

NanoFocus AG

Date: 07/24/2013

Recommendation	Buy	as of	-
before:			
Target price (EUR)	3.90		
Price (Xetra) (EUR)	2.49		
07/22/13 12:11 PM			
Share price potential	57%		

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

Share data	
Shares (m)	3.000
Freefloat	46.1%
Market cap. (EURm)	7.5
∅ Trading Volume	1,621
52W High	07/30/12 EUR3.50
52W Low	03/01/13 EUR2.00

Events	
Q2 figures	08/30/2013
Q4 figures	April 2014

Performance		
	absolut	related to:
		DAX
1 month	8.4%	-0.2%
3 months	5.7%	-1.8%
6 months	-5.2%	-12.0%
12 months	-25.4%	-42.9%

Index weighting	
Entry Standard All Share	0.6%

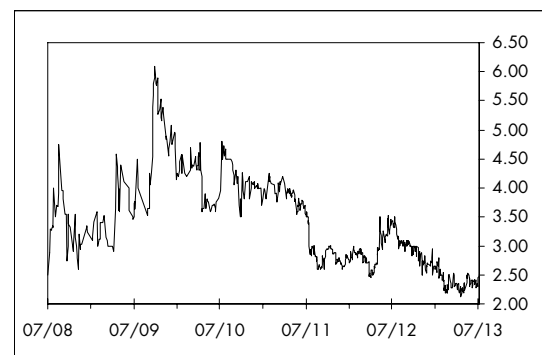
Strong H2 2013E - forecasts & recommendation confirmed

- ⇒ According to NanoFocus, the current order intake speaks in favour of a positive development in 2013. The seasonality of the business ought to increase in 2013 again. For H1 2013, we forecast sales of EUR2.7m (3.4) and EBIT of EUR-1.5m (-0.8). Given the seasonally strong H2 (like in H2 2012) we confirm our forecasts for FY2013 and FY 2014.
- ⇒ On the one hand, the suspension of the medical technology project by the contractor is a setback. On the other hand, the automotive industry business has become more dynamic (sales share 2012: 32%). It is planned to fully automate the µsurf cylinder (inline production). Several larger orders are expected.
- ⇒ Growth financing remains on the agenda. Currently, NanoFocus is negotiating a financing agreement - in particular for export financing.
- ⇒ The share price seems to have found a support at about EUR2.30. The burdening share sales by a large investor have been finished. Opportunities still prevail, in our opinion. With a price target of EUR3.90 we confirm our Buy recommendation.

	2009	2010	2011	2012	2013E	2014E
Sales	5.0	6.5	8.2	8.9	10.6	12.3
Sales growth	-23.1%	28.9%	26.9%	8.7%	18.4%	16.1%
EBIT	-0.6	0.1	0.2	0.3	0.5	0.7
EBIT margin	-12.7%	1.2%	2.7%	3.0%	4.3%	6.0%
Net income	-0.7	-0.1	0.1	0.1	0.4	0.6
Net margin	-14.4%	-0.9%	0.8%	1.7%	3.5%	5.2%
EPS	-0.32	-0.02	0.02	0.05	0.12	0.21
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Net financial debt/EBITDA	-1.1	-0.6	-0.7	-0.5	-0.2	0.1
Net Gearing	0.0	-0.1	0.0	-0.1	0.0	0.0
Free cash flow (FCF)	-0.4	-0.5	-0.5	-0.4	-0.6	-0.4
FCF per share	-0.18	-0.22	-0.16	-0.14	-0.20	-0.13
EV / sales	2.0	1.5	1.1	0.9	0.7	0.6
EV / EBITDA	neg.	13.9	10.2	8.5	4.9	3.7
EV / EBIT	neg.	127.5	40.2	30.1	15.1	9.5
EV / FCF	neg.	neg.	neg.	neg.	neg.	neg.
P/E ratio	neg.	neg.	148.2	57.4	20.0	11.8
P/B ratio	1.5	1.1	1.0	0.9	0.7	0.7
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 averaged share prices

Source: Independent Research, NanoFocus AG



Source: NanoFocus AG, Bloomberg

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Valuation

Three-step DCF model

Rising EBIT margin reflects increase in economies of scale

WACC of 10.1%

In our three-step Discounted Cash Flow Model (DCF Model) we have employed our specific forecasts in our detailed planning period until and including 2014. As of 2015 (until 2022) we undertake a trend analysis. Until 2017, we have assumed a decline in sales growth to 7.5%. The EBIT margin increases to 13.0% in 2017. This reflects our expectation that NanoFocus will realise significant economies of scale as part of its transition from an R&D driven towards a manufacturing company (inline production). However, the current situation suggests that the transition period could take more time and that margins could be lower. In phase III (terminal value) we expect the free cash flow to grow 2.0% along with inflation. We calculate an unchanged WACC of 10.1%. The relatively high figure is on the one hand owed to the beta of 1.4 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 target capital structure as NanoFocus has only a limited

