

All for One Steeb AG

May 24, 2017



Basic report

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Valuation result

BUY

(previously HOLD)

Fair value

€77.38

(previously € 69.00)

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The core of digital transformation of SMEs

As the biggest SAP partner to SMEs in Germany, Austria and Switzerland, All for One Steeb is benefiting from three major trends: 1.) **digitalisation**, which has long since reached the SME sector, 2.) the world of extended solutions (SAP/non-SAP), which allows it to position itself as a **strategic IT partner for SMEs**, and 3.) the shift to the new ERP generation, **SAP S/4HANA**, which will ensure high demand for consulting capacity at SAP partners for many years. These three trends are closely connected: as the "single source of truth", an ERP system such as SAP S/4HANA forms a **logical digitalisation core** for the integration of other programs and services. All for One Steeb is therefore a central contact for SMEs for the digital transformation and generates a steadily growing **recurrent revenue** base, for example, through its scalable **cloud/outsourcing services**. In view of the medium-term prospects and **EV/sales multiple of 0.97**, there is further share price potential.

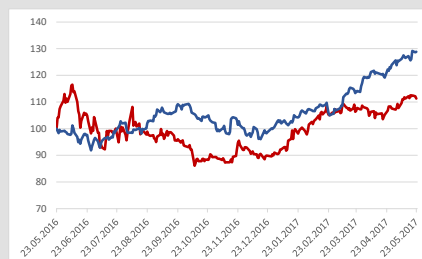
- **SAP S/4HANA**, the new ERP generation, is a big technological leap forward, with a simpler data structure and faster database technology (e.g. planning based on real-time data is now possible). Alongside business-related reasons, the fact that support for the previous version ends in **2025** is driving the changeover in the medium term, ensuring **high demand for consulting capacity** and giving All for One Steeb a starting point for developing a digitalisation strategy with its customers.
- While the conventional licensing business is exposed to cyclical fluctuations, outsourcing and cloud services (including maintenance) generate calculable, recurring revenue. Scale effects play a key role here. In H1 2016/17, this revenue type accounted for **almost 43%** of All for One Steeb's **total sales revenue** and the strategic goal is to increase this further.
- **Company guidance:** The forecast for FY 2016/17e has been revised upwards. The company now expects sales to be in a range of €290m to €300m. The EBIT target has been narrowed to a range of €19m to €20.5m. Our revised estimates following the acquisition of inside are within the new guidance.

Key data / Earnings

Year	Sales (mln €)	EBITDA (mln €)	EBIT (mln €)	EBT (mln €)	adj. net (mln €)	adj. EPS (€)	DPS (€)	EBIT- Margin	Net- Margin
2014/15	241.6	27.5	19.3	16.1	11.4	2.30	0.80	8.0%	4.7%
2015/16	266.3	27.4	18.8	17.4	12.3	2.46	1.10	7.1%	4.6%
2016/17e	295.0	29.2	19.9	19.2	13.3	2.67	1.14	6.7%	4.5%
2017/18e	324.5	32.1	22.1	21.3	14.8	2.97	1.15	6.8%	4.6%
2018/19e	357.0	36.4	25.8	25.1	17.5	3.50	1.38	7.2%	4.9%

Source: BankM-Research

Sector	IT-Services		
WKN	511000		
ISIN	DE0005110001		
Bloomberg/Reuters	A1OS GY/A1OS.DE		
Accounting standard	IFRS		
Financial year	30.09		
Q3 2016/17	August 9, 2017		
Market segment	Regulated Market		
Transparency standard	Prime Standard		
Financial ratios	16/17e	17/18e	18/19e
EV/Sales	0.97	0.88	0.80
EV/EBITDA	9.8	8.9	7.8
EV/EBIT	14.3	12.9	11.1
P/E adj.	24.0	21.5	18.3
Price/Bookvalue	4.7	4.1	3.6
Price/FCF	28.8	19.1	17.4
ROE (in %)	20.8	20.5	21.0
Dividend yield (in %)	1.8	1.8	2.2
Number of shares outs. (in mln)	4.982		
MarketCap / EV (in € mln)	319 / 285		
Free float (in %)	24		
Ø daily trading vol. (3M, in €)	97		
12M high / low (in €; XETRA-close)	67.98/49.10		
Price May 23, 2017 (in €; XETRA-close)	64.00		
Performance	1M	6M	12M
absolute (in %)	6%	18%	11%
relative (in %)	-2%	-7%	-14%
Benchmark index	DAX-Subsector IT-Services		



All for One Steeb AG (XETRA) (red) compared with DAX Subsector IT-Services (blue)
Source: Deutsche Börse AG

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Table of Contents

TABLE OF CONTENTS	2
INVESTMENT CASE	3
COMPANY PROFILE	4
Business model and strategy	4
History	8
Executive Board and Supervisory Board	9
SHAREHOLDER STRUCTURE	9
MARKET ENVIRONMENT	10
Market trends/future issues	10
Market structure and competitors	14
General market data	14
EARNINGS AND ASSET POSITION	22
Income statement	22
VALUATION	23
DCF model	23
Sensitivity analyses	24
Peer group analysis	24
Valuation conclusion	26
SWOT ANALYSIS	27
GLOSSARY OF (SELECTED) SAP SOLUTIONS	28
GLOSSARY OF SPECIALIST TERMS	29
TABLES	30
IMPORTANT INFORMATION, DISCLOSURES AND DISCLAIMER	33

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Investment Case

SAP's shift from the SAP Business Suite to the new **SAP S/4HANA** generation is not simply a quantum leap forward in terms of technology. The architecture of the new systems means they perform complex tasks far faster. Their positioning as a digital core is also new and provides a basis for companies to achieve digital transformation. All for One Steeb has the **largest established SAP customer base** in the SME sector and will therefore play a correspondingly strong role in transformation projects. The shift to the new generation is likely to be the dominant issue on an **8-10 year horizon** and will ensure high utilisation of consulting capacity (SAP guarantees support for the previous solution, Business Suite, until 2025). All for One Steeb is currently investing in "project accelerators" to transition these customers efficiently to SAP S/4HANA and to meet clients' individual requirements (through a business process library). The changeover is also an opportunity to increase the number of regular outsourcing clients (currently 250) at its co-location data centres and strengthen the basis for recurring revenues.

Digitalisation is changing business models (sometimes disruptively) and forcing companies into situations where they have to make new decisions about their IT landscape. Alongside SAP S/4HANA as the **digital core**, starting points for All for One Steeb include the question of how/where the new solution can be used efficiently. **SMEs** seem to us to be a particularly interesting target group because they are likely to have a strong focus on **service providers (with sector expertise)** who can deliver complete answers. **Outsourcing services** are relevant for SMEs, not simply on the grounds of efficiency and data security; the **shortage of SAP/IT specialists** also makes such solutions attractive.

In today's IT world, many specialist departments (HR, sales) take their own investment decisions. To target decision-makers in such departments more effectively, All for One Steeb uses a multi-brand strategy. For example, KWP and inside exclusively target HR departments, while Grandconsult offers management and technology consulting services. This avoids diluting the profile of the All for One Steeb brand as an SAP full-service provider, while nevertheless offering clients "everything" from a single source.

All for One Steeb currently has a very **attractive opportunity/risk profile**: the changeover to the new SAP generation promises high demand for consulting capacity for 8-10 years, while the steadily rising proportion of recurring revenues from cloud/outsourcing services is helping to raise margins and reduce economic dependency. In the 2016/17 and 2017/18 financial years, the margin will be held back by investment in connection with the changeover to SAP S/4HANA. Even so, All for One Steeb is attractively valued according to both our DCF valuation (price target: €80.10) and our peer group analysis (based on the present financial year; price target: €71.53). Giving both these valuation methods and equal weighting results in an overall **price target of €77.38**.

SAP S/4 HANA is the core of digitalisation

...

... the managed services business also benefits from the trend to digitalisation

Multi-brand strategy in response to (increasingly) decentralised IT procurement processes at companies

Company profile

From SAP full-service provider to a strategic IT partner for SMEs in German-speaking regions

All for One Steeb has developed from an **SAP full-service provider** into a **strategic partner for all aspects of corporate IT** (including the “digital transformation”). The company has the biggest SAP customer base in the SME sector in Germany, Austria and Switzerland and is an **SAP platinum partner**. Operationally, All for One Steeb focuses on customers in Germany, Austria and Switzerland, especially in the machinery and equipment, automotive supply and consumer goods sectors and service providers. All for One Steeb can provide a single-source on-site service internationally for its customers through the **United VARs** network. In the 2015/16 financial year, All for One Steeb generated EBIT of €18.8m on sales of €266m. The company had 1,302 employees at the end of the 2015/16 financial year.

