



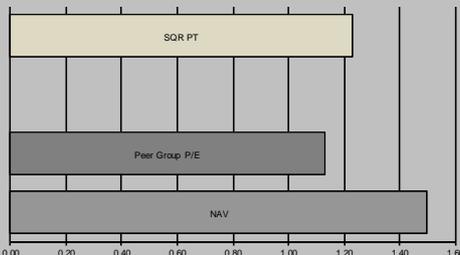
Scherzer&Co.AG

Investment Management

Buy, new PT EUR1.23 (was EUR1.50)

Safeguarding values in volatile markets

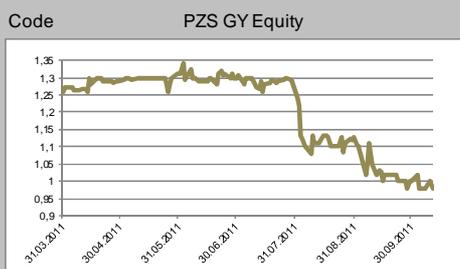
Target price decomposition



Stock data/Rating			BUY
Last price	EUR	0,98	±
SQR target	EUR	1,23	25,6%
Consensus target	EUR	-	
52 week high/low	EUR	1,35	0,93
All-time high/low	EUR	1,80	0,56
Performance			
%	-1month	-3months	ytd
Current market cap	EUR	27	m
Shares out (average)		27	m
Free float		100,00	%

P&L (EUR 000's)	2010	2011e	2012e
Revenues	4.900	- 3.597	5.375
Op expenses	- 870	- 833	- 855
Loan loss charges			
Pre-tax profit	4.030	- 4.430	4.520
Pre-tax RoE	12,8%	-14,0%	12,8%
EPS	0,14	- 0,14	0,14
Payout ratio	0%	0%	0%
BS (EURm)	2010	2011e	2012e
Total assets	49,3	45,3	47,0
Cash	0,1	0,1	0,1
Trading assets	28,0	26,0	27,1
Financial assets	20,55	18,50	19,23
Due to banks	15,5	7,5	12,9
Goodwill/Intangibles	-	-	-
Equity	29,6	33,5	37,4
Valuation	2010	2011e	2012e
P/Book	0,80	0,90	0,80
P/Tangible Book	0,80	0,90	0,80
P/E (rep.)	6,78	-7,08	6,94
P/E (adj.)	6,78	-7,08	6,94
P/E at SQR target	8,52	-8,89	8,71
Pre-tax RoE	12,8%	-14,0%	12,8%
Net RoE	11,8%	-12,7%	11,5%
Loan/deposit ratio	-	-	-
Cost income ratio	18%	-23%	16%
NPL ratio	-	-	-

Market data			
Bollinger up/low	EUR	1,03	0,97
MAV 100/200 days	EUR	1,18	1,22
Beta (6 months)		0,55	



Source: Bloomberg

We have updated our estimates and our price target for Scherzer&Co. AG following the market turmoil witnessed over the past two months. We now forecast the company to be loss making in FY11e to the extent of EUR-4.4m pre-tax, solely driven by negative mark-to-market valuations on its investment portfolio in H211e.

Overall, this drives down our portfolio NAV estimate to EUR1.18 by 2012e to which we add our cumulative fair value of additional settlement claims of EUR0.27 2012e. Our 15% discount on the resulting fair value remains unchanged, hence we derive a new price target of EUR1.23 (down from EUR1.50).

Looking into the portfolio itself, Scherzer faced a higher than expected volatility in its core holding portfolio. This mainly -and unfortunately- affected three of the largest portfolio holdings namely Generali Deutschland AG, Biotest AG and Stada AG. While we believe that valuations for both Generali Deutschland AG and Biotest AG may recover quickly once the market has dealt with the PIIGS crisis, we fear that management mistakes and eroded investor trust following write-downs in Eastern Europe will make it tough for Stada AG to move back into the forefront of investor interest

In spite of all the market disruption, Scherzer continued its strategy of combining highly valuable holdings (long-term investments, value-oriented strategy) with opportunistic investments in skillful niche market players predominantly domiciled in Germany. To us, sticking to this local strategy and hence continue betting on one of the strongest economies in Europe makes absolute sense in a market not looking into fundamental valuations at all. Having talked to company management in more detail, we are highly convinced that this strategy is not about to change and that Scherzer will continue sticking to its holdings as long as fundamental drivers do not change significantly. As a result, we are willing to look through shorter-term and unwarranted volatility in Scherzer's NAV caused by unrealized losses and further believe in write-backs on the Top10 holding portfolio during 2012e.

As mentioned above we do see a very interesting optionality hidden in Scherzer's NAV driven by additional settlement claims. These outstanding claims usually refer to compensation claims for minority shareholders in squeeze-out situations. Actually, the success rate of court approvals for these claims has been relatively high and this is why we continue adding a certain element of the total EUR74.2m claims on Scherzer's books to our fair value on a rolling base. We highlight that Scherzer carries these claims at zero value on its balance sheet. For details on our calculation methods and the resulting fair value please refer to our initiation report published April 14, 2011.

