

## NanoFocus AG

**Date: 09/08/2014**

Recommendation		Buy	as of	-
<b>before:</b>				
Target price (EUR)		4.20		
Price (Xetra) (EUR)		3.50		
	09/02/14		9:05 AM	
Share price potential		20%		

### Increased distribution of standard products as trigger

- ⇒ In H1 2014, NanoFocus achieved record sales of EUR4.6m (2.7; our forecast: 4.2) and reduced the usually seasonal EBIT loss to EUR-0.6m (-1.5; our forecast: -0.6).
- ⇒ Given record order intake in H1 2014 we expect an acceleration in growth in the current fiscal year 2014 and the following years. There were advancements especially in the semiconductor ( $\mu$ spring; for the first time in Epcos production line) and in the automotive sector (advancement of  $\mu$ surf cylinder). Furthermore, there were first successes in the realignment of the distribution of standard products.
- ⇒ Project volumes and thus sales should increase strongly and NanoFocus should generate first economies of scale. Growth financing remains on the agenda, however. A first step was made by NanoFocus in that respect with the convertible bond issued in February (volume: EUR1.35m).
- ⇒ The share price reflects the delays of projects. However, the H1 2014 figures demonstrate the strong recovery. We confirm our Buy recommendation with a price target of EUR4.20.

	2010	2011	2012	2013	2014E	2015E
Sales	6.5	8.2	8.9	8.2	11.1	13.1
Sales growth	28.9%	26.9%	8.7%	-8.5%	35.9%	17.9%
EBIT	0.1	0.2	0.3	-1.2	0.4	0.8
EBIT margin	1.2%	2.7%	3.0%	neg.	3.7%	6.3%
Net income	-0.1	0.1	0.1	-1.4	0.3	0.7
Net margin	neg.	0.8%	1.7%	neg.	2.6%	5.1%
EPS	-0.02	0.02	0.05	-0.47	0.10	0.22
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Net financial debt/EBITDA	-0.6	-0.7	-0.5	-	0.8	0.7
Net Gearing	-0.1	0.0	-0.1	0.1	0.1	0.1
Free cash flow (FCF)	-0.5	-0.5	-0.4	-1.1	-0.6	-0.1
FCF per share	-0.22	-0.16	-0.14	-0.37	-0.19	-0.03
EV / sales	1.5	1.1	0.9	1.0	1.1	0.9
EV / EBITDA	13.9	10.2	8.5	neg.	10.7	7.7
EV / EBIT	127.5	40.2	30.1	neg.	29.9	14.8
EV / FCF	neg.	neg.	neg.	neg.	neg.	neg.
P/E ratio	neg.	148.2	57.4	neg.	36.6	15.7
P/B ratio	1.1	1.0	0.9	0.9	1.2	1.1
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Figures in EURm except EPS, DPS and FCF per share (EUR), PERs based on average share prices

Source: Independent Research, NanoFocus AG

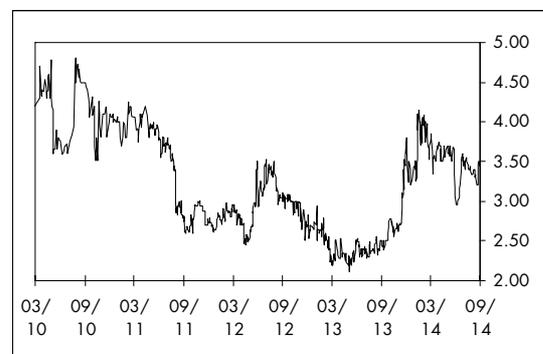
Company data	
Sector	Industrial measurement technology
Market segment	Entry Standard
ISIN	DE0005400667
Reuters	N2FGn.DE
Bloomberg	N2F

Share data	
Shares (m)	3.000
Freefloat	46.3%
Market cap. (EURm)	10.5
∅ Trading Volume	1,641
52W High	01/20/14 EUR4.40
52W Low	09/11/13 EUR2.33

Events	
German Equity Forum	11/24/2014 to 11/26/2014
Q4 figures	May 2015

	Performance	
	absolut	related to: DAX
1 month	4.5%	-1.5%
3 months	18.2%	20.7%
6 months	-7.9%	-9.8%
12 months	43.1%	20.9%

Index weighting	
Entry Standard All Share	0.6%



Source: NanoFocus AG, Bloomberg

### Contact

 Independent Research GmbH

Friedrich-Ebert-Anlage 36  
60325 Frankfurt am Main

Telephone: +49 (69) 971490-0  
Telefax: +49 (69) 971490-90  
Internet: www.irffm.de

**Author: Stefan Röhle (analyst)**

E-Mail: sroehle@irffm.de

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## STRENGTHS and OPPORTUNITIES

- In-house developed multi-pinhole-technology with patent protection
- Broad field of application of the products in different sectors
- Transformation from a supplier of special equipment into a manufacturer of process tools used in inline production
  - Higher quantities
  - Rising project volumes
  - Economies of scale (mass production; falling R&D costs compared to sales)
- Products for the automotive ( $\mu$ surf cylinder) and semiconductor industry ( $\mu$ surf semicon) are developing into main sources of sales
- First product in use in Epcos inline production
- According to NanoFocus, the realignment of the distribution of standard products started early in 2013 is successful
- High demand for more efficient machines and production techniques
- Worldwide demand for user-friendly, efficient and fast high-level quality measurement devices

## WEAKNESSES and THREATS

- Small company size
- Cancellation and delays of projects have overthrown the original schedule (for example in medical technology)
- Dependency on larger clients of important projects ( $\mu$ surf cylinder,  $\mu$ surf semicon)
- Refinancing and working capital management remain an important topic with regard to planned large projects and expected high-volume orders
- Possibility of market entry of competitors with new patents or superior technology
- Possible delays in the exchange of existing quality measurement devices with NanoFocus products

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## Valuation

*Rising EBIT margin reflects increasing scalability*

*WACC of 9.7% (before: 10.1%)*

### Three-stage DCF model

In our three-stage discounted cash flow model (DCF model) we have employed our specific forecasts in our detailed planning period until and including 2015 (before: 2014). As of 2016 (until 2023) we undertake a trend analysis. Until 2018 (before: 2017), we have assumed a decline in sales growth to 7.5%. The EBIT margin that rises to 13.0% until 2018 (before: 2017) reflects the fact that we expect NanoFocus to generate significant economies of scale (almost none at the moment) as part of its transition from an R&D driven towards a manufacturing company (inline production). However, the actual margin development shows that the margin improvement could take longer than we have expected - leading to a potentially lower margin. In phase III (terminal value) we expect the free cash flow to grow 2.0% along with inflation.

We calculate a WACC of 9.7% (before: 10.1%). The relatively high figure is on the one hand owed to the beta of 1.5 (before: 1.4; risk-free rate of 3.0% (before: 4.0%)) that reflects the volatility and risk of the business model (small company; still R&D driven). On the other hand, we have assumed an equity ratio of 85% (at market value) in the long-term

DCF model										
EURm	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Sales	11.1	13.1	15.0	16.6	17.9	19.2	20.7	22.2	23.9	25.1
Growth y/y	35.9%	17.9%	14.4%	11.0%	7.5%	7.5%	7.5%	7.5%	7.5%	5.0%
EBIT margin	3.7%	6.3%	8.5%	10.8%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
<b>EBIT</b>	<b>0.4</b>	<b>0.8</b>	<b>1.3</b>	<b>1.8</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>
- Income taxes	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.5	-0.8	-0.9	-0.9
+ Amortisation and depreciation	0.7	0.8	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8
+/- Change in long-term provisions	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
+/- Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross operating cash flow</b>	<b>1.2</b>	<b>1.6</b>	<b>1.8</b>	<b>2.3</b>	<b>2.8</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>
-/+ Change in net working capital	-1.0	-0.8	-1.0	-0.8	-0.6	-0.7	-0.7	-0.8	-0.8	-0.9
-/+ Investments in fixed assets	-0.2	-0.3	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8
<b>Free cash flow</b>	<b>0.0</b>	<b>0.5</b>	<b>0.3</b>	<b>0.9</b>	<b>1.6</b>	<b>1.7</b>	<b>1.5</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>
<b>Present values</b>	<b>0.0</b>	<b>0.5</b>	<b>0.2</b>	<b>0.6</b>	<b>1.0</b>	<b>1.0</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>
Total present values	6.1									
Terminal value	8.3									
										in % of total value: 57%
Value of operating business	14.4									
+ Cash and cash equivalents	0.5									
- Financial debt	-2.2									
<b>Fair market value of equity</b>	<b>12.7</b>									
Number of shares outstanding (m)	3.000									
<b>Fair value per share (EUR)</b>	<b>4.24</b>									

Model parameters / entity DCF model					
Target capital structure:	Equity:	85%	Financial debt:	15%	
Risk-free rate:	3.0%	Beta:	1.5	Risk prem. Debt:	4.0%
		Risk prem.:	5.0%	Tax shield:	30.0%
		Cost of equity:	10.5%	Cost of debt:	4.9%
Growth FCF:	2.0%	WACC:	9.7%	Date:	09/08/14

Source: Independent Research

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		Discount rate (WACC)			
		9.2%	<b>9.7%</b>	10.2%	10.7%
Growth (TV)	<b>2.0%</b>	4.72	<b>4.24</b>	3.89	3.59
	2.5%	4.87	4.44	4.07	3.74
	3.0%	5.16	4.68	4.27	3.91
	3.5%	5.50	4.96	4.49	4.10

Source: Independent Research

target capital structure as NanoFocus shows relatively low financial debt. We have assumed a debt interest rate of 7.0% before tax and 4.9% after tax, based on the interest rates for the loans already granted (between 5.9% and 6.3%) and the credit line.

### Slightly increased fair value

We have calculated a fair value of equity of EUR12.7m (before: 12.6). Based on 3.000m shares we have calculated a fair value per share of EUR4.24 (before: 4.21).

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*Fair value of EUR4.24  
(before: 4.21) per share.*

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### Expected improvement of valuation multiples for 2014 and 2015

Based on the fair value, the share is still highly valued with an EV/EBIT 2014E of 35.4 and a P/E ratio 2014E of 45.1 - due to the gradual start of high volume products (e.g. µsprint application for Epcos). For 2015 we expect an improvement of the valuation multiples (EV/EBIT: 17.5; P/E ratio:18.8). It must further be considered that the share is valued with a price-to-book ratio of only 1.1 (2015E) and thus slightly above its book value which is very unusual for a growth share.

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*Share is currently priced  
slightly above its book  
value*

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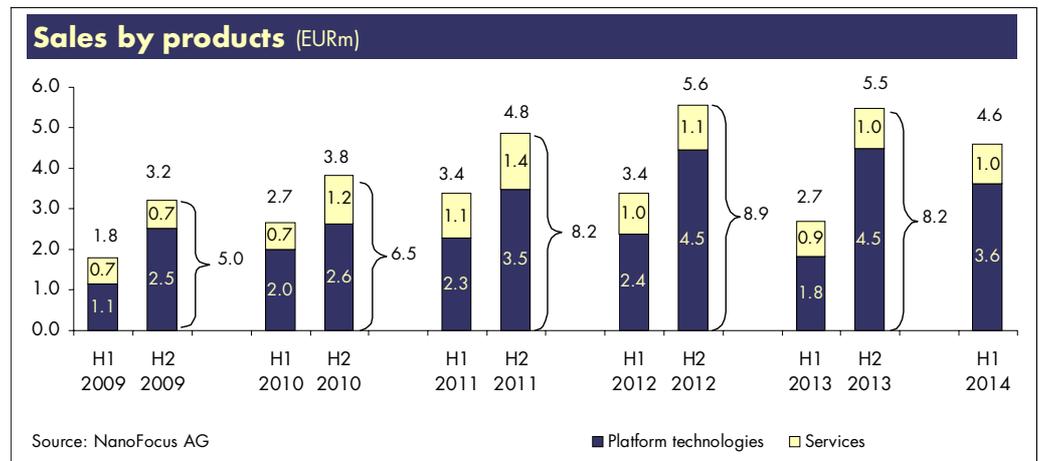
## Financial, balance sheet and income analysis

### Income analysis

#### Record sales in H1 2014

With sales of EUR4.6m (2.7), NanoFocus reported the highest half year sales figure ever in company history. Our forecast of EUR4.2m was exceeded by 9.5% - amongst others since NanoFocus managed to execute delayed projects acquired in 2013 (high order backlog of EUR2.0m as of December 31, 2013).

