

» Investment company «

# Scherzer & Co. AG

WKN 694280 | DE0006942808 | Bloomberg: PZS

## Specialist for Special Situations

We initiate our coverage for Scherzer & Co. AG with a HOLD recommendation and a stock price target of 2.60 EUR, which represents an upward potential of 9.2% on today's closing price of EUR 2,38. We base our target on a Net Asset Value Assessment.

### Investment company for Special Situations

Scherzer & Co. AG (Scherzer) aim to pursue long-term value growth by investing in "safety-oriented" and "opportunistic" investments. The company is increasingly establishing itself as a reliable partner for business transactions for special situations, such as restructuring, squeeze-out scenarios and acquisitions

### Investment portfolio of about EUR 93m, CAGR in 2006 of 17 to 7.7%

Scherzer's goal is to grow an investment portfolio of at least EUR 100m. In February 2019, the market value was approx. EUR 93m, of which approx. EUR 25m was externally financed. The 10 largest holdings currently account for approx. 57% of the portfolio (historical share of approx. 50%). Scherzer owns about 95% in shares, the rest in bonds and options. When investing in securities, there are no management restrictions. The book value (HGB) of held securities grew from 2006 to 2017 with a CAGR of 7.7%. We expect moderate portfolio growth of 3.7% and 4.7% YoY, respectively, in 2019e and 2020e.

### Potential Off the Balance Sheet and Rights for Rectification

At the end of Feb. 2019, Scherzer held EUR 104m rectification rights. These potential claims stem from structural measures in listed companies where Scherzer had a holding and sold this share to a majority shareholder. Rectification rights are off the balance sheet, and do not tie up capital, just potential special income. In FY 2019e, we expect the launch of Linde shares, which currently represents the largest portfolio holding, currently at 15.15% (as at 28 Feb. 2019).

### HOLD, Stock Price Target EUR 2.60

We assessed the share with a Net Asset Value Model and with our Base-Case Scenario we arrive at a fair value of EUR 2.60 per share. Our expectation is based on the development of the Top-10 holdings according the consensus expectation, for the remaining portfolio holdings we expect a steady value. We initiate Scherzer with a HOLD and a stock price target of EUR 2.60.

FY End: 31.12. in EURm	CAGR (17-20e)	2015	2016	2017	2018e	2019e	2020e
Net earnings from fin. instruments	-21.0%	5.4	6.0	12.9	2.4	6.2	6.4
EBITDA	-27.1%	6.1	5.0	10.2	0.9	3.8	3.9
Margin		111.3%	84.1%	78.9%	38.6%	61.8%	62.1%
EBIT	-27.3%	6.1	5.0	10.2	0.9	3.8	3.9
Margin		111.1%	84.0%	78.8%	38.3%	61.3%	61.5%
Net result	-12.4%	5.3	4.5	7.9	0.6	5.1	5.3
EPS	-12.4%	0.18	0.15	0.26	0.02	0.17	0.18
Dividend per share		0.05	0.05	0.05	0.10	0.00	0.00
NAV	-2.4%	59.28	68.56	82.04	69.16	72.16	76.16
Return on NAV		9.2%	8.7%	15.7%	3.4%	8.6%	8.3%
ROE		10.4%	8.2%	13.0%	1.0%	8.1%	7.7%
ROA		7.6%	5.9%	8.8%	0.7%	5.6%	5.4%

Source: Scherzer, FMR

Published 19 March, 2019

**HOLD**

Before: -

Price target **EUR 2,60**  
Price\* **EUR 2,38 (+9%)**

\*XETRA trading price at the close of the previous day

Change	2018e	2019e	2020e
Sales	2.4	6.2	6.4
EBIT	0.9	3.8	3.9
EPS	0.02	0.17	0.18



Source: Facts&figures

### Share Data

	2018
Shares (millions)	29.94
Free Float (percent)	100%
Market Cap (Euro millions)	72.2
Daily turnover (€)	2,250
High (Euro, 52 weeks)	3.00
Low (Euro, 52 weeks)	2.24

### Shareholders

Free float	100.0 %
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### Company events

March presentation	05 April 2019
Annual general meeting	13 May 2019

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Initial Coverage

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## Investment Thesis

Scherzer & Co. AG (Scherzer) is an investment company headquartered in Cologne which aims to achieve long-term capital growth. In the medium term, Scherzer has the ambition to build up an investment portfolio with equity financing of minimally EUR 100m (portfolio value of around EUR 93m in Feb. 2019, of which EUR 25m is externally financed), while at the same time seeking to strengthen its position as a relevant partner for transactions for special situations.

The company's strategy consists of two pillars: on the one hand, investments in "safety-oriented" securities, which have a limited risk of loss (portfolio share in Dec. 2018 at approx. 42%); on the other hand, there are "opportunities" with a performance-oriented investment style (about 58% of the portfolio in Dec. 2019). To choose between these two categories, Scherzer uses several criteria, among which Industry or type of financial product to be invested in are not included. In addition, additional returns are pursued through the selection of stocks that are in the "Special Situation" category or may be classified as such in the future. These include restructuring, takeovers and/or squeeze-out situations of companies. In a squeeze-out, a majority shareholder holding 90% or 95% of the shares of a company may settle with the remaining minority with a "reasonable compensation" and acquire their shares. The minority shareholders have the right to an independent assessment, and they can object after receiving the compensation associated with this assessment. In the so-called award procedure, a higher value than originally paid can be determined, thus creating a benefit for the minority shareholders.

Scherzer & Co AG has a focused investment portfolio. In recent years, the top 10 securities holdings accounted for about 50% of the total portfolio, currently about 57%. Approximately 20 holdings have market values of more than EUR 1m. In addition, approx. 1.5% of the portfolio of EUR 1.4m is invested in corporate bonds with a total return of approx. 4.25% and approx. 10% of the portfolio is invested on the Swiss market. Another part of the portfolio is invested in (short) put and call options (FMR estimate of EUR 3.5m). This strategy allows Scherzer to reduce exposure to the portfolio and generate additional income, for example from writing puts. Of course, there is risk involved in the management of hedging of holdings.

The amount mentioned by Scherzer regarding rectification rights resulting from award proceedings currently amounts to EUR 103.8m. From these shares tendered in the past additional payments and thus subsequent profits may be had. As a rule, these are lengthy procedures the outcome of which can't be predicted. Possible subsequent increases to settlement payments in regard to squeeze-outs and corporate contracts will be charged retrospectively counting from the date of registration of the structural measures.

At the beginning of each month, Scherzer publishes a presentation with the largest 10 holdings, Net Asset Value (NAV), portfolio of rectification rights and provides the current development of certain selected values. This ensures a high level of transparency, which is exemplary for investment companies.

**Portfolio composition with  
EUR 100m Equity Capital**

**Investments divided in  
categories Safety and Chance**

**Investment in Stock 94%,  
bonds 1,5%, options 4,5%; no  
constraints**

**Potential of EUR 104m  
rectification rights**

**Monthly publication of the 10  
largest holdings**

The development of the general stock market in the event of a sudden and sustained downward movement creates a risk. Scherzer could be put into a difficult situation where losses must be incurred if the equity portfolio loses significant value. We consider this risk to be well manageable due to the considerable share of settlements and settlement-related assets (e.g., holdings in Linde).