Chart 01: Organizational chart of All for One Steeb

All for One Steeb	
(Domestic subsidiaries)	(Foreign subsidiaries)
WEBMAXX GmbH Munich, 74%	All for One Steeb GmbH Vienna (A), 100%
KWP team HR GmbH Heilbronn, 100%	B4B Solutions GmbH Graz (A), 70%
OSC AG Hamburg/Lübeck, 100%	Process Partner AG St.Gallen (CH), 100%
Grandconsult GmbH Filderstadt, 100%	All for One Steeb Yazilim Servisleri LTD Istanbul (T), 100%
inside Unternehmensberatung GmbH Oldenburg, 100%	AC-Automation Center SA/Sàrl Brussels (B)/LUX, 100%
avantum consult AG Düsseldorf, 100%	
ALLFOYE Managementberatung GmbH Düsseldorf, 100%	

Source: All for One Steeb, simplified overview

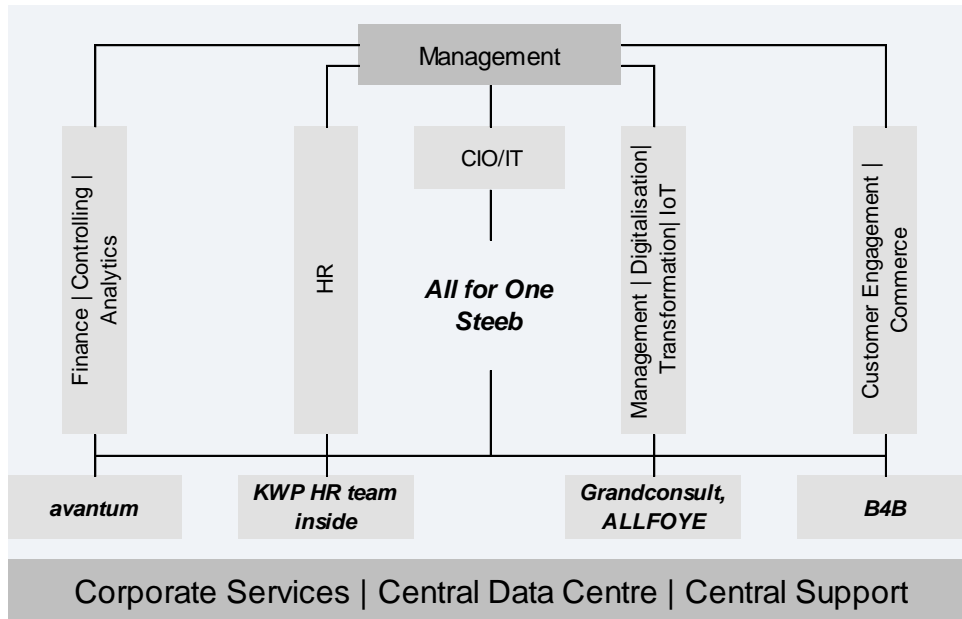
Business model and strategy

A clear target market

Within its **target market (Germany, Austria, Switzerland)**, All for One Steeb mainly addresses small and mid-sized enterprises, i.e. **companies with sales of between €50m and €3bn and 100 to 10,000 employees**, principally in the machinery and equipment, automotive supply and consumer goods industries and service providers. There are **around 12,000 companies** in this category. Its subsidiaries avantum (finance, controlling analytics), KWP/inside (HR), Grandconsult (management/technology consulting) and Alfoye (digitalisation/IoT) also target **large companies**.

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Chart 02: All for One Steeb – business lines



Source: All for One Steeb

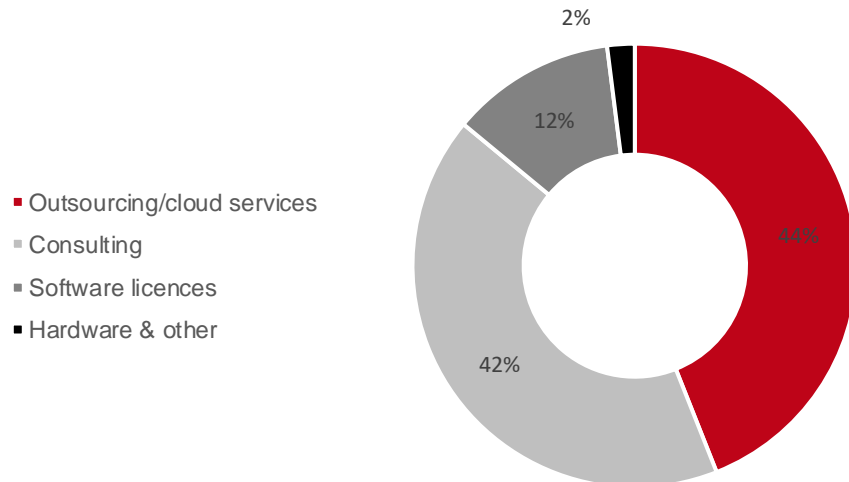
Consulting services are the starting point for almost all IT projects, because complex products/solutions cannot be sold without such upfront services. That is why partners are highly valued by software producers (such as SAP). Consulting is also the basis for building strategically significant recurring revenues. **IT consulting on its own is often not sufficient.** Instead, a bridge needs to be built between IT and the business (**sector expertise**). In view of the one-off nature of project consulting and the typically low margins in this highly competitive market, All for One Steeb does not aim to maximise man-days spent on providing consulting services. Instead, it sees its consulting as a necessary **upfront service** leading to the **sale of software licences, subscription models and recurring revenues from managed services/maintenance.**

The various revenue types (**consulting, licence sales, managed services**) are based on the same range of issues. Together with **SAP solutions** (SAP enterprise applications), which still generate a high proportion of All for One Steeb's sales revenues, clients often use **large, heterogeneous SAP/non-SAP landscapes** (e.g. archives, time administration, bar code scanners, etc.) which All for One Steeb serves **in their entirety**. Customers are given an assurance of guaranteed availability in their service level agreements (SLA). All for One Steeb therefore also covers common non-SAP solutions in the areas of **collaboration (Microsoft)**, and **analytics/IoT/artificial intelligence (IBM, Cognos TM1 and, increasingly, Watson)**. These third-party solutions are connected with the SAP landscape via proprietary integration scenarios. Taking an isolated view of "non-SAP" solutions does not reflect reality. On the contrary, customers want all-round support for their **SAP-centred structure** – and All for One Steeb's extended strategy is aligned to these requirements.

Management and technology consulting as a starting point

Extensive portfolio of services covers (almost) all corporate client's IT needs

Chart 03: Revenue types (FY 2015/16)



Source: company data

Custom-tailored sales

All for One Steeb uses a variety of **direct sales activities**, ranging from preliminary validation of potential new clients over the phone, through attending trade fairs, specialist events, to workshops and consulting services (cross-selling). Digital marketing, based on a range of different search terms, plays an increasingly important role. This is very efficient for some low-priced (cloud) solutions (such as Business ByDesign) because distribution in the same way as for large-scale ERP solutions would be too expensive and potential clients would be harder to reach. **Indirect distribution** via partners in Germany, Austria and Switzerland is also important.

Sights firmly set on recurring revenues as a strategic goal

Strategically, **increasing the proportion of recurring revenues** (managed services, including maintenance business) is a **major target**. Recurring revenues allow reliable (non-cyclical) planning: customers make a commitment for several years and generally conclude follow-on contracts (changing supplier is rare if customer care is good). Moreover, revenues from managed services have good **scalability**: rising revenues should be accompanied by higher margins. With hindsight, the strategy of renting space in data centres (at the Frankfurt internet hub) instead of investing in “concrete” facilities has proven absolutely right.

M&A focus: healthy targets that are a good “fit”

All for One Steeb has a **buy & build strategy**. In other words, acquisitions are integrated into the group (possibly retaining brands and business units), the goal being to maintain and continue to develop them over the long term. The company chooses its acquisition targets selectively. For example, **it does not acquire companies in need of restructuring**. Moreover, in the selection process great attention is paid taken to ensuring that the **corporate cultures are a good fit** and that the target does not simply bring one-off revenues. The focus is on long-term **customer relationships, employees, know-how or a unique selling point (USP)** that the group did not previously have. Based on this pattern, All for One Steeb has made eight acquisitions since 2010/11.

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All for One Steeb AG

May 24, 2017

Company profile - 7/34 -

Most of the acquisitions have been geared to gaining faster access to specific business areas. For example, a majority in **B4B Solutions GmbH** was acquired in **11/2016** to step up scalability options and recurring revenues, and to enable the group to become the number 1 in the SAP (public) cloud business. The aim of the acquisition of **inside Unternehmensberatung GmbH** in **4/2017** is to extend the business with cloud solutions (such as SAP SuccessFactors) in the area of HR/HCM, or – to put it in more general terms – the digitalisation of human resources departments. At the time of acquisition, inside already generated around one third of its revenues from the cloud.

United VARs is an alliance of around **40 leading SAP partners** covering **80 countries**. Among other things, it allows full on-site support for all clients. This alliance only leads to a low level of additional revenues for All for One Steeb because such additional business is only generated if (in this case) the foreign subsidiaries of other customers of United VARs in Germany, Austria and Switzerland call off services provided by All for One Steeb. Rather, the alliance provides the (necessary) assurance that clients can be offered the best on-site service worldwide, **as if it were provided by a single source**. Most of All for One Steeb's SME customers have foreign branches/production sites. A positive side-effect of United VARs is that it is regarded as the strongest worldwide distribution alliance of SAP partners and members can obtain **SAP platinum reseller status** (which includes **direct access to SAP**).

With **21 branches in German-speaking regions** – especially in **industrial centres** – All for One Steeb has very high coverage of its market. Its distribution capability is extended by a **network of partners, comprising consultancy firms** that either cover a **geographical niche** (in Germany, Austria or Switzerland) or address companies outside All for One Steeb's target sectors. This network also gives it access to external consultancy capacity for its own projects (enabling it to scale its resources).

All for One Steeb has taken various steps to prevent growth being held back by shortages in the market for SAP consultants. The company cooperates with the Baden-Württemberg Cooperative State University (DHBW) in the **training of specialists**, supervises seminar papers and dissertations, offers training places and internships, and runs **graduate trainee programmes**. In addition, All for One Steeb has positioned itself as an **attractive employer**. This is evidenced by a large number of awards (e.g. Top IT Employer 2017 (Focus), "Great Place to Work" ITC 2014, Top Family-Friendly Employer (kununu, Freundin)). The "positive" side of the general personnel shortage from the viewpoint of SAP partners is that this also affects their customers. However, SMEs can alleviate the situation by using managed services/outsourcing.

... and drive forward the (business base) of the group

A global presence through United VARs

...