*H1 sales exceed our expectations*



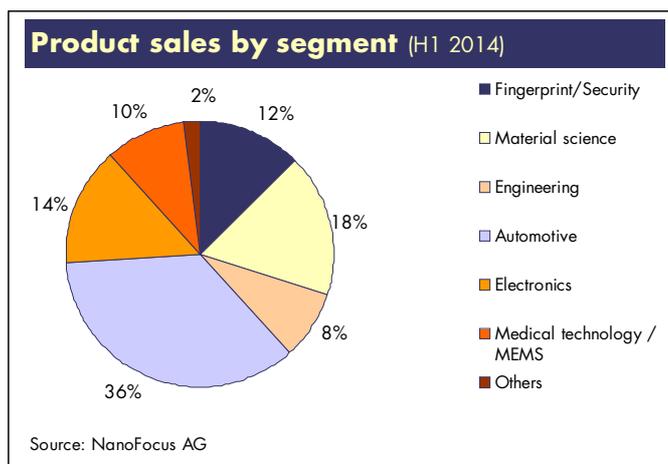
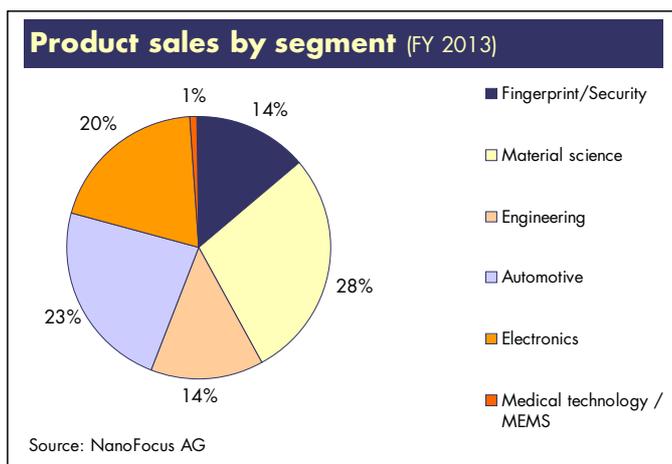
*Strong business with the automotive industry*

We want to highlight the rebound in sales with customers from the important automotive industry (H1 sales: EUR1.3m (0.6; FY 2013: 1.5); in particular released orders for  $\mu$ surf cylinder). That is why sales of the platform technology  $\mu$ surf increased significantly (EUR2.2m (1.0; FY 2013: 3.4)). In the customer segment Semiconductor/Electronics (EUR0.5m (0.1;

Key figures of the income statement H1 2014, FY 2014E and 2015E						
Unit: EURm Financial year: Dec. 31 Accounting standard: HGB	H1 2013	H1 2014	H1 2014E	FY 2013	FY 2014E	FY 2015E
	Reported	Reported	Forecast	Reported	Forecast	Forecast
<b>Sales</b>	<b>2.7</b>	<b>4.6</b>	<b>4.2</b>	<b>8.2</b>	<b>11.1</b>	<b>13.1</b>
growth yoy	-20.0%	69.0%	55.3%	-8.5%	35.9%	17.9%
<b>Total operating performance</b>	<b>3.2</b>	<b>4.9</b>	<b>4.5</b>	<b>9.0</b>	<b>12.0</b>	<b>13.9</b>
growth yoy	-16.8%	51.6%	39.7%	-6.8%	33.2%	15.7%
<b>EBIT</b>	<b>-1.5</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-1.2</b>	<b>0.4</b>	<b>0.8</b>
EBIT margin	neg.	neg.	neg.	neg.	3.7%	6.3%
<b>Net income</b>	<b>-1.6</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-1.4</b>	<b>0.3</b>	<b>0.7</b>
as percentage of sales	neg.	neg.	neg.	neg.	2.6%	5.1%
<b>Earnings per share (EUR)</b>	<b>-0.54</b>	<b>-0.27</b>	<b>-0.22</b>	<b>-0.47</b>	<b>0.10</b>	<b>0.22</b>

Source: Independent Research; NanoFocus AG

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*Standard product business recovers step by step*

FY 2013: 1.3); consequently  $\mu$ print sales: EUR0.7m (0.0; FY 2013: 1.2)) we expect increasing sales dynamics in H2 2014 and the years to come. According to CFO Sorg, sales in the standard product business continue to recover step by step following the restructuring initiated in April 2013. From our point of view, this is encouraging news.

*High order backlog as basis for growth in FY 2014*

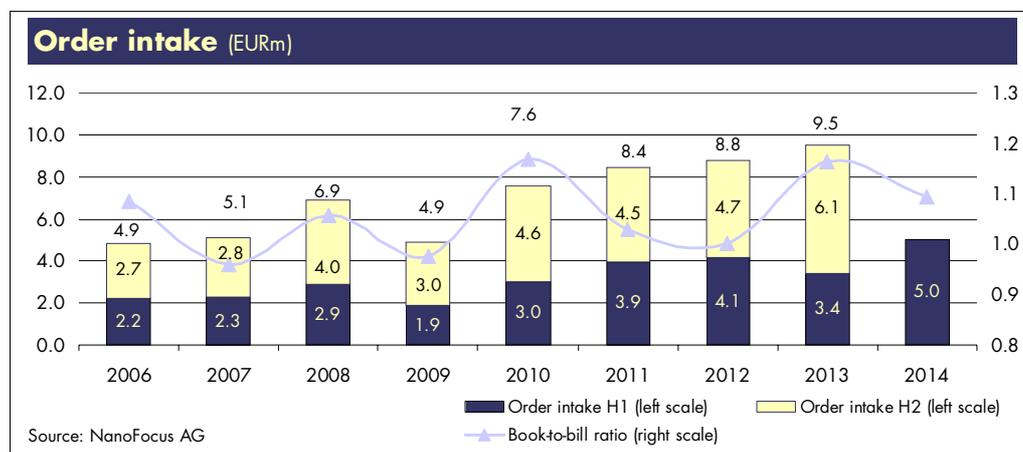
#### Record order intake as a good basis to achieve the sales target in FY 2014

A record was also achieved with respect to order intake of EUR5.0m (3.1) in H1 2014 (book-to-bill ratio: 1.1). Until August 19, 2014, order intake increased to EUR6.5m. As of June 30, 2014, order backlog amounted to EUR2.5m (December 31, 2013: 2.0; June 30, 2013: 1.4) - also a record level. As of August 19, 2014, order backlog continued to increase to EUR2.9m.

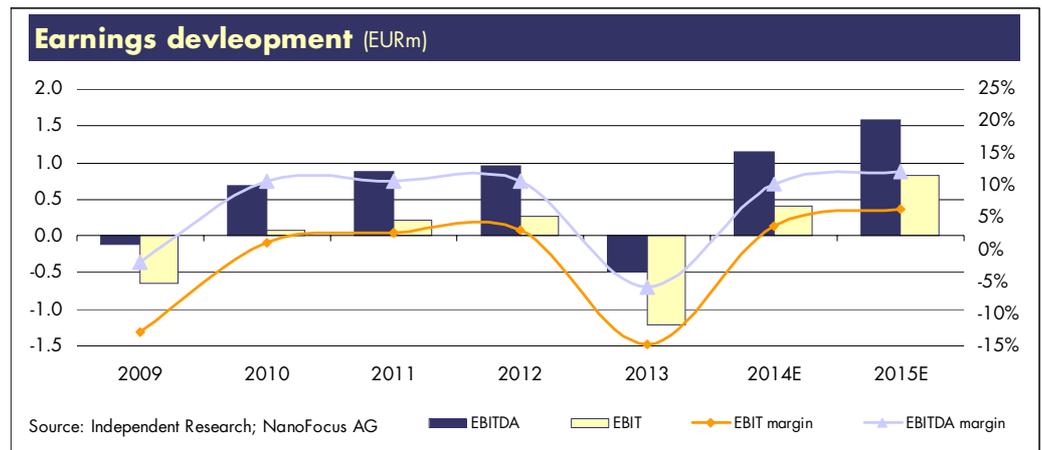
*Still high R&D expenses*

#### Significantly lower EBIT loss

Due to the improved topline NanoFocus limited the seasonally EBIT loss to EUR-0.6m (-1.5; our forecast: -0.6) in H1 2014. A vital factor was the decrease of the cost of materials / sales ratio to 28.2% (40.5%). Last year, cost of materials was burdened by a higher portion of the project business (higher sales but also higher cost of materials) and the delivery of pilot installations (lower contribution margin). For instance compared to H1 2012, adjusted EBIT (excluding own work capitalised) did not improve (EUR-1.1m, respectively; sales H1 2012: EUR3.4m). This is due to the still high R&D expenses and increasing operating costs (EUR3.9m vs. EUR3.2m).



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*First product in the inline production process of Epcos*

### On the way to achieve the guidance for FY 2014

NanoFocus forecasts sales of over EUR11m, a net profit of EURO.3m and EPS of EURO.10 for 2014. With regard to the high order backlog we believe that the guidance is achievable. NanoFocus has delivered the first product that is used in the inline production process of Epcos (quality control of production process for innovative semiconductor products; pilot installation delivered in 2013; follow-up orders expected). For the semiconductor industry,  $\mu$ sprint is also applied increasingly with micro bumping or flip chip/3D bumping in middleware products. NanoFocus pursues several projects in this segment e.g. with Samsung. We also expect increasing growth rates in the automotive segment. Alongside the growing basic business with the semi-automated  $\mu$ surf cylinder there is currently an evaluation with the Volkswagen group for the further development of the product. Compared to the Epcos project both the projects with Samsung and Volkswagen are still in the middle or at the beginning of the development stage. Currently, NanoFocus is up to deliver pilot installations to two customers from the automotive and semiconductor industry. In our opinion, the continued recovery of the standard product business is also a vital success factor. We thus expect a clearly improving profitability in 2014 and 2015.

*Pilot installations to be delivered to two customers*

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**Financial analysis**

*Low price-to-book ratio for a growth company*

**Unchanged solid equity capital ratio**

NanoFocus is well capitalised with an equity ratio of 64% (December 31, 2013: 72%) as of June 30, 2014. The slight decrease is due to the seasonally net loss in H1 2014 and the convertible bond (volume: EUR1.35m) issued at the beginning of 2014. The equity ratio has also to be interpreted against the background of the net loss in 2013. The current market capitalisation of EUR10.5m is only slightly higher than total equity of EUR7.8m as of June 30, 2014 and the expected total equity of EUR8.8m as of December 31, 2014. A price-to-book ratio of 1.1 (2015E) is comparatively low for a growth company, in our opinion. It is owed to the still R&D-driven business model that NanoFocus does not earn its capital costs so far (many products for the inline production process are still in the development stage).

*Increase in net debt reflects seasonal pattern*

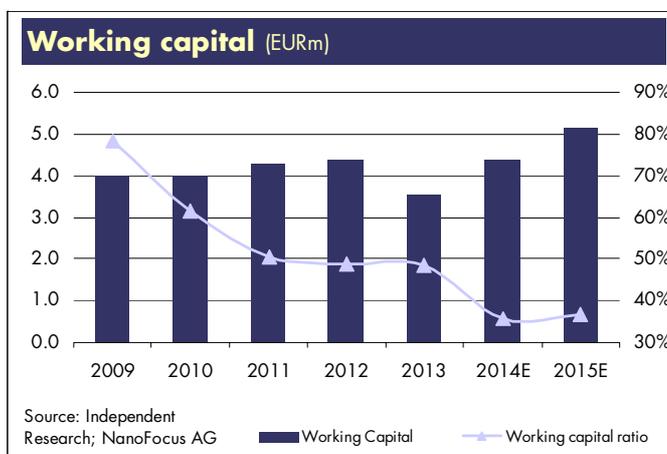
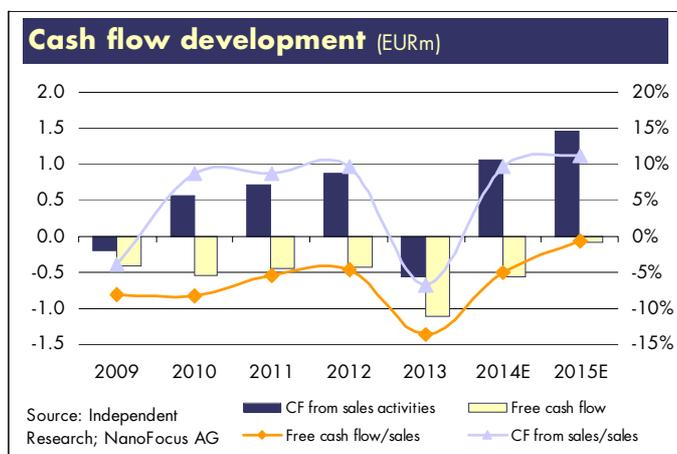
**Seasonal half year loss is reflected in negative cash flow**

Due to the seasonal net loss in H1 2014, both the cash flow from sales activities and the cash flow from operating activities were negative with EUR-0.4m (-1.2) and EUR-0.7m (-0.5). Taking into account own work capitalised (meaning capitalised development expenses; to be reported in the cash flow from investment activities) the operating cash flow would have been EUR-1.1m (-0.8). Net financial debt seasonally increased to EUR1.7m (December 31, 2013: 0.6) as of June 30, 2014. However, according to CFO Sorg, net debt has decreased again to EURO.6m at the end of August (reduced accounts receivable). With expected net financial debt of EUR1.1m as of December 31, 2014 (gearing: 0.1) we think NanoFocus has a sound financial foundation.