We observe the extension of the Scherzer model to other investment vehicles with certain caution. Due to the investments in Horus AG (about EUR 3.7m), Allerthal-Werke AG (about EUR 4m) and in Rheiner Management GmbH, around 10% of AuM are tied up in illiquid investment companies to which Scherzer has no direct access. The "box in the box strategy" carries risks, ties up capital and exacerbates the opportunity-risk profile.

Based on our Net Asset Value Model of the holdings, we gage the fair value per Scherzer share at EUR 2.60. We start our coverage regarding Scherzer with a HOLD recommendation and a price target of EUR 2.60 per share. For the purpose of valuation of the Scherzer share, the NAV is the relevant control parameter. As a rule, investment companies are traded at a certain discount to the intrinsic value, so that a share price close to the NAV usually represents a natural price barrier.

**Minimization of market risk through settlements and settlement-related assets**

**Also, few liquid assets in portfolio**

**Net Asset Value Model provides EUR 2.60 share price target**

## SWOT

### Strengths

Choice of investments through a structured selection process and an experienced team

Reduced Risk due to diversification across several sectors and investment classes (stocks, bonds, approx. 1.5% and derivatives approx. 3.8%)

Mix of smaller shares with blue chips and shares close to settlement (Linde AG) reduces risks and volatility

Potential for additional returns without tie-up of capital as a result of off-balance sheet, hidden reserves for warranty rights

Pooling of expertise regarding special situations as a result of participation in Rheiner Management GmbH and Scherzer's network of professional investors

### Weaknesses

Rectification process not currently predictable, success is uncertain; possible failure of the debtor throughout the process

In the monthly publication: no exact statement for about 30% of holdings

Large effects if the company loses a person, and in the case of and stricter legal and regulatory requirements

Dependence on the performance of individual share holdings and ultimately on the performance of third parties, on which Scherzer can't normally exert any active influence due to the size of the holding

### Opportunities

Earnings from rate increases and dividends through positive development of companies and markets

Earnings from off-balance-sheet rectifications: past success with rectification rights around 15% on top of the original settlement price

Potentially advantageous takeover offers from majority share holders

**Risks**

During a Squeeze-out: Loss of liquidity of the share, possible delisting (lack of transparency), dividend reduction

Portfolio value is exposed to market risk due to negative market movements; even if hedged by financial derivatives

Interest rate risk on debt (Outside capital quote at 29%) as well as lending decisions by banks

Lack of M&A activity within the investments, for example in the case of Horus AG and Smart Equity AG. Both companies were shareholdings and then became inventory holdings due to a lack of operating success and large acquisitions. Concentrating the AuM on Scherzer could unlock value and increase transparency.

## Valuation

### Valuation summary base case

Scherzer & Co. AG is an investment company with high volatility in its revenue history. Because future development is strongly dependent on the entire market and moreover Scherzer is a stock-picker, we use the Net Asset Value Model (NAV-Model) to estimate the portfolio value to review the past year and calculate a stock price.

### Fair Value of the Company.

To calculate the NAV, we use Scherzer's regularly published information on its largest holdings. At the end of February 2019, the portfolio value is around EUR 93m, with the top 10 holdings making up 57.5% (see table on page 13).

We expect that the top 10 values will develop in accordance with the consensus target prices of the Factset database. If there is no consensus (as with Weleda) or if corporate shares such as those of Linde AG (transfer to Linde plc.) are known, we leave the value unchanged according to our current estimate (assumed portfolio value from February 2019). In our base case scenario, we expect the remaining portfolio shares to perform at their current value.

In our model we do **not** consider any positive inflows from rectification court procedures.

Our estimate of the fair value of assets under management (AuM) at the end of 2019 is EUR 101m. These are adjusted for the expected bank liabilities of EUR 25m and the cash balance of EUR 1.78m. Accordingly, we arrive at a NAV of EUR 77.7m, based on 29.94m shares, we compute a value per share of EUR 2.60. Historically, Scherzer's stock price fluctuates within a range of -25% below to + 7% above NAV.

We put our target price at EUR 2.60 and our rating at HOLD (9.2% upside on today's closing price of EUR 2.38).

### Valuation of Scherzer based on NAV-model

### Basis for our calculations: TOP 10 values

### Valuation of separate shares using Factset consensus

### Expectations for end of 2019e: Top holdings grow 14.3%

### Development of AuM for Base Case

	Value beginning of 2019 in EURm	Growth 2019	Value end of 2019e in EURm
TOP holdings	55.6	+14.3%	63.5
Rest of Portfolio	37.4	+0.0%	37.4
Portfolio size	93.0	+8.5%	100.9

Source: Scherzer, FMR

Significant upside results primarily from the holdings in GK Software SE (expected: + 56.7%) and freenet AG (+ 20.2%).

**Valuation of NAV of Scherzer & Co. AG for Base Case**

Valuation	EURm
AuM End of 2019e	100.9
Bank liabilities	25.0
Cash	1.8
NAV	77.7
Number of shares	29.94
NAV per share	2.60
Target price per share	2.60

Source: Scherzer, FMR

**Scenario Model**

As shown above, our main driver of the NAV is the future performance (base case + 14.3% YoY) of the top holdings. In addition, we assumed a constant value of the remaining securities. How the NAV develops if these conditions change, we show in the following model.

**Our base assumption: Market remains stable, Top 10 holdings +14.3%**

**NAV Sensitivity**

		Development of top holdings		
		12.3%	14.3%	16.3%
<b>Development</b>	<b>-5.0%</b>	2.50	2.53	2.57
<b>other</b>	<b>0.0%</b>	2.56	2.60	2.63
<b>Portfolio</b>	<b>5.0%</b>	2.62	2.66	2.70

Source: Scherzer, FMR

## Company Profile

Scherzer & Co. AG (Scherzer) is an investment company headquartered in Cologne, listed on the Frankfurt Stock Exchange in the Entry Standard, and since 2017 in the "Scale" segment.

The main objective of Scherzer & Co. AG is to create a long-term capital structure for its shareholders through a balanced strategy that includes two complementary approaches: 1) safety-oriented and 2) opportunistic investments.

Within these two approaches, investments are verified regarding possible takeover bids or squeeze-out situations. The difference of Scherzer's strategy is this emphasis on the selection of investments that have the potential to be taken over, and thus represent potentially significant values.

The current (market) portfolio amounts to EUR 93m (February 2019). In the medium term, Scherzer plans to build up a portfolio with an equity share of EUR 100m (currently approx. EUR 61m), positioning itself as a relevant partner and investment company for transactions in the areas of special financing and special situations.

The volume of successful exits, which could give rise to rights of rectification, amounted to EUR 103.8m as of 28 February 2019. If the reported rectification rights of Allerthal-Werke AG and RM Rheiner Management AG, which are attributable to Scherzer because of its shareholdings, are taken into account, the amount tendered is approx. EUR 115m.