... and a strong presence in German-speaking regions through its own branches and network of partners

Access to specialists – training and positioning as a preferred employer

History

All for One Steeb AG (which has traded under this name since 2012) traces its history back to 1959 (establishment of AC-Service). Since then, its core business has been providing IT services for companies. **SAP solutions** have formed part of its service offering since the **mid-1990s** (All for One; SAP R2 -> SAP R3 changeover). Since around **2006**, SAP solutions have formed the main focus of its business, which is strategically aligned to the SAP world. **Since 2010**, the company has developed into an SAP full-service provider and strategic IT partner through a **buy-and-build strategy**. In response to **SAP's cloud strategy** (acquisition of Successfactors, Hybis, Ariba, Fieldglass), All for One Steeb has made its own acquisitions, enabling it to make these areas accessible to its own SAP customers in the SME sector.

Table 01: Buy and build history (since 2010/11)

Date	Target company	Details/background	Business focus
11/2011	Steeb Anwendungssysteme GmbH	The acquisition was a leap into new dimension; establishment of "All for One Steeb AG" (2012)	SAP partner with a similar positioning to the old All for One Midmarket, but without outsourcing
11/2012	OSC Group	Initially a 60% stake was acquired; reason was regional expansion (north Germany). (Wholly owned by All for One Steeb AG since 10/2016)	Local SAP partner in north German; Strong in "SAP Business One", sector focus: food industry
05/2013	"ORGA"	Acquisition of SAP SME business of IT service provider Fiducia (asset deal)	Managed services, outsourcing services
07/2013	Webmaxx GmbH	Initially a 74% stake was acquired	Specialises in Microsoft technologies, managed communication/collaboration
04/2014	avantum consult AG	Executive Board members retained after acquisition; strategic goal: leading position in business analytics/performance	Consulting specialist for business analytics and corporate performance management
04/2015	Grandconsult GmbH	Initially acquisition of a majority stake in Grandconsult DEXINA GmbH and transfer of own activities	Technology and management consulting for international corporations and large SMEs
11/2016	B4B Solutions GmbH	Majority stake of 70% acquired, business model focused on the cloud from the start	Leading SAP cloud partner
04/2017	inside Unternehmensberatungs GmbH	Acquired by subsidiary KWP, speeds up HCM cloud business	Provider of cloud-based HR solutions

Source: company data, BankM Research

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Executive Board and Supervisory Board

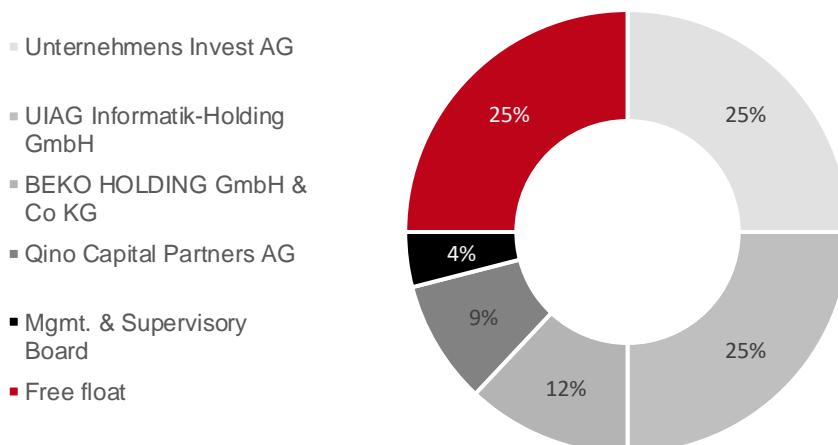
CEO **Lars Landwehrkamp** (born 1959) is responsible for strategy, sales, operations and personnel development at All for One Steeb AG. The systematic expansion of the company into a well-known SAP system house has taken place under his leadership. **Stefan Land** (born 1967) has been CFO of All for One Steeb AG since April 2008. An experienced capital market expert, he is in charge of the administrative management of the group and the Investor Relations department. Both members of the Executive Board have direct shareholdings in the company.

Successful two-member Executive Board has led the company for nearly 10 years

The six-member Supervisory Board is chaired by **Josef Blazicek** (an independent businessman). The deputy chairman of the Supervisory Board is **Peter Brogle** (independent businessman). The other members of the Supervisory Board are **Peter Fritsch** (managing director of BEKO HOLDING GmbH & Co KG), **Paul Neumann** (member of the Executive Board of Invest AG and managing director of UIAG Informatik-Holding GmbH), and, as representatives of the workforce, **Jörgen Dalhoff** (Organisational Development) and **Detlef Mehlmann** (Head of Business Development International). Four members of the Supervisory Board have **direct shareholdings** in All for One Steeb.

Shareholder structure

Chart 04: Shareholder structure of All for One Steeb



Source: company data

Market environment

Market trends/future issues

The **digital transformation** involves many changes for companies and their (IT) service providers. Before the market overview in this section, we therefore address **three fundamental questions** to allow a better assessment of the **SAP HANA** database platform, the **SAP S/4HANA** ERP solution and the need for a **"digital core"**. We have also examined what impact cloud scenarios will have on the business model of SAP partners (sale of licences).

Why do companies need a digital core?

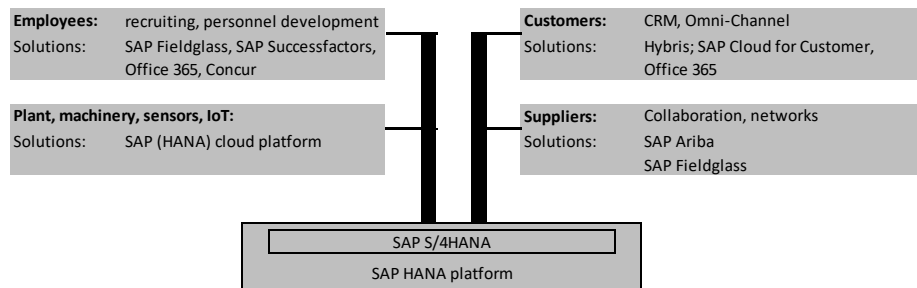
The need for a **single** core arises from a business administration perspective: redundant (i.e. dual) data in various systems and the danger of a **shadow IT** cannot guarantee the processes required in our digital age, quite apart from the fact that a scenario of this type would be a nightmare for the Compliance/Legal department and for **IT security**.

**Digitalisation:
why a digital core is
advantageous**

**The ERP system is the
natural core**

For a typical SME, it therefore makes sense to place the ERP at the heart of the digitalisation of the company as this is often termed the **"single source of truth"** in view of its (necessarily) high data quality. Other systems/solutions for specific departments (HR, Marketing/Sales, etc.) can then be grouped around this **natural core** (and linked in via corresponding interfaces). This is illustrated by the following diagram, based on SAP and All for One Steeb.

Chart 05: SAP S/4HANA as the core of the corporate IT landscape



Source: All for One Steeb, BankM Research

What is changing due to SAP HANA and SAP S/4HANA?

SAP HANA is a database platform developed by SAP. It is based on **in-memory technology**. This is characterised by the fact that the (active) data is stored in a column-based format in the main memory (rather than in relational databases on the hard drive), so it can be processed in real time. **SAP S/4HANA** is the new SAP ERP generation and only runs on SAP HANA.

**SAP HANA (database)
and in-memory
technology**

All for One Steeb AG

May 24, 2017

Market environment - 11/34 -

Table 02: Advantages of SAP HANA/SAP S/4HANA compared with the status quo

The SAP HANA database platform ...
<ul style="list-style-type: none">- ... is far faster than conventional database solutions because it uses in-memory technology- ... is independent of the data source (relational databases are not a must)- ... allows innovative new applications- ... can be used for operational business and for planning, forecasting and analysing real-time data
The new ERP solution SAP S/4 HANA ...
<ul style="list-style-type: none">- ... is a digital core for networked business processes- ... allows exception-based action- ... permits a simpler systems landscape by taking back functions that were previously outsourced- ... offers system cleansing options- ... has a new (responsive) interface which can be used on all end-devices- ... can be used for planning/forecasting on the basis of real-time data (predictive systems)

Source: BankM Research, All for One Steeb

As already indicated, SAP S/4HANA is not simply a new ERP generation: with SAP S/4HANA (based on the SAP HANA database platform), SAP has performed a **disruptive change**, which has eliminated the constraints of conventional ERP applications. Although the HANA platform is **simplified and accelerated**, it means that SAP partners have to rethink some aspects and **rework some of their add-ins**. However, we do not expect this to lower the market entry barriers. **Sector knowledge** acquired by **SAP partners** in previous projects remains a **valuable asset**.

In the transition period (2015/16 to 2017/18), All for One Steeb, has to revise its "project accelerators", for example, "ready-made" business process libraries, self-service customer portals and add-ins that speed up sector/company-specific solutions in customer projects. At present, All for One Steeb has more than 120 "**scope items**", which map individual business processes. Developing project accelerators ties up **consultant capacity**, which is not available for the operational business and therefore reduces operating margins. This also applies to other SAP partners. However, as the **biggest SAP partner for SMEs**, All for One Steeb is **best able to scale** the necessary work. The project accelerators are key **differentiation factors**.

Switching established SAP customers to this new system will be the dominant issue for SAP partners in the **next 8-10 years**. SAP would like to have completed the changeover **by 2025**, at any rate it says it will provide support for the old SAP Business Suite until then. Moreover, the new possibilities (the suitability of SAP S/4HANA as a core in the digital transformation of companies) could boost new business. We also get the impression that SAP S/4HANA is aimed at a larger target group than its predecessor (even though the SAP Business ByDesign and SAP Business One solutions for smaller businesses are not being replaced), because the digital transformation means the solution goes well beyond the conventional ERP philosophy.

