection, thereby improving the efficiency. The magnetics also provide isolation between the DC circuits and the AC grid.

Use of Schaffner Products in Energy-Efficient Drive Systems

Schaffner, with its EMC and power quality components, provides solutions for an efficient and reliable use of advanced HVAC (Heating Ventilation Air Conditioning) equipment.

Exhibit 19: Schaffner products in Energy-efficient Drive Systems



Source: Research Dynamics, Company data

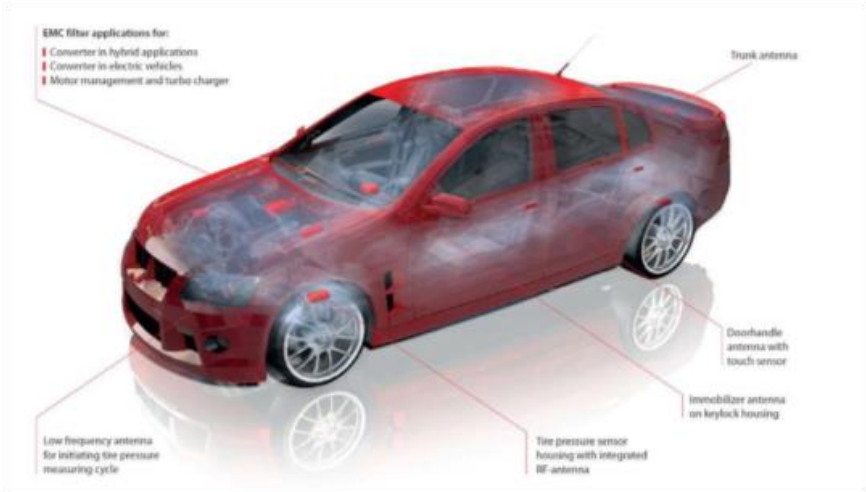
AC motor drives are used for adjusting the speed of motors in ventilators and compressors. AC motor drives are also called variable speed drives (VSD) or adjustable frequency drives (AFD). They use high speed semiconductor switches and PWM techniques to generate high rise time voltage pulses to reduce power losses, and they are ultra compact. The high rise time creates immediate electromagnetic interferences on both the line and the motor side wiring. This creates a number of problems for OEMs and system integrators, right from purely functional difficulties to serious motor damage.

Schaffner offers a full range of EMC/EMI filters, harmonic filters and motor drive output filters for realizing power drive systems with the required performance.

Use of Schaffner Products in Automobile

Schaffner antennas are used in keyless locking systems (passive entry/passive go), electronic immobilizers and tire pressure monitoring systems (TPMS). Using special antennas, information is exchanged between a microchip in the keyless entry system and the in-car computer. This communication is used to open door locks automatically, trigger the immobilizer, and even make individual adjustments to the seat position. In the TPMS, an air pressure sensor alerts the car's central computer if there is a drop in pressure in one of the tires. In these applications, Schaffner antennas ensure a connection between computer and microchip.

Exhibit 20: Schaffner products in an Automobile



Source: Research Dynamics, Company data

BUSINESS STRATEGY

In the past few years, Schaffner has expanded its focus from purely cost optimization to growth. The group's mid-term guidance of more than 8% per annum organic growth at an EBIT margin of 9-12% reflects this strategy.

Exhibit 21: Schaffner Group mid-term targets

- Organic growth rate exceeding 8% annually
- Focused acquisitions in Divisions EMC and Automotive

Targeted operating margins (EBIT):	
–EMC division	16% - 20%
–Power Magnetics division	8% - 10%
–Automotive division	8% - 10%
–Schaffner Group	9% - 12% (incl. -3% Group service cost)
Dividend pay-out ratio	25% - 35% of net profits
Equity ratio	40% - 50%
Target for FY 2014/2015:	
–Net sales	CHF 250 – 280 million
–Operating margin (EBIT)	9% - 12%

Source: Research Dynamics, Company presentation

Margin expansion still a priority

Ongoing operational excellence initiatives to boost margins

In addition to lean manufacturing (lean cell, material flow, automated testing), Schaffner has initiated measures such as shifting production centers to low-cost countries (such as China, Thailand, Hungary), improving supply chain management, local sourcing of raw materials, controlling overhead costs and inventory management, to boost operational excellence. The group is focusing on the EMC division to drive its margins, while it faces a rising competition in Asia. In order to achieve the EMC division's target margin of 16-20%, measures such as tying up with local suppliers to reduce material costs, further automation of the manufacturing process, introduction of cost optimized product design, etc are being undertaken.

After the group implemented the lean manufacturing principles in the PM division for the first time in 2012, it clearly reflected in the improved margins for the division since 2H2012. In addition, now that the dry-type transformers operations of US-based MTC Transformers MTC are completely integrated with Schaffner, the group expects to extract synergies in process technology and material sourcing between US and Rest of World. The acquisition is expected to strengthen the Group's market position in North America and help the group to meet its goal of achieving a market leading position in the Power Magnetics by 2015. For the PM division, the group has categorically mentioned that it is not looking for external growth in the short term and the immediate goal is the profit growth for this particular division.

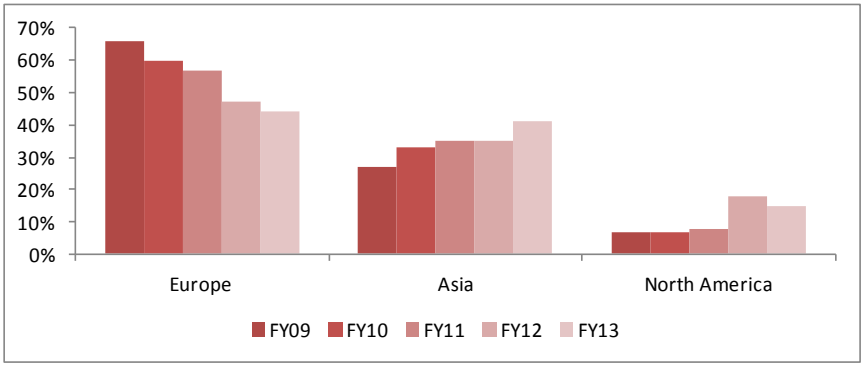
Focus on growth markets and bolt-on acquisitions to lead top-line growth

Small, tuck-in acquisitions to support revenue growth

On growth front, Schaffner is following a strategy wherein it focuses on boosting its presence in growth markets, while maintaining its leadership in mature markets. This is evident from the rising sales contribution from the Asian region, which increased from 27% in FY2009 to 41% in FY2013, mainly led by China. Schaffner benefitted from initiatives such as expansion of production facilities, developing products suitable for the Chinese market both in terms of costs and technology. Going forward, Schaffner plans to focus on developing products that are sophisticated, since Chinese consumers are gradually becoming technologically confident. In addition to China, Schaffner is also targeting Japan, given the huge potential offered by the market in light of its ongoing energy transformation.

Similar to its strategy in China, the group is planning to develop products that are suitable for the local market in terms of cost and quality. Moreover, it is also eyeing other emerging markets such as Russia and South Africa. At the same time, Schaffner is also open to inorganic growth opportunity. The group is targeting small to mid-sized companies primarily for the EMC and AM divisions' markets, as it wants to maintain its leadership in EMC and capture the huge growth potential in the automobile division, especially in the keyless entry systems. Schaffner expects around 4% per annum growth to come from acquisitions in FY2014e and FY2015e.

Exhibit 22: Development of sales by region



Source: Research Dynamics, Company presentation

INDUSTRY OVERVIEW AND COMPETITIVE LANDSCAPE

Schaffner is a leader in a fragmented market

Schaffner operates in market segments that are characterized by intense competition among suppliers and that are driven by rapid technological change. The market is very fragmented and also boasts a presence of big industrial automation players. The EMC and PM divisions are marked by a presence of various OEMs such as Schneider Electric, Emerson (through Leroy-Somer), Omron, Eaton, and Yokogawaa and ABB, although the group claims that these are not its direct competitors. Furthermore, these OEMs do not have a significant focus on Schaffner's target market and derive a tiny percentage of their revenues from the energy efficiency and reliability markets. The group's more direct competitors include the publicly listed players such as Laird PLC, Rongxin Power, Ablerex, Omron, and Cosmo Ferrites along with various other private players including the big ones such as Switzerland based Schurter Inc.

We compiled the following list of companies which manufacture various products similar to Schaffner's and its target market is the US.