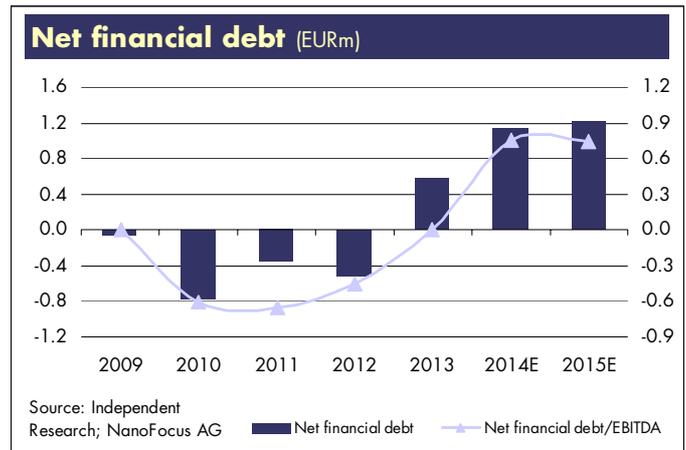
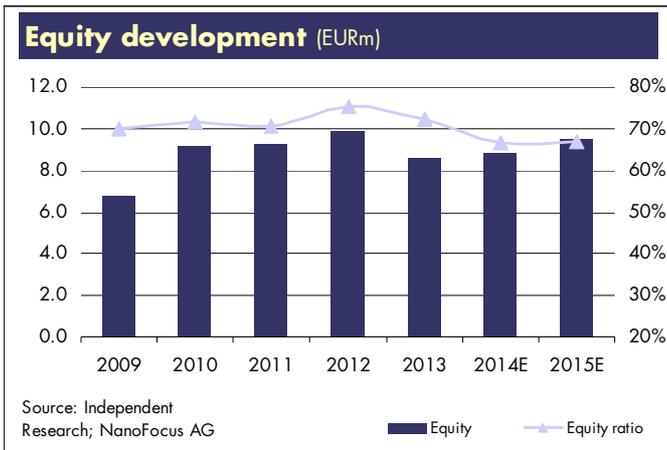
*Numerous measures to enhance liquidity*

**Liquidity enhancement from issue of convertible bond**

We think there is room for improvement with respect to the cash position of EURO.5m (December 31, 2013: 0.3) as of June 30, 2014 (also influenced by seasonal effects). NanoFocus requires liquidity of between EUR1.5m and 2.0m to pre-finance the seasonally strong H2 (especially Q4) according to our estimates. Furthermore, there are loan repayments of EURO.4m in 2014 (another EURO.6m between 2015 and 2017).



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*Conversion premium of 29% is customary in the market*

However, the enhancement of the liquidity basis by the following is noteworthy:

- the cancellation of restricted cash of EURO.5m
- the existing, still unused credit line of EURO.5m
- the convertible bond 2014/19 of EUR1.35m issued in February 2014

The convertible bond 2014/19 placed with institutional investors with a volume of EUR1.35m (issued at 100%) has a coupon of 5.0%. The coupon increases by 3.0% p.a. if there is no conversion into shares. Thus, the yield is between 5.0% and 7.8%. The bond can be converted into 300,000 NanoFocus shares (10% of the current subscribed capital). The conversion premium of 29% (basis: average three-month price before the transaction was carried out on February 7, 2014: EUR3.48; conversion price: EUR4.50 per share) is customary in the market. NanoFocus has clearly enhanced its liquidity base with the proceeds from the convertible bond.

*Investments in the expansion of production*

**Positive operating cash flow expected**

We further expect that NanoFocus’ operating cash flow will be positive again in 2014 and 2015 with EURO.2m and EURO.7m. The working capital remains a factor of uncertainty, in our opinion. The successive start of production of higher-end automated testing facilities (for example for Epcos) will lead to clearly higher inventory and receivables. Investments into the expansion of production must further be taken into account which is why we still expect a negative free cash flow (2014E: EUR-0.6m; 2015E: EUR-0.1m).

*Growth financing remains on the agenda*

Growth financing thus remains on the agenda. Following the issuance of the convertible bond at the beginning of 2014, the AGM (July 9, 2014) resolved a new authorised capital of EUR1.5m (resolution valid until July 8, 2019). We think the management will make use of the authorisation if needs arise - e.g. the start of another serial production or larger R&D projects.

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## Company overview

### Company profile

#### One-stop-shop business model

*Developer of 3D surface analysis tools in the micro and nanometre sector*

NanoFocus develops, manufactures and distributes 3D surface analysis tools in the micro and nanometre sector. The core of the solutions offered is an innovative optical measurement process with a resolution into the nanometre area. In addition to micro geometrical survey (for example, form, contour and evenness) and abrasiveness analysis, especially the structural and topological characteristics of modern functional surfaces are evaluated. The strategy includes a one-stop-shop business model - from product development to the necessary software and client instruction.

*One-stop-shop business model*

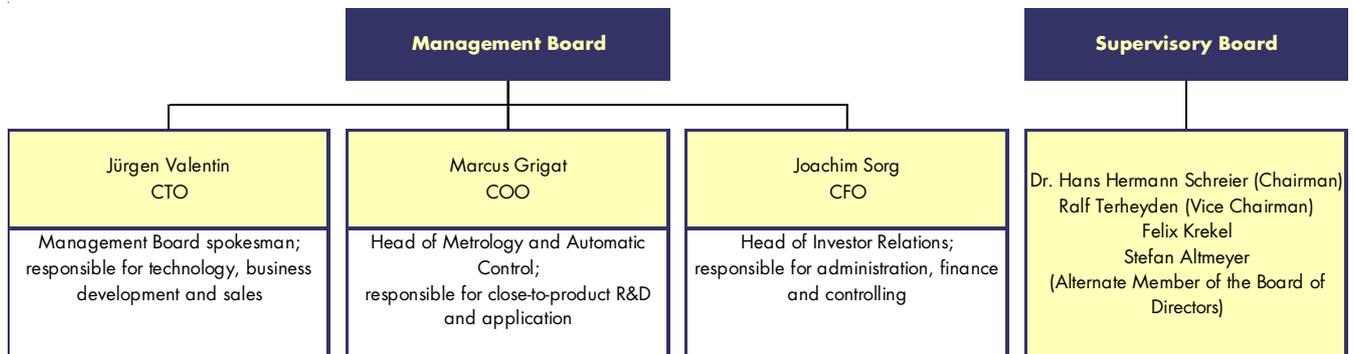
In the past years, NanoFocus has developed from a supplier of standard products into a company focussed on client-specific solutions. NanoFocus' solutions portfolio includes the three product lines  $\mu$ scan (used in process development and R&D),  $\mu$ surf (process control) and  $\mu$ sprint (production control in inline manufacturing). The products are mostly used in the four strategic segments semiconductor/electronics, automotive, medical technology and surface dressing. NanoFocus is an important player especially in the automotive segment with notable clients like the Volkswagen group ( $\mu$ surf cylinder). At the moment, the product is developed further for the use in inline manufacturing. NanoFocus has enhanced its semiconductor segment with the takeover of the  $\mu$ sprint technology from Siemens in 2009. Altogether, NanoFocus thus develops from an R&D-driven company into a company with products suitable for inline manufacturing or from a mass supplier of special equipment to a producer of process tools for manufacturing.

*Conversion towards a producer of process tools for manufacturing*

Features of each product platform			
	Technological platform		
	$\mu$ surf 	$\mu$ scan 	$\mu$ sprint 
<b>Precision</b>	Very precise, nanometre, up to 1 nm	Precise, nano/micrometre, up to 100nm	Precise, nano/micrometre, up to 100nm
<b>Speed and size of sample/surface area</b>	Very slow, small samples	Relatively fast, larger samples	Very fast (on-site), medium size samples
<b>Fields of application</b>	Measurement of small surfaces in relation to technology; R&D, process development	Measurement of larger surfaces; R&D, process development	Inspection on wafers and laser welds etc. can be used in inline production
<b>Comment</b>	Further development towards inline production	-	Further development: medical/solar tech., cleantech

Source: NanoFocus AG

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**Management**

Source: NanoFocus AG

**Dipl.-Phys. Jürgen Valentin (born 1964)**

- Practical training as material tester at Siemens AG in Mühlheim/Ruhr
- Studies of physics and two-year activity as research assistant at Duisburg University
- As of 1995: Head of software and analytics at NanoFocus Messtechnik GmbH
- In charge of technology, business development and sales
- Management Board spokesman since January 1, 2010

**Dipl.-Ing. Marcus Grigat (born 1970)**

- Practical training as electrical systems installer and energy systems technician at Thyssen AG in Duisburg
- Studies of electronic technology and one-year activity as research assistant at Duisburg University
- As of 1996: Head of Metrology and Automatic Control at NanoFocus Messtechnik GmbH
- Responsible for research & development and production

**Joachim Sorg (born 1971)**

- Training as middle-level bank clerk in the savings bank sector
- As of 1999: Work in the investor relations department of IntraWare AG
- Four-year activity in IR at syzygy AG
- Participation in the DVFAA CIAA course
- Project activity at F+P Multimedia AG
- Work in relationship management at AHBR AG
- As of 2006: Head of IR at NanoFocus
- Responsible for administration, finance and controlling

**Dr. Hans Hermann Schreier (born 1946)**

- Co-founder and long-year CEO of NanoFocus
- Following a two-year cooling-off period in compliance with the Corporate Government Code, Dr. Schreier was elected to the Supervisory Board from the AGM (on July 11, 2012)
- At its first meeting, the Supervisory Board appointed Dr. Schreier as Chairman