Faster and simpler – made possible by in-memory technology

Consultant capacity tied up in non-billable projects in the short term

High utilisation of consultant capacity expected over the next 8-10 years

What will the typical corporate IT landscape look like in 10 years? Will conventional licence business be squeezed out by the cloud?

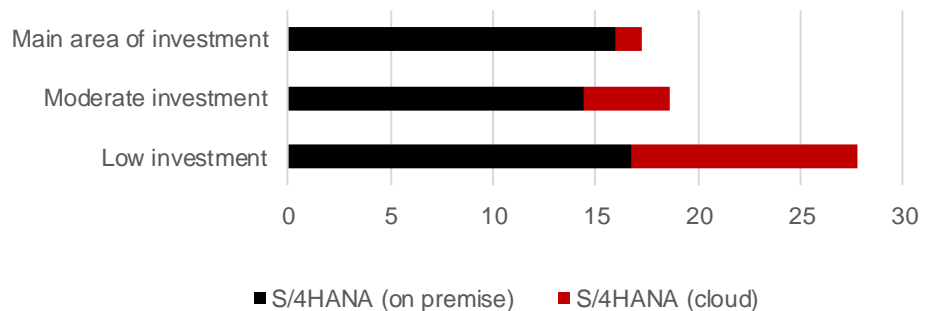
Cloud vs. licensing model: technical and business overview

At present, there is a **wide range of business models** both for the **technical** provision of software solutions and for **billing**, which is not always based on the same logic. For example, SAP markets **SAP S/4HANA as a cloud solution and an on-premise solution** (which mainly refers to the billing method because technically the on-premise solution often tends to be operated in a **private cloud**. Against this backdrop, it is understandable that a survey of established SAP customers by **DSAG** (the German-speaking SAP users group) found that interest in the SAP S/4HANA on-premise solution is many times greater than the interest in the full-cloud solution, which is hosted by SAP.

Individuality and complexity can be reflected better with S/4HANA in a private cloud

Another practical argument why All for One Steeb's primarily SME customers are **not** interested in using the "S/4HANA Enterprise (**Public**) Cloud Edition" – the real subscription model – is the **high complexity** that is prevalent in the **manufacturing sector**. This cannot be reflected economically in this model (at present) because updates are uploaded centrally at fixed times (which are the same for everyone). The same problem holds for **individual features** (even if a manufacturing company has trading business). Such things can be taken into account more easily in a **private cloud**. (SAP provides different releases for the two S/4HANA versions; releases are more frequent in the Enterprise Cloud and the timing is determined/dictated by SAP).

Chart 06: SAP S/4HANA - On-premise (private cloud) vs. public cloud: where is investment planned? (Data in percent)



Source: DSAG e.V. (n=269)

Cloud vs. licensing model: the specific SAP S/4HANA case

In this case, we feel it is **unlikely** that SAP can successfully push the public cloud offer: **1.)** SAP needs its partners in order to successfully market the system to SMEs, **2.)** the right solution requires competent, individual advice, **3.)** extending the hosting business at SAP (which would be the consequence) would dilute SAP's margins, **4.)** in a direct business relationship with SAP, SMEs would not have a partner on their level, **5.)** at present the public cloud solution is rarely able to take account of the complexity/individuality of business models, and **6.)** licensed solutions give SAP customers a reliable basis for business planning, without having to forego the convenience of a (private) cloud solution.

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All for One Steeb AG

May 24, 2017

Market environment - 13/34 -

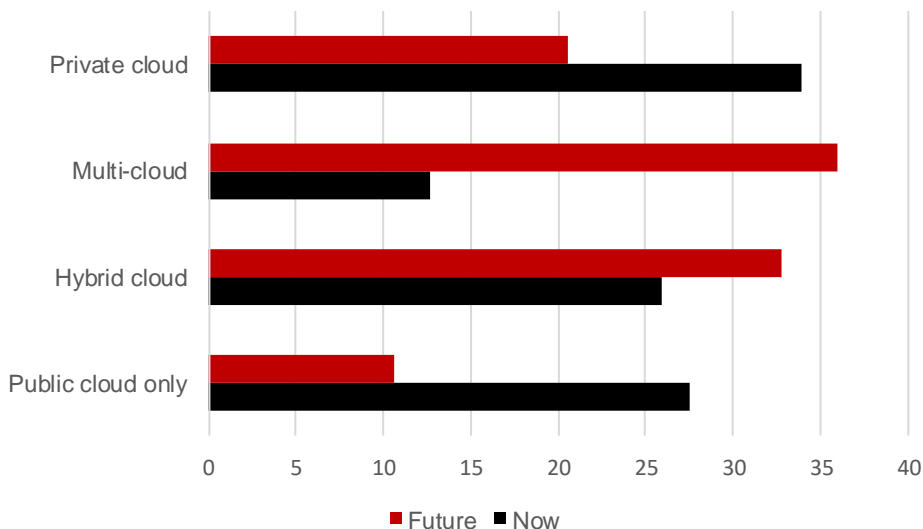
To **conclude**, we see **virtually no reason for SAP** to push forward development to a **public cloud that does not include** its partners. It is not unlikely that SAP will **also develop a partner model** for this and therefore outsource the associated hosting, at least to some extent. That would give partners **recurring revenues** from hosting/managed services and keep the SAP margin (subscription revenues) at a high level instead of diluting it with revenues from hosting.

There is not a single cloud model. On the contrary, alongside the **private cloud** and **public cloud** there are multi-cloud and hybrid cloud models. At present the private cloud is the most common model. However, users expect there to be a move towards mixed models in the future, in other words, **hybrid cloud models** (a combination of various usage models) and **multi-cloud** models. The background is likely to be the growing offering of attractive cloud solutions. There is no optimal cloud model, nor is there an ideal cloud structure: companies take an opportunistic approach to cloud usage. For native cloud solutions such as SAP SuccessFactors, a **public cloud** is predefined, while in future companies will probably be happy to have "their" ERP system (which is more complex and more individual) run in **private clouds**. Consequently, the proportion of companies using hybrid cloud models is likely to rise, but this will **not be a threat to the business models of the implementation partners or managed services providers**.

Partner model for S/4HANA (cloud)?

Cloud ≠ cloud; hybrid forms will become more important

Chart 07: Cloud models – present and future preferences



Source: Crisp Research AG

Insofar as suppliers offer companies a choice, a number of different **technical models** and **billing models** will exist in parallel. Alongside usage-based **subscription models**, **licensing models** (with higher upfront payments and (fixed) annual maintenance fees) will continue to exist. The models used for technical realisation and billing do **not necessarily have to be identical**. **Partners** for SAP cloud solutions such as SAP SuccessFactors and SAP Fieldglass (and also Microsoft Office 365) share in the subscription revenue.

Usage-based fees or continuation of licensing models?

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Market structure and competitors

Software and IT services: above-average growth rates driven by digitalisation

General market data

All for One Steeb's business activities can be allocated to the **BITKOM** categories IT Services and Software, with a clear focus on SAP. The market value of the **IT service business in Germany** was €38.1bn last year (+2.7% yoy) and growth of 2.3% is expected in 2017. The **German software sector** (which includes cloud revenues) grew by 6.2% in 2016 to €21.6bn. Growth of 6.3% is expected in 2017. **SAP** itself posted (global) growth of 7% in the "**cloud and software**" business area. While the **software licence** business only increased by 1%, **cloud subscriptions and support** grew by 31%.

Strategic IT partners with a clear focus on SAP

All for One Steeb is positioned as a **strategic IT partner** for companies so it is not merely an **SAP full-service provider** for its customers. It offers large companies services in selected areas (via subsidiaries). Overall, it continues to focus on its **core SAP business** because this is the biggest IT issue for customers in the SME sector and normally accounts for the highest proportion of their **IT budgets**. Nevertheless, for a long time now All for One Steeb has also been offering SMEs other **common non-SAP solutions/technologies** (for example from **Microsoft** (including Office 365) and **IBM** (Cognos TM1, Watson)) and naturally **SAP's non-ERP solutions**.

In the various revenue types that ideally go **hand-in-hand** with All for One Steeb's **core business** (consulting -> licence sales -> managed services/operation of the solution) and thus, ideally, lead to recurrent sales, the company is now faced with a variety of competitive situations. Consequently, we examine the following market segments separately.

Consulting is a necessary precondition - but not an end in itself

IT consulting

Selling corporate software (licences, maintenance, application management) always requires the support of permanent **specialist advice** that takes account of the customer's conditions and requirements. All for One Steeb does not aim to sell stand-alone consulting projects. Rather, **consulting** accompanies the simultaneous sale of suitable IT solutions (including the licence) or the **generation of recurring revenues** (managed services, maintenance), which is a key **difference** from pure **consulting companies**, which tend to focus on prolonged and complex projects that require large teams of consultants.

Consultancy partners extend scope and offer flexible consultant capacity

All for One Steeb's network of partners in Germany, Austria and Switzerland comprises consultancy firms that specialise in sectors outside All for One Steeb's target sectors or in geographical niches. They cannot normally sell **SAP licences** themselves, but extend the scope for selling such licences and are included in All for One Steeb's projects.

Multi-brand strategy to reach specialist departments

Since some departments (e.g. HR) have their own IT budgets these days, All for One Steeb targets them through specially tailored units. This **multi-brand strategy** avoids undermining perception of the All for One Steeb brand as an SAP full-service provider and gives the company access to sales potential that it could not leverage through its conventional contacts (CIOs). The brands **operate in parallel in specifically defined target markets and therefore also increase**

All for One Steeb AG

May 24, 2017

Market environment - 15/34 -

customer penetration. This increases internal overlaps (resulting in internal revenues).