**Primary goal: long-term asset growth through safety-oriented and opportunistic investments**

**Actual portfolio size: EUR 93m**

**Amount of rectification rights: EUR 104m**

## Management and Supervisory Board

### **Dr. Georg Issels, Management**

Dr. Issels has been an executive manager of Scherzer & Co. AG since 2002. From 2001 to 2007, Dr. Issels was also member of the management board of Allerthal-Werke AG. Since 2008, he is also a member of the management board of RM Rheiner Management AG.

### **Hans Peter Neuroth, Management**

Since 2013, Mr. Neuroth has been an executive manager of Scherzer & Co. AG, Cologne. In addition, Mr. Neuroth has been a member of the management board of Rheiner Management AG, Cologne, and since 2010, Deputy Chairman of the Supervisory Board of Horus AG, Cologne as well as Deputy Chairman of the Supervisory Board of Smart Equity AG, Cologne.

### **Dr. Stephan Göckeler, Bonn - Attorney (Chairman)**

In addition to his mandate as chairman of the supervisory board, Dr. Göckeler is a member of the supervisory board of Burgbad AG, Schmallenberg, as well as a member of the supervisory board of Convotis AG, Frankfurt am Main. Dr. Göckeler is a partner at Flick Gocke Schaumburg.

**Dr. Dirk Rüttgers, Munich - Asset Manager (Deputy Chairman)**

Dr. Rüttgers is also executive manager at Do Investment AG, Munich and member of the advisory board at Silvius Dornier Holding GmbH, Munich.

**Rolf Hauschildt, Dusseldorf - Investor**

In addition to his activities at Scherzer & Co. AG, Mr. Hauschildt is also chairman of the supervisory board of Germana-EPE AG, Gronau, deputy chairman of the supervisory Board of Solventis AG, Mainz, member of the supervisory board of ProAktiva Vermögensverwaltung AG, Hamburg, as well as a member of the supervisory Board of Allerthal -Werke AG, Cologne.

**Shareholder Structure**

Scherzer has a 100% free float of 29.94m shares. The main shareholders are Silvius Dornier Family Office and FPS Fund Management. However, both shareholders fall below the 25% threshold and, therefore do not have to publish their shares. The capital growth of Scherzer developed as follows:

**Two major shareholders****Short Historic Overview**

Founded in 1880, Scherzer initially produced decorative porcelain for various household applications. In 1992, the company decided to close its production facilities and re-position itself as an asset manager. In 2001, Scherzer was sold to Allerthal-Werke AG, an investment company specializing in investments in special situations such as business restructuring. Scherzer repositioned itself and focused on finding investment opportunities. Concurrently, a capital increase took place in 2001. In the same year, Dr. Georg Issels became a member of the board of Allerthal-Werke AG and remained there until 2007.

**From a porcelain  
manufacturer to an asset  
manager**

In 1992 Scherzer started its activities in asset management. In 2004, Scherzer went public with a free float of 100%, in the then Entry Standard segment of the Frankfurt Stock Exchange (today "Scale"). The base capital of the company was increased by several capital influxes to the current book value of EUR 29.94m. Scherzer has not ruled out to increase capital further in the short or medium term. The authorized capital is currently EUR 14.97m.

**Went public in 2004**

## Business Model and Strategy

### Strategy

The main objective of Scherzer & Co. AG is long-term asset accumulation (Net Asset Value in January 2019: EUR 93m) for its shareholders through a two-pronged strategy: the creation of "safety-oriented" and "opportunistic" assets, with a target ratio of 50-50. In addition, Scherzer aims to establish itself as one of the leading listed investment companies in the area of special situations.

This includes our involvement in Switzerland, as the Swiss stock market has some special features. These include, for example, the high proportion of off-exchange trading (OTC transactions) and the resulting low level of transparency and liquidity.

Scherzer attaches great importance to maintaining a network of experienced and successful investors. Such a network increases security in the selection process of available investment opportunities and promotes the observation of existing opportunities. Here, Scherzer is well represented in the respective circles and thus has a broad deal flow and the possibility to cooperate with other investors.

**Also, activities in the Swiss stock market**

**Wide network of investors**

### Safety-oriented Investments

In the "safety-oriented" category (approx. 42% of the portfolio at the end of December 2018), the focus is on investments with a "limited" downside potential based on one or more of the following criteria:

- price-stabilizing properties, e.g. natural bottom;
- undervalued companies;
- stable and sustainable business model;
- special balance sheet qualities, e.g., net cash position, low or no debt, share price well below book value;
- special quality results: sustainable and positive results without cyclicity, dividend continuity and sustainable, free cash flows.

In this way a degree of stability and financial solidity can be ensured even in prolonged phases of economic recession, and thus, an attractive ratio of exchange rate opportunities and risks is warranted.

Examples of "safety" investments include Linde AG, which has entered into a merger with the American Praxair, innogy SE or BUWOG AG, which was acquired by the German company Vonovia.

**Security-oriented investment ensures financial solidity**

### Opportunistic investments

In the "opportunistic" (Chance) category (approx. 58% of the portfolio at the end of December 2018), the focus is on investing in selected growth companies, while at the same time analyzing the market for special situations. These offer an attractive opportunity-risk profile.

Through these "opportunistic" investments, Scherzer also participates in corporate actions, corporate restructurings and second placements. Investments are typically targeted at cyclical sectors with different opportunity-risk profiles compared to the stricter criteria of "safety-focused" investments. Even though there are no factors supporting or securing the share price level, the opportunities for value creation are particularly attractive. Strategically, Scherzer is not an activist investor, which would step in the supervisory board to influence the strategy of the target companies. The Scherzer team is regarded by issuers as a so-called "Good" investor, who guides a company for a certain time and generally tries to exert no influence.

Examples include 1) GK Software SE, which cooperates with SAP; SAP holds 5.3% of the shares; 2) Audi AG, whose shares are held by Volkswagen at 99.64%.

**Attractive chance-risk profile from stock-picking in Chance area**

**Scherzer does not aim to exert operational influence**

#### Top 10 Holdings in Scherzer's Portfolio End of February 2019

Title	Share of Portfolio	Chance / Safety	Cons. Upside
Linde AG	15.15%	Safety	To be submitted 2019e
GK Software SE	10.32%	Chance	56.7%
freenet AG	5.60%	Chance	20.2%
Audi AG	5.37%	Chance	
Allerthal-Werke AG	4.72%	Safety	
Horus AG	4.13%	Chance	
Mobotix AG	3.60%	Chance	15.4%
AG f. Erstellung billiger Wohnh. In Winterthur	3.21%	Chance	
Weleda AG PS	2.77%	Chance	
innogy	2.58%	Safety	-7.0%

Source: Scherzer, FMR, arranged by share in Scherzer's Portfolio, dd. 28.02.2019

In addition, investments are screened for possible takeovers or squeeze-out stock situations, which can then provide additional returns via rectification rights.