Exhibit 23:Schaffner – Peers selling in the US

EMC filters	Power magnetics	Antenna Devices
Curtis Industries	Hammond Power	Sumida
Delta Electronics	MDEXX	Intica systems
EPCOS Inc	Tamura	Premo
Laird Technolgies IAS		
Schurter Inc		
TDK Corporation		
TDK-Lambda Americas		
TE Connectivity		

Source: Research Dynamics, Company data, digikey.com

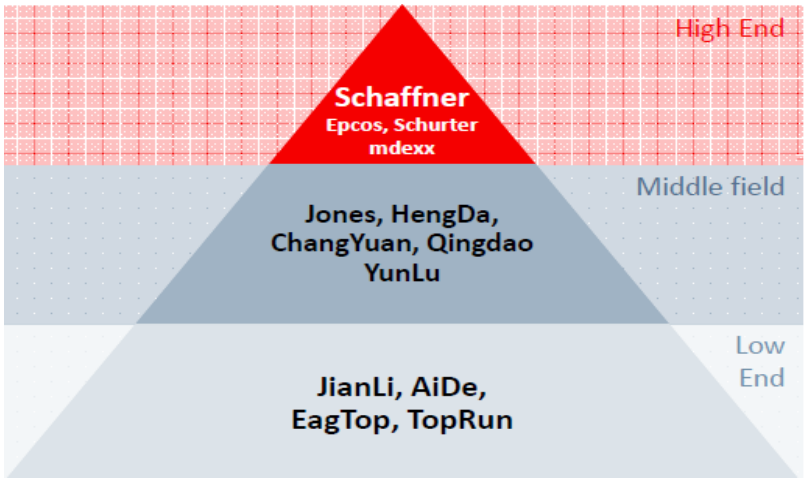
Although there are no studies on the addressable market size for the EMC market, the group claims to be an international leader in this market. We estimate the global market to be around CHF475-500mn. Schaffner reportedly holds 26%, 30% and 35% market share in the US, European and Chinese EMC markets, respectively. We expect the EMC market to grow in low single digits in the medium to long term.

The picture for the global Power Magnetics market is a bit more obscure. However, according to the group, the Power Quality (Power Magnetics and Harmonic filters) market was about CHF1.4bn in 2010 and the group ranked 6th in terms of revenues in the Power Quality market then. Furthermore, Schaffner currently has a dominant 15% market share in the Chinese Power Magnetics market. Given the robust expected growth in the end markets, we expect the PM market to grow by 10-12% till 2018.

In the Automotive market, Schaffner is reportedly the market leader with approximately 25% share globally that puts the global Automotive size (keyless entry/go) at about CHF100mn. We expect the market to grow at about 20% till 2020, driven by increased adoption of the feature rich cars, especially in the emerging markets and rising popularity of the EVs.

In China, one of the group's focus markets, the group competes with European and Japanese players at the higher end. The group is a high quality market leader but in some instances steps into the middle field to compete against some top local brands. Although not an immediate concern for the group, the local competition in China is intensifying quickly, driven by cost competitiveness as well as their ability to copy European products.

Exhibit 24: Competitors in China



Source: Research Dynamics, Company data

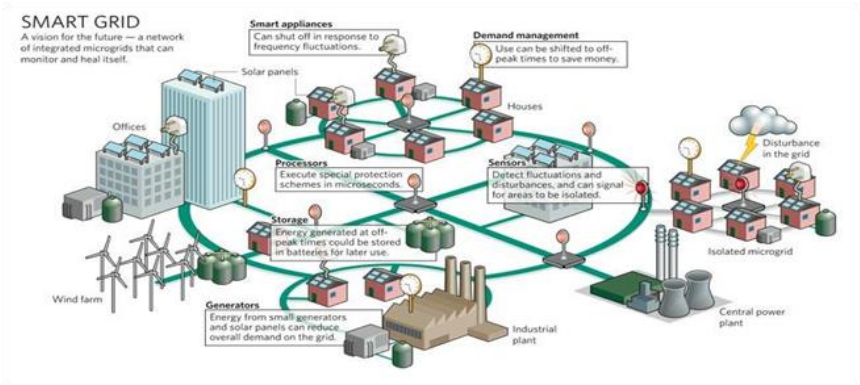
GROWTH OPPORTUNITIES & KEY DRIVERS

A secular shift toward 'smart grid' bodes well for the group

Smart grid refers to a more efficient, modernized electrical grid. It allows users to manage their electrical demand or output in a way that is most cost-effective for them and beneficial for the power system as well.

Fossil fuels currently meet the majority of the world's energy needs, but are a limited resource. With the rising cost of fossil fuels, instability in the major exporting countries, and concerns that "peak oil" is approaching, governments are attempting to diversify their energy sources and bolster their energy independence by increasing renewable energy in their energy supply mix. Electricity generated by photovoltaic and wind sources is intermittent in nature, and existing power grids are not well-equipped to handle intermittent power the way smarter grids can. Further, smart grids also enable an efficient use of electricity, shaving losses incurred during delivery and encouraging more efficient energy behavior by customers. Furthermore, utilities are under severe pressure to deliver more power, reliably, efficiently and sustainably, while simultaneously reducing and managing demand.

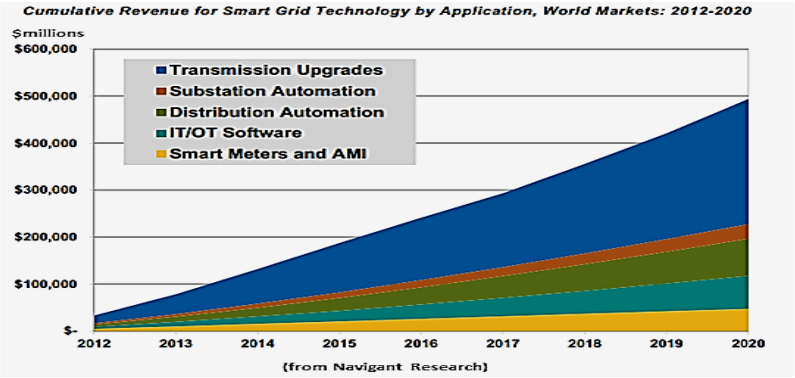
Exhibit 25: Smart grid



Source: Research Dynamics, Company presentation

A smart grid with decentralized supply and fluctuating demand creates fundamentally new requirements across the entire value chain: power generation, transfer, distribution, storage & consumption. It specifically presents increased opportunities in distribution automation, advanced metering infrastructure, demand response business transformation, data & telecom management. However, each smart grid needs different types of power electronic hardware, thus increasing demand for the customized products.

Exhibit 26: Global cumulative revenue opportunity for Smart Grid Technology



Source: Research Dynamics, Company presentation

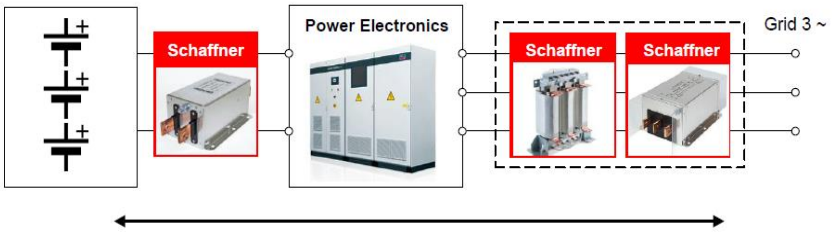
Schaffner is already involved in various smart grid technologies, offering components to mitigate distortions during power production, distribution and consumption. The group's products support the integration of renewable energy sources by bridging the gap between unpredictable supply and demand, where Schaffner's harmonic filters protect the grid from excess load.

Exhibit 27: Schaffner products in the Utility value chain

Source: Research Dynamics, Company data

Furthermore, the group is also eyeing a huge opportunity in the decentralized energy storage market, where the group's products support the integration of renewable energy sources by bridging the gap between unpredictable supply and demand.

Exhibit 28: Schaffner products in decentralized energy storage



Source: Research Dynamics, Company data

Specific Schaffner products are being used in the smart grid: In the production part of the value chain, DC EMC filters and Magnetics products (transformers, inductors) are used for removing interference and improving the performance respectively. In the distribution part, ECOsine active filter continuously monitors the changes in the grid, compensates up to three different typical power quality problems that cause grid overload, equipment downtime, and waste of electricity.

The group currently derives 18% of its revenues from renewable energies.