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## Historie

Milestones	
<b>1994</b>	<ul style="list-style-type: none"> <li>• Foundation of NanoFocus Messtechnik GmbH in Duisburg</li> </ul>
<b>1997</b>	<ul style="list-style-type: none"> <li>• Foundation of OM Engineering Optoelektronische Messtechnik GmbH</li> </ul>
<b>1999</b>	<ul style="list-style-type: none"> <li>• Launch of NanoFocus <math>\mu</math>surf and OM <math>\mu</math>scan</li> </ul>
<b>2001</b>	<ul style="list-style-type: none"> <li>• Integration of OM Engineering GmbH into NanoFocus GmbH and change of legal form into NanoFocus AG</li> </ul>
<b>2005</b>	<ul style="list-style-type: none"> <li>• Foundation of US distribution company NanoFocus Inc.</li> <li>• Listing in the Entry Standard of the Open Market at the Frankfurt Stock Exchange</li> </ul>
<b>2006</b>	<ul style="list-style-type: none"> <li>• Small capital increase for issuing the prospectus</li> </ul>
<b>2007</b>	<ul style="list-style-type: none"> <li>• Launch of the <math>\mu</math>surf explorer standard product</li> <li>• Sales agreements with IMSTec GmbH (medical technology) and Heimann Graphische Technik und Handel Heimann GmbH (printing industry)</li> <li>• New standard automation software <math>\mu</math>soft automation</li> </ul>
<b>2008</b>	<ul style="list-style-type: none"> <li>• Exclusive sales agreement with the specialist in coordinate metrology Werth Messtechnik GmbH and sales agreement with Olympus (Japan)</li> </ul>
<b>2009</b>	<ul style="list-style-type: none"> <li>• Capital increase (224,000 shares; EUR3.50 per share); proceeds of the issue: about EUR784,000</li> <li>• Launch of high precision optic measurement solution <math>\mu</math>surf solar</li> <li>• Acquisition of <math>\mu</math>sprint for application in inline production</li> </ul>
<b>2010</b>	<ul style="list-style-type: none"> <li>• Launch of the 3D microscope for industrial laboratories <math>\mu</math>surf basic</li> <li>• Rights issue (321,293 shares; EUR4.00 per share); gross proceeds of about EUR1.29m</li> </ul>
<b>2011</b>	<ul style="list-style-type: none"> <li>• New 3D measurement software <math>\mu</math>soft metrology, compatible with Windows 7</li> <li>• New generation of <math>\mu</math>surf solar receives Intersolar Award in the category PV Production Technology</li> <li>• <math>\mu</math>surf cylinder: development of the third generation</li> </ul>
<b>2012</b>	<ul style="list-style-type: none"> <li>• Capital increase (205.184 shares; EUR2.80 per share) in June; proceeds of the issue of about EUR575,000</li> <li>• <math>\mu</math>surf custom wins the MEDTC EMDT Innovations Award for contributions to progress in the medical technology sector</li> </ul>
<b>2013</b>	<ul style="list-style-type: none"> <li>• Successful trade fair Control: 230 contacts in 2013 (2012: 192)</li> <li>• Engines symposium at VW in Salzgitter has been successful</li> </ul>
<b>2014</b>	<ul style="list-style-type: none"> <li>• Issuance of a convertible bond; proceeds of the issue: about EUR1.35m</li> </ul>

Source: NanoFocus AG

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## Company contact and shareholder structure

*Stock cooperation under German law*

NanoFocus AG is a stock cooperation under German law. Its head office is in Oberhausen (Nordrhein-Westfalia).

### Company data

NanoFocus AG  
Lindnerstr. 98  
46149 Oberhausen, Germany  
Internet: [www.nanofocus.de](http://www.nanofocus.de)

### Contact Investor Relations

Joachim Sorg (CFO)	Kevin Strewginski
Telephone: +49 (208) 62000-54	Telephone: +49 (208) 62000-55
Telefax: +49 (208) 62000-99	Telefax: +49 (208) 62000-89
E-mail: <a href="mailto:ir@nanofocus.de">ir@nanofocus.de</a>	E-mail: <a href="mailto:ir@nanofocus.de">ir@nanofocus.de</a>

*Large shareholder subscribes substantial part of capital increase*

After the capital increase in mid-June 2013, the number of shares has increased to 3.000m. The investment company Alto Invest has subscribed the largest part of the 0.205m newly issued shares (first investment in 2010 as part of the last capital increase). It now holds 429,000 shares or 14.3% and is the largest shareholder. The management (7.2%) and founding members including tgb (26.2%) hold 33.4% of total shares. The free float amounts to 46.3% of total shares.

<b>Shareholder structure</b> (after capital increase)	
	<b>Share</b>
<b>Management Board</b>	
Jürgen Valentin (CTO)	3.6%
Marcus Grigat (COO)	3.6%
<b>Founding members</b>	
Dr. Hans H. Schreier	6.5%
Family Eismann	5.9%
Dr. Christiaan Velzel	4.1%
Dr. Volker Bödecker	4.1%
tgb Technologie-Beteiligungs-Gesellschaft mbH	5.6%
<b>Strategic investors</b>	
LBBW	6.0%
Alto Invest	14.3%
Free float	46.3%

Source: NanoFocus AG

*Improved liquidity for the share*

Since September 15, 2012, Süddeutsche Aktienbank is the designated sponsor for the NanoFocus share. Therefore, a continuous Xetra trading is secured from now on.

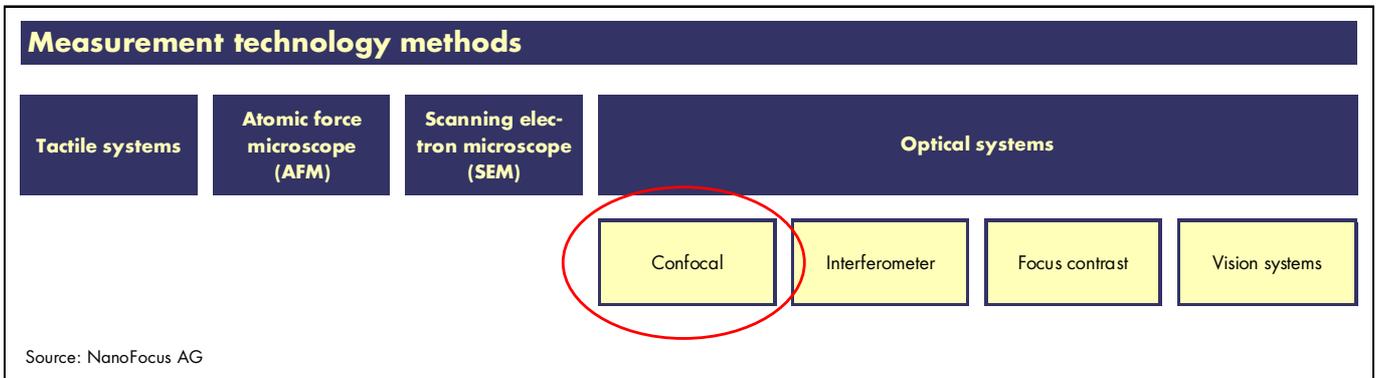
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**Business model and strategic perspectives**

3D pinhole technology

**Confocal technology allows measurements in the nano- and micrometre sector**

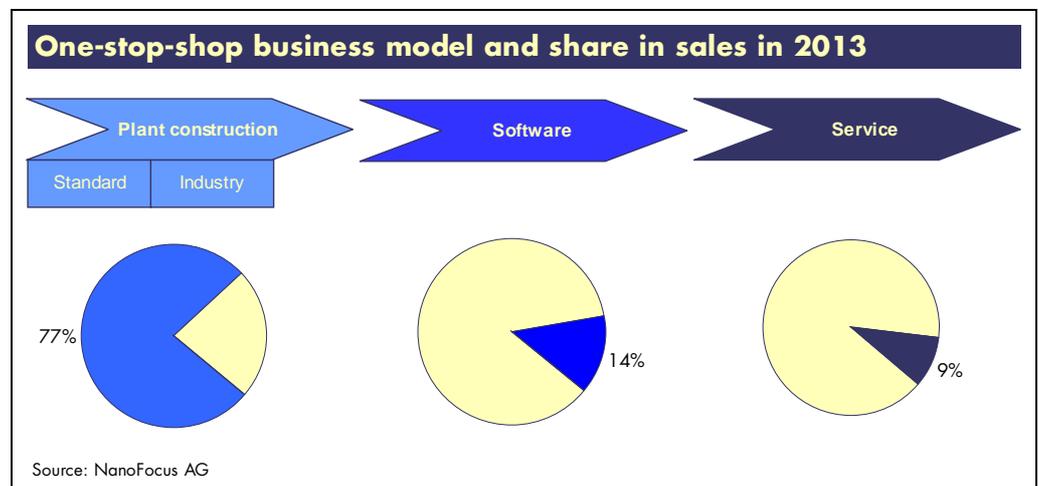
NanoFocus, founded in 1994, is a specialist for 3D surface measurement systems for surface control, efficiency enhancement in production and production control. The in-house developed technology is based on the confocal principle - meaning two paths of rays (lighting and observation path of rays) that share a joint focus. Due to the very small lighting and observation field stops (pinholes) that are only a few micrometres in size, the lighted area on the surface to be measured is very small. Due to this pointwise measurement, three-dimensional images with a micro- or nanometre resolution can be produced with the NanoFocus technology. Thus, NanoFocus' confocal technology differs from other (optical) measurement methods.



From product development to software and services

**One-stop-shop business model**

NanoFocus has an integrated business model. The products are developed and manufactured by 70 employees at the Oberhausen main office. The equipment distribution is completed with an in-house developed software and comprehensive service packages for clients (training, updates etc.). As the products are so complex, the distribution for tier-1 clients is performed via NanoFocus AG in Europe (offices in Oberhausen and Karlsruhe), via



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Newly aligned distribution of standard products

NanoFocus Inc. in North America (McMinnville, Oregon) and NanoFocus Pte. Ltd. in Asia (Singapore). NanoFocus further has distribution partners in Europe and Asia. The sales of standard devices have come under pressure in the past years (sales 2013: about EUR2m or 24% of sales) - also because NanoFocus has increasingly focussed on client-specific solutions. Since mid-2013 the realignment of the standard product distribution is finished (new team). According to CFO Sorg, a clear recovery can be observed already in H1 2014. We still consider the mid-term sales target of EUR10m ambitious.

Inline-capable products with high unit and sales potential

**Products with technology capable of inline use for industry application**

Important strategic decisions of the past years were the further development of the products towards inline capability (use in production with clients to control production and quality) and the enforced development of client-specific system solutions (competitive differentiation). Especially the  $\mu$ scan- (use in laboratories/R&D) and partly also the  $\mu$ surf-technology platforms (process control) can be used for very precise but comparatively slow measurements of a limited surface. With the further development of the  $\mu$ sprint technology acquired from Siemens and the world's fastest confocal sensor, according to NanoFocus, 3D measurements for quality control can be performed as an integral part of the production process in large numbers and in accordance with the cycle time at the clients' production sites. This offers an enormous sales potential for NanoFocus, both because of the higher number of units demanded by clients and the higher project volume (not merely delivery of individual sensors but of complete constructions equipped with sensors).

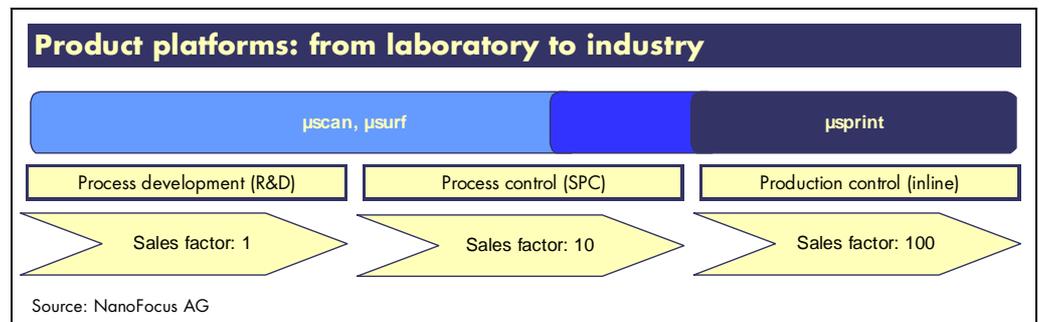
Automotive and semiconductors as most important growth areas

**Focus on four fields of growth**

NanoFocus has achieved important improvements in client-specific system solutions. It has strategically positioned itself in the growth areas automotive, semiconductor, medical technology and surface finishing. In our opinion, the first two are most important. With the  $\mu$ surf cylinder used for quality control of cylinders of combustion engines, the durability of motors can be expanded and fuel consumption can be reduced. Clients are the VW group, BMW, Daimler and Opel. We estimate the current units sales at five to six and the sales volume at about EUR2m p.a.

Feasibility study on the development of a fully-automated device

NanoFocus currently makes a feasibility study on the development of a fully-automated version. This would be used during the production process of the motor manufacturers (inline-capability), which would significantly raise NanoFocus' sales in the automotive sector by the production of a complete cylinder inspection device (estimated unit price: EUR1.5m).