#### Rectification Process

A major unique selling point in Scherzer's strategy is the choice of investments with takeover potential and with the intention of a subsequent appeal procedure. In these exceptional situations, stock is generally held by a strong or strategic majority shareholder whereby a squeeze-out situation becomes possible. In event of a squeeze-out, the minority shareholders will, for example, be compensated with a cash offer. They have the right to initiate a so-called award procedure after receipt of the offer to obtain a rectification through an independent expert opinion. Often a higher value is determined than originally paid. These procedures frequently take many years. Scherzer publishes the already received buy-out, but not potentially

outstanding rectification payments. This number of rectification rights is rising successively.

As of 28/02/2019, the amount already tendered by the company is approx. EUR 103.8m. This corresponds to a volume per share of EUR 3.47. As a rule, the rectification rights are not recorded in the balance sheet.

If the rights of Allerthal-Werke AG and RM Rheiner Management AG are taken into account (which are attributable to Scherzer & Co. AG due to their shareholdings), the amount tendered adds up to more than approx. EUR 115m.

As mentioned above, income from rectification rights can often only be generated after a drawn-out appraisal proceeding, which makes it impossible to accurately predict the amount and timing of the effectiveness of the payment. Upon successful completion of a procedure, interest will be payable for the period between the original date of the tender and the end of the award procedure. These are currently five percentage points above the respective base interest rate of the Deutsche Bundesbank. In its income statement, Scherzer reports income from rectification rights under "Income from financial instruments".

The most recent court procedure legally ended in September 2018 and concerned the squeeze-out at GWB AG. The cash compensation of EUR 21.32 per share (April 2013) was increased to EUR 21.97. At that time, Scherzer held 90,000 shares.

Recent exits include the shares of Diebold Nixdorf AG in August 2018 (offering of EUR 0.5m) and the squeeze-out of Oldenburgische Landesbank AG in June 2018 (cash compensation of EUR 8.4m).

The following table shows the projects completed with minority holdings. Strategy for squeeze-out / special case scenarios. The projects are listed according to the year of withdrawal and the procedure of withdrawal.

**Tendered amount: EUR 3.47  
per share**

**No planning possible with  
rectification rights**

**For example, EUR 58,500 of  
rectification in GBW  
procedure**

**Actual Rectification Titles at the End of December 2018**

<b>Title</b>	<b>Year of closure</b>	<b>Structure</b>	<b>Amount in EURm</b>
AXA Konzern AG (Stämme)	2006	Squeeze-out	18.8
HVB AG	2008	Squeeze-out	17.2
Bank Austria AG	2010	Squeeze-out	9.4
Generali Deutschland Holding AG	2014	Squeeze-out	9.0
Oldenburgische Landesbank AG	2018	Squeeze-out	8.4
AXA Konzern (Vorzüge)	2006	Squeeze-out	6.8
Kölner Rück AG (vink. Namen)	2009	Squeeze-out	3.8
Deutsche Postbank AG	2015	Squeeze-out	2.6
Sky Deutschland AG	2015	Squeeze-out	2.6
Vattenfall AG	2010	Squeeze-out	2.5
Conwert Immobilien Invest SE	2017	Squeeze-out	2.3
STRABAG AG	2017	Squeeze-out	1.6
Others			18.3
<b>Sum of rectification titles</b>			<b>103.8</b>

Source: Scherzer, FMR

With these previously completed projects with rectification rights Scherzer has been able to prove its position as an expert in the field of special situations. In addition, there is close cooperation as a result of the 41.5% stake of RM Rheiner Management, a specialist in investing in special situations.

**Cooperation with expert for  
special situations Rheiner  
Management**

**Historical development of rectification rights in EURm**



Source: Scherzer, FMR

**Bonds and options**

In addition to the shares mentioned above, Scherzer's portfolio also consists of around EUR 1.4m in corporate bonds (GK Software AG 2017/22 and Nordex AG 2018/23). Total return of approx. 4.25% across the entire bond portfolio.

Basically, Scherzer & Co. AG pursues an opportunistic investment approach. We also work with options (current holdings at approx. EUR 3.5m). Both the purchase of options and dealing in covered call options are executed with the purpose of partial protection of investments or increasing the returns on the portfolio; in addition, put options on stock indices or individual shares serve as partial protection of the portfolio.

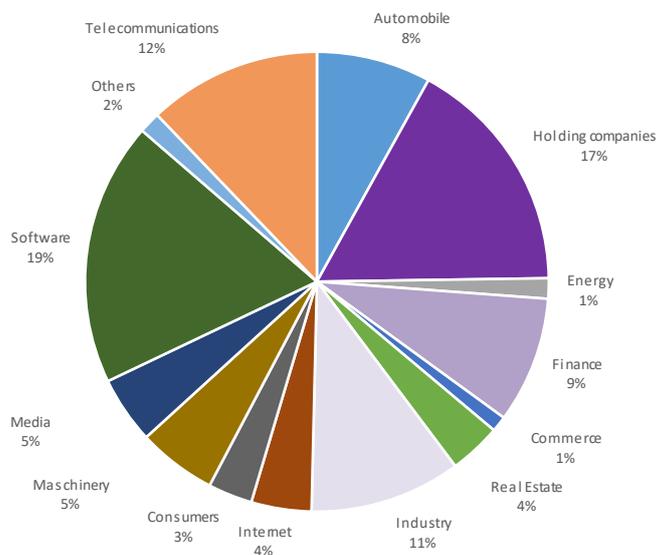
**Purchasing regular and covered call options help increase return and with hedging**

**Investments in Industry**

The largest sector, software, accounts for 19% of the total portfolio, followed by investment holdings (17%) and telecom (12%). The following pie chart illustrates the investment by industry as of December 31, 2017.

**Scherzer focuses on sectors**

**Participations per Sector, December 2017**



Source: Scherzer, FMR, sortiert in alphabetischer Reihenfolge

Below some companies in the investment portfolio are highlighted:

**Linde AG**

The Linde Group is one of the world's leading gas and engineering companies with sales of EUR 17.1bn (2017). In June 2017, a "Business Combination Agreement" was signed with Praxair (US). After a squeeze-out in the course of the conversion was decided on in April 2018, Linde published an initial offer of EUR 188.24 per share and increased it to EUR 189.46 on 10/12/2018. This squeeze-out will be agreed on during the Extraordinary General Meeting on 12/12/2018. Scherzer has been buying additional shares since December, and Linde (held as a safety-oriented investment) is now number one in the portfolio (15.15% portfolio share). We expect a tender of the held shares in 2019. The share price of Linde AG started at EUR 160 and has been moving sideways since October 2018 at EUR 194.

**Linde: Offering at almost 190 EUR**

**GK Software**

GK Software is a retail software partner with 1,139 employees, over 25 years of experience and 279,000 installations in more than 50 countries. It also serves large, internationally leading retailers such as Galeria Kaufhof, Douglas and Coop (Switzerland). Forrester Research has ranked the software for retail companies developed by GK Software and distributed globally by SAP under the name "SAP Omnichannel POS by GK" as a Leader in its latest report (The Forrester Wave: Point of Service, Q3 2018).

**GK take-over by SAP? Will the founders sell?**

Through the cooperation and commitment of SAP in the company an M&A imagination is being played out. This may require the founders to sell their shares.

In February 2019, GK Software (shares and bonds) was the second largest holding in Scherzer's portfolio (holding 7.26% of GK at 10.32% in the portfolio).