Automotive applications offer revenue opportunities

Increased demand for feature rich cars to drive AM division's growth in the near term

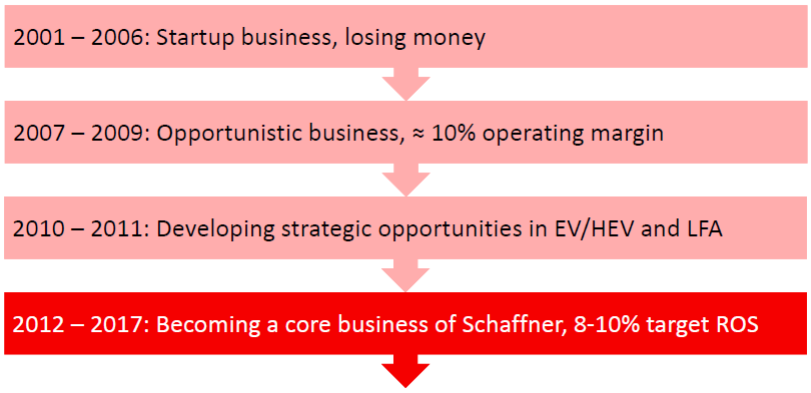
Schaffner's AM division has grown at a CAGR of 24% between FY2010 and FY2013, driven by a robust demand for its keyless entry antennas, which currently contribute the majority of the AM division's revenues. With the rising demand for advanced technologies and feature-rich cars globally, the group is experiencing a strong traction in the demand for its keyless antennas in automobiles. With a 25% market share, Schaffner is the second largest player in the keyless entry antennas market, which is expected to grow at more than 15% for the next five years excluding the expanded market opportunity due to automated switches, lighting, etc.

In addition to the existing market for the AM division, Schaffner is also eyeing a huge opportunity in electric cars. Shifting consumer preferences along with increasing government regulations and incentives are expected to result in a significant growth for the electric vehicles market. Many governments across the world are regulating vehicle emissions and fuel economy standards, offering incentives to consumers to purchase more energy efficient vehicles. For example, in 2009, the United States government enacted a USD2.4bn (about CHF2.1bn, at current exchange rate) electric vehicle stimulus package with the goal of putting one million electric drive vehicles on the road by 2015. Recently, the US government also set higher fuel economy standards and offered consumer tax credits of up to USD7, 500 (CHF6, 655) for purchasing alternative fuel vehicles. In Europe, where the European Union recently passed stricter vehicle emissions standards, several countries have instituted direct subsidies and significant tax exemptions for electric vehicles.

Further, some cities exempt electric vehicles from congestion charges as well. In Asia, the Chinese government offers subsidies of up to USD8, 800 (about CHF7, 808) per electric vehicle.

According to Frost & Sullivan, a business research & consulting firm, electric vehicle sales stood at 120,000 units in 2012 and are expected to reach 2.7mn units in 2018 (CAGR of 68%), driven by competitive pricing and the introduction of new models. The global electric vehicle market is witnessing an increased adoption and the market is expected to clock 170,000-190,000 unit sales in 2013, more than 50% increase from the previous year sales (per Frost & Sullivan).

Exhibit 29: AM division- from opportunistic to strategic business



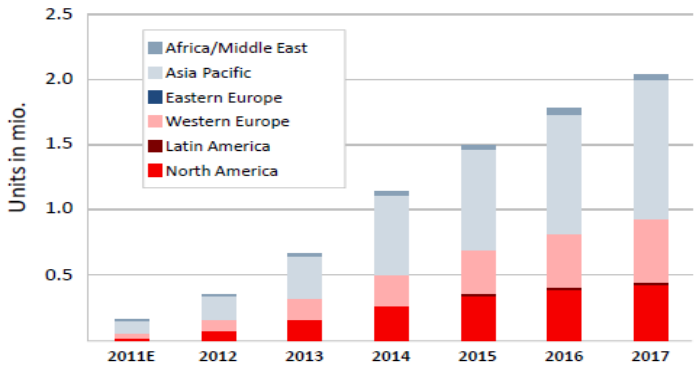
Source: Research Dynamics, Company data

Rising acceptance of EV/PHEVs to drive long term AM growth

With this rise in EVs, there are a variety of EMI sources and receptors in automobiles and in the environment in which they operate. The control of electromagnetic interference is essential, not only because there are mandatory requirements, but also for the proper functionality of the entire system. Over the years, Schaffner has developed a fundamental understanding of the EMC-related problems through simulation and has developed advanced EMC filters and specialized power magnetic components for electric vehicles. The group has also invested in the division in terms of increased engineer strength, introduction of new process capabilities at Schaffner Thailand, etc.

Furthermore, the group has specifically identified an opportunity in the EV chargers. Due to higher adoption of EV/PHEV cars, it is expected that the number of charging stations will increase multi-fold, driving the growth in EV charger market by a CAGR of 30-50% (number of charging stations in Germany to rise to 1mn by 2020 from 14,500 in 2011). For the EV charger station (especially for fast charging), Schaffner provides harmonic filters that protect the grid from excess loading and EMI filters that prevent interferences from the neighboring electronic devices and car electronics. Furthermore, these filters help the charging station to comply with EMC and power quality standards. Schaffner has already won various projects in the US, Japan, Germany, and France.

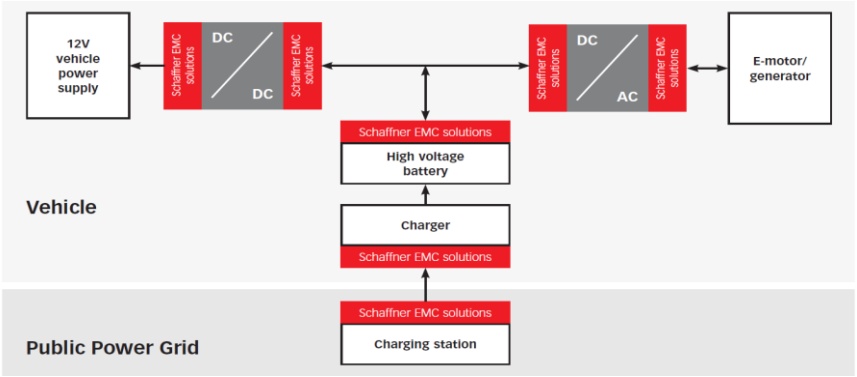
Exhibit 30: Charging station unit sales, world markets: 2010-2015



Source: Research Dynamics, Company presentation

According to the group, the electric vehicle offers multiple opportunities for Schaffner, with the addressable value per car exceeding EUR100 (about CHF120).

Exhibit 31: Revenue Opportunity in EV/PHEV



Source: Research Dynamics, Company data

World's energy guzzlers, Asia Pacific economies are the perfect hunting ground for Schaffner

Asia Pacific offers a huge untapped opportunity

Asia-Pacific economies have become the driving force for the global growth. With Asian economies performing better than their US and European counterparts for the last few years, the action has shifted to those countries. Even for the electrical & electronic equipment industry, the region offers big opportunities. Schaffner has started focusing on Asia in general and China and Japan in particular to drive future growth. Since 2011, the group has already taken various initiatives to tap burgeoning demand from Asia: 1) Expanded production facilities in China, 2) A regional (3rd party) warehouse established in Singapore, for infrastructure projects, 3) Expanded sales and application services throughout Asia and new distributor and partnerships were added mainly for harmonic filter series, 4) Established presence in India with own sales and application engineers and built-up regional distributors

Looking at China, the group saw traction in rail projects initially and generated significant amount of revenues from it. However, new high-speed track projects hit a roadblock in 2011 when not a single project was approved as against 55 projects in 2010 amidst corruption scandal by Chinese rail officials. The Chinese investment in high-speed rail projects was also curtailed after a deadly crash between two Chinese high-speed trains early 2011 that sparked public rage. With these two incidents, China dismantled its rail ministry, splitting it into two: Some functions were put into a State Railway Administration under the Ministry of Transportation and a new company, China Railway Corp., was formed to take over commercial operations.

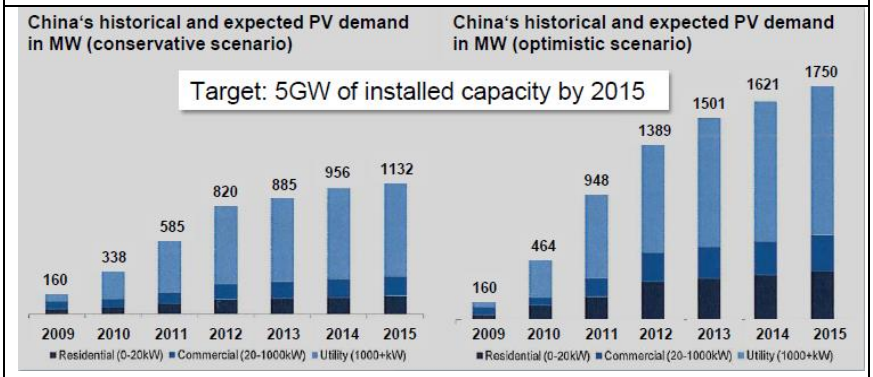
With reduced bureaucracy, improved transparency, and tariff hikes for newly formed China Railway Corp, we believe this spells good news for the stakeholders in the Chinese rail story and investments will rise. As expected, starting in the middle of 2012, the Chinese government further accelerated investment in railways (given the importance of the rail network to the entire economy). In early August 2013, China Railway Corporation announced that it invested 261.7 billion Yuan (about CHF40bn) in the first seven months, up 1.6% from the year-earlier period. It further announced that the planned investment in fixed assets for 2013 has been increased by 10 billion Yuan (CHF1.5bn) to 660 billion Yuan (CHF99bn). The rebound can also be seen from improved activity with nine new approvals for new high speed track projects in 2012. In addition, unlike high-speed projects, metro projects in major urban regions were not stopped.