DCF model										
EURm	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Sales	10.6	12.3	13.9	15.4	16.5	17.8	19.1	20.5	22.1	23.2
Growth y/y	8.7%	16.1%	13.3%	10.4%	7.5%	7.5%	7.5%	7.5%	7.5%	5.0%
EBIT margin	4.3%	6.0%	8.3%	10.7%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
EBIT	0.5	0.7	1.2	1.6	2.1	2.3	2.5	2.7	2.9	3.0
- Income taxes	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.4	-0.8	-0.8	-0.9
+ Amortisation and depreciation	1.0	1.2	1.3	1.0	1.1	1.2	1.3	1.3	1.5	1.5
+/- Change in long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
+/- Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flow	1.4	1.9	2.4	2.6	3.1	3.4	3.4	3.3	3.5	3.7
-/+ Change in net working capital	-0.6	-1.2	-0.9	-0.8	-0.6	-0.7	-0.7	-0.8	-0.8	-0.9
-/+ Investments in fixed assets	-0.8	-0.7	-1.0	-1.1	-1.2	-1.3	-1.3	-1.5	-1.5	-1.5
Free cash flow	0.0	0.0	0.5	0.7	1.4	1.5	1.4	1.1	1.2	1.3
Present values	0.0	0.0	0.4	0.5	0.9	0.8	0.7	0.5	0.5	0.5
Total present values	4.9									
Terminal value	6.5									
										in % of total value: 57%
Value of operating business	11.4									
+ Cash and cash equivalents	1.8									
- Financial debt	-1.3									
Fair market value of equity	11.9									
Number of shares outstanding (m)	3.000									
Fair value per share (EUR)	3.96									

Model parameters / entity DCF model:			
Target capital structure ->	Equity:	85%	Financial debt: 15%
Risk-free rate:	4.0%	Beta: 1.4	Risk prem. Debt: 3.0%
		Risk prem.: 5.0%	Tax shield: 30.0%
		Cost of equity: 11.0%	Cost of debt: 4.9%
Growth FCF:	2.0%	WACC: 10.1%	Date: 07/24/13

Source: Independent Research

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		Discount rate (WACC)			
		9.6%	10.1%	10.6%	11.1%
Growth (TV)	2.0%	4.35	3.96	3.69	3.46
	2.5%	4.45	4.12	3.82	3.57
	3.0%	4.66	4.29	3.97	3.69
	3.5%	4.91	4.50	4.14	3.83

Source: Independent Research

amount of financial debt. We have assumed an interest rate at 7.0% before tax and 4.9% after tax, based on the interest rates for the loans already granted (4.4% to 6.2%) and the credit line.

*Fair value of EUR3.96
(before: 3.98) per share.*

Almost unchanged fair value

We have calculated a fair value of equity of EUR11.9m (before: 12.0). Based on 3.000m shares outstanding we have calculated a fair value per share of EUR3.96 (before: 3.98). The fair value thus has almost remained unchanged compared to our last publication on April 15, 2013.

*Share is currently traded
below its book value*

Valuation multiples for 2014 should improve

Based on the fair value in 2013, there still is a high valuation with an EV/EBIT of 24.8 and a P/E ratio of 31.9 - as result of delays of major projects and the therefore missing contribution to sales and earnings. For 2014, we expect an improvement of the multiples (EV/EBIT: 15.5; P/E ratio: 18.8). Notice should also be given to the share price being traded significantly below book value with a P/B ratio 2013 of 0.7.

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Financial, balance sheet and income analysis

Income analysis

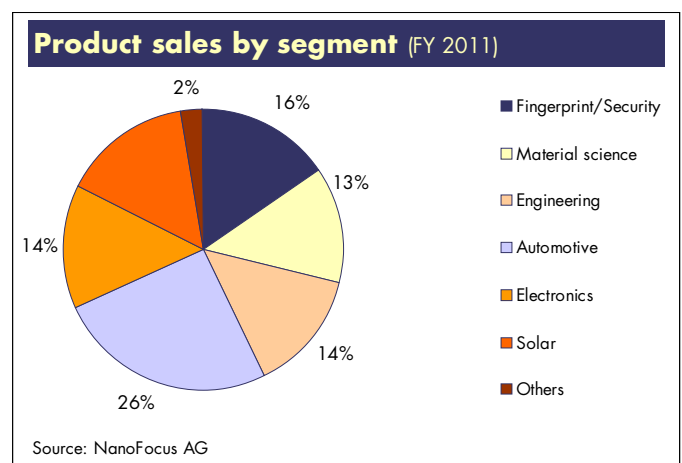
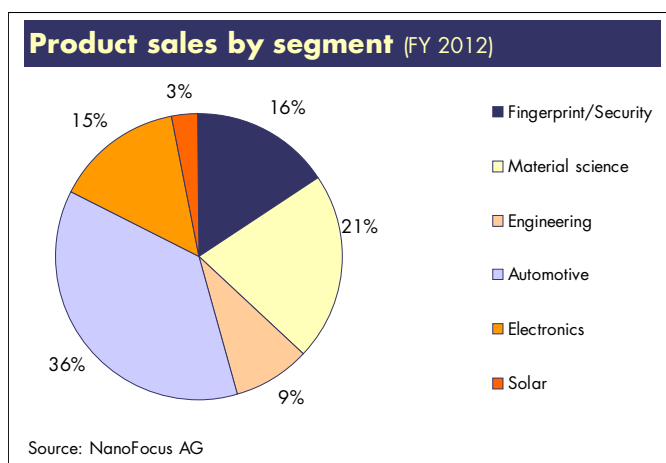
Automotive industry becomes most important pillar

Sales in 2012 below expectations - margin target achieved

With sales of EUR8.9m (8.2) in 2012, NanoFocus has failed to meet its own target (over EUR9.3m) and our optimistic forecast (EUR9.6m). EBIT of EURO.3m (0.2; our forecast: 0.5) were within the target range (3% to 5%) with an EBIT margin of 3%.