GK Software reported provisional figures on 27/01/2019; Record sales of EUR 103-106m (previous year: EUR 90.5m), investments in the product portfolio of EUR 14m EBITDA of EUR 4-7m in the core segment (2017 = EUR 8.8m) were leading. The share price of GK Software AG fluctuated in the past 52 weeks between EUR 116 and 62.

**GK Software with record revenue in 2018**

#### **Freenet AG**

Freenet AG is a network-independent mobile service provider in Germany with approx. 12m customers and a market share of approx. 12 percent. In addition to mobile communications, the company is active in TV and media. The Mobile Communications segment includes communications activities, but also Internet-based mobile applications such as digital lifestyle products. The TV and Media segment includes all IPTV service relationships, planning, project management and the set-up, operation, service and marketing of broadcast-related solutions for business customers in the radio and media sectors, as well as DVB-t2 services to end consumers. The share price of Freenet AG fluctuated in the past 52 weeks between EUR 26 and 16 and is currently at EUR 19.

**Expected dividends of EUR 1.65 – about EUR 0.4m for Scherzer**

#### **Lotto24 AG**

Lotto24 AG is the leading German provider of state lotteries on the Internet (Lotto24.de), including Lotto 6aus49, Spiel 77, Super 6, EuroJackpot, Glücksspirale, Lottoclubs, Keno and Deutsche Fernsehlotterie. Due to strong jackpot developments in 2018, Lotto24 had to increase the guidance several times and the share value developed positively in the course of 2018.

**Candidate for take-over, to be paid in Zeal-shares**

On 19/11/2018, Zeal Network SE announced the acquisition of Lotto24. One Zeal share for 1.6 shares of Lotto24. Because 65% of the existing shareholders had already reached an agreement with Zeal, a "Business Combination Agreement" between Zeal and Lotto24 was signed on 24/12/2018. The exchange ratio is 1.604.

Scherzer owns 0.63% of Lotto24, equivalent to approximately EUR 2.1m. The share price has risen in the last 12 months from EUR 11 to over 16 and is currently in between these values at EUR 13.

#### **Mobotix AG**

MOBOTIX AG develops, produces and markets high-resolution internet protocol cameras. Scherzer holds 2.89% (approx. EUR 3.3m) of its shares (Chance) and is the second largest shareholder after Konica Minolta (65%). In March 2018, it was announced that Konica entered into a strategic partnership with Mobotix, developing sales staff specially trained for Mobotix technology. In addition, further joint technology developments are planned.

The last 12 months, the share price moved between EUR 10.50 and 7.60.

#### **Corporation for the Construction of Cheap Houses, Winterthur**

Among the Top 10 holdings, the 8th place is taken up by this corporation (AG) with 3.21% of the portfolio value. As the most expensive stock in Switzerland (price above CHF 100,000), with very little liquidity (1,200 shares, of which Scherzer holds

**Highest valued Swiss stock – based on liquidity, already a special situation**

25) and barely publicly available information (no website, and publications only through a few channels), we consider this participation to be speculative. The company has a housing stock of approximately 882 units, optimizes and continuously expands the inventory.

During the previous 52 weeks, the share price moved between SFR 138,000 and 105,000.

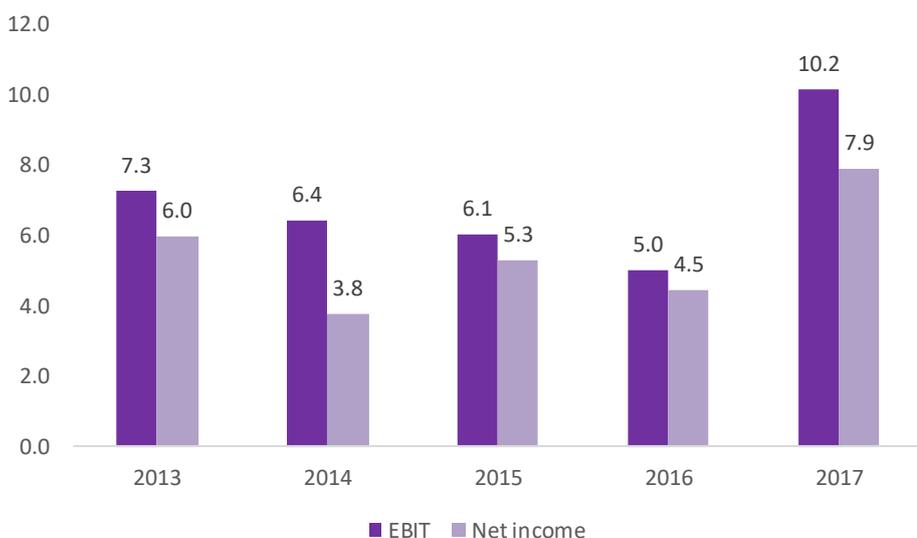
## Financial Data

### Historical Development

The EBIT developed from EUR 7.3m EBIT in 2013, mainly due to lower net proceeds from financial instruments, before rising to EUR 10.2m after a record year in 2017. The net profit gives a similar picture: it developed in line with EBIT (exception in 2014 due to low appreciations on securities at EUR 0.01m) with a record value of EUR 7.9m in 2017.

**Record year 2017 with EUR 7.9m EBIT**

#### Development of EBIT and net income in EURm

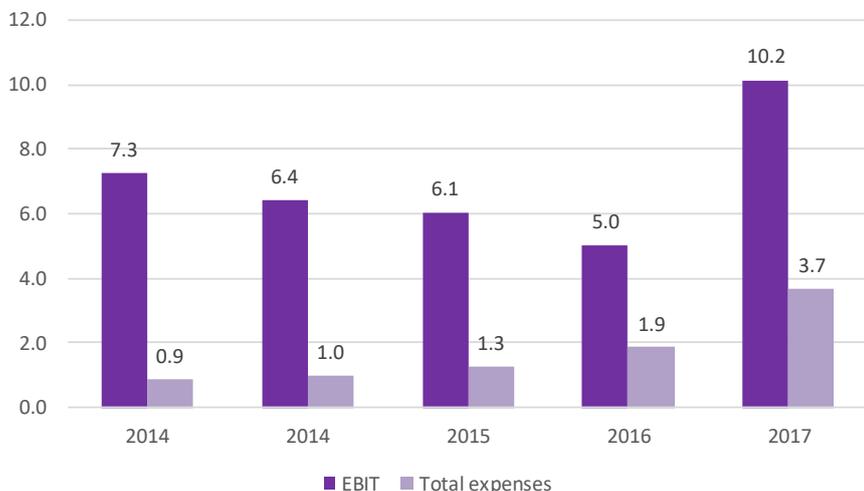


Source: Scherzer, FMR

Total expenses for 2013-17 did increase as a result of increased personnel costs, from EUR 0.5m in 2013 to EUR 2.7m in 2017. In 2017. Also the Management Board received corresponding bonus payments of approx. EUR 1.8m based on Scherzer's good results.