Looking at the other geographies for rail Technology, Schaffner has identified opportunities in India (the group started the India activities in 2010) where it sees full pipeline of projects and big potential. The group plans to utilize its manufacturing plants in China to meet Indian demand. It has a 50% export target from China which will also enable it to lower dependence on the China market. The Asia/Pacific region will continue to be the fastest-growing rail technology market in the next five years. This region's as yet underdeveloped railway system does not meet the demands of its economic and population growth and thus has a correspondingly high requirement for investment.

Even in the photovoltaic market, there is a clear shift in action from Europe to Asia (especially China, Japan). Although recently, the group is witnessing an intensified competition in the Chinese photovoltaic market from the 'me too' Chinese products, we believe the market still offers a large potential. The group sees a positive shift away from lowest cost products to more advanced technical requirements including new technologies (e.g. middle frequency inverters) due to the maturing consumer society. In the photovoltaic market, Schaffner offers standard and customized product range.

The following exhibit shows the Photovoltaic market opportunity in China.

Exhibit 32: Photovoltaic opportunity in China



Source: Research Dynamics, Bloomberg NEF 2011, Company presentation
Note: China has comprehensively surpassed the target by recording an installed capacity base of 10GW by 2013 itself

In China, the group is also eyeing an opportunity in the EVs. Schaffner's first projects started in 2011, with foreign and local automotive companies for EMI filtering solutions in electro-cars. Hitherto, the project has not made any progress, but is expected to take off in late 2013. With the increased use of EV, there will be challenges in the electric grid too, thereby requiring the use of EMC and harmonic filters in the stationary charging stations.

In addition to China, Japan has also been contributing significantly to the robust performance in recent times. In Japan, the manufacturers of solar inverters for photovoltaics are driving the demand. In the aftermath of the Fukushima disaster, the country has intensified its focus on renewable energy. With industrialization of several new projects, and push for alternative energy, Japan offers a compelling opportunity for Schaffner. Having entered the Japanese power magnetics market (components used in photovoltaic converters) in FY2012, the group has already made big progress there. As one of the few non-Japanese companies, Schaffner managed to penetrate the Japanese traction market for magnetic components.

Elsewhere in Asia, the group is also looking at other countries such as Taiwan (targeting chip makers), Australia/Korea/South East Asia, where the group is seeing demand for active/passive harmonic filters and out-put filters which are used mainly for factory automation, infrastructure (data centers, hospitals, metro stations, etc.) and mining projects. In India, where the EMC market is still in its infant stage, PQ filters for the sub-standard electrical infrastructure are in high demand (e.g. 20 units active harmonic filters for a cement company). The aging railway system (>50 year old technology) will be up-graded gradually in the next years and there is already a substantial demand for magnetic components used in metro trains. Schaffner is also seeing demand from fast emerging PV and wind turbine market in India.

The contribution to the top-line from Asia went up to 41% in FY2013 from 27% in FY2009.

SWOT ANALYSIS

Strengths 1. Good mixture of growth and matured business 2. Robust sales network coupled with vast experience in electromagnetic compatibility (EMC) 3. Production base in low-cost and growing countries	**Weakness**: 1. Substantial exposure to European markets 2. Dependency on cyclical end-markets 3. Highly exposed to currency fluctuation
Opportunities 1. Niche markets: Smart Grid, Power Quality, Antennas, Photovoltaic, Motor drives 2. Rising presence in growing Asian economies 3. Eye on after-market sales could offer a stable revenue stream	**Threats** 1. Competition from Chinese players 2. Uncertain regulations in Europe 3. Backward integration from OEM's

Strengths

Good mixture of growth and matured business:

Schaffner has a blend of businesses, which offer growth on one hand and stability on the other. The group's operations are categorized into three divisions – Electromagnetic Compatibility (EMC), Power Magnetics (PM) and Automotive (AM). The group derives more than 50% of its revenue from the EMC division (~56% of sales in FY2013), which develops and manufactures standard and customized filters. This is largely a stable business where the group commands high shares in its focus markets. At the same time, Schaffner's other two divisions – PM and AM – which comprise the rest, target niche markets such as smart grids, photovoltaic, keyless entry systems for automobiles that offer strong growth prospects. These arguments are further underpinned by the group's near-term guidance; it expects both these high-growth divisions to clock a CAGR of 15% over FY2014-FY2015 and its EMC division to grow at a stable rate of 4% per annum over the same period.

Robust sales network and expertise in electromagnetic compatibility:

Schaffner has built a network of production sites, sales/application and logistics centers across the globe, stretching from China to the USA. The group also boasts of long-standing relationships with major names such as Nokia, Siemens, Vacon, Otis, Alcatel, General Motors, Audi and Ford among others. Further, the group's vast experience in electromagnetic compatibility (close to half a century), and it's offering of integrated EMC, power-quality & energy-supply solutions (e.g. filters, chokes) raise the prospects of synergic sales opportunities.

Production base in low-cost and growing markets

Schaffner has streamlined its cost base in recent times; it has shifted its production centers from high-cost countries such as Germany and Switzerland to China, Thailand and Hungary. The Asian economies are also on the priority list of Schaffner's target growth markets. In addition to cost savings, this could help the group to achieve its strategy of increasing presence in the growing Asia-Pacific economies.

Weaknesses

Substantial exposure to European markets

Although Schaffner has been trying to diversify away from the European markets, it still has substantial exposure to it (44% in FY2013). The sales of the EMC division declined by 18% y/y in FY2012, negating the growth elsewhere and leading to a decline in the group sales (-3% y/y). This primarily occurred due to a significant fall in demand from European manufacturers of capital goods and solar inverters. Overreliance on European markets, which are still not out of the woods, casts doubt over the group's near-term growth prospects.

Dependency on cyclical end-markets

Schaffner is well-diversified in terms of end-market exposure, with 90% of the revenues shared between six markets with no single market accounting for more than 25% share. However, except renewable energy (18% of sales in FY2013), other major markets such as energy-efficient drive systems, power supplies for electronic devices, machine tools & robotics, automotive electronics and rail technology are all cyclical in nature. This is also evident in FY2012, when cyclical weakness in demand led to a decline in revenue (-3% y/y).

Highly exposed to currency fluctuation

Schaffner is subject to various financial risks by virtue of its global operations and customer base. The group derives only 2% of sales in its reporting currency (CHF) and the rest are in foreign currency. Although, the group has a natural hedge in the sense that revenues and costs typically occur in the same country (and currency), thereby shielding the profitability. However, the group's sales might be impacted negatively if there are wild currency swings in a particular period.

Opportunities

Niche markets

Smart Grid, Power Quality, Antennas, Photovoltaic, Motor drives (we have discussed the growth opportunities in details in the 'Growth Opportunities' section)

Growth markets

Asia-Pacific economies have become the driving force for the global growth. With Asian economies performing better than their US and European counterparts for the last few years, the action has been shifted to these growing economies. Schaffner has initiated many measures in the recent past to expand its presence in these markets, which is evident in the rise in contribution to the top line from Asia (41% in FY2013 from 27% in FY2009). (we have discussed this opportunity in detail in the 'Growth Opportunities' section)

Eye on after-market sales could offer a stable revenue stream

Schaffner's business currently largely involves developing and manufacturing products. In order to balance its revenue streams and create synergic benefits, the group has begun the process of building service units for its growing portfolio of advanced power quality devices. Schaffner plans to offer both pre-sales and post-sales services such as network analysis, project engineering, scheduled maintenance, providing spare parts and repairs, etc. This offers a big opportunity for the group as it could drive its product sales, build a stable revenue stream, strengthen customer relationships and carve out a brand name.

Threats

Competition from Chinese players

Schaffner generates around 23% of its revenues (FY2012) from China. The group is a market leader in EMC in China with 35% market share; in the PM division it enjoys a market share of around 15%. However, in recent times, the local competition has intensified on the back of their cost competitiveness and duplication capabilities leading to price erosion. Given the price-sensitive Chinese market, the growing competition from local brands poses a major threat to Schaffner's leading position there.