An important factor for the failed sales targets are lower revenues with clients from the solar segment due to the industry crisis (EUR0.2m (0.9)). Also, sales with engineering clients were lower (EUR0.5m (0.8)). An important strategic success is the sales increase with clients from the automotive industry (EUR2.2m (1.5)). We estimate that about 80% of these sales were made with the μ surf cylinder and that NanoFocus has established itself with this product especially with VW and BMW. Sales with platform technologies increased by 18.6% to EUR6.8m (5.8) in 2012 (especially μ surf: +34.7%; somewhat disappointing μ sprint sales, among others due to the solar industry: -16.2%). The weaker sales in the services segment (-14.4% to EUR2.1m (2.5)) were to be expected due to the phase-out of R&D projects.

Business is driven by μ surf cylinder and automotive industry



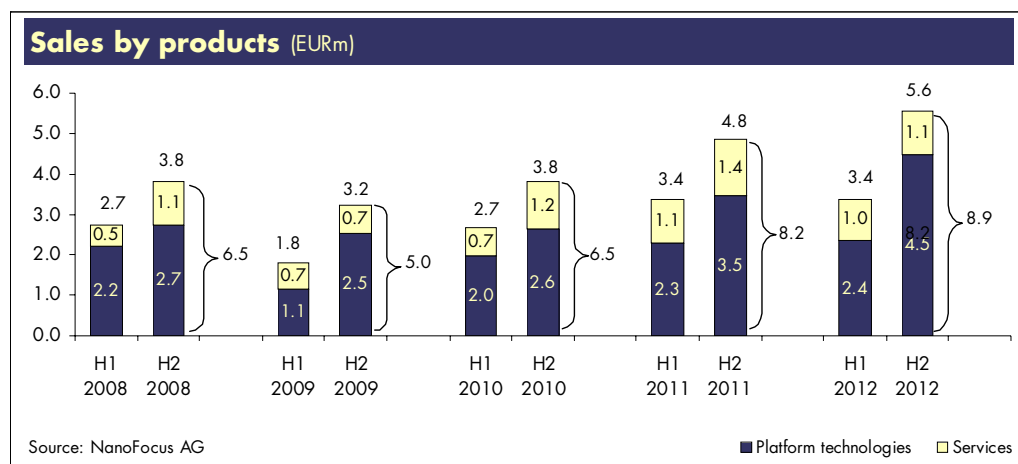
Economies of scale have not materialised so far

There are two reasons that EBIT did not increase more clearly. On the one hand, the phase-out of government-supported R&D projects caused lower other income of EURO.2m (0.3). On the other hand, operating costs went clearly up to EUR6.2m (5.8; operating cost ratio: 68.9% (70.2%)) as there are more employees and as the own key account distribution network was expanded. As an R&D-driven company, NanoFocus does not succeed in realising its economies of scale so far. Without own work capitalised, EBIT would even have been negative with EUR-0.3m (-0.4).

Strong margins in H2 show potential

The potential of the business model is shown in the traditionally stronger H2 2012 with sales of EUR5.6m (4.8) and EBIT of EUR1.1m (0.5). We expect that the tendency of a weak H1 and very good H2 will further increase in 2013 (meaning H1 2013 sales and EBIT below preceding year) as the order backlog on December 31, 2012 of EURO.7m (December 31, 2011: 1.1) was low after most orders had been executed.

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Confirmed forecasts for 2013 and 2014

Sales potential for μ surf cylinder - setback for medical technology project

We confirm our forecasts for 2013 and 2014. NanoFocus expects sales of about EUR10m, EBT of EURO.3m and EPS of EURO.11 in 2013. The further development of the μ surf cylinder (full automation) should produce a significant impulse on the sales and income level. We expect larger orders from new client in 2013 already, which should create significant additional sales given an unit price of about EUR350k. Sales in Asia should also increase again with the new RAM generation DDR3 (developed by Samsung). NanoFocus has finished the realignment of its distribution network. We identify the potential to revive the so far weak business with standard devices. However, the medical technology project has suffered a setback. The project was suspended by the client after production of the pilot device. NanoFocus thus currently is not able to start a project with a serial production.

Financial year:	Unit:	H2 2012 and FY 2012					
		H2 2011	H2 2012	H2 2012	2011	2012	2012
Accounting standard:	EURm	Reported	Reported	Forecast	Reported	Reported	Forecast
Sales	Dec. 31	4.8	5.6	6.2	8.2	8.9	9.6
growth yoy	HGB	27.1%	14.7%	28.7%	26.9%	8.7%	17.0%
Total operating performance		5.3	5.8	6.8	9.5	9.6	10.7
growth yoy		28.2%	8.8%	28.2%	23.5%	2.0%	13.0%
EBITDA		0.8	1.4	1.8	0.9	0.9	1.3
EBITDA margin		16.9%	26.0%	28.6%	10.6%	10.6%	13.4%
EBIT		0.5	1.1	1.4	0.2	0.3	0.5
EBIT margin		10.0%	19.8%	21.7%	2.7%	3.0%	5.4%
Net income		0.5	1.1	1.3	0.1	0.1	0.3
as percentage of sales		9.6%	20.4%	20.7%	0.8%	1.7%	3.2%
Earnings per share (EUR)		0.17	0.38	0.43	0.02	0.05	0.11