**Bonus payments drive personnel costs in 2017**

#### Operating costs for 2013 – 2017 in EURm



Source: Scherzer, FMR

### (Provisional) Profit and loss data 2018

Compared to H1-2017, earnings per share for mid-year 2018 had increased. This was a result of reduced personnel costs. Even so, the preliminary figures for 2018 published on 31 January 2019 clearly reflect the market's weak performance during H2-2018. The EBIT fell to EUR 0.9m (91% of 2017 equaling EUR 10.2m). The portfolio value, taking into account liabilities (excluding rectification rights and any applicable taxes), decreased by 12 % YoY (including the dividend distribution of EUR 0.10 in 2018). We see this slump as being caused by the weak market during the second H2-2018 and only as a temporary phenomenon. Because of this low result, we do not expect a dividend payment for the financial year 2018.

**H2 2018 negative re. total market; no dividends**

#### Profit and loss statement H1-2017 through H1-2018 provisional data for 2018

	HGB	EURm	H1-2017	2017A	H1-2018	2018E
<b>Net income from financial instruments</b>			<b>6.6</b>	<b>12.9</b>	<b>6.5</b>	
YoY growth			334.8%	115.2%	-1.3%	
Personnel expense as % of sales			-1.22 -18.3%	-2.69 -20.8%	-0.71 -10.8%	
Other operating income as % of sales			0.86 13.0%	0.94 7.3%	0.89 13.7%	
Other operating expenses as % of sales			-0.43 -6.5%	-0.98 -7.6%	-0.39 -5.9%	
<b>EBITDA</b> as % of sales			<b>5.85</b> 88.2%	<b>10.17</b> 78.9%	<b>6.34</b> 96.9%	
Depreciation and amortization as % of sales			0.00 -0.1%	-0.01 -0.1%	0.00 -0.1%	
<b>EBIT</b> as % of sales			<b>5.84</b> 88.1%	<b>10.16</b> 78.8%	<b>6.34</b> 96.9%	<b>0.91</b> 38.3%
Net financial results as % of sales			-1.27 -19.2%	-2.21 -17.2%	-1.03 -15.7%	-0.30 -12.9%
<b>EBT</b> as % of sales			<b>4.57</b> 68.9%	<b>7.94</b> 61.7%	<b>5.31</b> 81.2%	<b>0.60</b> 25.5%
Income tax as % of EBT			0.14 3.1%	-0.03 -0.4%	-0.02 -0.4%	
<b>Net income</b>			<b>4.71</b>	<b>7.90</b>	<b>5.29</b>	
<b>EPS in EUR</b>			<b>0.16</b>	<b>0.26</b>	<b>0.18</b>	

Source: Scherzer, FMR, 2018: provisional published data

### Balance H1-2018

Between December 31, 2017 and June 30, 2018, fixed assets remained quite steady at EUR 37.2m (compared to EUR 36.2m). For current assets, the volume of short-term securities increased from EUR 47.4m to EUR 58.2m. This increase we can inter alia attribute to building a larger position in Linde.

On the liabilities side, as a result of the good H1-2018, retained earnings and balance earnings increased from EUR 17.9m to EUR 18.9m and EUR 4.0 to EUR 5.3m, respectively.

Liabilities to banks increased by EUR 6.4m to EUR 31.6m. Thus, Scherzer was financed with debt capital by about 30%, which is within the usual debt ratio (average debt between 2014 and 2017 at approx. 32%).

### Balance H1-2017 through H1-2018

	HGB	EURm	H1-2017	2017A	H1-2018
Other fixed assets			2.4	2.4	2.6
Financial assets			33.8	33.8	34.6
as % of total assets			24.6%	37.6%	34.5%
<b>Non current assets</b>			<b>36.2</b>	<b>36.2</b>	<b>37.2</b>
as % of total assets			26.4%	40.3%	37.1%
Other receivables and other assets			5.1	5.1	3.6
Securities			47.4	47.4	58.2
as % of total assets			34.5%	52.8%	58.1%
Cash and cash equivalents			48.4	1.1	1.3
<b>Current assets</b>			<b>100.9</b>	<b>53.5</b>	<b>63.0</b>
as % of total assets			73.6%	59.7%	62.9%
Accruals and deferrals			0.0	0.0	0.0
<b>Totals assets</b>			<b>137.1</b>	<b>89.7</b>	<b>100.2</b>
Subscribed capital			29.9	29.9	29.9
Remaining equity			30.7	30.7	33.0
Minority interests			0.0	0.0	0.0
<b>Total equity</b>			<b>60.6</b>	<b>60.6</b>	<b>62.9</b>
as % of total assets			67.5%	67.5%	62.5%
Provisions			3.9	3.9	3.0
Financial liabilities			25.1	25.1	31.6
Other liabilities			0.1	0.1	2.8
<b>Total liabilities and provisions</b>			<b>29.2</b>	<b>29.1</b>	<b>37.7</b>
as % of total assets			32.5%	32.5%	37.5%
<b>Equity and liabilities</b>			<b>89.7</b>	<b>89.7</b>	<b>100.6</b>

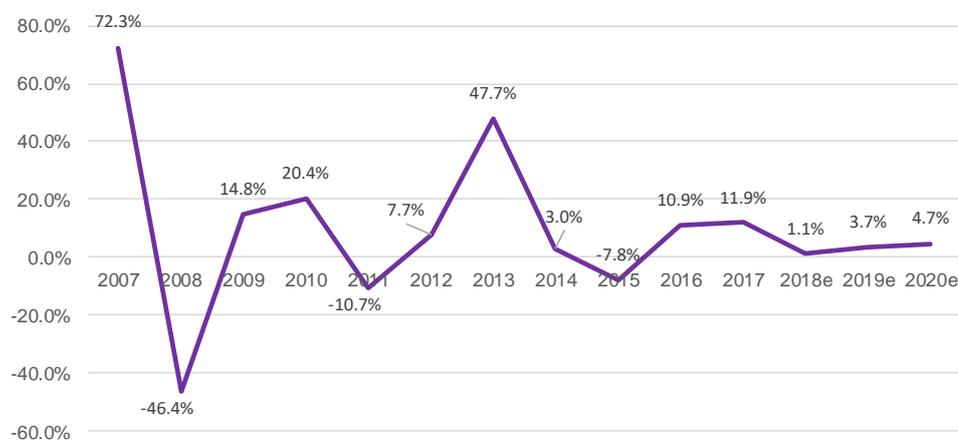
Source: Scherzer, FMR, 2018: Provisional published data

**Mid-term outlook**

We assume that Scherzer will be able to continue to successfully implement its stock picking strategy in the future and expand its existing portfolio in terms of safety and opportunistic values.

In the past, the book value of the assets held (fixed and current assets) showed a high degree of volatility; the annual growth in value of held securities was between -46% and +72% between 2006 and 2017. For the years 2018e, 2019e and 2020e, we expect moderate growth of 1.1%, 3.7% and 4.7%, respectively.

**YoY change of asset book value 2006-2020e in %**



Source: Scherzer, FMR

We expect development of an asset book value of EUR 85m in 2019e and EUR 89m in 2020e, while we expect to keep the debt capital steady. We base this assumption on the restructuring of the portfolio, for example, of Linde shares, which are expected to be tendered in mid-2019. With the current holdings size of approx. EUR 12m, this provides liquidity for new investments.