Uncertain regulations in Europe

The prolonged economic downturn and the debt crisis in Europe have marred the public spending capacity of many European countries, compelling them to review their incentive scheme to boost renewable energy growth. Further, the increased power bill due to subsidy burden has led to political turbulence. Recently, many European countries including Spain, Romania have cut their feed-in-tariffs for renewable energy. Germany could be the latest country to follow suit, after German Chancellor, Angela Merkel highlighted the explosion in costs of renewable energy subsidies, currently around USD24bn (CHF21bn) per annum, dropping hints of a possible cut in subsidies. The gloomy outlook over support schemes could dent investor confidence and curb further expansion of renewable energy projects. Schaffner, which derives around 18% of its revenues from renewable energy, could feel the pinch if any unfavorable regulations are laid out.

Backward integration from OEM's

Schaffner's EMC and PM markets are fragmented and also boasts a presence of large OEMs such as Schneider electric, ABB etc. The OEMs are customers, partners, and competitors of Schaffner depending on the situation. Currently, Schaffner's target market is not the focus area for these players and they derive an insignificant percentage of their revenues from EMC and PM products. However, going forward, if these players expand in these markets, given their financial muscle Schaffner could face severe competitive pressure.

PORTER FIVE FORCES ANALYSIS

Barriers to Entry:

Entry barriers into EMC components or PM market are not very high from a technological perspective. However, strong global sales network, customer relationships, deeper understating of technical standards and regulations could be the restricting factors for new entrants. Thus, barriers to entry are medium to high.

Bargaining power of buyers:

Buyers largely comprise original equipment manufacturers (OEM), which come with strong financial muscle and reach. At the same time, EMC components and PM markets are not monopolistic in nature. Any issues pertaining to quality or price could lead to review/cancellation of contract. Thus, the bargaining power of buyers is high.

Bargaining power of suppliers:

Major raw materials consist of electrical components, switchgear, connectors, copper, etc. Any disruption in supply of essential components could lead to disruption in operations, thus negatively impacting the delivery schedules. However, the dominance on the part of suppliers is largely limited due to the fragmented nature of the industry that the suppliers operate in. Hence, the bargaining power of suppliers is low to medium.

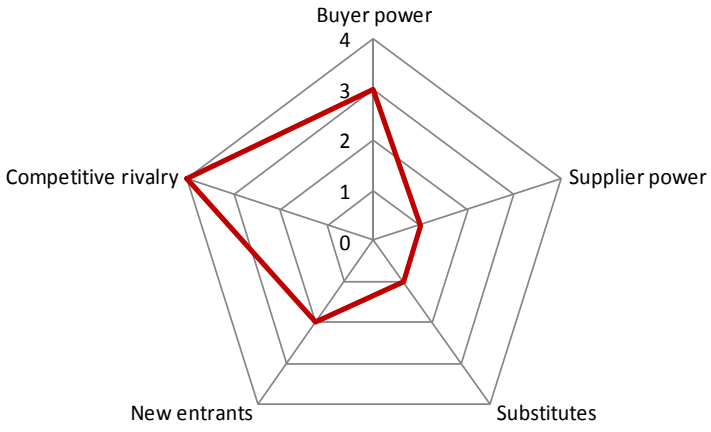
Competition:

EMC components and PM market are largely fragmented in nature, which consist of many mid-sized companies, especially in Japan and China. Given the commoditized nature of products, many local brands have come up in recent times, especially in China, paving the way for intense competition on the cost front. Therefore, the industry is replete with high competition.

Threat of substitutes:

Given the value addition the products offer and the requirement of deeper understating of technical standards and regulations, currently the products that can play a role of substitute are limited in the market. However, technological developments leading to innovative equipments that do not require the necessity of electromagnetic components do pose a threat.

Exhibit 33: Porter five forces conclusion



Source: Research Dynamics

VALUATION

Given Schaffner's niche business profile, there are not many exact comparables available. In order to show relative valuation of the group, we have prepared a customized set of peers (referred to as product peers), who have high exposure to short-cycle businesses and their end-markets are similar to that of Schaffner. Among the companies considered, London-based Laird PLC (Laird) and Japanese-based Omron Corporation (Omron), Taiwan-based Ablerex Electronics (Ablerex) and China-based Rongxin Power Electronic (Rongxin) are the closest in terms of business. Moreover, we have also compared Schaffner to companies that are Swiss-based and belong to the 'Electronic Equipments, Instruments' industry as per the GICS classification. In this report, they are referred to as industry peers.

Discount to peers is unwarranted, given the group's improving prospects

We have considered three most widely used parameters, EV/EBITDA, EV/EBIT and P/E to show relative valuation of the group. Our observation as depicted in the below table highlights that on all the three parameters, historically (last 3 years) the group has traded at a premium to both product and industry peers. Unlike in the past, on 1-year forward multiples Schaffner currently is trading at a discount of 26% on EV/EBITDA and 27% on EV/EBIT, and 30% on P/E basis to its product peers. Similarly, the group is trading at a discount of 21%, 25% and 23% on EV/EBITDA, EV/EBIT and P/E basis to its industry peers. We believe this is mainly due to the results' underperformance over the past few years that have dampened investor sentiment towards the stock. However, we believe the discount is unjustified as Schaffner is on the verge of embarking on its growth story. The group's near to mid-term prospects appear bright as its recent initiatives to improve margins in the EMC division and target growth markets (such as smart grids, photovoltaic, keyless entry systems) portend a business model with ideal mix of growth and profitability.

Exhibit 34: Schaffner – Comparison with Product peers

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2013E	CY2014E	3 year average	CY2013E	CY2014E	3 year average	CY2013E	CY2014E
Schaffner Holding AG	8.0x	9.5x	7.4x	11.0x	16.0x	10.3x	13.6x	21.3x	12.5x
Omron Corp	6.2x	5.3x	8.9x	9.7x	7.7x	12.0x	13.6x	22.3x	19.1x
Laird Plc	6.8x	7.8x	8.7x	9.8x	10.9x	11.6x	9.9x	15.1x	12.9x
Ablerex Electronics Co Ltd	NA	NA	NA	NA	NA	NA	13.3x	NA	NA
Rongxin Power Electronic	18.2x	28.4x	20.6x	18.4x	44.1x	29.6x	19.3x	26.3x	18.0x
Yokogawa Electric Corp	7.5x	7.4x	10.0x	11.7x	11.2x	14.2x	17.9x	24.2x	20.0x
Lem Holding SA	10.2x	11.2x	12.3x	11.9x	13.2x	14.4x	16.6x	20.8x	18.4x
Komax Holding AG	6.8x	4.8x	7.9x	8.5x	6.1x	9.5x	11.6x	15.1x	13.0x
Gavazzi Carlo Holding AG	4.0x	5.4x	5.8x	4.6x	6.6x	7.1x	8.9x	13.5x	12.0x
Eaton Corp Plc	8.6x	10.7x	11.3x	10.3x	13.3x	14.1x	11.9x	17.5x	14.8x
Cosmo Ferrites Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Apator SA	9.1x	10.4x	12.8x	11.2x	13.0x	15.6x	13.0x	19.3x	17.8x
Median	7.5x	7.8x	10.0x	10.3x	11.2x	14.1x	13.2x	19.3x	17.8x
High	18.2x	28.4x	20.6x	18.4x	44.1x	29.6x	19.3x	26.3x	20.0x
Low	4.0x	4.8x	5.8x	4.6x	6.1x	7.1x	8.9x	13.5x	12.0x
Premium (disc) to product peers	6%	20%	(26%)	7%	43%	(27%)	4%	10%	(30%)

Source: Bloomberg (as on 10 December 13)

Exhibit 35: Schaffner – Comparison with Industry peers

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2013E	CY2014E	3 year average	CY2013E	CY2014E	3 year average	CY2013E	CY2014E
Schaffner Holding AG	8.0x	10.4x	7.0x	11.0x	16.6x	9.4x	13.6x	25.4x	12.7x
Lem Holding SA	10.2x	11.2x	12.3x	11.9x	13.2x	14.4x	16.6x	20.8x	18.4x
Kudelski SA	6.3x	5.6x	6.7x	12.6x	10.0x	11.5x	12.6x	14.4x	12.7x
Inficon Holding AG	7.9x	8.5x	13.2x	9.0x	9.9x	15.1x	14.1x	23.0x	19.1x
Also Holding AG	5.6x	NA	NA	7.3x	NA	NA	11.0x	NA	NA
Comet Holding AG	6.5x	5.7x	8.9x	10.9x	8.8x	12.5x	12.9x	22.7x	16.2x
Cicor Technologies	4.6x	NA	NA	7.6x	NA	NA	8.3x	8.8x	6.4x
Elma Electronic AG	na	NA	NA	na	NA	NA	na	NA	NA
Datacolor AG	5.9x	6.4x	7.6x	7.3x	8.4x	10.0x	12.6x	NA	16.5x
Infranor Inter AG	na	NA	NA	na	NA	NA	na	NA	NA
Median	6.3x	6.4x	8.9x	9.0x	9.9x	12.5x	12.6x	20.8x	16.4x
High	10.2x	11.2x	13.2x	12.6x	13.2x	15.1x	16.6x	23.0x	19.1x
Low	4.6x	5.6x	6.7x	7.3x	8.4x	10.0x	8.3x	8.8x	6.4x
Premium (disc) to Industry peers	27%	63%	(21%)	22%	68%	(25%)	8%	22%	(23%)

Source: Bloomberg (as on 10 December 13)

Using discounted cash flow (DCF) methodology, the intrinsic price of the group comes to CHF375. Our weighted average cost of capital (WACC) of 6.4% is based on a cost of equity of 7.2% and a cost of debt of 3.2%. Our inputs for cost of equity include beta of 0.73 (time span: last five years), current 10 year government bond yield of 1% and long term average return of 9.6% generated by the Swiss Market Index. Our assumptions are largely conservative; we have explicitly forecasted cash flows till FY2020E and thereafter assumed a terminal growth rate of 1%.