Source: Independent Research; NanoFocus AG

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Financial analysis

Again positive cash flow

Stable working capital ratio

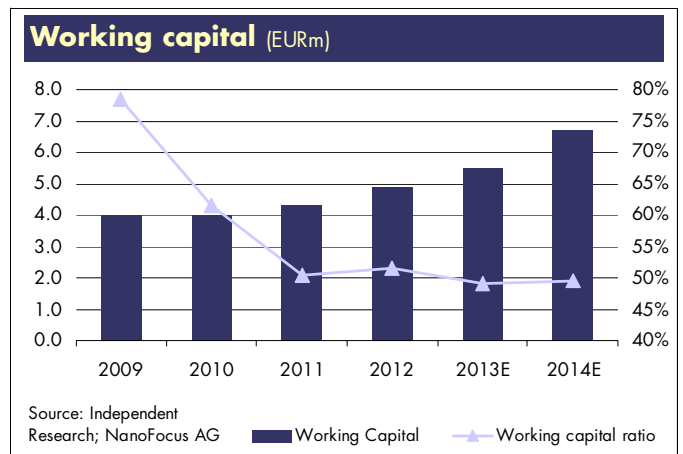
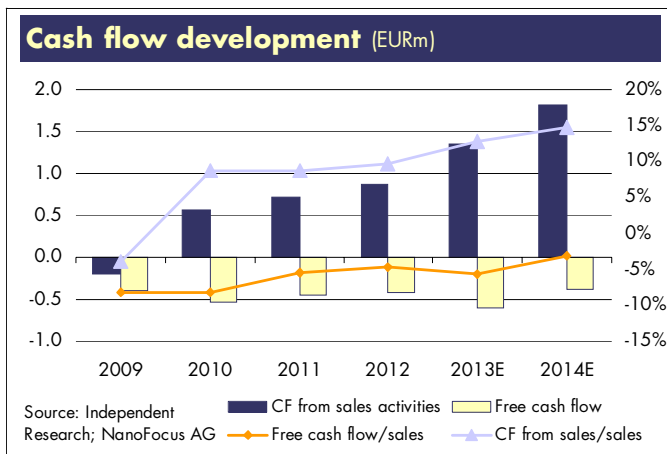
It should be noted that NanoFocus has again achieved a positive cash flow from sales activities of EURO.9m (0.7; our forecast: 1.1). The operating cash flow of EURO.4m (0.4; our forecast: 0.4) also was positive. Excluding own work capitalised (added to the investment cash flow), as expected cash flow was negative again with EUR-0.2m (-0.2; our forecast: -0.3). We welcome that the working capital ratio remained relatively stable at 51.5% (December 31, 2011: 50.4%). The absolute working capital increase (EUR+0.6m) is mainly owed to the above-average decrease in trade payables.

Financing framework expanded

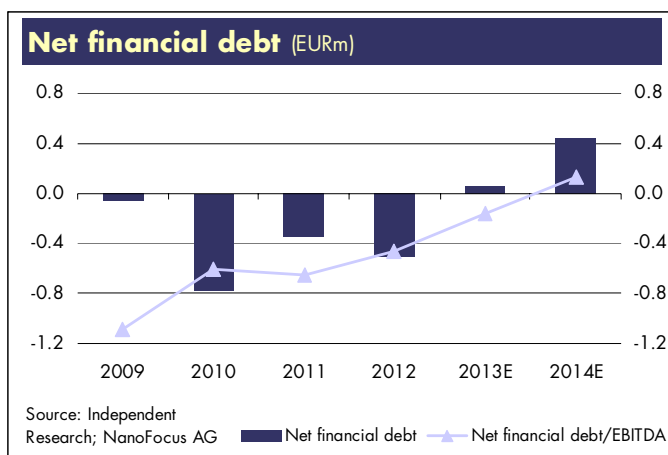
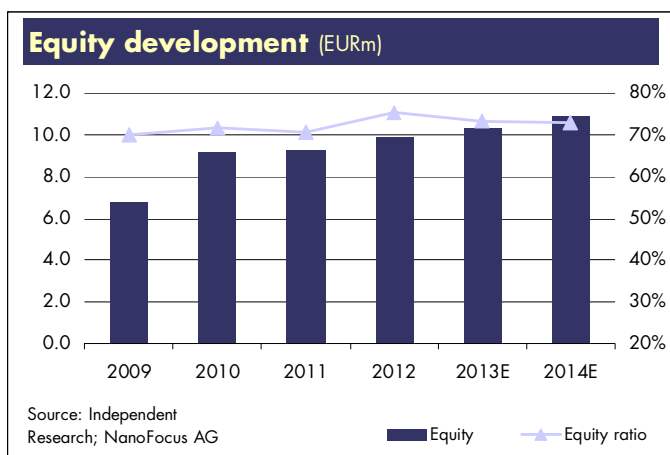
Capital increase of EUR 0.6m in June

In 2012, the free cash flow was again negative with EUR-0.4m (-0.5; our forecast: -0.5) due to the still high R&D activities. To finance the negative free cashflow, NanoFocus has made a capital increase in June 2012 with gross issuing proceeds of EURO.6m (0.205m shares at EUR2.80 apiece). Due to the scheduled repayments of EURO.5m in bank loans, liquid funds still were reduced to EUR1.8m on December 31, 2012 (December 31, 2011: 2.2). Although NanoFocus has a net liquidity of EURO.5m (December 31, 2011: 0.4), growth financing remains a challenge, in our opinion:

- NanoFocus does not have full access to the liquidity due to the restricted cash of EURO.5m.
- NanoFocus has to cover about EURO.4m annually to repay loans.
- Further investments have to be made (fully automated μ surf cylinder; project Appearance; further product developments of μ surf for camshafts and drive rods). We estimate the free cash flow at EUR-0.6m (2013) and EUR-0.4m (2014).
- Liquid funds of about EUR1.8m are necessary to pre-finance H2 orders due to the volatile business (very strong H2).