In our view, the share price of Scherzer & Co. AG currently reflects the extremely high macro and market uncertainty. In addition, higher than anticipated volatility in its Top10 holding portfolio caused a quick deterioration in Scherzer's underlying NAV. However, we believe the latter to recover during the course of 2012e making the year 2011 just a temporary 'red light stop' on the road to EUR100m NAV long-term. **Consequently, our Buy rating remains unchanged with a new price target of EUR1.23 fully adjusted to reflect current market conditions.**

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Please inform yourself of important disclosures and disclaimers in the appendix



Table 1: Top 10 holding portfolio hit by extreme market volatility

Company	Price	Value (SQRe)	Strategy
BIOTEST AG	39.80	4,996,890	CHANCE
GENERALI DEUTSCH	55.50	4,023,750	VALUE
EXCEET GROUP SE	7.50	2,087,915	CHANCE
INVISION SOFTWARE	11.81	2,066,750	CHANCE
WUESTENROT & WUE	15.09	2,037,150	VALUE
GK SOFTWARE AG	35.34	1,943,700	CHANCE
ANDRAE-NORIS	28.50	1,600,000	VALUE
HIGHLIGHT COM-BR	3.23	1,631,205	CHANCE
FREENET AG	9.00	1,417,932	CHANCE
STADA ARZNEIMITT	16.00	1,440,000	VALUE

*Source: Bloomberg, Silvia Quandt Research estimates

Looking into the Top10 holdings in more detail, we raised our eyebrows when generating charts for the three most prominent movers. While the Stada share price performance did not come as a surprise given the recent additional write-downs in Eastern Europe erasing almost one year of profits (and investor trust completely), we were surprised to see Biotest and especially Generali Deutschland performing that badly. While the latter may be influenced by the negative newsflow around the mother company holding significant PIIGS exposure, we believe the pressure to have come from small cap funds being forced to reduce positions to curb risks and safeguard performance as well as servicing outflows. With Generali Deutschland being a relatively illiquid name and played by only a very few specialist and knowledgeable investors, we sense that the market turmoil led to exactly this forced selling putting extreme pressure on the name. On a more positive note, we believe this to reverse once markets calm down hence it should result in write-backs over time. The same holds true for Biotest, in our eyes, as nothing fundamentally new and/or negative has been reported by the company since the PIIGS crisis started to bite just over two months ago. Below, we attach the three charts to visualize how deeply the portfolio NAV must have been hit by these three names just within a quarter.

Chart 1: Generali Deutschland (GE1 GY) share price performance suddenly turned



*Source: Bloomberg, Silvia Quandt Research



Chart 2: Biotest (BIO GY) down on no news



*Source: Bloomberg, Silvia Quandt Research

Chart 3: Yet Stada (SAZ GY) was sent down for a reason



*Source: Bloomberg, Silvia Quandt Research



Table 2: Detailed P&L and divisional forecasts – Scherzer&Co. AG

Income Statement, EUR 000's	H1 2009	H2 2009	H1 2010	H2 2010	2009	2010	2011e	2012e	2013e
Net interest expense	-240	-248	-210	-80	-488	-290	-159	-211	-170
Net interest and other income	230	-20	0	0	210	0	0	0	0
Performance fees	0	0	0	0	0	0	0	0	0
Results from trading operations (Realized gains)	-1.970	2.011	-1.440	2.570	41	1.130	-7.580	1.211	1.090
Investment gains / Dividends	430	107	1.010	180	537	1.190	1.575	1.476	1.565
Other ordinary results / Write-backs	3.510	2.939	1.670	1.200	6.449	2.870	2.408	2.688	2.850
Operating income	1.960	4.788	1.030	3.870	6.748	4.900	-3.597	5.375	5.505
Personnel expenses	-100	-117	-160	-160	-217	-320	-272	-283	-306
General expenses	-230	-300	-270	-280	-530	-550	-561	-572	-584
Depreciation	0	-5	0	0	-5	0	0	0	0
Operating expenses	-330	-422	-430	-440	-752	-870	-833	-855	-889
Income before tax	1.630	4.367	600	3.430	5.997	4.030	-4.430	4.520	4.616
Tax	-163	-467	-18	-82	-630	-100	665	-678	-692
Effective tax rate	10,0%	10,7%	3,0%	2,4%	10,5%	2,5%	15,0%	15,0%	15,0%
Net Income	1.467	3.900	582	3.348	5.367	3.930	-3.766	3.842	3.924

Equity Capital	H1 2009	H2 2009	H1 2010	H2 2010	2009	2010	2011e	2012e	2013e
Equity (reported, EUR 000's)					29.450	33.380	29.614	33.456	37.380
o/w goodwill/intangibles					0,3	0,3	0,3	0,3	0,3
Tangible equity					29.449	33.380	29.614	33.456	37.380
Tangible equity/total assets					72,0%	67,7%	64,0%	73,8%	79,7%