Exhibit 36:Sensitivity of WACC and terminal growth rate

Sensitivity Table					
	WACC				
Terminal growth rate	4.4%	5.4%	6.4%	7.4%	8.4%
0.25%	526	412	335	280	239
0.50%	556	430	347	288	245
0.75%	590	450	360	297	251
1.00%	629	473	375	307	258
1.50%	728	526	407	329	273
2.00%	867	595	448	355	291
2.50%	1,079	688	498	386	312

Source: Research Dynamics

FINANCIALS (HISTORICALS AND KEY FORECASTS)

Revenue

Against the backdrop of the 2008 global economic crisis and the following uncertain economic conditions, the performance trend is marred with volatility. In addition to the global economic crises, unfavorable currency was also the reason behind fluctuating sales. After declining in FY2009 (-27% y/y), sales recovered by 42% y/y to CHF189mn in FY2010. However, the positive trend could not continue as unfavorable currency effects and weak European demand impacted sales in FY2011 (-3% y/y, +9% y/y in local currency) and FY2012 (-3% y/y), respectively. The fall in underlying sales of FY2012 could have been worse in absence of Schaffner's acquisition of a division belonging to a US-based company MTC Transformers (sales would have declined by 15% y/y). Sales recovered in FY2013 and grew by 10% to CHF195mn led by strong demand from renewable energy market in Asia.

Segment-wise automotive is the only division that grew at a sustainable rate (CAGR of 24% between FY2010 and FY2013) after recovering in FY2010. EMC division's performance has been volatile in the recent years. Sales recovered in FY2013 (+4% y/y) after declining in FY2012 (-18% y/y). At the same time, PM division posted a growth of 29% y/y in FY2012; however, it was mainly led by acquisition, excluding this, the sales would have fallen by 15% y/y. In FY2013, PM sales recovered and grew by 16% y/y aided by tie-up with new customers in the Japanese photovoltaic market and improved demand from rail technology market.

Going forward, we have modeled sales to grow at 7.7% and 8.5% in FY2014e and FY2015e, respectively. To arrive at this number, we have assumed growth rates for each division.

EMC division:

In FY2014e, given the uncertain global economic environment and the division's high exposure to the cyclical end-markets, a growth rate of 3%, 1% less than the group's guidance, has been assumed. For FY2015e we have stick to the group's guidance of 4% growth. We believe strong demand for power quality filters (including harmonic filters), the continuous efforts to boost innovation and its proven leadership in EMC filters to provide stable growth.

PM division:

Schaffner's policies to focus on niche markets and develop customized designs are expected to boost revenues in the PM division. The group guides for a growth of 15% per annum in FY2014e and FY2015e. For FY2014e and FY2015e, we have assumed a growth of 13% per annum, 2% less than the guidance. The reason behind our conservative stance on PM division is due to the growing competition in Chinese photovoltaic market and the execution risk related to the group's strategy to enter the new niche markets.

Automotive division:

Given the huge opportunity that the keyless entry systems offer (market expected to growth at a CAGR of >15% in the next five years), automotive division is expected to continue with its strong growth in the near to medium term. We expect the division to grow at a rate of 15% per annum in FY2014e and FY2015e, in line with the group's guidance.

Profitability

In line with its topline, Schaffner's operating performance recovered in FY2010; the group posted a profit of CHF15m compared to a loss of CHF9m in FY2009. Margins improved to 7.9% in FY2010 better than the level it attained in FY2008 (7.6%). However, in the subsequent years, margins continued to decline before recovering in FY2013 (+4.8%) driven by operating excellence initiatives. In FY2011, EBIT margins came in at around 7.0% (-90bps y/y) and in FY2012 they were further down to 4.1%. This primarily occurred due to underutilization of its manufacturing unit in China, which was impacted by weak demand from China's railway industry.

Looking ahead, we expect margins to continue to pick up on the back of cost rationalization and improved utilization of plants.

EMC division:

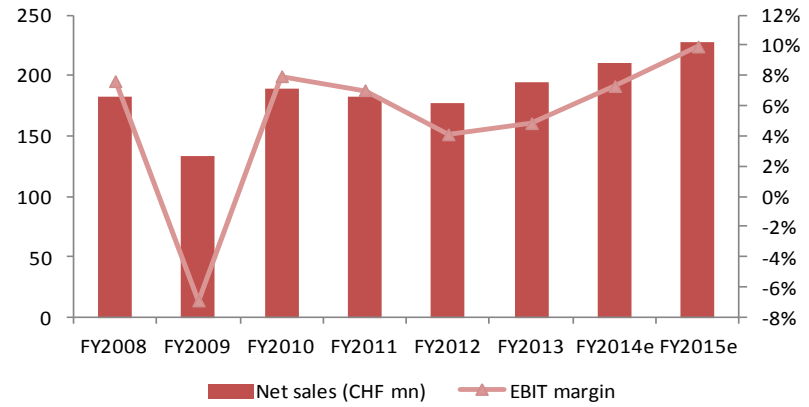
Schaffner is targeting EMC division to drive its margin story. The group expects EBIT margin to further improve in FY2014e and attain its mid-term of 16%-20% in FY2015e. It has initiated many profit enhancing measures such as tying up with local suppliers to reduce material costs, automation of the manufacturing process, introduction of cost optimized product design, etc. In light of expected improvement in utilization of plants,

driven by higher sales and the above mentioned measures, we have modeled stronger margins for our projected period. We expect 15% EBIT margin in FY2014e and 17% in FY2015e.

PM and AM division:

Operational excellence measures initiated at PM and strong sales growth expected at AM are expected to improve margins in the respective divisions going forward. Schaffner targets EBIT margin in the range of 8%-10% in the medium term (by FY2015e) for both the divisions. In AM, due to high development costs, we expect margins to be under pressure in FY2014e, but expect the division to post a slight profit growth compared to a loss in FY2013 (loss of CHF2mn) and in FY2015e we expect it to achieve the low-end of its mid-term target of 8%. In PM, we expect margins to improve to 6.5% in FY2014e and achieve the low-end of its mid-term target of 8%.

Exhibit 37: Group sales and margin development (FY2008-FY2015e)



Source: Research Dynamics, Company data

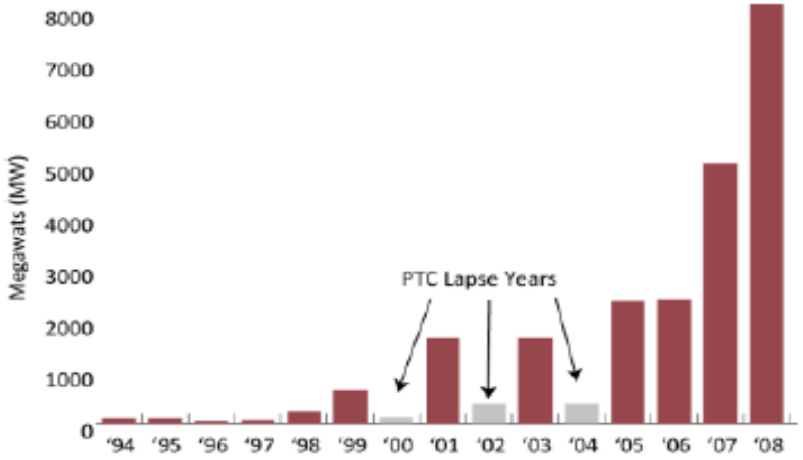
KEY RISKS

Substantial exposure to the subsidy industry

Schaffner generates around 18% of its revenues from the Renewable industry. The whole energy market is heavily subsidized, especially the renewable energy market. The renewable industry has historically performed well on the back of government support. The PV market witnessed tremendous activities in Spain in 2008 and Germany in 2010, which was a feed-in-tariff driven boom. Similarly, the industry received a boost in the US due to various measures such as Production Tax Credits (PTC). However, as the governments rethink about their subsidy strategies, it may have a huge impact on the subsidy market.