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Negotiations about financing arrangement

We thus welcome the current negotiations about another financing framework in particular with respect to finance exports with a large German bank (share of international sales 2012: 52.8%). The starting framework is EURO.5m and is to be expanded in the coming years. We think there is a good chance that NanoFocus can overcome a major obstacle within its planned growth - the working capital financing. NanoFocus is currently in negotiations about the clearing of the remaining restricted cash (EURO.5m). However, we think further capital measures on the debt and equity side remain an option.

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Income Statement

	Unit: EURm								
	Financial year: Dec. 31		2008	2009	2010	2011	2012	2013E	2014E
	Accounting standard: HGB								
Sales			6.5	5.0	6.5	8.2	8.9	10.6	12.3
Change in inventory			0.3	0.2	0.1	0.3	-0.1	0.1	0.1
Own work capitalised			0.0	0.0	0.5	0.6	0.6	0.5	0.3
Other operating income			0.1	0.4	0.7	0.3	0.2	0.3	0.4
Total operating performance			7.0	5.6	7.7	9.5	9.6	11.4	13.1
Cost of materials			-2.4	-1.8	-2.1	-2.8	-2.5	-3.2	-3.6
Gross profit			4.6	3.8	5.6	6.6	7.1	8.2	9.5
Personnel expenses			-2.2	-2.4	-2.9	-3.4	-3.9	-4.1	-4.5
Other operating expenses			-1.7	-1.5	-2.0	-2.3	-2.3	-2.7	-3.1
EBITDA			0.8	-0.1	0.7	0.9	0.9	1.4	1.9
Depreciation and amortisation			-0.5	-0.5	-0.6	-0.6	-0.7	-1.0	-1.2
EBIT			0.3	-0.6	0.1	0.2	0.3	0.5	0.7
Financial results			0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
EBT			0.2	-0.7	-0.1	0.1	0.2	0.4	0.6
Extraordinary expenses			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income taxes and other taxes			0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Minority interests			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income			0.2	-0.7	-0.1	0.1	0.1	0.4	0.6
Weighted average number of shares (m)			2.250	2.293	2.480	2.795	2.915	3.000	3.000
Earnings per share (EUR)			0.09	-0.32	-0.02	0.02	0.05	0.12	0.21
Dividends per share (EUR)			0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Independent Research; NanoFocus AG

Income Statement (positions in % of sales)

	Unit: in %							
	Financial year: Dec. 31		2009	2010	2011	2012	2013E	2014E
	Accounting standard: HGB							
Sales			100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Change in inventory			3.5%	0.9%	4.1%	-1.1%	0.9%	0.9%
Own work capitalised			0.0%	7.1%	7.3%	6.9%	4.4%	2.6%
Other operating income			8.2%	10.3%	3.6%	2.1%	2.8%	3.1%
Total operating performance			111.7%	118.3%	115.0%	108.0%	108.2%	106.5%
Cost of materials			-36.3%	-32.5%	-34.2%	-28.5%	-30.4%	-29.4%
Gross profit			75.4%	85.8%	80.8%	79.5%	77.7%	77.1%
Personnel expenses			-47.6%	-44.9%	-41.9%	-43.6%	-38.9%	-36.8%
Other operating expenses			-29.9%	-30.2%	-28.3%	-25.3%	-25.5%	-25.0%
EBITDA			-2.1%	10.7%	10.6%	10.6%	13.3%	15.4%
Depreciation and amortisation			-10.7%	-9.5%	-7.9%	-7.6%	-9.0%	-9.4%
EBIT			-12.7%	1.2%	2.7%	3.0%	4.3%	6.0%
Financial results			-1.6%	-2.1%	-1.3%	-0.9%	-0.8%	-0.8%
EBT			-14.4%	-0.9%	1.4%	2.1%	3.5%	5.2%
Extraordinary expenses			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income taxes and other taxes			0.0%	0.0%	-0.6%	-0.4%	0.0%	0.0%
Minority interests			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income			-14.4%	-0.9%	0.8%	1.7%	3.5%	5.2%