NAV data	H1 2009	H2 2009	H1 2010	H2 2010	2009	2010	2011e	2012e	2013e
Portfolio value					40.379	48.636	41.341	42.994	46.434
Debt					10.593	15.470	8.470	11.281	9.053
NAV					29.786	33.166	32.871	31.713	37.381
P/NAV					0,90	0,99	0,81	0,84	0,71
P/NAV including claims value (cumulative)					0,90	0,92	0,70	0,68	0,58
EPS (reported)					0,20	0,14	-0,14	0,14	0,14
P/E					5,0	8,4	neg.	6,9	6,8

*Source: Company reports, Bloomberg, Silvia Quandt Research



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Author of the present financial analysis: Michael Rohr, Deputy Head of Research

2.2. Sources of information and summary of the basis of valuation and the valuation methods applied during the preparation

2.2.1. Sources of information:

Essential sources of information for the preparation of this document are publications in interior and foreign media like information services (e.g., Reuters, VWD, Bloomberg, dpa-AFX, among others), business press (e.g., "Börsenzeitung" (financial paper), "Handelsblatt", "Frankfurter Allgemeine Zeitung", Financial Times, among others), specialized press, published statistics, rating agencies as well as publications of the analysed issuers.

All information refers to the date of the publication: [Date, time, refer to the date at the end of the disclaimer]

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Within the scope of the evaluation of enterprises the following valuation methods are applied: multiplier models (stock exchange value / profit, stock exchange value / cash flow, stock exchange value / book value, Enterprise Value (EV) / turnover, EV / EBIT, EV / EBITA, EV / EBITDA), Peer Group comparisons, historic valuation methods, discounting models (DCF, DDM, EVA, RIM), Break-up-Value- and Sum-of-the-Parts-approaches, substance-valuation methods or a combination of different methods. The valuation models are dependent on economic parameters like interest rates, currencies, resources and on economic assumptions. Moreover, market moods influence the valuations of enterprises. Also, the approaches are based on expectations that may change rapidly and without advance warning according to developments specific for the respective branch. Therefore, the valuation results and fair values derived from the models may also change accordingly. The results of the evaluation basically refer to a period of 12 months. Nevertheless, they are also subjected to market conditions and constitute merely a snapshot. They may be reached faster or slower or may be scaled up or down.

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NEUTRAL: The expected yield, based on the determined target price, incl. dividend payment within the suitable time frame amounts to between -10% and $<+10\%$.

AVOID: The expected yield, based on the determined target price, incl. dividend payment within the suitable time frame amounts to $\leq - 10\%$.

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9. The aforementioned persons and/or enterprises expect from the issuer, who or whose financial instruments are subjected to the financial analysis, during the next three months remunerations for services in connection with investment banking transactions or seek at such remunerations.
10. The aforementioned persons and/or enterprises have concluded an agreement for the preparation of a financial analysis with the issuer, who or whose financial instruments are subjected to the financial analysis.
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12. The aforementioned persons and/or members of the management board of the aforementioned enterprises hold seats on the board of directors or seats on the supervisory board with issuers, who or whose financial instruments are subjected to the financial analysis.



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Issuer of the analyzed finance instrument is Scherzer & Co. AG.

3.2. Date of the first publication and date and time of the price of financial instruments

Company	1st publication	Price €	Recommendation	Target €
Scherzer & Co. AG	05.04.2011	1,27 €	Buy	1,50 €

3.3. Overview of our financial analyses of securities or issuers during the last twelve months

Company	Date of issue	Price at issue	Recommendation	Target price
Scherzer & Co. AG	05.04.2011	1,27 €	Buy	1,50 €

3.4. Information about possible conflicts of interest

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2.4.1.1. Bet: >5%	2.4.1.2. Comp.	2.4.1.3. Trade	2.4.1.4. Short >1%	2.4.1.5. DS	2.4.1.6. ECM act.	2.4.1.7. IPO	2.4.1.8. Comp.Res.	2.4.1.9. Comp.ECM	2.4.1.10. Contract	2.4.1.11. Inform.	2.4.1.12. Mandate	2.4.1.13. Holding
									x			

3.4.2. Conflicts of interest biw bank für Investments und Wertpapiere AG when transmitting the financial analysis

2.4.2.1. Bet: >5%	2.4.2.2. Comp.	2.4.2.3. Trade	2.4.2.4. Short >1%	2.4.2.5. DS	2.4.2.6. ECM act.	2.4.2.7. IPO	2.4.2.8. Comp.Res.	2.4.2.9. Comp.ECM	2.4.2.10. Contract	2.4.2.11. Inform.	2.4.2.12. Mandate	2.4.2.13. Holding
		x		x					x			

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Number of recommendations from Silvia Quandt Research GmbH in 2011	Thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
Buys:103	35
Neutral: 37	6
Avoid: 6	0

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Frankfurt am Main, 12.10.2011

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