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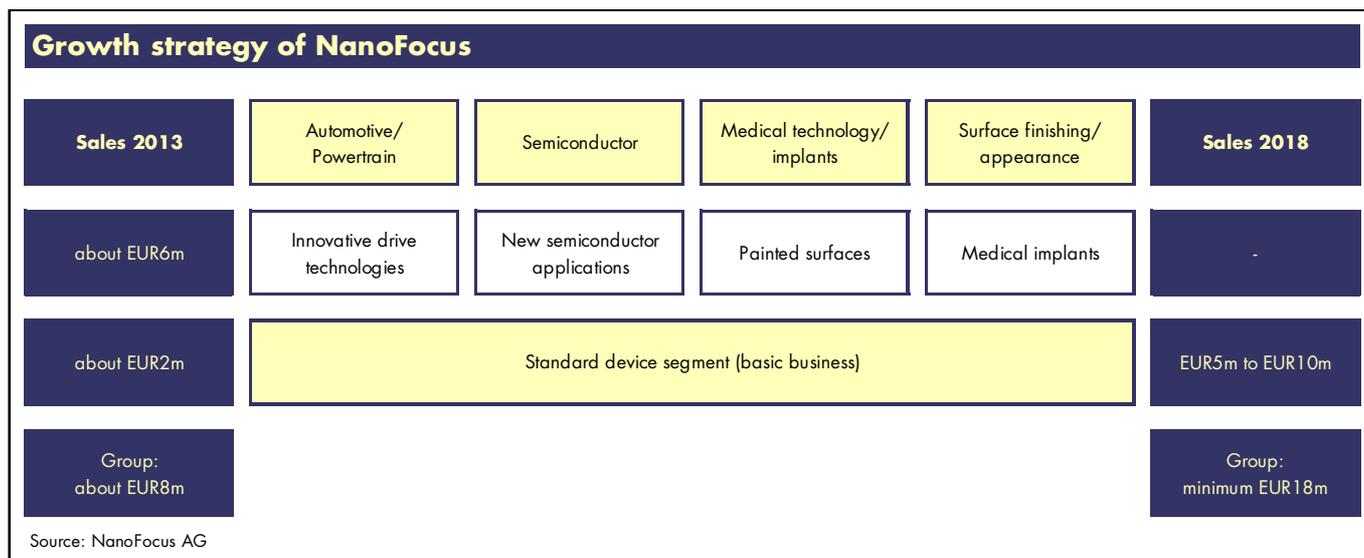
First device in use in Epcos' inline production

In the semiconductor segment, NanoFocus for the first time has a product used in Epcos' inline production that is based on the  $\mu$ spring technology (quality control for an innovative semiconductor product in the antenna technology). After the final product development the first test installation at Epcos was performed. NanoFocus expects further orders and the start of serial production shortly. It has developed first products in quality control of processes like flip chip (assembly of chips directed with the active contact towards the interconnected device), 3D packaging (horizontal and vertical layer of chips) and micro bumping in the semiconductor industry - among others for Samsung. Further and larger projects, for example for Samsung, are at the beginning of their development.

From an R&D-driven towards a producing company

**On its way towards products with inline capability**

NanoFocus currently is in a process of transformation from an R&D-driven towards a producing company with inline-capable products. In the past years, there have been delays with several projects. We identify high potential and economies of scale especially in the automotive (established  $\mu$ surf cylinder) and semiconductor segment (trend towards ever smaller chips). In the medical technology (no consecutive order for a larger development project) and surface finishing (prototype of a quality control device for paintworks developed) segments we expect larger sales only in the medium term.



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**Market and competition**

**Analysis of target market would be more sensible in our opinion**

Measurement technology is a relatively broad segment with different measurement methods. With its 3D measurement method NanoFocus offers a new technological approach and addresses the three target markets automotive, semiconductors and medical technology with its current and future main products. We would thus find it sensible to focus on target markets for measurement technology rather than the general market environment.

*Automotive, medical technology and semiconductors as target industries*

**Automotive industry: pressure on industry to reduce CO<sub>2</sub> emissions increases**

Global car production has clearly increased again in 2013. Sales have increased 4.2% to 82.8m (79.5m) units. This trend has continued in H1 2014 with an increase by 3.9% to 43.8m (42.1m) units, according to LMC Automotive. The large car markets Western Europe (H1 2014: +5.5%) and the US (H1 2014: +4.1%) generated strong increases. IHS Automotive and Volkswagen group expect global car sales of 99m units by 2018 which corresponds to an annual growth of 3.6%.

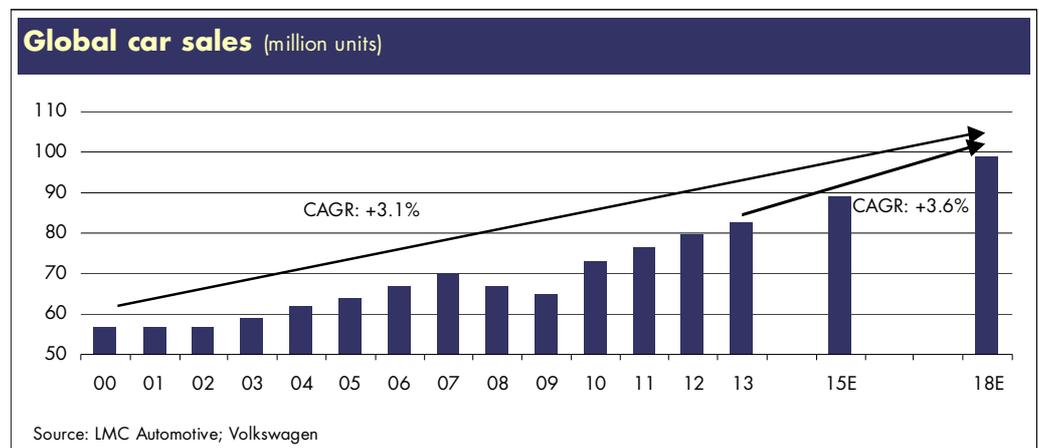
*Global car sales until 2018: +3.6% p.a.*

For our assessment of the further development of NanoFocus' market environment it is less decisive on how the short-term volatile sales figures will develop but rather how the pressure on car manufacturers will increase to raise motor efficiency (fuel consumption) and reduce CO<sub>2</sub> emissions. This must be regarded against the background that the combustion engine will remain the dominant technology for the foreseeable future. According to a heavily discussed EU directive passed in February 2014, the new models of car manufacturers may have maximum CO<sub>2</sub> emissions of 95gr/100km as of 2020. However, there is a transition period until 2023. This means a reduction to 4.1 liters of fuel/100km and 3.5 liters of Diesel/100km. With regard to the current CO<sub>2</sub> emissions of newly registered cars in Germany (2011: 146gr/100km) and fuel consumption (2012: 7.3 liters/100km) these targets remain ambitious - despite the transition period (CO<sub>2</sub> emissions would have to be reduced by 4.7% p.a. between 2011 and 2020 (1998-2011: -1.9%)).

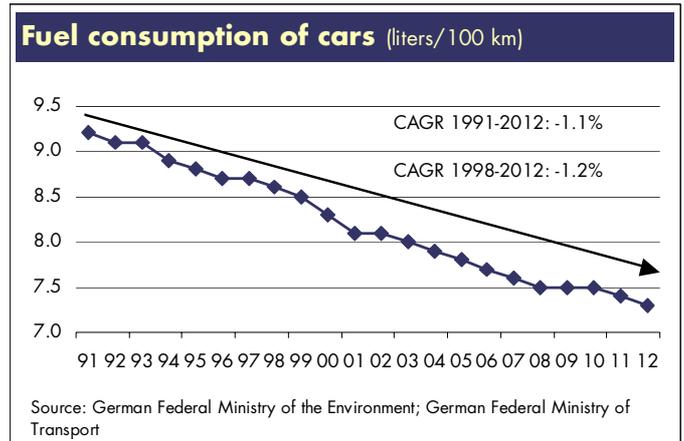
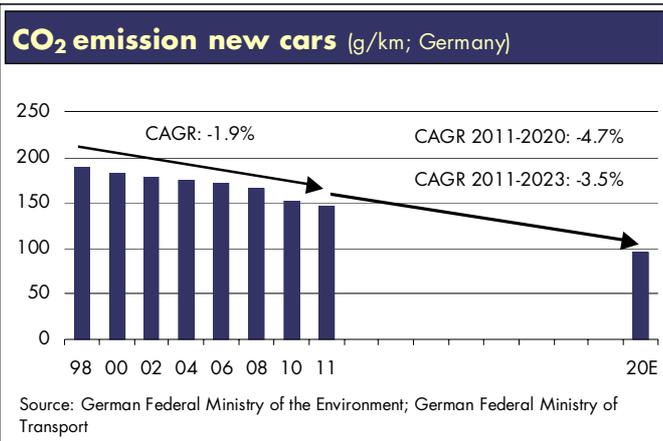
*EU CO<sub>2</sub> directive calls for more efficient combustion engine technology*

Motor manufacturers thus should invest ever more into their motor technology in the coming years. Important parts to reduce fuel consumption and the CO<sub>2</sub> emissions are the cylinders and gaskets. With regard to the former, NanoFocus offers its industry solution  $\mu$ surf cylinder. The close cooperation with several manufacturers enables NanoFocus from the start to be part of the development processes and thus ensure its later product sales. The prototype of

*$\mu$ surf cylinder to increase cylinder efficiency*



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a 3D measurement system to inspect gaskets was already developed and is ready for the use of a worldwide leading gasket producer.

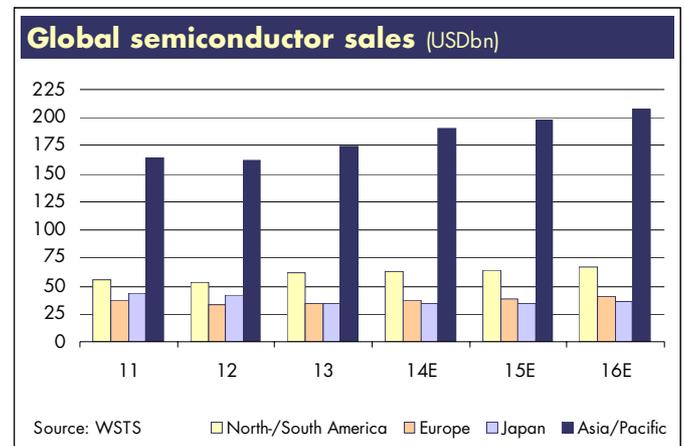
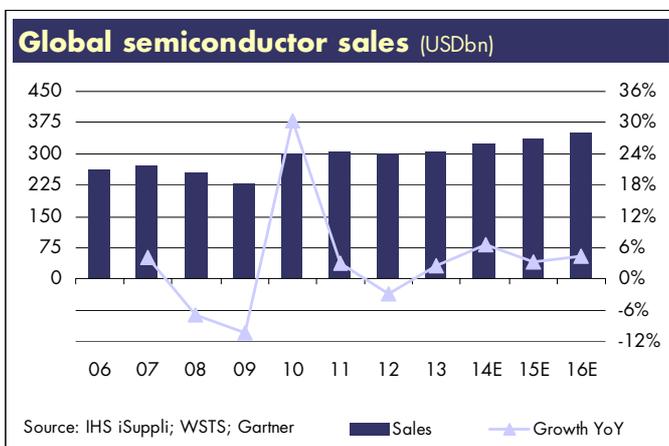
**Semiconductor industry: boom in consumer electronics and automotive - trend towards innovative packaging solutions**

*Growth of semiconductor industry is increasing*

The global semiconductor market is currently in a growth phase. According to World Semiconductor Trade Statistics (WSTS), the industry still benefits from the boom for smartphones, tablet PCs and automotive semiconductors. Against this background, growth should increase even more in 2014 - after the strong growth of 4.8% in 2013. WSTS expects the market volume to increase by 6.5% to USD325bn. Geographically, growth has its main sources in Europe (2013: +5.2%; 2014E: +7.9%) and the Asia/Pacific region (2013: +7.0%; 2014E: +9.3%). This is a positive development for NanoFocus with its large clients Epcos (subsidiary of TDK) and Samsung.