Competitive situation: IT consulting

The 2016 **Lünendonk ranking** of IT consultancy companies in Germany (which is based on sales revenue) ranks All for One Steeb in the **top 20**, behind a range of subsidiaries of large multinationals such as Accenture, IBM, T-Systems, Capgemini and HPE (Hewlett-Packard Enterprise). All for One Steeb rarely competes directly with these companies in its **target segment, which comprises SMEs.**

The company's **direct competitors** in the consulting business are not normally the major players (such as Accenture and Capgemini) but smaller firms that offer a portfolio of solutions. The **selection process** for (new) **ERP projects typically** includes the solution (e.g. SAP, Infor, Microsoft, PSIpenta). The **challenge** from All for One Steeb's viewpoint is therefore positioning itself as the realisation partner for SAP issues before this stage. Alongside "conventional" marketing, the main ways of profiling itself with potential customers as a specialist for a specific solution are **specialist publications, trade shows, workshops and, above all, digital marketing.** Once All for One Steeb has positioned itself with a customer in this way, its **broad basis** as a strategic IT partner prevents its established customer relationship being "undermined" by IT consulting services.

While SAP is the "established" ERP system for **large companies** in Germany, Austria and Switzerland and even at larger SMEs only a few other solutions are found, the situation in the remainder of the **SME sector** is quite different (see Table 03). Here, there is a wide range of competitors (such as proAlpha, PSI Penta, etc.), **some of which offer highly specialised solutions.** Market observers estimate that there are several hundred – in some cases highly specialised – solutions (excluding in-house developments). Conceivably, customers' **selection criteria** could alter as part of the **digital transformation** (key words: mobility, cloud models) and smaller ERP providers could not afford the (ongoing) development work. SAP could therefore gain market share in this segment with SAP S/4HANA. (In the past, SAP solutions had a reputation in the SME sector as being "good but too expensive". However, it has **increased its market share** in this segment in recent years with new solutions.)

Big consultancy firms are not typical competitors ...

... the main competitors are other SAP partners that serve SMEs

ERP competition in the SME sector

Table 03: Schematic overview of the competitive landscape for ERP

Customer	SAP world	ERP market (competitors)
From approx. 500 ERP workstations	Large companies (served directly by SAP)	SAP and the SAP Business Suite are established with companies of this size in German-speaking regions. The main issue for companies is whether now is the "right" time to switch to the latest generation (SAP S/4 HANA).
250-500 ERP workstations	Target market for All for One Steeb: Companies with 100 - 10,000 employees and €50m to €3bn sales	SAP has a strong market position but companies also consider ERP solutions such as Infor and Microsoft Dynamics AX
50-250 ERP workstations		Alongside solutions found at large SMEs, ERP solutions established in this segment include Sage, PSIpenta, proAlpha, Comarch. There are many ERP suppliers in this segment.

Source: BankM Research, IT-Matchmaker (SAP solutions 2017)

Differentiation within the SAP partner landscape

Since **SAP partners** for SMEs (for example, itelligence, which now belongs to NTT Data Deutschland) have a similar product portfolio, each company has to start by profiling itself with prospective customers as a "partner for SAP". There are various ways of doing this (trade shows, workshops, digital media, etc.). **Sector expertise** always provides a certain degree of differentiation from other SAP partners. This is underpinned by corresponding references and sector solutions, although these have to be revised in the light of the switch to the new generation of SAP ERP products. This will tie up resources at SAP's partners for 2-3 years. During this time, the resources will not be available for day-to-day business. Competition among SAP consultancy companies for long-standing customer relationships that generate recurring revenues is tough and is reflected in some cases by the access to customers via consulting services. **Across the sector**, this results in **low margins for pure SAP consulting business**.

All for One Steeb **differentiates** itself from large (multinational) competitors by focusing on SMEs, which prefer to **work with service providers on their level**. Good customer support and proprietary software solutions (<5% of licence revenues), geared principally to speeding up projects, allow some differentiation from competitors who also target SMEs. Therefore, the cost of developing in-house project accelerators is assigned to consulting at All for One Steeb and is not capitalized. All for One Steeb can position itself well compared with smaller SAP system houses precisely because it offers a **very wide range of services** and **direct access to SAP** (highest partner status).

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All for One Steeb AG

May 24, 2017

Market environment - 17/34 -

Cloud and conventional licence business

The conventional SAP licence business is dominated by the **shift to the new product generation, SAP S/4HANA**, (which is creating a special cyclical situation on a mid-term view), the possibilities offered by the SAP HANA database platform, and the **rising significance of cloud solutions** (within and beyond the SAP world). For five years in a row, SAP has reported growth rates of (at times well) over 30% a year in its cloud operations. For SAP partners, this involves challenges (such as responding to issues relating to the new SAP world) but also, above all, a chance to benefit from the opportunities. They can provide all-round support for customers and play an active role in shaping their **digital transformation**.

In the migration of established SAP customers to SAP S/4HANA (which is anything but trivial), All for One Steeb benefits from the fact that it has the **largest established SME customer base** (around 1,500 customers). There is a very high probability that all of these customers will use All for One Steeb for the migration. This also improves the scalability of the necessary developments (such as the project accelerators mentioned earlier), validation costs, and developing the associated expertise.

As well as handling the changeover for existing SAP customers, the possibilities offered by the new SAP solutions are attracting new customers, who are looking for a coherent digitalisation strategy for their companies. **New SAP ERP customers** therefore generally start with SAP S/4HANA whereas with **established customers** more attention is still paid to Business Suite. However, SAP S/4HANA has already gained a higher profile than the SAP Business One and SAP Business ByDesign solutions, especially at smaller (or less complex) companies. The chart below shows established SAP customers' interest in planned budget allocation for the various (ERP) solutions.

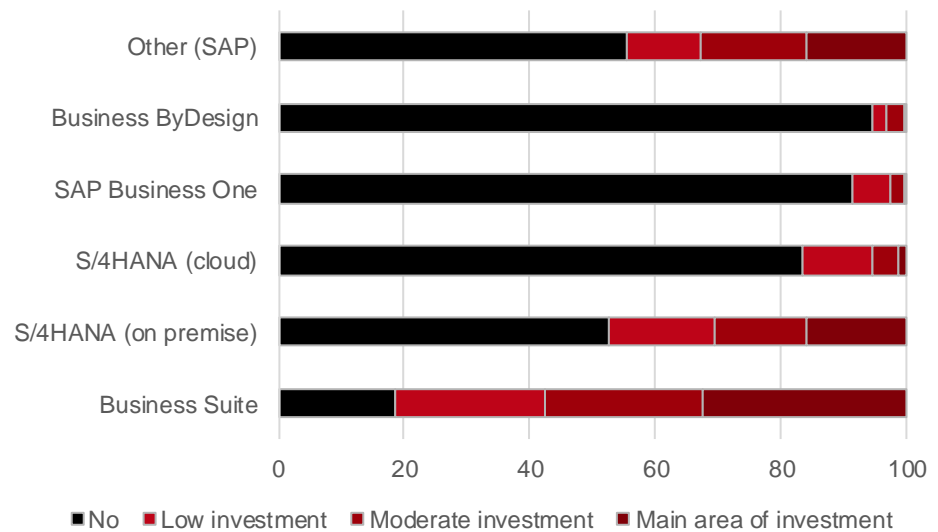
Special factors are having a mid-term impact ...

... All for One Steeb benefits substantially from this

SAP HANA and SAP S/4HANA are also boosting business with new customers

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Chart 08: Where do SAP customers invest (SAP ERP)? (Responses in %)



Source: DSAG (survey), BankM Research (evaluation)

SAP ERP & Cloud: well-known new customers – market changes

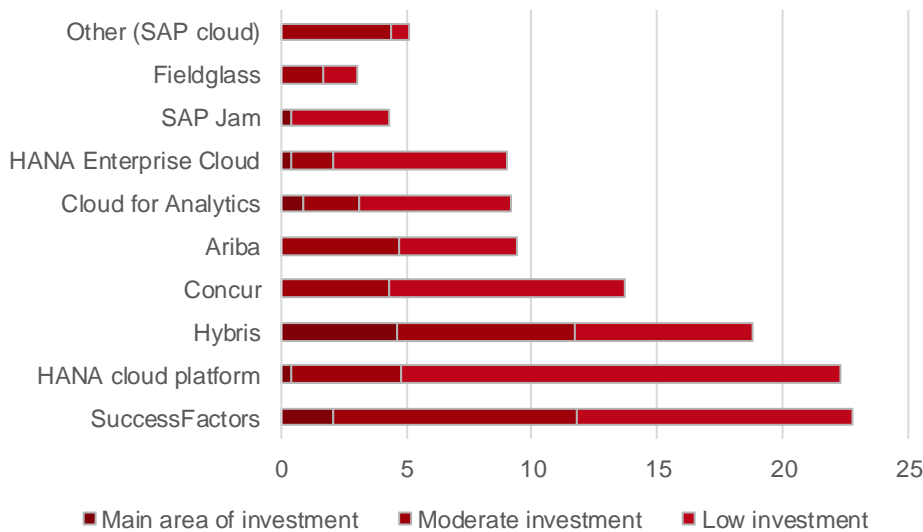
The large number of customers gained by All for One Steeb in FY 2015/16 for the introduction of products, etc. in the **SAP ERP & cloud** solutions include some very well-known SMEs (in the **consumer goods** sector). The company has also acquired projects for (equally large) companies in the **manufacturing sector**. In our view, this shows that the digital transformation has increased the willingness of SMEs to invest in IT/digitalisation and that many companies are more prepared to try out something “new”. When acquiring new customers, All for One Steeb benefits from its portfolio as an SAP full-service provider and its extensive expertise on the consulting side.