Source: Independent Research; NanoFocus AG

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Balance sheet

	Unit: EURm						
	Financial year: Dec. 31	2009	2010	2011	2012	2013E	2014E
	Accounting standard: 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		2.5	2.6	2.8	3.0	2.9	2.4
Property, plant and equipment		0.1	0.5	0.5	0.5	0.9	1.2
Financial assets		0.1	0.1	0.1	0.1	0.1	0.1
Total non-current assets		2.8	3.2	3.4	3.6	3.9	3.8
Inventories		2.4	2.0	2.7	2.6	3.1	3.6
Receivables and other assets		2.5	3.0	3.2	3.4	3.9	4.8
Trade receivables		2.1	2.6	2.8	3.1	3.5	4.4
Other current receivables/assets		0.4	0.4	0.4	0.3	0.4	0.4
Securities		0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents		1.9	3.2	2.2	1.8	1.4	1.1
Total current assets		6.8	8.2	8.1	7.9	8.4	9.4
Deferred expenses and accrued income		0.1	0.1	0.1	0.1	0.1	0.1
Deferred tax assets		0.0	1.3	1.5	1.7	1.7	1.7
Total assets		9.7	12.8	13.1	13.2	14.1	15.0
Subscribed capital		2.5	2.8	2.8	3.0	3.0	3.0
Capital reserve		4.8	5.8	5.8	6.1	6.1	6.1
Retained earnings related to deferred taxes		0.0	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		-0.5	-0.6	-0.5	-0.4	0.0	0.6
Total equity		6.8	9.2	9.2	9.9	10.3	11.0
Investment grants to non-current assets		0.0	0.0	0.0	0.0	0.0	0.0
Provisions		0.3	0.2	0.2	0.3	0.3	0.4
Financial liabilities		1.6	2.2	1.8	1.3	1.5	1.5
Advanced payments received		0.1	0.1	0.1	0.0	0.0	0.0
Trade payables		0.3	0.5	1.1	0.8	1.1	1.2
Liabilities to affiliated companies		0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities		0.5	0.4	0.3	0.3	0.3	0.3
Total liabilities		2.6	3.3	3.3	2.4	2.9	3.1
Deferred income and accrued expenses		0.1	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities		0.0	0.2	0.3	0.5	0.5	0.5
Total equity and liabilities		9.7	12.8	13.1	13.2	14.1	15.0

Source: Independent Research; NanoFocus AG

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Balance sheet (Positions in % of balance sheet total)

Unit: Financial year: Accounting standard:	in % Dec. 31 HGB	2009	2010	2011	2012	2013E	2014E
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		0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Intangible assets		26.1%	20.2%	21.3%	22.5%	20.5%	16.2%
Property, plant and equipment		1.4%	3.6%	3.8%	3.6%	6.4%	8.2%
Financial assets		1.3%	1.0%	1.0%	1.1%	1.0%	0.9%
Total non-current assets		28.7%	24.8%	26.0%	27.1%	27.9%	25.3%
Inventories		24.4%	15.9%	20.5%	19.6%	21.9%	23.8%
Receivables and other assets		25.6%	23.2%	24.4%	26.0%	27.4%	31.9%
Trade receivables		21.3%	20.3%	21.5%	23.3%	24.7%	29.2%
Other current receivables/assets		4.3%	3.0%	2.9%	2.6%	2.7%	2.7%
Securities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash and cash equivalents		20.0%	25.2%	17.2%	14.0%	10.2%	7.0%
Total current assets		70.0%	64.3%	62.1%	59.6%	59.5%	62.7%
Deferred expenses and accrued income		1.0%	0.5%	0.4%	0.6%	0.7%	0.8%
Deferred tax assets		0.0%	10.4%	11.4%	12.7%	11.9%	11.2%
Total assets		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Subscribed capital		25.6%	21.9%	21.4%	22.7%	21.3%	20.0%
Capital reserve		49.8%	45.2%	44.1%	46.5%	43.6%	41.0%
Retained earnings related to deferred taxes		0.0%	9.1%	8.9%	8.8%	8.3%	7.8%
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		-5.3%	-4.5%	-3.9%	-2.7%	0.1%	4.3%
Total equity		70.1%	71.8%	70.5%	75.3%	73.2%	73.1%
Investment grants to non-current assets		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions		2.8%	1.5%	1.7%	2.3%	2.4%	2.4%
Financial liabilities		16.6%	17.6%	13.6%	9.8%	10.6%	10.0%
Advanced payments received		0.9%	0.6%	0.9%	0.0%	0.0%	0.1%
Trade payables		3.5%	4.3%	8.3%	5.8%	7.5%	8.2%
Liabilities to affiliated companies		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other liabilities		5.5%	3.0%	2.2%	2.4%	2.2%	2.3%
Total liabilities		26.5%	25.5%	24.9%	18.0%	20.4%	20.6%
Deferred income and accrued expenses		0.5%	0.0%	0.3%	0.2%	0.2%	0.2%
Deferred tax liabilities		0.0%	1.2%	2.6%	4.2%	3.9%	3.7%
Total equity and liabilities		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Independent Research; NanoFocus AG

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Cash flow statement

Unit: EURm							
Financial year: Dec. 31		2009	2010	2011	2012	2013E	2014E
Accounting standard: HGB							
Net income		-0.7	-0.1	0.1	0.1	0.4	0.6
+/- Loss/gain on the disposal of PP&E		0.0	0.0	0.0	0.0	0.0	0.0
+ Depreciation and amortisation		0.5	0.6	0.7	0.7	1.0	1.2
+/- 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	0.0	0.0
+/- Other non-cash expenses/income		0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from sales activities		-0.2	0.6	0.7	0.9	1.4	1.8
-/+ Changes in inventories, receivables/other current assets		0.1	-0.5	-0.9	-0.2	-0.9	-1.4
+/- Changes in payables and other liabilities		-0.1	0.0	0.6	-0.3	0.3	0.2
+/- Gain/loss from extraordinary items		0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from operating activities		-0.2	0.1	0.4	0.4	0.7	0.6
+ Proceeds from sale of assets		0.0	0.0	0.0	0.0	0.0	0.0
- Expenses for purchase of assets		-0.2	-0.1	-0.3	-0.2	-0.8	-0.7
- Own work capitalised		0.0	-0.5	-0.6	-0.6	-0.5	-0.3
Cash flow from investing activities		-0.2	-0.6	-0.9	-0.9	-1.3	-1.0
+ Proceeds from equity increases		0.8	1.3	0.0	0.6	0.0	0.0
+ Proceeds from finance lease		0.3	-0.1	-0.1	-0.1	0.0	0.0
-/+ Repayments of/proceeds from financial liabilities		-0.4	0.6	-0.5	-0.5	0.2	0.0
Cash flow from financial activities		0.6	1.8	-0.5	0.0	0.2	0.0
Change in financial position		0.2	1.3	-1.0	-0.4	-0.4	-0.4
Other non-cash items		0.0	0.0	0.0	0.0	0.0	0.0
Financial position - start of period		1.7	1.9	3.2	2.2	1.8	1.4
Financial position - end of period		1.9	3.2	2.2	1.8	1.4	1.1