*Innovative wafer packaging technologies becoming increasingly important*

The technological trend in the electronics industry is towards ever thinner but more efficient devices. An example for this is the development of smartphones and tablet PCs. This has important implications for the semiconductor industry. On the one hand, packaging becomes much more important with regard to wafers (middle-end). This level of the semiconductor production process thus should increase above proportion compared to the pure wafer production (front-end) and the wafer assembly (back-end) in the coming years, according



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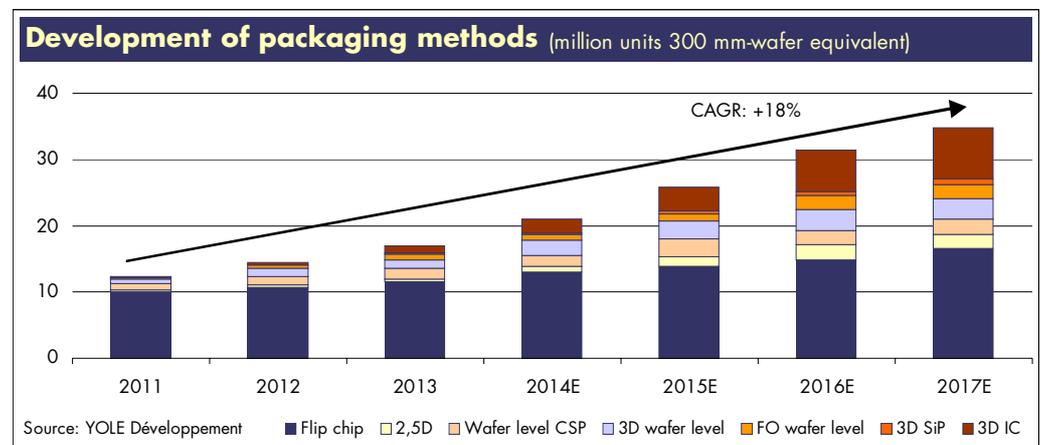
Wafer-Packaging: overview of technologies						
Flip chip				Wafer level-packaging		
Flip Chip BGA	Flip Chip CSP	Chip on Board COF/COG	Silicon on Silicon Microbumping	FAN IN	FAN OUT	Chip Embedding
Bump characteristics Plating, screen printing Pitch: <180 µm	Bump characteristics Plating, screen printing, stud Pitch: <150 µm	Bump characteristics Plating Pitch: <150 µm	Bump characteristics Plating Pitch: <60 µm	Bump characteristics Ball dropping Pitch: 400-500 µm		

Source: YOLE Développement

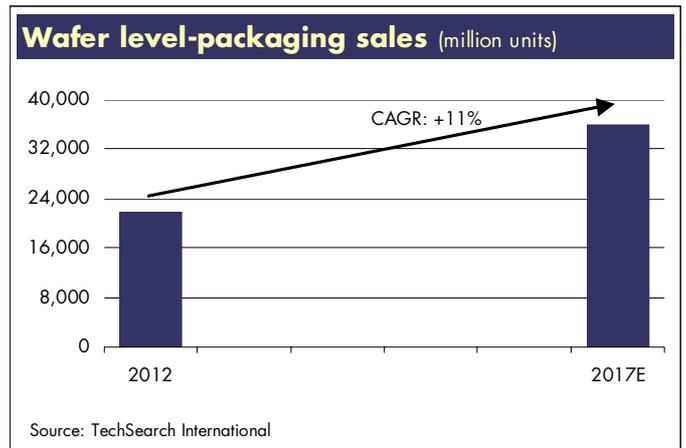
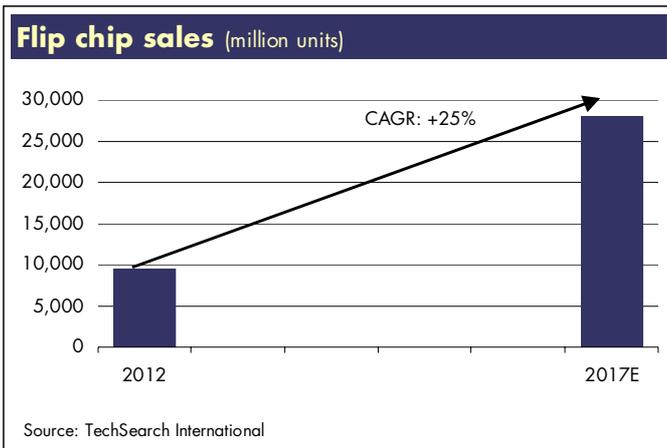
Flip chip technology of client Samsung wins market share

to the consultants of YOLE Développement. YOLE Développement expects a CAGR 2012-2017 of the packaging market of 18%. On the other hand, packaging technologies (flip chip, wafer level packaging) must produce ever thinner products.

Flip chip and 3D IC packaging is of special importance for NanoFocus. The flip chip technology is specifically applicable for small spaces between wafers (<200µm) and is often used in 2.5D and 3D bumping. TechSearch especially identifies the new generations of microprocessors (CPUs), chip sets and graphic chips, digital TV and other media as well as wireless applications as growth drivers. The consultants thus expect above-average growth with a CAGR 2012-2017 of 25%. NanoFocus benefits from flip chip packaging with its large client Samsung. It develops several products in this segment. NanoFocus should benefit from these and their market entries due to the installation of quality control systems in the production sites (µsprint sensor to measure and control the positioning of GHz chips, coating qualities and sub-micro meter structures, for example). Wafer level packaging (WLP) is mainly used in chips for mobile devices (tablet PCs and smartphones) as small and thinner packing is needed there. YOLE Développement expects growth of 11% p.a. between 2012 and 2017.



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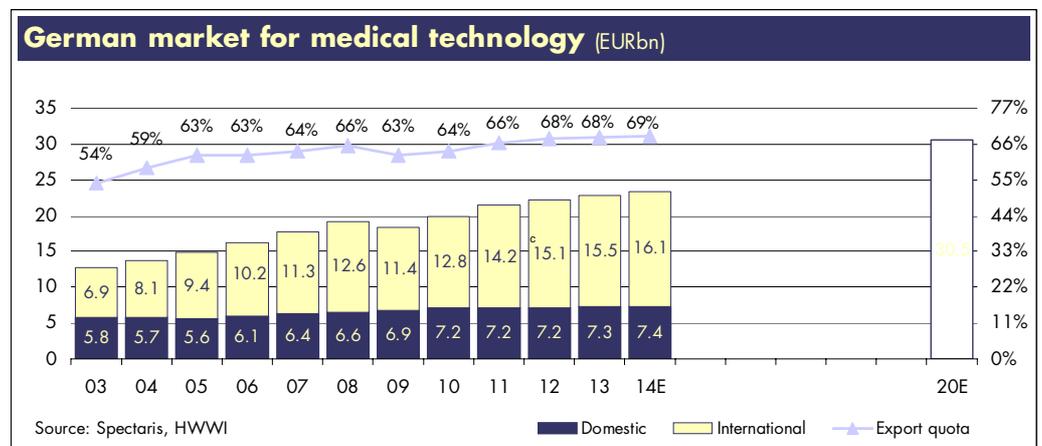
Medical technology segment expands especially internationally

CAGR 2014-2020 of +4% expected

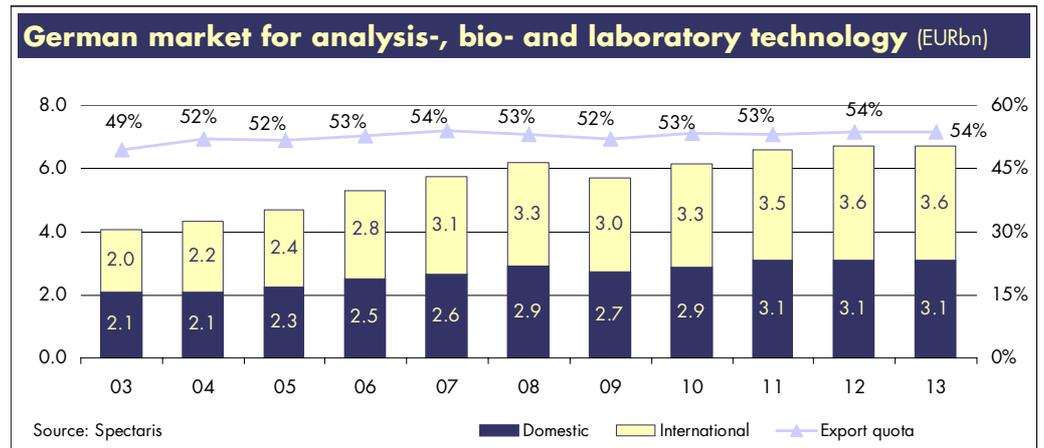
**Medical and analysis technology: continuous sales increase**

According to the German industrial association for optical, medical and mechatronical technologies (Spectaris), sales of the German medical technology manufacturers climbed 2.2% to EUR22.8bn (22.3) in 2013. The industry hardly expands on the domestic market that is subject to massive competitive pressure (2013: +1.4%). According to Spectaris, the export markets are the growth drivers (export 2013: +2.5%) - headed mainly by emerging markets like China and Russia as well as Brazil, India, South Korea and Saudi-Arabia. This trend should continue in 2014. Spectaris expects an increase of 4% in exports and of only 1% on the domestic market (total market: +3% to EUR23.5bn).

HWWI (study update: April 2013) still expects clear growth for the German medical technology industry until 2020. In its study, HWWI mentions global trends like the rising world population, the increasing per capita income in emerging markets, the demographic aging in developed countries and the general willingness of citizens to spend more money on health issues. In total, HWWI expects an annual growth of the market volume by 4% to well over EUR30bn by 2020 (CAGR 2013-2020 US: +14%; EUR-27: +3%; China: +12%; Russia: +6%). The market development after the economic fluctuations since 2009 should remain dampened until 2015, though.



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*High potential for Nano-Focus technology especially in implants*

Even though NanoFocus for example supplies Straumann company with analysis technology for dental implants, sales to clients in the medical technology sector are so far of secondary importance (product sales 2013: EURO.1m). However, in our opinion, NanoFocus´ technology is of high interest for manufacturers of medical technology as especially in medical technological components the surface characteristics in the micro- and nanometre dimension decide on the therapeutic and thus economic success of a product. Especially with regard to implants (for example artificial hip joints, dental implants, stents) surface quality and 100% adherence to production specifications are essential. Due to its innovative power and the according high demand for new analysis technologies as well as its stable development even in times of crises we consider medical technology an interesting field of activity.

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**Income Statement**

	<b>Unit:</b> EURm						
	<b>Financial year:</b> Dec. 31	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
	<b>Accounting standard:</b> HGB						
<b>Sales</b>		<b>6.5</b>	<b>8.2</b>	<b>8.9</b>	<b>8.2</b>	<b>11.1</b>	<b>13.1</b>
Change in inventory		0.1	0.3	-0.1	0.1	0.1	0.1
Own work capitalised		0.5	0.6	0.6	0.6	0.6	0.5
Other operating income		0.7	0.3	0.2	0.1	0.1	0.2
<b>Total operating performance</b>		<b>7.7</b>	<b>9.5</b>	<b>9.6</b>	<b>9.0</b>	<b>12.0</b>	<b>13.9</b>
Cost of materials		-2.1	-2.8	-2.5	-2.9	-3.4	-3.9
<b>Gross profit</b>		<b>5.6</b>	<b>6.6</b>	<b>7.1</b>	<b>6.1</b>	<b>8.6</b>	<b>10.0</b>
Personnel expenses		-2.9	-3.4	-3.9	-4.3	-5.0	-5.5
Other operating expenses		-2.0	-2.3	-2.3	-2.2	-2.5	-2.9
<b>EBITDA</b>		<b>0.7</b>	<b>0.9</b>	<b>0.9</b>	<b>-0.5</b>	<b>1.1</b>	<b>1.6</b>
Depreciation and amortisation		-0.6	-0.6	-0.7	-0.7	-0.7	-0.8
<b>EBIT</b>		<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>-1.2</b>	<b>0.4</b>	<b>0.8</b>
Financial results		-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
<b>EBT</b>		<b>-0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>-1.3</b>	<b>0.3</b>	<b>0.7</b>
Extraordinary expenses		0.0	0.0	0.0	0.0	0.0	0.0
Income taxes and other taxes		0.0	-0.1	0.0	-0.1	0.0	0.0
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>		<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>-1.4</b>	<b>0.3</b>	<b>0.7</b>
Weighted average number of shares (m)		2.480	2.795	2.915	3.000	3.000	3.000
<b>Earnings per share (EUR)</b>		<b>-0.02</b>	<b>0.02</b>	<b>0.05</b>	<b>-0.47</b>	<b>0.10</b>	<b>0.22</b>
Dividends per share (EUR)		0.00	0.00	0.00	0.00	0.00	0.00