We further believe that wind installations in the US could see a significant decline post-2013, given the lack of clarity on the extension of Production Tax Credit (PTC) for wind farms beyond 2013. Historically, it is observed that following the expiration of PTC, the installation dropped by more than 50% in the subsequent years (viz. 2000, 2002 and 2004). Likewise, the EU fiscal issues and sovereign debt crisis have resulted in reduction in some subsidies – for example in Spain and the Netherlands.

Exhibit 38: Impact of PTC on installations in the US



Source: Research Dynamics, AWEA

In addition, in early December 2013, a government panel in Japan – the group's key target market – proposed that Japan should keep nuclear power as a key energy source, thereby reversing a phase-out plan. If this plan goes through, it will put pressure on Japan's renewable industry as a major energy source.

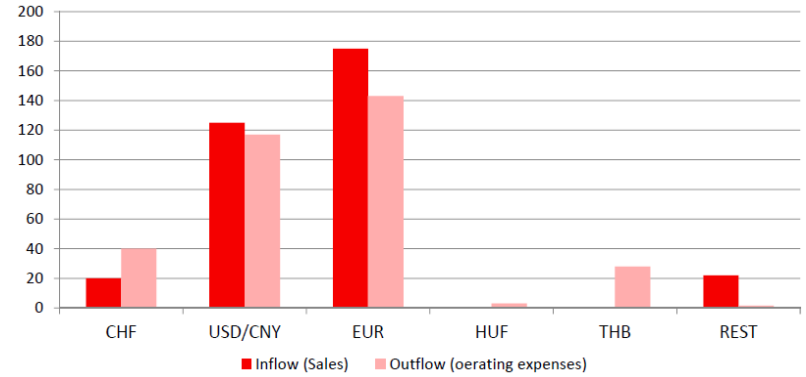
Nonetheless, the renewable energy market (especially onshore wind power electricity, solar energy in the Persian Gulf) is expected to be less dependent on government support as they turn competitive with traditional sources.

Exposed to foreign exchange risks

Schaffner is subject to various financial risks by virtue of its global operations and customer base. The group derives only 2% of revenues in its reporting currency (CHF), while the rest are generated from the international markets. A swing in the foreign exchange can substantially affect the group's financials.

Schaffner has a natural hedge in the sense that revenue and expenses typically occur in the same country (and currency), thereby shielding its profitability. However, the group's revenue might be impacted negatively if there are wild currency swings in a particular period. As a policy, the group only hedges THB/EUR, and not any other currency.

Exhibit 39: Currency exposure – Cash flow



Source: Research Dynamics, Company data

The group has started focusing on Japan as its chief target market given the huge demand there. However the depreciating Yen and the group's policy not to hedge any currency may put pressure on its revenue and profitability. Further, the weak profitability may also breach the debt covenants, implying increased cash outflow.

OEM presence in Schaffner's target market

Although the group operates in a very niche market, the EMC and PM markets are fragmented and also boast of a presence of large OEMs such as Schneider electric, ABB, etc. OEMs comprise customers, partners, and competitors of Schaffner depending on the situation. Schaffner's target market at present is not the focus area for these players and they derive an insignificant percentage of its revenue from EMC and PM products. However, going forward, if these players expand into these markets, given their financial muscles it will pose a tough challenge for niche players such as Schaffner.

Automotive market does not develop on expected lines?

Schaffner is focusing on the AM market to spur future growth. In addition to its current offerings such as antennas for keyless entry/go, the group has also lined up plans to tap the EV market. However, the EV market has behaved erratic and is not developed yet. If we look historically, the EV market was enthusiastic in 1H2011; it was depressed in 2H2011, but again staged a recovery in 1H2012. Many key EV projects have also been delayed due to technical issues.

Additionally, the group has been betting big and targeting the established OEMs, ignoring start-ups such as Tesla, Fisker, etc. Given the success Tesla has enjoyed thus far, Schaffner might be losing on a substantial revenue opportunity by not targeting these start-ups.

Successful integration of acquired companies

Schaffner has carried out a few acquisitions in the past and is likely to undertake further strategic acquisitions of complementary businesses. The group has clearly mentioned in its guidance that it will focus on small, tuck-in acquisitions to achieve its goals. Although Schaffner has a strict criteria (size, business, multiples, etc) when it comes to acquiring companies, it may overpay for an acquisition thereby straining its cash position. In addition, if such acquisitions cannot be successfully integrated and the risks are not managed effectively, Schaffner's business may be adversely affected.

High concentration on China market

Schaffner derives a significant proportion of its revenues from China and also incurs huge operating expenses there. The group's presence in China exposes it to China-specific problems such as defaults on account receivables, the loss of revenue due to the corrupt Rail ministry, mushrooming of copy cat products as IP protections laws are not strict, thereby cranking up local competition. Schaffner also faces continued pressure from Chinese labor costs, particularly with reference to base pay and increasing social costs. The outcome of these pressures may lead to reduced profits or adversely affect its business.

Revenue hinges on macroeconomic environment and political factors

Although the group has diversified operations, its fortunes are linked to the macroeconomic environment. Whenever there has been an overall downturn, the group's financials have been significantly affected. Even in the future, if there is an economic downturn or delayed recovery, customers may cancel, reduce or postpone anticipated orders, or apply pressure on prices and margins, which may result in lasting changes in terms of trade pricing policies, delivery capabilities and market expectations.

The current political tensions in Thailand could lead to some disruption or problems, although the group published a note that the business continuity is not affected and they have contingency plans in place to deal with the situation.

ADDITIONAL DETAILS

Board of directors

Name	Member since
Daniel Hirschi (Chairman)	2010
Herbert Bächler	2009
Gerhard Pegam	2013
Suzanne Thoma	2012
Georg Wechsler	2012

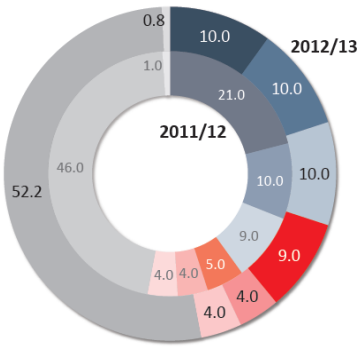
Source: Company data

Management team

Name	Title	With Schaffner since
Alexander Hagemann	CEO	1st March 2007
Kurt Ledermann	CFO	1st June 2008
Ah Bee Goh	COO	1st July 2007
Guido Schlegelmilch	EVP, EMC division	1st February 2009
Eduard Hadorn	EVP, PM division	2003
Günther Werkmeister [1]	EVP, AM division	January 2014

Source: Company data
Note [1]: Mr. Werkmeister has been appointed Head of the Automotive division with effect from 1. January 2014, but will not be part of the Group Executive Board

Major Shareholders



Investor	2011/2012	2012/2013
Buru Holding	9%	10%
Sarasin Investmentfonds	10%	10%
Alpine Select	21%	10%
UBS	5%	9%
SUVA	4%	4%
Balfidor Fondsleitung	4%	4%
Shareholders (< 3%)	46%	52.2%
Treasury shares	1%	0.8%

Source: Research Dynamics, Company data

Over the last fiscal year, one of the largest four shareholders, Alpine Select, has reduced its holding from 21% to 10%. This should come as a positive for investors as it increases the float in the market and hopefully along this lifts liquidity of the stock.

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
EMC sales	82	111	129	106	110	113	117
PM sales	43	61	36	46	54	61	69
AM sales	8	17	18	25	31	36	41
Sales	**133**	**189**	**183**	**177**	**195**	**210**	**228**
Cost of goods sold	(98)	(130)	(126)	(128)	(142)	(145)	(153)
Gross profit	35	59	56	49	53	65	75
Marketing and sales	(15)	(16)	(15)	(17)	(17)	(20)	(21)
R& D expenses	(12)	(13)	(14)	(14)	(15)	(18)	(20)
General and administration	(12)	(15)	(14)	(11)	(10)	(10)	(11)
Other income	0	0	0	1	0	0	0
Total operating costs	(43)	(44)	(43)	(41)	(42)	(48)	(51)
Profit before amortization of customer relations	(9)	16	13	8	10	16	24
Amortization of customer relations	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT)	(9)	15	13	7	9	15	23
Depreciation	3	3	3	4	4	4	5
Amortization of intangible assets	2	2	2	3	3	1	1
EBITDA	(3)	21	19	15	17	22	30
Finance costs	(5)	(4)	(13)	(4)	(7)	(1)	(1)
Finance income	3	1	11	2	5	0	0
Total financial income (expenses)	(2)	(3)	(2)	(2)	(2)	(1)	(1)
Profit before taxes	(12)	12	11	5	7	14	22
Taxation	1	(0)	(1)	(1)	(1)	(3)	(4)
Profit attributable to the parent	(11)	12	10	4	6	11	17
Basic EPS	(18.0)	18.9	16.0	6.2	9.9	18.1	27.3
Diluted EPS	(18.0)	18.7	15.4	6.0	9.9	18.0	27.2
DPS	0.0	4.5	4.5	3.5	4.5	5.4	8.2

Source: Research Dynamics, Company data
Note: The group reorganized the divisional reporting structure in FY2011; numbers for FY2009 and FY2010 are not restated.