Looking at the financial instruments held, we expect net revenues of 7.3% and 7.1% for 2019e and 2020e (historical return on the book value of the shares: 7.3%), thus EUR 6.2m and EUR 6.4m, respectively. Operating costs in our model are around EUR 2.4m per year. Furthermore, we estimate that the investments in securities generate additional income (mainly dividends) of 2.2% on average in the coming years.

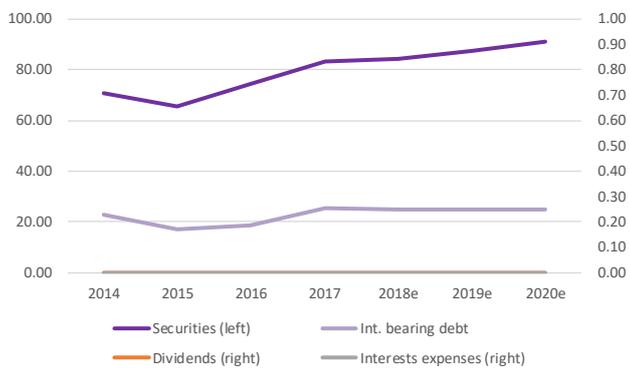
**Success due to stock picking**

**CAGR2018e-20e of 3.2%**

**Tendering of Linde among others in 2019 creates liquidity without further debt capital**

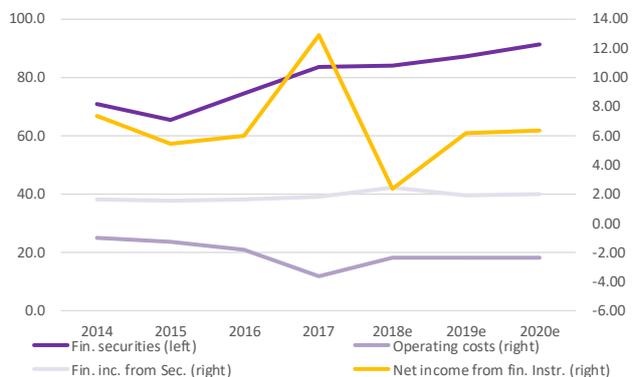
**Earnings forecast for financial instruments for 2019e-20e is 7.2%**

**Securities and interest-bearing debt in EURm**



Source: Scherzer, FMR

**Financial assets, income, op. expenditures in EURm**



Source: Scherzer, FMR

## Appendix

<b>P&amp;L</b>						
EURm	2015	2016	2017	2018e	2019e	2020e
<b>Net income from financial instruments</b>	<b>5.4</b>	<b>6.0</b>	<b>12.9</b>	<b>2.4</b>	<b>6.2</b>	<b>6.4</b>
YoY growth	-25.9%	9.9%	115.2%	-81.7%	162.6%	2.4%
Personnel expense as % of sales	-0.78 -14.3%	-1.28 -21.3%	-2.69 -20.8%	-1.40 -59.2%	-1.47 -23.7%	-1.50 -23.7%
Other operating income as % of sales	1.87 34.3%	0.91 15.2%	0.94 7.3%	0.89 37.8%	0.00 0.0%	0.00 0.0%
Other operating expenses as % of sales	-0.48 -8.7%	-0.58 -9.7%	-0.98 -7.6%	-0.95 -40.0%	-0.90 -14.5%	-0.90 -14.2%
<b>EBITDA</b>	<b>6.06</b>	<b>5.04</b>	<b>10.17</b>	<b>0.91</b>	<b>3.84</b>	<b>3.95</b>
as % of sales	111.3%	84.1%	78.9%	38.6%	61.8%	62.1%
Depreciation and amortization as % of sales	-0.01 -0.1%	-0.01 -0.1%	-0.01 -0.1%	-0.01 -0.3%	-0.03 -0.5%	-0.04 -0.6%
<b>EBIT</b>	<b>6.05</b>	<b>5.03</b>	<b>10.16</b>	<b>0.91</b>	<b>3.80</b>	<b>3.91</b>
as % of sales	111.1%	84.0%	78.8%	38.3%	61.3%	61.5%
Net financial results as % of sales	0.65 11.9%	-0.29 -4.8%	-2.21 -17.2%	-0.30 -12.9%	1.59 25.6%	1.69 26.5%
<b>EBT</b>	<b>6.70</b>	<b>4.74</b>	<b>7.94</b>	<b>0.60</b>	<b>5.39</b>	<b>5.59</b>
as % of sales	123,0%	79,2%	61,7%	25,5%	86,9%	88,1%
Income taxes as % of EBT	-1.38 -20.6%	-0.28 -5.8%	-0.03 -0.4%	-0.03 -5.0%	-0.27 -5.0%	-0.28 -5.0%
<b>Net income</b>	<b>5.32</b>	<b>4.47</b>	<b>7.90</b>	<b>0.57</b>	<b>5.12</b>	<b>5.31</b>
Minorities	0	0	0	0	0	0
Shares outstanding (in m)	29.94	29.94	29.94	29.94	29.94	29.94
<b>EPS in EUR</b>	<b>0.18</b>	<b>0.15</b>	<b>0.26</b>	<b>0.02</b>	<b>0.17</b>	<b>0.18</b>

Source: Scherzer, FMR

**Balance sheet**

HGB, EURm	2015	2016	2017	2018e	2019e	2020e
<b>Assets</b>						
<b>Non-current assets</b>	<b>31.7</b>	<b>44.5</b>	<b>36.2</b>	<b>36.4</b>	<b>37.4</b>	<b>39.4</b>
as % of total assets	45.3%	58.7%	40.3%	41.8%	40.6%	40.4%
Financial assets	31.7	42.4	33.8	34.0	35.0	37.0
as % of total assets	45.2%	55.9%	37.6%	39.0%	37.9%	37.9%
Other fixed assets	0.1	2.1	2.4	2.4	2.4	2.4
<b>Current assets</b>	<b>38.3</b>	<b>31.3</b>	<b>53.5</b>	<b>50.7</b>	<b>54.8</b>	<b>58.2</b>
as % of total assets	54.7%	41.3%	59.7%	58.2%	59.4%	59.6%
Other receivables and other assets	2.8	0.9	5.1	0.9	0.9	0.9
as % of total assets	33.7	30.1	47.4	48.0	50.0	52.0
Cash and cash equivalents	48.1%	39.7%	52.8%	55.1%	54.2%	53.3%
	1.8	0.2	1.1	1.8	4.0	5.3
<b>Total assets</b>	<b>70.1</b>	<b>75.9</b>	<b>89.7</b>	<b>87.1</b>	<b>92.3</b>	<b>97.6</b>
<b>Shareholders' equity and liabilities</b>						
<b>Shareholders' equity</b>	<b>51.2</b>	<b>54.2</b>	<b>60.6</b>	<b>58.2</b>	<b>63.3</b>	<b>68.6</b>
as % of total assets	73.1%	71.4%	67.5%	66.8%	68.6%	70.3%
Subscribed capital	29.9	29.9	29.9	29.9	29.9	29.9
Remaining equity	21.3	24.3	30.7	28.2	33.4	38.7
<b>Total liabilities and provisions</b>	<b>18.8</b>	<b>21.7</b>	<b>29.1</b>	<b>29.0</b>	<b>29.0</b>	<b>29.0</b>
as % of total assets	26.9%	28.6%	32.5%	33.2%	31.4%	29.7%
Provisions	1.5	2.8	3.9	3.9	3.9	3.9
Financial liabilities	17.2	18.8	25.1	25.0	25.0	25.0
Other liabilities	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total equity and liabilities</b>	<b>70.1</b>	<b>75.9</b>	<b>89.7</b>	<b>87.1</b>	<b>92.3</b>	<b>97.6</b>