All for One Steeb has the highest SAP partner status

As a platinum partner, All for One Steeb enjoys the highest SAP partner status. Moreover it is a co-founder and member of the United VARs alliance, which is one of nine SAP Global Platinum Resellers. Among other things, platinum status guarantees direct access to SAP. SMEs look for a partner on their level, yet one with proven sector expertise and experience of SMEs. No other SAP partner in the German-speaking world has such a **high SME customer base** as All for One Steeb. Its broad basis (including SAP cloud solutions) also differentiates it from smaller SAP system houses, which are limited by size. The preferences of established customers for **SAP cloud solutions** are illustrated below. From the viewpoint of All for One Steeb, the most relevant at present are the HCM-related solutions (SAP Successfactors, SAP Fieldglass, Concur) and solutions for customer relationship management such as SAP Hybris.

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Chart 09: Where do SAP customers invest (SAP cloud)? (Responses in %)



Source: DSAG (survey), BankM Research (evaluation)

While SAP partners are not able to acquire large corporations as customers for the ERP business (because SAP serves this segment itself), they can market SAP cloud services to this sector, for example if they market SAP cloud solutions for HCM. Moreover, these solutions are becoming increasingly relevant for SMEs. Here, semi-automated solutions (with a high proportion of hard copy/Excel applications) are increasingly being replaced by digital personnel files or cloud solutions (such as SAP Successfactors) which digitalise processes. Specialised on-premise solutions are less prevalent in this field.

inside, where a **proprietary SAP-based cloud solution** already accounts for one third of revenue, should increase the focus of KWP as a whole and All for One Steeb's HCM operations on cloud offerings. The in-house development **viui** (very intuitive user interface) is one offering that combines the functions of various cloud solutions in a solution tailored to SMEs and meets the demands of this target group through transparent pricing. Overall, clearly defined solutions for specific specialist areas are more suitable for (public) cloud offerings.

As well as various other products from **IBM and Microsoft**, All for One Steeb's portfolio includes the widely used **Office 365** suite. Surprisingly, based on the assumption that Office 365 is offered in a private cloud environment as part of an SAP integration scenario (rather than via the Microsoft public cloud), competition here is limited. Only a handful of companies in Germany, Austria and Switzerland have the relevant Microsoft **certification**.

In a few years, the variety of cloud solutions used by companies will probably mean that **hybrid or multi-cloud solutions** are the norm, offering corresponding opportunities for managed service providers.

Partners can also market SAP's cloud solutions to large companies

Specialist departments are important in the rollout of the cloud strategy

Portfolio rounded out by IBM and Microsoft solutions

Recurring revenues allow planning over several years ...

Managed services (recurring revenues)

Recurring revenues are of strategic interest to many SAP partners: unlike the cyclical licensing business, it allows reliable planning of sales revenue. For smaller SAP partners, maintenance is the main source of recurring revenues. A certain size is necessary to build up a **managed services business that goes beyond this**, if only to achieve scalability of the associated **fixed costs** (employees, 24/7 service, computer capacity).

... and require the use of scale effects

However, size is not the only factor affecting All for One Steeb's managed services business. The company currently provides support for the complete corporate software landscape for **250 SAP customers**. All for One Steeb itself does not have any business operations geared solely to the sale/rental of memory and computer capacity. Here, it works with **AWS (amazon web services)**, which has rented space in the same data centre in Frankfurt. This is an example of combining elements of a **public** and **private** cloud, with sensitive data remaining in the private cloud

... and flexibility in its own cost structure

All for One Steeb has never focused on having its own computer centres (buildings) – and that has been the right decision with hindsight. Instead, from early on it used a **co-location strategy**. This avoided high upfront investment in facilities that would have tied up capital and held back growth. Instead, All for One Steeb rents space with **leading suppliers of computer centre infrastructure at the Frankfurt internet hub** (co-location strategy). As a result, All for One Steeb benefits from their infrastructure investments (buildings, internet connections, safety and security service) and only has to invest in its own **technology and platforms** to increase the scalability of its own cloud services.

Table 04: Arguments for using managed services

Managed services	
General advantages for companies	Specific advantages of All for One Steeb
Focus on core business	Specialist with SAP and hosting expertise
Lower costs	Leading supplier in this area
More energy-efficient solution	Co-location computer centre in Frankfurt (internet hub)
Normally higher data security	Higher data security, partly due to redundant (mirrored) computer centres
Circumvents shortage of (in-house) IT resources	Supports hybrid cloud scenarios (flexible resources)
Guaranteed service level	
Economies of Scale; handle peaks	

Source: BankM Research

Despite the economic benefits, there is still scope to extend market penetration

As Table 04 shows, using managed services offers companies **additional benefits**: as well as **cost savings**, it reduces pressure on **in-house IT departments** – and that is a key argument given the **shortage of IT/SAP experts**. SMEs are increasingly recognising that storing their own data in a (mirrored) computer centre makes it more **secure** as it reduces exposure to

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All for One Steeb AG

May 24, 2017

Market environment - 21/34 -

accidents and unauthorised access. Nevertheless, the market in general and, especially, All for One Steeb's 1,500 established customers still offer a great deal of potential in the area of managed services.

In the "Cloud Vendor Benchmark, Cloud Operations" market report by **Experton**, All for One Steeb is included in the "Leaders" quadrant, along with other suppliers. Experton's criteria are the **attractiveness of the portfolio** and **competitive strength**. However, in our view, All for One Steeb is only a direct competitor for the other Leaders in some areas. The cloud offers of **HPE, Deutsche Telekom and IBM** do not target at the managed services that All for One Steeb offers for **SMEs**. The "**Managed Public Cloud Provider**" report by Crisp Research evaluates suppliers on the criteria **service value creation** and **performance**. Here, All for One Steeb is also positioned in the leading quadrant ("Accelerators"). Here too, the top rankings go to companies like **T-Systems, IBM, Accenture and Capgemini**, which do not, however, target SMEs.

Market observers position All for One Steeb in the "Leaders" quadrant

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Earnings and asset position

Sufficient funds to continue the buy & build strategy

With an **equity ratio** of 42% and liquid assets of €18.3m (as of March 30, 2017), All for One Steeb would be able to make significantly larger acquisitions than its recent purchase of the management consultancy inside. All for One Steeb's buy & build strategy is very focussed (e.g. the corporate strategy must be a good fit, the target company must not be a restructuring case). Moreover, since there are no major areas in Germany, Austria and Switzerland where it does not have a presence, it is likely to look principally for **portfolio-driven acquisitions**.

Acquiring inside strengthens the SAP HR activities

The acquisition of all shares in **inside Unternehmensberatung GmbH** by **KWP team HR** as of April 1, 2017 strengthens its position in the **SAP HR market** and **increases the proportion of cloud-based revenues**. This company, which is to be merged into KWP, is a very good **complement to the activities of All for One Steeb's subsidiary KWP** and also has a **high proportion of cloud revenues**. inside's annualised sales revenue was approx. €8m, about third of which comprised recurring, cloud-based revenues.

Our assumptions on the inside transaction

The purchase price paid for inside as of April 1, 2017 has not been disclosed. However, it is known that it comprised a **one-off payment** and a performance-based component after a three-year **earn-out phase**. Given the high proportion of cloud-based revenues, in our model we assume that the EV/sales multiple was around 1.25 (which implies a purchase price of €10m), with €5.2m being paid immediately.

New guidance for 2016/17e: sales €290-300m; EBIT €19-20.5m

Following the acquisition of inside, which should contribute revenue of around €4m in the second half of the financial year, All for One Steeb **raised its target sales range by €10m**, while the target EBIT range was narrowed to the upper end of the previous range. Growth will continue to be accompanied by **future-oriented investment** in the business process library and building up cloud services, which will **temporarily put pressure on the margin**.

Income statement

2016/17e: Sales growth in double-digit percentage range but...

In FY 2015/16 All for One Steeb grew sales revenues by 10%, mainly through organic growth. At the end of the first six months of the present financial year, it again reported 10% growth in sales revenues. Roughly equal contributions came from the three revenue types, "outsourcing and cloud services (including software maintenance)" (+10%), "licence revenues" (+9%) and "consulting revenues" (+11%). For FY 2016/17 as a whole, we anticipate sales growth of nearly 11% (including inside). The resulting total sales revenue of €295m is the middle of the new guidance range.

... the margin is still affected by exceptional expenses for the S/4HANA changeover

In our view, the EBIT margin, which was 7.1% in FY 2015/16 (prior year 8.0%) was already affected by exceptional expenses in connection with the introduction of SAP S/4HANA (setting up the business process library). The development of (new) project accelerators (sector solutions and add-ins) caused by the switch to the new SAP generation has tied up consultant capacity. During this time, the consultants were not available for the operating business. This is likely to

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All for One Steeb AG

May 24, 2017

Valuation - 23/34 -

continue during FY **2016/17e**. Alongside the business process library, investment is concentrated on building up further cloud services. We assume that this will reduce the **EBIT margin** to 6.7%, just below the prior-year figure (7.1%), but that this will rise successively again in subsequent years, driven by the outsourcing services business. The margin of 7.2% reported in the first-half of the financial year (H1 2015/16: 7.6%) is typically dominated by a strong Q1 (calendar Q4) with high licence revenues, and therefore slightly higher than for the full year.

Valuation

DCF model

For our DCF model, we use a target capital structure with an equity ratio of 30%. The weighted average cost of capital used in the model is 5.8% (beta: 1.5). The tax rate is assumed to be 30%, which is in line with the historical tax rates.