Source: Independent Research; NanoFocus AG

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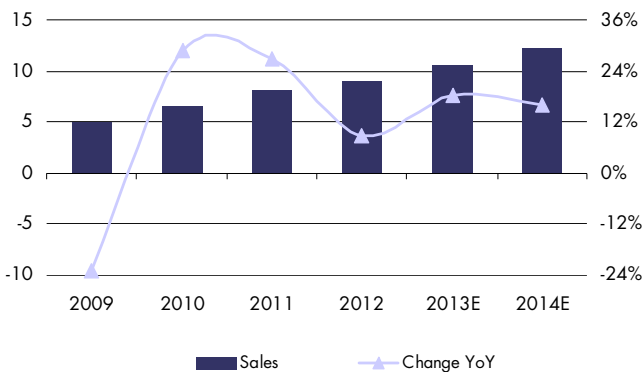
Key figures

Financial year: Accounting standard:	Dec. 31 HGB	2009	2010	2011	2012	2013E	2014E
Growth rates							
Sales growth		-23.1%	28.9%	26.9%	8.7%	18.4%	16.1%
EBITDA growth		-	-	26.1%	8.7%	49.1%	33.9%
EBIT growth		-	-	192.7%	21.1%	71.9%	59.3%
EBT growth		-	-	-	63.4%	100.0%	70.0%
EPS growth		-	-	-	130.3%	142.1%	70.2%
Margins							
EBITDA margin		neg.	10.7%	10.6%	10.6%	13.3%	15.4%
EBIT margin		neg.	1.2%	2.7%	3.0%	4.3%	6.0%
EBT margin		neg.	neg.	1.4%	2.1%	3.5%	5.2%
Net margin		neg.	neg.	0.8%	1.7%	3.5%	5.2%
Yield analysis							
ROI		-7.4%	-0.5%	0.5%	1.1%	2.7%	4.4%
ROCE		-9.3%	1.1%	1.6%	2.6%	5.1%	7.3%
ROE before taxes		-10.7%	-0.7%	1.2%	1.9%	3.7%	6.0%
ROE after taxes		-10.7%	-0.7%	0.7%	1.6%	3.7%	6.0%
ROIC		-7.4%	0.7%	1.1%	1.9%	3.9%	5.9%
Balance sheet analysis							
Equity ratio		70.1%	71.8%	70.5%	75.3%	73.2%	73.1%
Equity/non-current assets ratio		2.4	2.9	2.7	2.8	2.6	2.9
Equity + non-current debt/non-current assets ratio		3.0	3.5	3.1	3.1	2.9	3.2
Asset intensity		29.0%	24.8%	26.0%	27.1%	27.9%	25.3%
Inventory turnover		2.1	3.0	3.5	3.4	3.7	3.7
Receivables turnover		2.4	2.8	3.0	3.0	3.2	3.1
Days of sales outstanding		153.6	130.8	119.8	120.3	113.1	116.7
Working capital/sales ratio		78.4%	61.6%	50.4%	51.5%	49.2%	49.6%
Days of payables outstanding		85.7	76.6	105.4	132.8	103.6	116.0
Debt ratios							
Net financial debt		-0.1	-0.8	-0.4	-0.5	0.1	0.4
Net financial debt/EBITDA		-1.1	-0.6	-0.7	-0.5	-0.2	0.1
Net Gearing		0.0	-0.1	0.0	-0.1	0.0	0.0
EBITDA interest coverage		-	4.4	6.2	9.3	13.7	17.2
EBIT interest coverage		-	0.5	1.6	2.6	4.5	6.7
Cash flow analysis							
Free cash flow (FCF)		-0.4	-0.5	-0.5	-0.4	-0.6	-0.4
FCF/sales		-8.1%	-8.3%	-5.5%	-4.7%	-5.7%	-3.2%
FCF/net income		-	-	-723.8%	-282.6%	-162.1%	-61.7%
FCF per share (EUR)		-0.18	-0.22	-0.16	-0.14	-0.20	-0.13
FCF yield		-4.1%	-5.2%	-4.9%	-4.9%	-8.1%	-5.2%
Capex		0.2	0.1	0.3	0.2	0.8	0.7
Capex /depreciation		118.1%	49.2%	92.7%	71.8%	140.4%	86.6%
Capex/sales		4.4%	2.0%	3.4%	2.7%	8.0%	5.7%
Valuation multiples							
EV / sales		2.0	1.5	1.1	0.9	0.7	0.6
EV / EBITDA		neg.	13.9	10.2	8.5	4.9	3.7
EV / EBIT		neg.	127.5	40.2	30.1	15.1	9.5
EV / FCF		neg.	neg.	neg.	neg.	neg.	neg.
P/E		neg.	neg.	148.2	57.4	20.0	11.8
P/B		1.5	1.1	1.0	0.9	0.7	0.7
P/CF		neg.	126.7	21.3	19.9	10.5	11.9
P/S		2.0	1.6	1.1	1.0	0.7	0.6
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Independent Research; NanoFocus AG