Source: Scherzer, FMR

**Cash flow statement**

HGB, EURm	2015	2016	2017	2018e	2019e	2020e
<b>Net income</b>	<b>5.3</b>	<b>4.5</b>	<b>7.9</b>	<b>0.6</b>	<b>5.1</b>	<b>5.3</b>
Depreciation and amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions incl. non-cash	0.1	1.4	3.8	9.0	11.9	11.9
Change in Working Capital	-4.2	-0.6	-8.8	1.6	2.5	2.5
<b>Cash flow from operating activities</b>	<b>3.0</b>	<b>6.0</b>	<b>5.6</b>	<b>7.2</b>	<b>5.2</b>	<b>5.3</b>
CAPEX	11.1	-7.3	-25.1	-43.3	49.1	45.1
Change in consolidation. net cash	0.0	0.0	0.0	0.0	0.0	0.0
Other investing activities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>5.6</b>	<b>-9.2</b>	<b>-8.9</b>	<b>-0.9</b>	<b>-3.0</b>	<b>-4.0</b>
Change in debt	-5.5	1.6	6.3	-0.1	0.0	0.0
Dividend payments	-1.5	-1.5	-1.5	-3.0	0.0	0.0
Other financing activities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-7.0</b>	<b>0.1</b>	<b>4.8</b>	<b>-3.1</b>	<b>0.0</b>	<b>0.0</b>
<b>Total change in cash and cash equivalents</b>	<b>1.5</b>	<b>-3.1</b>	<b>1.5</b>	<b>3.3</b>	<b>2.2</b>	<b>1.4</b>
Effect of exchange rate changes and other changes	1.8	1.8	0.4	-2.6	0.0	0.0
Cash and cash equivalents at the start of the period	0.4	1.8	0.2	1.1	1.8	4.0
<b>Cash and cash equivalents at year's end</b>	<b>1.8</b>	<b>0.2</b>	<b>1.1</b>	<b>1.8</b>	<b>4.0</b>	<b>5.3</b>

Source: Scherzer. FMR

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- b) Time conditions of expected updates: quarterly
- c) Supervisory authority: Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), Lurgiallee 12, 60439 Frankfurt am Main
- d) Previous analyses: No analysis was published in the 12 months before publication of this analysis that contains a recommendation for a specific investment decision which contradicts this analysis.
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- f) All prices and price developments listed in the analysis are based on closing prices insofar as no contradictory details were provided about prices and price developments.

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(v.) is in possession of a net sales or purchase position which exceeds the threshold of 0.5% of the total issued share capital of the issuer;

(vi.) has concluded an agreement regarding the preparation of investment recommendations with the issuer.

(vii.) has other significant interests with regard to the company being analysed, for example clients with the company being analysed.

Company	Disclosure(s)
Scherzer & Co. AG	-

b) FMR Frankfurt Main Research AG has concluded a cooperation agreement with Oddo Seydler Bank AG, on the basis of which this financial analysis is compiled. Oddo Seydler Bank AG is acting as the agent of the issuer, which is either the subject of the financial analysis itself or its financial instruments are the subject of the financial analysis.

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(i.) has an involvement in the share capital of the issuer of at least 5 per cent;

(ii.) was involved in the management of a syndicate within the past five months that issued financial instruments of the issuer in the context of a public tender;

(iii.) managed financial instruments of the issuer on a market by means of concluding purchase or sale agreements:

(iv.) has, within the past twelve months, concluded an agreement regarding services in connection with investment banking business or received a service or performance promise from such agreement, with issuers which either themselves or the financial instruments thereof, are the subject of the financial analysis;

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(vii.) has other significant interests with regard to the company being analysed, for example clients with the company being analysed.

Company	Disclosure(s)
Scherzer & Co. AG	iii, vi

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FMR Frankfurt Main Research AG

Registered office: Frankfurt am Main; Commercial Register No. HRB 113537, Frankfurt am Main district court; Chairman: Marcus Silbe

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Felix Lutz, Analyst

c) This study may only be used for the internal purposes of the addressee within the EEA or Switzerland.

#### 5. Investment recommendation details

Investment recommendation details - stocks:

**BUY:** In our opinion, the stock will demonstrate an absolute price gain of at least 10 % in a 12-month period.

**HOLD:** In our opinion, the stock will not exceed or fall below an absolute price gain or loss of 10% in a 12-month period.

**SELL:** In our opinion, the stock will demonstrate an absolute price loss of at least 10 % in a 12-month period.

## 6. Sensitivity of the evaluation parameters

The figures from profit and loss calculations, cash flow statements and balance sheets which form the basis of the company evaluation are date-related estimates and therefore subject to risks. These may change at any time without prior notice. Regardless of the evaluation methods used, there are significant risks that the price goal/trend will not be achieved within the expected time frame. The risks include unforeseeable changes with regard to competition pressure, demand for the products of an issuer and the offer situation with respect to materials required for production as well as non-occurrence of the assumed development. Such deviations may be the result of changes relating to technology and changes relating to the economy, legal situation and exchange rates. No claim is made that this statement of evaluation methods and risk factors is complete.

## 7. Key sources of information

We have acquired the information upon which this document is based from sources that we consider in principle to be reliable. However, we have not verified all this information. Therefore, we cannot guarantee or ensure the accuracy, completeness or correctness of the information or opinions contained in this document. National and international media and information services (e.g. Factset, Bloomberg etc.), the financial press (e.g. BörsenZeitung, FAZ, Handelsblatt, Wallstreet Journal, etc.), specialist press, published statistics, the internet, as well as publications, details and information of the issuer that is the subject of the analysis.

## 8. Summary of the basis for evaluation

Individual issuers: Current and recognised evaluation methods (e.g. DCF method and Peer Group Analysis) are used for company analysis purposes. The DCF method calculates the value of the issuer based on the sum of the discounted cash flows, i.e. the cash value of the future cash flows of the issuer. The value is therefore determined on the basis of expected future cash flows and the applied discount rate. In Peer Group Analysis, issuers listed on the stock exchange are evaluated by comparing ratios (e.g. price/profit ratio, Enterprise Value/turnover, Enterprise Value/EBITDA, Enterprise Value/EBIT). The comparability of the ratios is primarily determined with reference to the business activity and economic prospects.

## 9. Internal organisational and regulatory measures for the prevention or management of conflicts of interest

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