Driven by the digital transformation in the SME sector, we anticipate growth rates in the low double-digit percentage range in the current and following financial years. To err on the safe side, for the period after FY 2019/20, we assume that growth rates will drop back to the mid single-digit percentage range, although the changeover to SAP S/4HANA alone should ensure **high utilisation of consultancy capacity up to 2025**. The perpetual growth rate in our model is 1%. The EBIT margin used to calculate the terminal value has been set at 7% (which is roughly the present level). For the coming years, we anticipate slightly higher EBIT margins because short-term downside factors (costs for developing new project accelerators) will drop out and the proportion of recurrent revenues should rise. Scale effects will also have an impact. As a conservative estimate, we nevertheless assume that the EBIT margin will not rise above 8% in 2020/21 and 2021/22.

General parameters

Margin and growth assumptions

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Table 05: DCF valuation

	16/17e	17/18e	18/19e	19/20e	20/21e	21/22e	22/23e	23/24e	24/25e	25/26e
Sales	295.04	324.54	356.99	378.41	401.12	413.15	425.55	438.31	451.46	455.98
EBITDA	29.21	32.13	36.44	40.25	43.71	44.61	43.39	42.08	42.89	41.04
EBITDA margin (in %)	9.9%	9.9%	10.2%	10.6%	10.9%	10.8%	10.2%	9.6%	9.5%	9.0%
EBIT	19.91	22.07	25.80	28.90	32.08	33.04	31.90	30.68	31.60	31.92
EBIT margin (in %)	6.8%	6.8%	7.2%	7.6%	8.0%	8.0%	7.5%	7.0%	7.0%	7.0%
Taxes	5.97	6.62	7.74	8.67	9.62	9.91	9.57	9.20	9.48	9.58
+ Depreciation/Amortisation	9.29	10.06	10.64	11.35	11.63	11.57	11.49	11.40	11.29	9.12
- Investments	11.74	8.42	9.96	10.55	9.19	9.46	9.75	10.04	10.34	9.12
- Change in Working Capital	3.59	3.69	4.06	2.68	2.84	1.50	1.55	1.60	1.64	0.56
Operating Cash flow	7.90	13.41	14.68	18.35	22.06	23.73	22.53	21.24	21.42	21.77
Discount factor	0.95	0.89	0.84	0.80	0.75	0.71	0.67	0.64	0.60	0.57
Current value of operating CF	7.46	11.97	12.40	14.64	16.64	16.91	15.17	13.52	12.89	12.38
Cumulative operating CF	134.00									
PV of the residual value	257.74									
Company value	391.74									
- Net debt	-4.28									
- Minorities	0.23									
Equity value	395.79									
Fair value per share in €	79.89									

Source: BankM Research

Sensitivity analyses

Table 06: Sensitivity – WACC vs. TGR

		Terminal Growth Rate				
		0.50%	0.75%	1.00%	1.25%	1.50%
WACC	4.81%	93.24	97.18	101.63	106.71	112.56
	5.31%	83.16	86.16	89.50	93.25	97.50
	5.81%	74.99	77.32	79.89	82.75	85.93
	6.31%	68.22	70.07	72.10	74.32	76.77
	6.81%	62.54	64.03	65.65	67.41	69.34

Source: BankM Research

Peer group analysis

Shares in All for One Steeb enable investors to participate in the “digital transformation”, with a specific focus on the SAP world and the SME sector in Germany, Austria and Switzerland. All for One Steeb has the largest portfolio of SAP clients in the SME sector so it is **uniquely positioned** to participate in the changeover to SAP S/4HANA and the momentum in SAP cloud solutions.

As our **peer group**, we have selected listed companies that are comparable with All for One Steeb in terms of their market capitalisation, customer focus, service

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All for One Steeb AG

May 24, 2017

Valuation - 25/34 -

spectrum (link to SAP) and/or business model and that are benefiting in some way from the **digital transformation**.

In common with many of the peers, **adesso AG** has a clear focus on the digital transformation. Project-based development of individual software solutions is a key element in its business model. The company targets various core sectors and its technology portfolio includes both Microsoft and SAP. Its work with SAP ERP systems focuses especially on SAP IS-U, the sector solution for utilities. More than 80% of consolidated sales are generated on the domestic market. **DATAGROUP** is an IT service provider for the implementation and operation of business applications and IT infrastructure. Its main focus is CORBOX, which bundles various (third-party) software solutions for SMEs. Developing customised software (including apps for e.g. banking) plays a big role. Its services also include SAP solutions. The company has a buy-and-turnaround strategy.

Measured by sales revenue, **Cancom**, which is listed on the TecDax, is the largest company in the peer group. Its operating business is divided into the IT Solutions and Cloud Solutions segments. The IT Solutions segment includes retail business and is responsible for the majority of the group's revenue. Cancom's Cloud Solutions segment (sales 2016: €156m) covers various areas including cloud computing and hosting, SAP (SAP gold partner) and security. **PSI AG** has a clear sector focus (utilities, industry and infrastructure operators), which it serves with its own solutions. The PSIpenta ERP solution is also used by mid-sized manufacturing companies. **CENIT AG's** activities are divided into "Product Lifecycle Management" and "Enterprise Information Management", where the company is a partner to major software producers such as Dassault, IBM and SAP. Its sector focus is mainly industrial (and includes the automotive sector).

KPS AG regards itself as the leading consultancy company for top management in the retail, consumer goods and financial services sectors. Alongside advice on strategic focus, its activities include operational implementation of the strategy (transformation). The company is an SAP gold partner and SAP Hybris platinum partner. **SNP AG** is dedicated to transforming IT landscapes. Its focus is on ERP systems (especially SAP). The SNP Transformation Backbone is a standard software solution developed by the company to implement transformation projects (e.g. carve-outs, M&A) faster and more cheaply than with conventional methods. As the two most recent acquisitions in 5/2017 show, inorganic growth also plays a certain role. **SQS Software Quality Systems** specialises in quality assurance (of IT business processes), management consultancy and testing (e.g. IT security). Its quality management consulting is based on the same standardised templates/processes worldwide. SQS's technology expertise comprises aspects relating to Oracle, SAP and Siemens PLM.

The following table provides a quick overview, showing the margins and (expected) growth of the peers. To eliminate inorganic effects, the average annual growth rate is based on market estimates for the period 2016 to 2018e.

All for One Steeb AG

- 26/34 - Valuation

May 24, 2017

Table 07: Margins and expected growth (quick overview)

Company	EBITDA margin	EBIT margin	Net margin	CAGR
	2017e	2017e	2017e	2016-18e*
adesso	9.2%	7.3%	4.9%	12.7%
Cancom	7.4%	5.6%	3.8%	7.5%
Cenit	9.9%	8.1%	5.7%	11.8%
Datagroup	10.3%	7.1%	4.3%	19.1%
PSI	9.8%	7.4%	5.2%	5.5%
SQS Software Quality Syst.	9.1%	7.5%	4.2%	2.6%
KPS AG	16.3%	15.7%	13.2%	13.3%
SNP AG	9.8%	7.9%	4.9%	21.7%
Mean Value	10.2%	8.3%	5.8%	11.8%
All for One Steeb AG	9.9%	6.7%	4.5%	10.4%

Source: Bloomberg, BankM Research (* not adjusted for M&A activities)

Table 08: Peer valuation

Company	M. cap.	P/E	EV/Sales	EV/EBITDA	EV/EBIT
	in €m	2017	2017	2017	2017
adesso	335.6	22.9	1.2	13.2	16.7
Cancom	828.1	19.6	0.7	10.1	13.4
Cenit	180.4	22.4	1.0	10.5	12.8
Datagroup	310.5	32.3	1.6	15.5	22.4
PSI	215.0	22.2	0.9	9.4	12.4
SQS Software Quality Syst.	162.1	11.6	0.5	6.0	7.3
KPS AG	618.2	28.2	3.7	22.5	23.2
SNP AG	214.0	43.3	2.0	20.2	25.4
Mean Value	386.0	25.3	1.5	13.4	16.7
All for One Steeb AG	318.8	24.0	1.0	9.8	14.3
Discount/Premium		-5%	-34%	-27%	-14%
		67.59	86.38	78.75	66.71
Fair Value					74.86

Source: Bloomberg, BankM Research

The **peer group analysis** based on FY 2017 (2016/17 for KPS, All for One Steeb and Datagroup) puts the fair value per share at €74.86.

Valuation conclusion

Our price target for shares in All for One Steeb, based equally on the DCF valuation and the peer group analysis, is €77.38. This implies price potential of more than 20%. Our rating is therefore "Buy".

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SWOT analysis

Strengths

- Beneficiary of the digital transformation
- As the biggest SAP partner for SMEs, All for One Steeb benefits from scale effects
- Many SAP customers have no alternative to switching to SAP S/4HANA in the mid to long term
- Full portfolio of solutions for companies in its target sectors, including non-SAP products
- All for One Steeb is playing an active part in consolidation of the sector and, as the biggest SAP partner for SMEs, has a good deal flow
- Accolades as a top employer should give All for One Steeb better access to SAP specialists

Weaknesses

- There is a shortage of SAP consultants on the market
- As a result of the changeover to a new product generation, All for One Steeb has to rework its established sector solutions, which results in costs and ties up consultants (however, this does not lower the sector know-how hurdle for competitors)
- Highly competitive end market: many SAP partners and IT service providers are actively targeting digital transformation. However, only a few can offer "everything" from a single source

Opportunities

- The introduction of SAP S/4HANA will ensure high consulting capacity utilisation in the next 8-10 years.
- All for One Steeb as a one-stop shop for digitalisation of the SME sector.
- Consolidation of SAP partners is continuing and smaller and mid-sized partners find it increasingly difficult to cover the full range of SAP topics
- Succession strategies offer M&A opportunities, also for highly specialised SAP consultants
- SAP S/4HANA is positioned as a digital core in German-speaking regions, other services are grouped around this core (SAP partners are becoming central contacts for digitalisation)

Threats

- A dependence on SAP, which is alleviated by reciprocal arrangements (United VARs, which has the biggest licence volume of all SAP partners)
- The shortage of SAP specialists could pose a threat to organic growth
- Although All for One Steeb has a good track record and carefully examines M&A targets, there is always an inherent risk that an acquisition could fail
- Large-scale cloud-driven substitution of the conventional SAP licence business? (Unlikely from the present viewpoint)

Glossary of (selected) SAP solutions

SAP Business ByDesign = ERP cloud solution for smaller companies and subsidiaries of larger companies. At the end of 2016, 99% of SAP Business ByDesign customers operated this system on the SAP HANA platform

SAP BusinessObjects (cloud/analytics) = Solutions that include analysis and planning functions (for various functions)

SAP Business One = Integrated ERP application that can be operated in the customer's IT system or in a hosted (private) cloud. Can be used on the basis of SAP HANA; targets small companies.