Source: Independent Research; NanoFocus AG

**Income Statement** (positions in % of sales)

	<b>Unit:</b> in %						
	<b>Financial year:</b> Dec. 31	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
	<b>Accounting standard:</b> HGB						
<b>Sales</b>		<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Change in inventory		0.9%	4.1%	-1.1%	0.8%	0.7%	0.6%
Own work capitalised		7.1%	7.3%	6.9%	7.9%	5.8%	3.8%
Other operating income		10.3%	3.6%	2.1%	1.3%	1.3%	1.3%
<b>Total operating performance</b>		<b>118.3%</b>	<b>115.0%</b>	<b>108.0%</b>	<b>110.0%</b>	<b>107.8%</b>	<b>105.7%</b>
Cost of materials		-32.5%	-34.2%	-28.5%	-35.8%	-30.2%	-29.6%
<b>Gross profit</b>		<b>85.8%</b>	<b>80.8%</b>	<b>79.5%</b>	<b>74.1%</b>	<b>77.6%</b>	<b>76.1%</b>
Personnel expenses		-44.9%	-41.9%	-43.6%	-52.9%	-45.1%	-42.0%
Other operating expenses		-30.2%	-28.3%	-25.3%	-27.2%	-22.3%	-21.9%
<b>EBITDA</b>		<b>10.7%</b>	<b>10.6%</b>	<b>10.6%</b>	<b>-5.9%</b>	<b>10.2%</b>	<b>12.1%</b>
Depreciation and amortisation		-9.5%	-7.9%	-7.6%	-8.9%	-6.5%	-5.9%
<b>EBIT</b>		<b>1.2%</b>	<b>2.7%</b>	<b>3.0%</b>	<b>-14.8%</b>	<b>3.7%</b>	<b>6.3%</b>
Financial results		-2.1%	-1.3%	-0.9%	-0.7%	-1.1%	-0.9%
<b>EBT</b>		<b>-0.9%</b>	<b>1.4%</b>	<b>2.1%</b>	<b>-15.5%</b>	<b>2.5%</b>	<b>5.3%</b>
Extraordinary expenses		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income taxes and other taxes		0.0%	-0.6%	-0.4%	-1.6%	0.0%	-0.2%
Minority interests		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net income</b>		<b>-0.9%</b>	<b>0.8%</b>	<b>1.7%</b>	<b>-17.1%</b>	<b>2.6%</b>	<b>5.1%</b>

Source: Independent Research; NanoFocus AG

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<b>Balance sheet</b>							
	<b>Unit:</b> EURm						
	<b>Financial year:</b> Dec. 31	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
	<b>Accounting standard:</b> HGB						
Capital subscribed not paid in		0.0	0.0	0.0	0.0	0.0	0.0
Expenditures for start-up and expansion of business operations		0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets		2.6	2.8	3.0	3.0	3.2	3.3
Property, plant and equipment		0.5	0.5	0.5	0.5	0.3	0.3
Financial assets		0.1	0.1	0.1	0.1	0.1	0.1
<b>Total non-current assets</b>		<b>3.2</b>	<b>3.4</b>	<b>3.6</b>	<b>3.6</b>	<b>3.7</b>	<b>3.7</b>
Inventories		2.0	2.7	2.6	2.9	3.3	3.8
Receivables and other assets		3.0	3.2	3.4	3.2	3.9	4.4
Trade receivables		2.6	2.8	2.6	1.9	2.4	2.9
Other current receivables/assets		0.4	0.4	0.9	1.4	1.5	1.6
Securities		0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents		3.2	2.2	1.8	0.3	0.5	0.4
<b>Total current assets</b>		<b>8.2</b>	<b>8.1</b>	<b>7.9</b>	<b>6.4</b>	<b>7.8</b>	<b>8.7</b>
Deferred expenses and accrued income		0.1	0.1	0.1	0.1	0.1	0.1
Deferred tax assets		1.3	1.5	1.7	1.7	1.7	1.7
<b>Total assets</b>		<b>12.8</b>	<b>13.1</b>	<b>13.2</b>	<b>11.8</b>	<b>13.2</b>	<b>14.2</b>
Subscribed capital		2.8	2.8	3.0	3.0	3.0	3.0
Capital reserve		5.8	5.8	6.1	6.1	6.1	6.1
Retained earnings related to deferred taxes		1.2	1.2	1.2	1.2	1.2	1.2
Capital contributions		0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss carried forward		0.0	0.0	0.0	0.0	0.0	0.0
Retained earnings		0.0	0.0	0.0	0.0	0.0	0.0
Net income		-0.6	-0.5	-0.4	-1.8	-1.5	-0.8
<b>Total equity</b>		<b>9.2</b>	<b>9.2</b>	<b>9.9</b>	<b>8.5</b>	<b>8.8</b>	<b>9.5</b>
Investment grants to non-current assets		0.0	0.0	0.0	0.0	0.0	0.0
<b>Provisions</b>		<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>
Financial liabilities		2.2	1.8	1.3	0.9	1.7	1.7
Advanced payments received		0.1	0.1	0.0	0.2	0.2	0.2
Trade payables		0.5	1.1	0.8	1.0	1.1	1.3
Liabilities to affiliated companies		0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities		0.4	0.3	0.3	0.1	0.3	0.4
<b>Total liabilities</b>		<b>3.3</b>	<b>3.3</b>	<b>2.4</b>	<b>2.3</b>	<b>3.3</b>	<b>3.5</b>
Deferred income and accrued expenses		0.0	0.0	0.0	0.0	0.1	0.1
Deferred tax liabilities		0.2	0.3	0.5	0.7	0.7	0.7
<b>Total equity and liabilities</b>		<b>12.8</b>	<b>13.1</b>	<b>13.2</b>	<b>11.8</b>	<b>13.2</b>	<b>14.2</b>

Source: Independent Research; NanoFocus AG

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**Balance sheet** (Positions in % of balance sheet total)

<b>Unit:</b> <b>Financial year:</b> <b>Accounting standard:</b>	in % Dec. 31 HGB	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
Capital subscribed not paid in		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expenditures for start-up and expansion of business operations		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Intangible assets		20.2%	21.3%	22.5%	25.3%	24.5%	23.1%
Property, plant and equipment		3.6%	3.8%	3.6%	4.3%	2.5%	1.9%
Financial assets		1.0%	1.0%	1.1%	1.2%	1.1%	1.0%
<b>Total non-current assets</b>		<b>24.8%</b>	<b>26.0%</b>	<b>27.1%</b>	<b>30.8%</b>	<b>28.0%</b>	<b>26.0%</b>
Inventories		15.9%	20.5%	19.6%	24.5%	25.0%	27.0%
Receivables and other assets		23.2%	24.4%	26.0%	27.2%	29.6%	31.3%
Trade receivables		20.3%	21.5%	19.5%	15.8%	18.4%	20.3%
Other current receivables/assets		3.0%	2.9%	6.4%	11.5%	11.2%	11.0%
Securities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash and cash equivalents		25.2%	17.2%	14.0%	2.8%	3.9%	3.1%
<b>Total current assets</b>		<b>64.3%</b>	<b>62.1%</b>	<b>59.6%</b>	<b>54.5%</b>	<b>58.6%</b>	<b>61.4%</b>
Deferred expenses and accrued income		0.5%	0.4%	0.6%	0.6%	0.7%	0.8%
Deferred tax assets		10.4%	11.4%	12.7%	14.2%	12.7%	11.8%
<b>Total assets</b>		<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Subscribed capital		21.9%	21.4%	22.7%	25.4%	22.7%	21.2%
Capital reserve		45.2%	44.1%	46.5%	51.9%	46.4%	43.3%
Retained earnings related to deferred taxes		9.1%	8.9%	8.8%	9.9%	8.8%	8.2%
Capital contributions		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Profit/loss carried forward		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Retained earnings		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income		-4.5%	-3.9%	-2.7%	-14.9%	-11.1%	-5.7%
<b>Total equity</b>		<b>71.8%</b>	<b>70.5%</b>	<b>75.3%</b>	<b>72.3%</b>	<b>66.7%</b>	<b>67.0%</b>
Investment grants to non-current assets		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Provisions</b>		<b>1.5%</b>	<b>1.7%</b>	<b>2.3%</b>	<b>2.5%</b>	<b>2.7%</b>	<b>2.7%</b>
Financial liabilities		17.6%	13.6%	9.8%	7.6%	12.5%	11.7%
Advanced payments received		0.6%	0.9%	0.0%	1.6%	1.4%	1.4%
Trade payables		4.3%	8.3%	5.8%	8.7%	8.7%	9.4%
Liabilities to affiliated companies		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other liabilities		3.0%	2.2%	2.4%	1.2%	2.5%	2.6%
<b>Total liabilities</b>		<b>25.5%</b>	<b>24.9%</b>	<b>18.0%</b>	<b>19.1%</b>	<b>25.1%</b>	<b>25.0%</b>
Deferred income and accrued expenses		0.0%	0.3%	0.2%	0.3%	0.4%	0.4%
Deferred tax liabilities		1.2%	2.6%	4.2%	5.7%	5.1%	4.8%
<b>Total equity and liabilities</b>		<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Independent Research; NanoFocus AG

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**Cash flow statement**

<b>Unit:</b> EURm							
<b>Financial year:</b> Dec. 31		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
<b>Accounting standard:</b> HGB							
Net income		-0.1	0.1	0.1	-1.4	0.3	0.7
+/- Loss/gain on the disposal of PP&E		0.0	0.0	0.0	0.0	0.0	0.0
+ Depreciation and amortisation		0.6	0.7	0.7	0.7	0.7	0.8
+/- Own work capitalised		0.0	0.0	0.0	0.0	0.0	0.0
+/- Changes in provisions		0.0	0.0	0.0	0.0	0.1	0.0
+/- Other non-cash expenses/income		0.0	0.0	0.0	0.1	0.0	0.0
<b>Cash flow from sales activities</b>		<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>-0.6</b>	<b>1.1</b>	<b>1.5</b>
-/+ Changes in inventories, receivables/other current assets		-0.5	-0.9	-0.2	-0.1	-1.1	-1.0
+/- Changes in payables and other liabilities		0.0	0.6	-0.3	0.3	0.3	0.2
+/- Gain/loss from extraordinary items		0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operating activities</b>		<b>0.1</b>	<b>0.4</b>	<b>0.4</b>	<b>-0.3</b>	<b>0.2</b>	<b>0.7</b>
+ Proceeds from sale of assets		0.0	0.0	0.0	0.0	0.0	0.0
- Expenses for purchase of assets		-0.1	-0.3	-0.2	-0.2	-0.2	-0.3
- Own work capitalised		-0.5	-0.6	-0.6	-0.6	-0.6	-0.5
<b>Cash flow from investing activities</b>		<b>-0.6</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.7</b>
+ Proceeds from equity increases		1.3	0.0	0.6	0.0	0.0	0.0
+ Proceeds from finance lease		-0.1	-0.1	-0.1	0.0	0.0	0.0
-/+ Repayments of/proceeds from financial liabilities		0.6	-0.5	-0.5	-0.4	0.8	0.0
<b>Cash flow from financial activities</b>		<b>1.8</b>	<b>-0.5</b>	<b>0.0</b>	<b>-0.4</b>	<b>0.8</b>	<b>0.0</b>
<b>Change in financial position</b>		<b>1.3</b>	<b>-1.0</b>	<b>-0.4</b>	<b>-1.5</b>	<b>0.2</b>	<b>-0.1</b>
Other non-cash items		0.0	0.0	0.0	0.0	0.0	0.0
Financial position - start of period		1.9	3.2	2.2	1.8	0.3	0.5
<b>Financial position - end of period</b>		<b>3.2</b>	<b>2.2</b>	<b>1.8</b>	<b>0.3</b>	<b>0.5</b>	<b>0.4</b>

Source: Independent Research; NanoFocus AG

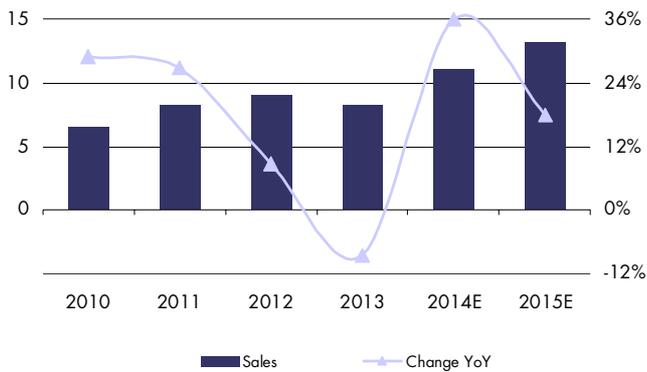
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## Key figures