Balance Sheet

In CHF mn	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
Assets							
Non-current assets							
PPE	13.9	14.9	18.2	21.1	20.9	24.2	26.7
Intangible assets	15.8	14.8	24.1	22.3	19.6	19.0	19.2
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	13.1	12.2	11.8	13.3	12.5	12.5	12.5
Deferred tax	0.6	2.2	2.7	2.9	3.0	3.0	3.0
Total Non Current Assets	43.5	44.1	56.8	59.6	56.1	58.7	61.5
Current assets							
Inventories	25.4	31.1	29.1	29.9	28.1	33.8	35.7
Trade receivables	21.4	36.9	32.4	34.8	34.0	40.3	43.7
Income tax receivables	1.1	0.8	0.4	0.6	0.5	0.5	0.5
Other receivables	4.9	5.7	3.7	3.7	3.8	3.8	3.8
Other financial assets	0.0	0.0	0.2	2.1	4.1	4.1	4.1
Cash and cash equivalents	30.6	8.1	14.2	10.3	17.0	1.6	4.4
Total assets	**126.9**	**126.6**	**136.8**	**140.8**	**143.7**	**142.8**	**153.7**
Shareholders' Equity and Liabilities							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus	50.4	47.1	40.1	40.3	36.5	33.6	30.2
Retained earnings	(23.8)	(11.8)	(3.9)	(0.6)	5.4	16.9	34.2
Total equity	47.3	56.0	56.9	60.3	62.5	71.1	85.0
Non-current liabilities							
Long term borrowings	0.0	18.1	0.4	36.0	29.8	22.8	18.3
Deferred tax liabilities	3.7	2.7	1.9	2.2	2.3	2.3	2.3
Provisions	6.3	7.1	6.6	6.1	5.6	5.6	5.6
Total Non-Current Liab.	10.0	27.9	8.9	44.2	37.6	30.7	26.2
Current liabilities							
Trade and other payables	21.3	34.3	31.0	32.2	40.3	35.8	37.8
Income tax liabilities	0.8	1.9	1.9	1.0	0.7	0.7	0.7
Short term borrowings	42.5	1.7	34.6	0.2	0.5	2.5	2.0
Provisions	5.0	4.9	3.5	2.9	2.0	2.0	2.0
Total Current Liabilities	69.6	42.8	71.0	36.3	43.5	41.0	42.5
Total liabilities	79.6	70.7	79.9	80.5	81.1	71.7	68.6
Total equity and liab.	**126.9**	**126.6**	**136.8**	**140.8**	**143.7**	**142.8**	**153.7**

Source: Research Dynamics, Company data

Cash Flow Statement

In CHF mn	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
Net profit for the period	(10.9)	12.0	10.2	3.9	6.3	11.5	17.3
Non-cash adjustments:	9.2	7.2	4.4	4.6	4.2	5.7	6.3
Change in current assets and liabilities:							
(Increase)/decrease in inventories	3.9	(8.0)	0.3	0.0	1.3	(5.7)	(1.8)
(Increase)/decrease in receivables	18.9	(19.7)	6.4	(3.5)	(0.0)	(6.2)	(3.4)
(Decrease)/increase in current liabilities	(5.3)	15.9	(3.5)	(0.4)	9.0	(4.4)	1.9
Change in operating working capital	17.5	(11.9)	3.2	(3.9)	10.3	(16.4)	(3.3)
Cash flows from operating activities	15.8	7.4	17.8	4.6	20.8	0.7	20.3
Purchase of PPE	(3.0)	(5.3)	(6.9)	(3.7)	(4.8)	(7.7)	(7.5)
Disposal of PPE	0.1	0.2	0.2	1.4	0.3	-	-
Purchase of intangible assets	(2.3)	(1.4)	(1.4)	(0.7)	(0.4)	(0.6)	(1.6)
(Acquisition)/divestment	(2.3)	(0.0)	(10.6)	(0.4)	(0.4)	-	-
Change in other assets	0.1	0.6	(0.0)	(0.0)	(0.9)	-	-
Cash flow generated (used) in investment activities	(7.3)	(6.0)	(18.7)	(3.4)	(6.2)	(8.3)	(9.1)
Change in treasury shares	3.8	(1.1)	(7.3)	(1.0)	(1.1)	-	-
Proceeds from Share issues	-	0.2	4.4	0.5	1.2	-	-
Repayment of excess share premium	(2.1)	-	(2.8)	(2.8)	(2.2)	(2.9)	(3.4)
Net proceeds/(repayment) from debt	(6.4)	(22.9)	13.4	(1.8)	(5.5)	(5.0)	(5.0)
Amortization related to finance lease	-	-	-	(0.1)	(0.2)	-	-
Cash flow generated (used) in financing	(4.7)	(23.8)	7.6	(5.3)	(7.7)	(7.9)	(8.4)
Exchange (losses)/gains	(0.1)	(0.1)	(0.5)	0.2	(0.2)	-	-
Net change in cash	**3.7**	**(22.6)**	**6.2**	**(4.0)**	**6.8**	**(15.4)**	**2.8**
Opening cash balance	26.9	30.6	8.1	14.2	10.3	17.0	1.6
Closing cash balance	**30.6**	**8.1**	**14.2**	**10.3**	**17.0**	**1.6**	**4.4**

Source: Research Dynamics, Company data

Key Ratios

	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
Growth Ratios							
Sales Growth	(27%)	42%	(3%)	(3%)	10%	8%	8%
EMC division	(38%)	35%	16%	(18%)	4%	3%	4%
PM division	9%	43%	(41%)	29%	16%	13%	13%
AM division	(21%)	99%	6%	40%	27%	15%	15%
Operating profit Growth	NM	NM	(15%)	(43%)	30%	62%	47%
Net Income Growth	NM	NM	(15%)	(61%)	61%	83%	51%
Profitability Ratios (%)							
Operating margin (%)	(7%)	8%	7%	4%	5%	7%	10%
EMC division (OPM)	0%	16%	16%	12%	13%	15%	17%
PM division (OPM)	(0%)	5%	(1%)	(1%)	5%	7%	8%
AM division (OPM)	9%	9%	(2%)	2%	(6%)	1%	8%
EBITDA Margin %	(2%)	11%	10%	8%	9%	10%	13%
Net Margin (%)	(8%)	6%	6%	2%	3%	5%	8%
Return Ratios							
Profit Margin	(8%)	6%	6%	2%	3%	5%	8%
Asset Turnover	1.0x	1.5x	1.4x	1.3x	1.4x	1.5x	1.5x
Financial Leverage	2.6x	2.5x	2.3x	2.4x	2.3x	2.1x	1.9x
Dupont ROE (%)	(21%)	23%	18%	7%	10%	17%	22%
ROCE (%)	(18%)	21%	23%	8%	11%	17%	23%
ROA (%)	(8%)	9%	8%	3%	4%	8%	12%
Leverage Ratios							
Debt - Equity Ratio	0.9x	0.4x	0.6x	0.6x	0.5x	0.4x	0.2x
Net Debt - Equity Ratio	0.3x	0.2x	0.4x	0.4x	0.2x	0.3x	0.2x
Interest Coverage	(4.2x)	12.1x	14.1x	4.9x	6.5x	11.9x	24.2x
Liquidity Ratios							
Current Ratio	1.2x	1.9x	1.1x	2.2x	2.0x	2.0x	2.2x
Quick Ratio	0.8x	1.2x	0.7x	1.4x	1.4x	1.2x	1.3x
Valuation Ratios							
EV/EBITDA	NM	13.8x	9.1x	11.8x	9.1x	7.2x	5.2x
P/E	NM	23.2x	14.6x	37.9x	22.8x	12.5x	8.3x
P/BV	2.3x	5.0x	2.6x	2.5x	2.3x	2.0x	1.7x

Source: Research Dynamics, Bloomberg, Company data

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