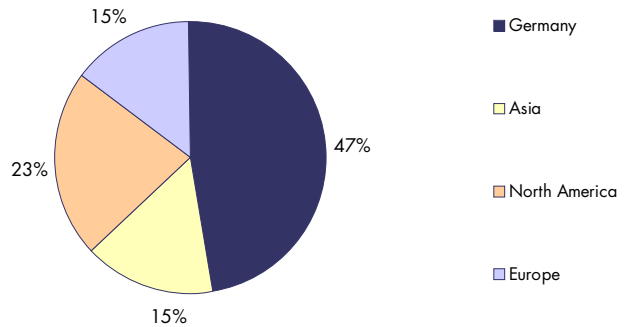
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Sales development (EURm)



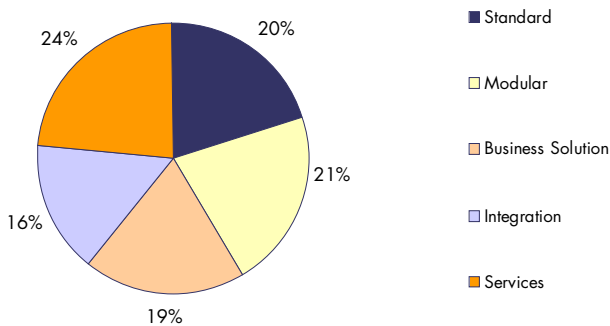
⇒ After the economic downturn in 2009 and 2010 led to a dip in growth NanoFocus managed to show higher sales in 2011 and 2012 again.
 ⇒ µsurf cylinder should become the growth driver.

Sales by region (2012)



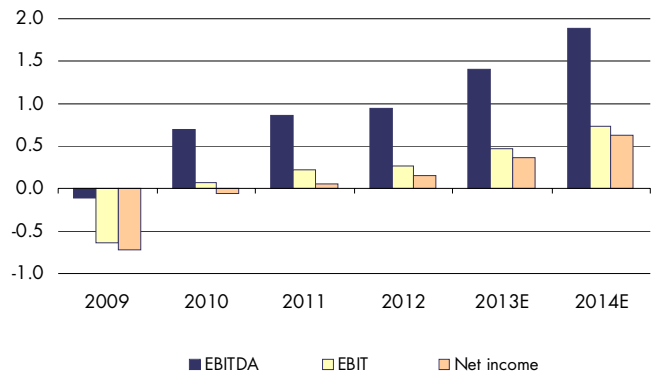
⇒ NanoFocus still makes about half its sales in Germany.
 ⇒ Through the strong growth in the segment semiconductors (e.g. customer Samsung) the Asian business gained in importance.

Sales by segment (2012)



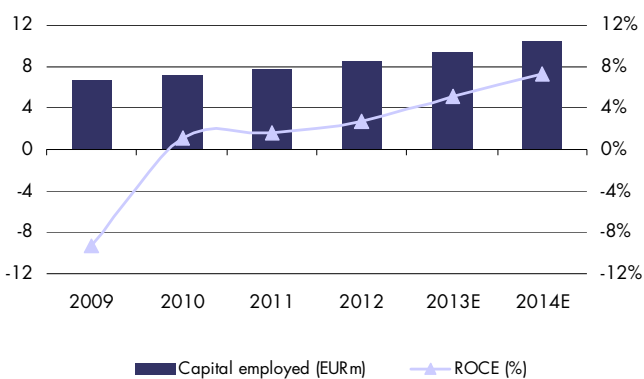
⇒ The importance of the high-margin Services business should be highlighted.
 ⇒ We expect a strengthening of the customer-specific segment Business Solution (e.g. µsurf cylinder; med-tech project suspended) in the coming years.

Earnings development (EURm)



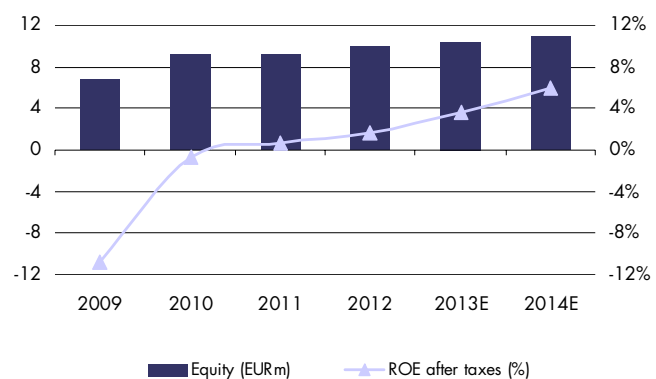
⇒ The economic downturn is reflected in 2009 losses.
 ⇒ Along with the change towards a producing company economies of scale should gain importance step by step.

ROCE and capital employed



⇒ Due to the low EBIT, ROCE is currently low.
 ⇒ In spite of the increasing capital employed (e.g. capex) we expect to see successively higher ROCE due to the earnings improvement.

ROE and equity



⇒ CAGR of equity from 2009 to 2014: about +10%.
 ⇒ In line with the successively increasing profitability ROE should improve as well. However, with about 4% 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.

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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, FTD, 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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Emittent	Conflicts of interest
NanoFocus AG	5, 6

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As at: 07/24/2013

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