Financial year: Accounting standard:	Dec. 31 HGB	2010	2011	2012	2013	2014E	2015E
<b>Growth rates</b>							
Sales growth		28.9%	26.9%	8.7%	-8.5%	35.9%	17.9%
EBITDA growth		-	26.1%	8.7%	-	-	40.1%
EBIT growth		-	192.7%	21.1%	-	-	102.0%
EBT growth		-	-	63.4%	-	-	147.9%
EPS growth		-	-	130.3%	-	-	133.5%
<b>Margins</b>							
EBITDA margin		10.7%	10.6%	10.6%	neg.	10.2%	12.1%
EBIT margin		1.2%	2.7%	3.0%	neg.	3.7%	6.3%
EBT margin		neg.	1.4%	2.1%	neg.	2.5%	5.3%
Net margin		neg.	0.8%	1.7%	neg.	2.6%	5.1%
<b>Yield analysis</b>							
ROI		-0.5%	0.5%	1.1%	-11.2%	2.3%	4.9%
ROCE		1.1%	1.6%	2.7%	-17.6%	5.4%	9.3%
ROE before taxes		-0.7%	1.2%	1.9%	-13.7%	3.2%	7.6%
ROE after taxes		-0.7%	0.7%	1.6%	-15.1%	3.3%	7.3%
ROIC		0.7%	1.1%	1.9%	-12.7%	4.1%	7.2%
<b>Balance sheet analysis</b>							
Equity ratio		71.8%	70.5%	75.3%	72.3%	66.7%	67.0%
Equity/non-current assets ratio		2.9	2.7	2.8	2.3	2.4	2.6
Equity + non-current debt/non-current assets ratio		3.5	3.1	3.1	2.5	2.7	2.9
Asset intensity		24.8%	26.0%	27.1%	30.8%	28.0%	26.0%
Inventory turnover		3.0	3.5	3.4	3.0	3.6	3.7
Receivables turnover		2.8	3.0	3.3	3.7	5.2	4.9
Days of sales outstanding		130.8	119.8	110.0	99.1	70.6	73.9
Working capital/sales ratio		61.6%	50.4%	48.7%	48.6%	35.8%	36.6%
Days of payables outstanding		76.6	105.4	132.8	112.0	118.4	116.5
<b>Debt ratios</b>							
Net financial debt		-0.8	-0.4	-0.5	0.6	1.1	1.2
Net financial debt/EBITDA		-0.6	-0.7	-0.5	-	0.8	0.7
Net Gearing		-0.1	0.0	-0.1	0.1	0.1	0.1
EBITDA interest coverage		4.4	6.2	9.3	-	7.6	10.6
EBIT interest coverage		0.5	1.6	2.6	-	2.7	5.5
<b>Cash flow analysis</b>							
Free cash flow (FCF)		-0.5	-0.5	-0.4	-1.1	-0.6	-0.1
FCF/sales		-8.3%	-5.5%	-4.7%	-13.6%	-5.0%	-0.6%
FCF/net income		-	-723.8%	-282.6%	-	-193.6%	-12.3%
FCF per share (EUR)		-0.22	-0.16	-0.14	-0.37	-0.19	-0.03
FCF yield		-5.2%	-4.9%	-4.9%	-14.4%	-5.3%	-0.8%
Capex		0.1	0.3	0.2	0.2	0.2	0.3
Capex /depreciation		49.2%	92.7%	71.8%	42.5%	41.2%	59.7%
Capex/sales		2.0%	3.4%	2.7%	1.9%	1.4%	1.9%
<b>Valuation multiples</b>							
EV / sales		1.5	1.1	0.9	1.0	1.1	0.9
EV / EBITDA		13.9	10.2	8.5	neg.	10.7	7.7
EV / EBIT		127.5	40.2	30.1	neg.	29.9	14.8
EV / FCF		neg.	neg.	neg.	neg.	neg.	neg.
P/E		neg.	148.2	57.4	neg.	36.6	15.7
P/B		1.1	1.0	0.9	0.9	1.2	1.1
P/CF		126.7	21.3	19.9	neg.	43.2	15.9
P/S		1.6	1.1	1.0	0.9	0.9	0.8
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

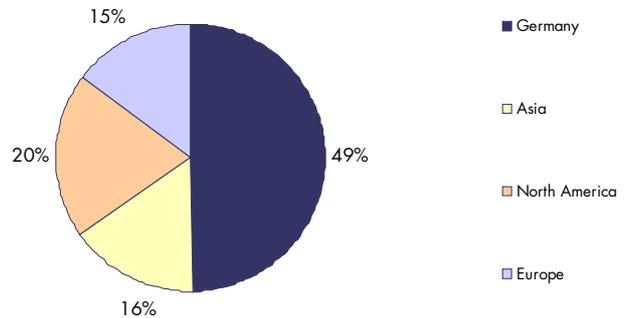
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**Sales development (EURm)**



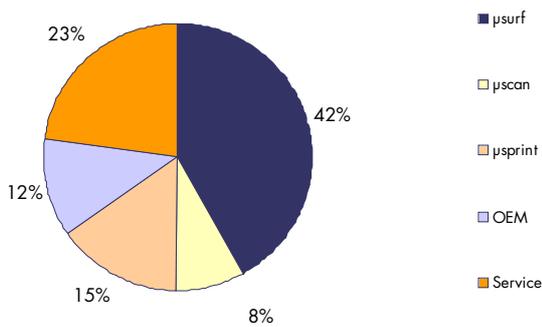
⇒ The unexpected decrease in sales in 2013 is the result of delayed sales recognition and delayed projects (e.g. in the automotive industry).  
 ⇒ In 2014, NanoFocus expects sales of more than EUR11m.

**Sales by region (2013)**



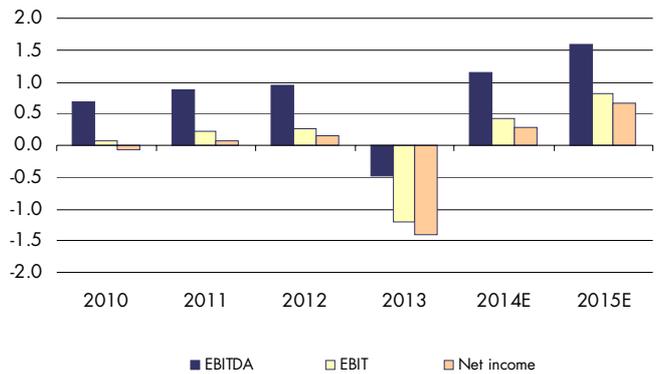
⇒ NanoFocus still makes about half of its sales in Germany.  
 ⇒ Through the strong growth in the semiconductor segment (e.g. customer Samsung) the Asian business gained in importance.

**Sales by product (2013)**



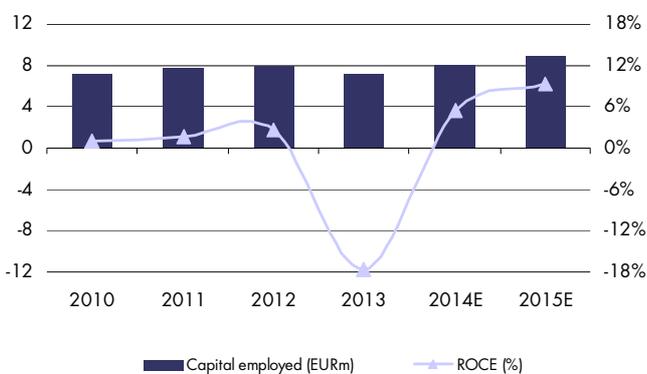
⇒ The µsurf platform technology is still dominating sales (e.g. µsurf cylinder for the automotive industry).  
 ⇒ Due to the semiconductor industry, µsprint becomes more important.

**Earnings development (EURm)**



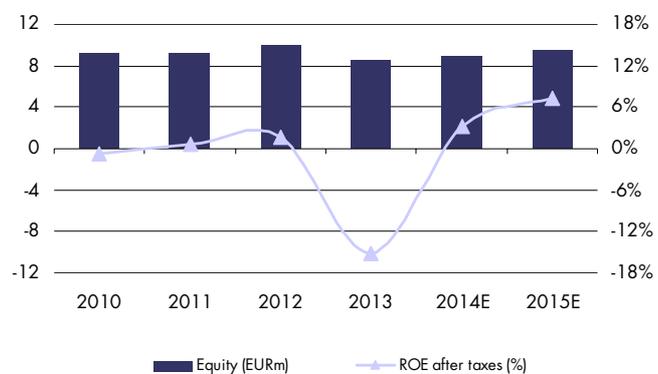
⇒ The loss reported in 2013 was surprising to us (unexpected low sales level).  
 ⇒ Along with the change towards a producing company economies of scale should gradually gain in importance.

**ROCE and capital employed**



⇒ Due to the loss in 2013 the ROCE was negative.  
 ⇒ In spite of the increase in capital employed (e.g. capex), we expect to see successively higher ROCE due to the earnings improvement.

**ROE and equity**



⇒ CAGR of equity from 2010 to 2015E: +1%. (due to loss in 2013).  
 ⇒ In line with the successively increasing profitability ROE should improve as well. However, with about 7% in 2015 ROE remains at a quite low level.

Source: Independent Research; NanoFocus AG

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## Disclaimer

### Recommendations concerning particular shares (starting December 18, 2009)

- Buy: According to our assessment, the stock will rise by at least 15% in absolute terms within a 6-month period.
- Hold: According to our assessment, the stock will rise by between 0% and 15% in absolute terms within a 6-month period.
- Sell: According to our assessment, the stock will decline in absolute terms within a 6-month period.

### Recommendations concerning particular shares (until December 17, 2009)

- Buy: According to our assessment, the stock will rise by at least 15% in absolute terms within a 6-month period.
- Accumulate: According to our assessment, the stock will rise by between 0% and 15% in absolute terms within a 6-month period.
- Reduce: According to our assessment, the stock will decline by between 0% and 15% in absolute terms within a 6-month period.
- Sell: According to our assessment, the stock will decline by least 15% in absolute terms within a 6-month period.

### **Compulsory information required under Section 34b of the German Securities Trading Act (WpHG) and the Financial Analysis Regulation**

#### Key sources of information

Key sources of information used in the preparation of this document are publications in foreign and domestic media such as information services (e.g. Reuters, VWD, Bloomberg, DPA-AFX etc.), the financial press (e.g. Börsenzeitung, Handelsblatt, FAZ, FTI, Wall Street Journal, Financial Times etc.), specialised journals, published statistics, rating agencies and publications of the issuers under coverage.

#### Summary of the valuation principles used:

##### Analyses of shares:

In valuing companies standard and accepted valuation methods (amongst others the Discounted Cash Flow Method (DCF Method), Peer-Group Analysis) are applied. Under the DCF Method the net value of the issuer is calculated, which represents the sum of the discounted company results, i.e. the net present value of the issuer's future net cash flows. The net value is therefore determined with reference to the company's anticipated future results and the discount rate applied. Under the Peer-Group Analysis Method issuers quoted on the Stock Exchange are valued with reference to the comparison of valuation multiples (e.g. price/earnings ratio, price/book value, enterprise value/sales, enterprise value/EBITDA, enterprise value/EBIT). Comparability of the valuation multiples is primarily determined by business activity and economic prospects.

##### Sensitivity of the valuation parameters:

The figures taken from the income statement, the cash flow statement and the balance sheet, upon which the valuation of companies is based, are numerical estimates and therefore subject to risks. These may change at any time without prior notice.

Quite apart from the valuation method applied, there is a very real risk that the share price target may not be reached in the anticipated period of time. Risks include unforeseen changes in competitive pressure or in demand for the issuer's products. Such fluctuations in demand may arise as a result of changes of a technological nature, the overall level of economic activity or in some cases as a result of changes in moral concepts. Changes in tax law, in exchange rates and, in certain business segments, in regulations are other factors which can influence valuations. The above discussion of valuation methods and risk factors makes no claim to be exhaustive.

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**Timing conditions of planned updates:****Analyses of shares:**

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<b>Emittent</b>	<b>Conflicts of interest</b>
<b>NanoFocus AG</b>	<b>5, 6</b>

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**As at: 09/08/2014**

**Independent Research GmbH  
Friedrich-Ebert-Anlage 36  
60325 Frankfurt am Main  
Germany**

**Responsible supervisory authority:**  
Federal Financial Supervisory Authority  
(Bundesanstalt für Finanzdienstleistungsaufsicht)  
Graurheindorfer Str. 108, 53117 Bonn  
and  
Marie-Curie-Straße 24-28, 60439 Frankfurt

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