SAP Business Suite = ERP solution for SMEs and large companies; being replaced by SAP S/4HANA. SAP will provide support for this solution until 2025.

SAP Fieldglass = Category of solutions for complete HR management by companies (employees and externals)

SAP Fiori = User interface, that can be used on all end devices thanks to its responsive design

SAP HANA = Database platform developed by SAP; based on in-memory technology

SAP Hybris = Uniform brand name for all e-commerce and customer relationship management solutions from SAP and hybris, which it acquired in 8/2013.

SAP S/4HANA = Latest ERP generation, which can only be run on SAP HANA and is also a core element in the digital transformation

SAP SuccessFactors = Established following the acquisition of SuccessFactors in 8/2013; includes all cloud solutions for HR management

Glossary of specialist terms

BI/PA = Business Intelligence/Predictive Analytics - evaluation and analysis of large data volumes

DSAG = German-speaking SAP user group (Deutschsprachige SAP-Anwendergruppe e.V.)

EDI = Electronic Data Interchange

ERP = Enterprise Resource Planning. Application that supports business-critical, end-to-end processes in the areas of finance, distribution, procurement, human resources and other central corporate functions.

HCM = Human capital management

IaaS = Infrastructure-as-a-Service. Users do not manage the cloud infrastructure but can have control, not just over applications, but also over network components (e.g. host firewalls)

In-memory technology = Allows a clear increase in data processing speed, e.g. by holding data in the main memory.

IoT = Internet of Things. Describes the networking of physical objects with the internet.

SMEs = Small and mid-sized enterprises

PaaS = Platform-as-a-Service. Users do not manage the cloud infrastructure but have control over the applications used.

SaaS = Software-as-a-Service. Software applications made available via secure internet connections and web browsers. A subscription fee is charged for use of the software.

SLA = Service Level Agreement; covers the service to be provided and its quality (e.g. commitments on availability)

Tables

Profit and Loss Account (in € m)	2014/15	2015/16	2016/17e	2017/18e	2018/19e
Sales revenues	241.592	266.278	295.036	324.540	356.994
Change in finished goods and work in progress	0.000	0.000	0.000	0.000	0.000
Other own cost capitalized	0.000	0.000	0.000	0.000	0.000
Other operating income	2.868	2.674	2.963	3.259	3.585
Total performance	244.460	268.952	297.999	327.799	360.579
Cost of material	-85.019	-96.505	-103.669	-112.920	-120.090
Gross profit	159.441	172.447	194.330	214.879	240.488
Personnel expenses	-99.532	-109.968	-124.719	-138.385	-155.328
Other operating expenses/income	-32.391	-35.076	-40.403	-44.364	-48.722
EBITDA	27.518	27.403	29.209	32.129	36.438
Depreciation and amortisation	-8.262	-8.555	-9.294	-10.060	-10.638
EBIT	19.256	18.848	19.915	22.069	25.800
Financial result	-3.136	-1.417	-0.761	-0.745	-0.707
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000
Pre tax result	16.120	17.431	19.154	21.324	25.093
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000
Taxes	-4.660	-5.140	-5.746	-6.397	-7.527
Minority interest	-0.024	-0.040	-0.110	-0.110	-0.110
Net result	11.436	12.251	13.298	14.817	17.456
Adjustments	0.000	0.000	0.000	0.000	0.000
Adjusted net result	11.436	12.251	13.298	14.817	17.456
Average number of shares	4.982	4.982	4.982	4.982	4.982
EPS	2.30	2.46	2.67	2.97	3.50
Adjusted EPS	2.30	2.46	2.67	2.97	3.50
DPS	0.80	1.10	1.14	1.15	1.38

Source: BankM Research

Cash Flow Statement (in €m)	2014/15	2015/16	2016/17e	2017/18e	2018/19e
Net cash provided by operating activities	21.027	16.900	19.853	19.680	22.107
Net cash used in investing activities	-6.796	-2.864	-11.741	-8.416	-9.957
Net cash provided by financing activities	-6.776	-22.651	-15.080	-18.285	-7.005
Change in cash and securities	7.667	-8.611	-6.969	-7.020	5.145
Cash and securities at the end of the period	41.041	35.646	28.677	21.657	26.802

Source: BankM Research

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All for One Steeb AG

May 24, 2017

Tables - 31/34 -

Balance of Accounts (in €m)	2014/15	2015/16	2016/17e	2017/18e	2018/19e
Long term assets	83.641	75.747	83.194	81.550	80.868
Intangible assets	65.684	61.116	67.122	64.992	63.176
Tangible assets	9.876	9.347	10.788	11.274	12.408
Financial assets	8.081	5.284	5.284	5.284	5.284
Current assets	78.532	73.432	73.234	70.990	81.740
Inventories	1.229	0.694	0.782	0.897	1.035
Trade receivables	36.262	37.092	43.775	48.436	53.902
Receivables	0.000	0.000	0.000	0.000	0.000
Cash and securities	41.041	35.646	28.677	21.657	26.802
Other assets	5.804	6.610	6.610	6.610	6.610
Total assets	167.977	155.789	163.039	159.149	169.218
Equity	53.805	60.392	68.320	77.562	89.423
Reserves	53.716	60.277	68.095	77.227	88.978
Minorities	0.089	0.115	0.225	0.335	0.445
Provisions	4.859	5.583	10.793	9.512	8.243
Liabilities	53.776	35.983	33.095	26.154	26.255
Interest bearing liabilities	37.528	22.424	19.824	11.224	9.924
Trade payables	10.948	12.318	11.873	13.326	14.480
Non interest bearing liabilities	5.300	1.241	1.398	1.604	1.851
Other liabilities	55.537	53.831	50.831	45.921	45.298
Total equity and liabilities	167.977	155.789	163.039	159.149	169.218

Source: BankM Research

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All for One Steeb AG

- 32/34 - Tables

May 24, 2017

Key ratios	2014/15	2015/16	2016/17e	2017/18e	2018/19e
Valuation ratios					
EV/Sales	0.83	1.11	0.97	0.88	0.80
EV/EBITDA	7.32	10.77	9.76	8.87	7.82
EV/EBIT	10.46	15.65	14.32	12.92	11.05
P/E reported	17.64	24.81	23.98	21.52	18.27
P/E clean	17.64	24.81	23.98	21.52	18.27
PCPS	8.87	11.37	13.98	12.70	11.26
Price/Book Value	3.76	5.04	4.68	4.13	3.58
Profitability ratios					
Gross Margin	66.0%	64.8%	65.9%	66.2%	67.4%
EBITDA margin	11.4%	10.3%	9.9%	9.9%	10.2%
EBIT margin	8.0%	7.1%	6.7%	6.8%	7.2%
Pre tax margin	6.7%	6.5%	6.5%	6.6%	7.0%
Net margin	4.7%	4.6%	4.5%	4.6%	4.9%
ROE	22.8%	21.5%	20.8%	20.5%	21.0%
ROCE	18.9%	17.6%	18.7%	18.9%	20.8%
Productivity ratios					
Sales/employees (in € `000)	234.6	210.9	220.5	229.7	240.0
Net result/employees (in € `000)	11.1	9.7	9.9	10.5	11.7
Number of employees	1030	1263	1338	1413	1488
Financial ratios					
Equity ratio	32.0%	38.8%	41.9%	48.7%	52.8%
Gearing	212.2%	158.0%	138.6%	105.2%	89.2%
Dividend yield	2.0%	1.8%	1.8%	1.8%	2.2%
Cash flow ratios					
Cash earnings per share	4.56	5.36	4.58	5.04	5.69
Operating cash flow per share	4.22	3.39	3.98	3.95	4.44
Free-cash-flow per share	3.42	4.60	2.22	3.35	3.69
Other ratios					
Depreciation/sales	3.4%	3.2%	2.1%	2.1%	2.1%
Capex/sales	2.4%	1.4%	4.0%	2.6%	2.8%
Working capital/sales	8.8%	9.1%	9.2%	9.6%	10.1%
Tax rate	29%	29%	30%	30%	30%

Source: BankM Research

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Authors: Daniel Großjohann, Analyst.

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Analysts	Date	Evaluation Result	Fair Value
Daniel Großjohann	09.06.2016	Hold	€ 62.00
Daniel Großjohann	17.08.2016	Buy	€ 65.00
Daniel Großjohann	02.12.2016	Buy	€ 65.50
Daniel Großjohann	20.01.2017	Buy	€ 68.00
Daniel Großjohann	22.02.2017	Hold	€ 69.00

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3. Date of first publication of this document:

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4. Date and time of prices of the instruments quoted in this document:

Closing prices of May 23, 2017

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